BOARD OF ASSESSMENT APPEALS, STATE OF COLORADO 1313 Sherman Street, Room 315 Denver, Colorado 80203 Petitioner - Appellant: **PETRON DEVELOPMENT COMPANY,** Intervenor - Appellant: **MARY E. HUDDLESTON, PROPERTY TAX ADMINISTRATOR,** v. Respondent - Appellee: **WASHINGTON COUNTY BOARD OF EQUALIZATION,**	**Docket No.: 38106**

ORDER ON STIPULATION
(ON REMAND FROM COURT OF APPEALS 02CA1476)

THIS MATTER is on remand to the Board of Assessment Appeals (BAA) after entry of the Supreme Court's decision in Case No. 03SC787. The Supreme Court affirmed the opinion of the Court of Appeals. The Court of Appeals reversed the Board's Order and remanded the case to the BAA with directions to determine the appropriate amount of deductions allowable to Petitioner, consistent with the views expressed in the Court of Appeals opinion.

The parties to this action entered into a Stipulation, which has been approved by the Board of Assessment Appeals. A copy of the Stipulation is attached and incorporated herein by this reference.

FINDINGS OF FACT AND CONCLUSIONS:

1. Subject property is described as follows:

County Schedule No.: 8170017, 8170018, 8170019, 8170021, 8170023, 8170024

Category: Valuation **Property Type: Oil and Gas Production**

2. Petitioner is protesting the 2001 actual value of the subject property.

3. The parties agreed that the 2001 actual value of the subject property should be reduced to:

Reference attached Stipulation.

ORDER:

Respondent is ordered to reduce the 2001 actual value of the subject property, as set forth above.

The Washington County Assessor is directed to change his/her records accordingly.

DATED and MAILED this 7th day of October 2005.

BOARD OF ASSESSMENT APPEALS

This decision was put on the record

October 6, 2005

Judee Nuechter

I hereby certify that this is a true and correct copy of the decision of the Board of Assessment Appeals

Karen E. Hart

Penny S. Lowenthal

STATE OF COLORADO SEAL BOARD OF ASSESSMENT APPEALS

BOARD OF ASSESSMENT APPEALS, STATE OF COLORADO 1313 Sherman Street, Room 315 Denver, CO 80203	
Petitioner: **PETRON DEVELOPMENT COMPANY** v. Respondent: **WASHINGTON COUNTY BOARD OF EQUALIZATION**	
Attorney for Petitioner: Name: Alan Poe, No. 7641 Address: Holland & Hart LLP 8390 E. Crescent Pkwy., Suite 400 Greenwood Village, CO 80111 Phone Number: (303) 290-1616 Fax Number: (303) 290-1606 E-mail: apoe@hollandhart.com	Docket Number: 38106

STIPULATION (ON REMAND)

The parties to this case entered into a stipulation regarding the valuation of the properties involved in the case. The parties jointly move the Board of Assessment Appeals to enter its Order based on this stipulation.

Based upon conferences between petitioner and respondent, the parties have reached the following agreement:

1. The subject properties are oil and gas leaseholds.

2. A brief narrative as to why the reduction was made: In *Washington County Board of Equalization v. Petron Development Co.*, 109 P.3d 146 (Colo. 2005), the Colorado Supreme Court clarified allowable expenses to be taken by the oil well operator.

3. As a result, the parties have agreed that the 2001 values of the subject properties should be reduced as follows:

Values for 2001, as assigned by Washington County

Schedule No.	Land Value	Imp	2001 Actual Value (Before Application of the 87.5% Ratio)	2001 Assessed Value (After Application of the 87.5% Ratio)
8170017	$9,994	0	$9,994	$8,745
8170018	$46,884	0	$46,884	$41,024
8170019	$148,534	0	$148,534	$129,967
8170021	$387,811	0	$387,811	$339,335
8170023	$126,007	0	$126,007	$110,256
8170024	$80,855	0	$80,855	$70,748

Values for 2001, as agreed to by all parties

Schedule No.	Land Value	Imp	2001 Actual Value (Before Application of the 87.5% Ratio)	2001 Assessed Value (After Application of the 87.5% Ratio)
8170017	$6,269	0	$6,269	$5,486
8170018	$41,811	0	$41,811	$36,585
8170019	$132,624	0	$132,624	$116,046
8170021	$362,773	0	$362,773	$317,427
8170023	$120,526	0	$120,526	$105,460
8170024	$69,316	0	$69,316	$60,651

4. The valuations, as established above, shall be binding only with respect to tax year 2001.

5. Both parties agree that, upon approval of the parties' stipulation, the hearing before the Board of Assessment Appeals currently set for September 27, 2005 be vacated.

DATED this 8 of September, 2005.

Petron Development Company
For Puckett-Warren Oil
1899 W. Littleton Blvd.
Littleton, CO 80120

Chairman
Washington County Board of Equalization
150 Ash Street
Akron, Colorado 80720

Ronald Shook, Assessor
Washington County
150 Ash Street
Akron, Colorado 80720

Approved as to form:

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BOARD OF ASSESSMENT APPEALS, STATE OF COLORADO 1313 Sherman Street, Room 315 Denver, Colorado 80203 _____ Petitioner: **PETRON DEVELOPMENT COMPANY,** v. Respondent: **WASHINGTON COUNTY BOARD OF EQUALIZATION.**	
Attorney or Party Without Attorney for the Petitioner: Name: Adam W. Chase, Esq. Oreck, Bradley, Crighton, Adams & Chase Address: 2045 Broadway, Suite 100 Boulder, Colorado 80302 Phone Number: (303) 444-2993 E-mail: Attorney Reg. No.: 020750	**Docket Number: 38106**
ORDER	

THIS MATTER was heard by the Board of Assessment Appeals on January 31, 2002, Judee Nuechter and Karen E. Hart presiding. Petitioner was represented by Adam W. Chase, Esq., and John L. Bordes, Jr., Esq. Respondent was represented by Josh A. Marks, Esq.

PROPERTY DESCRIPTION:

Subject property is described as follows:

(Washington County Schedule Numbers as set forth in Exhibit A)

Petitioner is protesting the 2001 actual value of the subject property, oil and gas production for six wells located in Washington County, Colorado.

ISSUES:

Petitioner:

Petitioner contends that certain deductions should be allowed from the gross selling price in order to get to a wellhead price, as required by the Colorado State Constitution, Colorado Revised Statutes, and Division of Property Taxation (DPT) procedures.

Respondent:

Respondent contends that the subject property has been valued the same as all other wells in the county. The wellhead price should be the price received at the tank battery. The issue is wellhead price versus netback methodology, and which should be applied. The crude oil is sold to the transporter at the wellhead. Additionally, Petitioner did not properly calculate the value of equipment for purposes of return on and return of investment, if the Board determines such deductions should be allowed.

FINDINGS OF FACT:

1. The parties have stipulated to the expenses that should be taken if the Board determines that netback should be allowed, with the exception of the deduction for return on and return of investments. The current assigned value is correct if no deductions are allowed.

2. Petitioner's witness, Mr. Ken Wonstolen, Senior Vice President and general counsel for the Colorado Oil & Gas Association (COGA), testified that he was involved with the legislative process regarding oil and gas taxation. He read C.R.S. 39-7-101 into the record regarding net taxable revenues at the wellhead. There has been a history of this issue for 10 years regarding consistent definitions for valuation methodology. The industry has sought consistency in the valuation process.

3. Mr. Wonstolen read the definition of "Gathering" from page 91 of Respondent's Exhibit 1. Mr. Wonstolen testified that COGA wanted consistent treatment regarding the point of severence. He thinks that "gathering" includes expenses past the point of severence. Tank batteries are storage units. He thinks "gathering" includes the heater/treater separation processing costs. A selling price at the tank battery would be gross lease revenues; wellhead price should include deductions for processing to the point of delivery at the storage tank.

4. Under cross-examination, Mr. Wonstolen admitted that one of his charges is reducing industry tax burden. He described the oil extraction process. Oil comes up to the casinghead, it is then transported to the heater/treater where water is removed from the oil. COGA members do not sell at the casinghead as the oil is not marketable. After the heater/treater, the oil is sent to the oil tank battery, where it is drained from the tank and is purchased based on the volume and grade of the oil. He does not feel that the wellhead price is at the tank. It is a gross price and deductions should be allowed for heater/treating, etcetera. The casinghead is located at the wellhead.

5. Upon questioning from the Board, Mr. Wonstolen testified that gross lease revenue is what he calls the sale price at the oil storage tanks. He believes deductions for the heater/treater are processing, which includes on site processing prices and the movement from the wellhead to the storage tanks. He could not get $10.00 per barrel at the tank without the processing expense.

6. Petitioner's hostile witness, Mr. Ronald L. Shook, Washington County Assessor, testified that he is a registered appraiser and has taken courses involving oil and gas valuation procedures. He is familiar with the DPT guidelines. He identified the casing/tubing head in the photo on page 172 in Exhibit 1. C.R.S. 39-7-101(1)(d) defines selling price at the wellhead, and he applied this definition and the DPT manual to the subject properties. He believes that the gathering part after "or" in #9 on page 91 of Exhibit 1 is for second party sales further downstream. Transportation costs are not taxable under ad valorem statutes. Gross processing at the wellhead can also be net; you do not allow expenses because it is a sale at the wellhead. He has not reviewed the oil purchasing contract of Petron and does not know the terms of the contract. He has reviewed the declaration submitted by the Petitioner. He asked for more information and assessed the property based on the additional information, but did not allow some expenses. He spoke with the DPT and did not agree with the Property Tax Administrator's interpretations. He agrees with the manual procedures, not necessarily the Property Tax Administrator's interpretation.

7. Mr. Shook testified that he believes "gross revenues" is at the tank battery and therefore the tank battery is the wellhead. He does not believe that wellhead pricing applies to the casinghead. He considers the oil at the tank to still be crude oil, as it is not processed. The wellhead is a point beyond the casing head. According to DPT manual instructions, wellhead price should be used as the preferred methodology when it is available. If a wellhead price is not available, the secondary method is to use the price downstream, then deduct certain expenses to get back to the wellhead price. This is his interpretation of the guidelines.

8. Under cross-examination, Mr. Shook testified that he was in the oil and gas industry for 25 years. When he was in the industry, he understood the term wellhead to mean at the well site. Well site meant at the lease, including the tanks and various equipment at the site. He believes that the DPT manual's use of the term for wellhead is inconsistent with how the industry uses that term. He interprets "off the lease" to be beyond the well site. Beyond the wellhead manufacturing and processing is expenses for downstream refining; expenses in a pipeline. He believes that is what the Statute refers to, downstream refining, not at the lease site.

9. Under redirect, Mr. Shook testified that he must value the raw oil product. There is no manufacturing or processing prior to the outlet at the tank battery.

10. Petitioner's witness, Mr. Alex Martinez, DPT Appraisal Standards manager, testified he believes oil and gas producing properties must be valued at the wellhead, per C.R.S. 39-7-101 (1) (d). The DPT manual requires that the selling price be determined at the wellhead. He is not aware of any authority determining the selling price at the outlet of a tank battery. The DPT manual requires a deduction of post-wellhead costs, which would also include return of and return on expenses, to get back to a wellhead selling price. Part of the costs may be included in the basis equipment list, however, it must be noted that any costs involved with downhole

activity are not deductible. An operator is allowed to deduct direct operating expenses associated with post-hole activities, if they are included in the price of the oil. The DPT receives numerous requests for clarification of the manual, especially deductions allowable in a netback situation. The DPT manuals are binding on the assessor.

11. Under cross-examination, Mr. Martinez testified that the netback deduction has generated many discussions and the manuals are part of an evolutionary process. He does not believe there has been a legislative change to the definition of wellhead price since 1993. There is an allowance for well site expenses in the manual, under certain circumstances. He believes that the manual is clear that well site expenses should be deducted. There are five methodologies for oil and gas leasehold valuation. If there is a wellhead price, this is the preferred valuation method per the DPT. There is no discussion for deducting expenses under the actual wellhead sales price methodology. The DPT has tried to reconcile the Colorado Constitutional requirement for oil to be valued in an unprocessed state and Colorado State Statute requirements that the selling price be reflective of that point at the wellhead. He believes that "refined" means a process requiring a change in the unprocessed product. He has heard of oil being purchased prior to heating/treating. He believes that an actual wellhead sale of a product would be when a lease states the point of purchase is at the wellhead, using the DPT definition of wellhead. The DPT interpretation has been that the wellhead is at the hole, which could be at the casinghead. Those expenses that are downhill of the hole are not allowable in a netback situation. The selling price used in the valuation process must be at the point of the wellhead. He acknowledged that page 92 Exhibit 13, states that "wellhead means the point beyond the actual casinghead/tubinghead". This may be ambiguous, when considering that the wellhead was meant to be at the hole. This section also reads "...where the product is either processed at the well site or the unprocessed product is metered for transportation beyond the well site."

12. Mr. Martinez testified that netback of unrelated party charges should be used when there is a bona fide sale by a producer at a point downstream from the wellhead. It refers to unrelated parties who are paid for product gathering, processing, manufacturing, and transportation between the wellhead and the point of sale. This method is where there is talk about allowable deductions. The methodology is to apply to both oil and gas, although gas is what is used for the examples in the manual. There are counties that use the wellhead sales price methodology to value the leasehold. He believes "well site" is a much more expansive and encompassing term and includes equipment where the wellhead exists. The well site could encompass the heater/treater and storage tanks.

13. Under redirect, Mr. Martinez testified as to page 83 of Respondent's exhibit 1 including, "…additional expenses that are necessary for the processing and movement of the product from the wellhead to the point of sale may be allowed. A good "rule of thumb" is that the expenses must be associated with a process that adds value to the oil and gas product prior to sale…". He also read part of page 79 in the exhibit, which read in part "…under no circumstances will the total deduction for netback of expenses, between the wellhead and the point of sale, exceed 95 percent of the total downstream value of the product a the point of sale. Carry forward or carry back of the unused operating expense, ROI, and return on and return of investment deductions for prior or subsequent years is not allowed." He believes that activities that occur at a point beyond the casinghead/tubinghead which add value to the product are not taxable under ad valorem tax if they are part of the selling price as a cost. Deductions were

contemplated to get back to a wellhead price; the intent is to get back to an unprocessed value of the mineral produced. He agrees heating/treating and separating adds value to the raw product.

14. Upon questioning by the Board, Mr. Martinez testified that the selling price that assessors are to use for valuation purposes has to be reflective of what it would sell at the wellhead in an unprocessed state. Any activity that would arise subsequent to that may be construed as processing, manufacturing, transportation, and gathering, if those costs have been bundled into the selling price, need to be deducted to get back to a selling price reflective of that unprocessed state of the product at the wellhead. He admitted that it may be a fiction and that there may not be actual selling prices at the hole, but the DPT's charge is to determine the selling price if it were at the hole. Any costs, anything that arises subsequent to the hole that is also reflective of the selling price has to be deducted, so the selling price is netted back to the price at the hole in an unprocessed state.

15. Petitioner's witness, Mr. James Walker, a stockholder and secretary/treasurer of Petron Development Company, testified that Petron is a contract oil and gas company operator. Pucket-Warren Oil is a partnership and Petron is a receiver while Puckett-Warren Oil is in court.

16. Mr. Walker testified as to the manner in which he reported the production and expenses on the personal property declaration. He collects the total amount of production for each property, pulls the run tickets and uses the totals for gross revenues. He then deducted joint operation costs to get to market. There are two types of costs: vertical and horizontal. Vertical are down hole costs, such as tubing, casing, sucker rods, etcetera, necessary to bring the product up to the surface. He testified that the pumping unit, casing and tubing heads, tubing down the hole, etcetera are not deductible; they are down hole costs.

17. Mr. Walker testified that horizontal costs are deductible and he categorized them for the NERF and SERF forms. The dividing point for expenses is the wellhead. He receives a run ticket that indicates how much product went to the transporter. His contract calls for his delivery of crude oil to the purchaser. The purchaser designates the hauler and picks up the crude oil from the gathering point and delivers it. The purchaser then takes deductions for the condition of the crude and then a second deduction is for mileage/destination charge when applicable. He has taken these deductions for tax years 1998 and 1999. This is the first time the deductions have been denied by the assessor.

18. Mr. Walker testified that for netback expenses, he filed a portion of the expenses on the equipment; the heater/treater and tanks. He is an unrelated party, not related to Puckett-Warren. He filed the form according to his understanding of the statutes and manual. Some of these expenses were prorated, such as labor on lifting units versus horizontal costs.

19. Under cross-examination, Mr. Walker testified that his contracts say he sells and delivers to the buyer and the buyer tells him who will truck it. Petron operates Pucket-Warren Oil. Puckett-Warren Oil is both an owner and operator. The court appointed Petron as the operator. Haulers pick up the crude at the tank outlet. His contract price is downstream. He checked unrelated party netback on the declaration. Deductions for return of and return on can be taken if vertically integrated. His return of and return on deductions were for the vertical equipment battery.

20. Upon questioning by the Board, Mr. Walker admitted that for the subject property leases, he does not pay transportation costs as those were negotiated with the purchaser.

21. Petitioner's witness, Mr. Bruce D. Cartwright of Ernst & Young, LLP, a senior manager in tax consulting, testified that he prepared the calculations of the return of and return on expenses currently requested. The overhead and pumper charges were recalculated via a more accurate time study. The historic equipment costs were not available; therefore, he used replacement costs. To come up with depreciation, he used a COPAS cost adjustment. COPAS is a classification based on condition. Return of is equivalent to depreciation; he used a 14-year life that matches the ARL manual life. He also explained his return on expense calculation. He testified that Warren-Puckett would be entitled to a return of and return on. The corrected net taxable value is the cost calculation needed to get to the wellhead price.

22. Under cross-examination, Mr. Cartwright testified that the pumper is a contract pumper; therefore, Petron is not a related party. He admitted that perhaps property taxes were not a correct expense.

23. In redirect, Mr. Cartwright testified that Petron has no ownership in these wells. They pay the taxes on behalf of the taxpayer. The interest owners of the leases have ownership of the equipment and are entitled to get the return of and return on.

24. Petitioner is requesting a 2001 actual value of $687,753.00 for the subject property.

25. Respondent's witness, Ms. Jan Huffaker, a Certified General appraiser with the Washington County Assessor's Office, testified that she took an oil and gas netback class in 1997 from the DPT. The netback class discussed downstream expenses. In the class, it discussed netback for oil only when the oil was in a pipeline. Most situations for netback in the class and in the manual are for gas pipelines.

26. Ms. Huffaker testified that she believes 39-7-101 CRS defines selling price at the wellhead. A downstream sale allows deductions to get back to the wellhead. They consider the wellhead sales price to be the price that the operator receives at the lease when he sells his oil and puts it on the truck. They have always referred to this as the wellhead price in Washington County.

27. Ms. Huffaker testified that if the declaration forms indicate wellhead price, that is what she uses. If they indicate net, she asks for additional information. All of the Washington County oil is moved by truck; there are no pipelines. The point of sale of all of the oil leases is at the tank battery. She believes that the downstream sales are when the oil is sold off the lease.

28. Ms. Huffaker testified that they try to use actual wellhead price. They follow the DPT guidelines to determine the value. She reviews netbacks that are checked on the declaration form. The number one prioritized valuation methodology, according to the DPT guidelines, is the actual wellhead sale price.

29. Ms. Huffaker testified that unrelated netback should be used when you do not have a wellhead price and the sale occurs downstream. Then they deduct the costs to get back to

the wellhead price. In Washington County, she has never heard of oil being sold directly out of the ground.

30. Ms. Huffaker testified that she believes that gathering is away from the well site, not on the well site. Manufacturing and transportation definitions all say beyond the well site. She believes these deductions must be off the well site expenses.

31. Ms. Huffaker testified that the subject property's six leases, which are the subject of this appeal, are located on the eastern side of the county near Yuma. They are not on a pipeline; the trucks pick up the oil at the tank battery. She considers the sale to be at the tank battery; the operator does not pay a delivery price. It is an unprocessed product and is crude oil when it leaves the tank. It is in an unusable, unprocessed state when it leaves the tanks. The DPT definitions state beyond the lease, which is beyond the well site.

32. Ms. Huffaker testified that Petron's reported value was a netback value. The point of sale was indicated at the tank battery on the NERF form. She used the actual sales price as shown on the run tickets. She applied the actual wellhead sales price and used the same wellhead price methodology for each lease. All six leases total $800,085.00.

33. Ms. Huffaker testified that she believes return of and return on expenses are only allowed on related party netback. For unrelated party netback, there is no ownership of the equipment. If the deductions were allowable, this would be an unrelated party netback. Petron is unrelated to Puckett Warren; it is not Petron's investment in these facilities.

34. Ms. Huffaker testified that she believes the value of the equipment is in error as well. She read from page 85, paragraph B in Respondent's Exhibit 1. The subject property equipment is old; she still has the records showing the age of the equipment. Much of the equipment was from the 1950s; it was installed in the 1980s as used equipment. If the equipment were totally depreciated, there would be no deduction. If there is still depreciation, it would be less than Petitioner's value. Most actual costs would be historic costs. COGCC only allows downstream expenses, not on-site expenses for the conservation levy.

35. Under cross-examination, Ms. Huffaker testified that Puckett-Warren did not take depreciation of their equipment prior to this filing. The major DPT manual changes occurred in 1996. She does not recall Mr. Walker checking netback on his prior returns. She believes that deductible costs must occur past the lease boundaries; beyond the well site processing costs. She admitted that heating/treating does occur on the lease. She believes that the well site is the lease. Allowable expenses are those expenses that occur offsite, to the point of sale. She believes the price Mr. Walker reported on the NERF form was at the tank site and that the price on the tickets was the net price.

36. Ms. Huffaker testified that the oil storage tanks have the production of one well and are a point of accumulation and are on the lease. Allowable deductions must be off the lease. She believes that when the oil leaves the tank battery, it is in a raw state. The heater/treater breaks the emulsion and removes the water from the oil and this occurs on the lease.

37. Ms. Huffaker testified that her source for determining market value is the DPT manual. The equipment classification "very good" is for new or near new condition in the DPT grid. She believes they follow the manual.

38. In redirect, Ms. Huffaker admitted that Petron had reported netback on their 2000 declarations; she had been unaware of that, she just missed it. She was not furnished with the actual purchaser's contract.

39. Respondent assigned an actual value of $800,085.00 to the subject properties for tax year 2001.

CONCLUSIONS:

1. Respondent presented sufficient probative evidence and testimony to prove that the subject properties were correctly valued for tax year 2001.

2. The primary issue in this case is what is the definition of the "wellhead". Once that has been determined, certain costs may or may not be deducted to reach a wellhead price of the product in its unprocessed state.

3. The Board finds that the Assessor's Reference Library (ARL) definitions of gathering, transportation, manufacturing and processing are crucial to the determination of where the wellhead exists. The Board has reviewed the Constitutional and Statutory references, the DPT Oil and Gas manual, and all other exhibits presented in this case. Respondent's Exhibit 1, pages 91 and 92 presents the following definitions:

4. "Gathering" means the movement, **away from the well site**, of oil or gas products by separate and individual pipelines, of a relatively small size, to a point of accumulation, dehydration, compression, separation, heating, treating, storage, or processing. For the purposes of these calculation procedures, "gathering" is included within the term "transportation."

5. "Manufacturing/Processing" means any activity occurring **beyond the well site** which changes the well stream physical or chemical characteristics, enhances the marketability of the stream, or enhances the value of the separate components of the stream. Processing includes, but is not limited to fractionation, absorption, flashing, refrigeration, cryogenics, sweetening, dehydration, beneficiation, heating treating, separating, stabilizing, or compressing.

6. "Selling price at the wellhead," as paraphrased from 39-7-101(1)(d), C.R.S., means the net taxable revenues realized by the taxpayer for the sale of oil or gas, whether such sale occurs at the wellhead or after transportation including gathering, manufacturing, and processing of the product. The net taxable revenues shall be equal to the gross lease revenues, minus deductions, for transportation including gathering, manufacturing, and processing costs borne by the taxpayer as described in this section.

7. "Wellhead" means the point **beyond the actual casinghead/tubinghead** where the product is either processed at the well site or the unprocessed product is metered for transportation beyond the well site.

8. The Board heard conflicting testimony and interpretations of the DPT manual instructions. In fact, the manual language at times appears to contradict itself. Mr. Martinez testified that the definition of "wellhead" was intended to be the "hole". The Board finds that this interpretation is contrary to the specific definitions found in the ARL. Definition 13 above clearly states that the "wellhead" is a point beyond the actual casinghead/tubinghead… The casinghead/tubinghead is located on the "hole". Therefore, the wellhead must not be the actual "hole" according to this definition.

9. For the subject properties, we determine that the "wellhead" means the point beyond the actual casinghead/tubinghead where the product is either processed at the well site or the unprocessed product is metered for transportation beyond the well site. We believe that the subject properties consist of sales of unprocessed product, and the wellhead price should be determined to occur at the meter.

10. We do not believe that the removal of water from the emulsion results in the product being processed at the well site. Several witnesses testified that the oil is not marketable at the hole as it is an emulsion containing both raw crude oil and water. The emulsion is sent to a heater/treater where the water is removed. The Board believes that the removal of the water does not change the composition of the oil; it is still in its raw state. The Board interprets this process as not "adding" value to the raw product; it would not be sellable without this process, which would make these expenses production costs.

11. The Board does not believe that the deduction of expenses for gathering and manufacturing/processing expenses as claimed by the Petitioner for the subject properties is proper. None of the requested expenses occurred "beyond the well site" as noted in the definitions and the product was sold in its raw state. Transportation costs from the well site to the point of sale would be allowed, if the Petitioner were responsible for these costs, and they were included in the sale price, which is not the case for the subject properties, according to testimony of Mr. Walker.

12. The Board believes that the term "well site" includes the entirety of the lease that pertains to each well. We believe this interpretation of well site costs is further supported by Mr. Martinez's testimony, which was that he would consider "well site" a much more expansive and encompassing term that includes equipment where the wellhead exists.

13. Mr. Wonstolen testified that the consistency of definitions of net taxable revenues at the wellhead has been an issue for 10 years for valuation methodology, and that the industry has sought consistency in the valuation process. We believe the Board's interpretation is consistent with that of other agency interpretations and gas wellhead price reporting. The wellhead selling price for gas is typically determined to be at a meter on the well site. Furthermore, Respondent's exhibit also references other agencies, such as the Colorado Oil and Gas Conservation Commission, the Department of Revenue, and the federal Minerals Management

Services, that do not allow well site expenses as a deduction, only downstream expenses. The Board believes its interpretation is consistent with the Colorado Constitution, Colorado Revised Statutes, the Assessor's Reference Library and other agency definitions.

14. The Board concluded that the 2001 actual value of the subject properties, as assigned by the Respondent, constitutes the actual wellhead price and requires no further deduction. The Board hereby affirms Respondent's assigned value of $800,085.00.

ORDER:

The petition is denied.

APPEAL:

Petitioner may petition the Court of Appeals for judicial review within 45 days from the date of this decision.

If Respondent alleges procedural errors or errors of law by this Board, Respondent may petition the Court of Appeals for judicial review within 30 days from the date of this decision.

DATED and MAILED this 12th day of June, 2002.

BOARD OF ASSESSMENT APPEALS

Judee Nuechter

Karen E. Hart

This decision was put on the record

JUN 1 1 2002

I hereby certify that this is a true and correct copy of the decision of the Board of Assessment Appeals.

Penny S. Bunnell

STATE OF COLORADO SEAL BOARD OF ASSESSMENT APPEALS

38106.02.doc

Exhibit A

Petron Development Company

Property Description	Schedule Number
Chandler 2-15	8170023
Leuï 1A	8170018
Petrie #1X	8170024
Petrie #2	8170024
Stennett 1-21	8170019
Warren 1-11	8170017
Stennett 4 -15	8170021
Stennett 5 -15	8170021
Stennett 6 -15	8170021
Stennett 7 -15	8170021