

<p>BOARD OF ASSESSMENT APPEALS, STATE OF COLORADO 1313 Sherman Street, Room 315 Denver, Colorado 80203</p> <hr/> <p>Petitioner:</p> <p>D& M DIVISION OF STC (Schlumberger Technology Corporation),</p> <p>v.</p> <p>Respondent:</p> <p>ADAMS COUNTY BOARD OF EQUALIZATION.</p>	<p>Docket No.: 53176 and 56509</p>
<p>AMENDED ORDER</p>	

THIS MATTER was heard by the Board of Assessment Appeals on September 1, 2011, Debra A. Baumbach and Gregg A. Near presiding. Petitioner was represented by F. Brittin Clayton III, Esq. Respondent was represented by Douglas K. Edelstein, Esq. Petitioner is protesting the 2009 and 2010 actual value of the subject property.

The parties agreed to consolidate Dockets 53176 and 56509.

Subject property is described as follows:

Adams County Schedule No. P0027574

The subject property consists of down-hole drilling and exploration equipment. Petitioner provides oil field materials and tools worldwide. The tools are specialized and control the drilling and direction of the bore as well as recording and transmitting data. The company's facility in Commerce City is the regional tool distribution center.

Petitioner presented the following indication of value for 2009:

Market:	Not applicable
Cost:	\$29,079,566.00
Income:	Not applicable

Petitioner presented the following indication of value for 2010:

Market:	Not applicable
Cost:	\$24,838,732.00
Income:	Not applicable

Petitioner is requesting an actual value of \$29,079,566.00 for the subject property for tax year 2009 and an actual value of \$24,838,732.00 for tax year 2010. Respondent assigned a value of \$42,009,447.00 for the subject property for tax year 2009 and assigned a value of \$41,308,851.00 for tax year 2010.

Petitioner's witness, Roy Houston, the Drilling and Asset Manager for D & M Division of STC (Schlumberger Technology), testified regarding the conditions where the oil field tools are employed. Mr. Houston also presented details regarding the location and purpose of certain tools within the assembled equipment. Mr. Houston described the procedures used to acquire the tools through Schlumberger's "Product Centers", the process of distribution of tools and operators to the drill sites and the repairs and maintenance undertaken when materials are returned. Equipment is monitored for usage and eventually disposed when no longer serviceable. The company faces risk from equipment that is "lost in the hole" and cannot be retrieved.

Petitioner's witness, Christopher Arthur, testified regarding the operations of the Product Centers. The Product Centers are separate entities and derive a profit from the acquisition of the various components and assembly of each of the tools prior to their sale to the drilling side of the operation. Mr. Arthur also testified regarding drilling conditions in North America and indicated tools wear out more quickly in this location than some others.

Petitioner's witness, Lauren Thomas, provided a statistical analysis of economic life of the company's equipment that she derived from the records provided by the distribution center. Ms. Thomas indicated her calculations included data from the North American region because there were too few data points if only data from Commerce City were applied. There were a total of 2,376 records considered in her analysis spanning a period from 2007 through August 2010. Ms. Thomas concluded to an average age at retirement for the eleven categories of tools distributed through Adams County of 4.1 years and a "cost weighted" average age of 3.67. The cost weighting determined more expensive tools tend to wear out sooner.

Ms. Thomas utilized the cost approach and narrowed the data into three time periods 2007-2008; 2007-2009 and 2007-2010. Within the three time periods the average age at retirement ranged from 3.54-4.1 years; the median age at retirement ranged from 2.64-3.21 years and the cost weighted average age at retirement varied from 2.94-3.67 years. Utilizing a 3-year depreciation schedule Petitioner's witness arrived at a value of \$29,079,566.00 for 2009 and \$24,838,732.00 for 2010.

Respondent presented the following indication of value for 2009:

Market:	Not applicable
Cost:	\$42,009,447.00
Income:	Not applicable

Respondent presented the following indication of value for 2010:

Market:	Not applicable
Cost:	\$41,308,851.00
Income:	Not applicable

Respondent's witness, Loren Morrow, applied the cost approach to the assets provided by Petitioner. Respondent adjusted Petitioner's historic costs to derive a replacement cost new. Mr. Morrow then applied a 6-year economic life to the assets. Mr. Morrow indicated the equipment was classified for petroleum and natural gas exploration and drilling as defined by the Assessor's Reference Library. Mr. Morrow indicated the classification for special tools, with a 3-year economic life, was not appropriate for the subject property. Mr. Morrow pointed to definition of special tools as essentially tools to make other products. Special tools are items such as dies, jigs, molds, patterns, and gauges used in the production of an item or items. These tools have no significant utilitarian value other than this production and are not readily adoptable to other uses. A mold is a special tool; a wrench is not.

Respondent's witness, Steve Sutterfield, a Certified General Appraiser in Arkansas, testified regarding the appropriate application of special tools and agreed with Respondent's classification. Mr. Sutterfield disagreed with Petitioner's inclusion of "lost in the hole" equipment as fully depreciated when typical contracts require the lessee to reimburse this cost. Mr. Sutterfield also indicated that the equipment sent to the field is essentially new after being serviced at the distribution center.

Respondent's witness, Jerry L. Wisdom, testified that counting "lost in the hole" equipment as fully depreciated was inappropriate since the equipment is rented. Respondent compared the situation where the lessee destroys a front loader and the property is replaced by insurance. The witness pointed out there is no difference in the lease agreement whether the property is new or used.

Petitioner presented sufficient probative evidence and testimony to prove that the tax year 2009 and 2010 valuation of the subject property was incorrect. The Board considers Petitioner's valuation to be persuasive.

The Assessor's Reference Library makes the following statement:

The economic life estimates are based on average national service lives and assume normal use and maintenance of the property. Typical physical depreciation and functional/technological obsolescence for the personal property are accounted for

when using the appropriate economic life estimate. Use of economic lives that differ from those in the estimates must be documented. Counties and taxpayers are encouraged to provide this documentation for review by the Division of Property Taxation for possible update of existing published lives.

The Board agrees with Respondent's classification of the property as exploration and drilling equipment but the Board is compelled by Petitioner's well documented depreciation schedule that clearly suggests a 6-year depreciation schedule is inappropriate for this type of equipment.

The Board is also less concerned with valuations as of specific periods than consideration of an appropriate schedule for this much more contemporary, complicated and expensive equipment. The Board considers a 4-year Recommended Economic Life to be appropriate based upon the testimony presented.

The parties have stipulated to the actual values for the subject property based on the application of a 4-year Recommended Economic Life for the Special Tools Category. Utilizing the four-year depreciation tables for Petitioner's down-hole drilling equipment as the Board determined was appropriate, the parties have stipulated that the resulting actual values of the subject property for 2009 and 2010 are as follows:

2009 total actual value = \$34,324,427.00

2010 total actual value = \$30,694,122.00

The Board accepts these stipulated values. The Board's original Order of October 5, 2011 is vacated in its entirety, and this Order is substituted in its place.

ORDER:

Respondent is ordered to reduce the 2009 actual value of the subject property to \$34,324,427.00 and to reduce the 2010 actual value of the subject property to \$30,694,122.00.

APPEAL:

If the decision of the Board is against Petitioner, Petitioner may petition the Court of Appeals for judicial review according to the Colorado appellate rules and the provisions of Section 24-4-106(11), C.R.S. (commenced by the filing of a notice of appeal with the Court of Appeals within forty-five days after the date of the service of the final order entered).

If the decision of the Board is against Respondent, Respondent, upon the recommendation of the Board that it either is a matter of statewide concern or has resulted in a significant decrease in the total valuation of the respondent county, may petition the Court of Appeals for judicial review according to the Colorado appellate rules and the provisions of Section 24-4-106(11), C.R.S. (commenced by the filing of a notice of appeal with the Court of Appeals within forty-five days after

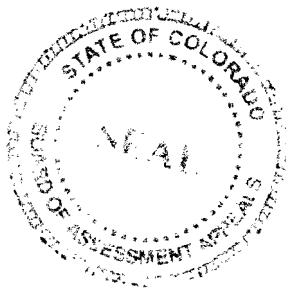
the date of the service of the final order entered).

In addition, if the decision of the Board is against Respondent, Respondent may petition the Court of Appeals for judicial review of alleged procedural errors or errors of law within thirty days of such decision when Respondent alleges procedural errors or errors of law by the Board.

If the Board does not recommend its decision to be a matter of statewide concern or to have resulted in a significant decrease in the total valuation of the respondent county, Respondent may petition the Court of Appeals for judicial review of such questions within thirty days of such decision.

Section 39-8-108(2), C.R.S.

DATED and MAILED this 14th day of November, 2011.



BOARD OF ASSESSMENT APPEALS:

Debra A. Baumbach

Debra A. Baumbach

Gregg A. Near

Gregg A. Near

Amy J. Williams

Amy J. Williams

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

Milla Crichton

Milla Crichton