

<p>BOARD OF ASSESSMENT APPEALS, STATE OF COLORADO 1313 Sherman Street, Room 315 Denver, Colorado 80203</p> <hr/> <p>Petitioner:</p> <p>NABORS DRILLING USA LP</p> <p>v.</p> <p>Respondent:</p> <p>GARFIELD COUNTY BOARD OF EQUALIZATION</p>	<p>Docket No.: 57905</p>
<p><i>AMENDED ORDER</i></p>	

THIS MATTER was heard by the Board of Assessment Appeals on February 5 and 6, 2013, Diane M. DeVries and Gregg Near presiding. Petitioner was represented by Alan Poe, Esq. Respondent was represented by Cassie Coleman, Esq. Petitioner is protesting the 2011 actual value of the subject property.

The subject property consists of different types of drilling rigs used in oil and gas service. The property is described as follows:

Garfield County Schedule Number	Drill Rig Number
P910137	M-11
P910139	M-15
P910141	573
P910144	577

Out of four drilling rigs that are subject to this appeal, three rigs, specifically rig numbers M15, 573 and 577, were located in Garfield County throughout the valuation year. The remaining rig M-11 traveled between Mesa and Garfield Counties during the valuation year. The parties agreed that the actual value of the traveling rig should be allocated between Mesa County and Garfield County based on the number of days the rig spent in either county:

M-11 (Garfield County 140 days; Mesa County 225 days)

Petitioner’s witness, Mr. Jose Cadena, Vice President-Tax for Nabors Corporate Services (“Nabors”), testified as to the company’s background; the types of drill rigs under consideration in this case; and the processes involved in dealing with taxing authorities ranging from counties in Colorado to locations throughout the world. Mr. Cadena also stated that reliance upon the cost approach in valuing the rigs resulted in the maximum value. In his experience, there were sufficient transactions available to develop a market approach. He testified to having been selling rigs to others since 2006, including some sales in 2010, within the valuation period. Mr. Cadena indicated that he has been using the services of Hadco International (“Hadco”) to provide an annual appraisal of the US rig fleet since 2006.

Petitioner’s witness, Mr. Duke W. Coon, a Certified General Appraiser and Vice President of Hadco, presented a summary report in a restricted use format for each of the subject drilling rigs. Mr. Coon stated that his company annually appraises between 300 to 350 drill rigs for Nabors and additional 100 to 150 for other parties. Mr. Coon co-publishes an equipment newsletter, “The Oilfield Appraiser.” The newsletter is provided to some 3,000 to 4,000 subscribers, including taxing authorities, lenders and other operators. Mr. Coon also testified that Hadco had provided assistance to the State of Colorado several years ago in development of the Market Value Schedule currently used by the State to value stationary mechanical drills that were common more than a decade ago. He also stated this type of drill represented 20% of Nabors’ fleet in 2011.

The drill rigs under consideration vary in type and design. Mr. Coon classified the pertinent features of each of the units based upon the rig’s type (mechanical or electrical); the condition (a range from excellent to fair); the horsepower rating and the depth the rig is designed to drill.

All of the rigs are identified as “SJ JC30 Petroleum with Top Drive” rated as 815 horsepower with a drilling depth of 13,100 feet. All the units are in good condition. The newsletter indicates the 2010 fourth quarter value for the rigs similar to the subject rigs. but without the “top drive” feature, to be \$5,350,000. Mr. Coon added \$800,000 for the additional value of the top drive and concluded to a value of \$6,150,000 for each of the subject rigs.

Mr. Coon did not apply either an income or cost approach to value the subject property.

Petitioner presented the following opinions of value:

Drill Rig Number	Value
M-11	\$6,150,000
M-15	\$6,150,000
573	\$6,150,000
577	\$6,150,000
Total:	\$24,600,000

Respondent presented the following opinions of value:

Drill Rig Number	Value:
M11	\$4,598,530
M15	\$12,802,200
573	\$9,069,420
577	\$10,596,840

Respondent’s witness, Mr. Sean McCourt, a Certified Residential Appraiser, testified that the properties at issue are classified in Colorado as “New High-Technology Drilling Rigs” and the Department of Property Taxation directs the use of the cost approach in valuation of this class of rigs. Mr. McCourt identified the rigs as “purpose built” and much more sophisticated than older, more stationary skid-mounted rigs. Mr. McCourt used the installed costs as provided by Petitioner. Additional information obtained during discovery was relied upon for the current valuation. The following represents the original costs established by the Garfield County Board of Equalization and the revised costs concluded by Respondent based on the discovery:

Drill Rig Number	Original Rig Cost as Used by Assessor:	Revised Rig Cost
M11	\$15,300,000	\$15,881,015
M15	\$14,700,000	\$16,988,284
573	\$10,800,000	\$11,905,523
577	\$11,200,000	\$13,985,347
Total:	\$52,000,000	\$58,760,169

The above installed costs were trended to the assessment date and depreciated based on a 10-year economic life. Mr. McCourt found no functional or external obsolescence. The cost for drill pipes and drill collars sufficient to support the designed drilling depth was added from the DPT schedules. Mr. McCourt stated that he visited the rigs during public tours and relied upon interviews with Petitioner’s drilling personnel as well as other individuals.

Mr. McCourt did not apply either an income approach or a sales comparison approach. He stated that he considered both approaches but lack of verifiable information of drill rig sales limited reliability of the approaches.

Respondent assigned the following values for the subject property for tax year 2011:

Drill Rig Number	Garfield Value:	Mesa Value:
M11	\$4,401,650	\$7,148,830
M15	\$11,035,090	
573	\$8,170,930	
577	\$8,464,690	
Total:	\$32,072,360	

Petitioner contended that Mr. Coon's experience, expertise and reputation provide the best support for Petitioner's value claims. Petitioner pointed out that Mr. Coon's professional input is relied upon by the State of Colorado as well as other similar entities world-wide. Per Petitioner, Colorado's own 2011 Market Valuation Depth Schedule, utilized by Respondent, was the work of Mr. Coon. Petitioner points out that 80% of the current rigs were the high-tech type and, as such, they were specifically excluded from the Schedule. According to Petitioner, the availability of comparable rig sales in the open market required the Board to consider more than the cost approach. Petitioner contended that Respondent's reliance upon the straight line method of depreciation ignored significant capitalization expenditures. Petitioner's appraiser reported approximately 150 yearly rig sales indicating that the sales comparison approach should be applied.

Respondent contended that Petitioner has provided only a mass appraisal. Mr. Coon, the primary appraiser, did not personally inspect any of the drilling rigs and did not personally confirm the comparable sales. Respondent suggested that the research conducted to satisfy Nabor's audit requirements is insufficient for the site-specific analysis required for the purposes of this hearing. Respondent also questioned Mr. Coon's comparable sales because the data submitted was incomplete and there was no outside verification of the transactions. Respondent also disputed the use of transactions without any indication of terms of the sale or the motivation of the buyer and seller. Respondent questioned Petitioner's appraiser for the use of auction sales as justification for his opinions of market value. Overall, Respondent was not satisfied with Petitioner's lack of transparency and reliance upon a "trust me" approach.

The Board was not persuaded by the testimony of Mr. Coon. The Board recognizes the significant service provided by Mr. Coon and Hadco to the Colorado Department of Property Taxation, but finds there is insufficient support provided by Petitioner's appraisals. The Board is not compelled by the sale comparison analysis presented by Mr. Coon because first, the sales data provided was insufficient to allow verification by another party, and second, because the information itself was not sufficient to convince the Board. The Board notes the reliance upon "The Oilfield Newsletter" but questions the appraiser's approach. Mr. Coon testified to 150 rig sales, more or less, that occur per year. These sales are spread over nine different depth ratings and four different quality ratings. The 150 sales are reported on a quarterly basis thus requiring at least 144 (9 depth ratings X 4 quality ratings X 4 quarters) sales to populate each individual classification with only one applicable sale per quarter. Mr. Coon relies only upon the information in the fourth quarter and relates between three to six sales in his reports that all occurred during that single quarter. Without making an unjustifiable assumption that majority, if not all, of the relevant sales disproportionately occurred in the last quarter of 2010, the Board cannot accept this information as reasonably reflecting the sales comparison approach to value.

The Board also is not satisfied with the position of Petitioner's appraiser in rejecting the cost approach outright. Sufficient evidence of actual installed costs were presented and with known capital expenditures for each rig, a supportable cost approach, without blind reliance upon a straight line schedule, should certainly be within an adequate and reasoned value opinion.

ORDER:

The petition is denied.

The Board accepts the County Board of Equalizations' values previously established as follows:

Drill Rig Number	Garfield Value:	Mesa Value:
M11	\$4,401,650	\$7,148,830
M15	\$11,035,090	
573	\$8,170,930	
577	\$8,464,690	
Total:	\$32,072,360	

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 8th day of April, 2013.

BOARD OF ASSESSMENT APPEALS

Diane M. DeVries

Diane M. DeVries

Gregg Near

Gregg Near

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

Milla Crichton

Milla Crichton

