

**BOARD OF ASSESSMENT APPEALS,
STATE OF COLORADO**
1313 Sherman Street, Room 315
Denver, Colorado 80203

Docket No.: 60850

Petitioner:

NABORS DRILLING USA LP,

v.

Respondent:

GARFIELD COUNTY BOARD OF EQUALIZATION.

ORDER

THIS MATTER was heard by the Board of Assessment Appeals on November 18 and 19 2013, Diane M. DeVries and Gregg Near presiding. Petitioner was represented by Arthur F. Hoge III, Esq. Respondent was represented by Katharine A. Johnson, Esq. Petitioner is protesting the 2012 actual value of the subject property.

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

Garfield County Schedule Number	Drill Rig Number
P910138	M13
P910139	M15
P10141	573
P10142	574
P10143	576
P10144	577

Drill rig M13 travelled between Garfield and Mesa Counties during the valuation year. The parties agreed that the actual value of the rig should be allocated between Garfield and Mesa Counties based on the county of origin and the number of days the rig spent in either county. Garfield County was the county of origin for rig M13 with the day-count allocation is as follows:

M13 (Garfield County 323 days; Mesa County 42 days)

Petitioner presented the following indications of value prior to any apportionment:

Rig M13

Market: \$7,270,000
Cost: \$8,132,000
Income: Not Applied

Rig M15

Market: \$7,270,000
Cost: \$8,132,000
Income: Not Applied

Rig 573

Market: \$7,270,000
Cost: \$8,132,000
Income: Not Applied

Rig 574

Market: \$7,270,000
Cost: \$8,132,000
Income: Not Applied

Rig 576

Market: \$7,270,000
Cost: \$8,132,000
Income: Not Applied

Rig 577

Market: \$7,270,000
Cost: \$8,132,000
Income: Not Applied

Petitioner is requesting a combined value of **\$54,454,703** for the subject property for tax year 2012 after apportionment (e.g., Garfield only value). Respondent assigned a value of **\$67,613,400** for the subject property for tax year 2012 after apportionment.

Petitioner's witness Mr. Dean Sherrill, Senior Equipment Manager for Nabors Drillings USA LP ("Nabors") testified regarding the production of drilling rigs at the location of his employment, the "Rockwell Yard." Mr. Sherrill provided background information on the type of rigs under consideration; the primary features; how modifications are common when dealing with specific conditions or locations and how modifications are needed for imported sub-standard equipment. Mr. Sherrill also presented his opinion of the market for new and used drilling equipment as of the beginning of 2012. Mr. Sherrill stated the additional cost of the rig modifications do not result in an equal increase upon resale and the market as of January 2012 was saturated. Imported rigs may

require up to \$500,000 in upgrades to meet U.S. standards. Another common modification is a top drive, a system that is necessary for simultaneous drilling operations {multiple wells from a single pad}. The top drive had a cost of \$750,000 more or less. The last “M” series rig {the subject type} the Rockwell Yard developed was in 2010 at an estimated cost of \$13,000,000.

Petitioner’s witness Mr. Duke Coon, a Certified General Appraiser and Vice President of Hadco International (“Hadco”) testified to having appraised over 80% of the national fleet of drilling rigs and from 85% to 90% of the international fleet. Mr. Coon noted that Colorado is a client of his company as Hadco 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. Mr. Coon also stated he co-publishes an equipment newsletter, “The Oilfield Appraiser.” The newsletter is provided to some 2,500 subscribers, including taxing authorities, lenders and other operators.

Mr. Coon presented a market approach to value utilizing data within his publication. Four comparable sales were considered. The comparables ranged in sale price from \$7,800,000 to \$11,000,000. The rigs varied from 10,000 feet to 22,000 feet in depth capability; from 1,000 horsepower (m/l) to 2,000 horsepower (m/l); electric or mechanical controls; and availability of connection to a top drive. All the sales were in better condition than the subject units. Mr. Coon testified the sales reported were the only transactions that occurred during the valuation period.

Mr. Coon adjusted all the comparable sales downward due to their better condition. Other adjustments were applied for depth ratings; horsepower; date of sale; operating system (mechanical or electric), connection to a top drive and connection to a skidding system. After adjustments were made, the sales ranged from \$6,577,000 to \$7,270,000. Mr. Coon concluded to an individual value of \$7,270,000 for each of the rigs.

Mr. Coon presented a cost approach to derive a value for each of the rigs of \$8,132,000.

To determine the replacement cost, Petitioner’s appraiser presented “recent cost data” for five drilling rigs. The cost data was obtained from rig manufacturers and drilling contractors. Nabors was the data source for two of the rigs. Mr. Coon reported that each of the drill rigs were similar in type to the subject units. The five rigs were developed at cost figures from \$10,302,119 to \$16,418,614. The costs were averaged to an average replacement cost new of \$13,290,000.

The rigs were all constructed in 2007 and have an actual age of 5 years. The useful life of this type of equipment is 11.6 years. Application of an age/life approach to depreciation resulted in a physical depreciation estimate of 43.1%, or, \$5,728,248. Mr. Coon determined no functional or economic obsolescence to be present. As the comparable sales did not include drill pipe or collars, the cost figure was adjusted upward \$570,000 for these features. The concluded value for each rig was \$8,132,000.

Respondent presented the following indicators of value prior to any apportionment to the individual counties:

Rig M13

Market: Not Applied
Cost: \$9,112,270
Income: Not Applied

Rig M15

Market: Not Applied
Cost: \$10,677,210
Income: Not Applied

Rig 573

Market: Not Applied
Cost: \$7,855,150
Income: Not Applied

Rig 574

Market: Not Applied
Cost: \$7,801,560
Income: Not Applied

Rig 576

Market: Not Applied
Cost: \$8,487,290
Income: Not Applied

Rig 577

Market: Not Applied
Cost: \$7,990,500
Income: Not Applied

Respondent's witness Sean McCourt, a Certified Residential Appraiser, testified regarding the rigs and identified them as "purpose built" or "fit for purpose." He explained that each of the rigs are designed for simultaneous operations and can drill multiple wells from a single pad through the use of a computerized "top drive." This type of equipment is defined in the Assessor's Reference Library ("ARL") as a "high-technology rig." The ARL determines the valuation procedures required by the State to derive a cost value for the property.

Mr. McCourt was provided individual "Rig Fixed Asset" lists by Petitioner. The lists were updated yearly for additions/deletions. The costs were assembled and summarized as follows:

RIG NUMBER	YEAR BUILT	ASSEMBLED COST
M13	Oct-07	\$15,705,940
M15	Oct-07	\$16,299,600
573	Jun-07	\$11,891,510
574	Aug-07	\$11,807,800

576	Sept-07	\$12,878,920
577	Oct-07	\$12,102,920
TOTAL:		\$80,686,690

The Assembled Cost for each rig was adjusted upward for the cost of drill pipe and collars according to the schedule established by the DPT. All of the rigs had the same depth rating and were each adjusted \$378,330. As the above values represent historic costs, they were then brought forward to the current level of value by application of the cost factor provided by the ARL. For rigs constructed in 2007 the cost factor was 1.10.

After adjustment to the current cost, each rig was adjusted for physical depreciation based upon the General Percent Good Table. The Table indicates a 10-year life for this type of equipment. Each of the rigs was then adjusted for depreciation at a factor of 60% good. No functional or external obsolescence was observed.

To adjust for condition as of the assessment date, a rollback factor of 0.97% was then applied to represent the correct figure as of the date of value.

After the above adjustments, the following indications were obtained:

RIG NUMBER	ASSEMBLED COST	DRILL PIPE AND COLLARS	COST FACTOR	LEVEL OF VALUE	FINAL VALUE
M13	\$15,705,940	\$378,330	1.10	0.97	\$10,297,150
M15	\$16,299,600	\$378,330	1.10	0.97	\$10,677,210
573	\$11,891,510	\$378,330	1.10	0.97	\$7,855,150
574	\$11,807,800	\$378,330	1.10	0.97	\$7,801,560
576	\$12,878,920	\$378,330	1.10	0.97	\$8,487,290
577	\$12,102,920	\$378,330	1.10	0.97	\$7,990,500
TOTAL:					\$53,108,860

Mr. McCourt testified that he considered both the market approach and the income approach but found both to be not applicable. The only approach considered was the cost approach.

Respondent assigned the following values to each of the rigs prior to any apportionment.

RIG NUMBER	FINAL VALUE
M13	\$10,297,150
M15	\$10,677,210
573	\$7,855,150
574	\$7,801,560
576	\$8,487,290
577	\$7,990,500
TOTAL:	\$53,108,860

Petitioner contends that the Colorado statutes require the consideration of all three approaches to value in valuing the subject. Petitioner's appraiser was able to find sufficient sales in order to develop a market approach. The sales were appropriately adjusted based upon information contained within the Hadco newsletter. Petitioner noted Respondent's appraiser relied upon outdated reference materials and wrongly applied the cost approach by failing to determine "replacement" rather than "reproduction" cost. Petitioner's appraiser correctly applied the proper valuation practices as set forth by the American Society of Real Estate Appraisers. Petitioner contends the Board is not bound by the Assessor's Reference Library (ARL) but rather by Colorado statutes. Petitioner also asserts that the costs of installation, including sales/use tax and freight are not pertinent to the valuation of drilling rigs.

Respondent contends that Petitioner has presented a mass valuation analysis solely relying upon data contained within a publication produced by their appraisal witness. Respondent questions Mr. Coon's adjustments based upon "historic" paired sales. These "historic" transactions are not described in the appraisal report and there is no way to determine the reliability of the appraiser's adjustments. Respondent pointed to Mr. Coon's statements that there are sometimes insufficient sales within the survey periods. With insufficient sales between survey periods, Respondent questions the reliability of the time trending data presented within the appraiser's publication. Respondent questions why Petitioner's appraiser presented both a market approach and cost approach value but consistently reconciled to the lower value determined by the market approach. Respondent notes that Petitioner's so called market approach simply corresponds to the appropriate category presented in the Hadco newsletter. This is reliance upon mass data and is therefore not appropriate in this context.

Petitioner presented insufficient probative evidence and testimony to prove that the subject property was incorrectly valued for tax year 2012.

The Board is not persuaded by Petitioner's market approach or cost approach. Petitioner's market approach relied upon transactions that were not verifiable by a third party. Petitioner's descriptions of clearly expensive modifications were incomplete. Petitioner made only a limited amount of adjustments that were dependent upon data contained within the Hadco data base. The Board agrees with Respondent that Petitioner's market approach is a mass appraisal and the "comparable" sales reported are insufficiently complete to be reliable in developing a value.

The Board also finds Petitioner's cost approach to be misleading. Despite Petitioner's protestations to the contrary, the Board finds it inconceivable that the appropriate development of replacement cost new is accomplished by simple averaging of the reported sale prices of disparate collections of machinery.

ORDER:

The Petition is denied.

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-nine 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-nine days after the date of the service of the final order entered).

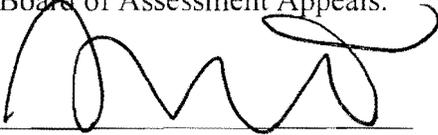
In addition, if the decision of the Board is against Respondent, Respondent may petition the Court of Appeals for judicial review of alleged procedural errors or errors of law within thirty days of such decision when Respondent alleges procedural errors or errors of law by the Board.

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.

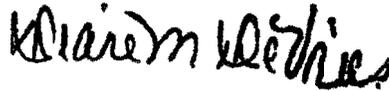
DATED and MAILED this 7th day of February, 2014.

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

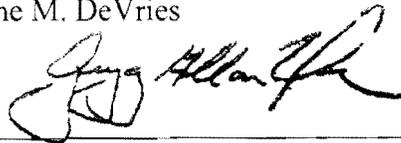


Milla Lishchuk

BOARD OF ASSESSMENT APPEALS



Diane M. DeVries



Gregg Near

