

New Mexico Legislative
Interim Revenue Stabilization
& Tax Policy Committee
(RSTP)

“Auditing Oil and Gas Equipment for
Property Tax Purposes”

DRILLING RIGS

&

POST PRODUCTION GATHERING & TRANS. PIPELINES

Jerry L. Wisdom, PPS
Oil & Gas Appraisal Manager
Total Assessment Solutions Corp.

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JERRY L. WISDOM, PPS— is the Oil & Gas Appraisal Manager for Total Assessment Solutions Corp (TASC) an Arkansas Corporation. TASC is a contracting appraisal firm for county governments in Arkansas, Oklahoma, Colorado, Idaho and New Mexico. Mr. Wisdom also is Vice President – Asset Manger and serves on the Board of Directors for Jo-Allyn Oil Company. He has experience in buying & selling oil & gas wells, equipment and reserves. Mr. Wisdom has over 37 years of experience in this sector of the oilfield. He began his career in 1979 working for the oilfield supply company Continental Emsco. After serving 5 years he started his own supply company J.W. Pump & Supply Co. in the Oklahoma panhandle with ultimately having 3 stores before leaving in 1998. Since 1996 he has developed a specialty service in the discovery, auditing, mapping and appraising oil & gas gathering pipelines, gas plants, compressor stations and other oilfield personal property equipment for county assessors. He has been involved in over 60 county projects in 6 states finding billions of dollars of non-reported or omitted oil & gas assets for tax assessors. One case has gone to the U.S. Supreme Court in Oklahoma concerning natural gas in storage where the county prevailed. In 2008 he developed all cost tables for oil & gas equipment for the State of Colorado Basic Equipment Lists (BELS). In 2017 he was responsible for valuing over 12 billion dollars of personal property in 5 states. Mr. Wisdom has been recognized as an expert witness in the valuation of oil & gas equipment, he holds the Personal Property Specialist Appraisal designation with the International Association of Assessing Officers and has instructed Oil & Gas Identification and Valuation classes in Oklahoma, New Mexico, Arkansas and Idaho.

Jerry L. Wisdom, PPS
Oil & Gas Appraisal Manager
124 E. 14th
Ada, Oklahoma, 74820
580-332-8272 Office
Email; jlwisdom@totalassessments.com

OIL & GAS PERSONAL PROPERTY

- For Assessors - Homes are easily measured, photographed and graded by the square footage and inspection within their respected counties.
- Oil & Gas Personal Property is “SELF REPORTING” to the State or Assessors office.
- Drilling Rigs move in and out of the counties and New Mexico guides for valuations have not been updated since 1978.
- Oil & Gas well production equipment pay in lieu of or severance or production tax but gathering and transportation equipment is taxable, WHAT DEFINES THEM?
- Non-FERC Gathering Pipelines are buried with no regulatory oversight reporting for gathering pipelines. WHERE ARE THEY? WHAT SIZE ARE THEY? HOW MUCH VALUE?
- Natural gas compressors are small and large and are moved around like mobile homes they can range in value from \$25,000 - \$2,000,000, Leasing Companies report at a Manufacturing Trade Cost Level not at total installed cost for the unit.
- Home owners have to pay taxes on the purchase price of their home.
- Pipelines companies almost never initially report the purchase price to the assessor.
- The first job of the assessor is discovery property and then value, with the above problems in oil & gas personal property some counties have performed an TASC Oil & Gas Discovery, Auditing & Mapping projects, here are some results.

None of the Oil & Gas Equipment in this report is shielded under Article 34 Oil & Gas Production Equipment Ad Valorem Tax.

ARTICLE 34

Oil and Gas Production Equipment Ad Valorem Tax

7-34-2. Definitions.

As used in the Oil and Gas Production Equipment Ad Valorem Tax Act:

- A. "commission", "department" or "division" means the taxation and revenue department, the secretary of taxation and revenue or any employee of the department exercising authority lawfully delegated to that employee by the secretary;
- B. "person" means any individual, estate, trust, receiver, business trust, corporation, firm, copartnership, cooperative, joint venture, association or other group or combination acting as a unit;
- C. "operator" means any person engaged in the severance of products from a production unit;
- D. "product" means oil, natural gas or liquid hydrocarbon, individually or any combination thereof, carbon dioxide, helium or a non-hydrocarbon gas;
- E. "severance" means taking any product from the soil in any manner;**
- F. "production unit" means a unit of property designated by the department from which products of common ownership are severed;**
- G. "equipment" means wells and nonmobile equipment used at a production unit in connection with severance, treatment or storage of production unit products;**
- H. "value" means the actual price received for products at the production unit as established under the Oil and Gas Ad Valorem Production Tax Act;
- I. "assessed value" means the value against which tax rates are applied; and
- J. "tax" means the oil and gas production equipment ad valorem tax.

7-36-7. PROPERTY SUBJECT TO VALUATION FOR PROPERTY TAXATION PURPOSES.

REGULATIONS

3.6.5.15 PROPERTY SUBJECT TO VALUATION FOR PROPERTY TAXATION PURPOSES

W. OIL AND GAS EQUIPMENT OTHER THAN THAT WITHIN THE DEFINITIONS OF "EQUIPMENT UNDER SUBSECTION G OF SECTION 7-34-2 NMSA 1978;

1. **Equipment used in the oil & gas industry which does not fall within the definition of "equipment" found in Subsection G of Section 7-34-2 NMSA 1978 of the Oil & Gas Production Equipment Ad Valorem Tax Act is subject to valuation for property taxation purposes under the Property Tax Code.**
2. **Drilling Rigs are not "equipment" as that term is defined in Subsection G of Section 7-34-2 NMSA 1978**

TASC AUDIT REVIEW DRILLING RIG VALUATIONS – NEW MEXICO

New Mexico Statutes “schedule value” tables were put in place in 1978 and have not been updated in 39 years. while the Drilling Rigs technology and values continually have changed considerably. Below is the Special method of valuations set out in NM Statute 7-36-33 for drilling rigs.

3.6.5.40 SPECIAL METHOD OF VALUATION - CERTAIN INDUSTRIAL AND COMMERCIAL PERSONAL PROPERTY

D. GENERAL - WELL DRILLING RIG UNITS:

(1) A “well drilling rig unit” means all of the component parts of a unit that normally are transported to a site and set up to make a complete rig that is to be used for drilling a well for oil, gas, carbon dioxide, water, geothermal or other minerals. A well drilling rig unit includes, but is not limited to derrick and substructure; crown blocks; traveling block; drilling line; sand line; rotary hose and standpipe; hook; tongs and swivel; elevators; kelly; rotary table; draw works; engine; instrument; slush and mudpumps; generators; electric

lines and accessories; mud tanks; fuel tanks; boilers; feed pump; blowout preventer; tools and supplies; water pumps and lines; drill bits; stairs; railings; dog house; tool joints; and miscellaneous equipment.

(2) “Depth capacity” as that phrase is used in Section 3.6.5.40 NMAC means the maximum depth of a well that the well drilling rig unit is capable of drilling without exceeding its safe operating design limits.

(3) Well drilling rig units are valued using a “schedule value” as that phrase is defined in Subsection B(4) of Section 7-36-33 NMSA 1978 based on drilling capacity. The schedule applicable to well drilling rig units is as follows:

WELL DRILLING RIG UNIT VALUATION SCHEDULE

Depth Capacity in Feet	Value for Property Taxation Purposes
2,000 - 4,999	\$ 55,840
5,000 - 7,499	111,607
7,500 - 9,999	167,412
10,000 - 12,499	223,215
12,500 - 14,999	279,019
15,000 - 17,999	334,824
18,000 - 19,999	379,466
20,000 - 24,999	491,071
25,000 - 29,999	580,355

In today’s market drilling rigs are valued based on the total depth capacity and condition rating (depreciation) of the drilling rig along with additional top drives, drill pipe and other ancillary equipment. Revenues or income earned by a drilling rig are tied to the depth capacity of the rig. Some of the major components which should be used in determining a rigs depth capacity are:

1. Engine Horsepower Rating
2. Horsepower and weight lift capacity of draw works
3. Total mud capacity (Horsepower)
4. Mast Height and Weight Rating
5. Total feet of Drill Pipe and Drill Collars.

Below is a table depicting the New Mexico “schedule value” method calculated by per foot pricing.

DEPTH CAPACITY	VALUE PROP TAX	CALC \$ PER FT
2,000-4,999	\$55,840	\$11.17
5,000-7,499	\$111,607	\$14.88
7,500-9,999	\$167,412	\$16.74
10,000-12,499	\$223,215	\$17.86
12,500-14,999	\$279,019	\$18.60
15,000-17,999	\$334,824	\$18.60
18,000-19,999	\$379,466	\$18.97
20,000-24,999	\$491,071	\$19.64
25,000-29,999	\$580,355	\$19.35

Listed below are construction and acquisition costs for 1,500 H.P from Pioneer Drilling, Union Drilling and Unit Corp. 10-K and 8-K SEC information in 2008. While this data is 9 years old and the market has changed, it shows the erroneusness in the New Mexico Method created in 1978 from this public obtained data.

“We constructed a 1500 horsepower drilling rig that was completed and placed into service in December 2008. As of December 31, 2008, we were constructing another 1500-horsepower drilling rig that we expect to complete and place in service in March 2009. Our Drilling Services Division incurred \$28.4 million of rig construction costs for these two 1500 horsepower drilling rigs during the year ended December 31, 2008.”

Pioneer Drilling 10-K info

“**Acquisitions and Construction.** During the second quarter of 2008, we completed the construction of two new 1,500 horsepower diesel electric drilling rigs for approximately \$32.2 million and placed these drilling rigs into service in our Rocky Mountain division. During the fourth quarter of 2008, we completed the construction of another new 1,500 horsepower diesel electric drilling rig for approximately \$14.1 million and placed this drilling rig into service in North Dakota.” *Unit Corp 10-K*

The following table provides a summary of capital expenditures during 2008 for new rigs placed into service in 2008:

Rig No.	Drawworks (HP)	Capacity (LBS)	Power Type	2008 Capital Expenditures (in millions)	Actual Inservice Date
58	1,600	750,000	Electric	\$ 16.3	Aug 2008
59	1,000	400,000	Mechanical	9.5	Aug 2008
225	1,000	550,000	Mechanical	8.2	Jun 2008
226	800	420,000	Mechanical	1.2	Aug 2008
				\$ 35.2	

Union Drilling 10-K

The following table depicts the average cost of a 1,500 H.P. Drilling Rig as of 12-31-08 from third party sources. (*Adjustments made for 1,600 H.P. to 1,500 H.P.*)

Company	Description	Cost
Pioneer	1,500 H.P.	\$14,200,000
Pioneer	1,500 H.P.	\$14,200,000
Unit Drilling	1,500 H.P.	\$16,100,000
Unit Drilling	1,500 H.P.	\$16,100,000
Unit Drilling	1,500 H.P.	\$14,100,000
Union Drilling	1,500 H.P. (Adj)	\$15,281,250
Totals	December 31,2008	\$89,981,250
Average 1,500 Cost	December 31,2008	\$14,996,875

The above third party information indicates a 1,500 H.P. drilling rig has a replacement cost new of \$14,996,875 as of January 1, 2008.

The table below depicts the 2015 cost new of a drilling rig by depth from a third party valuation company.

PRICES OF NEW DRILLING RIGS
ROUNDED REPLACEMENT COST NEW (RCN)
AVG CHANGE FROM PREVIOUS QUARTER

DEPTH RATINGS	RCN PRICE RANGE	
UP TO 2,500 FT	\$500,000	*\$1,000,000
2,501 TO 5,000 FT	*\$1,000,000	*\$1,500,000
5,001 TO 7,500 FT	*\$2,000,000	*\$3,000,000
7,501 TO 10,000 FT	*\$3,500,000	*\$6,500,000
10,001 TO 12,500	*\$7,000,000	*\$9,000,000
12,501 TO 15,000	*\$10,000,000	*\$12,000,000
15,001 TO 17,500	*\$12,500,000	*\$14,000,000
17,501 TO 20,000	*\$14,500,000	*\$18,000,000
20,000 TO 25,000	*\$18,500,000	*\$20,000,000
OVER 25,000 FT	*\$21,000,000	*\$25,000,000

* = Updated this quarter. Prices do not reflect discounting or concessions. Prices do not include drill pipe or drill collars, handling tools, top drives, iron roughnecks, camp facilities or rolling stock.

While these tables are for new rigs, it is only a reference to display the cost new drilling rigs not a suggestion that these tables be utilized, it merely shows the large loss in taxable values from the current system in place.

While the New Mexico “schedule value” is well outdated, the state and counties have suffered losses in other areas of the assessment process. Drilling rigs are personal property and subject to self-reporting by the owner to the County or State as of a situs date on January 1 of each year. While the “schedule value” tables report a value by depth capacity, further audit and review of the historic reporting of some companies have displayed a under reporting the actual depth capacity of the drilling rig thus lowering the market value of the property further. The Assessors have a major issue for the non-reporting companies of their property but statutes in place allow the Assessor to retrieve the prior ten years and they are taking that action.

Exhibit A is a map of Eddy County New Mexico showing the active drilling rigs on January 1 of each year from 2007-2016. The green points depict rendered rigs and the red points depict omitted or not reported. Of the 318 operating rigs during this time frame, 111 were found to be omitted from the tax rolls. This equated to a 35% non-reporting rate of the total drilling rigs. Another troubling statistic was the percentage of company’s non-reporting 17 of the 30 companies found for a non-report rate of 57%. The total estimated tax dollar amount with penalties for Eddy County is \$262,514 as calculated by the 39 year

old “schedule value” tables shown on **Exhibit B**. From the TASC Audit to date Eddy County has collected in back omitted tax dollars **\$125,660** with **\$72,769** billed to companies for omitted drilling rigs.

Exhibit C is a map of Lea County New Mexico showing the active drilling rigs on January 1 of each year from 2007-2016. The green points depict, rendered rigs and the red points depict omitted or not reported. Of the 247 operating rigs during this time frame 136 were found to be omitted from the tax rolls. This equated to a 55% non-reporting rate of the total drilling rigs. Again a troubling statistic was the percentage of company’s non-reporting 79 of the 118 companies found for a non-report rate of 67%. The total estimated tax dollar amount with penalties for Lea County is \$478,828 as calculated by the 39 year old “schedule value” tables shown on **Exhibit D**. From the TASC Audit to date Lea County has collect **\$33,000** in omitted tax dollars for omitted drilling rigs.

The table below depicts a summary by year with the amount of drilling rig companies in the top box and number of drilling rigs in bottom box found in Lea County.

LEA COUNTY DRILLING COMPANIES 2007-2016 RENDERED - NON-RENDERED					
YEAR	TOTAL COMPANIES	YES REND	NO REND	YES %	NO %
2016	10	4	6	40.00%	60.00%
2015	17	7	11	41.18%	64.71%
2014	13	5	8	38.46%	61.54%
2013	12	4	8	33.33%	66.67%
2012	15	4	11	26.67%	73.33%
2011	12	4	8	33.33%	66.67%
2010	8	3	5	37.50%	62.50%
2009	10	3	7	30.00%	70.00%
2008	11	3	8	27.27%	72.73%
2007	10	3	7	30.00%	70.00%
TOTALS	118	40	79	33.90%	66.95%

LEA COUNTY DRILLING RIGS 2007-2016 RENDERED - NON-RENDERED					
YEAR	TOTAL RIGS	YES REND	NO REND	YES %	NO %
2016	19	8	11	42.11%	57.89%
2015	51	23	28	45.10%	54.90%
2014	28	10	18	35.71%	64.29%
2013	29	13	16	44.83%	55.17%
2012	21	10	11	47.62%	52.38%
2011	22	7	15	31.82%	68.18%
2010	15	7	8	46.67%	53.33%
2009	16	8	8	50.00%	50.00%
2008	20	8	12	40.00%	60.00%
2007	26	17	9	65.38%	34.62%
TOTALS	247	111	136	44.94%	55.06%

How does New Mexico compare to other states for Drilling Rig Values?

I have been valuing drilling rigs in Oklahoma since 1998. In 2016 TASC valued 270 drilling rigs in 40 Oklahoma Counties with a total value of **\$828,507,873**. If you applied the New Mexico Method to the same drilling rigs the value is **\$90,245,776** or only 10.89% of the value in a bordering state. (See table below). Texas, Arkansas & Colorado valuation for Drilling Rigs are similar to Oklahoma’s.

COUNTY	DESCRIPTION	OK MARKET VALUE	NM METHOD	RATIO
270 RIGS	2016 GRAND TOTALS	\$828,507,873	\$90,245,776	10.89%
	ASSESSED	\$99,420,945	\$30,051,843	30.23%
	ESTIMATED TAXES	\$7,953,676	\$601,037	7.56%
	ESTIMATED TAX DOLLAR DIFF		\$7,352,639	
	ASSESSED DIFF		\$69,369,101	

The drilling rig values in this statute require updating; additionally there is a provision for a percentage valuation based on an estimate of how many days an out of state rig operator believes their rig will be active in New Mexico for the next year. This is totally impractical, no other state provide this for an out of state operator this exemption, and certainly isn't fair and equitable for the New Mexico based drilling rig companies. Additionally it calls for someone to have a really good "crystal ball". The taxable situs date for personal property is January 1st of each year and should be valued and taxed in the proper tax district within the County as of that date.

Another important fact concerning today's drilling rigs; there are 3 different classes of drilling rigs - Mechanical, SCR & AC with a large value difference.

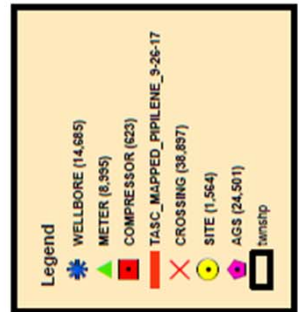
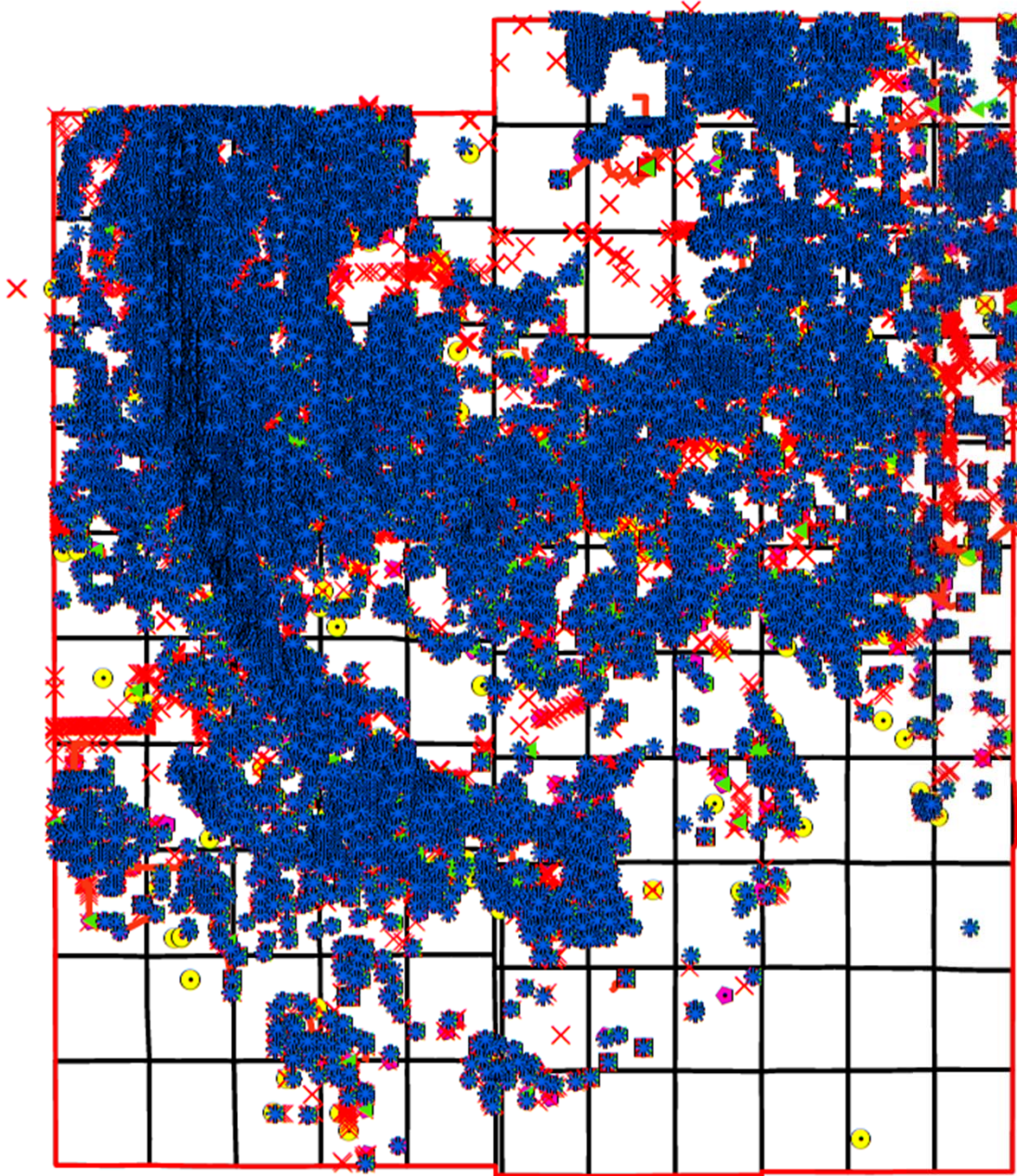
A schedule just based on depth capacity alone will no longer fairly and equitably value drilling rigs.

TASC AUDIT OF OIL & GAS POST PRODUCTION GATHERING & TRANSPORTATION PIPELINES – NEW MEXICO

The following audit findings, facts & conclusions relate to oil & gas tangible personal property TASC has discovered to be omitted and are taxable under NMSA 7-36-7. This is oil & gas post production Gathering and Transportation equipment consisting of pipelines, meters and compressors within Harding, Eddy & Rio-Arriba counties in New Mexico. Items discussed are;

- **Road Crossings**
- **Gas Meters**
- **Compressors**
- **Pipelines**

TASC EDDY COUNTY COMMISSIONERS UPDATE 10-17-17



TASC MILES DRIVEN OVER 150,000

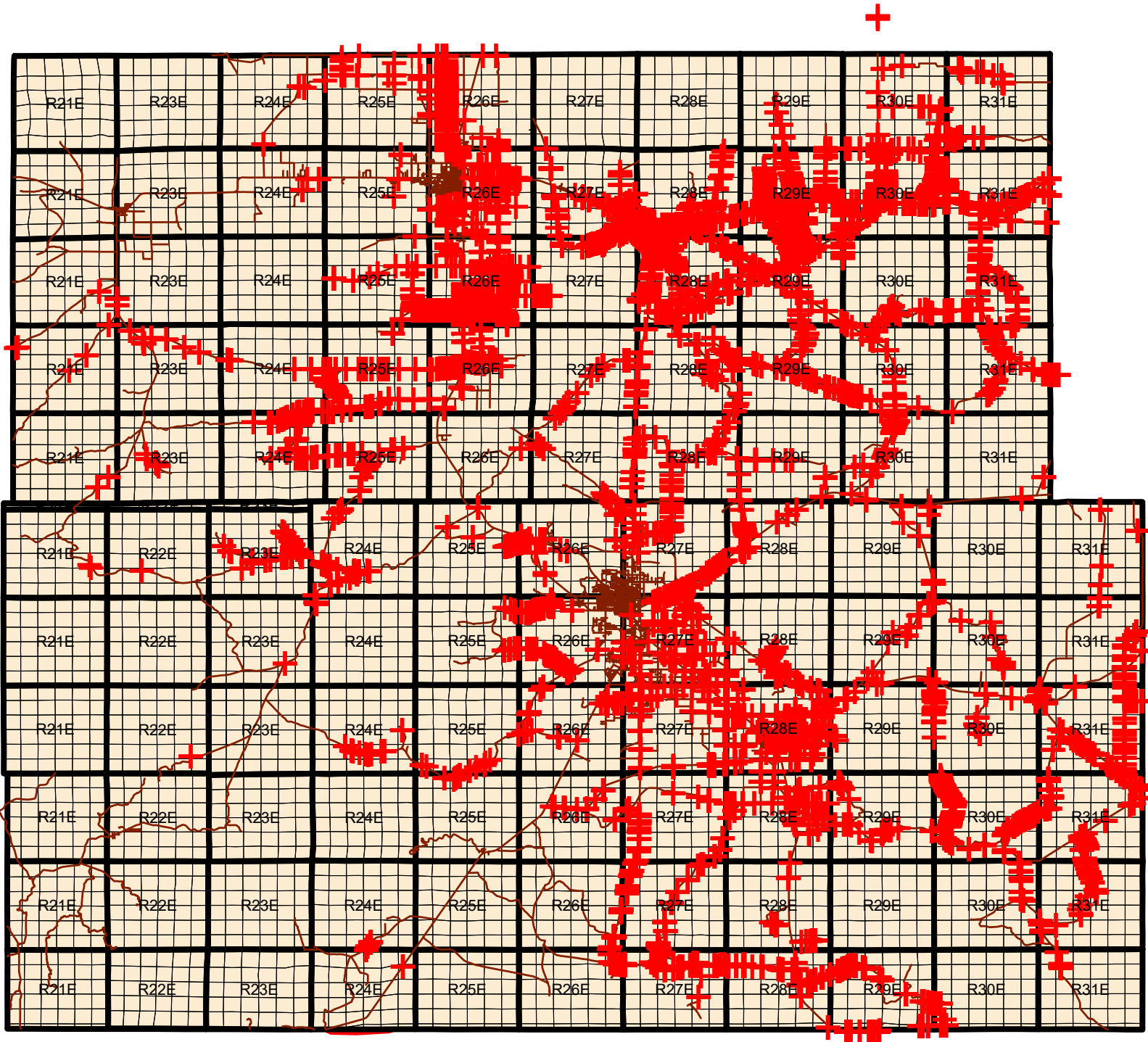
GPS DATA POINTS COLLECTED 89,265

COLLECTED OVER 110,500 PHOTOGRAPHS OF EQUIPMENT



TASC 6-21-16 UPDATED ROAD CROSSING MAP 6,552 POINTS

TOTAL MILES DRIVEN 6,294



Road Sign Pipeline Marker Photos



EDDY COUNTY PIPELINE COMPANY LISTING BY TAX DISTRICTS

#	C-OUT	10-OUT	16-IN	16-OUT	C-IN	10-IN
1	X	X	X	X		
2	X					
3				X		
4				X		
5				X		
6				X		
7				X		
8	X					
9	X					
10		X				
11	X					
12	X					
13	X					
14	X					
15	X					
16				X		
17	X	X				
18				X		
19				X		
20		X				
21				X		
22	X					
23	X					
24				X		
25	X	X		X	X	
26	X					
27	X	X				
28		X				
29	X					
30	X			X		
31	X				X	
32	X			X	X	
33	X					
34	X	X		X		
35	X					
36	X					
37	X			X		
38	X			X		
39	X					
40	X	X				
41	X	X		X	X	0
42	X					
43	X	X		X	0	
44				X		
45	X					
46	X	X		X		
47	X			X		
48				X		
49	X			X		
50	X	X		X		
51	X	X				
52	X					
53	X	X		X	X	
54	X	X			X	
55	X			X		
56	X					
57	X					
58	X					
59	X			X		
60	X			X		
61		X		X		
62	X					
63	X					
64	X					
65	X	X	X	X	X	
66	X				X	
67	X					
68	X			X		
69	X					
70	X					
71	X			X		
72				X		
73		X		X		
74	X					
75	X					
76	X					
77	X			X		
78	X			X		

EDDY COUNTY PIPELINE COMPANY LISTING BY TAX DISTRICTS

#	C-OUT	10-OUT	16-IN	16-OUT	C-IN	10-IN
79	X					
80	X			X		
81	X			0		
82				X		
83	X					
84				X		
85	X	X				
86	X	X		X		
87	X	X				
88	X			X		
89	X	X	X	X		
90	X			X		
91	X	X	X	X	X	X
92				X		
93				X		
94	X			X		
95	X			X		
96		X		X		
97	X					
98	X	X		X		
99	X					
100				X		
101				X		
102	X			X		
103	X					
104	X	X		X		
105	X	X		X		
106	X					
107				X	X	
108				X		
109	X					
110				X		
111				X		
112	X	X				
113	X	X			X	
114	X			X		
115					X	
116	X					
117	X					
118	X	X				
119	X					
120	X					
121		X				
122	X	X		X		
123				X		
124	X	X		X	X	
125	X	X		X	X	
126	X	X				
127	X			X		
128	X			X		
129	X	X				
130	X					
131	X	X	X	X		
132	X					

	Reporting in tax district
	Not Reporting in tax district
	Reporting in tax district, not identified as taxing district

88	Not Reporting	66.66%
44	Reporting	33.33%
132	Totals	100.00%

23 of 44	100% reporting	17.42%
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EDDY COUNTY PIPELINE CROSSINGS

6-21-16 AUDIT RESULTS

132 DIFFERENT COMPANY CROSSING NAMES

88 OF THE COMPANIES NOT REPORTING – 66.66%

OF THE 44 COMPANIES REPORTING – 33.33%

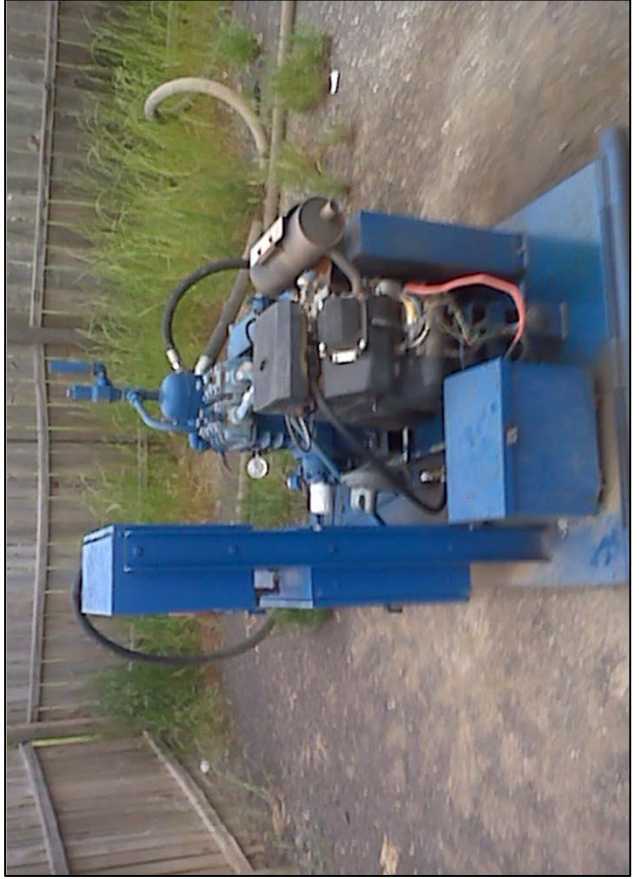
ONLY 23 COMPANIES REPORTED IN ALL OF THE TAX DISTRICTS WHERE CROSSINGS WERE FOUND - 17.42%

Gas Gathering Meters

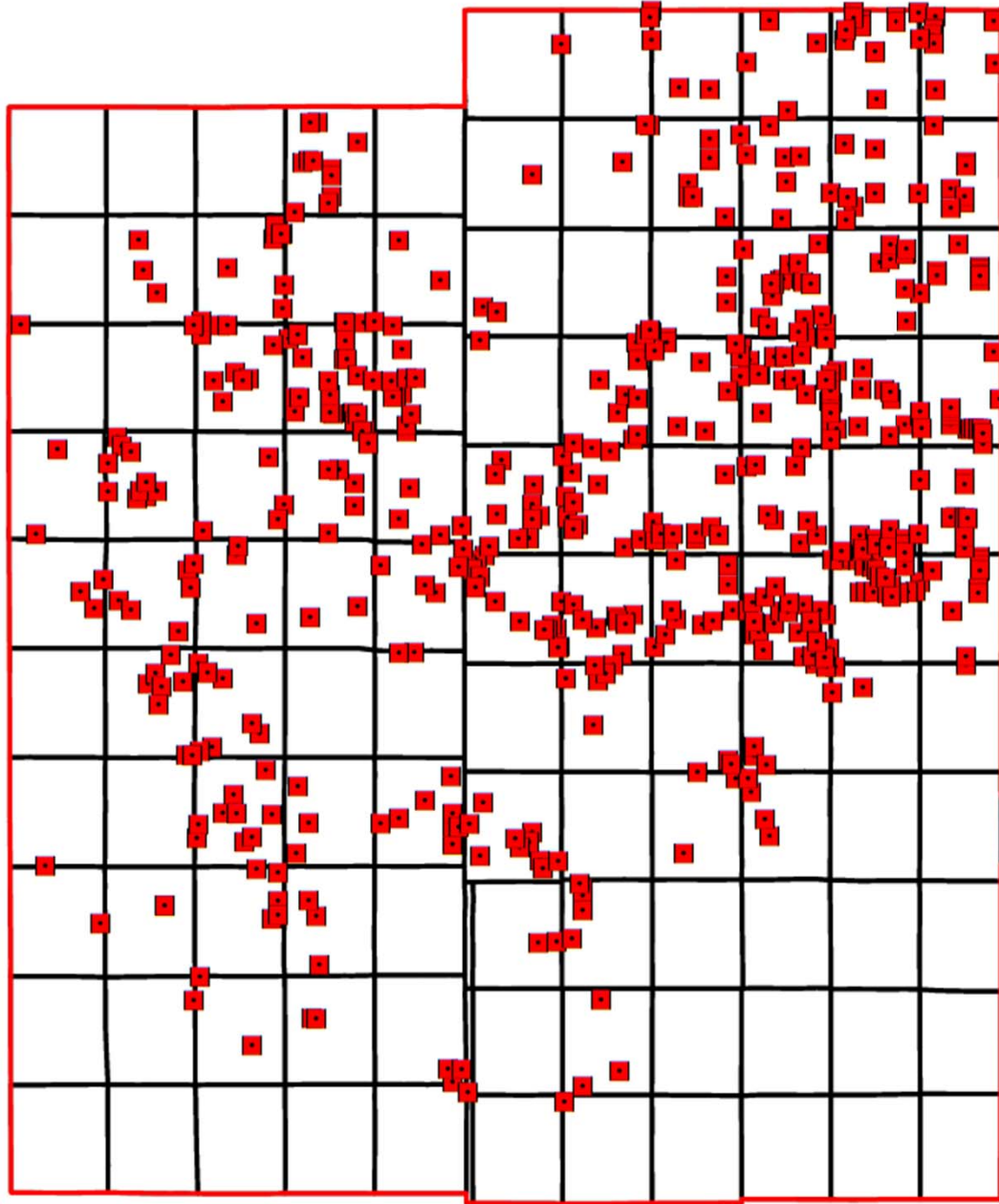


CAN BE THE BEGINNING OR ENDING OF A PIPELINE

Natural Gas Compressors



TASC EDDY COUNTY COMMISSIONERS UPDATE 10-17-17



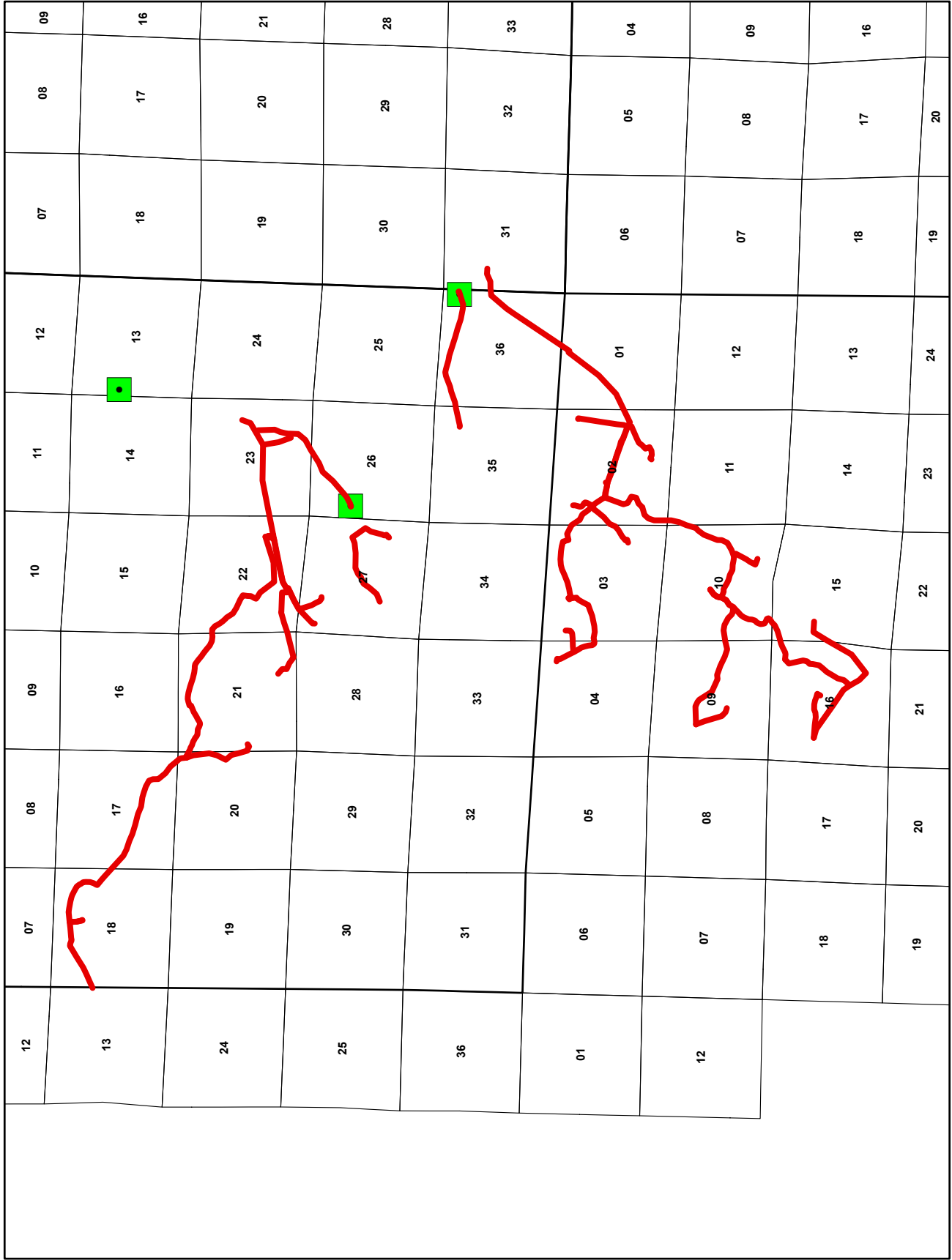
Legend

- COMPRESSOR (e23)
- msstp

623 GAS COMPRESSORS INSPECTED
APPROXIMATELY 50% ARE NOT BEING REPORTED

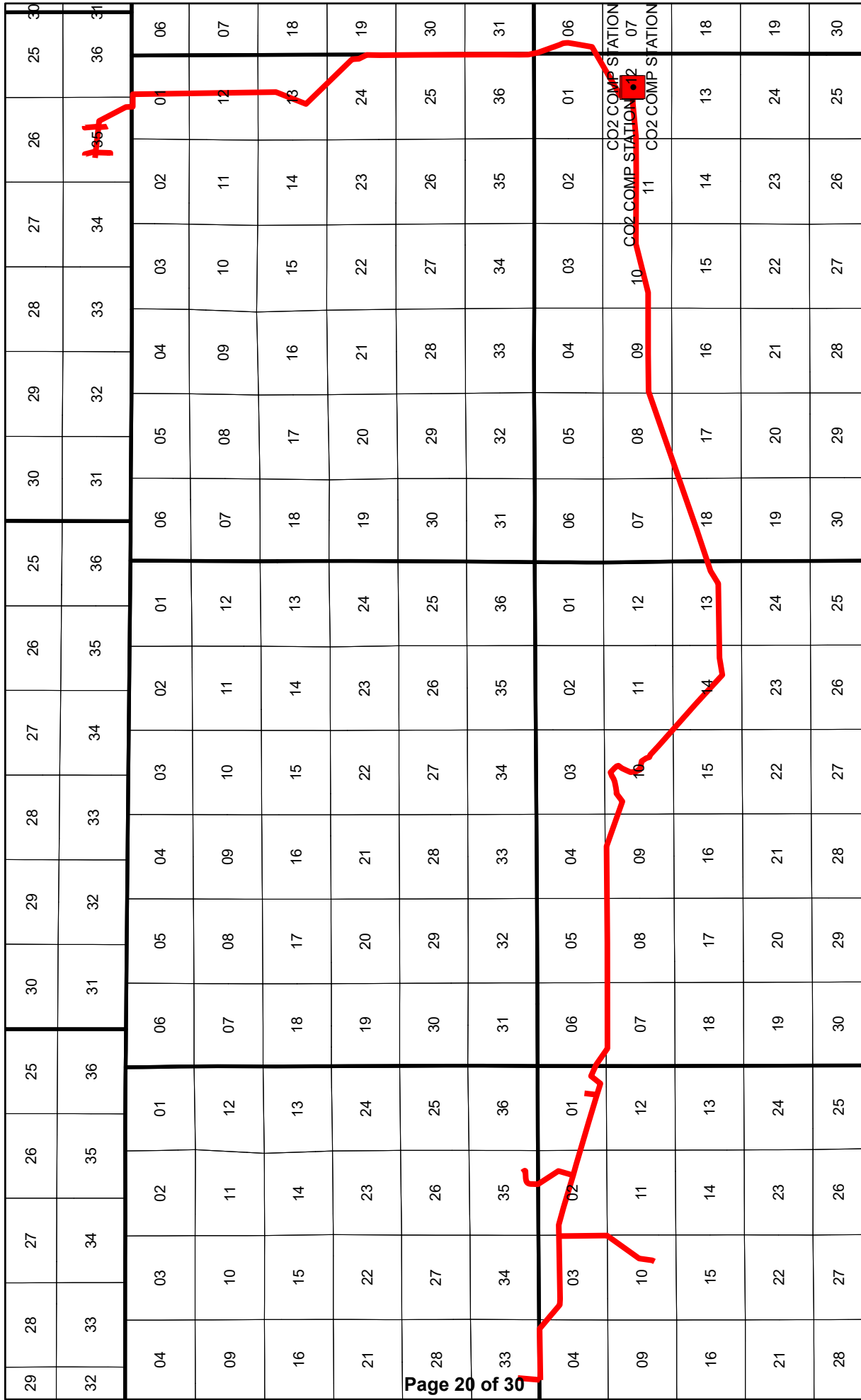


RIO ARRIBA OMITTED POST PRODUCTION GATHERING PIPELINES 29.23 MILES OF 3" - 4" 1974 - 2014 INSTALLED



- Legend**
- RIO ARRIBA PIPELINE
 - COMPRESSOR
 - SECTIONS

2015-2016 OMITTED PIPELINE & COMPRESSOR STATION - HARDING COUNTY NM

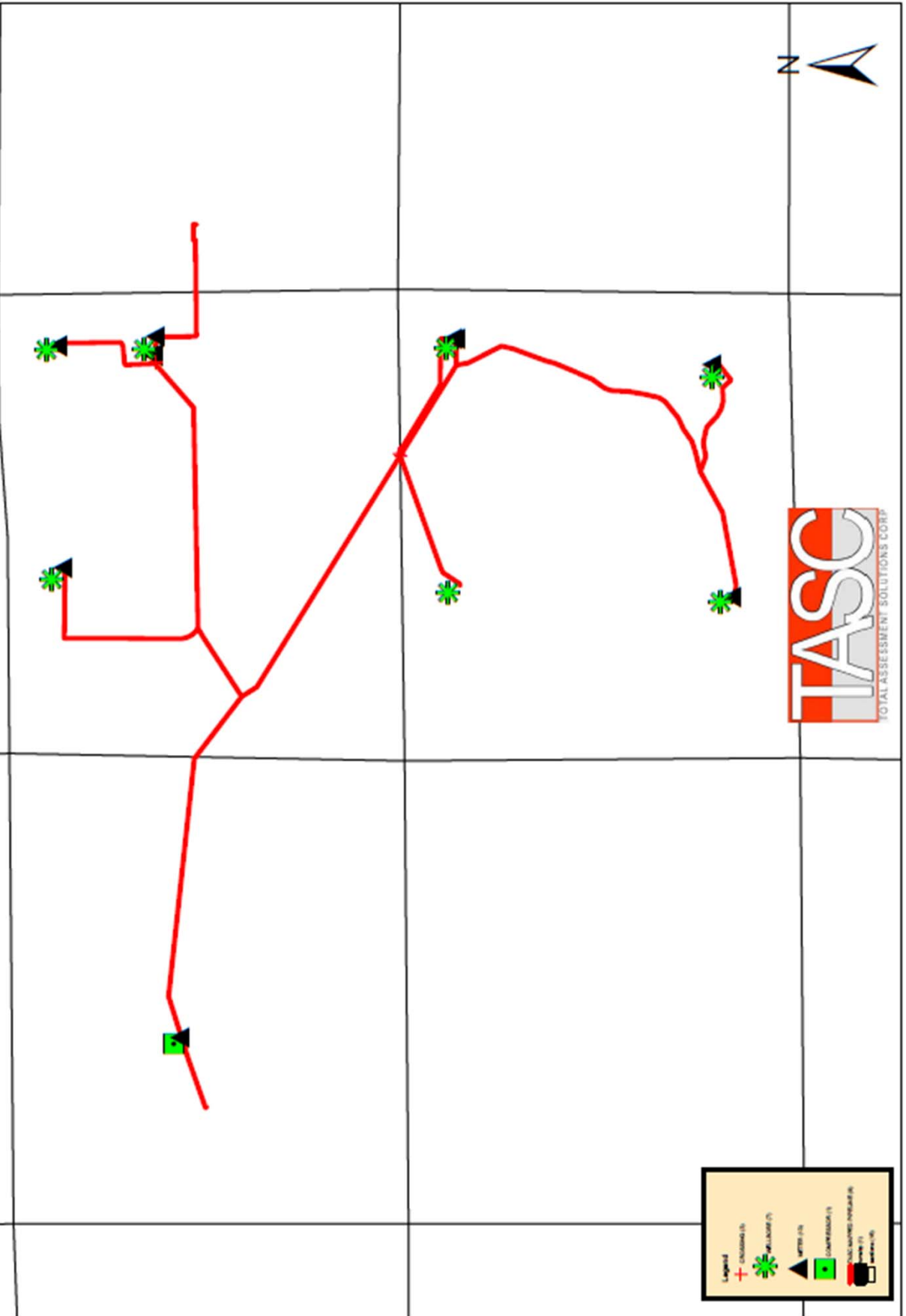


**29.73 MILES OF 2014 INSTALLED 3"-20" PIPE & 4,200 HP OF COMPRESSION
ESTIMATED OMITTED TAX DOLLARS & PENALTY \$382,181**

- Legend**
- COMPRESSOR
 - TASC_MAPPED_PIPELINES_11-15-14
 - SECTIONS
 - TOWNSHIP_RANGE

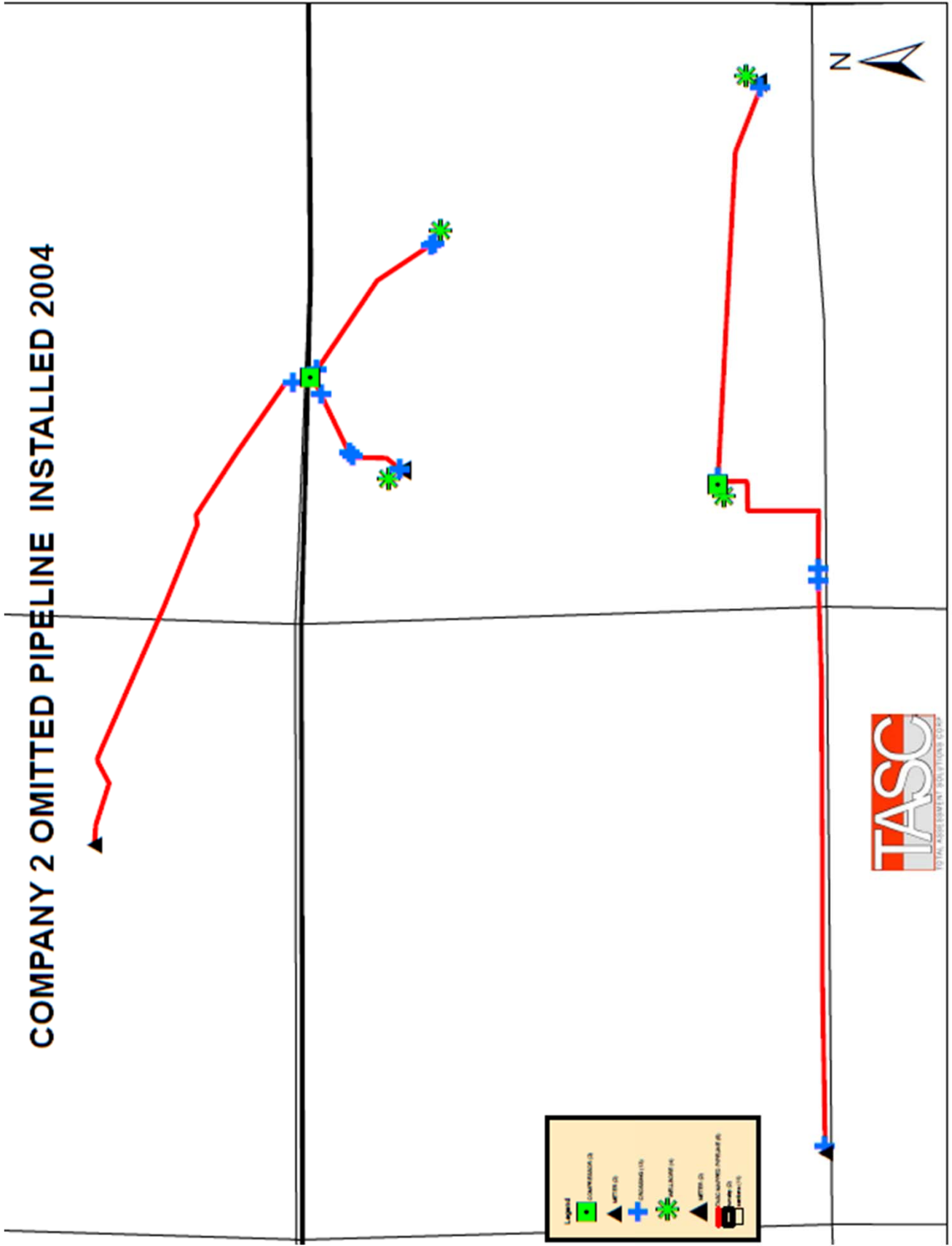


COMPANY 1 OMITTED PIPELINE 2003-2006 INSTALLED

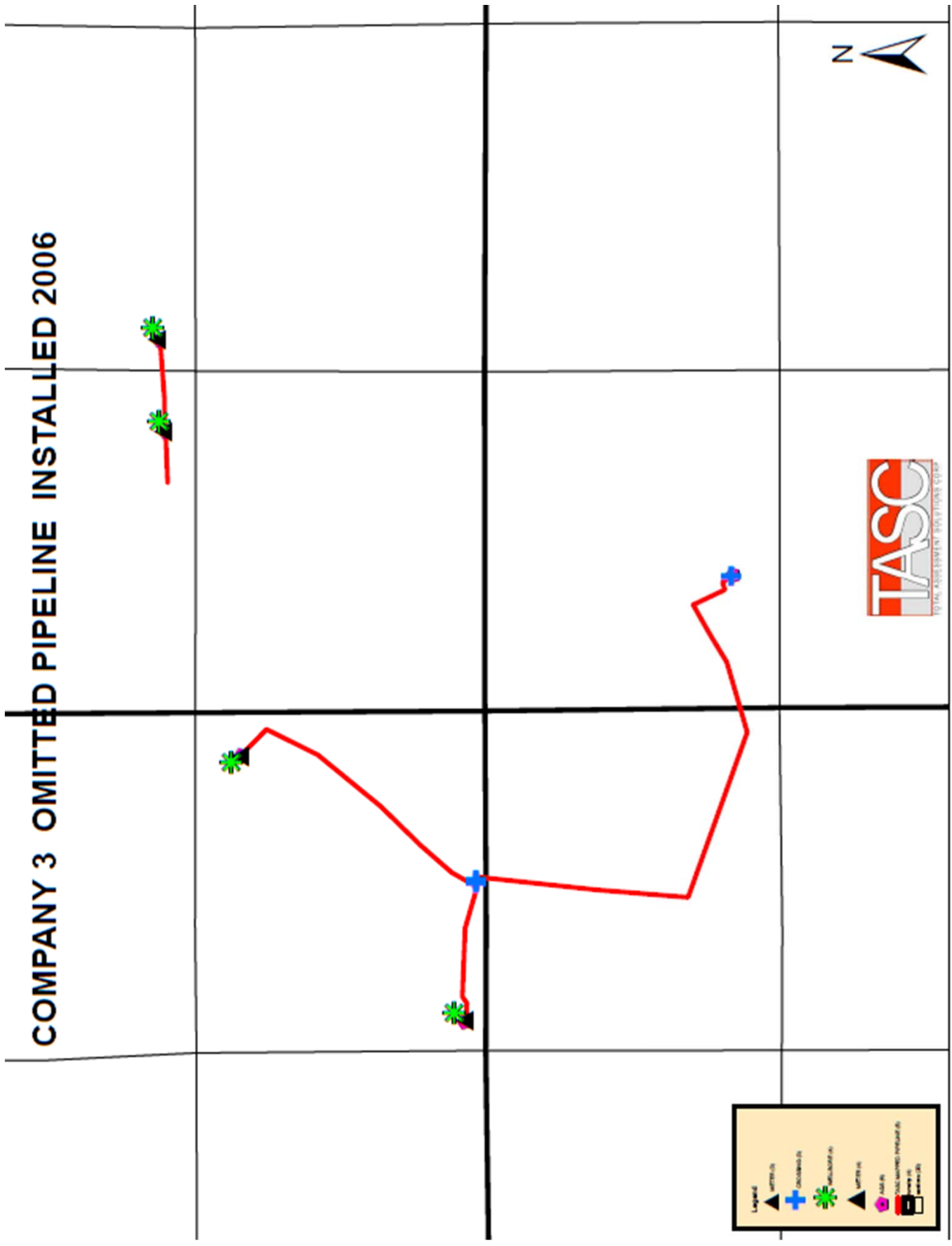


EDDY COUNTY NM

COMPANY 2 OMITTED PIPELINE INSTALLED 2004



COMPANY 3 OMITTED PIPELINE INSTALLED 2006

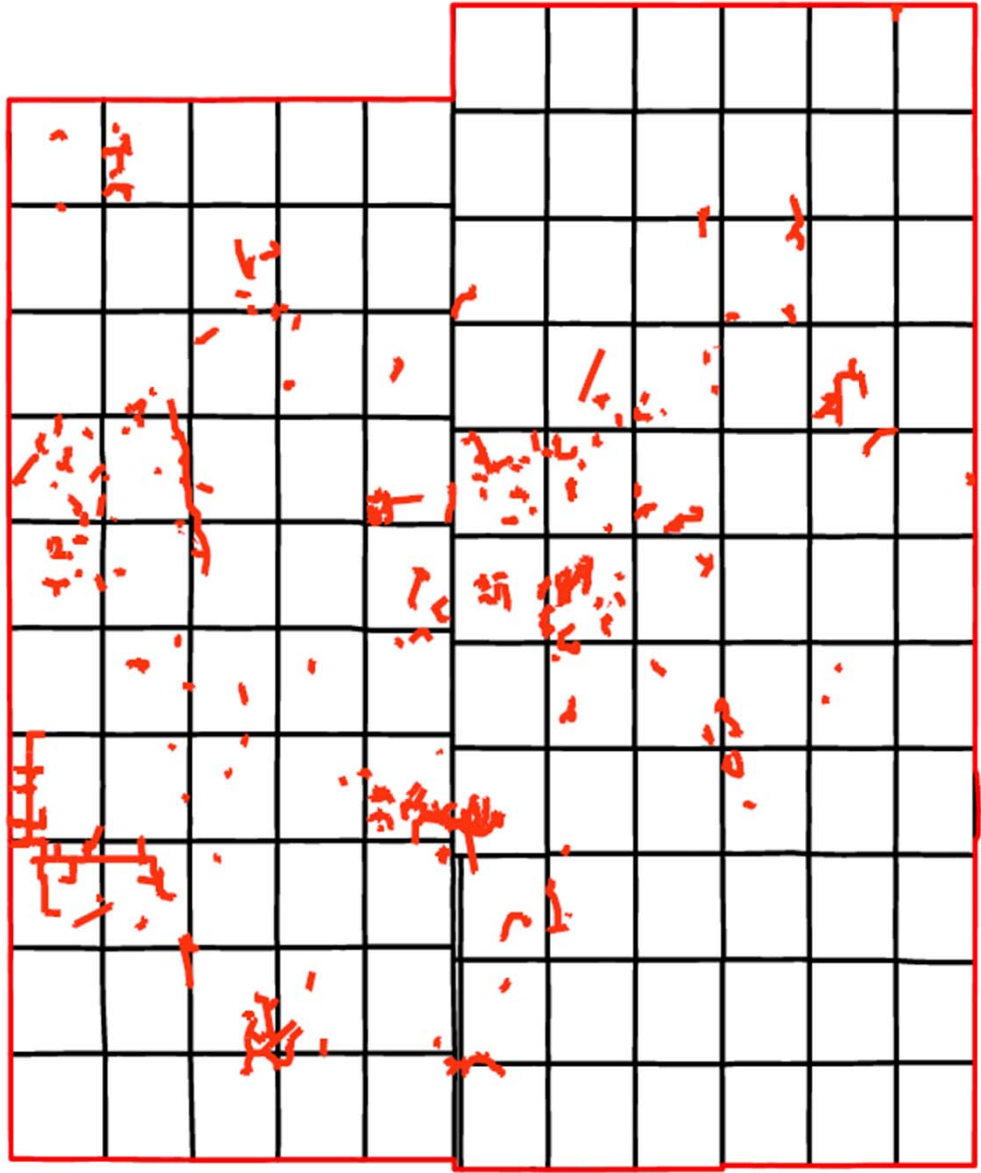


EDDY COUNTY NM

EDDY COUNTY - TASC AUDIT DISCOVERED OMITTED TAX DOLLAR SUMMARY

DESCRIPTION	QUANTITY	AS OF 10/5/2017 COLLECTED TAX DOLLARS	OUTSTANDING TAX DOLLARS 2017 TAX DOLLARS	AUDIT TOTALS TO DATE TOTAL OMITTED TAX DOLLARS
COMPANY 1 GAS GATHERING PIPELINES	5.35 MILES	\$68,045	\$5,080	\$73,125
COMPANY 2 GAS GATHERING PIPELINES	3.5 MILES	\$53,569	\$4,570	\$58,139
COMPANY 3 GAS GATHERING PIPELINES	3.67 MILES	\$55,489	\$3,198	\$58,687
TOTAL OMITTED GATHERING PIPELINE	12.52 MIES	\$177,103	\$12,848	\$189,951
DESCRIPTION	QUANTITY	COLLECTED TAX DOLLARS	OUTSTANDING TAX DOLLARS	TOTAL OMITTED TAX DOLLARS
OMITTED DRILLING RIGS	111	\$125,660	\$72,769	
TOTAL OMITTED DRILLING RIGS	111	\$125,660	\$72,769	\$198,429
DESCRIPTION	QUANTITY	COLLECTED TAX DOLLARS	TOTAL OUTSTANDING	TOTAL OMITTED TAX DOLLARS
OMITTED GRAND TOTALS 10-5-17		\$302,763	\$85,617	\$388,380

TASC EDDY COUNTY COMMISSIONERS UPDATE 10-17-17



**378.52 MILES OF POST PRODUCTION
OMITTED GATHERING PIPELINES MAPPED**

Legend

 TASC_MAPPED_PIPELINE_9-26-17

 twnshp



New Mexico Statute 7-36-27 below is the special method of valuation for the oil & gas post production equipment for gathering, transportation, storage & measurement previously discussed.

7-36-27 . Special method of valuation; pipelines, tanks, sales meters and plants used in the processing, gathering, transmission, storage, measurement or distribution of oil, natural gas, carbon dioxide or liquid hydrocarbons.

- A. *All pipelines, tanks, sales meters and plants used in the processing, gathering, transmission, storage, measurement or distribution of oil, natural gas, carbon dioxide or liquid hydrocarbons subject to valuation for property taxation purposes shall be valued in accordance with the provisions of this section.*

TASC AUDIT CONCLUSIONS

For all of the Post Production Gathering & Transportation pipelines compressors & meters discussed in this report.

There are transportation adjustments in SECTION 3.18.6.9 NMAC for operators of these pipelines to recoup their operating expenses (**including Ad Valorem Taxes**), maintenance expense, overhead expense, depreciation and a reasonable rate of return on depreciable capital assets used in these transportation operations.

This transportation adjustment is a reduction to the product value or product price reported under Article 29, Oil and Gas Severance Tax.

While some companies found to have these omitted properties in Harding, Rio Arriba & Eddy Counties, they have been applying for and receiving this transportation adjustment from their reported product values, **thus creating a double dip from the tax system in New Mexico by omitting the assets to the County Assessor's office.**

These omissions are creating an inequity among the other tax payers and oil & gas companies that are correctly "SELF REPORTING" fairly and accurately to the County Assessor's office.

These TASC - Discovery, Mapping and Auditing projects are **not raising taxes** on the oil & gas industry.

The County Assessors are discovering the oil & gas personal property equipment along with the omitted tax dollars that were not reported by companies by this "SELF REPORTING" system.

Thank You for your Time & Consideration,

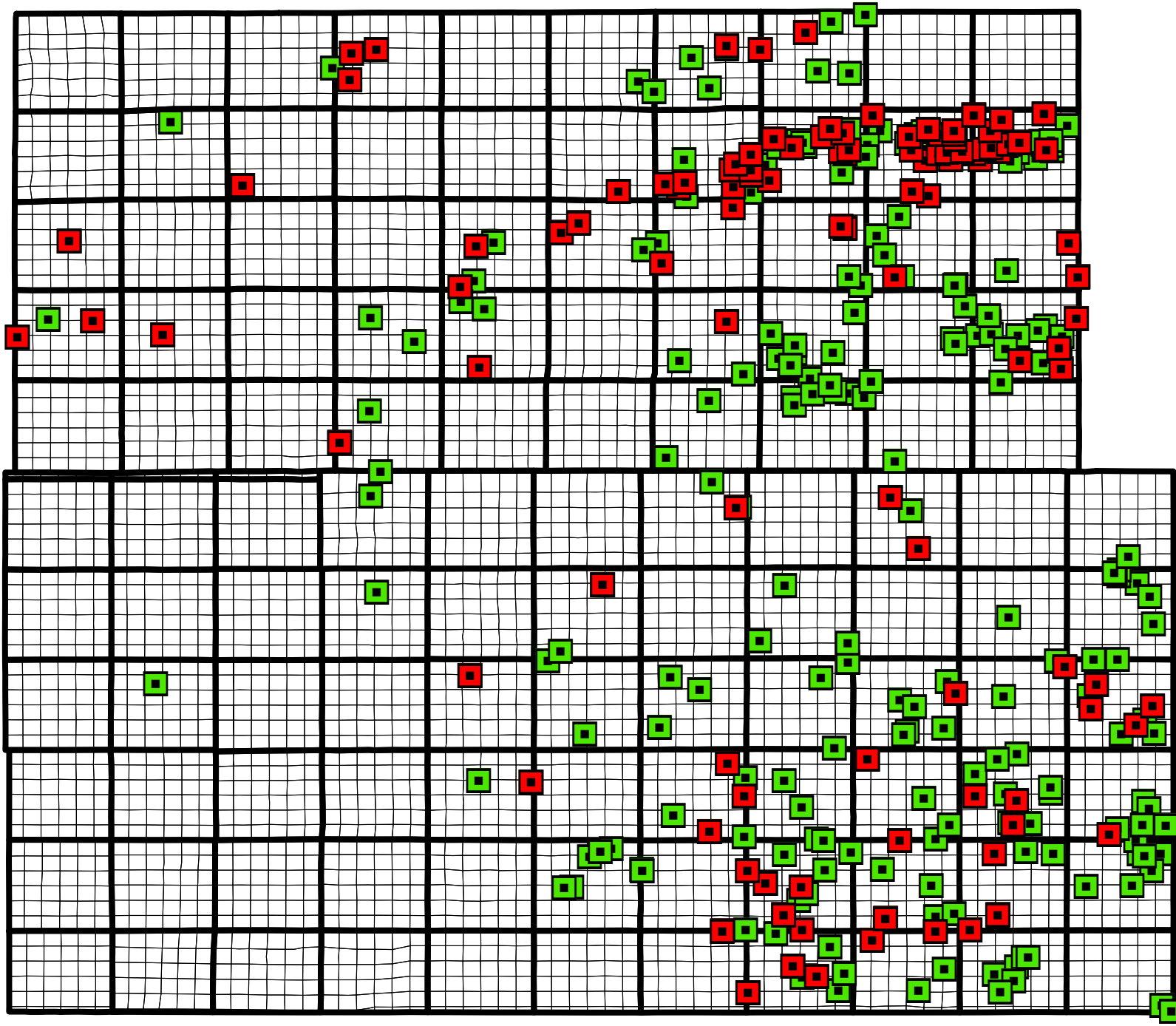
Jerry L. Wisdom, PPS
Total Assessment Solutions Corp
Oil & Gas Appraisal Manager



JAN 1. 2007 - 2016 DRILLING RIGS

318 OPERATING

111 OMITTED



Legend





-  2007-2016 OMITTED DRILLING RIG (111)
-  2007-2016 Drilling Rigs Jan 1 (318)
-  twshp (119)
-  sections (4,194)



EXHIBIT A



EDDY COUNTY OMITTED DRILLING RIGS 2007 - 2016

TAX YEAR	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	GRAND TOTALS
RENDERED RIGS	16	22	11	10	28	29	28	26	28	9	207
OMITTED RIGS	17	10	12	11	9	16	15	7	11	3	111
JAN 1 TOTAL RIGS	33	32	23	21	37	45	43	33	39	12	318
RENDERED%	48.48%	68.75%	47.83%	47.62%	75.68%	64.44%	65.12%	78.79%	71.79%	75.00%	65.09%
OMITTED %	51.52%	31.25%	52.17%	52.38%	24.32%	35.56%	34.88%	21.21%	28.21%	25.00%	34.91%
10-OUT	\$558,039	\$223,215	\$0	\$0	\$0	\$334,824	\$0	\$0	\$0	\$0	\$1,116,078
16-OUT	\$2,622,780	\$1,450,899	\$1,718,754	\$2,165,191	\$1,450,903	\$2,399,569	\$2,935,280	\$1,439,737	\$2,399,568	\$446,430	\$19,029,111
C-OUT	\$1,383,933	\$892,862	\$1,774,562	\$1,116,077	\$892,862	\$1,774,562	\$1,718,757	\$1,071,426	\$915,179	\$279,019	\$11,819,239
NM OMITTED VALUES	\$4,564,752	\$2,566,976	\$3,493,316	\$3,281,268	\$2,343,765	\$4,508,955	\$4,654,037	\$2,511,163	\$3,314,747	\$725,449	\$31,964,428
25% PENALTY											
10-OUT	\$697,549	\$279,019	\$0	\$0	\$0	\$418,530	\$0	\$0	\$0	\$0	\$1,395,098
16-OUT	\$3,278,475	\$1,813,624	\$2,148,443	\$2,706,489	\$1,813,629	\$2,999,461	\$3,669,100	\$1,799,671	\$2,999,460	\$558,038	\$23,786,389
C-OUT	\$1,729,916	\$1,116,078	\$2,218,203	\$1,395,096	\$1,116,078	\$2,218,203	\$2,148,446	\$1,339,283	\$1,143,974	\$348,774	\$14,774,049
TOTAL W/PENALTY	\$5,705,940	\$3,208,720	\$4,366,645	\$4,101,585	\$2,929,706	\$5,636,194	\$5,817,546	\$3,138,954	\$4,143,434	\$906,811	\$39,955,535
ASSESSED											
10-OUT	\$232,284	\$92,913	\$0	\$0	\$0	\$139,370	\$0	\$0	\$0	\$0	\$464,567
16-OUT	\$1,091,732	\$603,937	\$715,431	\$901,261	\$603,938	\$998,821	\$1,221,810	\$599,291	\$998,820	\$185,826	\$7,920,867
C-OUT	\$576,062	\$371,654	\$738,661	\$464,567	\$371,654	\$738,661	\$715,433	\$445,981	\$380,943	\$116,142	\$4,919,758
TOTAL ASSESSED	\$1,900,078	\$1,068,504	\$1,454,093	\$1,365,828	\$975,592	\$1,876,853	\$1,937,243	\$1,045,272	\$1,379,763	\$301,968	\$13,305,193
MILL LEVIES											
10-OUT	0.01465	0.01522	0.01502	0.02230	0.01607	0.01417	0.01421	0.01528	0.01717	0.02183	
16-OUT	0.02186	0.02107	0.02097	0.02136	0.02050	0.02050	0.02046	0.02000	0.02081	0.02142	
C-OUT	0.01553	0.01806	0.01768	0.01828	0.01810	0.01770	0.01770	0.02037	0.02326	0.02295	
TAX DOLLARS											
10-OUT	\$3,402	\$1,414	\$0	\$0	\$0	\$1,975	\$0	\$0	\$0	\$0	\$6,791
16-OUT	\$23,864	\$12,727	\$15,005	\$19,248	\$12,378	\$20,472	\$24,999	\$11,986	\$20,784	\$3,980	\$165,446
C-OUT	\$8,943	\$6,711	\$13,058	\$8,491	\$6,728	\$13,077	\$12,661	\$9,083	\$8,860	\$2,665	\$90,277
TOTAL TAX DOLLARS	\$36,210	\$20,852	\$28,064	\$27,739	\$19,107	\$35,524	\$37,660	\$21,070	\$29,644	\$6,645	\$262,514

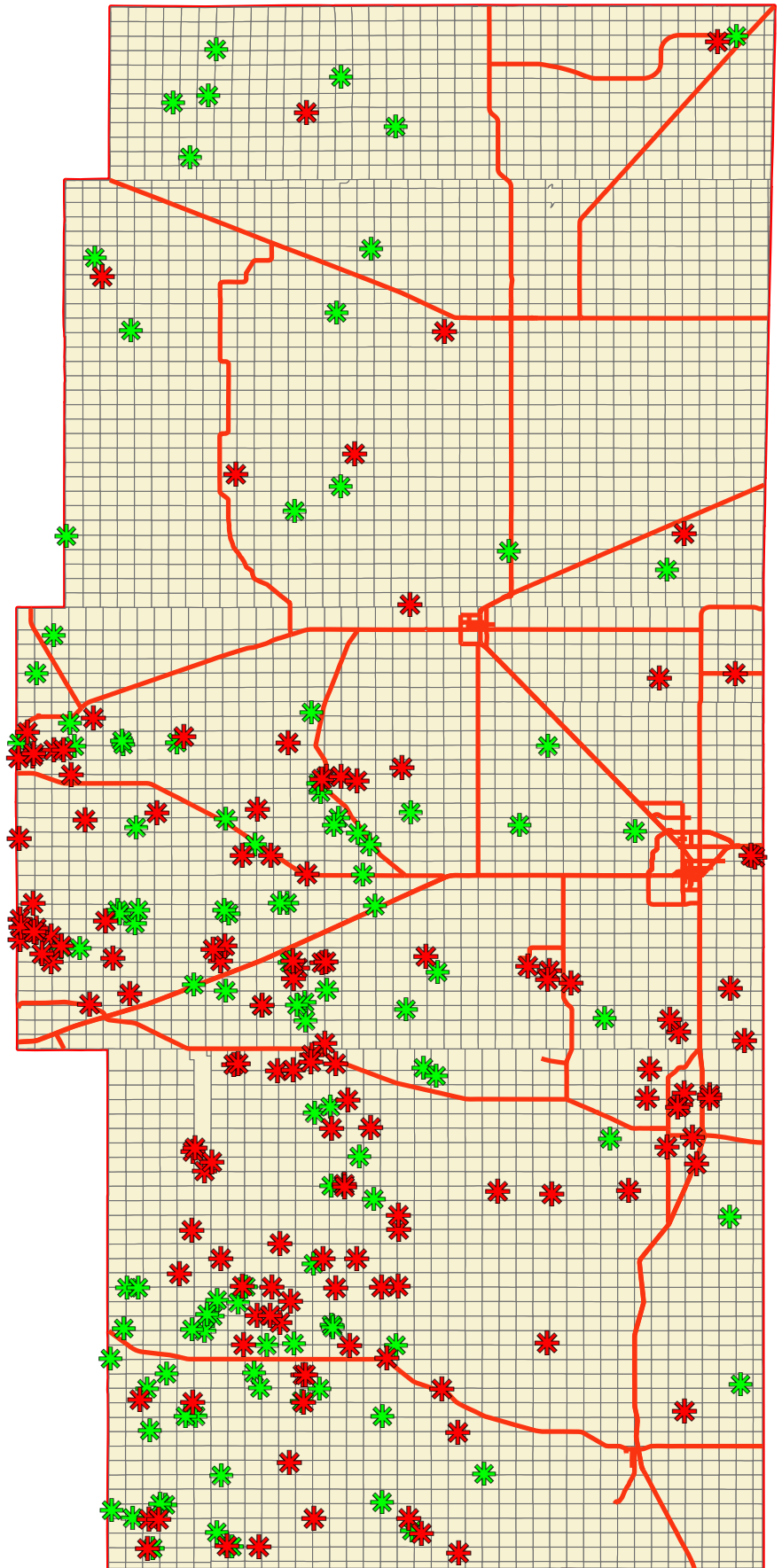
EXHIBIT B

TAX DOLLARS - TASC OIL AND GAS PROJECT

**LEA COUNTY OPERATING
DRILLING RIGS
JAN 1 2007-2016**

247 OPERATING
111 RENDERED
136 OMITTED

55% OMITTED RATE



Legend



-  Omitted_Drilling_Rigs
-  Rendered_Drilling_Rigs

EXHIBIT C

LEA COUNTY OMITTED DRILLING RIGS 2007-2016

TD	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	TOTALS
16-OUT	\$418,530	\$1,562,504	\$767,304	\$837,058	\$2,301,908	\$906,814	\$2,218,203	\$2,357,710	\$2,134,493	\$348,774	\$13,853,295
19-OUT	\$209,265	\$837,060			\$1,799,673		\$962,613	\$2,678,576	\$2,734,379	\$3,934,155	\$13,155,720
1-OUT	\$279,019	\$1,395,096	\$1,171,881	\$558,039	\$279,019	\$697,549	\$837,056	\$279,019	\$976,568	\$279,019	\$6,752,264
28-OUT	\$348,774	\$348,774				\$1,241,634					\$1,939,181
8-OUT	\$488,284	\$697,549	\$69,800	\$767,303	\$837,056	\$906,811	\$2,678,578	\$3,208,711	\$7,617,210	\$1,088,171	\$18,359,473
MARKET VALUE	\$1,743,871	\$4,840,983	\$2,008,985	\$2,162,399	\$5,217,655	\$3,752,808	\$6,696,449	\$8,524,016	\$13,462,649	\$5,650,119	\$54,059,933

TD	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	TOTALS
16-OUT	\$3,416	\$12,952	\$6,375	\$7,597	\$20,166	\$7,742	\$19,501	\$20,866	\$19,505	\$3,520	\$121,639
19-OUT	\$1,517	\$6,090			\$13,162		\$7,200	\$20,034	\$22,857	\$34,165	\$105,025
1-OUT	\$2,681	\$13,308	\$11,089	\$5,340	\$2,616	\$6,416	\$7,876	\$2,754	\$10,492	\$3,039	\$65,611
28-OUT	\$2,857	\$2,925				\$10,927					\$16,709
8-OUT	\$3,785	\$5,424	\$546	\$7,414	\$7,972	\$8,442	\$25,962	\$29,690	\$68,344	\$12,265	\$169,844
GEST TAX DOLLARS	\$14,257	\$40,699	\$18,010	\$20,351	\$43,916	\$33,526	\$60,539	\$73,344	\$121,198	\$52,989	\$478,828

EXHIBIT D

ESTIMATED TAX DOLLARS AND MARKET VALUES