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Secretary of Revenue

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State Tax Commissioner

STATE TAX DEPARTMENT

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OFFICE WEST VIRGINIA
SECRETARY OF STATE

ADMINISTRATIVE NOTICE 2019-08

PROPERTY TAX
STATE TAX COMMISSIONER'S STATEMENT
FOR THE DETERMINATION OF OIL AND GAS OPERATING
EXPENSES FOR PROPERTY TAX PURPOSES FOR TAX YEAR 2019,
PURSUANT TO § 110 CSR 1J-4.3

The Legislative Rule for the appraisal of oil and gas properties (See §§ 110 CSR 1J-1, *et seq.*) became effective June 1, 2005. This notice will address one of the valuation variables referenced in the Rule, oil and gas operating expenses, setting forth procedures used in developing these expenses and their application against receipts for the working interest of oil and gas producing properties.

DISCUSSION

In 2014, the Tax Department received responses from over 16,000 producing wells. This information involved the average annual operating expenses for a "typical" West Virginia well under present economic conditions. The data was reviewed again for Tax Year 2017 due to the declining gas prices and adjustments were made as necessary. The Tax Department has developed the following criteria for the direct ordinary operating expenses as a result of this research activity. Direct ordinary operating expenses will be estimated to be 40% of the gross receipts derived from gas production, not to exceed \$5,000, 35% of gross receipts derived from oil production, not to exceed \$5,750, and 35% of the gross receipts derived from enhanced recovery oil wells, not to exceed \$9,000. In 2014, the Tax Department also received responses from a survey specifically for Marcellus and horizontal wells other than Marcellus and again in 2017 for horizontal Marcellus. Utilizing that information, the Tax Department developed the following criteria for Marcellus wells and horizontal other than Marcellus wells. For Marcellus vertical wells, the maximum operating expenses allowed is 30% of the gross receipts derived from gas production, not to exceed \$30,000. For Marcellus horizontal wells the maximum operating expense allowed is 20% of the gross receipts derived from gas production, not to exceed \$175,000. For horizontal, other than Marcellus, the maximum operating expenses allowed is 30% not to exceed \$20,000. As required in the amended Rule, the Tax Department will review such rates every five years.

In instances where the well is producing both oil and gas, the allotted maximum ordinary operating expense will vary between \$5,000 and \$5,750 depending on the percentage of gas versus oil receipts involved. For Marcellus vertical wells the allotted maximum operating expense will vary between \$5,750 and \$30,000 depending upon the percentage of gas versus oil receipts involved. For Marcellus horizontal wells the allotted maximum operating expense is \$5,750 for the oil and \$175,000 for the gas. For horizontal, other than Marcellus, the allotted maximum operating expense will vary between \$5,750 and \$20,000 depending upon the percentage of gas versus oil receipts involved.

For additional information concerning oil and gas annual operating expenses see § 110 CSR 1J-1 et seq. or call the State Tax Department at (304) 558-3940.

Notice of this determination will be filed in the West Virginia Register.

Issued: January 30, 2019



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State Tax Commissioner

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