

SUPREME COURT OF WYOMING

Williams Production RMT Co. v. Wyoming Department of Revenue

197 P.3d 1258 (Wyo. 2008) · Decided December 31, 2008

SUMMARY

The Wyoming Supreme Court reviewed the valuation of coal bed methane production for severance and ad valorem tax purposes. The court affirmed the determination that the point of valuation was the outlet of the initial dehydrator and upheld the treatment of upstream transportation costs, while reversing the denial of an on-lease fuel exemption.

CASE DETAILS

COURT	Supreme Court of Wyoming
WRITING FOR THE COURT	Kite, Justice; Burke; Golden; Hill; Kite; Voigt
JURISDICTION	Wyoming
DECIDED	December 31, 2008
DISPOSITION	reversed_and_remanded
PROCEDURAL POSTURE	Williams sought review in district court of a Wyoming State Board of Equalization decision concerning the valuation of coal bed methane production and related deductions and exemptions. The district court certified the matter to the Wyoming Supreme Court under W.R.A.P. 12.09(b).
STANDARD OF REVIEW	Under Wyo. Stat. Ann. § 16-3-114, agency factual findings are reviewed for substantial evidence, legal conclusions and statutory interpretation are reviewed de novo, and agency action may be set aside if arbitrary, capricious, an abuse of discretion, contrary to law, or unsupported by substantial evidence. On certification under W.R.A.P. 12.09(b), the Supreme Court applies the appellate standards applicable to a reviewing court of first instance.
PRECEDENTIAL VALUE	Published Wyoming Supreme Court opinion; precedential.
PARTIES	Williams Production RMT Co. v. Wyoming Department of Revenue

TOPICS

- tax
- oil and gas
- minerals
- statutory interpretation
- administrative law

PRACTICE AREAS

tax law

administrative law

appellate procedure

mineral taxation

QUESTIONS PRESENTED

1. Whether the point of valuation for Williams's coal bed methane production was the outlet of the initial dehydrator or an upstream point where Williams transferred the gas to a third party.
2. Whether the Board's determination of the deductible amount of downstream transportation costs was supported by substantial evidence.
3. Whether the Board's denial of Williams's on-lease fuel-use exemption was supported by substantial evidence.

HOLDINGS

1. For severance and ad valorem tax purposes, the point of valuation of Williams's coal bed methane was the outlet of the initial dehydrator, not the upstream point where Williams transferred the gas to Western Gas.
2. Williams was not entitled to deduct transportation expenses incurred before the outlet of the initial dehydrator in determining the fair market value of its coal bed methane.
3. The Board's determination of the allowable deduction for transportation expenses incurred downstream of the initial dehydrator was supported by substantial evidence.
4. The Board could not reasonably conclude that Williams failed to establish entitlement to an on-lease fuel-use exemption because the parties agreed that the exemption applied. The adjustment was required to be based on the Department of Revenue's figure of \$2,998,927.

KEY QUOTATIONS

"The point of valuation remained the point at which the production process was complete and the expenses Williams incurred prior to that point were not deductible in determining the fair market value." (1264)

"It is not the characterization of the costs as processing or transportation that makes them deductible, but where the activities occur in the chain of events from the wellhead to the interstate transmission pipeline." (1265)

"The record is clear that both parties agreed Williams was entitled to a fuel use exemption; their figures differed by only \$307.00." (1269)

FACTUAL BACKGROUND

Williams produced coal bed methane in Wyoming during 2000-2002 and transferred the gas to Western Gas upstream from the initial dehydrator for transportation downstream. Williams reported its taxable production using the transfer point and deducted Western's transportation fees, but a later audit disallowed the upstream portion and assessed more than \$2 million in additional severance taxes. The parties ultimately agreed that Williams was entitled to an exemption for gas consumed on the lease as fuel, although they disagreed slightly about the amount.

PROCEDURAL HISTORY

The Wyoming Department of Audit re-evaluated Williams's 2000-2002 coal bed methane production and assessed additional severance taxes after disallowing deductions for transportation fees. The Department of Revenue adopted the audit findings. The Board affirmed the valuation and denied an on-lease fuel exemption, after which Williams petitioned for district-court review. The district court certified the matter to the Wyoming Supreme Court, which affirmed in part, reversed in part, and remanded.

DISPOSITION

reversed_and_remanded

REMAND INSTRUCTIONS

Remanded to the district court for further proceedings consistent with the opinion, including recognition of the on-lease fuel exemption using the Department of Revenue's taxable-value figure of \$2,998,927.

CASES CITED

- Kennedy Oil v. Wyo. Dep't of Revenue, 2008 WY 154, - P.3d - (Wyo. 2008)
- Williams Prod. RMT Co. v. State Dep't of Revenue, 2005 WY 28, 107 P.3d 179 (Wyo. 2005)
- Dale v. S & S Builders, LLC, 2008 WY 84, 188 P.3d 554 (Wyo. 2008)
- RME Petroleum Co. v. Wyo. Dep't of Revenue, 2007 WY 16, 150 P.3d 673 (Wyo. 2007)
- Hillard v. Big Horn Coal Co., 549 P.2d 293 (Wyo. 1976)
- Appeal of Monolith Portland Midwest Co., Inc., 514 P.2d 757 (Wyo. 1978)
- Wold v. Hunt Oil Co., 52 F. Supp. 2d 1330 (D. Wyo. 1999)
- Cabot Oil & Gas Corp. v. Followill, 2004 WY 80, 93 P.3d 238 (Wyo. 2004)
- Wyo. Dep't of Revenue v. Guthrie, 2005 WY 79, 115 P.3d 1086 (Wyo. 2005)