



To: All County Auditors and Interested Oil and Gas Producers and Operators

From: Laura Lackey, Administrator, Division of Tax Equalization

Date: April 8, 2016

Re: Automation of the Taxation of Oil and Gas Reserves

Beginning with tax year 2016 oil and gas reserves will be taxed using values provided by the Ohio Department of Natural Resources ("ODNR"). ODNR will calculate taxable values for each well that operated in the preceding calendar year using data already provided to them by operators as part of the regulatory process. Operators will no longer be required to duplicate compliance efforts by filing DTE Form 6 or 6A with the county auditor. On September 2, 2015 our office issued a memorandum rescinding the forms 6 and 6A and instructing county auditors to use the automated system. Since ODNR will be calculating taxable values, we will no longer be mailing hard copies of the annual entry to a list of interested parties. The entry will instead be available on our website at www.tax.ohio.gov.

Administrative Journal Entry

Date:

APR - 5 2016

In the matter of adopting a uniform formula for)
 the valuation of oil and gas deposits in the)
 88 counties in the State for tax year 2016)

Entry number: 16-03-0079

Ohio Revised Code Section ("R.C.") 5713.051 sets forth the various components used in the income approach for valuation of oil and gas deposits. By law, the average royalty expense is set at 15% of annual gross revenue, the average operating expense is set at 40% of annual gross revenue, the average capital recovery expense is set at 30% of annual gross revenue, the discount rate is set at 13% plus the rate determined under R.C. 5703.47(B), the discount period is set at 10 years, the net present value for stripper oil wells (those producing less than one barrel a day) is set at 60% of the net present value of wells producing more than one barrel a day, and the net present value for stripper gas wells (those producing less than 8 MCFs a day) is set at 50% of the net present value of wells producing more than 8 MCFs a day.

The Tax Commissioner hereby determines the average daily production of oil and gas for tax year 2016 be valued according to the following schedule:

All Grades of Oil	Taxable Value
Average Daily Production: one barrel or more	\$5,310 per barrel
Average Daily Production: less than one barrel	\$3,190 per barrel
Natural Gas	Taxable Value
Average Daily Production: eight MCF or more	\$220 per MCF
Average Daily Production: less than eight MCF	\$110 per MCF

The Tax Commissioner further finds the values to represent only the working interest as income allocable to the royalty interest has been subtracted from gross income as an expense and that interest is, therefore, not subject to taxation. These multipliers will be certified to the Ohio Department of Natural Resources for use in preparing the taxable values of oil and gas deposits for tax year 2016, and said values will be returned to county auditors for use in preparation of the tax list. These valuations will be accepted as prima facie correct.