STATE OF WEST VIRGINIA
Department of Revenue
State Tax Department

Joe Manchin III
Governor

Christopher G. Morris
State Tax Commissioner

COPY

ADMINISTRATIVE NOTICE 2010-08

SUBJECT: Property Tax -- State Tax Commissioner's Statement for the Determination of Production Decline Rates for Producing Oil and Gas Properties for Property Tax Purposes for Tax Year 2010, Pursuant to § 110 CSR 1J-4.4.

On August 28, 2009, the State Tax Department filed valuation variables to be used in conjunction with the legislative rule for the appraisal of oil and gas properties. (See: §§ 110 CSR 1J-1, *et seq.*) This notice will address one of the variables, the production decline rate(s), setting forth the procedures used in developing the rate(s) for Tax Year 2010.

DISCUSSION

The income stream generated from a producing oil or gas well is directly dependent upon the quantity of the natural resource produced from the well. Once drilled an oil or gas well will experience a sharper production decline, typically for the first two (2) years of production. This is known as flush production. Thereafter production decline levels off into what is known as settled production. The rate of production decline is dependent upon the physical location of the well and the stratigraphic formation(s) from which the well is producing.

The West Virginia Geological and Economic Survey ("Survey") has in past years created a database that contains well-by-well production data by producing formation(s). The Tax Department contracted with the Survey to develop an analytical model to plot production declines by location/formation throughout the State using data available at the time of the contract.

The Survey has divided the State into ten (10) regions that contain similar oil and gas geological characteristics. Attachment I is a map of the State depicting each of these ten (10) regions. A complete list of the oil and gas decline rates (see Attachment II) can also be found in the above referenced variables filed on August 28, 2009.

The appropriate production decline rate(s) are applied to individual well gross receipts to develop a probable future income series for the respective wells. The income streams from these wells are then discounted to present value.

For more information concerning the development of oil and gas well production decline rates contact the State Tax Department at (304) 558-3940.

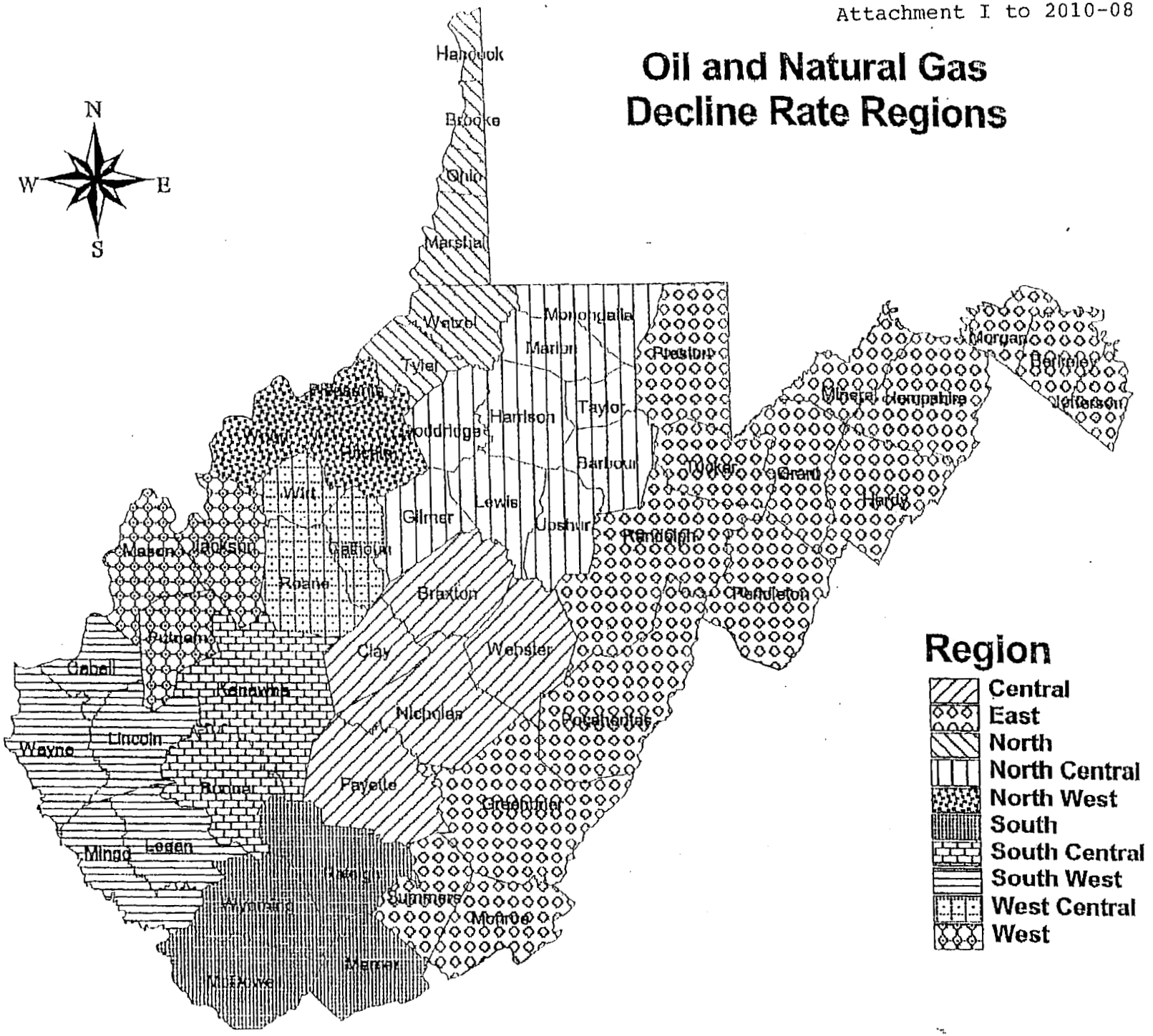
Issued: 1-29-2010

Christopher G. Morris
State Tax Commissioner
West Virginia State Tax Department

State Tax Department
Property Tax Division
P. O. Box 2389
Charleston, WV 25328-2389

Operator on Duty 8:30 am - 5:00 pm
Monday through Friday
Phone: (304) 558-3940
FAX: (304) 558-1843

Oil and Natural Gas Decline Rate Regions



Decline Rates for Natural Gas and Oil Formations

Code		Central Year 1	Central Year 2	Central Year 3+
12	Alexander, Benson	-0.31	-0.20	-0.10
14	Benson	-0.48	-0.08	-0.08
16	Benson, Balltown	-0.45	-0.16	-0.12
17	Gordon +	-0.30	-0.07	-0.07
18	Big Injun	-0.34	-0.13	-0.13
19	Big Injun, Big Lime	-0.36	-0.13	-0.13
22	Big Lime	-0.34	-0.34	0.13
26	Ravencliff	-0.40	-0.40	-0.25
93	4th Sand	-0.42	-0.32	-0.08
94	50 Foot	-0.34	-0.26	-0.07
95	Injun/Weir	-0.51	-0.26	-0.09
96	Maxton	-0.70	-0.27	-0.08
109	Trenton/Deeper*	-0.41	-0.22	-0.09
110	Marcellus*	-0.41	-0.22	-0.09
9	Exception (median)	-0.41	-0.22	-0.09
10	Non-Filer	-0.30	-0.07	-0.07

Braxton
Clay
Fayette
Nicholas
Webster

* New Formation(s) involved in recent production. These will be valued with the Exception rates until decline information is available.

Decline Rates for Natural Gas and Oil Formations

Code			East	East	East	
			Year 1+	Year 2	Year 3+	Berkeley
1	Oriskany		-0.30	-0.30	-0.19	Grant
14	Benson		-0.31	-0.17	-0.12	Greenbrier
20	Benson +		-0.44	-0.20	-0.08	Hampshire
21	Benson, Fifth		-0.29	-0.28	-0.09	Hardy
32	Brallier +		-0.48	-0.20	-0.05	Jefferson
33	Elk, Benson		-0.39	-0.21	-0.08	Mineral
34	Elk, Benson, Riley		-0.53	-0.19	-0.05	Monroe
35	Elk, Benson, Riley +		-0.36	-0.19	-0.11	Morgan
36	Elk, Benson, Balltown		-0.34	-0.18	-0.11	Pendelton
37	Elk, Alexander, Benson		-0.50	-0.07	-0.07	Pocahontas
38	Elk, Alexander, Benson +		-0.40	-0.16	-0.16	Preston
39	Huntervilie		-0.31	-0.31	-0.14	Randolph
40	Fox, Haverty		-0.36	-0.21	-0.15	Summers
93	4th Sand		-0.42	-0.32	-0.08	Tucker
94	50 Foot		-0.34	-0.26	-0.07	
95	Injun/Weir		-0.51	-0.26	-0.09	
96	Maxton		-0.70	-0.27	-0.08	
110	Marcellus*		-0.41	-0.22	-0.10	
9	Exception (median)		-0.41	-0.22	-0.10	
10	Non-Filer		-0.29	-0.07	-0.05	

* New Formation(s) involved in recent production. These will be valued with the Exception rates until decline information is available.

Decline Rates for Natural Gas and Oil Formations

Code		North Year 1	North Year 2	North Year 3+
11	Gordon	-0.47	-0.31	-0.09
13	Alexander, Benson, Riley	-0.26	-0.16	-0.15
15	Benson, Riley	-0.18	-0.16	-0.06
93	4th Sand	-0.42	-0.32	-0.08
94	50 Foot	-0.34	-0.26	-0.07
95	Injun/Weir	-0.51	-0.26	-0.09
96	Maxton	-0.70	-0.27	-0.08
97	Coalbed Methane (vertical)	-0.23	-0.08	-0.05
110	Marcellus*	-0.39	-0.23	-0.08
9	Exception (median)	-0.39	-0.23	-0.08
10	Non-Filer	-0.18	-0.16	-0.06

Brooke
Hancock
Marshall
Ohio
Tyler
Wetzel

* New Formation(s) involved in recent production. These will be valued with the Exception rates until decline information is available.

Decline Rates for Natural Gas and Oil Formations

Code		North Central	North Central	North Central	
		Year 1	Year 2	Year 3	
11	Gordon	-0.41	-0.14	-0.12	Barbour
12	Alexander, Benson	-0.37	-0.19	-0.11	Doddridge
13	Alexander, Benson, Riley	-0.40	-0.28	-0.05	Gilmer
14	Benson	-0.31	-0.17	-0.12	Harrison
15	Benson, Riley	-0.34	-0.17	-0.14	Lewis
18	Big Injun	-0.36	-0.15	-0.13	Marion
21	Benson, Fifth	-0.31	-0.20	-0.14	Monongalia
28	Weir	-0.34	-0.34	-0.07	Taylor
29	Weir +	-0.28	-0.28	-0.23	Upshur
33	Elk, Benson	-0.34	-0.15	-0.11	
34	Elk, Benson, Riley	-0.42	-0.27	-0.08	
37	Elk, Alexander, Benson	-0.49	-0.23	-0.08	
38	Elk, Alexander, Benson +	-0.38	-0.20	-0.12	
40	Fox, Haverty	-0.46	-0.16	-0.08	
50	Rhinestreet	-0.28	-0.03	-0.03	
57	Alexander, Benson, Balltown	-0.39	-0.26	-0.08	
58	Alexander	-0.35	-0.20	-0.10	
59	Alexander +	-0.39	-0.22	-0.10	
60	Alexander, Benson, Riley+	-0.39	-0.35	-0.12	
61	Balltown	-0.35	-0.20	-0.10	
62	Balltown, Speechley	-0.28	-0.22	-0.10	
63	Balltown, Speechley +	-0.30	-0.13	-0.10	
64	Benson, Balltown, Speechley	-0.28	-0.22	-0.09	
65	Benson, Bradford	-0.37	-0.20	-0.10	
66	Benson, Balltown	-0.29	-0.23	-0.11	
67	Benson, Riley +	-0.38	-0.14	-0.10	
68	Benson, Speechley	-0.30	-0.22	-0.14	
69	Brallier, Elk	-0.42	-0.20	-0.13	
70	Brallier	-0.40	-0.22	-0.15	
71	Deeper/Onondago or Oriskany/Helderberg	-0.24	-0.24	-0.03	
72	Elk, Alexander	-0.42	-0.22	-0.09	
73	Elk, Benson +	-0.38	-0.20	-0.12	
74	Elk	-0.43	-0.12	-0.10	
75	Elk, Riley	-0.60	-0.35	-0.17	
76	Fox +	-0.46	-0.18	-0.09	
77	Haverty, Elk, Benson (no Alexander)	-0.35	-0.15	-0.16	
78	Haverty	-0.45	-0.15	-0.15	
79	Riley	-0.44	-0.22	-0.10	
80	Speechley	-0.30	-0.18	-0.09	
81	Alexander, Benson, Speechley	-0.39	-0.24	-0.10	
82	Haverty, Elk, Alexander	-0.47	-0.14	-0.14	
85	Fifth Oil	-0.45	-0.25	-0.22	
87	Bayard All	-0.30	-0.20	-0.05	
88	Fifth	-0.29	-0.18	-0.12	
89	Fifth +	-0.25	-0.15	-0.13	
90	Gordon/Injun All	-0.41	-0.23	-0.23	
91	Squaw	-0.37	-0.31	-0.06	
92	Injun +	-0.34	-0.22	-0.22	
93	4th Sand	-0.42	-0.32	-0.08	
94	50 Foot	-0.34	-0.26	-0.07	
95	Injun/Weir	-0.51	-0.26	-0.09	
96	Maxton	-0.70	-0.27	-0.08	
97	Coalbed Methane (vertical)	-0.23	-0.08	-0.05	
98	Coalbed Methane (horizontal)	-0.05	-0.05	-0.32	
109	Trenton/Deeper*	-0.38	-0.21	-0.11	
110	Marcellus Shale*	-0.38	-0.21	-0.11	
9	Exception (median)	-0.38	-0.21	-0.11	
10	Non-Filer	-0.23	-0.03	-0.03	

* New Formation(s) involved in recent production. These will be valued with the Exception rates until decline information is available.

Decline Rates for Natural Gas and Oil Formations

Code		North West	North West	North West
		Years 1	Years 2 - 6	Years 7+
2	Huron, Rhinestreet	-0.41	-0.26	-0.07
4	Huron	-0.42	-0.24	-0.14
5	Huron, Shale, Above Huron	-0.39	-0.25	-0.14
8	Berea	-0.31	-0.15	-0.15
11	Gordon	-0.38	-0.10	-0.10
12	Alexander, Benson (No Riley)	-0.34	-0.23	-0.10
13	Alexander, Benson, Riley	-0.32	-0.20	-0.10
14	Benson	-0.19	-0.19	-0.10
44	Rhinestreet, Huron, Shallow Shale	-0.43	-0.28	-0.11
47	Alexander, Riley (no Benson)	-0.41	-0.05	-0.05
48	Rhinestreet, Alexander, Benson, Riley	-0.31	-0.24	-0.10
49	Weir, Squaw, Big Injun	-0.27	-0.17	-0.07
50	Rhinestreet	-0.40	-0.27	-0.27
51	Rhinestreet +	-0.36	-0.21	-0.10
52	All Upper Devonian (undiv)	-0.48	-0.33	-0.19
53	Huron, Chemung	-0.35	-0.11	-0.09
54	Huron, Hampshire, Pocono	-0.12	-0.12	-0.11
55	Upper Devonian (above Huron)	-0.46	-0.33	-0.23
56	Chemung Sands=Riley,Bradford,Balltown,Speechley&Warren(no Benson or Alexander)	-0.28	-0.18	-0.10
83	Huron Oil	-0.74	-0.44	-0.40
93	4th Sand	-0.42	-0.32	-0.08
94	50 Foot	-0.34	-0.26	-0.07
95	Injun/Weir	-0.51	-0.26	-0.09
96	Maxton	-0.70	-0.27	-0.08
109	Trenton/Deeper*	-0.39	-0.23	-0.13
110	Marcellus*	-0.39	-0.23	-0.13
9	Exception (median)	-0.39	-0.23	-0.13
10	Non-Filer	-0.12	-0.05	-0.05

* New Formation(s) involved in recent production. These will be valued with the Exception rates until decline information is available.

Annual Production Rate Changes for Natural Gas and Oil Formations

Code		South Year 1	South Year 2	South Year 3
8	Berea	-0.34	-0.15	-0.15
22	Big Lime	-0.31	-0.19	-0.07
23	Big Lime, Maxton	-0.31	-0.19	-0.07
24	Big Lime, Ravencliff	-0.29	-0.29	-0.17
25	Berea +	-0.37	-0.12	-0.08
26	Ravencliff	-0.40	-0.08	-0.07
28	Weir	-0.44	-0.20	-0.10
29	Weir +	-0.28	-0.21	-0.08
30	Weir, Big Lime	-0.37	-0.19	-0.13
42	Maxton, Ravencliff	-0.40	-0.08	-0.07
93	4th Sand	-0.42	-0.32	-0.08
94	50 Foot	-0.34	-0.26	-0.07
95	Injun/Weir	-0.51	-0.26	-0.09
96	Maxton	-0.27	-0.13	-0.09
97	Coalbed Methane (Vertical)	+0.03	+0.10	-0.05
98	Coalbed Methane (Horizontal)	-0.05	-0.05	-0.32
110	Marcellus*	-0.36	-0.19	-0.09
10	Exception (median)	-0.36	-0.19	-0.09
10	Non-Filer	-0.23	-0.08	-0.05

McDowell
Mercer
Raleigh
Wyoming

Decline Rates for Natural Gas and Oil Formations

Code		South Central Year 1	South Central Year 2	South Central Year 3	Boone, Kanawha
3	Devonian Shale	-0.23	-0.08	-0.05	
4	Huron	-0.31	-0.15	-0.04	
8	Berea	-0.23	-0.14	-0.09	
18	Big Injun	-0.29	-0.25	-0.12	
27	Huron, Shales above Huron	-0.21	-0.08	-0.05	
28	Weir	-0.30	-0.21	-0.14	
29	Weir +	-0.31	-0.25	-0.09	
31	Devonian Shales +	-0.27	-0.07	-0.05	
88	Big Injun-Oil	-0.19	-0.18	-0.10	
93	4th Sand	-0.42	-0.32	-0.08	
94	50 Foot	-0.34	-0.26	-0.07	
95	Injun/Weir	-0.51	-0.26	-0.09	
96	Maxton	-0.70	-0.27	-0.08	
109	Trenton/Deeper*	-0.33	-0.19	-0.08	
110	Marcellus*	-0.33	-0.19	-0.08	
9	Exception (median)	-0.33	-0.19	-0.08	
10	Non-Filer	-0.19	-0.07	-0.04	

* New Formation(s) involved in recent production. These will be valued with the Exception rates until decline information is available.

Decline Rates for Natural Gas and Oil Formations

Code		South West	South West	South West
		Year 1	Year 2	Year 3+
3	Devonian Shale	-0.31	-0.15	-0.04
8	Berea	-0.36	-0.11	-0.11
18	Big Injun	-0.38	-0.22	-0.04
22	Big Lime	-0.19	-0.19	-0.19
43	Berea, Big Lime	-0.18	-0.18	-0.18
93	4th Sand	-0.42	-0.32	-0.08
94	50 Foot	-0.34	-0.26	-0.07
95	Injun/Weir	-0.51	-0.26	-0.09
96	Maxton	-0.70	-0.27	-0.08
109	Trenton/Deeper*	-0.38	-0.22	-0.10
110	Marcellus*	-0.38	-0.22	-0.10
9	Exception (median)	-0.38	-0.22	-0.10
10	Non-Filer	-0.18	-0.11	-0.04

* New Formation(s) involved in recent production. These will be valued with the Exception rates until decline information is available.

Cabell
Lincoln
Logan
Mingo
Wayne

Decline Rates for Natural Gas and Oil Formations

Code		West Central Year 1	West Central Year 2	West Central Year 3	Calhoun Roane Wirt
2	Huron, Rhinestreet	-0.49	-0.11	-0.06	
4	Huron	-0.33	-0.22	-0.14	
27	Huron, Shales above Huron	-0.42	-0.23	-0.12	
44	Rhinestreet, Huron, Shallow Shale	-0.51	-0.14	-0.11	
45	Devonian Shale, Pocono	-0.25	-0.17	-0.12	
46	Pocono	-0.29	-0.25	-0.12	
84	Big Injun - Oil	-0.41	-0.41	-0.11	
93	4th Sand	-0.42	-0.32	-0.08	
94	50 Foot	-0.34	-0.26	-0.07	
95	Injun/Weir	-0.51	-0.26	-0.09	
96	Maxton	-0.70	-0.27	-0.08	
109	Trenton/Deeper*	-0.42	-0.24	-0.10	
110	Marcellus*	-0.42	-0.24	-0.10	
9	Exception (median)	-0.42	-0.24	-0.10	
10	Non-Filer	-0.25	-0.11	-0.06	

* New Formation(s) involved in recent production. These will be valued with the Exception rates until decline information is available.

Decline Rates for Natural Gas and Oil Formations

Code		West	West	West	
		Year 1	Year 2	Year 3	Jackson
1	Oriskany	-0.40	-0.40	-0.29	Mason
2	Huron, Rhinestreet	-0.13	-0.12	-0.03	Putnam
3	Devonian Shale	-0.31	-0.15	-0.04	
4	Huron	-0.29	-0.14	-0.05	
5	Huron, Shale, Above Huron	-0.38	-0.15	-0.06	
6	Huron, Berea	-0.29	-0.08	-0.08	
7	Berea, Devonian Shales	-0.08	-0.08	-0.08	
8	Berea	-0.36	-0.16	-0.16	
93	4th Sand	-0.42	-0.32	-0.08	
94	50 Foot	-0.34	-0.26	-0.07	
95	Injun/Weir	-0.51	-0.26	-0.09	
96	Maxton	-0.70	-0.27	-0.08	
109	Trenton/Deeper*	-0.35	-0.20	-0.09	
110	Marcellus*	-0.35	-0.20	-0.09	
9	Exception (median)	-0.35	-0.20	-0.09	
10	Non-Filer	-0.08	-0.08	-0.03	

* New Formation(s) involved in recent production. These will be valued with the Exception rates until decline information is available.