

COAL PROPERTIES ANALYSIS

Tax Year 2001

September 1, 2000
Joseph M. Palmer
State Tax Commissioner
Department of Tax and Revenue

PRODUCING COAL

Capitalization Rate Analysis and Results:

In developing a capitalization rate for use in valuing specific income-producing properties consideration is given to the three approaches generally employed in estimating a discount rate. As a matter of practicality, the Bands-of-Investment and Summation Technique approaches are utilized in establishing discount rates for active coal. Data for analysis has been derived in accordance with current Legislative Rule Title 110, Series 11.

Safe Rate	90 day Treasury Bills			
	January	December	1999	4.660%
	January	December	1998	4.819%
	January	December	1997	5.123%

Risk Rate	Interest differential between Loan Rate and 90 day Treasury Bills			
	<u>Loan Rate*</u>		<u>Risk Rate</u>	
	1999	9.994%	5.334%	
	1998	10.354%	5.535%	
	1997	10.442%	5.319%	
		*Prime plus 2%		

Equity	Differential between Equity Rates and 90 day Treasury Bills			
	<u>Equity Rate**</u>		<u>Safe Rate</u>	
	1999	[13%/(1-.29)]-4.660	13.650	
	1998	[13%/(1-.29)]-4.819	13.491	
	1997	[13%/(1-.29)]-5.123	13.187	

** *Moody's Handbook on Common Stocks and Value Line Investment Analysis*

Composite Risk Rate	Loan and Equity Rates weighted by industry estimated capital structure.			
	<u>Equity Rate</u>		<u>Debt Rate</u>	<u>Composite Risk</u>
	1999	8.190%	2.134%	10.324%
	1998	8.095%	2.214%	10.309%
	1997	7.912%	2.128%	10.040%
	Note: Debt equity Ratio		Debt	40% Equity 60%

Non Liquidity Rate Interest differential between 90 day Treasury Bills and a 1 year Treasury Bill which reflects a reasonable time necessary to sell active property.

			<u>1yr T Bill</u>	<u>90 d T Bill</u>	<u>Non Liquidity Rate</u>
January	December	1999	5.078%	4.660%	0.418%
January	December	1998	4.829%	4.819%	0.010%
January	December	1997	5.334%	5.123%	0.211%

Management Rate Charges for the management of investment portfolios.
Fixed Rate (by Rule) 0.500%

Inflation Rate			
	January	December	1999
	January	December	1998
	January	December	1997
			2.700%
			1.600%
			1.700%

Capitalization Rate Since the valuation of active coal property is predicated on a three year production average, the capitalization rate is considered in a similar manner.

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Inflation Rate	-2.700%	-1.600%	-1.700%
Safe Rate	4.660%	4.819%	5.123%
Composite Risk Rate	10.324%	10.309%	10.040%
Non Liquidity Rate	0.418%	0.010%	0.211%
Management Rate	0.500%	0.500%	0.500%
Total	13.202%	14.038%	14.174%

Three Yr Average: 13.804 Rounded to: **13.80%**

CAPITALIZATION RATE - 13.80%			
MULTIPLIERS:	%		%
1YR	0.937	9YR	5.315
2YR	1.761	10YR	5.608
3YR	2.485	11YR	5.865
4YR	3.121	12YR	6.092
5YR	3.68	13YR	6.29
6YR	4.171	14YR	6.465
7YR	4.603	15YR	6.618
8YR	4.982		

OIL AND GAS PROPERTIES ANALYSIS

Tax Year 2001

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OIL AND GAS

Capitalization Rate Analysis and Results:

In developing a capitalization rate for use in valuing specific income-producing properties consideration is given to the three approaches generally employed in estimating a discount rate. As a matter of practicality, the Bands-of-Investment and Summation Technique approaches are utilized in establishing discount rates for active coal. Data for analysis has been derived in accordance with current Legislative Rule Title 110, Series 1J.

Safe Rate (90 day Treasury Bills)
 January December 1999 4.660%

Risk Rate (Interest differential between Loan Rate and 90 day Treasury Bills)

Loan Rate*	Risk Rate
1999 9.9942%	5.3342%

*Prime plus 2%

Equity (Differential between Equity Rates and 90 day Treasury Bills)

Equity Rate**	Safe Rate
1999 [13%/(1-.37)]-4.66	15.9749%

** *Moody's Handbook on Common Stocks and Value Line Investment Analysis*

Composite Risk Rate Loan and Equity Rates weighted by industry estimated capital structure.

Equity Rate	Debt Rate	Composite Risk
1999 8.7862%	2.4004%	11.653% ***

Note: Debt equity Ratio Debt 45% Equity 55%

*** Effective severance tax adjustment 0.96

Non Liquidity Rate Interest differential between 90 day Treasury Bills and a 1 year Treasury Bill which reflects a reasonable time necessary to sell active property.

January	December	1999	1yr T Bill	90 d T Bill	Non Liquidity Rate
			5.078%	4.660%	0.418%

Management Rate Charges for the management of investment portfolios.

Fixed Rate (by Rule) 0.500%

Property Tax Rate Sixty percent (60%) of State average Class III property tax rate.

1999 60% of 2.25= 1.350%

Inflation Rate

January December 1999 2.700%

Capitalization Rate

Since the valuation of oil and gas property is predicated on a one year production, the capitalization rate will be considered in a similar manner.

	1999
Inflation Rate	-2.700%
Safe Rate	4.660%
Composite Risk Rate	11.653%
Non Liquidity Rate	0.418%
Management Rate	0.500%
Property Tax Rate	1.350%
Total	15.880%

Capitalization Rate Rounded to:

16.00%

MULTIPLIERS FOR 16.00% MID-YEAR LIFE (ANNUALLY)

<u>YEAR</u>	<u>%</u>	<u>YEAR</u>	<u>%</u>
1	0.928477	21	0.047710
2	0.800411	22	0.041129
3	0.690009	23	0.035456
4	0.594836	24	0.030566
5	0.512789	25	0.026350
6	0.442060	26	0.022715
7	0.381086	27	0.019582
8	0.328522	28	0.016881
9	0.283209	29	0.014553
10	0.244146	30	0.012546
11	0.210470	31	0.010815
12	0.181440	32	0.009323
13	0.156414	33	0.008037
14	0.134840	34	0.006929
15	0.116241	35	0.005973
16	0.100208	36	0.005149
17	0.086386	37	0.004439
18	0.074471	38	0.003827
19	0.064199	39	0.003299
20	0.055344	40	0.002844

**OTHER MINED MINERAL
PROPERTY ANALYSIS**

Tax Year 2001

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PRODUCING OTHER MINED MINERALS

Capitalization Rate Analysis and Results:

In developing a capitalization rate for use in valuing specific income-producing properties consideration is given to the three approaches generally employed in estimating a discount rate. As a matter of practicality, the Bands-of-Investment and Summation Technique approaches are utilized in establishing discount rates for active coal. Data for analysis has been derived in accordance with current Legislative Rule Title 110, Series 1k.

<u>Safe Rate</u> 90 day Treasury Bills			
January	December	1999	4.660%
January	December	1998	4.819%
January	December	1997	5.123%

<u>Risk Rate</u> Interest differential between Loan Rate and 90 day Treasury Bills			
<u>Loan Rate*</u>		<u>Risk Rate</u>	
1999	9.994%	5.334%	
1998	10.354%	5.535%	
1997	10.442%	5.319%	

*Prime plus 2%

<u>Equity</u> Differential between Equity Rates and 90 day Treasury Bills			
<u>Equity Rate</u>		<u>Safe Rate</u>	
1999	[13%/(1-.29)]-4.660	13.650	
1998	[13%/(1-.29)]-4.819	13.491	
1997	[13%/(1-.29)]-5.123	13.187	

** Moody's Handbook on Common Stocks and Value Line Investment Analysis

<u>Composite Risk Rate</u> Loan and Equity Rates weighted by industry estimated capital structure.			
Equity Rate		Debt Rate	Composite Risk
1999	8.190%	2.134%	10.324%
1998	8.095%	2.214%	10.309%
1997	7.912%	2.128%	10.040%

Note: Debt equity Ratio Debt 40% Equity 60%

Non Liquidity Rate Interest differential between 90 day Treasury Bills and a 1 year Treasury Bill which reflects a reasonable time necessary to sell active property.

			<u>1yr T Bill</u>	<u>90 d T Bill</u>	<u>Non Liquidity Rate</u>
January	December	1999	5.078%	4.660%	0.418%
January	December	1998	4.829%	4.819%	0.010%
January	December	1997	5.334%	5.123%	0.211%

Management Rate Charges for the management of investment portfolios.
Fixed Rate (by Rule) 0.500%

<u>Inflation Rate</u>			
January	December	1999	2.700%
January	December	1998	1.600%
January	December	1997	1.700%

<u>Property Tax Rate</u> Sixty percent (60%) of State average Class III property tax rate.				
January	December	1999	60% of 2.25 =	1.350%
January	December	1998	60% of 2.22 =	1.332%
January	December	1997	60% of 2.2211 =	1.333%

Capitalization Rate Since the valuation of other mined mineral property is predicated on a three year production average, the capitalization rate is considered in a similar manner.

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Inflation Rate	-2.700%	-1.600%	-1.700%
Safe Rate	4.680%	4.819%	5.123%
Composite Risk Rate	10.324%	10.309%	10.040%
Non Liquidity Rate	0.418%	0.010%	0.211%
Management Rate	0.500%	0.500%	0.500%
<u>Property Tax Rate</u>	1.350%	1.332%	1.333%
<u>Total</u>	14.552%	15.370%	15.506%

Three Yr Average: 15.142%

Rounded to:

15.10%

CAPITALIZATION RATE - 15.10%

MULTIPLIERS:		%	%
1YR	0.932	9YR	5.101
2YR	1.742	10YR	5.364
3YR	2.445	11YR	5.592
4YR	3.057	12YR	5.791
5YR	3.588	13YR	5.963
6YR	4.046	14YR	6.113
7YR	4.45	15YR	6.243
8YR	4.798		