

FILED

SEP 11 11 41 AM '01

OFFICE OF THE SECRETARY OF STATE

COAL PROPERTIES ANALYSIS

Tax Year 2002

September 1, 2001
Ronald C. Stone
Acting State Tax Commissioner
Department of Tax and Revenue

FILED

2001 SEP 14 AM 11:27

DEPARTMENT OF REVENUE
SECRETARY OF STATE

PRODUCING COAL CAPITALIZATION RATE

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.

<u>Safe Rate</u> 90 day Treasury Bills				<u>Safe Rate</u>	
January	December	2000	4.660%	5.818%	
January	December	1999	4.819%	4.660%	
January	December	1998	5.123%	4.819%	

<u>Risk Rate</u> Interest differential between Loan Rate and 90 day Treasury Bills			
<u>Loan Rate*</u>		<u>Debt Risk Rate</u>	
2000	11.23%	5.415%	
1999	9.994%	5.334%	
1998	10.354%	5.535%	

*Prime plus 2%

<u>Equity</u> Differential between Equity Rates and 90 day Treasury Bills			
<u>Equity Rate**</u>		<u>Equity Risk Rate</u>	
2000	[(13.5%/(1-.30))]-5.818	13.468%	
1999	[(13%/(1-.29))-4.660	13.650%	
1998	[(13%/(1-.29))-4.819	13.491%	

** 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.			
	<u>Equity Rate</u>	<u>Debt Rate</u>	<u>Composite Risk</u>
2000	8.081%	2.166%	10.247%
1999	8.190%	2.134%	10.324%
1998	8.095%	2.214%	10.309%

Note: Debt equity Ratio Debt 40% Equity 60%

<u>Non Liquidity Rate</u> 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	2000	5.777%	5.818%		0.000%
January	December	1999	5.078%	4.660%		0.418%
January	December	1998	4.829%	4.819%		0.010%

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

<u>Inflation Rate</u>			
January	December	2000	3.400%
January	December	1999	2.700%
January	December	1998	1.600%

<u>Capitalization Rate</u> 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>2000</u>	<u>1999</u>	<u>1998</u>
Inflation Rate	-3.400%	-2.700%	-1.600%
Safe Rate	5.818%	4.660%	4.819%
Composite Risk Rate	10.247%	10.324%	10.309%
Non Liquidity Rate	0.000%	0.418%	0.010%
Management Rate	0.500%	0.500%	0.500%
Total	13.165%	13.202%	14.038%

Three Yr Average: 13.468 Rounded to: **13.50%**

CAPITALIZATION RATE - 13.50%			
<u>MULTIPLIERS:</u>		<u>%</u>	
1YR	0.939	9YR	5.367
2YR	1.768	10YR	5.667
3YR	2.494	11YR	5.932
4YR	3.136	12YR	6.165
5YR	3.702	13YR	6.37
6YR	4.2	14YR	6.551
7YR	4.639	15YR	6.711
8YR	5.028		

COAL

Royalty Rate Analysis

The development of royalty rates for the various categories of mines and markets involves information collection and review from a variety of sources. Research data for coal lease rates have been derived from recorded lease transactions provided by county assessors, tax auditors, producers, and by individual lessors/lessees involved in the specific transaction. The prices for mined coal have been calculated from data published in "COAL WEEK" and "COAL OUTLOOK", from pricing information provided by producers as part of the most recent tax filing, and from data obtained from the WV Public Service Commission and the U.S. Energy Information Administration. Because a large portion of the data used in this analysis is, by law, considered confidential, only a summary of the results are published.

COAL SALE PRICES 1999 & 2000 FOR TY2002 APPLICATION GRAND SUMMARY ALL SOURCES

	STEAM SPOT	STEAM TERM	MET	
PSC & Coal Outlook Publication *	\$23.27	\$27.90	\$31.63	3.2mm tons * outlook = \$23.70 and psc spot = \$22.83
Coal Week Publication	\$23.11			
Active Return Summary	\$25.32	<-S+T	\$29.60	35.3mm tons
Resource Technologies public comment	\$23.47	based on all West Virginia spot from Energy Information Administration		

STATE STEAM PRICE **	\$26.27	Weighted according to the 85.4/14.6 from the PSC tons below
STATE MET PRICE	\$30.62	
STATE STEAM SPOT PRICE	\$23.47	

	Spot Sales	Term Sales	Total
** PSC Tons reported in thousands, 1999.	2,866	16715.85	19,582

COAL TY 2002 ROYALTY RATES

	5YR		6YR		7YR		8YR	
	%S	%D	%S	%D	%S	%D	%S	%D
TOTAL RECORDS	76	187	110	249	141	293	162	313
SUM of PERCENT	492.5	850.16	698.5	1250.41	866.5	1499.91	1004.5	1600.91
STRAIGHT AVERAGE	6.48	4.55	6.35	5.02	6.15	5.12	6.20	5.12
MEDIAN	6.75	4.00	6.00	5.00	6.00	5.00	6.00	5.00
WEIGHTED AVERAGE	6.48	4.55	6.39	4.86	6.27	4.99	7.05	5.40

FINAL RATE SURFACE	6.34
FINAL RATE DEEP	4.88

ROYALTY RATE CALCULATIONS

Steam Coal/ Deep Mine	\$26.27 per ton X 4.88% =	\$1.28
Metallurgical Coal/ Deep Mine	\$30.62 per ton X 4.88% =	\$1.50
Steam Coal/ Surface Mine	\$26.27 per ton X 6.34% =	\$1.67
Metallurgical Coal/ Surface Mine	\$30.62 per ton X 6.34% =	\$1.94

CAPITALIZATION RATE - 13.50%

MULTIPLIERS:	%	%	
1YR	0.939	9YR	5.367
2YR	1.766	10YR	5.667
3YR	2.494	11YR	5.932
4YR	3.136	12YR	6.165
5YR	3.702	13YR	6.37
6YR	4.2	14YR	6.551
7YR	4.639	15YR	6.711
8YR	5.026		

OIL AND GAS PROPERTIES ANALYSIS

Tax Year 2002

September 1, 2001
Ronald C. Stone
Acting State Tax Commissioner
Department of Tax and Revenue

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 2000 **5.820%**

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

<u>Loan Rate*</u>	<u>Risk Rate</u>
2000 11.2300%	5.4100%
*Prime plus 2%	

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

<u>Equity Rate**</u>	<u>Safe Rate</u>
2000 [13.5%/(1-.37)]-5.82	15.6086%
** <i>Moody's Handbook on Common Stocks and Value Line Investment Analysis</i>	

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

Equity Rate	Debt Rate	Composite Risk
2000 8.5847%	2.4345%	11.478% ***
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	2000	<u>1yr T Bill</u>	<u>90 day T Bill</u>	<u>Non Liquidity Rate</u>
			5.780%	5.820%	0.000%

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.

2000	60% of 2.25=	1.350%
------	--------------	---------------

Inflation Rate

January	December	2000	3.400%
---------	----------	------	---------------

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.

	2000
Inflation Rate	-3.400%
Safe Rate	5.820%
Composite Risk Rate	11.478%
Non Liquidity Rate	0.000%
Management Rate	0.500%
Property Tax Rate	<u>1.350%</u>
 Total	 15.748%

Capitalization Rate Rounded to:

15.75%

MULTIPLIERS FOR 15.75% MID-YEAR LIFE (ANNUALLY)

YEAR	%	YEAR	%
1	0.929479	21	0.049868
2	0.803005	22	0.043082
3	0.693741	23	0.037220
4	0.599344	24	0.032156
5	0.517792	25	0.027780
6	0.447337	26	0.024000
7	0.386468	27	0.020734
8	0.333882	28	0.017913
9	0.288451	29	0.015476
10	0.249201	30	0.013370
11	0.215293	31	0.011551
12	0.185998	32	0.009979
13	0.160690	33	0.008621
14	0.138825	34	0.007448
15	0.119935	35	0.006435
16	0.103615	36	0.005559
17	0.089517	37	0.004803
18	0.077336	38	0.004149
19	0.066813	39	0.003585
20	0.057722	40	0.003097

**OTHER MINED MINERAL
PROPERTY ANALYSIS**

Tax Year 2002

September 1, 2001
Ronald C. Stone
Acting State Tax Commissioner
Department of Tax and Revenue

PRODUCING OTHER MINED MINERALS CAPITALIZATION RATE

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.

Safe Rate			90 day Treasury Bills	Safe Rate		
January	December	2000		January	December	2000
January	December	1999		January	December	1999
January	December	1998		January	December	1998

Risk Rate			Interest differential between Loan Rate and 90 day Treasury Bills		
Loan Rate*			Debt Risk Rate		
2000	11.23%		2000	5.415%	
1999	9.994%		1999	5.334%	
1998	10.354%		1998	5.535%	

*Prime plus 2%

Equity			Differential between Equity Rates and 90 day Treasury Bills		
Equity Rate**			Equity Risk Rate		
2000	[13.5%/(1-.30)]-5.818		2000	13.468%	
1999	[13%/(1-.29)]-4.680		1999	13.650%	
1998	[13%/(1-.29)]-4.819		1998	13.491%	

** 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		
2000	8.081%	2.166%	10.247%		
1999	8.190%	2.134%	10.324%		
1998	8.065%	2.214%	10.309%		

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.

			1yr T.Bill	90 d T.Bill	Non Liquidity Rate
January	December	2000	5.777%	5.818%	0.000%
January	December	1999	5.078%	4.680%	0.418%
January	December	1998	4.829%	4.819%	0.010%

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

Inflation Rate			
January	December	2000	3.400%
January	December	1999	2.700%
January	December	1998	1.600%

Property Tax Rate			Sixty percent (60%) of State average Class III property tax rate.	
January	December	2000	60% of 2.17 =	1.302%
January	December	1999	60% of 2.25 =	1.350%
January	December	1998	60% of 2.22 =	1.332%

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.

	2000	1999	1998
Inflation Rate	-3.400%	-2.700%	-1.600%
Safe Rate	5.818%	4.680%	4.819%
Composite Risk Rate	10.247%	10.324%	10.309%
Non Liquidity Rate	0.000%	0.418%	0.010%
Management Rate	0.500%	0.500%	0.500%
Property Tax Rate	1.302%	1.350%	1.332%
Total	14.467%	14.532%	15.370%

Three Yr Average: 14.798% Rounded to: **14.80%**

CAPITALIZATION RATE - 14.80%

MULTIPLIERS:	%	%	%
1YR	0.933	9YR	5.149
2YR	1.746	10YR	5.419
3YR	2.454	11YR	5.653
4YR	3.071	12YR	5.858
5YR	3.609	13YR	6.038
6YR	4.077	14YR	6.191
7YR	4.485	15YR	6.326
8YR	4.84		