

Figure: 34 TAC §9.4031(1)

Discount Cash Flow Method
(Working Interest Portion Only)

Year	(1) Net Oil Production (bbls)	(2) Oil Price (\$/bbls)	(3) Gross Income (\$)	(4) Op Exp + SevTaxes (\$)	(5) Net Income (\$)	(6) Discount Factor @ 16.7%	(7) Discounted Cash Flow (\$)	
1	31,938	\$ 19.75	\$ 630,776	\$ 159,015	\$ 471,761	.925688	\$ 436,703	
2	25,550	20.54	524,797	159,341	365,456	.793220	289,887	
3	20,440	21.36	436,598	160,692	275,906	.679709	187,536	
4	16,352	22.22	363,341	162,946	200,395	.582441	116,718	
5	13,081	23.10	302,171	165,982	136,189	.499093	67,971	
6	10,465	24.03	251,474	169,733	81,741	.427671	34,958	
7	8,372	24.99	209,216	174,115	35,101	.366471	12,863	
						Subtotal	\$ 1,146,636	
					Salvage	\$ 10,000	.339238*	3,392
						Total	\$ 1,150,028	

* End of year seven factor = $1/(1+.167)^7$

Calculation Procedures:

- (1) Net Oil Production is Gross Oil Production times Net Revenue Interest (NRI). NRI equals 87.5%.
- (2) Starting Oil Price, \$19.75/bbl with an escalation rate of 4%/yr
- (3) Gross Income equals Net Oil Production multiplied by Oil Price
- (4) Op. Exp. + Sev. Taxes: Operating Expenses escalated at a rate of 4%/yr; severance tax on oil is 4.6%/yr
- (5) Net Income equals Gross Income less Op. Exp. and Sev. Taxes
- (6) Discount Factor (mid-year) @16.7% equals:

Year 1	$1/((1+.167)^{(1-.5)}) = .925688$
Year 2	$1/((1+.167)^{(2-.5)}) = .793220$
Year 3	$1/((1+.167)^{(3-.5)}) = .679709$
Year 4	$1/((1+.167)^{(4-.5)}) = .582441$
Year 5	$1/((1+.167)^{(5-.5)}) = .499093$
Year 6	$1/((1+.167)^{(6-.5)}) = .427671$
Year 7	$1/((1+.167)^{(7-.5)}) = .366471$

NOTE: The discount factor of 16.7% includes 1.7% for property taxes. Some appraisers handle property taxes as a deduction from gross income.

(7) Discounted Cash Flow equals Net Income multiplied by the Discount Factor

Other factors that should be considered in the DCF method include capital expenditures, environmental remediation costs, and the present worth of the salvage value of equipment less well plugging costs.