



TECHNICAL NOTE

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Bureau of Land Management U.S. DEPARTMENT OF THE INTERIOR

Subject: Example of Discounted Cash Flow method of economic evaluation

Reference: Hall and Yardumian, "The Economics of Commercial Shale Oil Production by the TOSCO II Process." Presented to the American Institute of Chemical Engineers, December 5, 1968.

Data: Production: 66,000 tons per day of 36 gallon per ton shale, 59,500 barrels of oil production.

Rate of Return: See attached table.

Please send any additional references on this subject or other minerals subjects to DSC (D-310). If the complete article or publication is needed, DSC (D-310) will attempt to obtain a copy or a loan for you.

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TABLE 8

RATE OF RETURN
(Summary)

	<u>\$M</u>	
A. Gross Income	62,700	
B. Operating Costs	23,300	
C. Depreciation (15-year Straight Line)	9,600	
D. Net Profit, A-(B + C)	29,800	
E. Colorado Taxes, .025 x D	700	
F. Depletion Allowance (15% of value of crushed shale)	3,000	
G. Federal Taxable Income, D-(E + F)	26,100	
H. Federal Taxes, .53 x G (Includes 10% Surtax)	13,800	
I. Net Profit After Taxes, G - H	12,300	
J. Cash Flow, I + C + F	24,900	
K. Capital Investment	144,000	
L. Payout, Years, $K \div J$		5.8 Years
M. Value of Investment at Time Zero	165,000	
N. Rate of Return, $J \div M \times 100$		15.1%

Note: This is sent out merely as an example of the use of the Discounted Cash Flow method in industry, without regard to correctness of the estimates involved.