

NEVADA DEPARTMENT OF TAXATION

Capitalization Rate Study per Nevada State Administrative Code Methodology

**Calendar Year 2007
For the 2009-2010 Secured &
2008-2009 Unsecured Tax Year**

Introduction

NRS 361.320 (4) requires the Nevada tax commission to adopt formulas providing the method or methods pursued in fixing and establishing the taxable value of all property assessed by it. NAC 361.425 describes the formulas adopted by the Commission for the development of the income indicator of value.

The income indicator of value is based on the theory that value is equal to the present worth of anticipated future net benefits. From an investment standpoint, the critical element affecting value is the earning power of the asset. The income approach is used to estimate market value because it converts the right to receive future earnings and benefits into an estimate of present value. "Present value is the sum that a prudent purchaser-investor would pay for the right to receive the forecast net income stream over the specified period." W. Kinnard, Jr., *Income Property Valuation* (1971), p. 62, quoted in *Folsum v. County of Spokane*, 725 P.2d 987 (Wash.1986), p. 990. Because the income stream produced by the property is an indication of earning power, reliable measurement of the income stream becomes crucial.

The rates used to convert income are based on the costs of the major sources of capital. The overall cost of capital is estimated by using band-of-investment methodology, as required under Commission rules at NAC 361.425 (1). The band-of-investment method derives the "weighted average cost" of three components of capital: debt, preferred equity, and common equity. "Weighted average cost" is derived by multiplying the average capital structure components (common equity, preferred equity, and debt) of the "typical" company by the cost of capital for each category.

The "capital structure" is derived by developing a representative, or "typical company", within the industry group. The typical company's capital structure is the median average of a selected sample of companies. Selection of companies for the sample is based on comparability of revenues, bond ratings, nature of operations and regulatory environment. (See, NAC 361.425 (3-4)).

Pursuant to NAC 361.425, the Department has developed a capitalization rate based on the discounted cash-flow method model. The cash flows (adjusted net operating income) from existing assets are assumed to continue in perpetuity. Under Nevada Statute the filing date is March 31 for calendar year operations. The secure assessment billing or lien date is made eighteen months later on July 1. Unsecured lien date is July 1 of the current year and is billed in November. Further, NRS 361.320 (1) requires the Commission to value any "property of an inter-state or inter-county nature.

The discounted cash flow (DCF) model measures the rate of return requirements of industrial stock (equity) as demonstrated by investors in the market. The basic theory of DCF is that the price paid for a share of stock reflects the investors' discounted present value of expected future returns from holding a stock (dividends and price appreciation).

The basic DCF formula is:

$$K_e = D_1/P_0 + G$$

Where:

K_e = Cost of Capital

D_1 = Projected Dividend

P_0 = Current Stock Price

G = Growth

The division of the D_1 variable by the P_0 variable results in an estimate of dividend yield. Dividend yield is obtained from the Value Line projected dividend yield for the 2007 year. The growth factor in the model was derived by subtracting the published dividend yield from the Value Line projected annual total return for the same period. The Value Line projected annual total return includes both the dividend yield and the overall price appreciation, if any. Overall price appreciation is assumed to represent investor expectations regarding earnings per share and book value per share growth.

The calculation is made for each of the companies contained in the sample. In most cases, the Department selected the median dividend yield plus the median growth rate to determine the overall common equity rate in order to minimize any skewing of the data which might occur with the presence of any non-typical company statistics.

Income Stream

The Department estimates the income stream for yield capitalization by deducting allowable expenses from operating revenues. The result is adjusted to reflect normalized and annualized revenues and expenses, and to reflect disallowed rental expenses, allowed federal income tax and book depreciation if necessary. See NAC 361.423 & NAC 361.454. The operating income to be capitalized into taxable value will be normalized and annualized based on the most recent year's adjusted net operating income. When the most recent year's net operating income is typically not a reasonable representation of the net operating income of the industry under review, such as where the net operating income of the industry tends to be cyclical, a 3 or 5-year average of adjusted net operating incomes will be normalized and annualized and may be used.

Market Capital Structure

Electrics, Gas Pipelines, Telecommunications

Pursuant to NAC 361.425 (4) and (5), the Department has derived the capital structure of the typical company from the use of market information for the selected sample of firms. The capital structure is developed using information from Value Line for each firm. The median structure is then calculated and applied to each component cost of capital to determine the weighted-average cost of capital.

The sample of firms was selected on the basis of comparability of Value Line Ratings, S&P Ratings, Moody's/Mergent Ratings, size of capitalization, debt rate, and NAISC code number. In the case of electric companies, western regional companies were selected over central or eastern regional companies. In addition, most nuclear-powered generation companies were rejected from the sample, with the exception of Southern California Edison, a Nevada taxpayer. The pipeline company

sample includes a wide range of types, from coal-slurry to natural gas. The telecommunications sample includes inter-exchange and local exchange service as many firms now provide both types of service.

Railroads

The sample of firms selected for inclusion in the study was comprised of Class I carriers controlled by selected major railroad holding companies. Criteria for selection included a debt rating of at least BBB- (Standard and Poor's) and Baa (Moody's); a listing on a major stock exchange; and listed by Value Line, except Canadian railroads.

Airlines

The sample of firms for each airline sub-group was determined on a wide range of comparability factors that included elements for financial, operating and physical characteristics. The major segmentation of the industry was based on payload, distinguishing pure freight carriers from mixed passenger-freight carriers.

Components of the Cost of Capital

Debt Capital:

Electrics, Gas Pipelines, Telecommunications

The 2007 cost of debt was developed using information from Moody's/Mergent Financial Information Services: Bond Records. At Corporate Bond Yield Averages Record, December, 2007, the 2007 yields for Baa utility bonds ranged from 6.05% to 6.51%. The average of this range is 6.29%. Only long-term debt obligations are included since only long-term liabilities are included in a capital structure. Baa utility bonds are considered to be medium grade obligations, neither high quality nor highly speculative. Baa bonds are typically representative of many utilities, and the resulting cost of debt is conservative.

Railroads

The 2007 cost of debt was developed using information from Moody's Financial Information Services: Bond Records. At Corporate Bond Yield Averages, December, 2007, the 2007 yields for Baa utility bonds ranged from 6.05% to 6.51%. The average of this range is 6.29%.

Airlines

The 2007 cost of debt was developed using information from company annual reports and the Mergent Bond Record for U.S. Corporate Bonds, for October through December 2007. All the airline bonds were selected and listed with reported issue rate and current yield rate. Mean and median calculations were developed for these rates. Examples of the selected debt rates are as follows: 1) Group All Passenger Companies weighted by issue yield rate was 12.0830% and 2) the weighted by issue yield rate for Group All Freight Carriers was 5.3000%.

Flotation Costs of Debt

The Department adjusts the cost of debt as necessary to reflect additional bond issue costs, called flotation costs. Flotation costs include underwriter's fees and legal expenses and are estimated

to be approximately 0.6% of the debt issue. The formula used by the Department is: $(\text{Cost of debt}) * (1/(1-.006))$. The multiplier for debt is obtained by dividing 1 by 1 minus the flotation cost. The multiplier is then applied to the cost of debt to obtain the adjusted cost of debt. (See, Parcell, The Cost of Capital – A Practitioners Guide (1997), p. 11-2). In addition this formulation was used by the California State Board of Equalization and the Southwest Gas Corporation.

There are several ways in which flotation costs can be recognized with regards to assessed valuations/appraisals. The first method, and the way previously recognized by the Department, has been to adjust upward the return on equity to reflect the flotation costs incurred to issue the securities. Although this is the current method the Department is reviewing and investigating other options for recognizing current legitimate flotation cost. The second method, and one being considered for future proceedings, is the cost of service or operating expense approach. This method treats flotation costs like most other operating costs and allow for their recovery or in the assessed valuation process allows these expenses as any other legitimate expenses to offset the cash flows under the income approach. In other words have flotation expenses be accounted for in the income stream. Expensing issuance costs in the year incurred has the advantage of simplicity. The alternative recovery can be accomplished via straight line amortization over a short period of time

Preferred Equity Capital:

Preferred equity contains characteristics of both debt and equity. Preferred issues are like common stocks in that they have no maturity dates and represent ownership in the company but they are like debt in that they usually have fixed dividend payments similar to interest payments.

Electrics, Gas Pipelines, Telecommunications

The 2007 cost of preferred equity was developed using information from Moody's/Mergent Financial Information Services: Public Utility. At Moody's Preferred Stock Ratings, December, 2007, the 2007 yields for Baa utility preferred stocks ranged from 6.03% to 6.51%. The average of this range is 6.20%.

Railroads

The 2007 cost of preferred equity was developed using information from Moody's/Mergent Financial Information Services: Public Utility. At Moody's Preferred Stock Ratings, December, 2007, the 2007 yields for Baa utility preferred stocks ranged from 6.03% to 6.51%. The average of this range is 6.20%.

Airlines

In general, most airlines do not issue preferred equity. Consequently, if a capital structure has a preferred equity portion developed for an airline industry segment rate, the cost of preferred equity utilizes the same preferred rate as the utilities, 6.20% for 2007.

Flotation Costs of Preferred Equity

The Department adjusts the cost of preferred equity as necessary to reflect additional preferred equity issue costs, called flotation costs. Flotation costs include underwriter's fees and legal expenses and in most cases are estimated to be approximately 3% of the preferred equity issue. The formula used by the Department is: $(\text{Cost of equity}) * (1/(1-.03))$. The multiplier for preferred equity is obtained by dividing 1 by 1 minus the flotation cost. The multiplier is then applied to the cost of preferred equity to obtain the adjusted cost. (See, Parcell, The Cost of Capital – A Practitioners Guide

(1997), p. 11-2). (See Keown, Martin, Petty and Scott, Foundations of Finance(2006), p. 334). See Brigham-Gapenski, Financial Management -Theory and Practice (Seventh Edition), p. 340).

Common Equity Capital:

Airlines, Electrics, Gas Pipelines, Railroads, Telecommunications

Pursuant to NAC 361.425, the Department developed a common equity rate based on the discounted cash-flow method model. The calculation is made for each of the companies contained in the sample. In most cases, the Department selected the median dividend yield plus the median growth rate to determine the overall common equity rate in order to minimize any skewing of the data which might occur with the presence of any non-typical company statistics. Refer to the method described fully in the introduction and in the yield capitalization technique described above.

Flotation Costs of Equity

The Department adjusts the cost of common equity as necessary to reflect additional equity issue costs, called flotation costs. Flotation costs include underwriter's fees and legal expenses and in most cases are estimated to be approximately 4.5% of the common equity issue. The Department references current used flotation cost adjustments from the recent "Willamette Management Associates Gross Spread Study" referenced in the Union Pacific Railroad Cost of Capital Study for 2008 Assessment Year. Based on recent industry input and request the Department will no longer tax-effect the flotation costs. The formula used by the Department is:

$$K = \frac{D}{P(1-f)} + g$$

The multiplier for common equity is obtained by dividing the dividend yield by 1 minus the flotation cost plus the growth rate. The multiplier is then applied to the cost of common equity to obtain the adjusted cost. (See, Parcell, The Cost of Capital – A Practitioners Guide (1997), p. 11-17). (See Copeland-Weston, Managerial Finance (Ninth Edition), p. 616. (See, Brigham-Houston, Fundamentals of Financial Management (2004), p. 368-369). See Brigham-Gapenski, Financial Management – Theory and Practice (Seventh Edition), p. 358-359).

Pursuant to NAC 361.425 (8C), the Department may, with Director approval, utilize Direct Cap Rates. The Director approved the generation of Direct Cap Rates earlier this year. The cost of equity is earnings divided by price from Value Line and Standard and Poor's Stock Guide. The cost of debt is long-term interest divided by market value long-term debt, also from Value Line. As a check of reasonableness to the Yield Cap Rate method the Department conducted a Direct Cap Rate study. Attached to this narrative are the results of both the Yield Cap Rate and the Direct Cap Rate studies.

SOURCES OF INFORMATION AND DATA

The following sources of information were referenced to develop data for the capitalization rate study:

Moody's/Mergent Public Utility Stock and Bond Averages

Moody's/Mergent Industrial Stock and Bond Averages

Value Line Investment Survey, various editions

Other sources referenced for analysis and comparison:

California State Board of Equalization Capitalization Rate Study

Final Colorado Capitalization Rates for Tax Year 2008
Colorado State Board

Railroad Cost of Capital – 2008
Surface Transportation Board

New York University Annual Industry Capitalization Rate Study

Cost of Capital Report for the Communication Industry
January 1, 2008
AUS Consultants

Capitalization Rate Study for the Domestic Air Transportation Industry
Major and Non-Major Airlines for Tax Year 2008
Thomson Tax & Accounting

Union Pacific Railroad Company's 2008 Assessment Year
Cost of Capital Study

Southern California Edison Company Capitalization Rate Recommendation
To the California State Board of Equalization

Idaho Power Company
2008 Capitalization Rate Study

Level (3) Cost of Capital Report for Communications Industry 2008
AUS Consultants

Keown, Martin, Petty and Scott, Foundations of Finance (2006), p. 334

Brigham-Gapenski, Financial Management-Theory and Practice (Seventh Edition), p. 340, 358-359

Copeland-Weston, Managerial Finance (Ninth Edition), p. 616

Brigham-Gapenski, Fundamentals of Financial Management (2004), p. 368-369

Parcell, The Cost of Capital – A Practitioners Guide (1997), p. 11-17

NEVADA DEPARTMENT OF TAXATION

Capitalization Rate Study per Nevada State Administrative Code

Calendar Year 2007 For the 2009-2010 Secured & 2008-2009 Unsecured Tax Year Valuations

The capitalization rate model utilized for development of the 2009-2010 tax year income indicators of value for centrally assessed companies is a forward looking discounted cash flow model. The Department's developed rates may deviate from other studies in that it must, when the information is available, use data from select firms and groups within an industry. The rate developed must be reflective of the "typical" company within an industry or group. Capitalization rates are developed for specific industry segments using data specific to each of those segments.

Value Line, Moody's/Mergent Financial Information Services, Standard & Poor's along with independent studies and studies submitted by industry groups and individual companies provide sources for documentation, development and analysis of information contained in this study.

The Tax Commission has recommended the use of a Discounted Cash Flow ("DCF") model in unitary appraisals. Specifically, the DCF model is the primary income indicator. The present Code allows for the use of one or more of the following models; 1) Discounted Cash Flow method, 2) Capital Asset Pricing method, and 3) Risk Premium method, to be used by the Department for the income approach. The DCF model used by the Department is the accepted DCF presentation with the company structure and growth components derived from Value Line data sheets for companies found in Value Line's industry segments.

The Administrative Code allows for the use of other income models. When possible the Department will develop and use additional income models. The Department will also consider in its analysis, studies and data submitted by industry groups or individual companies. No comparisons are drawn from companies not related to the industry being appraised.

NEVADA DEPARTMENT OF TAXATION - DOAS 2009-2010 CAPITALIZATION RATE COMPARISON

	INDUSTRY	FIRMS	MODEL	STRUCTURE C.E. / P.E. / D	EQUITY COST	EQUITY + FLOTATION	PREF. COST	PREF. + FLOTATION	DEBT COST	DEBT + FLOTATION	2009-2010 WACC - DCF	REF. 2008-2009	REF. 2007-2008
1	AIRLINE ALL PASSENGER	12	DCF	40%/0%/60%	19.2086%	19.2113%	6.2000%	6.3918%	12.0830%	12.1559%	14.9781%	13.6247%	16.2949%
2	MAJOR-ALL PASSENGER	8	DCF	38%/0%/62%	19.1990%	19.2006%	6.2000%	6.3918%	12.0830%	12.1559%	14.8329%	13.5129%	0.0000%
3	AIRLINE ALL FREIGHT	3	DCF	95%/0%/05%	14.4397%	14.4913%	6.2000%	6.3918%	5.3000%	5.3320%	14.0333%	12.3314%	11.9009%
4	NON-MAJOR-ALL PASSENGER	4	DCF	40%/0%/60%	17.5000%	17.5236%	6.2000%	6.3918%	12.0830%	12.1559%	14.3030%	15.9842%	0.0000%
5													
6	ELECTRIC - LARGE	4	DCF	67%/1%/32%	9.2345%	9.3937%	6.2000%	6.3918%	6.2900%	6.3280%	8.3827%	7.8987%	8.5098%
7	ELECTRIC - SMALL I	10	DCF	60%/0%/40%	10.2213%	10.4263%	6.2000%	6.3918%	6.2900%	6.3280%	8.7870%	7.7627%	
8	GAS/PIPE DISTRIBUTION	11	DCF	70%/0%/30%	11.5317%	11.6892%	6.2000%	6.3918%	6.2900%	6.3280%	10.0808%	8.3872%	10.2997%
9	GAS/PIPE DIVERSIFIED	8	DCF	80%/0%/20%	9.5392%	9.6335%	6.2000%	6.3918%	6.2900%	6.3280%	8.9724%	9.4739%	10.0319%
11	RAILROAD	4	DCF	78%/0%/22%	14.2462%	14.3074%	6.2000%	6.3918%	6.2900%	6.3280%	12.5519%	12.5540%	10.9631%
12													
13	TELECOM GRP 1 SM	6	DCF	54%/0%/46%	11.0992%	11.2181%	6.2000%	6.3918%	6.2900%	6.3280%	8.9686%	10.0508%	10.1550%
14	TELECOM GRP 2 MD	4	DCF	73%/0%/27%	14.1774%	14.3160%	6.2000%	6.3918%	6.2900%	6.3280%	12.1592%	10.6487%	13.3786%
15	TELECOM GRP 3 LG	3	DCF	80%/0%/20%	14.1828%	14.3257%	6.2000%	6.3918%	6.2900%	6.3280%	12.7261%	11.1525%	13.3694%

NEVADA DEPARTMENT OF TAXATION DOAS 2008-2009 CAPITALIZATION RATE COMPARISON

OTHER 2009-2010 STUDIES

REFERENCE ONLY			EQUITY	EQUITY +	PREF.	PREF. +	DEBT	DEBT +	2009-2010		REF.	REF.
INDUSTRY	SOURCE	STRUCTURE	COST	FLOTATION	COST	FLOTATION	COST	FLOTATION	WACC		2008-2009	2007-2008
1 AIRLINE *	NEW YORK U.	68%/0%/32%	10.7000%	NO DATA	NO DATA	NO DATA	5.2700%	NO DATA	8.2500%		9.5000%	10.4800%
2 ELECTRIC (West) *	NEW YORK U.	62%/1%/37%	8.2200%	NO DATA	NO DATA	NO DATA	4.2700%	NO DATA	6.0900%		7.2600%	6.5400%
3 GAS/PIPELINE DIV *	NEW YORK U.	77%/0%/23%	8.4600%	NO DATA	NO DATA	NO DATA	4.7700%	NO DATA	7.1700%			
4 GAS/PIPELINE UTILITY *	NEW YORK U.	60%/0%/40%	7.7400%	NO DATA	NO DATA	NO DATA	5.0200%	NO DATA	5.8500%		6.5100%	6.0000%
5 RAILROAD *	NEW YORK U.	79%/0%/21%	9.9100%	NO DATA	NO DATA	NO DATA	5.0200%	NO DATA	8.4800%		8.2400%	6.8400%
6 TELECOM (Services) *	NEW YORK U.	75%/0%/25%	10.4200%	NO DATA	NO DATA	NO DATA	6.0200%	NO DATA	8.7100%		10.2700%	10.4800%
7 AIRLINE NATIONAL *	COLO. ST. BD.	32.8%/0%/67.2%	17.0900%	NO DATA	NO DATA	NO DATA	8.7200%	NO DATA	11.4700%		14.5400%	13.8800%
8 AIRLINE REGIONAL *	COLO. ST. BD.	0.00%	0.0000%	NO DATA	NO DATA	NO DATA	0.0000%	NO DATA	0.0000%		12.3000%	13.1200%
9 AIRLINE CARGO *	COLO. ST. BD.	96.04%/0%/3.96%	12.2600%	NO DATA	NO DATA	NO DATA	8.1000%	NO DATA	12.1000%		11.2400%	11.2600%
10 ELECTRIC *	COLO. ST. BD.	62.0%/1.0%/37.0%	11.3800%	NO DATA	6.5100%	NO DATA	6.6300%	NO DATA	9.6000%		9.8700%	9.3800%
11 GAS/PIPELINE *	COLO. ST. BD.	72%/0%/28%	10.7900%	NO DATA	NO DATA	NO DATA	6.5800%	NO DATA	9.6100%		9.5500%	9.3700%
12 RAILROAD *	COLO. ST. BD.	78.1%/0%/21.9%	13.8700%	NO DATA	NO DATA	NO DATA	6.6100%	NO DATA	12.2900%		11.7600%	10.9200%
13 TELECOM CLECS/LD TELCO *	COLO. ST. BD.	63%/0%/37%	13.5600%	NO DATA	NO DATA	NO DATA	7.6800%	NO DATA	11.3600%		11.6900%	11.3300%
14 TELECOM LD *	COLO. ST. BD.	NO DATA	0.0000%	NO DATA	NO DATA	NO DATA	NO DATA	NO DATA	0.0000%		12.9200%	13.5100%
15 TELECOM *	AT&T	71%/0%/29%	0.0000%	14.0100%	NO DATA	NO DATA	NO DATA	6.5000%	11.8400%		13.7000%	14.3400%
16 ELECTRIC	ID. PWR.	61.8%/0.6%/37.6%	11.5000%	NO DATA	6.3800%	NO DATA	6.3800%	NO DATA	9.6000%		9.6100%	10.4100%
17 RAILROAD *	UNION PACIFIC	77%/0%/23%	14.0000%	14.6600%	NO DATA	NO DATA	6.4800%	6.5200%	12.7900%		12.6400%	12.0600%
18 RAILROAD *	SURF TRANS BD	NO DATA	NO DATA	NO DATA	NO DATA	NO DATA	NO DATA	NO DATA	NO DATA		0.0000%	9.4000%
19 ELECTRIC *	SCE	0	0.0000%	NO DATA	0.0000%	NO DATA	0.0000%	NO DATA	0.0000%		9.3200%	8.8700%
20 AIRLINE	SOUTHWEST	NO DATA	NO DATA	NO DATA	NO DATA	NO DATA	NO DATA	NO DATA	NO DATA		NO DATA	NO DATA
21 AIRLINE - MAJOR *	ATA-THOMSON	44.05%/0%/55.95%	18.8100%	19.6000%	NO DATA	NO DATA	9.2400%	9.3500%	13.8600%		13.9100%	17.3700%
22 AIRLINE - NON MAJOR *	ATA-THOMSON	41.35%/0%/58.65%	19.3500%	20.1500%	NO DATA	NO DATA	9.2400%	9.3500%	13.8200%		12.8400%	17.5000%
23 AIRLINE NATIONAL	ERNST	NO DATA	NO DATA	NO DATA	NO DATA	NO DATA	NO DATA	NO DATA	NO DATA		NO DATA	NO DATA
24 AIRLINE REGIONAL	ERNST	NO DATA	NO DATA	NO DATA	NO DATA	NO DATA	NO DATA	NO DATA	NO DATA		NO DATA	NO DATA

NOTE: NEW YORK UNIVERSITY COST OF DEBT SHOWN ABOVE IS AFTER-TAX
 CAL. ST. BD. DATA IS NOT USED BECAUSE IT IS ONLY COMPANY SPECIFIC, NOT INDUSTRY TOTALS.

* The only 2008 updated data

MAJOR AIRLINES-LARGE COMMERCIAL AIRCRAFT SERVING LONG HAUL AND/OR NATIONAL ROUTES
 NON-MAJOR-USUALLY OPERATE SMALLER AIRCRAFT AND SHORTER/REGIONAL ROUTES

ELECTRIC - LARGE OVER \$9 BILLION IN REVENUES
 ELECTRIC - SMALL UNDER \$9 BILLION IN REVENUES

TELECOM (ALL) UNDER \$120 BILLION IN REVENUES
 TELECOM GRP 1 SMALL UNDER \$6 BILLION IN REVENUES
 TELECOM GRP 2 MEDIUM \$6 TO \$40 BILLION IN REVENUES
 TELECOM GRP 3 LARGE \$40 TO \$120 BILLION IN REVENUES

NEVADA DEPARTMENT OF TAXATION - DOAS 2009-2010 DIRECT CAPITALIZATION RATE COMPARISON

	INDUSTRY	FIRMS	MODEL	STRUCTURE C.E. / P.E. / D	EQUITY COST	EQUITY + FLOTATION	PREF. COST	PREF. + FLOTATION	DEBT COST	DEBT + FLOTATION	2009-2010 WACC - DCF	REF. 2008-2009	REF. 2007-2008
1	AIRLINE ALL PASSENGER	12	DIRECT CAP	40%/0%/60%	6.3256%	6.6237%	6.2000%	6.3918%	7.3938%	7.4384%	7.1125%		
2	MAJOR-ALL PASSENGER	8	DIRECT CAP	38%/0%/62%	5.9607%	6.2416%	6.2000%	6.3918%	7.3938%	7.4384%	6.9836%		
3	AIRLINE ALL FREIGHT	3	DIRECT CAP	95%/0%/05%	5.9224%	6.2014%	6.2000%	6.3918%	6.0446%	6.0811%	6.1954%		
4	NON-MAJOR-ALL PASSENGER	4	DIRECT CAP	40%/0%/60%	12.4450%	13.0315%	6.2000%	6.3918%	7.3938%	7.4384%	9.6756%		
5													
6	ELECTRIC - LARGE	4	DIRECT CAP	67%/1%/32%	6.2499%	6.5444%	6.2000%	6.3918%	5.6322%	5.6662%	6.2619%		
7	ELECTRIC - SMALL I	10	DIRECT CAP	60%/0%/40%	5.9038%	6.1820%	6.2000%	6.3918%	6.6423%	6.6824%	6.3822%		
8	GAS/PIPE DISTRIBUTION	11	DIRECT CAP	70%/0%/30%	6.1062%	6.3940%	6.2000%	6.3918%	6.4383%	6.4772%	6.4189%		
9	GAS/PIPE DIVERSIFIED	8	DIRECT CAP	80%/0%/20%	5.7184%	5.9878%	6.2000%	6.3918%	6.1393%	6.1764%	6.0255%		
10	RAILROAD	4	DIRECT CAP	78%/0%/22%	6.3405%	6.6393%	6.2000%	6.3918%	6.7170%	6.7575%	6.6653%		
11													
12	TELECOM GRP 1 SM	6	DIRECT CAP	54%/0%/46%	5.9330%	6.2125%	6.2000%	6.3918%	6.4683%	6.5073%	6.3481%		
13	TELECOM GRP 2 MD	4	DIRECT CAP	73%/0%/27%	6.0557%	6.3410%	6.2000%	6.3918%	5.9678%	6.0038%	6.2500%		
14	TELECOM GRP 3 LG	3	DIRECT CAP	80%/0%/20%	8.2091%	8.5959%	6.2000%	6.3918%	5.5918%	5.6255%	8.0018%		

NEVADA DEPARTMENT OF TAXATION DOAS 2008-2009 YIELD CAPITALIZATION RATE COMPARISON

OTHER 2009-2010 STUDIES

REFERENCE ONLY			EQUITY	EQUITY +	PREF.	PREF. +	DEBT	DEBT +	2009-2010		REF.	REF.
INDUSTRY	SOURCE	STRUCTURE	COST	FLOTATION	COST	FLOTATION	COST	FLOTATION	WACC		2008-2009	2007-2008
1 AIRLINE *	NEW YORK U.	68%/0%/32%	10.7000%	NO DATA	NO DATA	NO DATA	5.2700%	NO DATA	8.2500%		9.5000%	10.4800%
2 ELECTRIC (West) *	NEW YORK U.	62%/1%/37%	8.2200%	NO DATA	NO DATA	NO DATA	4.2700%	NO DATA	6.0900%		7.2600%	6.5400%
3 GAS/PIPELINE DIV *	NEW YORK U.	77%/0%/23%	8.4600%	NO DATA	NO DATA	NO DATA	4.7700%	NO DATA	7.1700%			
4 GAS/PIPELINE UTILITY *	NEW YORK U.	60%/0%/40%	7.7400%	NO DATA	NO DATA	NO DATA	5.0200%	NO DATA	5.8500%		6.5100%	6.0000%
5 RAILROAD *	NEW YORK U.	79%/0%/21%	9.9100%	NO DATA	NO DATA	NO DATA	5.0200%	NO DATA	8.4800%		8.2400%	6.8400%
6 TELECOM (Services) *	NEW YORK U.	75%/0%/25%	10.4200%	NO DATA	NO DATA	NO DATA	6.0200%	NO DATA	8.7100%		10.2700%	10.4800%
7 AIRLINE NATIONAL *	COLO. ST. BD.	32.8%/0%/67.2%	17.0900%	NO DATA	NO DATA	NO DATA	8.7200%	NO DATA	11.4700%		14.5400%	13.8800%
8 AIRLINE REGIONAL *	COLO. ST. BD.	0.00%	0.0000%	NO DATA	NO DATA	NO DATA	0.0000%	NO DATA	0.0000%		12.3000%	13.1200%
9 AIRLINE CARGO *	COLO. ST. BD.	96.04%/0%/3.96%	12.2600%	NO DATA	NO DATA	NO DATA	8.1000%	NO DATA	12.1000%		11.2400%	11.2600%
10 ELECTRIC *	COLO. ST. BD.	62.0%/1.0%/37.0%	11.3800%	NO DATA	6.5100%	NO DATA	6.6300%	NO DATA	9.6000%		9.8700%	9.3800%
11 GAS/PIPELINE *	COLO. ST. BD.	72%/0%/28%	10.7900%	NO DATA	NO DATA	NO DATA	6.5800%	NO DATA	9.6100%		9.5500%	9.3700%
12 RAILROAD *	COLO. ST. BD.	78.1%/0%/21.9%	13.8700%	NO DATA	NO DATA	NO DATA	6.6100%	NO DATA	12.2900%		11.7600%	10.9200%
13 TELECOM CLECS/LD TELCO *	COLO. ST. BD.	63%/0%/37%	13.5600%	NO DATA	NO DATA	NO DATA	7.6800%	NO DATA	11.3600%		11.6900%	11.3300%
14 TELECOM LD *	COLO. ST. BD.	NO DATA	0.0000%	NO DATA	NO DATA	NO DATA	NO DATA	NO DATA	0.0000%		12.9200%	13.5100%
15 TELECOM *	AT&T	71%/0%/29%	0.0000%	14.0100%	NO DATA	NO DATA	NO DATA	6.5000%	11.8400%		13.7000%	14.3400%
16 ELECTRIC	ID. PWR.	61.8%/0.6%/37.6%	11.5000%	NO DATA	6.3800%	NO DATA	6.3800%	NO DATA	9.6000%		9.6100%	10.4100%
17 RAILROAD *	UNION PACIFIC	77%/0%/23%	14.0000%	14.6600%	NO DATA	NO DATA	6.4800%	6.5200%	12.7900%		12.6400%	12.0600%
18 RAILROAD *	SURF TRANS BD	NO DATA	NO DATA	NO DATA	NO DATA	NO DATA	NO DATA	NO DATA	NO DATA		0.0000%	9.4000%
19 ELECTRIC *	SCE	0	0.0000%	NO DATA	0.0000%	NO DATA	0.0000%	NO DATA	0.0000%		9.3200%	8.8700%
20 AIRLINE	SOUTHWEST	NO DATA	NO DATA	NO DATA	NO DATA	NO DATA	NO DATA	NO DATA	NO DATA		NO DATA	NO DATA
21 AIRLINE - MAJOR *	ATA-THOMSON	44.05%/0%/55.95%	18.8100%	19.6000%	NO DATA	NO DATA	9.2400%	9.3500%	13.8600%		13.9100%	17.3700%
22 AIRLINE - NON MAJOR *	ATA-THOMSON	41.35%/0%/58.65%	19.3500%	20.1500%	NO DATA	NO DATA	9.2400%	9.3500%	13.8200%		12.8400%	17.5000%
23 AIRLINE NATIONAL	ERNST	NO DATA	NO DATA	NO DATA	NO DATA	NO DATA	NO DATA	NO DATA	NO DATA		NO DATA	NO DATA
24 AIRLINE REGIONAL	ERNST	NO DATA	NO DATA	NO DATA	NO DATA	NO DATA	NO DATA	NO DATA	NO DATA		NO DATA	NO DATA

NOTE: NEW YORK UNIVERSITY COST OF DEBT SHOWN ABOVE IS AFTER-TAX
 CAL. ST. BD. DATA IS NOT USED BECAUSE IT IS ONLY COMPANY SPECIFIC, NOT INDUSTRY TOTALS.

* The only 2008 updated data

MAJOR AIRLINES-LARGE COMMERCIAL AIRCRAFT SERVING LONG HAUL AND/OR NATIONAL ROUTES
 NON-MAJOR-USUALLY OPERATE SMALLER AIRCRAFT AND SHORTER/REGIONAL ROUTES

ELECTRIC - LARGE OVER \$9 BILLION IN REVENUES
 ELECTRIC - SMALL UNDER \$9 BILLION IN REVENUES

TELECOM GRP 1 SMALL UNDER \$6 BILLION IN REVENUES
 TELECOM GRP 2 MEDIUM \$6 TO \$40 BILLION IN REVENUES
 TELECOM GRP 3 LARGE \$40 TO \$120 BILLION IN REVENUES