

Figure: 34 TAC §9.4031(p)

*Formula for the Escalation or De-Escalation of Crude Oil and Natural Gas Prices*

The formula to determine the maximum average annual escalation or de-escalation percentage for years two through six of an appraisal is:

$$((X/100)^{(1/Y)} - 1) \times 100 = \text{Percentage}$$

Where:

X = Most recent year annual average (not seasonally adjusted) Producer Price Index (PPI) for crude petroleum (domestic production) [Commodity Code 0561, Series ID# WPU0561] or natural gas [Commodity Code 0531] obtained from the Bureau of Labor Statistics during the month of January, which may contain preliminary statistics.

Y = Number of years from base year 1982 through the most recent year (most recent year minus base year).

The 100 denominator in the formula is the PPI annual average for domestically produced petroleum and natural gas in base year 1982.

Example Computation:

Most recent year = 2010

X = 218.6 for Crude Petroleum Domestic Production (Commodity Code 0561) [Series ID# WPU0561]  
185.8 for Natural Gas (Commodity Code 0531)

Y = 2010 - 1982 = 28 years

$1/Y = 1/28 = 0.035714286$

Crude Petroleum (Domestic Production):

$$((218.6/100)^{0.035714286} - 1) \times 100 = 2.832\%$$

Natural Gas:

$$((185.8/100)^{0.035714286} - 1) \times 100 = 2.237\%$$