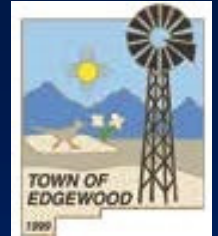


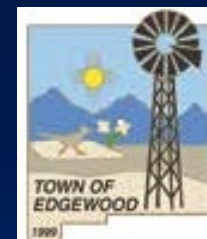
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Town of Edgewood, NM

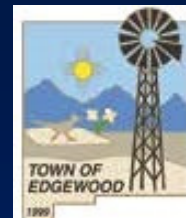
“Preliminary” Valuation
EPCOR – Edgewood Water Facilities
By
R. E. Pender, Inc.

September 2017



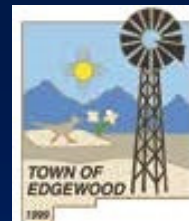
Preliminary Valuation Scope

- Considered the three approaches to value determination.
 - Cost Approach
 - Income Approach
 - Market Approach
- “High-level” valuation that relied on publicly available information (e.g. annual reports maintained by the NMPRC).



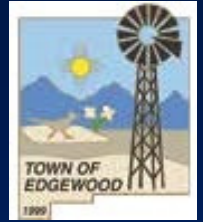
Preliminary Valuation Scope

- Should not be considered an appraisal as defined by USPAP.
- Assumes all facilities and equipment to be acquired are located inside the city boundaries.
- Assumed date of valuation – January 1, 2017.
- Water facilities valued include both the Edgewood and Thunder Mountain systems.



Cost Approach

- Two value data points were calculated:
 - Original Cost Less Depreciation (Book Value)
 - Replacement Cost New Less Depreciation (RCNLD)
- OCLD based primarily on data contained in EPCOR annual reports to the NMPRC.
- RCNLD based on relied on inventory contained EPCOR 2016 annual report and Marshall & Swift pricing data.

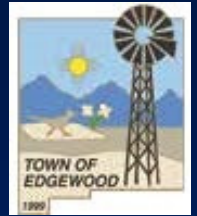


Cost Approach (cont.)

- Original Cost Less Depreciation (Book Value):

		<u>\$M</u>
Original Cost	=	14.0
Acc. Depreciation	=	<u>5.2</u>
OCLD - Gross	=	8.8
CIAC	=	<u>2.4</u>
OCLD – Net of CIAC	=	6.4

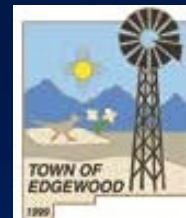
Note: includes an allowance for CWIP & Materials & Supplies.



Cost Approach (cont.)

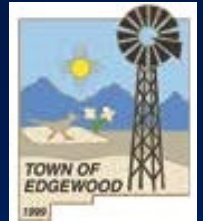
- Replacement Cost New Less Depreciation:

		<u>\$M</u>
Replacement Cost New	=	30.4
Acc. Depreciation	=	<u>11.5</u>
RCNLD - Gross	=	18.9
CIAC	=	<u>5.9</u>
RCNLD – Net of CIAC	=	13.0



Income Approach

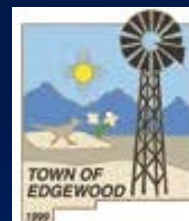
- Income Approach performed using 20-Year Discounted Cash Flow Analysis
- Performed from both private - “taxable” ownership and public – “nontaxable” buyer perspective.
- Calculated values include a “terminal” value adjustment.
- Based primarily on data contained in EPCOR annual reports and other publicly available information.



Income Approach (cont.)

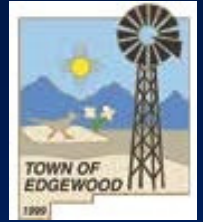
- Preliminary results:

– Taxable		<u>\$M</u>
20-Year DCF	=	5.7
Terminal Value	=	<u>3.1</u>
Total Value	=	8.9
– Non-Taxable		
20-Year DCF	=	7.4
Terminal Value	=	<u>2.6</u>
Total Value	=	10.0



Market Approach

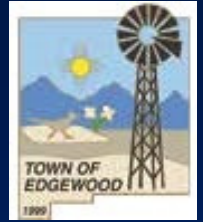
- Based on 10 “unadjusted” sales of electric distribution systems (2001 – 2016).
- Generally “arms-length” transactions.
- Database includes both rural and urban systems.
- Ranged in size from 500 – 25,000 customers.
- Used three metrics as a basis for determining a value range for the FEUS distribution: book value; number of customers & revenues.
- All sales occurred in New Mexico.



Market Approach (cont.)

- Preliminary results:

		<u>\$M</u>
— Based on Annual Revenues		
High	=	7.6
Low	=	3.6
Average	=	6.5
— Based on Book Value		
High	=	15.5
Low	=	6.4
Average	=	9.7



Market Approach (cont.)

- Preliminary results (cont.):

\$M

- Based on No. of Customers

High = 5.9

Low = 1.7

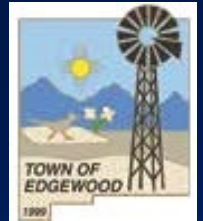
Average = 3.5

- Average of All Indicators

High = 9.7

Low = 3.9

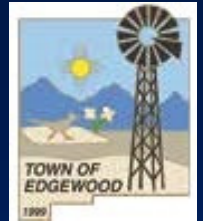
Average = 6.6



Market Approach (cont.)

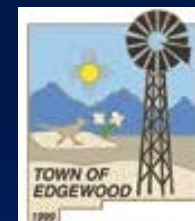
- Preliminary results (cont.):
 - Avg. of Revenues & Book Value only

		<u>\$M</u>
High	=	11.5
Low	=	5.0
Average	=	8.1



Summary of Value Estimates

• <u>Cost Approach</u>		<u>\$M</u>
OCLD	=	6.4
RCNLD	=	13.0
• <u>Income Approach</u>		
Taxable Buyer	=	8.9
Non-Taxable Buyer	=	10.0
• <u>Market Approach</u>		
High	=	11.5
Low	=	5.0
Average	=	8.1



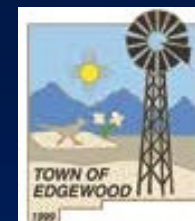
Important Observations / Comments

- All of the values calculated except RCNLD fall within the value range indicated by the Market Approach.
- The value under Cost Approach – OCLD and the high-end value under the Market Approach likely provide the best indicator of a reasonable value range.*

OCLD = \$ 6.4 M

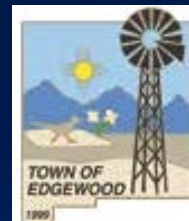
Market - High = \$11.5 M

* Represents a “preliminary” range estimate that may differ from the results of a complete appraisal.



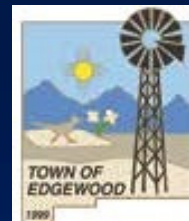
Important Observations / Comments

- The mid-point of the value range is about \$8.9 million – about \$3,290 per customer and is approximately equal to the value determined under the Income Approach – Taxable Buyer scenario.
- Based on data contained in EPCOR's annual report, the entire EPCOR system is about 38 percent depreciated per books. Will need more specific depreciation data for the Edgewood and Thunder Mountain systems.
- Will also need more specific data with regard to the amount of CIAC attributable to the Edgewood and Thunder Mountain systems.



Important Observations / Comments

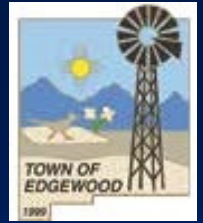
- Little or no growth will tend to depress the value of the system – all other things being equal. Have assumed 1.0% growth (about 30 customers) per year relying on growth projections by BBER (UNM).
- The need for capital improvements (if any) will also impact the value of the system.
- Will need a more complete inventory (no. of valves, etc.) of the system in order to more accurately calculate Replacement Cost New.



Important Observations / Comments

- Need clarification on former EBWS assets (including water rights) that are used to serve the two systems.
- The Town should also consider the following if a certified appraisal is needed:
 - If there are substantial real estate interests, hiring a local real property appraiser for valuing land and land rights;
 - Having a condition assessment performed by a qualified engineering firm.

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