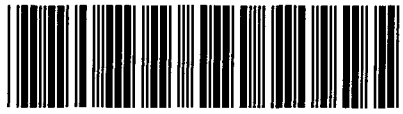

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Item Number: 114

Addendum StartPage: 0

PUC DOCKET NO. 45720
SOAH DOCKET NO. 473-16-3831.WS

APPLICATION OF RIO CONCHO AVIATION, INC. FOR A RATE/TARIFF CHANGE	**§**	**BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS**

REBUTTAL TESTIMONY
OF
GREGORY E. SCHEIG, CPA/ABV/CFF/CGMA, CFA

ON BEHALF OF
RIO CONCHO AVIATION, INC.

EXHIBIT RCA-9

SEPTEMBER 27, 2016

REBUTTAL TESTIMONY OF GREG SCHEIG

TABLE OF CONTENTS

EXHIBITS

REBUTTAL TESTIMONY OF GREG SCHEIG

I. PURPOSE AND SUMMARY OF TESTIMONY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Gregory E. Scheig. I am a Principal in ValueScope, Inc., 950 E. State Highway 114, Suite 120, Southlake, TX 76092.

Q. PLEASE OUTLINE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. My educational and professional background is set forth in my professional resume, which is attached as Exhibit RCA-9A.

Q. GENERALLY, WHAT DOES YOUR WORK WITH VALUESCOPE ENTAIL?

A. As a Principal with ValueScope, I participate in all phases of business valuation projects in the following areas: fair market valuations for tax matters, fair value calculations for financial reporting and litigation/regulatory testimony.

My roles in projects typically involve business development, research and supervision of our professional staff.

Q. BY WHOM ARE YOU RETAINED IN THIS PROCEEDING?

A. I have been retained by Rio Concho Aviation, Inc. ("Rio Concho" or the "Company").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to address the direct testimony of Mr. Andrew C. Novak related to the recommended rate of return for Rio Concho.

Q. WHAT RETURN ON EQUITY DID MR. NOVAK CONCLUDE?

A. Mr. Novak concluded a return on equity of 6.76% for Rio Concho.

Q. DO YOU AGREE WITH HIS CONCLUSION?

A. No. In my opinion, this is an unreasonably low rate of return for Rio Concho. Although I have not been asked to develop a recommended rate of return in this proceeding, Rio Concho's requested equity rate of return is much closer to a market rate of return. Mr. Novak's conclusions do not adequately account for the risk of an equity investment in a small private utility company such as Rio Concho.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I have been asked in this matter to calculate the loss of shareholder equity value sustained by Rio Concho if Mr. Novak's rate of return were adopted, as opposed to that requested by the Company.

Q. PLEASE OUTLINE AND DESCRIBE THE TESTIMONY YOU WILL PRESENT.

A. My testimony is in the form of a narrative report, attached as Exhibit RCA-9B.

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS.

A. As shown in the report that I prepared for Rio Concho, including its attachments (See Exhibit RCA-9B), the lower rate of return recommended by Mr. Novak **impairs the value of Rio Concho's shareholder equity by 29%**, as compared to the utility's equity value based upon Rio Concho's requested rate of return.

Summary - Rio Concho Pro Forma Equity Value Comparison			
Valuation Method	Company ROR	Novak ROR	Equity Value Reduction
Income Approach			
Discounted Cash Flow Method	$121,089	$73,840	39.0%
Market Approach			
Guideline Public Company Method	$133,474	$100,221	24.9%
Merger and Acquisition Method - Thomson Reuters	$102,753	$76,651	25.4%
Merger and Acquisition Method - GF Data	$111,223	$83,240	25.2%
Merger and Acquisition Method - Pratt's Stats	$117,168	$87,864	25.0%
Equity Value - Control, Marketable	$115,903	$81,725	29.5%
Concluded Pro Forma Equity Values	$116,000	$82,000	29.3%

By Mr. Novak choosing to ignore the economic reality that a small privately owned water utility has more risk to shareholders than a large public utility, his decision significantly damages the value of Rio Concho's shareholder's equity.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

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EXHIBIT RCA-9A

Gregory E. Scheig

CPA/ABV/CFF/CGMA, CFA

Principal, Utilities Practice Leader

Greg Scheig has more than 25 years of consulting and valuation experience in the regulated electric, gas and water utilities sectors. Working with domestic and international clients, Mr. Scheig has performed hundreds of valuations involving common and preferred stock, assets, financial derivatives and debt instruments.

Mr. Scheig is qualified to serve as an expert given his petroleum engineering degree, MBA, Chartered Financial Analyst designation, Certified Public Account license in Texas, and AICPA designations of being Accredited in Business Valuation, Certified in Financial Forensics and being a Chartered Global Management Accountant. Mr. Scheig has provided Commission testimony on behalf of water and gas utilities. For the first fifteen years of his professional career, he developed utility valuation and ROE analyses for electric, gas, water and telephone utilities. Mr. Scheig has also provide deposition and courtroom testimony in matters relating to appraisal values, economic damages, reasonable compensation matters and bankruptcy analyses in a variety of legal settings.

EMPLOYMENT HISTORY

September 2008 – Present — **ValueScope, Inc.**
Principal

Joined the company as a principal to provide valuation, expert testimony and financial advisory services.

July 2008 – September 2008 — **Present Value Advisors, LLC**
Principal

Formed Present Value Advisors to provide valuation, litigation support and financial advisory services. Projects included being a consulting expert in a bankruptcy matter and a contract arrangement with *Vitale, Caturano & Company, LTD* (a Boston-based accounting firm) to provide valuation-related financial review (SAS73 & SAS101) services primarily for bio-tech, high-tech and other development-stage businesses.

July 2005 – June 2008 — **Kroll Associates, Inc., Dallas, Texas**
Senior Director

Performed valuation analyses for transactions, financial reporting, tax and other management requirements, and provided expert testimony for litigation support. Key focus was in Energy sector with larger clients.

2002 – July 2005 — **CBIZ Valuation Group, LLC, Dallas, Texas**
Managing Director – Southwest Region

Ran the southwest region's valuation practice for approximately three and a half years. In that role, valued many types of businesses, business interests and professional practices.

1997 – 2002 — **Deloitte Consulting, Austin, Texas**
Senior Manager: Utility M&A / Strategy

Led projects dealing with electric and gas utility valuations, mergers and acquisition synergy analyses, real option analyses, strategic assessments, and complex regulatory issues. Served a wide variety of domestic and international utility clients, including companies in Canada, England, Republic of South Africa, Italy, Scotland and Singapore.

1988 – 1997 **FINANCO, Inc., Austin, Texas**

Managing Associate

Specialized in the financial modeling of electric, telecommunication, and gas utility systems. Additionally, developed utility merger and acquisition analyses, bankruptcy filings, regulatory testimony and litigation support.

1987 - 1988 **Lamar Real Estate Services, Austin, Texas**

Real Estate Analyst

Concurrent with MBA program, worked for Lamar Savings and Loan developing cash flow analyses for their real estate owned (REO) portfolio.

Summer 1985 **Conoco, Inc. , Lafayette, Louisiana**

Summer Production Engineer

Summer 1984 **Getty Oil Co., Cameron, Louisiana**

Offshore Production Roustabout

Summer 1983 **Getty Oil Co., Bay City, Texas**

Production Roustabout

Summer 1984 **Curtis Well Servicing, Pampa, Texas**

Roustabout

FORMAL EDUCATION

Master of Business Administration, Finance and Accounting
The University of Texas Graduate School of Business, Austin, Texas

- Sord Scholar
- Dean's Award for Academic Excellence

Bachelor of Science, Petroleum Engineering
The University of Texas, Austin, Texas

- Pi Epsilon Tau (College of Engineering Honor Society)

ACCREDITATIONS AND DESIGNATIONS

CFA – Chartered Financial Analyst (CFA Institute)
CPA – Certified Public Accountant (State Board of Public Accountancy, Texas)
ABV – Accredited in Business Valuation (AICPA)
CFF – Certified in Financial Forensics (AICPA)
CGMA – Chartered Global Management Accountant (AICPA)

ORGANIZATIONS AND PROFESSIONAL ASSOCIATIONS

American Institute of Certified Public Accountants (AICPA)
Texas Society of Certified Public Accountants - Energy Conference Committee
CFA Institute
CFA Society of Dallas/Fort Worth
American Society of Appraisers
Society of Petroleum Engineers (SPE)

EXPERT WITNESS TESTIMONY

Utility Matters

Sharyland Utilities, LP rate case before the Texas Public Utilities Commission. Retained by the St. Lawrence Cotton Growers to provide rate of return analysis and expert report for the Sharyland's cost of equity capital. Analysis is underway.

T&W Water Services Company, Inc. v. State of Texas. Developed a damage analysis for a regulated water utility to quantify the economic damages based on a loss of service territory caused by the construction of a new tollway. Expert report prepared, awaiting deposition testimony.

Quadvest, LP rate case before the Texas Public Utilities Commission. Provided rate of return analysis and an expert report for the company's cost of equity capital. Also developed rebuttal testimony. Case settled.

SWWC Utilities, Inc. rate case before the Texas Commission on Environmental Quality. Provided rate of return analysis and testimony for this division of Southwest Water Company, a regulated water company.

Hughes Natural Gas, Inc. rate case before the Texas Railroad Commission in Gas Utilities Docket No. 10083/10093. Provided rate of return analysis and direct testimony for Hughes Natural Gas, Inc., a regulated gas company. Testified at the Texas Railroad Commission hearing.

Monarch Utilities I, L.P. rate case before the Texas Commission on Environmental Quality. Provided rate of return analysis and testimony for Monarch Utilities I, L.P., a regulated water company. Rate case settled.

Canyon Lake Water Service Company, SOAH Docket No. 582-11-1468, TCEQ No. 2010-1841-UCR. Prepared rate of return testimony for Canyon Lake Water Service Company's rate case before the Texas Commission on Environmental Quality. Testified for the company, a regulated water company, in a SOAH proceeding.

Global Water Resources, Inc. vs. Sierra Negra Ranch, LLC, AAA Case No. 76 198 Y 00104 11. Retained to develop a solvency analysis and scenario analyses to assess Global Water Resources, Inc.'s future financial performance versus their need for capital and scheduled debt retirements. Expert and rebuttal reports submitted.

City of Blue Mound vs. Monarch Utilities I, LP. Retained to consult Monarch's legal counsel on rebuttal arguments to the City's appraisal of the water system. The City's appraisal was to be considered by a panel in formulating an FMV offer to the utility for the water assets. Provided expert testimony at the proceeding and the panel subsequently recommended a value approximately twice the value suggested by the City's appraiser.

Oil and Gas Matters

Michael O. Pickens v T. Boone Pickens, Jr., Dallas County District Court Cause No. DC-14-13103. Retained to calculate the value of shares of Primexx Energy Partners and NeoFirma Software in support of mediation. Subsequently requested to develop an expert and supplemental reports.

Gregory Imbruce, Giddings Investments LLC, Giddings GENPAR LLC, Hunton Oil, Asym Capital III LLC, Glenrose Holdings LLC and Asym Energy Investments LLC v. Charles Henry III, et.al., American Arbitration Association Case No: 12 198 0058 13, Commercial Division. In this matter, I valued the common shares of Starboard Resources as of 2011, 2012, and 2014. The analysis also included determining the fair market value of Starboard's oil and gas reserves in a Stamford, CT trial. Three expert reports and a rebuttal report submitted, trial testimony provided.

Crimson Exploration, Inc. and Crimson Exploration Operating, Inc. v. Allen Drilling Acquisition Company and ADAC II, Inc. Reviewed and rebutted an accounting firm's adjustments made to Operator's invoices in a joint interest billing dispute in a Texas District Court matter. Rebuttal report submitted.

Diamond Offshore Company v. Survival Systems International, Inc. Retained to develop an analysis of the economic damages to Diamond Offshore Company resulting from the installation of defective lifeboat hooks by Survival Systems, Inc. on certain offshore drilling rigs. Damage categories considered included original insurance settlement payments and prejudgment interest. Expert and rebuttal reports submitted, deposition testimony provided.

Noble Drilling Services, Inc. vs. Certex USA, Inc., Bridon-American Corp., and Bridon International, Ltd., Civil Case No. 4:09-cv-022825. Retained to calculate the economic damages related to anchor ropes that failed during a hurricane. Expert and rebuttal reports submitted, deposition testimony provided. Case settled.

Anadarko Petroleum Corporation vs. Noble Drilling (U.S.) LLC, Civil Case No. 4:10-cv-02185. Retained to develop an expert report on the economic damages related to an offshore drilling rig contract termination for a claimed *force majeure* event after a moratorium on drilling was declared in the Gulf of Mexico. Expert and rebuttal reports submitted, deposition testimony provided. Case settled.

613 Agro Holdings, L.L.C. v. Renick et al. Retained to develop an expert report and rebuttal report on the value of oil and gas royalties in a Kansas District Court matter. Expert and rebuttal reports submitted, case settled.

Ringo Drilling I, L.P. v. Victory Drilling, Inc. and Ira Glasser. Cause No. II-1489. Retained to develop an expert report on rebuttal arguments to Ringo Drilling's claimed damages in a lease transaction. Expert report submitted, case settled.

Joint Resources Company v. Banc of America Investment Services. FINRA Dispute Resolution. Retained to develop an analysis of the lost profits incurred by Joint Resources Company when they invested in auction rate securities in 2008, preventing access to investment capital. Analysis included documentation of Joint Resources Company's investment model and the calculation of the lost profits from the missed opportunity. Expert report submitted, case settled.

Patriot Exploration LLC and Patriot Land LLC d/b/a JF Patriot Land, LLC v. Thompson & Knight LLP. Retained to calculate the economic damages to Patriot resulting from not being able complete the sale of certain mineral interests due to alleged legal malpractice and defective title. Expert report submitted, deposition and courtroom testimony provided.

HighMount Exploration and Production, LLC vs. Helmerich and Payne, Inc. Retained to quantify the damages from a drilling rig contract dispute regarding lower "well cycle times" and cost savings not achieved. Expert and rebuttal reports submitted, deposition testimony provided. Case settled.

Macquarie Bank Limited, Plaintiff vs. Bradley D. Knickel, LexMac Energy, LP. Retained to provide an affidavit to the court on SEC PV-10 Reserve Reporting and the risks associated with different classifications of hydrocarbon reserves.

Questar Gas Management Company vs. Waukesha Engine Division of Dresser, Inc.; Stewart & Stevenson Power Products, LLC; Stewart & Stevenson Power, File No. 71 198 Y 00749 07, before the American Arbitration Association, Dallas Texas. Retained to develop lost profits and economic damages analyses in a matter related to natural gas compression in the midstream sector. Analyses developed, deposition testimony provided. Case settled.

The Arbitration of Anthony Abernethy vs. J. Bryan Sutherlin, Brad Sutherlin, Kevin Sutherlin, Culebra Oil & Gas Co., Culebra Oil & Gas, L.L.C. Retained to value economic damages related to a minority ownership interest in an E&P company. Deposition and arbitration testimony provided.

Real Estate Matters

Clay Partners FG Deerword Glen, LP vs. the Flexitallic Group S.A.S. and Flexitallic, LP Retained to develop an analysis of the economic damages to Clay Partners following Flexitallic's repudiation of a lease agreement for three buildings in Deer Park, Texas. Expert report, rebuttal report, deposition and trial testimony provided.

Sharpstown Mall Texas, LLC vs. CCW, LLC. Retained to develop an analysis of the economic damages to Sharpstown Mall given CCW's nonpayment of shared common area maintenance expenses. Expert report submitted.

Avalon Construction - Ruidoso, LLC vs. Mueller Company, Inc. and HD Supply Waterworks, Ltd. Retained to develop an analysis of the economic damages to Avalon Construction related to foundation damage for a retail center caused by plumbing defects. Expert report submitted.

John W. Clanton, Fibertown DC, LLC and Managed Network Solutions, Inc. vs. Vance Swaggerty. Retained to develop a valuation of three data centers located in Bryan-College Station Texas and Houston Texas. Appraisal report submitted, deposition and trial testimony provided.

Contract/Partnership Disputes

Highland Capital Management, L.P. and Cornerstone Healthcare Group Holding, Inc. v. Patrick Daugherty, Defendant and Counter-Plaintiff. Retained to develop an analysis of the economic damages to Patrick Daugherty in relation to his equity compensation at the time of his resignation from Highland Capital. Expert and rebuttal reports submitted. Deposition and trial testimony provided.

Charles E. Simmons and H. Kenneth Barrett, et. al. vs. Dan M. Moody, Jr. and John S. Moody, Jr., et. al. Retained to develop an analysis of the economic damages to Dan Moody and the Moody Simmons Fund I, Ltd. in relation to a real estate development in Katy Texas. Expert report submitted and deposition testimony provided.

Circle Zebra Fabricators, Ltd., David Croft, and Monte Guiles vs. Hydro-X, LLC and Stonehenge Capital Company, LLC. Retained to develop an analysis of the economic damages to Circle Zebra resulting from the termination of a merger agreement. Expert report submitted, deposition testimony provided. Case settled in mediation.

Precision Dialing Services, Inc. vs. Clear Channel Communications, Inc., Cause No. 02-01782, Critical Mass Media, Inc., Clear Channel Broadcasting, Inc., and Clear Channel Radio, Inc. The District Court of Dallas County, Texas, 68th Judicial District. Retained to calculate economic damages related to the dissolution of a joint venture. Report submitted, deposition testimony provided. Case settled.

Transaction Disputes

In the Matter of the Application of John C. Wright for the Dissolution of Hudson Valley Clean Energy, Inc., Supreme Court of the State of New York, County of Duchess. Retained to determine the fair value of a minority interest in Hudson Valley Clean Energy for a shareholder oppression matter. Filed expert report and provided courtroom testimony in the Supreme Court of the State of New York.

Robert L. Kovar, Plaintiff vs. Platinum Energy Resources, Inc., Defendant. Retained to quantify the damages related to a transaction dispute which required a valuation of Platinum Energy's stock and cash flow notes. Deposition and trial testimony provided.

Matthew Van Steenwyk, The Matthew Van Steenwyk GST Trust, and the Matthew Van Steenwyk Issue Trust v. Scientific Drilling International, Inc., Donald Van Steenwyk Gene Durocher, Gordon Thomson, Barbara Helbach, Denis Bandera, and Van Steenwyk Holdings, LLC. Retained to develop a valuation of an interest in Scientific Drilling International stock, a company that developed MWD (measurement while drilling) technologies. Expert report prepared for mediation. Case settled.

Bankruptcy Matters

Technology Container Corporation, Chapter 11, Case No. 15-40339. The United States Bankruptcy Court for the District of Massachusetts. Retained by Trustee as a consulting expert to assess plans submitted by debtor (rolling 13-week cash flow forecasts) and to advise the Trustee on the debtor's ability to achieve the forecast results and their ability to service the debt. Also advised Trustee on structuring new financing and payoffs for debtor.

College Media Corporation v. Digital River, Inc., Digital River Education Services, Inc. and Journey Education Marketing, Inc. The United States Bankruptcy Court for the Eastern District of Texas. Developed an analysis of the economic damages to College Media Corporation related to their allegations against Digital River and Journey Education Marketing. Expert report submitted.

In Re Camp Cooley, Ltd., Case No. 0961311, Chapter 11. The United States Bankruptcy Court for the Western District of Texas, Waco Division. Prepared a natural gas reserve valuation report for the debtor and developed a rebuttal report against the bank's expert. Deposition and court room testimony provided.

Bankruptcy Valuation for Senior Lenders: Synventive Molding Solutions. Retained to determine the enterprise values of the global operations and the European operations of Synventive, a company focused on automobile molding equipment. Analyses and draft reports prepared for counsel.

The IT Group, Inc., et al vs. Acres of Diamonds, Case No. 02-10118, Adv. Proc. No. 04-51311-PBL, et al. The United States Bankruptcy Court for the District of Delaware. Retained to value a minority interest deemed a fraudulent transfer of a bankruptcy proceeding. Expert report submitted, deposition testimony provided. Case settled.

Lodestar Energy, Inc., Lodestar Holdings, Inc. Debtors Chapter 11 Proceeding Case Nos. 01-50969 and 01-50972, Jointly Administered Under Case No. 01-50969. The United States Bankruptcy Court, Eastern District of Kentucky, Lexington Division. Developed a solvency opinion of a coal mining by company considering the balance sheet, capital adequacy and cash flow tests.

Einstein/Noah Bagel Corp. and Einstein/Noah Bagel Partners, Case No. 00-04447-ECF-CGC and 00-04448-ECF-CGC. The United States Bankruptcy Court for the District of Arizona. Deposition and trial testimony on a valuation analysis of the respective interests of Einstein/Noah Bagel Corp. and Einstein/Noah Bagel Partners based on their relative market values.

Leesburg Asphalt Company, L.L.C., Case No. 01-39902-SAF-1. The United States Bankruptcy Court for the Northern District of Texas, Dallas Division. Developed analyses of the debtor's workout plan and reasonableness of an alternative source of financing.

SEC Receivership Matter

Defendants Civil Action No. 5:09CV0087-C; Securities and Exchange Commission vs. Benny L. Judah and Excel Lease Fund, Inc. The United States District Court for the Northern District of Texas, Lubbock Division. Retained to work with an SEC receiver to provide valuations to the court in support of asset sales at fair values. Assets appraised included casual and fine dining restaurants, bars, notes receivable, stock in community banks, hotels and a health club facility.

Family Law, Employment Law and Other

In the Matter of the Marriage of Rebecca L. Ginn and Lonnie James Ginn, Cause No. 325-520240-12. The District Court of Tarrant County, Texas, 325th Judicial District. Retained to develop a valuation of interests in Aspen Scientific I, LP, Aspen Scientific, Inc., Physician Assistant Services of Texas, LLP, and Texas Physician Assistant Surgical Service, PC. Expert report submitted.

Progressive Child Care Systems, Inc. vs. Legacy Village Limited Partnership; Legacy Village One, L.C; Spy, Inc.; Legacy Village Associates, Ltd., Texas Family Fitness 2, LLC, SC Legacy Independence, Ltd., SC Legacy Independence One, LLC, and L&B Realty Acquisitions, LLC., Cause No. 401-01220-2012. Retained to develop a valuation of Texas Family Fitness center in Plano, TX. Expert report submitted, case settled.

In the Matter of the Marriage of Patricia A. Bliss and David P. Bliss, Jr., Cause No. 324-444231-08. The District Court of Tarrant County, Texas, 324th Judicial District. Retained to develop a valuation of an interest in Pediatric Surgical Associates of Fort Worth, P.A. Expert report submitted, direct testimony provided.

Deirdre Worley, Individually and as Representative of the Estate of Richard Dale Worley, Dr. and Richard Dale Worley, II, Individually vs. Contract Transportation Systems Co., The Sherwin Williams Company, and Francisco Sanchez, Jr,. Individually. Retained to develop an analysis and expert report on the loss of inheritance for Mr. Worley's estate. Deposition and jury trial testimony provided.

Charles Pankey vs. Texas Department of Health, Civil Action No. A 02 CA 284 H. The United States District Court, Western District of Texas, Austin Division. Case dealt with issue of wrongful termination. Prepared a rebuttal analysis of opposing expert's damage report. Case was settled.

Jack Holmes vs. Frank Mayborn Enterprises, Inc. d/b/a Killeen Daily Herald, Case No. 188041-C. The District Court of Bell County, Texas, 169th Judicial District. Developed an economic damage analysis and report for an attorney that the newspaper incorrectly reported as being a pedophile. Deposition testimony provided. Case settled.

Tax Matters

TranSupport, Inc. vs. Commissioner of Internal Revenue, Tax Court Docket No. 12152-13, U.S. Tax Court, Boston, Mass. Developed a reasonable compensation analysis, expert and rebuttal reports for company personnel in the aircraft industry. Testified in US Tax Court.

Salty Brine I, Ltd. by and through, Salty Brine, Inc., Tax Matters Partner, vs. United States of America, United States District Court, Northern District of Texas, Abilene Division, Case No.: 5:10-CV-00108-C. Developed an expert report on an off-shore royalty transfer and the use of business protection insurance policies for tax avoidance. Provided deposition and trial testimony.

Mason & Mason Technology Insurance Services, Inc. vs. Commissioner, Tax Court Docket No. 12045-09. Developed an analysis of reasonable compensation for the owner of an insurance brokerage.

Garwood Irrigation Company vs. Commissioner, Tax Court Docket No. 001459-03. U.S. Tax Court, Houston, Texas. Developed a valuation and rebuttal report and provided testimony on valuation of an irrigation company and its water rights.

LECTURES AND APPEARANCES

"Oil and Gas Reserves: Distressed Market Values" Presentation to the Tarrant County Bar Association's Energy Section, April 2016.

"Oil and Gas Reserves: Distressed Market Values" Presentation to the Houston Bar Association's Bankruptcy Section, March 2016.

"Oil and Gas Reserves: What are they worth?" Presentation to the Dallas Bar Association's Energy Section, December 2015.

"Reasonable Compensation Analyses: Insights and Guidance from the Reasonable Compensation Job Aid for IRS Valuation Professionals dated October 29, 2014. " Presentation to the Texas Society of CPA's, Fort Worth Chapter, June 2015

"Tools of the Trade", Northeast Tarrant County Bar Association, September 2014

"What's It Worth?' Financial Executives International (FEI Fort Worth Chapter), with Mark Rambin, CPA, CFF of Travis Wolff, January 2012

"Rate of Return Analysis: Why Smart People Can Get Different Answers' "Texas Society of CPA's 2011 Energy Conference, May 2011

"Reserve Valuations" – Texas Wesleyan School of Law Energy Symposium, Fort Worth, Texas – March 2011.

"Got Gas? A panel discussion about the Barnett Shale" – Southlake Executive Forum, Southlake, Texas – November 2010.

"Current Trends in Business Valuation" – Flower Mound Bar Association CLE Presentation, Dallas, Texas – November 2010.

"Reserve Valuations (in and out of litigation): Where Engineering and Appraisals Meet" – Dallas Bar Association Energy Section CLE Presentation, Dallas, Texas – September 2010.

"Fair Value Updates / Implications for Energy Companies" – TSCPA Energy Conference, Austin, Texas – May 2009.

"SFAS141R – New Fair Value Standards" – Financial Executives International (FEI), Dallas, Texas – January 2009.

"Energy Valuation Update – Metrics, Multiples and Monte Carlo" – TSCPA Energy Conference, Austin, Texas – May 2008.

"Disastrous Circumstances, a Valuation Point of View" – Risk and Insurance Management Society (RIMS), Dallas, Texas – May 2006.

"FIN47 Valuation Considerations" – Reporting Environmental Liabilities *after* FIN47 Seminar, Advanced Environmental Dimensions, Dallas, Texas – November 2005.

"Valuing Employee Stock Options" – TSCPA Natural Gas, Telecommunications and Electric Industries Conference, Austin, Texas – May 2005.

"Valuing Securities Issued by Financially Distressed Companies" – Winstead's Business Restructuring Practice Group, Dallas, Texas – May 2005.

"Cost of Capital, "Capital Structure and Leverage" and "International Investment Risk" – Lighthouse Seminar Group's Accounting and Finance Primer for Attorneys, Dallas and Houston, Texas – February 2005.

"Valuing Employee Stock Options" for SFAS123R – Association for Corporate Growth, Austin Chapter – November 2004.

"Valuation Update: Making Sense of the Numbers" – TSCPA Natural Gas, Telecommunications and Electric Industries Conference, Austin, Texas – April 2004.

"Valuation Aspects of Commercial Litigation, Intellectual Property and Bankruptcy Cases" – Texas State Attorney General's Office, Austin, Texas – April 2004.

"Economic Damage & Valuation Analysis: The Expert's View" – Hiersche, Hayward, Drakeley & Urback CLE, Dallas, Texas – March 2004.

"SFAS143 Impact on Electric Asset Values" – CBI 6th Annual Electric Asset Valuation Conference, Houston, Texas – February 2004.

"Lessons Learned from SFAS 141/142" – Council of Petroleum Accounting Societies (COPAS), Dallas, Texas - February 2004.

"Valuing Employee Stock Options" – Horn, Murdock & Cole Continuing Professional Education, Dallas, Texas – October 2003.

"Energy Valuation Update" – CBI 5th Annual Electric Asset Valuation Conference, Houston, Texas - February 2003.

"Valuation, Economic Loss and the Expert" – Texas State Attorney General's Office, Austin, Texas – November 2002.

PUBLICATIONS

"First-Quarter Results Show Positive Effects of Low Interest Rates' "Natural Gas & Electricity, written with Christopher C. Lucas, CFA, July 2013, Wiley Periodicals, Inc., a Wiley company.

"Utility Stocks Poised to Fall Off the Dividend Cliff?' "Natural Gas & Electricity, December 2012, Wiley Periodicals, Inc., a Wiley company.

"LNG Development: Timing is Everything' "Natural Gas and Electricity, June 2009, Wiley Periodicals, Inc.

"Monte Carlo Simulation Improves Decision Making' "Natural Gas and Electricity, May 2007, Wiley Periodicals, Inc.

"MLPs' Growth in Energy Fueled by Taxes and Regulators, "Natural Gas and Electricity, January 2007, Wiley Periodicals, Inc.

"Aging Workforce Has Valuation and Intellectual Property Considerations' "Natural Gas and Electricity, August 2006, Wiley Periodicals, Inc.

"FIN47 Yields Environmental Costs and Opportunities' "Natural Gas and Electricity, June 2006, Wiley Periodicals, Inc.

"Fair Value Measurement of Environmental Liabilities' "Natural Gas and Electricity, January 2006, Wiley Periodicals, Inc. (Written with Gregory C. Rogers)

"Role of Fair Value Increasingly Affects Business Combinations' "Natural Gas and Electricity, November 2005, Wiley Periodicals, Inc.

"New Financial Rules Increase International Comparability' "Natural Gas and Electricity, June 2005, Wiley Periodicals, Inc.

"Risk/Return Reconciled' "Natural Gas and Electricity, February 2005, Wiley Periodicals, Inc.

"SFAS 133 Affects Energy Values' "Natural Gas and Electricity, December 2004, Wiley Periodicals, Inc.

"Bringing Intangible Assets into Focus: Customer Relationships' "Natural Gas and Electricity, July 2004, Wiley Periodicals, Inc. (Written with Dennis Perrone)

"Nuclear Power Becoming Viable?" *Natural Gas and Electricity*, June 2004, Wiley Periodicals, Inc. (Written with Michael Conroy)

"With FERC Support, Venture Capital Flowing into Merchant Power Opportunities' "Natural Gas and Electricity, May 2004, Wiley Periodicals, Inc.

"Show Me the Money' "chapter 12 in *Measure What Matters*, Laura Patterson, VisionEdge Marketing, Inc., 2004.

"FASB Interpretation No. 45 Making an Impact on Utility Balance Sheets' "Natural Gas and Electricity, February 2004, Wiley Periodicals, Inc.

"SFAS 143 Asset Retirement Obligations Strongly Affecting Electric & Gas Companies' " Chapter 8 in *Electric & Natural Gas Business: Using New Strategies, Understanding the Issues!*, edited by Robert E. Willett, Financial Communications Company, 2004.

"Gas Still the Brightest Sector in Wall Street's View' "Natural Gas and Electricity, December 2003, Wiley Periodicals, Inc. (Written with Todd C. Fries)

"Utilities Seeing Gains from SFAS 143 Implementation' "Natural *Gas and Electricity*, November 2003, Wiley Periodicals, Inc. (Written with Domenic Falcone)

"Today's Financial Market Conditions Encourage New Transmission Investment' "Natural *Gas and Electricity*, October 2003, Wiley Periodicals, Inc.

"Companies Planning New Strategies Around Bankruptcy Environment' "Natural *Gas* September 2003, Wiley Periodicals, Inc.

"Dividends Revisited: Should the Check Be In The Mail?" Natural *Gas Magazine*, Wiley Periodicals, Inc., April 2003.

"Bad Times for Goodwill? SFAS 142 Will Impact Energy Industry' "Natural *Gas Magazine*, Wiley Periodicals, Inc., January 2003.

"Recent FASB Rulings Affecting Valuations' "Chapter 8 in *Electric & Natural Gas Business: Understanding It!* edited by Robert E. Willett, Financial Communications Company, November 2002.

"Valuing Generation Assets Under Competition' "Utility *Management Solutions*, July/August 2000.

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EXHIBIT RCA-9B

September 26, 2016

Mr. John J. Carlton
The Carlton Law Firm, P.L.L.C.
2705 Bee Cave Road, Suite 200
Austin, Texas 78746

Re: Rebuttal Analyses to Andrew C. Novak's Testimony and Recommended Rate of Return

Pursuant to your request, I was retained to develop valuation analyses to determine an estimate of the pro forma equity value of Río Concho Aviation, Inc. ("Río Concho" or the "Company") as of December 31, 2015 (the "Valuation Date"). The analyses compare the pro forma value of Río Concho under the assumption that it will be granted the rate of return requested on this rate case, as compared to the resulting equity value of the Company under Mr. Novak's recommended rate of return.

These analyses were performed for you as part of a rate case proceeding. No other use for these analyses is intended or should be inferred. This process included review of various documents, discussions with the Company's management ("Management"), research, analysis, and developing presentation materials.

PURPOSE AND SCOPE

Fair market value is defined by Revenue Ruling 59-60 as the price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts.

To develop these conclusions of Río Concho's pro forma equity values, I considered all factors listed in Revenue Ruling 59-60. Those factors included:

1. The nature of the business and its history from inception.
2. The economic outlook in general and the condition and outlook of the specific industry in which the Company operates.
3. The book value and the financial condition of the Company.
4. The earning capacity of the Company.
5. The dividend-paying capacity of the Company.
6. Whether the Company had goodwill or other intangible value.
7. The market price of the stock of corporations engaged in the same or similar line of business having their stocks actively traded on an exchange or over-the-counter.
8. The marketability, or lack thereof, of the securities.

The premise of value followed herein is going concern.

SCOPE OF WORK

To gain an understanding of the operations of Río Concho, I reviewed the Company's financial information and operational data and interviewed Management. To understand Río Concho's financial condition, I analyzed and relied upon revenue requirement filings, rate case financial documents and information provided by Río Concho's Management.

As part of my research for this project, I reviewed the overall economy and the industry as of December 31, 2015 (reports attached as Appendix A). As of the Valuation Date, the economy was expected to continue growing and interest rates and inflation were both expected to remain low. I also reviewed an industry publication, IBIS World's Industry Report,[1] to supplement my industry experience and understanding. On a high level, the water industry is forecast to grow slowly over the next 5 years. Conservation is still a national theme for water providers and industry consolidation is also a concern for smaller utility owners.

In performing the work, I was provided with and/or relied upon various sources of information, including (but not limited to):

- Unaudited income statements for the fiscal years ended December 31, 2013 through December 31, 2015.
  An unaudited balance sheet as of December 31, 2015.
  A rate filing spreadsheet prepared by Randal Manus.
  Revenue forecasts indicated by the recommended rates of return.
  The Federal Reserve Statistical Release as of the Valuation Date.
- IBIS World Industry Report.

The procedures employed in determining the value of the Company's pro forma equity values, the two revenue scenarios, included such steps that I considered necessary, including (but not limited to):

- Discussions with Management regarding the Company's current operations and their expectations about its future performance.
  A review of the book value and financial condition of the Company.
  A review of the Company's rate filing package and Mr. Novak's testimony.
  An application of appropriate valuation techniques and procedures.
- An analysis of other pertinent facts and data.

There were no restrictions or limitations in the scope of my work or data available for the analyses. The Company's income statements provided for the fiscal years ended December 31, 2013 through December 31, 2015 and a balance sheet for December 31, 2015 are presented in Schedules A.1 and A.2 under both pro forma analyses.

[1] IBISWorld Industry Report 22131, Water Supply & Irrigation Systems in the US, December 2015

VALUATION APPROACHES

Income Approach

The income approach quantifies the present value of anticipated future income generated by a business or an asset. Forecasts of future income require analyses of variables that influence income, such as revenues, expenses and taxes. One form of the income approach, the discounted cash flow (DCF) analysis, defines future economic income as net cash flow and takes into account not only the profit-generating abilities of a business but also the investment in capital equipment and working capital required to sustain the projected net cash flow. The forecasted net cash flow is then discounted to present value using an appropriate rate of return or discount rate. The income approach is unique in its ability to account for the specific contribution to the overall value of various factors of production.

Market Approach

The market approach considers the implied pricing in third-party transactions of comparable businesses or assets. Transactions are analyzed in order to identify pricing patterns or trends that can be used to infer value on the subject business or asset. Adjustments may be made to the transaction data to account for relative differences between the subject and the comparable transactions. The primary strength of the market approach is that it offers relatively objective pricing evidence from the market at large and, aside from certain adjustments to the transaction data, requires few assumptions to be made.

Cost Approach

The cost approach considers replacement cost as the primary indicator of value. The cost approach is based on the reasoning that a prudent investor would not pay more for the subject business or an asset than the cost to the investor to replace or re-create it. Historical cost data is often used to indicate the current cost of replacement or re-creation, with certain adjustments made for physical deterioration or obsolescence. Like the market approach, the cost approach makes fewer assumptions than the income approach, but the primary limitation inherent in the cost approach is its inability to capture the value of many categories of intangible assets.

ESTIMATE OF RIO CONCHO'S VALUE USING THE INCOME APPROACH

I developed a discounted cash flow model to arrive at the pro forma value of the Company based upon the two different scenarios considered. The DCF method first projects the cash flow the business is expected to produce over a discrete period. Then, each discrete cash flow is discounted to a present value at a rate that reflects the risk of receiving that amount at the time anticipated in the projection. For these projections, items such as revenue, operating and maintenance expenses, taxes, capital expenses, and working capital requirements were forecast. Total outstanding debt is then subtracted from the enterprise value to arrive at the value of the Company's equity.

Revenue Projections: Company ROR

For the first scenario, I relied upon Rio Concho's revenue requirement from their rate filing. This revenue requirement was based upon a rate of return of 10.83%. These calculations are shown below.

Return Component: Company ROR	
Equity % of Capital	80.10%
Debt % of Capital	19.90%
Equity Rate	12.55%
Debt Rate	3.90%
Rate of Return	10.83%
Rate Base	$101,623
Return on Rate Base	$11,004
Revenue Components	
Operating Expense	$123,070
Depreciation	$10,527
Other Taxes	$4,693
Income Taxes	$1,803
Return on Rate Base	$11,004
Revenue Requirement	$151,097

These revenues were forecast to begin in 2016 for the purpose of my pro forma analyses. For future years, I applied a 2.5% growth rate to Rio Concho's revenues under the Company ROR scenario.

Revenue Projections: Novak ROR

For the second scenario, I relied upon Mr. Novak's September 9, 2016 testimony and his recommended rate of return for Rio Concho. The revenue requirement, based upon his rate of return of 6.76% is shown below.

Return Component: Novak ROR	
Equity % of Capital	50.00%
Debt % of Capital	50.00%
Equity Rate	8.48%
Debt Rate	5.03%
Rate of Return	6.76%
Rate Base	$101,623
Return on Rate Base	$6,865
Revenue Components	
Operating Expense	$123,070
Depreciation	$10,527
Other Taxes	$4,693
Income Taxes	$760
Return on Rate Base	$6,865
Revenue Requirement	$145,915

Revenue projections are presented in Schedule B.1 of both scenarios.

Expense Projections

I relied upon operating and maintenance expenses from Rio Concho's rate filing package in both scenarios. Future expenses were escalated at 2.5% in both scenarios. Expense projections are presented in Schedule B.1 of both scenarios.

In the Company's ROR scenario, this combination of income and expense projections resulted in an Operating Income (or EBIT) margin of approximately 8% of sales. Mr. Novak's recommended rate of return resulted in an EBIT margin of only 5% of sales. Both of these ratios, immediately following an expected rate increase from the Commission, are well short of the average EBIT margins of the guideline companies, which are above 30% of sales.

Working Capital

Based upon a review of the Company's historical financial statements, I projected future annual balance sheets for each scenario (Schedule B.2). Working capital requirements were based upon the projected balance sheets.

Capital Expenditures

Based on discussions with Management, capital expenditures were expected to equal depreciation expense over the five year forecast period. This assumption reflects the need to maintain the water utility system in order to provide the future services forecast.

Tax Expenses

Consistent with the Company's rate filing, I assumed an income tax rate of 15% throughout the forecast period.

Discount Rate

The discount rate applied to future net cash flows in a discounted cash flow analysis is the weighted average cost of capital (WACC). In these pro forma valuation analyses, the cost of equity capital was derived from the capital asset pricing model (CAPM). In order to calculate the WACC for the Company, I relied upon a set of publicly traded guideline water utility companies. Two components of the WACC calculation are the firm's cost of equity capital and the firm's cost of debt.

A firm's cost of equity capital, Ke, is the expected, or required, market rate of return on the firm's common stock. The components of CAPM used to determine Ke are as follows:

- The risk-free rate of return, Rf, defined as the 20-year U.S. Treasury bond rate as of the Valuation Date.
  The market risk premium, designated as [Rm - Rf] in the CAPM equation.
  The security's beta coefficient, β, used as an index of the security's systematic risk.
- The security's small stock risk premium, α.

The CAPM's required rate of return on equity is as follows:

$$K_e = R_f + \beta\ [R_m - R_f] + \alpha$$

In determining a risk-free rate, I utilized the 20-year U.S. Treasury bond rate, which reflects a minimal level of risk. The risk premium is designated as [Rm - Rf] in the CAPM equation, with Rm representing the expected return on the market portfolio. I used the market risk premium data originally published in Stocks, Bonds, Bills and Inflation by Morningstar, now published by Duff and Phelps. Based on this information, I concluded that the market risk premium equaled 6.21% as of the Valuation Date. This figure represents the average annualized total return on equity investments, defined as the S&P 500, in excess of the average annualized bond yield (income) return on long-term government bonds since 1926.

Beta

Practical application of the cost of capital relies upon the ability to identify publicly traded companies that have similar risk characteristics as a subject company in order to derive meaningful measures of the company's beta and a normal capital structure. The beta coefficient is a measure of how a company's stock price moves relative to overall market prices.

Systematic risk is associated with economic factors that threaten all businesses. A security with a beta of 1.0 tends to move up or down in direct correlation with the market. Securities with a beta greater than 1.0 tend to rise and fall by a greater percentage than the market. A beta of less than 1.0 suggests the security is less sensitive to changes in the market. Based upon the guideline utility companies selected, I relied upon a median beta for the group of 0.65.

Small Stock/Unsystematic Risk Premia

An increased risk premium is appropriate when a company has a small capitalization compared to the companies in the public market. Market evidence shows that smaller companies, on average, earn rates of return in excess of returns predicted by CAPM. A common practice is to incorporate this evidence by adding a small stock premium to the cost of capital formula when valuing companies that are comparatively small. We determined a "size premium" using the methodology developed by Ibbotson Associates. In the early 1970s, Roger G. Ibbotson, Ph.D. researched and assembled the annual returns for several asset classes dating back to 1926. This research allowed for the analysis of risk and return characteristics of different asset classes. Ibbotson Associates is a leading authority in market expectations, cost of capital and international investment. It was acquired by Morningstar in 2008 and is currently updated and maintained by Duff and Phelps.

Based on my review of company-specific factors, I applied a small stock premium of 5.6% to the Company. Although an unsystematic premium could be justified, I believe the small stock risk premium is reasonable for these pro forma equity analyses.

Based on the estimates of the parameters in the CAPM equation, the cost of equity for the Company was determined as 12.3%, as shown in Schedule B.3.

The WACC calculation is a function of the cost of capital components and the capital structure of the operating entity and its industry. The formula used for the calculation of the WACC is presented below:

$$Ko = We * Ke + Wd * Kd * (1-Tm)$$

where

Ko	=	the weighted average cost of capital
We	=	the proportion of equity in the capital structure
Ke	=	the cost of equity
Wd	=	the proportion of debt in the capital structure
Kd	=	the pretax cost of debt
Tm	=	the estimated effective tax rate for the Company

Using the cost of equity previously calculated and Rio Concho's capital structure, cost of debt, and effective tax rate, the WACC (rounded) was determined as 10.7%. The WACC calculation is presented in Schedule B.3.

Conclusion – Income Approach

Based on the forecasts and methodologies presented in these analyses, the income approach indicated a value for Río Concho's enterprise value, based upon the Company's requested rate of return, of approximately $141,000. Subtracting the debt on the Company's books as of December 31, 2015 gives an estimated pro forma equity value of approximately $121,000.

Summary - Rio Concho Pro Forma Equity Value Comparison			
Valuation Method	Company ROR	Novak ROR	Equity Value Reduction
Income Approach			
Discounted Cash Flow Method	$121,089	$73,840	39.0%

The income approach based on Mr. Novak's recommended rate of return gives an estimated pro forma equity value of approximately $74,000. Therefore, if the Commission elects to rely on Mr. Novak's recommended rate of return for Rio Concho, **it would reduce the Company's shareholder equity value by approximately 39%, as indicated by these analyses.** The analyses under the income approach are presented in Schedules B.4 for both scenarios.

ESTIMATE OF VALUE USING THE MARKET APPROACH

Guideline Public Company Method

The first step in performing the guideline public company analysis was the identification and selection of comparable companies. The first criterion required to be included in the guideline sample was that companies had to be engaged in the same or similar line of business as the Company as of the Valuation Date. The second criterion was that the comparable companies faced similar industry and economic risks.

I was able to identify the following publicly traded companies:

- American Water Works Company Inc.
  Aqua America Inc.
  American States Water Co.
  California Water Service Group
  SJW Corp.
  Middlesex Water Co.
  Connecticut Water Service Inc.
  Artesian Resources Corp.
- York Water Co.

Schedule C.1 presents market pricing measures based on trailing revenue and profitability for the guideline companies. As part of my analysis, I calculated the Enterprise Value to EBITDA multiple. I determined the low and high end of the range and calculated the mean and median of the enterprise value multiples of the comparable companies. Based on my analysis of the comparable companies, relative to the Company's small size and associated risk, I selected 50% of the median Enterprise Value to EBITDA (EV/EBITDA) multiple for the comparable companies.

To determine a meaningful comparison between the two scenarios, I applied the multiples to the financial results for Rio Concho as if the rates of return were adopted by the Commission.

For the Company's requested rate of return, the application of the selected multiples implied an enterprise value of approximately $136,000. I then added cash, subtracted debt and added an estimated 10% control premium to determine a pro forma equity value.

Conclusion – Guideline Public Company Method

Based on the forecasts and methodologies presented in these analyses, the guideline public company analysis, based upon the Company's requested rate of return, indicated a value for Río Concho's equity of approximately $133,500.

The guideline public company analysis, based on Mr. Novak's recommended rate of return, gives an estimated equity value of approximately $100,200. Therefore, if the Commission elects to rely on Mr. Novak's recommended rate of return for Rio Concho, **it will reduce the Company's shareholder equity value by approximately 25%, as indicated by these analyses**. The analyses under the income approach are presented in Schedules C.2 for both scenarios.

Merger and Acquisition Method

It is also possible to develop an indication of a company's value based upon the multiples indicated by merger and acquisition (M&A) transactions of companies in the same or a similar industry occurring in recent years.

In order to use merger and acquisition information in a valuation engagement, the following two conditions must be met:

1. The target company must be similar to the company being valued in at least some respects.
2. One must be able to obtain details of the merger or acquisition transaction. If at least one of the parties in the M&A transaction (either the purchaser or the seller) is a public company, relevant information is often available.

In order to get comparable transactions, I searched three different databases with transaction pricing information:

1. Thompson Reuters,
2. GF Data, and
3. Pratt's Stats.

Thomson Reuters M&A database is a subscription service used by investment banks, law firms, hedge funds, and appraisal firms to monitor transaction activity. The transaction search on Thompson Reuter's database found 3 transactions involving companies significantly larger than Rio Concho. These companies had a median EV to EBITDA multiple of 11.3 times. However, given the significant risk associated with Rio Concho as compared to these larger companies, I again relied upon 50% of the median multiple as being relevant to apply to Rio Concho in the two pro forma equity valuations. Schedule D.1 presents the data and analyses for each scenario.

I also reviewed information from GF Data® Resources for NAICS code 22131. GF Data Resources is a searchable proprietary database that provides private equity buyers, intermediaries, capital sources and valuation professionals with accurate and detailed information on business transactions ranging in size from $10 million to $250 million. Based on a review of this database I was able to determine that 5 transactions had occurred within this NAICS code with an average EV/EBITDA multiple of 5.4x. Given that these transactions were smaller, higher risk companies (as reflected in the lower multiple), I did not apply the 50% factor applied in the previous two market approach analyses. Schedule D.2 presents the data and analyses for each scenario.

I also reviewed information from Pratt's Stats transactions. As of 2014, Pratt's Stats had about 22,000 transactions completed by both public and private buyers, of which 14,939 are transactions with private buyers and include both asset and stock transactions. Most of the data is provided by business brokers and about forty percent of the total transactions are for companies that sold for less than $250,000, and 61.4 percent are for companies that sold for $1 million or less. Based on a review of this database, I was able to identify 4 transactions with a median EV/EBITDA multiple of 5.4x. Schedule D.3 presents the data and analyses for each scenario.

Conclusion –Merger and Acquisition Methods

Based on the analyses and procedures described herein, the indicated pro forma equity value of the Company under the two different revenue requirements is shown in the table below:

Summary - Rio Concho Pro Forma Equity M&A Value Comparison			
Valuation Method	Company ROR	Novak ROR	Equity Value Reduction
Transaction Market Approach			
Merger and Acquisition Method - Thomson Reuters	$102,753	$76,651	25.4%
Merger and Acquisition Method - GF Data	$111,223	$83,240	25.2%
Merger and Acquisition Method - Pratt's Stats	$117,168	$87,864	25.0%

Under all of the multiples considered from the different databases, **the indicated impairment to the Rio Concho's shareholder equity value is in excess of 25%.**

CONCLUSION OF PRO FORMA EQUITY VALUES

Based on the analyses described in this report, and the facts and circumstances, the resulting pro forma equity value for the Company's equity is shown Schedule E in both sets of schedules attached.

The following table summarizes these results and presents a comparison of the pro forma indicated values for Rio Concho's equity, depending upon the rate of return decided upon by the Commission.

Summary - Rio Concho Pro Forma Equity Value Comparison			
Valuation Method	Company ROR	Novak ROR	Equity Value Reduction
Income Approach			
Discounted Cash Flow Method	$121,089	$73,840	39.0%
Market Approach			
Guideline Public Company Method	$133,474	$100,221	24.9%
Merger and Acquisition Method - Thomson Reuters	$102,753	$76,651	25.4%
Merger and Acquisition Method - GF Data	$111,223	$83,240	25.2%
Merger and Acquisition Method - Pratt's Stats	$117,168	$87,864	25.0%
Equity Value - Control, Marketable	$115,903	$81,725	29.5%
Concluded Pro Forma Equity Values	$116,000	$82,000	29.3%

On a weighted average basis, the pro forma equity value for Rio Concho's shareholder equity would be $116,000 if the Company's 10.83% rate of return were approved, as compared to only $82,000 if Mr. Novak's 6.76% rate of return is adopted. Although these differences may seem small given the small size of the water utility, the key point is that were the commission to adopt Mr. Novak's below-market equity rate of return, it would effectively eliminate over 29 percent of Rio Concho's pro forma equity value.

I am independent of Río Concho Company and I have no current or prospective economic interest in the assets that are the subject of these analyses. ValueScope's fee for these valuation services in no way influenced the results of my analyses.

Very truly yours,

Gregory E. Scheig, CFA, CPA/ABV/CFF/CGMA

PRO FORMA VALUATION SCHEDULES:

RIO CONCHO AVIATION'S REQUESTED RATE OF RETURN

Financial Statement Analysis

Historical Income Statements

	For the Year Ended:					
	31-Dec-13		31-Dec-14		31-Dec-15	
Revenue	$95,352	*100.0%*	$105,696	*100.0%*	$122,253	*100.0%*
Operating expenses	104,452	*109.5%*	109,601	*103.7%*	115,624	*94.6%*
Earnings before interest, taxes, depreciation & amortization **(EBITDA)**	(9,100)	*-9.5%*	(3,905)	*-3.7%*	6,629	*5.4%*
Depreciation expense	-	*0.0%*	700	*0.7%*	10,527	*8.6%*
Earnings before interest & taxes **(EBIT)**	(9,100)	*-9.5%*	(4,605)	*-4.4%*	(3,898)	*-3.2%*
Other income (expense)	200	*0.2%*	-	*0.0%*	-	*0.0%*
Interest (expense)	-	*0.0%*	-	*0.0%*	(837)	*-0.7%*
Pretax Income (EBT)	(8,900)	*-9.3%*	(4,605)	*-4.4%*	(4,735)	*-3.9%*
Provision (benefit) for income taxes	-	*0.0%*	-	*0.0%*	-	*0.0%*
Net Income	($8,900)	*-9.3%*	($4,605)	*-4.4%*	($4,735)	*-3.9%*

Rio Concho Aviation: Company ROR **Schedule A.2**

Financial Statement Analysis

Historical Balance Sheets

	As of: 31-Dec-15	
Current Assets		
Cash & cash equivalents	$5,439	*5.5%*
Accounts receivable, net	6,494	*6.6%*
Total Current Assets	11,933	*12.1%*
Fixed assets, net	86,314	*87.9%*
Total Assets	$98,246	*100.0%*
Current Liabilities		
Accounts payable	$6,600	*6.7%*
Deferred compensation	4,315	*4.4%*
Pass through assessments	1,559	*1.6%*
Payroll taxes/withholding payable	2,206	*2.2%*
Total Current Liabilities	14,680	*14.9%*
Notes Payable	20,218	*20.6%*
Total Liabilities	34,898	*35.5%*
Common stock	60,000	*61.1%*
Retained earnings	3,349	*3.4%*
Total Equity	63,349	*64.5%*
Total Liabilities & Equity	$98,246	*100.0%*

Discounted Cash Flow Method

Projected Proforma Income Statements (1)

	For the Projected Year Ended:					
	31-Dec-16	31-Dec-17	31-Dec-18	31-Dec-19	31-Dec-20	31-Dec-21
Return Component: Company ROR						
Equity % of Capital	80.10%					
Debt % of Capital	19.90%					
Equity Rate	12.55%					
Debt Rate	3.90%					
Rate of Return	10.83%					
Rate Base	$101,623					
Return on Rate Base	$11,004					
Revenue Components						
Operating Expense	$123,070					
Depreciation	$10,527					
Other Taxes	$4,693					
Income Taxes	$1,803					
Return on Rate Base	$11,004					
Revenue Requirement	$151,097	$154,874	$158,746	$162,715	$166,783	$170,952
Annual Growth Rate		2.5%	2.5%	2.5%	2.5%	2.5%
O&M Expense	123,070	126,147	129,300	132,533	135,846	139,242
Other Taxes	4,693	4,810	4,931	5,054	5,180	5,310
Cash Operating Expenses	127,763	130,957	134,231	137,587	141,026	144,552
Earnings before interest, taxes, depreciation & amortization **(EBITDA)**	23,334	23,917	24,515	25,128	25,756	26,400
Depreciation expense	10,527	10,527	10,527	10,527	10,527	10,527
Earnings before interest & taxes **(EBIT)**	12,807	13,390	13,988	14,601	15,229	15,873
Other income, net	-	-	-	-	-	-
Pretax income **(EBT)**	12,807	13,390	13,988	14,601	15,229	15,873
Income taxes	1,803	2,009	2,098	2,190	2,284	2,381
Net Income	$11,004	$11,382	$11,890	$12,411	$12,945	$13,492

(1) Assumes New Rates effective 1/1/2016

Rio Concho Aviation: Company ROR
Discounted Cash Flow Method

Projected Proforma Balance Sheets

Schedule B-2

	Base Period	Projected As Of:					
	31-Dec-15	31-Dec-16	31-Dec-17	31-Dec-18	31-Dec-19	31-Dec-20	Residual
Current Assets							
Cash & cash equivalents	$5,439	$6,010	$6,160	$6,314	$6,472	$6,634	$6,800
Accounts receivable, net	6,494	8,026	8,226	8,432	8,643	8,859	9,080
Total Current Assets	11,933	14,036	14,386	14,746	15,115	15,493	15,880
Fixed assets, net	86,314	86,314	86,314	86,314	86,314	86,314	86,314
Total Assets	$98,246	$100,350	$100,700	$101,060	$101,429	$101,807	$102,194
Current Liabilities							
Accounts payable	$6,600	$6,765	$6,934	$7,107	$7,285	$7,467	$7,654
Deferred compensation	4,315	4,315	4,315	4,315	4,315	4,315	4,315
Pass through assessments	1,559	1,559	1,559	1,559	1,559	1,559	1,559
Payroll taxes/withholding payable	2,206	2,261	2,318	2,376	2,435	2,496	2,558
Total Current Liabilities	14,680	14,900	15,126	15,357	15,594	15,837	16,086
Long-term debt, net of current portion	20,218	20,218	20,218	20,218	20,218	20,218	20,218
Total Liabilities	34,898	35,118	35,344	35,575	35,812	36,055	36,304
Equity Capital							
Beginning capital	68,083	63,349	65,232	65,357	65,485	65,617	65,752
Current period earnings (loss)	(4,735)	11,004	11,382	11,890	12,411	12,945	13,492
Net cash flow	NA	9,121	11,257	11,762	12,279	12,810	13,354
Ending Equity Capital	63,349	65,232	65,357	65,485	65,617	65,752	65,890
Total Liabilities & Capital	$98,246	$100,350	$100,700	$101,060	$101,429	$101,807	$102,194

Rio Concho Aviation: Company ROR
Discounted Cash Flow Method

Weighted Average Cost of Capital

(Dollar figures in thousands, except for per share figures)

Company Name	Ticker Symbol	Observed Beta	Shares Out	Share Price	Market Cap	Total Debt, Pref. & Min Int.
American Water Works Compar	AWK	0.49	179,469	$59.75	$10,723,300	$6,556,000
Aqua America Inc	WTR	0.64	176,428	$29.80	$5,257,555	$1,772,761
American States Water Co	AWR	0.76	37,241	$41.95	$1,562,246	$349,212
California Water Service Group	CWT	0.65	47,876	$23.27	$1,114,077	$547,660
SJW Corp	SJW	1.00	20,382	$29.65	$604,325	$418,916
Middlesex Water Co	MSEX	0.66	16,211	$26.54	$430,248	$144,083
Connecticut Water Service Inc	CTWS	0.67	11,181	$38.01	$424,992	$191,567
Artesian Resources Corp	ARTNA	0.37	8,122	$27.70	$224,973	$115,969
York Water Co	YORW	0.58	12,792	$24.94	$319,023	$84,562

Mean	0.65
Median	0.65

Capital Asset Pricing Model (CAPM) Inputs	
(1) Effective tax rate	15.0%
(2) Risk-free rate [Rf]	2.67%
(3) Equity Risk Premium [ERP]	6.21%
(4) Beta	0.65
(5) Target debt/equity	25.00%
(6) Pretax cost of debt	5.03%
(7) Small Stock Risk Premium [SSRP]	5.60%

Capital Asset Pricing Model (CAPM) Calculations	
Beta	0.65
Ke = Rf + (Levered Beta x ERP) + SSRP	
CAPM Cost of Equity (k_e)	**12.3%**
After-tax cost of debt	4.3%
Debt/capital ratio	20.0%
Weighted Average Cost of Capital (WACC)	**10.7%**

Notes:

(1) Rio Concho's filing
(2) 20-Year United States Treasury rate as of December 31, 2015
(3) Duff & Phelps 2015 Valuation Handbook, long-term supply side ERP
(4) 10-year weekly beta (Bloomberg)
(5) Rio Concho capital structure as filed
(6) Yield on Moody's Baa-rated utility bonds, per Novak
(7) Small stock risk premium 10th decile (Source: Duff & Phelps 2015 Valuation Handbook)
(8) Unsystematic, company-specific risk premium

Rio Concho Aviation: Company ROR — **Schedule 8.4**

Discounted Cash Flow Method

Synthesis of Net Cash Flow

	For the Projected Year Ended:					
	31-Dec-16	**31-Dec-17**	**31-Dec-18**	**31-Dec-19**	**31-Dec-20**	**Residual**
Sources of Cash Flow:						
Net income	11,004	11,382	11,890	12,411	12,945	13,492
Depreciation	10,527	10,527	10,527	10,527	10,527	10,527
Total Sources of Cash Flow	21,531	21,909	22,417	22,938	23,472	24,019
Uses of Cash Flow:						
Additions to working capital	1,883	125	128	132	135	138
Capital expenditures	10,527	10,527	10,527	10,527	10,527	10,527
Net cash flow	9,121	11,257	11,762	12,279	12,810	13,354
Total Uses of Cash Flow	21,531	21,909	22,417	22,938	23,472	24,019
Net Cash Flow	**$9,121**	**$11,257**	**$11,762**	**$12,279**	**$12,810**	**$13,354**
Period (Mid - Period)	0.50	1.50	2.50	3.50	4.50	5.50
PV Factor @ WACC = 10.7%	*0.9504*	*0.8586*	*0.7756*	*0.7006*	*0.6329*	*0.5717*
Present Value (PV) Net Cash Flow	**$8,669**	**$9,665**	**$9,122**	**$8,603**	**$8,108**	**$7,635**

PV net cash flow	$51,802
PV residual value	89,505
Enterprise Value	**$141,307**
Less: total debt	(20,218)
Pro Forma Equity Value	**$121,089**

Residual Value - Gordon Growth Model	
Residual net cash flow :	$13,354
Residual discount rate (k) :	10.7%
Residual growth rate (g) :	2.5%
x Gordon multiple [1 / (k-g)] :	12.2x
Residual value :	$162,855
x PV factor :	*0.5717*
PV residual value :	**$93,109**

Residual Value - EBITDA Exit Multiple	
2020 EBITDA:	$25,756
Multiple :	5.8
Residual value :	$150,250
x PV factor :	*0.5717*
PV residual value :	**$85,902**
Average PV Residual Values	**$89,505**

Determination of Relevant Multiples

(Dollar figures in thousands, except for per share figures)

Valuation Date

12/31/15	Ticker:	AWK	WTR	AWR	CWT	SJW	MSEX	CTWS	ARTNA	YORW		
	Company:	American Water Works Company Inc	Aqua America Inc	American States Water Co	California Water Service Group	SJW Corp	Middlesex Water Co	Connecticut Water Service Inc	Artesian Resources Corp	York Water Co		
LTM Operating Performance											**Mean**	**Median**
Revenue **(S)**		$3,159,000	$814,204	$458,641	$588,368	$305,082	$126,025	$96,041	$77,024	$47,089		
Earnings before interest, taxes, depreciation & amortization **(EBITDA)**		$1,512,000	$449,837	$161,163	$153,761	$122,290	$48,929	$40,082	$34,202	$28,812		
% margin		47.9%	55.2%	35.1%	26.1%	40.1%	38.8%	41.7%	44.4%	61.2%	***43.4%***	***41.7%***
Earnings before interest & taxes **(EBIT)**		$1,072,000	$321,100	$118,489	$90,579	$79,960	$35,842	$26,621	$25,365	$22,661		
% margin		33.9%	39.4%	25.8%	15.4%	26.2%	28.4%	27.7%	32.9%	48.1%	***30.9%***	***28.4%***
Net income to common shareholders		$476,000	$201,790	$60,484	$45,017	$37,882	$20,029	$22,761	$11,305	$12,489		
% margin		15.1%	24.8%	13.2%	7.7%	12.4%	15.9%	23.7%	14.7%	26.5%	***17.1%***	***15.1%***
Calculation of Equity and Capital Value												
Share price as of	12/31/2015	$59.75	$29.80	$41.95	$23.27	$29.65	$26.54	$38.01	$27.70	$24.94		
Shares out (000s)		179,469	176,428	37,241	47,876	20,382	16,211	11,181	8,122	12,792		
Market capitalization		10,723,300	5,257,555	1,562,246	1,114,077	604,325	430,248	424,992	224,973	319,023		
Less: cash & equivalents		45,000	3,229	4,364	8,837	5,239	3,469	731	209	2,879		
Equity value less cash **(P)**		10,678,300	5,254,326	1,557,882	1,105,240	599,086	426,779	424,261	224,764	316,144		
Minority interest		-	-	-	-	-	-	-	-	-		
Preferred stock		-	-	-	-	-	2,436	772	-	-		
Total debt		6,556,000	1,772,761	349,212	547,660	418,916	141,647	190,795	115,969	84,562		
Enterprise value **(EV)**		17,234,300	7,027,087	1,907,094	1,652,900	1,018,002	570,862	615,828	340,733	400,706		
Book value of equity **(BVE)**		5,049,000	1,725,930	465,945	642,155	383,783	206,694	223,977	132,331	109,070		
Tangible book value of equity **(TBVE)**		3,747,000	1,692,064	464,829	639,540	368,225	206,694	193,550	132,331	109,070		
Control Value of Equity (20% Premium)		12,813,960	6,305,191	1,869,459	1,326,287	718,903	512,135	509,114	269,717	379,372		
Market Value to Book Value		2.54	3.65	4.01	2.07	1.87	2.48	2.27	2.04	3.48	***2.71***	***2.48***
Operating Multiples											**Mean**	**Median**
EV/EBITDA		11.4	15.6	11.8	10.7	8.3	11.7	15.4	10.0	13.9	**12.1**	**11.7**
EV/EBIT		16.1	21.9	16.1	18.2	12.7	15.9	23.1	13.4	17.7	**17.2**	**16.1**

62

Rio Concho Aviation: Company ROR
Guideline Public Company Method

Schedule C.2

Summary and Application of Multiples

Observed Multiples	AWK	WTR	AWR	CWT	SJW	MSEX	CTWS	ARTNA	YORW
EV/S	5.5	8.6	4.2	2.8	3.3	4.5	6.4	4.4	8.5
EV/EBITDA	11.4	15.6	11.8	10.7	8.3	11.7	15.4	10.0	13.9
EV/EBIT	16.1	21.9	16.1	18.2	12.7	15.9	23.1	13.4	17.7

Summary Statistics	Low	25th Percentile	Mean	Median	75th Percentile	High
EV/S	2.8	4.2	5.4	4.5	6.4	8.6
EV/EBITDA	8.3	10.7	12.1	11.7	13.9	15.6
EV/EBIT	12.7	15.9	17.2	16.1	18.2	23.1

Select Income Statement Items	2016 Proforma
Revenue (S)	$151,097
Earnings before interest, taxes, depreciation & amortization (EBITDA)	$23,334
Earnings before interest & taxes (EBIT)	$12,807
Net income	$11,004

Select Balance Sheet Items	12/31/2015
Cash and equivalents	$5,439
Total debt	$20,218

Multiples	Mean	Median	Selected (50% of Median)
EV/EBITDA	12.1	11.7	5.8

Implied Values		Mean	Median	Selected (50% of Median)
EV/EBITDA		$282,154	$272,239	$136,119
Enterprise Value				$136,119
Indicated Enterprise Value				**$136,119**
Plus: Cash				$5,439
Less. Total Debt				($20,218)
Implied Equity Value - Minority, Marketable				**$121,340**
Control Premium @	10.0%			$12,134
Pro Forma Equity Value				**$133,474**

Merger & Acquisition Method

Transaction Approach

Industry Transactions - Thompson Reuters

Date	Target	Target Revenue ($mm)	Target EBITDA ($mm)	Target EBITDA Margin (%)	Enterprise Value ($mm)	Transaction Size ($mm)	Acquirer	Transaction Multiples EV/EBITDA
1/27/2015	US Water Services Inc	30.1	-	-	193.1	168.0	ALLETE Inc	-
7/19/2012	Biddeford & Saco Water Co	4.3	-	-	19 8	19.8	Connecticut Water Service Inc	-
7/20/2011	Nalco Holding Co	4,444 3	717.8	16.2%	8,110 8	8,111 8	Ecolab Inc	11 3
6/2/2011	Central Electricity Generating Co{CEGCO}	250.9	66 8	26.6%	591.3	144 0	ACWA Power International Co	8 8
11/12/2010	Pennichuck Corp	36.1	14 3	39.5%	193.3	135.2	Nashua City-New Hampshire	13.5

Transaction Data Summary ($ Millions)	Revenue	EBITDA	EBITDA %	Enterprise Value	Transaction Size
Mean	953.1	266.3	27.4%	1,821 7	1,715 8
Median	36.1	66.8	26.6%	193 3	144 0

Summary Statistics (2010 - 2015)	EV/EBITDA
Number of Data Points	3
High	13.5
75th %	12 4
Mean	11.2
Median	11.3
25th %	10 1
Low	8 8

Transaction Selection Criteria

Industry Classification (Target):
Water Utilities
Geographic Region: United States and Canada
Status: Announced or Closed or Effective
Percent Sought: Greater than 50%
Keyword(s): Water, Utilities
Transaction Dates: Last 5 years

	EV/EBITDA
Mean	11.2
Median	10.1
Selected (50% of Median)	5.0
2016 Proforma	$23,334
Implied Enterprise Value - Mean	$262,062
Implied Enterprise Value - Median	$235,064
Implied Enterprise Value - Selected (50%	$117,532
Indicated Enterprise Value	$117,532
Average of boxed figures	
Plus: Cash and equivalents	$5,439
Less: Total debt	($20,218)
Pro Forma Equity Value	**$102,753**

Source: *Thomson Reuters*

Rio Concho Aviation: Company ROR **Schedule D.2**

Merger & Acquisition Method

Transaction Approach - GF Data

Industry Transactions

NAICS	Year	N	TEV $	Revenues $	TTM Rev Growth %	EBITDA Margin %	TEV/ Revs	TEV / EBITDA
22131 - Water Supply and Irrigation Systems	2004-2011	5	52.4	84.5	14.5%	9.7%	0.5	5.4

Source: *GF Data*

Selected Multiple	5.4
TTM Base Period EBITDA	$23,334
Indicated Enterprise Value - Mean	$126,002
Indicated Enterprise Value *Average of boxed figures*	$126,002
Plus: Cash and equivalents	$5,439
Less: Total debt	($20,218)
Implied Equity Value	$111,223
Pro Forma Equity Value	**$111,223**

Merger & Acquisition Method

Transaction Approach - Pratt's Stats

Industry Transactions

Target Business Description	Date	Target Revenue	Target EBITDA	MVIC to Sales	MVIC to EBITDA	Enterprise Value	EV/Sales	EV/EBITDA
Provides Water Treatment Services	4/18/2016	$11,160,668	$1,114,522	0 32	3.18	$3,549,500	0.32	3.18
Waste Water Management Company	11/18/2009	$7,615,880	$1,808,147	1.92	8 1	$14,152,010	1.86	7.83
Waste Water	5/30/2008	$338,696	$43,070	0.44	3.48	$150,000	0.44	3.48
Public Water Utility	2/16/1996	$66,306,000	$29,260,000	6.15	13.93	$407,497,000	6.15	13 93

Source: *Pratt's Stats*

Summary Statistics (-)	Target Revenue	Target EBITDA	MVIC to Sales	MVIC to EBITDA	Enterprise Value	EV/Sales	EV/EBITDA
Number of Data Points	4	4	4	4	4	4	4
High	66,306,000.0	29,260,000.0	6.2	13.9	407,497,000.0	6 1	13 9
75th %	24,947,001.0	8,671,110.3	3.0	9 6	112,488,257.5	2.9	9.4
Mean	21,355,311 0	8,056,434.8	2.2	7.2	106,337,127.5	2 2	7 1
Median	9,388,274.0	1,461,334.5	1.2	5.8	8,850,755.0	1.2	5.7
25th %	5,796,584.0	846,659.0	0 4	3.4	2,699,625.0	0.4	3.4
Low	338,696.0	43,070 0	0.3	3.2	150,000.0	0.3	3.2

Mean	**7.1**
Median	**5.7**
2016 Proforma	$23,334
Implied Enterprise Value - Mean	$165,792
Implied Enterprise Value - Median	$131,947
Indicated Enterprise Value	$131,947
Plus: Cash and equivalents	$5,439
Less: Total debt	($20,218)
Implied Equity Value	$117,168
Pro Forma Equity Value	**$117,168**

Rio Concho Aviation: Company ROR **Schedule E**

Valuation Summary and Conclusion

Synthesis of Equity Value

Summary - Rio Concho Pro Forma Equity Values			
Valuation Method	**Indicated Value**	**Weight**	**Reference**
Income Approach			
Discounted Cash Flow Method	$121,089	30.0%	*Schedule B.4*
Market Approach			
Guideline Public Company Method	$133,474	10.0%	*Schedule C.2*
Merger and Acquisition Method - Thomson Reuters	$102,753	20.0%	*Schedule D.1*
Merger and Acquisition Method - GF Data	$111,223	20.0%	*Schedule D.2*
Merger and Acquisition Method - Pratt's Stats	$117,168	20.0%	*Schedule D.3*
Equity Value - Control, Marketable	$115,903	100.0%	
Concluded Pro Forma Equity Value	**$116,000**		

Proforma Valuation Comparison

Lost Shareholder Equity Value

Summary - Rio Concho Pro Forma Equity Value Comparison			
Valuation Method	**Company ROR**	**Novak ROR**	**Equity Value Reduction**
Income Approach			
Discounted Cash Flow Method	$121,089	$73,840	*39.0%*
Market Approach			
Guideline Public Company Method	$133,474	$100,221	*24.9%*
Merger and Acquisition Method - Thomson Reuters	$102,753	$76,651	*25.4%*
Merger and Acquisition Method - GF Data	$111,223	$83,240	*25.2%*
Merger and Acquisition Method - Pratt's Stats	$117,168	$87,864	*25.0%*
Equity Value - Control, Marketable	$115,903	$81,725	*29.5%*
Concluded Pro Forma Equity Values	**$116,000**	**$82,000**	**29.3%**

PRO FORMA VALUATION SCHEDULES:

NOVAK RECOMMENDED RATE OF RETURN

Financial Statement Analysis

Historical Income Statements

	For the Year Ended:					
	31-Dec-13		31-Dec-14		31-Dec-15	
Revenue	$95,352	*100.0%*	$105,696	*100.0%*	$122,253	*100.0%*
Operating expenses	104,452	*109.5%*	109,601	*103.7%*	115,624	*94.6%*
Earnings before interest, taxes, depreciation & amortization **(EBITDA)**	(9,100)	*-9.5%*	(3,905)	*-3.7%*	6,629	*5.4%*
Depreciation expense	-	*0.0%*	700	*0.7%*	10,527	*8.6%*
Earnings before interest & taxes **(EBIT)**	(9,100)	*-9.5%*	(4,605)	*-4.4%*	(3,898)	*-3.2%*
Other income (expense)	200	*0.2%*	-	*0.0%*	-	*0.0%*
Interest (expense)	-	*0.0%*	-	*0.0%*	(837)	*-0.7%*
Pretax Income (EBT)	(8,900)	*-9.3%*	(4,605)	*-4.4%*	(4,735)	*-3.9%*
Provision (benefit) for income taxes	-	*0.0%*	-	*0.0%*	-	*0.0%*
Net Income	($8,900)	*-9.3%*	($4,605)	*-4.4%*	($4,735)	*-3.9%*

Rio Concho Aviation: Novak ROR — **Schedule A.2**

Financial Statement Analysis

Historical Balance Sheets

	As of: 31-Dec-15	
Current Assets		
Cash & cash equivalents	$5,439	*5.5%*
Accounts receivable, net	6,494	*6.6%*
Total Current Assets	11,933	*12.1%*
Fixed assets, net	86,314	*87.9%*
Total Assets	$98,246	*100.0%*
Current Liabilities		
Accounts payable	$6,600	*6.7%*
Deferred compensation	4,315	*4.4%*
Pass through assessments	1,559	*1.6%*
Payroll taxes/withholding payable	2,206	*2.2%*
Total Current Liabilities	14,680	*14.9%*
Notes Payable	20,218	*20.6%*
Total Liabilities	34,898	*35.5%*
Common stock	60,000	*61.1%*
Retained earnings	3,349	*3.4%*
Total Equity	63,349	*64.5%*
Total Liabilities & Equity	$98,246	*100.0%*

Discounted Cash Flow Method

Projected Proforma Income Statements (1)

	For the Projected Year Ended:					
	31-Dec-16	31-Dec-17	31-Dec-18	31-Dec-19	31-Dec-20	31-Dec-21
Return Component: Novak ROR						
Equity % of Capital	50.00%					
Debt % of Capital	50.00%					
Equity Rate	8.48%					
Debt Rate	5.03%					
Rate of Return	6.76%					
Rate Base	$101,623					
Return on Rate Base	$6,865					
Revenue Components						
Operating Expense	$123,070					
Depreciation	$10,527					
Other Taxes	$4,693					
Income Taxes	$760					
Return on Rate Base	$6,865					
Revenue Requirement	$145,915	$149,563	$153,302	$157,134	$161,062	$165,089
Annual Growth Rate		2.5%	2.5%	2.5%	2.5%	2.5%
O&M Expense	123,070	126,147	129,300	132,533	135,846	139,242
Other Taxes	4,693	4,810	4,931	5,054	5,180	5,310
Cash Operating Expenses	127,763	130,957	134,231	137,587	141,026	144,552
Earnings before interest, taxes, depreciation & amortization **(EBITDA)**	18,152	18,605	19,071	19,547	20,036	20,537
Depreciation expense	10,527	10,527	10,527	10,527	10,527	10,527
Earnings before interest & taxes **(EBIT)**	7,625	8,079	8,544	9,021	9,509	10,010
Other income, net	-	-	-	-	-	-
Pretax income **(EBT)**	7,625	8,079	8,544	9,021	9,509	10,010
Income taxes	760	1,212	1,282	1,353	1,426	1,502
Net Income	$6,865	$6,867	$7,262	$7,668	$8,083	$8,509

(1) Assumes New Rates effective 1/1/2016

Rio Concho Aviation: Novak ROR — **Schedule B-2**
Discounted Cash Flow Method

Projected Proforma Balance Sheets

	Base Period	Projected As Of:					
	31-Dec-15	31-Dec-16	31-Dec-17	31-Dec-18	31-Dec-19	31-Dec-20	Residual
Current Assets							
Cash & cash equivalents	$5,439	$6,010	$6,160	$6,314	$6,472	$6,634	$6,800
Accounts receivable, net	6,494	7,750	7,944	8,143	8,346	8,555	8,769
Total Current Assets	11,933	13,760	14,104	14,457	14,818	15,189	15,569
Fixed assets, net	86,314	86,314	86,314	86,314	86,314	86,314	86,314
Total Assets	$98,246	$100,074	$100,418	$100,771	$101,132	$101,503	$101,882
Current Liabilities							
Accounts payable	$6,600	$6,765	$6,934	$7,107	$7,285	$7,467	$7,654
Deferred compensation	4,315	4,315	4,315	4,315	4,315	4,315	4,315
Pass through assessments	1,559	1,559	1,559	1,559	1,559	1,559	1,559
Payroll taxes/withholding payable	2,206	2,261	2,318	2,376	2,435	2,496	2,558
Total Current Liabilities	14,680	14,900	15,126	15,357	15,594	15,837	16,086
Long-term debt, net of current portion	20,218	20,218	20,218	20,218	20,218	20,218	20,218
Total Liabilities	34,898	35,118	35,344	35,575	35,812	36,055	36,304
Equity Capital							
Beginning capital	68,083	63,349	64,956	65,075	65,196	65,320	65,448
Current period earnings (loss)	(4,735)	6,865	6,867	7,262	7,668	8,083	8,509
Net cash flow	NA	5,257	6,749	7,141	7,543	7,955	8,378
Ending Equity Capital	63,349	64,956	65,075	65,196	65,320	65,448	65,579
Total Liabilities & Capital	$98,246	$100,074	$100,418	$100,771	$101,132	$101,503	$101,882

Weighted Average Cost of Capital

(Dollar figures in thousands, except for per share figures)

Company Name	Ticker Symbol	Observed Beta	Shares Out	Share Price	Market Cap	Total Debt, Pref. & Min Int.
American Water Works Compan	AWK	0.49	179,469	$59.75	$10,723,300	$6,556,000
Aqua America Inc	WTR	0.64	176,428	$29.80	$5,257,555	$1,772,761
American States Water Co	AWR	0.76	37,241	$41.95	$1,562,246	$349,212
California Water Service Group	CWT	0.65	47,876	$23.27	$1,114,077	$547,660
SJW Corp	SJW	1.00	20,382	$29.65	$604,325	$418,916
Middlesex Water Co	MSEX	0.66	16,211	$26.54	$430,248	$144,083
Connecticut Water Service Inc	CTWS	0.67	11,181	$38.01	$424,992	$191,567
Artesian Resources Corp	ARTNA	0.37	8,122	$27.70	$224,973	$115,969
York Water Co	YORW	0.58	12,792	$24.94	$319,023	$84,562

Mean	0.65
Median	0.65

Capital Asset Pricing Model (CAPM) Inputs	
(1) Effective tax rate	15.0%
(2) Risk-free rate [Rf]	2.67%
(3) Equity Risk Premium [ERP]	6.21%
(4) Beta	0.65
(5) Target debt/equity	25.00%
(6) Pretax cost of debt	5.03%
(7) Small Stock Risk Premium [SSRP]	5.60%

Capital Asset Pricing Model (CAPM) Calculations	
Beta	0.65
Ke = Rf + (Levered Beta x ERP) + SSRP	
CAPM Cost of Equity (k_e)	**12.3%**
After-tax cost of debt	4.3%
Debt/capital ratio	20.0%
Weighted Average Cost of Capital (WACC)	**10.7%**

Notes:

(1) Rio Concho's filing
(2) 20-Year United States Treasury rate as of December 31, 2015
(3) Duff & Phelps 2015 Valuation Handbook, long-term supply side ERP
(4) 10-year weekly beta (Bloomberg)
(5) Rio Concho capital structure as filed
(6) Yield on Moody's Baa-rated utility bonds, per Novak
(7) Small stock risk premium 10th decile (Source: Duff & Phelps 2015 Valuation Handbook)
(8) Unsystematic, company-specific risk premium

Rio Concho Aviation: Novak ROR
Discounted Cash Flow Method

Schedule B-4

Synthesis of Net Cash Flow

	For the Projected Year Ended:					
	31-Dec-16	31-Dec-17	31-Dec-18	31-Dec-19	31-Dec-20	Residual
Sources of Cash Flow:						
Net income	6,865	6,867	7,262	7,668	8,083	8,509
Depreciation	10,527	10,527	10,527	10,527	10,527	10,527
Total Sources of Cash Flow	17,391	17,394	17,789	18,194	18,610	19,035
Uses of Cash Flow:						
Additions to working capital	1,608	118	121	124	127	131
Capital expenditures	10,527	10,527	10,527	10,527	10,527	10,527
Net cash flow	5,257	6,749	7,141	7,543	7,955	8,378
Total Uses of Cash Flow	17,391	17,394	17,789	18,194	18,610	19,035
Net Cash Flow	**$5,257**	**$6,749**	**$7,141**	**$7,543**	**$7,955**	**$8,378**
Period (Mid - Period)	0.50	1.50	2.50	3.50	4.50	5.50
PV Factor @ WACC = 10.7%	*0.9504*	*0.8586*	*0.7756*	*0.7006*	*0.6329*	*0.5717*
Present Value (PV) Net Cash Flow	**$4,996**	**$5,794**	**$5,538**	**$5,285**	**$5,035**	**$4,790**

PV net cash flow	$31,439
PV residual value	62,619
Enterprise Value	**$94,058**
Less: total debt	(20,218)
Pro Forma Equity Value	**$73,840**

Residual Value - Gordon Growth Model	
Residual net cash flow :	$8,378
Residual discount rate (k) :	10.7%
Residual growth rate (g) :	2.5%
x Gordon multiple [1 / (k-g)] :	12.2x
Residual value :	$102,172
x PV factor :	*0.5717*
PV residual value :	**$58,414**

Residual Value - EBITDA Exit Multiple	
2020 EBITDA:	$20,036
Multiple :	5.8
Residual value :	$116,882
x PV factor :	*0.5717*
PV residual value :	**$66,824**
Average PV Residual Values	**$62,619**

Rio Concho Aviation: Novak ROR Schedule C-1

Guideline Public Company Method

Determination of Relevant Multiples *(Dollar figures in thousands, except for per share figures)*

Valuation Date

12/31/15	Ticker:	AWK	WTR	AWR	CWT	SJW	MSEX	CTWS	ARTNA	YORW		
	Company	American Water Works Company Inc	Aqua America Inc	American States Water Co	California Water Service Group	SJW Corp	Middlesex Water Co	Connecticut Water Service Inc	Artesian Resources Corp	York Water Co	Mean	Median
LTM Operating Performance												
Revenue **(S)**		$3,159,000	$814,204	$458,641	$588,368	$305,082	$126,025	$96,041	$77,024	$47,089		
Earnings before interest, taxes, depreciation & amortization **(EBITDA)**		$1,512,000	$449,837	$161,163	$153,761	$122,290	$48,929	$40,082	$34,202	$28,812		
% margin		47.9%	55.2%	35.1%	26.1%	40.1%	38.8%	41.7%	44.4%	61.2%	*43.4%*	*41.7%*
Earnings before interest & taxes **(EBIT)**		$1,072,000	$321,100	$118,489	$90,579	$79,960	$35,842	$26,621	$25,365	$22,661		
% margin		33.9%	39.4%	25.8%	15.4%	26.2%	28.4%	27.7%	32.9%	48.1%	*30.9%*	*28.4%*
Net income to common shareholders		$476,000	$201,790	$60,484	$45,017	$37,882	$20,029	$22,761	$11,305	$12,489		
% margin		15.1%	24.8%	13.2%	7.7%	12.4%	15.9%	23.7%	14.7%	26.5%	*17.1%*	*15.1%*
Calculation of Equity and Capital Value												
Share price as of	12/31/2015	$59.75	$29.80	$41.95	$23.27	$29.65	$26.54	$38.01	$27.70	$24.94		
Shares out (000s)		179,469	176,428	37,241	47,876	20,382	16,211	11,181	8,122	12,792		
Market capitalization		10,723,300	5,257,555	1,562,246	1,114,077	604,325	430,248	424,992	224,973	319,023		
Less: cash & equivalents		45,000	3,229	4,364	8,837	5,239	3,469	731	209	2,879		
Equity value less cash **(P)**		10,678,300	5,254,326	1,557,882	1,105,240	599,086	426,779	424,261	224,764	316,144		
Minority interest		-	-	-	-	-	-	-	-	-		
Preferred stock		-	-	-	-	-	2,436	772	-	-		
Total debt		6,556,000	1,772,761	349,212	547,660	418,916	141,647	190,795	115,969	84,562		
Enterprise value **(EV)**		17,234,300	7,027,087	1,907,094	1,652,900	1,018,002	570,862	615,828	340,733	400,706		
Book value of equity **(BVE)**		5,049,000	1,725,930	465,945	642,155	383,783	206,694	223,977	132,331	109,070		
Tangible book value of equity **(TBVE)**		3,747,000	1,692,064	464,829	639,540	368,225	206,694	193,550	132,331	109,070		
Control Value of Equity (20% Premium)		12,813,960	6,305,191	1,869,459	1,326,287	718,903	512,135	509,114	269,717	379,372		
Market Value to Book Value		2.54	3.65	4.01	2.07	1.87	2.48	2.27	2.04	3.48	*2.71*	*2.48*
Operating Multiples											**Mean**	**Median**
EV/EBITDA		11.4	15.6	11.8	10.7	8.3	11.7	15.4	10.0	13.9	**12.1**	**11.7**
EV/EBIT		16.1	21.9	16.1	18.2	12.7	15.9	23.1	13.4	17.7	**17.2**	**16.1**

Rio Concho Aviation: Novak ROR
Guideline Public Company Method

Schedule C.2

Summary and Application of Multiples

Observed Multiples	AWK	WTR	AWR	CWT	SJW	MSEX	CTWS	ARTNA	YORW
EV/S	5 5	8.6	4 2	2 8	3.3	4.5	6 4	4 4	8 5
EV/EBITDA	11.4	15.6	11.8	10.7	8.3	11.7	15.4	10.0	13.9
EV/EBIT	16.1	21.9	16.1	18.2	12.7	15.9	23.1	13.4	17.7

Summary Statistics	Low	25th Percentile	Mean	Median	75th Percentile	High
EV/S	2 8	4.2	5.4	4.5	6.4	8.6
EV/EBITDA	8.3	10.7	12 1	11.7	13 9	15.6
EV/EBIT	12 7	15.9	17.2	16 1	18 2	23.1

Select Income Statement Items	2016 Proforma
Revenue (S)	$145,915
Earnings before interest, taxes, depreciation & amortization (EBITDA)	$18,152
Earnings before interest & taxes (EBIT)	$7,625
Net income	$6,865

Select Balance Sheet Items	12/31/2015
Cash and equivalents	$5,439
Total debt	$20,218

Multiples	Mean	Median	Selected (50% of Median)
EV/EBITDA	12.1	11.7	5.8

Implied Values	Mean	Median	Selected (50% of Median)
EV/EBITDA	$219,491	$211,778	$105,889
Enterprise Value			$105,889
Indicated Enterprise Value			**$105,889**
Plus: Cash			$5,439
Less: Total Debt			($20,218)
Implied Equity Value - Minority, Marketable			**$91,110**
Control Premium @ 10.0%			$9,111
Pro Forma Equity Value			**$100,221**

Transaction Approach

Industry Transactions - Thompson Reuters

Date	Target	Target Revenue ($mm)	Target EBITDA ($mm)	Target EBITDA Margin (%)	Enterprise Value ($mm)	Transaction Size ($mm)	Acquirer	Transaction Multiples EV/EBITDA
1/27/2015	US Water Services Inc	30 1	-	-	193.1	168 0	ALLETE Inc	-
7/19/2012	Biddeford & Saco Water Co	4 3	-	-	19.8	19 8	Connecticut Water Service Inc	-
7/20/2011	Nalco Holding Co	4,444 3	717 8	16 2%	8,110.8	8,111 8	Ecolab Inc	11.3
6/2/2011	Central Electricity Generating Co{CEGCO}	250.9	66.8	26.6%	591.3	144.0	ACWA Power International Co	8.8
11/12/2010	Pennichuck Corp	36.1	14.3	39.5%	193.3	135.2	Nashua City-New Hampshire	13.5

Transaction Data Summary ($ Millions)	Revenue	EBITDA	EBITDA %	Enterprise Value	Transaction Size
Mean	953 1	266 3	27 4%	1,821 7	1,715.8
Median	36.1	66 8	26 6%	193 3	144 0

Summary Statistics (2010 - 2015)	EV/EBITDA
Number of Data Points	3
High	13.5
75th %	12.4
Mean	11.2
Median	11.3
25th %	10.1
Low	8.8

Transaction Selection Criteria

Industry Classification (Target):
Water Utilities
Geographic Region: United States and Canada
Status: Announced or Closed or Effective
Percent Sought: Greater than 50%
Keyword(s): Water, Utilities
Transaction Dates: Last 5 years

	EV/EBITDA
Mean	11.2
Median	10.1
Selected (50% of Median)	5.0
2016 Proforma	$18,152
Implied Enterprise Value - Mean	$203,861
Implied Enterprise Value - Median	$182,860
Implied Enterprise Value - Selected (50%	$91,430
Indicated Enterprise Value	$91,430
Average of boxed figures	
Plus. Cash and equivalents	$5,439
Less: Total debt	($20,218)
Pro Forma Equity Value	**$76,651**

Source: *Thomson Reuters*

57

Rio Concho Aviation: Novak ROR **Schedule D.2**
Merger & Acquisition Method

Transaction Approach - GF Data

Industry Transactions

NAICS	Year	N	TEV $	Revenues $	TTM Rev Growth %	EBITDA Margin %	TEV/ Revs	TEV / EBITDA
22131 - Water Supply and Irrigation Systems	2004-2011	5	52.4	84.5	14.5%	9.7%	0.5	5.4

Source: *GF Data*

Selected Multiple	5.4
TTM Base Period EBITDA	$18,152
Indicated Enterprise Value - Mean	$98,019
Indicated Enterprise Value *Average of boxed figures*	$98,019
Plus: Cash and equivalents	$5,439
Less: Total debt	($20,218)
Implied Equity Value	$83,240
Pro Forma Equity Value	**$83,240**

Merger & Acquisition Method

Transaction Approach - Pratt's Stats

Industry Transactions								
Target Business Description	Date	Target Revenue	Target EBITDA	MVIC to Sales	MVIC to EBITDA	Enterprise Value	EV/Sales	EV/EBITDA
Provides Water Treatment Services	4/18/2016	$11,160,668	$1,114,522	0.32	3.18	$3,549,500	0.32	3.18
Waste Water Management Company	11/18/2009	$7,615,880	$1,808,147	1.92	8.1	$14,152,010	1.86	7.83
Waste Water	5/30/2008	$338,696	$43,070	0.44	3.48	$150,000	0.44	3.48
Public Water Utility	2/16/1996	$66,306,000	$29,260,000	6.15	13.93	$407,497,000	6 15	13.93

Source: *Pratt's Stats*

Summary Statistics (-)	Target Revenue	Target EBITDA	MVIC to Sales	MVIC to EBITDA	Enterprise Value	EV/Sales	EV/EBITDA
Number of Data Points	4	4	4	4	4	4	4
High	66,306,000 0	29,260,000.0	6.2	13.9	407,497,000.0	6.1	13.9
75th %	24,947,001.0	8,671,110.3	3.0	9.6	112,488,257 5	2.9	9.4
Mean	21,355,311.0	8,056,434.8	2.2	7 2	106,337,127.5	2.2	7.1
Median	9,388,274.0	1,461,334.5	1.2	5.8	8,850,755 0	1.2	5.7
25th %	5,796,584.0	846,659.0	0.4	3.4	2,699,625.0	0.4	3.4
Low	338,696 0	43,070.0	0.3	3.2	150,000.0	0.3	3.2

Mean	**7.1**
Median	**5.7**
2016 Proforma	$18,152
Implied Enterprise Value - Mean	$128,972
Implied Enterprise Value - Median	$102,643
Indicated Enterprise Value	$102,643
Plus: Cash and equivalents	$5,439
Less: Total debt	($20,218)
Implied Equity Value	$87,864
Pro Forma Equity Value	**$87,864**

Rio Concho Aviation: Novak ROR **Schedule E**

Valuation Summary and Conclusion

Synthesis of Equity Value

Summary - Rio Concho Pro Forma Equity Values			
Valuation Method	**Indicated Value**	**Weight**	**Reference**
Income Approach			
Discounted Cash Flow Method	$73,840	30.0%	*Schedule B.4*
Market Approach			
Guideline Public Company Method	$100,221	10.0%	*Schedule C.2*
Merger and Acquisition Method - Thomson Reuters	$76,651	20.0%	*Schedule D.1*
Merger and Acquisition Method - GF Data	$83,240	20.0%	*Schedule D.2*
Merger and Acquisition Method - Pratt's Stats	$87,864	20.0%	*Schedule D.3*
Equity Value - Control, Marketable	$81,725	100.0%	
Concluded Pro Forma Equity Value	**$82,000**		

APPENDIX A: US ECONOMY OVERVIEW

ECONOMIC AND INDUSTRY OVERVIEW

OVERVIEW OF THE U.S. ECONOMY

According to the advance estimate released by the Bureau of Economic Analysis (BEA), the U.S. economy increased in the fourth quarter of 2015, with real gross domestic product (GDP) increasing at an annual rate of 0.7%.[1] In the third quarter of 2015, real GDP increased by 2.0%. The increase in fourth quarter real GDP primarily reflected positive contributions from personal consumption expenditures (PCE), residential fixed investment, and federal government spending, that were partly offset by negative contributions from private inventory investment, exports, and nonresidential fixed investments. Imports, which are a subtraction in the calculation of GDP, increased.

Forecasters surveyed by the Federal Reserve Bank of Philadelphia projected a 2.4% annual real growth rate for 2015, up from the previous estimate of 2.3%. The forecasters predict that real GDP will grow 2.6% in 2016, 2.5% in 2017, and 2.8% in 2018. The forecasts for 2016 and 2017 are slightly lower than previous estimates and the forecast for 2018 is slightly higher than previous estimate.[2]

Employment

Nonfarm payroll employment, according to the Bureau of Labor Statistics (BLS), rose by 292,000 in December, 2015.[3] The unemployment rate in December, 2015 was 5.0%. The BLS reported job gains in several industries, led by professional and business services, construction, health care and food and drinking places. Mining employment continued to decline.

Forecasters surveyed by the Federal Reserve Bank of Philadelphia predicted that the unemployment rate will average 5.3% during 2015, 4.8% in 2016, 4.7% in 2017, and 4.7% in 2018.[4]

Inflation

According to the BLS, inflation, as measured by changes in the Consumer Price Index for All Urban Consumers (CPI-U), was unchanged in November on a seasonally adjusted basis.[5] Over the previous 12 months, the index increased 0.5 percent before seasonal adjustment. The energy index fell 1.3 percent, with all of the major component indexes declining except electricity. The food index fell 0.1 percent, as the index for food at home fell 0.3 percent, with five of the six major grocery store food group indexes declining. The index for all items less food and energy rose 0.2 percent in November, the same increase as in September and October.

According to forecasters surveyed by the Federal Reserve Bank of Philadelphia, inflation is expected to average 0.9% in the fourth quarter of 2015.[6] Over the next ten years, forecasters expect CPI inflation to average 2.15% annually.

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1 U.S. Department of Commerce, Bureau of Economic Analysis, *Gross Domestic Product: Fourth Quarter 2015 (Advance Estimate)*, January 29, 2016

2 Federal Reserve Bank of Philadelphia, *Fourth Quarter 2015 Survey of Professional Forecasters*, November 13, 2015

3 United States Department of Labor, Bureau of Labor Statistics, *The Employment Situation: December 2015*, January 8 2016

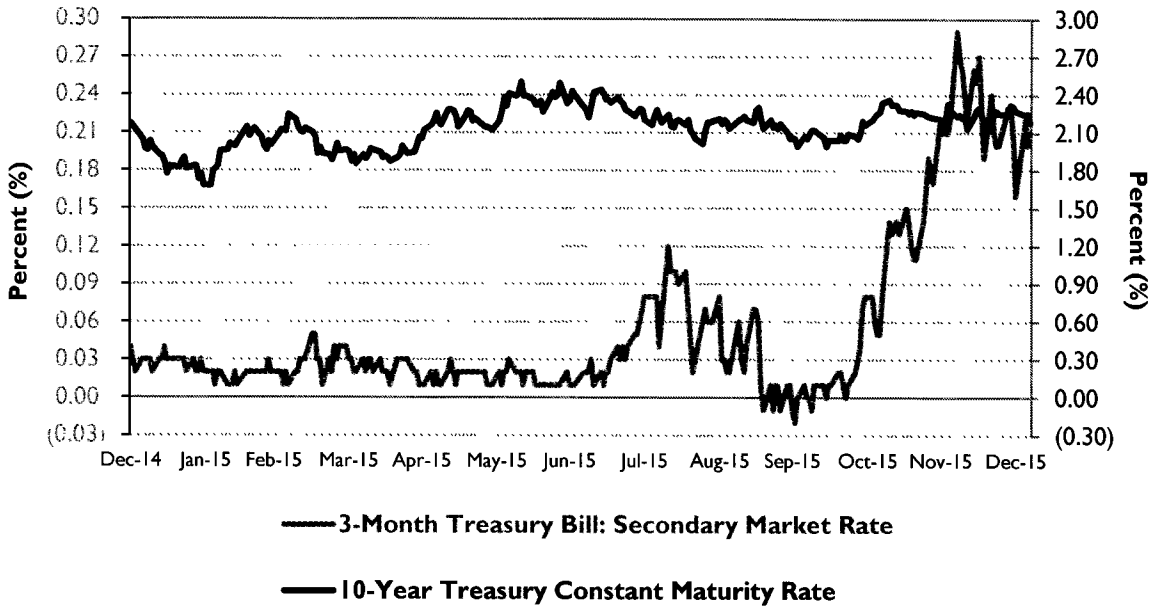
4 Federal Reserve Bank of Philadelphia, *Fourth Quarter 2015 Survey of Professional Forecasters*, November 13, 2015

5 United States Department of Labor, Bureau of Labor Statistics, *Consumer Price Index: November 2015*, December 15, 2015

6 Federal Reserve Bank of Philadelphia, *Fourth Quarter 2015 Survey of Professional Forecasters*, November 13, 2015

Interest Rates

The interest rate on the three-month Treasury bill changed from 0.02% as of January 1, 2015 to 0.16% as of December 31, 2015. The interest rate on the ten-year Treasury note changed from 2.12% as of January 1, 2015 to 2.27% as of December 31, 2015.



Source: Board of Governors of the Federal Reserve System (US)/FRED

For the three-month Treasury bill, forecasters surveyed by the Federal Reserve Bank of Philadelphia expected an interest rate of 0.34% by March 2016.[7] For the ten-year Treasury note, the same survey found a 10 year interest rate forecast of 2.45% in by March 2016.

As of December 31, 2015, the prime rate was 3.50% and the yield on Moody's Aaa-rated corporate bonds and Baa-rated corporate bonds was 4.04% and 5.54%, respectively.[8]

Corporate Profits

According to the BEA, profits from current production (corporate profits with inventory valuation and capital consumption adjustments) decreased $33.1 billion in the third quarter of 2015, compared to an increase of $70.5 billion in the second quarter of 2015, and an increase of $90.50 billion in the third quarter of 2014.[9]

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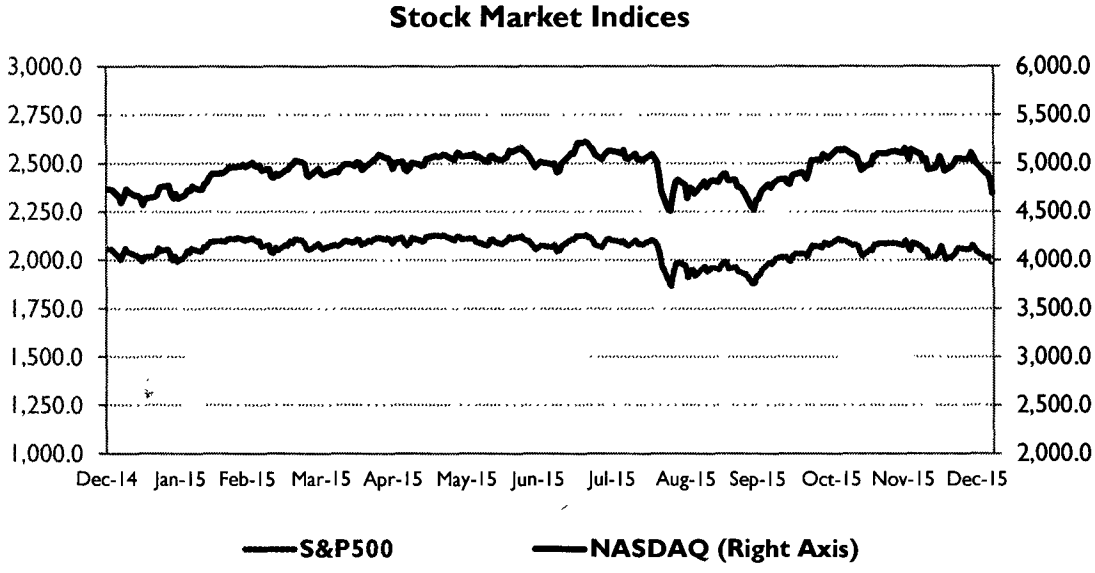
7 Federal Reserve Bank of Philadelphia, *Third Quarter 2015 Survey of Professional Forecasters*, November 13, 2015

8 Federal Reserve Bank of St. Louis, Federal Reserve Economic Data, Series: DPRIME, Bank Prime Loan Rate; DAAA, Moody's Seasoned Aaa Corporate Bond Yield©; and DBAA, Moody's Seasoned Baa Corporate Bond Yield©, last accessed January 8, 2016

9 Federal Reserve Bank of St. Louis, Federal Reserve Economic Data, *Series: CPROFIT, Corporate Profits with inventory Valuation Adjustment (IVA) and Capital Consumption Adjustments*, last accessed January 8, 2016

Stock Markets

The S&P 500 opened at 2,058.90 on January 2, 2015 and closed lower at 2043.9 on December 31, 2015. The NASDAQ Composite index opened at 4,736.05 on January 2, 2015 and closed higher at 5007.4 on December 31, 2015. [10]



Source: S&P Dow Jones Indices LLC/NASDAQ OMX Group/FRED

Consumer Confidence

The Conference Board reported that the Consumer Confidence Index improved in December to 96.5, from 92.6 in November.[11] The index is based on a survey of consumer perceptions of present economic conditions and expectations of future conditions. The survey is based on a representative sample of 5,000 U.S. households and is considered a leading indicator of future consumer expenditures and economic activity.

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[10] Federal Reserve Bank of St. Louis, Federal Reserve Economic Data, *Series: SP500, S&P500©, and NASDAQCOM*, NASDAQ Composite Index©, last accessed January 8, 2016

[11] The Conference Board, *Consumer Confidence Index*, December 29, 2015