

EXHIBIT 27

**VALUATION OF
WATER UTILITY PROPERTY
OF THE
HANOVER WATER WORKS COMPANY**

**LOCATED IN
THE TOWN OF HANOVER, NEW HAMPSHIRE**

**PREPARED FOR
THE HANOVER WATER WORKS COMPANY**

**VALUE ESTIMATE AS OF
DECEMBER 31, 2000**

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Direct capitalization is the process of converting an estimate of a single year's income expectancy into an indication of value in one direct step, either by dividing the income estimate by an appropriate income rate or by multiplying the income estimate by an appropriate income factor.⁴ The direct capitalization approach is market-based and works best when the components of the current income stream are similar to the future income expectations and there is readily available market data from which to develop a capitalization rate or factor.

Market data is examined to extract income and sales information for comparable properties. Typically the net operating income or pre-tax cash flow is divided by the sale price or equity price to obtain the direct capitalization rate. The factor or rate derived from a sale does not differentiate between the investor's return on and return of capital because in the analysis the investors expectations are not specified or quantified. It is assumed because it is derived from an actual sale, that the factor or rate satisfies a typical investor's expectations in the current market environment. It necessarily produces a value for the business.

The yield capitalization method is a procedure used to convert future benefits into present value by discounting each future benefit at an appropriate yield rate or by developing an overall rate that explicitly reflects the investment's income pattern, value change and yield rate. Like direct capitalization, yield capitalization should

⁴ The Appraisal of Real Estate, 11th ed. (Chicago: Appraisal Institute, 1998), p. 461.

reflect market behavior.⁵ Yield capitalization can more easily separate the value attributable to property from intangible business values than can direct capitalization.

The yield capitalization method can be applied through a discounted cash flow (DCF) analysis by a procedure in which a yield or discount rate is applied to a stream of projected periodic incomes plus a reversion. Reversion is the proceeds from an assumed sale of the property after being held by the investor for some period of time. The analysis examines the quantity, variability, timing and duration of the income stream, as well as the quantity and timing of the reversion and discounts each to a present value at a specified yield or discount rate.

The yield analysis by DCF of the HWWC's water utility property examines the future benefits and costs of ownership and applies both return on and of invested capital. The analysis is performed as follows:

1. Estimate the gross revenue based on authorized rates and likely future demand in the subject's marketplace.
2. Estimate and deduct the costs of operation that arise from owning and operating the facilities.
3. Determine a holding period for the property and apply the appropriate discount rate to the estimated net operating income to derive the net present value of the income stream, plus the value of the reversion at the end of the reasonably anticipated holding period.

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⁵ The Appraisal of Real Estate, 11th ed. (Chicago: Appraisal Institute, 1998), p. 462.

TABLE 5
DISCOUNTED CASH FLOW ANALYSIS
OF THE HANOVER WATER WORKS COMPANY WATER UTILITY PROPERTY
IN THE TOWN OF HANOVER, NH AS OF 12/31/00

Line No.	Year	1	2	3	4	5	6	7	8	9	10	11
		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
ECONOMIC ADJUSTMENTS												
1	Inflation											
2	Hanover Water											
3	Water Consumption (Ccf)											
4	Average Rate (\$/Ccf)											
REDACTED												
REVENUE												
5	Sales to Customers											
6	Fire Protection Charges											
7	SRF Step Increase											
8	TOTAL REVENUE											
EXPENSE												
9	Operations & Maintenance											
10	Taxes other than income											
11	SRF loan principal payment											
12	SRF loan interest payment											
13	Other loan interest											
14	SUBTOTAL O&M EXPENSE											
15	Allowance for Capital Expense . . % O&M)											
16	TOTAL EXPENSE											
17	NET OPERATING INCOME											
18	PRESENT VALUE OF NOI @											
19	PRESENT VALUE OF REVERSION @											
20												
21	INDICATED VALUE (Rounded)											
REDACTED												
22	Adjusted discount rate											
23	Reversion premium											

REDACTED

REVERSION @
SALES EXPENSE

NET REVERSION

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