Missouri Public Service Commission
P.O. Box 360
Jefferson City, Missouri 65102

Subject: WW-2009-0386

Thank you for the opportunity to try and address challenges and issues that plague small utility companies. Please find below a description of concerns I have in working with PSC rules, regulations, and processes in trying to manage a viable small sewer utility.

1. In general terms, the PSC rate case process and financial audit puts a very small financial "margin for error" on small companies as compared to larger utilities due to customer base and percentages swings in costs. Small companies have less room in their revenue streams to absorb cost when expenses increase, assets depreciate, increase in environmental regulations, and cost of repairs to aging infrastructure.

2. The PSC auditors are experts in finances and rate making theory whereas small companies typically cannot afford to keep financial experts on staff or hire experts (if a company does hire a consultant and the PSC / OPC decides the costs are too high, the costs will most likely be thrown out or significantly reduced). Since the rate case process is structured as an adversarial process, the small utility company is at a very decided disadvantage.

3. If a small utility company makes a sizeable capital investment in infrastructure assets (e.g., in the early years of company start up with little to no customer base), the company is given the opportunity to collect a rate of return, however, the customer base is very small or non-existent. How does a company earn a rate of return without unreasonable costs to the ratepayer? Once the customer base begins to grow and could possibly collect a rate of return, the assets have depreciated and rate of returns substantially decreased.

4. In general, investors/shareholders make an investment into a utility company which in turns makes a capital investment. The investor receives shares of stock looking to earn a rate of return. If the assets are on a 20 year depreciation schedule and the rate of return is 10%, and the investor make a $100,000 investment, they "have the opportunity" to receive 10,000 the 1st year, $9,500 the 2nd year, and so on. At the end of 20 years the investor would receive a total of $95,000 in returns for the $100,000 original investment. However, at the end of 20 years the shareholder owns shares of a company but the company value (shares) is $0 since the rate base/asset is now $0. How does a utility company build shareholder value?

5. There is no allowance for major infrastructure repairs/emergencies (cash reserves) in PSC rate making process/rules. The company has to secure debt or other funding to pay for the repair and file for a rate case later. Rate cases are a burden (costly

and time consuming) for small companies to execute and many rate cases take 6 – 9 months even for small utilities.

6. Rate cases establish expenses by looking in the rear view mirror. If a company files a rate case in January, the previous year's expenses will typically be used to established costs. By the time the rate case completes (6-9 months later) and the company's new rates take effect in September, the company is 9-21 months in time behind in prices. How can this lag be eliminated or lessened?

Please feel free to contact me regarding these items of concern.

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