

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Request of LW Sewer)
Corporation for a Rate Increase Pursuant to)
the Commission's Small Company Rate)
Increase Procedure)

Case No. SR-2005-0338
Tariff I.D. No. YS-2005-0897

**RECOMMENDATION REGARDING DISPOSITION
OF SMALL COMPANY RATE INCREASE REQUEST**

COMES NOW the Staff of the Missouri Public Service Commission ("Staff"), by and through Counsel, and for its Recommendation Regarding Disposition of Small Company Rate Increase Request states the following to the Missouri Public Service Commission ("Commission").

1. L W Sewer Company ("Company") initiated the subject small company rate increase request ("Request") by submitting a letter to the Secretary of the Commission, which was stamped "Received" at the Commission's offices on May 3, 2004. The Company submitted its Request under the provisions of Commission Rule 4 CSR 240-3.330, Sewer Utility Small Company Rate Increase Procedure ("Small Company Rate Increase Procedure").

2. Consistent with the Small Company Rate Increase Procedure, the Staff, the Company and the Office of the Public Counsel ("OPC") have negotiated and executed a *Unanimous Agreement Regarding Disposition of Small Sewer Company Rate Increase Request* ("Disposition Agreement") regarding the Company's Request.

3. By a letter that was stamped "Received" at the Commission's offices on March 31, 2005¹, the Company submitted revised tariff sheets to the Commission for the purpose of

¹ Unless noted otherwise, all dates hereafter refer to the year 2005.

implementing the provisions of the above-referenced Disposition Agreement, and the instant case was established. (The revised tariff sheets bore a proposed effective date of May 1.)

4. On April 15, the Staff filed the above-referenced Disposition Agreement in the case papers for this case.

5. On April 20, the Staff filed a motion to suspend the Company's pending revised tariff sheets until May 31, due to the fact that the Company's 2004 annual report had not yet been received, although it had reportedly been mailed on April 14. (The report was subsequently received at the Commission's offices on April 25.)

6. On April 26, the Commission issued an order suspending the Company's pending revised tariff sheets until May 31.

7. On April 27, the Commission issued an order directing the Staff to file its recommendation in this case by May 13, and to include in its recommendation the following:

(a) an explanation of why the Company's 2004 annual report was late and what remedy, if any, the Commission should pursue; and

(b) an explanation of how the parties arrived at the \$600 connection charge.

8. The Staff's explanations required by the Commission's April 27 order and the Staff's recommendations to the Commission regarding this case are set out in the Staff's Official Case File Memorandum, which is included in the document that is attached hereto and labeled as Appendix A. (The explanations are on pages 4 and 5 of the Staff Memorandum, and the recommendations are on page 6 of the Staff Memorandum.) Various documents regarding the Staff's investigation of the Company's Request, including the Staff's rate design and audit workpapers and a letter from the Company regarding the submission of its 2004 annual report, are also included with the Staff's memorandum in Appendix A.

9. The Commission has the authority to approve the subject proposed tariff revisions in accordance with Sections 393.140(11) and 393.150, RSMo 2000. In addition, Section 393.130.1, RSMo 2000 provides that all charges made by any sewer corporation for sewer service rendered or to be rendered shall be "just and reasonable". The Staff's and the OPC's agreements with the proposed tariff revisions are evidence that the rates and charges contained in the tariff revisions are just and reasonable, as that statute requires.

10. The procedure followed in this case complies with the requirements of the Small Company Rate Increase Procedure in general, and with 4 CSR 240-3.330(1)(C) in particular.

WHEREFORE, the Staff respectfully requests that the Commission issue an order consistent with the recommendations set out on page 6 of the Staff's Official Case File Memorandum.

Respectfully Submitted,

DANA K. JOYCE
General Counsel

/s/ Keith R. Krueger

Keith R. Krueger
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Missouri Bar No. 23857

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Missouri Public Service Commission

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed with first class postage, hand-delivered, transmitted by facsimile or transmitted via e-mail to all counsel and/or parties of record this 13th day of May 2005.

/s/ Keith R. Krueger

Keith R. Krueger

APPENDIX A

STAFF MEMORANDUM & ATTACHMENTS

CASE NO. SR-2005-0338

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Staff Memorandum

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. SR-2005-0338 - - - L W Sewer Corporation

FROM: Dale W. Johansen – Project Coordinator
Water & Sewer Department
Jeremy Hagemeyer – Auditing Department
Rosella Schad – Engineering & Management Services Department
Gary Bangert – Engineering & Management Services Department
Matt Barnes – Financial Analysis Department
James M. Russo – Water & Sewer Department
Steve Jungmeyer – Water & Sewer Department

<u>/s/ Dale W. Johansen</u>	<u>05/13/05</u>
Project Coordinator	Date

<u>/s/ Keith Krueger</u>	<u>05/13/05</u>
General Counsel's Office	Date

SUBJECT: Staff Recommendation for Approval of Tariff Revisions, Approval of Depreciation Rates and Approval of Unanimous Agreement Regarding Disposition of Small Sewer Company Rate Increase Request

DATE: May 13, 2005

BACKGROUND

L W Sewer Corporation ("Company") initiated the subject small company rate increase request ("Request") by submitting a letter to the Secretary of the Commission, which was received at the Commission's offices on May 3, 2004. The Company submitted its Request under the provisions of Commission Rule 4 CSR 240-3.330, Sewer Utility Small Company Rate Increase Procedure ("Small Company Rate Increase Procedure").

By its Request, the Company was seeking Commission approval of customer rates intended to generate an increase of \$28,524.60 in its total annual sewer service operating revenues. As stated by the Company in its Request letter, the reasons for the requested increase in its sewer service operating revenues are: increases in operation and maintenance expenses; required purchase of Worker's Compensation insurance; expansion of existing facilities; increases in the Department of Natural Resources' annual sewer discharge permit fees and increases in labor costs.

The Company provides sewer service to approximately 200 customers, all of which are residential customers. The Company's current rates (those resulting from the Company's last rate case) went into effect on July 1, 1996.

Upon receipt of the Company's letter that initiated the Request, personnel in the Commission's Data Center entered the letter into the Commission's electronic filing and information system ("EFIS") and the system assigned Work I.D. No. QS-2004-0010 to the Request. The Company's letter was then forwarded to the Commission's Water & Sewer Department ("W/S Dept") for processing under the Small Company Rate Increase Procedure. A copy of the Company's request letter is identified as item number 1 in the EFIS tracking file for the Request.

By a letter dated June 25, 2004, which Staff members in the W/S Dept had previously approved, the Company notified its customers of the Request. As a part of this initial customer notice, the Company requested that its customers' questions or comments be directed to the Commission Staff and/or the Office of the Public Counsel ("OPC"). A copy of the initial customer notice is identified as item number 2 in the EFIS tracking file for the Request.

STAFF'S INVESTIGATION AND CONCLUSIONS

As noted at the beginning of this Memorandum, Staff members from the Accounting, Engineering & Management Services, Financial Analysis and Water & Sewer Departments participated in the Staff's investigation of the Company's Request. All Staff participants, and all of their respective up-line supervisors, were provided the opportunity to review and comment on this Memorandum prior to it being filed. Jim Russo of the W/S Dept created the initial draft of this Memorandum and comments received from the reviewers were incorporated therein to create this final version of the Memorandum.

In response to the Company's initial customer notice, the W/S Dept Staff received 2 phone calls and 2 letters from customers regarding the proposed increase. These customer responses addressed the level of the proposed increase and overflows due to infiltration. Copies of the customers' letters and the W/S Dept's customer contact log are included in item number 4 in the EFIS tracking file for the Request. The W/S Dept provided copies of the customers' letter, and its customer contact log, to the OPC and the Company shortly after the customer comment period ended.

Based upon an audit of the Company's books and records, a determination of the Company's rate base investments and necessary operating expenses, an evaluation of the Company's depreciation rates and an analysis of the Company's capital structure and cost of capital, and an investigation of the Company's business and system operations, the Staff concluded that an increase of \$4,740 in the Company's annual sewer service operating revenues is warranted.

In addition to its conclusion regarding the increase in the Company's annual operating revenues, the Staff concluded that new depreciation rates need to be prescribed for the Company, and that certain changes in the Company's business operations and system operations are warranted.

On October 28, 2004, the Staff forwarded information regarding the above items to representatives of the Company and the OPC for their review and response.

RESPONSES TO STAFF'S FINDINGS AND SUBSEQUENT ACTIONS

Pursuant to negotiations held subsequent to the Company's and the OPC's receipt of the above-referenced information regarding the results of the Staff's investigation of the Company's Request, a written *Unanimous Agreement Regarding Disposition of Small Company Rate Increase Request* ("Disposition Agreement") was reached between the Staff, Company and OPC ("the Parties"). The Parties also reached an agreement regarding the tariff revisions needed to implement the terms of the Disposition Agreement. (Because the Disposition Agreement is between the Staff, the Company and the OPC, the Company was not required to send a notice to its customers regarding the rates and charges that would result from implementation of the provisions of this Disposition Agreement, and the OPC was not provided the opportunity to request a local public hearing.)

The Disposition Agreement reflects the following agreements: (1) that an increase of \$4,740 in the Company's sewer annual operating revenues is necessary; (2) that certain changes to the Company's administrative operations are appropriate; (3) that new depreciation rates need to be prescribed for the Company; (4) that the rates included in the above-referenced agreed-upon tariff revisions are designed to generate revenues sufficient to recover the Company's total annualized cost of service; and (5) that the rates included in the above-referenced agreed-upon tariff revisions are just and reasonable. (The specific agreements between the Company, Staff and OPC are set out on page 2 of the Disposition Agreement, which the Staff filed in this case on April 15, 2005, and which can be found in the EFIS case file as item number 3.)

By a letter that was stamped "Received" by personnel in the Commission's Data Center on March 31, 2005*, the Company submitted revised tariff sheets including the agreed-upon tariff revisions that are necessary to implement the terms of the Disposition Agreement. Upon receipt of that tariff filing, Data Center personnel entered the filing into EFIS and the instant case was created (the transmittal letter and revised tariff sheets are included in item number 1 in the EFIS case file). As required by the Small Company Rate Increase Procedure, the subject revised tariff sheets bore an effective date that was more than 30 days past the issue date. As is also required by the Small Company Rate Increase Procedure, the above-referenced Disposition Agreement has been filed in the case papers. (As noted previously, the Staff filed the Disposition Agreement on April 15.)

* Unless noted otherwise, all dates hereafter refer to the year 2005.

ADDITIONAL INFORMATION

On April 20 the Staff filed a motion to suspend the Company's pending tariff revisions until May 31 because as of that date the Company's CY2004 annual report had not yet been received by the Commission. An order suspending the tariff was issued on April 26. By an order issued on April 27, the Commission ordered the Staff to file its recommendation for this case no later than May 13, and further directed the Staff to include in its recommendation an explanation of why the Company's 2004 annual report was filed late and what remedy, if any, the Commission should pursue, and an explanation of how the parties arrived at the \$600 connection charge.

Regarding the matter of the Company's CY2004 annual report, the Staff offers the following information. In anticipation of filing its recommendation for this case on April 20, as originally ordered by the Commission, Jim Russo of the Staff checked with the Company on April 18 to see if the Company's CY2004 annual report had been mailed to the Commission. A representative of the Company informed Mr. Russo that the annual report was placed in the mail at the Hillsboro, Missouri post office the afternoon of April 14. Mr. Russo discussed the missing report with a Company representative again on April 19 and informed that representative that if the annual report did not arrive by April 20 the Staff would file a motion recommending suspension of the Company's pending tariff revisions, which was done as noted above. During this discussion, Mr. Russo agreed to wait until Monday, April 25 before taking any further action regarding the missing annual report. On April 25, Mr. Russo checked with personnel in the Commission's Data Center and was told that the Company's CY2004 annual report had been received in the mail that morning. Mr. Russo immediately notified a representative of the Company that the annual report had been received and was told that a second copy of the report had just been sent to the Commission, via certified mail. (The second copy of the Company's annual report was received at the Commission's offices on April 28.) On May 4, the Staff received a letter from the Company regarding the submission of its annual report, which included receipts showing that the report was mailed to the Commission on April 14 and again on April 25. Based on its good working relationship with the Company during the pendency of the subject small company rate increase request, and the fact that the Company mailed the original annual report on April 14, as evidenced by the mailing receipt that it provided with its May 4 letter, the Staff does not believe that any further action needs to be taken by the Commission regarding the fact that the report was received late.

Regarding the matter of the Company's service connection charge, the Staff offers the following information. First, the Staff notes that the \$600 connection charge has been in the Company's tariff since mid-1976. Although the Staff does not have any documentation showing how the \$600 was calculated at that point in time, the Staff notes that it was, in part, related to the reimbursement of main extension costs paid for by a developer or a customer in situations where other customers connected to the extension after it was originally made and paid for. Additionally, the Staff notes that such connection fees are routinely reviewed in the context of small company rate increase requests, and that it believes that based on today's costs the Company's \$600 connection charge is close to the Company's actual cost of extending service to individual customers.

Regarding service connection charges in general, the Staff notes that the purpose of such charges is to recover a company's cost of extending service to new customers so that the general body of rate payers is not paying for such extensions through a company's "regular" customer rates. Lastly, the Staff notes that other recent small company rate increase request submissions to the Commission indicate that such charges should be as much as \$800.

Regarding the amount of time that it has taken to complete this small company rate increase request, the Staff notes that the Company and the Staff agreed on three occasions to an extension of the normal 150-day tariff filing "deadline" that applies to such requests. Generally, these extensions were related to Company requests for the Staff to consider additional information in completing its cost-of-service analysis. Consistent with established internal operating procedures, these extension agreements were reduced to writing and submitted to the EFIS tracking file for the Company's Request (items 3, 5 & 6).

In addition to the documents that have already been submitted to the EFIS tracking file and EFIS case file for this case, as noted previously herein, the following documents are included with this Memorandum: (1) the Staff's ratemaking income statement, rate design worksheet and customer bill comparison are included in Attachment 1; (2) the Staff's revenue requirement audit workpapers are included in Attachment 2; (3) the Staff's overview of the Company and its customer service procedures and practices is included in Attachment 3; and (4) the letter and receipts regarding the Company's mailing of its CY2004 annual report are included in Attachment 4.

Pursuant to a review of available electronic information maintained by the Commission's Budget & Fiscal Services Department and Data Center, and in EFIS, the Staff notes that the Company was current on the payment of its Commission assessments and on the filing of its Commission annual reports when it submitted its Request, as is required by the Small Company Rate Case Procedure. The Staff also notes that the Company is current on those matters as of the writing of this Memorandum. The assessment information reviewed covers fiscal years 1996 through 2005 and the annual report information reviewed covers calendar years 1997 through 2004.

The Staff notes that the Company has no other matters pending before the Commission, and that approval of the subject tariff revisions will thus not affect any other matter before the Commission with regard to the Company.

The Staff notes that the Company received no "notices of violations" from the Missouri Department of Natural Resources during the test year used for the Request and has also not received any since the end of the test year to date.

Lastly, the Staff notes that the Disposition Agreement contains provisions allowing the Staff to answer Commissioner questions regarding this case during any Commission agenda session during which the case is noticed to be considered by the Commission.

STAFF'S RECOMMENDATIONS

Based upon the above, the Staff recommends that the Commission issue an order in this case that:

- * Approves the revised tariff sheets that the Company filed on March 31 to be effective for service rendered on and after May 31;
- * Approves the schedule of depreciation rates that is included as Attachment 4 to the Disposition Agreement submitted in this case as the schedule of depreciation rates prescribed for the Company's use;
- * Approves the Disposition Agreement submitted in this case; and
- * Directs the Company to comply with the terms of the Disposition Agreement.

List of Attachments

- Attachment 1: Ratemaking Income Statement, Rate Design Worksheet and Customer Bill Comparison
- Attachment 2: Revenue Requirement Audit Workpapers
- Attachment 3: Overview of Company and Customer Service Operations
- Attachment 4: Company Letter & Receipts re: Mailing of Annual Report

Memo Attachment 1

Ratemaking Income Statement, Rate Design
Worksheet & Customer Bill Comparison

L W Sewer Corporation

Rate Making Income Statement

Operating Revenues at Current Rates

1	Tariffed Rate Revenues *	\$	31,474
2	Other Operating Revenues *	\$	20
3	Total Operating Revenues	\$	31,494
4	* See "Revenues - Current Rates" for Details		

Cost of Service

Item	Amount
1 Pumping Equipment-Purchased Power	\$ 2,116
2 Sewer Treatment Expense-Chemicals	\$ 899
3 Sludge Removal	\$ 2,100
4 Maintenance of Parts/Equipment	\$ 4,987
5 Maintenance Expense-Materials & Supplies	\$ -
6 Water Meters	\$ -
7 Administration & General - Salaries	\$ 13,955
8 Office Supplies	\$ 672
9 Bookkeeping	\$ 113
10 Insurance	\$ 639
11 Workman's Compensation Insurance	\$ 3,214
12 Postage	\$ 270
13 Permits and Registration Fees	\$ 1,045
14 Regulatory Commission Expense	\$ 2,550
15 Telephone & Pagers	\$ 300
16 Sub-Total Operating Expenses	\$ 32,860
17 Property Taxes	\$ -
18 MO Franchise Taxes	\$ -
19 Employer FICA Taxes	\$ -
20 Federal Unemployment Taxes	\$ -
21 State Unemployment Taxes	\$ -
22 State & Federal Income Taxes	\$ -
23 Sub-Total Taxes	\$ -
24 Depreciation Expense	\$ 1,350
25 Amortization of Utility Plant (computer system)	\$ -
26 Sub-Total Depreciation/Amortization	\$ 1,350
27 Return on Rate Base	\$ 2,024
28 Total Cost of Service	\$ 36,234
29 Overall Revenue Increase Needed	\$ 4,740

L W Sewer Corporation

Development of Tariffed Rates

Agreement is to increase currently tariffed rates by a percentage equal to the agreed-upon overall revenue increase divided by the revenues generated by the currently tariffed rates.

Revenues Generated by Current Tariffed Rates	\$ 31,474
Agreed-Upon Overall Revenue Increase	\$ 4,740
Percentage Increase Needed	15.060%

Metered Customer Rates

	Current Service Charge	Proposed Service Charge	Current Usage Rate	Proposed Usage Rate
Monthly	\$ 13.18	\$ 15.16	\$ -	\$ -
Quarterly	\$ 39.54	\$ 45.49	\$ -	\$ -

L W Sewer Corporation

Residential Customer Bill Comparison

Rates			
<u>Current Base Service Charge</u>	<u>Proposed Base Service Charge</u>	<u>Current Usage Rate</u>	<u>Proposed Usage Rate</u>
\$13.18	\$15.16	\$0.00	\$0.00

current service charge is monthly charge

MONTHLY BILL COMPARISON

Current Rates

Service Charge	\$ 13.18
Usage Charge	\$ -
Total Bill	\$ 13.18

Proposed Rates

Service Charge	\$ 15.16
Usage Charge	\$ -
Total Bill	\$ 15.16

INCREASES

Service Charge

\$ Increase	\$1.98
% Increase	15.06%

Usage Charge

\$ Increase	\$0.00
% Increase	0.00%

Total Bill

\$ Increase	\$1.98
% Increase	15.06%

Memo Attachment 2

Revenue Requirement Audit Workpapers

LW Sewer Corporation
 Informal Rate/Certificate Case
 Tracking Number QS-2004-0010
 Test Year Ending 5/31/2004
 RATE DESIGN SCHEDULE

Rate Making Income Statement - Water

<u>A</u> Description	<u>B</u> Account Number (Optional)	<u>C</u> Staff Annualized	<u>D</u>	<u>E</u>
Annualized Revenues	(1)	\$31,494		
OPERATIONS EXPENSES	(2)		Customer Charge	Commodity
Management Salary (1)		\$0		
Support Staff Salary (1)		\$5,206		
Operators Salary/Contract Services (1)		\$8,749		
Meter Reading		\$0		
Electricity-(Pumping)		\$2,116		
Chemicals- (Chlorine)		\$899		
Total Operations Expense		\$16,969		
MAINTENANCE EXPENSES				
Sludge Removal		\$2,100		
Materials & Supplies		\$0		
System Maintenance		\$4,987		
Total Maintenance Expense		\$7,087		
ADMINISTRATIVE & GENERAL EXPENSES				
Professional Services- Accounting		\$113		
Professional Services- Legal		\$0		
Workman's Compensation Expense		\$3,214		
Office Rent		\$0		
Office Utilities- Electricity, Gas, Water		\$0		
Telephone & Pagers		\$300		
Postage		\$270		
Office Supplies - Misc Office Exp.		\$672		
Office Repairs		\$0		
Billing Expense		\$0		
Insurance		\$639		
Other Misc. Expenses		\$0		
Total Administrative and General		\$5,207		
OTHER OPERATING EXPENSES				
Taxes Other Than Income				
Property		\$0		
PSC Assessment		\$2,550		
DNR Assessment		\$1,000		
Sec. Of State - Annual Report Fee		\$45		
Depreciation		\$1,350		
TOTAL EXPENSES BEFORE INCOME TAX		\$34,208		
Return on Investment & Current Income Taxes	(3)	2,024		
TOTAL COST OF SERVICE		36,232	\$0	\$0
Less: Miscellaneous Revenues	(4)	20	20	
COST TO RECOVER IN RATES		36,212	-20	0
INCREMENTAL INCREASE IN RATE REVENUES		4,738	15.04%	
REQUESTED INCREASE IN REVENUES		\$28,525		

LW Sewer Corporation
Informal Rate/Certificate Case
Tracking Number QS-2004-0010
Test Year Ending 5/31/2004
REVENUE SUMMARY SCHEDULE

ANNUALIZED & NORMALIZED REVENUES

Line Number	A Description	Residential		Commercial		Class #3		Total	
		B Amount	C Amount	D Amount	E Amount	F Amount	G Amount	H Amount	I Amount
1	<u>Customer Charge Revenues:</u>								
2	Customer Number	199		-				199	
3	Customer Bills Per year	796		-				796	
4	Existing Quarterly Customer Charge Tariff	<u>\$39.54</u>		<u>\$0.00</u>					
5	Annualized Customer Charge Revenues		\$31,474		\$0				\$31,474
6									
7		-		-				-	
8		<u>-</u>		<u>-</u>				<u>-</u>	
9		-		-				-	
10		<u>\$0.00</u>		<u>\$0.00</u>					
11			<u>\$0</u>		<u>\$0</u>				<u>\$0</u>
12			\$31,474		\$0				\$31,474
13	Miscellaneous Revenues - Late fees		20.17						\$20
14	Miscellaneous Revenues - 1 connection fee		<u>\$0</u>		<u>\$0</u>				<u>\$0</u>
			\$20						\$20
15	Total Annualized Sewer Service Revenues		<u>\$31,494</u>		<u>\$0</u>				<u>\$31,494</u>

To page 1
Annualized Revenues

LW Sewer Corporation
Informal Rate/Certificate Case
Tracking Number QS-2004-0010
Test Year Ending 5/31/2004
EXPENSE SCHEDULE

Line Number	A Description	B Account Number (Optional)	C Company/ Test Year Amount	D Staff Annualized	E Difference (1)	F Adjustment Number
1	OPERATIONS EXPENSES					
2	Management Salary (1)		\$0	\$0	\$0	
3	Support Staff Salary (1)		\$4,929	\$5,206	\$277	S-1
4	Operators Salary/Contract Services (1)		\$7,000	\$8,749	\$1,749	S-2
5	Meter Reading		\$0	\$0	\$0	
6	Electricity-(Pumping)		\$1,919	\$2,116	\$197	S-3
7	Chemicals- (Chlorine)		\$959	\$899	-\$60	S-4
8	Total Operations Expense		\$14,806	\$16,969	\$2,163	
9	MAINTENANCE EXPENSES					
10	Sludge Removal		\$0	\$2,100	\$2,100	S-5
11	Materials & Supplies		\$0	\$0	\$0	
12	System Maintenance		\$4,769	\$4,987	\$218	S-6
13	Total Maintenance Expense		\$4,769	\$7,087	\$2,318	
14	ADMINISTRATIVE & GENERAL EXPENSES					
15	Professional Services- Accounting		\$113	\$113	\$0	
16	Professional Services- Legal		\$0	\$0	\$0	
17	Workman's Compensation Expense		\$0	\$3,214	\$3,214	S-7
18	Office Rent		\$0	\$0	\$0	
19	Office Utilities- Electricity, Gas, Water		\$0	\$0	\$0	
20	Telephone & Pagers		\$0	\$300	\$300	S-8
21	Postage		\$183	\$270	\$87	S-9
22	Office Supplies - Misc Office Exp.		\$422	\$672	\$250	S-10
23	Office Repairs		\$0	\$0	\$0	
24	Billing Expense		\$0	\$0	\$0	
25	Insurance		\$0	\$639	\$639	S-11
26	Other Misc. Expenses		\$0	\$0	\$0	
27	Total Administrative and General		\$717	\$5,207	\$4,490	
24	OTHER OPERATING EXPENSES					
25	Taxes Other Than Income					
26	Property		\$0	\$0	\$0	
27	PSC Assessment		\$2,869	\$2,550	-\$318	S-12
28	DNR Assessment		\$1,000	\$1,000	\$0	
29	Sec. Of State - Annual Report Fee		\$45	\$45	\$0	
30	Depreciation		\$2,040	\$1,350	-\$690	S-13
31	TOTAL EXPENSES BEFORE INCOME TAX		\$26,246	\$34,208	\$7,962	

(1) Automatic Description Required Description Should Provide Breakdown of Salaries

LW Sewer Corporation
Informal Rate/Certificate Case
Tracking Number QS-2004-0010
Test Year Ending 5/31/2004
Expense Adjustment Schedule

<u>A</u> Expense Adjustment Number	<u>B</u> Subset Adjustment	<u>C</u> Adjustment Description	<u>D</u> Account Number	<u>E</u> Adjustment Subtotal (2)	<u>F</u> Total Adjustment Amount
S-1 (1)		Support Staff Salary Annualizes Support Staff salary and payroll taxes paid by LW	0	\$277	\$277
		Total		\$277	
S-2 (1)		Operators Salary/Contract Services Reflects higher contract cost for 2004 Annualizes Mr. Moynihan's contract wages	0	\$1,299 \$450	\$1,749
		Total		\$1,749	
S-3 (1)		Electricity-(Pumping) Removes late fees	0	\$197	\$197
		Total		\$197	
S-4 (1)	A	Chemicals- (Chlorine) Removes unreturned deposit	0	-\$60	-\$60
		Total		-\$60	
S-5		Sludge Removal Annualizes Sludge Removal		\$2,100	\$2,100
		Total		\$2,100	
S-6	A	System Maintenance Difference between Test Year and 5-year average of repairs accounts	0	\$218	\$218
		Total		\$218	
S-7		Workman's Compensation Expense Annualization for Workman's Comp based on provided estimate		\$3,214	\$3,214
		Total		\$3,214	
S-7		Postage Annualization for current customer level		\$87	\$87
		Total		\$87	
S-8		Telephone Adds an allowance for telephone		300	\$300
S-8		Office Supplies - Misc Office Exp. Computer Expense		\$250	\$250
S-9		Insurance Annual Expense not reflected in test year		\$639	\$639
S-10		PSC Assessment reduces psc assessment to current rates		-\$318	-\$318
S-11		Depreciation Annualizes using rates supplied by Eng. & Mgmnt dept.		-\$690	-\$690
Total Expense Adjustments				\$7,962	

LW Sewer Corporation
Informal Rate/Certificate Case
Tracking Number QS-2004-0010
Test Year Ending 5/31/2004

RATE BASE, RETURN on INVESTMENT
and INCOME TAX SCHEDULE

Line Number	<u>A</u> Rate Base Description	<u>B</u> Dollar Amount	
1	Plant In Service	\$37,259	From Plant Schedule
2	Less Accumulated Depreciation Reserve	<u>\$8,582</u>	From Depreciation Reserve Schedule
3	Net Plant In Service	\$28,677	
4	Other Rate Base Items:	<u>\$231</u>	Materials & Supplies
5	Total Rate Base	\$28,907	
6	Total Weighted Rate of Return Including Income Tax	<u>7.00%</u>	From Return & Taxes
7	Required Return & Income Tax	<u>\$2,024</u>	To Page 1

LW Sewer Corporation
Informal Rate/Certificate Case
Tracking Number QS-2004-0010
Test Year Ending 5/31/2004
Rate of Return Including Income Tax

		<u>A</u>		<u>B</u>	<u>formulas</u>
1	State Income Tax Rate Statutory / Effective	<u>6.27%</u>	(2)	<u>0.00%</u>	$(1 - (B2 \times .5)) \times A1$
2	Federal Income Tax Rate Statutory / Effective	<u>15.00%</u>	(1) & (2)	<u>0.00%</u>	$(1 - B1) \times A2$
3	Composite Effective Income Tax Rate			<u>0.00%</u>	$B1 + B2$
4	Equity Tax Factor			<u>1.0000</u>	$1 / (1 - B3)$
5	Recommended Weighted Rate of Return on Equity - Common and Preferred			<u>7.00%</u>	From Capital Structure
6	Weighted Rate of Return on Equity Including Income Tax			<u>7.000%</u>	$B4 \times B5$
7	Recommended Weighted Rate of Return on Debt - Long-Term and Short-Term			<u>0.00%</u>	From Capital Structure
8	Total Weighted Rate of Return Including Income Tax			<u><u>7.00%</u></u>	$B6 + B7$

To Page 5
Rate Base

(1)

Tax Rate Table

<u>Net Income</u>	<u>Tax Rate</u>
\$0 - 50,000	15%
\$50,001 - 75,000	25%
\$75,001 - 100,000	34%
\$100,001 - 335,000	39%
\$335,001 - and over	34%

(2) Insert 0s For The Tax Rates If Sub-Chapter S Corporation

LW Sewer Corporation
Informal Rate/Certificate Case
Tracking Number QS-2004-0010
Test Year Ending 5/31/2004
Capital Structure Schedule

Line Number	<u>A</u> Description	<u>B</u> Dollar Amount	<u>C</u> Percentage of Total Capital Structure	<u>D</u> Embedded Cost of Capital	<u>E</u> Weighted Cost of Capital
1	Common Stock	\$26,288	100.00%	7.00%	7.000%
2	Preferred Stock	\$0	0.00%	0.00%	0.000%
3	Long Term Debt	\$0	0.00%	0.00%	0.000%
4	Short Term Debt	<u>\$0</u>	<u>0.00%</u>	0.00%	<u>0.000%</u>
5	TOTAL CAPITALIZATION	<u><u>\$26,288</u></u>	<u><u>100.00%</u></u>		<u><u>7.0000%</u></u>

To Page 6
Rate of Return
& Taxes

LW Sewer Corporation
Informal Rate/Certificate Case
Tracking Number QS-2004-0010
Test Year Ending 5/31/2004
Plant In Service

Line Number	A Account # (Optional)	B Plant Account Description	C Total Plant	D Adjustment Number	E Adjustments	F As Adjusted Plant
1		LAND AND STRUCTURES				
2	310	Land and Land Rights	\$0		\$0	\$0
3	311	Structures and Improvements	\$2,029		\$0	\$2,029
4		Total Land and Structures	\$2,029		\$0	\$2,029
5		COLLECTION PLANT				
6	352.1	Collection Sewers - Force	\$0		\$0	\$0
7	352.2	Collection Sewers - Gravity	\$34,268	P-1	-\$13,825	\$20,443
8	353	Other Collection Plant Facilities	\$0		\$0	\$0
9	354	Services to Customers	\$0			\$0
10	355	Flow Measuring Devices	\$3,049	P-2	-\$3,049	\$0
11		Total Collection Plant	\$37,317		-\$16,874	\$20,443
12		PUMPING PLANT				
13	362	Receiving Wells and Pump Pits	\$0			\$0
14	363	Pumping Equipment (Elec., Diesel, other)	\$24,148	P-3	-\$18,833	\$5,316
15		Total Pumping Plant	\$24,148		-\$18,833	\$5,316
16		TREATMENT PLANT				
17	372	Oxidation Lagoon	\$0			\$0
18	373	Treatment and Disposal Equipment	\$36,380	P-4	-\$27,389	\$8,991
19	374	Plant Sewers	\$0			\$0
20	375	Outfall Sewer Lines	\$0			\$0
21	376	Other Treatment and Disposal Plant Equipmer	\$0			\$0
22		Total Treatment Plant	\$36,380		-\$27,389	\$8,991
23		GENERAL PLANT				
24	391.1	Office Furniture & Equipment	\$2,844	P-5	-\$2,364	\$480
25	392	Transportation Equipment	\$0			\$0
26	393	Other General Equipment	\$0			\$0
27		Total General Plant	\$2,844		-\$2,364	\$480
28						
29		TOTAL PLANT IN SERVICE	\$102,719		-\$65,460	\$37,259
30						To Pages 5 & 12
31						To Rate Base & Depereciation Schedules

LW Sewer Corporation
 Informal Rate/Certificate Case
 Tracking Number QS-2004-0010
 Test Year Ending 5/31/2004
 Schedule of Adjustments for
 Plant In Service

<u>A</u> Plant Adjustment Number	<u>B</u> Plant In Service Adjustments Description	<u>C</u> Adjustment Subtotal	<u>D</u> Total Adjustment Amount
P-1	Collection Sewers - Gravity		-13,825
	1 To remove EIERA related plant	(\$5,399)	
	2 To remove Contributed Plant	(\$8,426)	
P-2	Flow Measuring Devices		-3,049
	To remove EIERA related Plant	(\$3,049)	
P-3	Pumping Equipment (Elec., Diesel, other)		-18,833
	To remove EIERA related plant	-\$18,833	
P-4	Treatment and Disposal Equipment		-27,389
	1 To remove EIERA related plant	-26389.11	
	2 To remove Contributed Plant	-1000	
P-5	Retire Computer	-2363.96	-2363.96
	Total Plant Adjustments		<u><u>-\$65,460</u></u>

LW Sewer Corporation
 Informal Rate/Certificate Case
 Tracking Number QS-2004-0010
 Test Year Ending 5/31/2004
 Accumulated Depreciation Reserve

Line Number	A Account Number	B Depreciation Reserve Description	C Total Reserve	D Adjustment Number	E Adjustments	F As Adjusted Reserve
1		LAND AND STRUCTURES				
2	310	Land and Land Rights	\$0		\$0	\$0
3	311	Structures and Improvements	\$275			\$275
4		Total Land and Structures	\$14,032,571		\$0	\$275
5						
6		COLLECTION PLANT				\$0
7	352.1	Collection Sewers - Force	\$0			\$0
8	352.2	Collection Sewers - Gravity	\$2,166	R-1	-\$1,004	\$1,162
9	353	Other Collection Plant Facilities	\$0			\$0
10	354	Services to Customers	\$0			\$0
11	355	Flow Measuring Devices	\$319	R-2	-\$319	\$0
12		Total Collection Plant	\$2,485		-\$1,323	\$1,162
13						
14		PUMPING PLANT				
15	362	Receiving Wells and Pump Pits	\$0			\$0
16	363	Pumping Equipment (Elec., Diesel, other)	\$15,442	R-3	-\$13,940	\$1,502
17		Total Pumping Plant	\$15,442		-\$13,940	\$1,502
18						
19		TREATMENT PLANT				
20	372	Oxidation Lagoon	\$0			\$0
21	373	Treatment and Disposal Equipment	\$14,425	R-4	-\$9,141	\$5,284
22	374	Plant Sewers	\$0			\$0
23	375	Outfall Sewer Lines	\$0			\$0
24	376	Other Treatment and Disposal Plant Equipment	\$0			\$0
25		Total Treatment Plant	\$14,425		-\$9,141	\$5,284
26						
27		GENERAL PLANT				
28	391.1	Office Furniture & Equipment	\$2,723	R-5	-\$2,364	\$359
29	392	Transportation Equipment	\$0			\$0
30	393	Other General Equipment	\$0			\$0
31		Total General Plant	\$2,723		-\$2,364	\$359
32						
33						
34						
35						
36						
37						
38						
39						
40						
41						
42		TOTAL DEPRECIATION RESERVE			-\$26,767	\$8,582
						To Page 5
						To Rate Base

LW Sewer Corporation
Informal Rate/Certificate Case
Tracking Number QS-2004-0010
Test Year Ending 5/31/2004
Schedule of Adjustments for
Accumulated Depreciation Reserve

<u>A</u> Reserve Adjustment Number	<u>B</u> Accumulated Depreciation Reserve Adjustments Description	<u>C</u> Adjustment Subtotal	<u>D</u> Total Adjustment Amount
R-1	Collection Sewers - Gravity		-\$1,004
	1 To remove EIERA related accumulated dep	(636.73)	
	2 To remove Contributed Accumulated depre	(367.00)	
R-2	Flow Measuring Devices		-318.71
	1 To remove EIERA related accumulated dep	(318.71)	
R-3	Pumping Equipment (Elec., Diesel, other)		-13939.61
	1 To remove EIERA related accumulated dep	(13,939.61)	
R-4	Treatment and Disposal Equipment		-\$9,141
	1 To remove EIERA related accumulated dep	(8,805.36)	
	2 To remove Contributed Accumulated depre	(335.75)	
R-5	Office Furniture & Equipment		-2363.96
	1 To remove retired plant	(2,363.96)	
	Total Reserve Adjustments		<u><u>-\$24,403</u></u>

LW Sewer Corporation
 Informal Rate/Certificate Case
 Tracking Number QS-2004-0010
 Test Year Ending 5/31/2004
 Depreciation Expense

Line Number	A Account Number	B Plant Account Description	C Depreciable Plant	D Depreciation Rate	E Depreciation Expense
1		LAND AND STRUCTURES			
2	310	Land and Land Rights	\$0	0.0000%	\$0
3	311	Structures and Improvements	\$2,029	2.5000%	\$51
4		Total Land and Structures	<u>\$2,029</u>		<u>\$51</u>
5					
6		COLLECTION PLANT			
7	352.1	Collection Sewers - Force	\$0	0.0000%	\$0
8	352.2	Collection Sewers - Gravity	\$20,443	2.0000%	\$409
9	353	Other Collection Plant Facilities	\$0	0.0000%	\$0
10	354	Services to Customers	\$0	0.0000%	\$0
11	355	Flow Measuring Devices	\$0	0.0000%	\$0
12		Total Collection Plant	<u>\$20,443</u>		<u>\$409</u>
13					
14		PUMPING PLANT			
15	362	Receiving Wells and Pump Pits	\$0	0.0000%	\$0
16	363	Pumping Equipment (Elec., Diesel, other)	\$5,316	10.0000%	\$532
17		Total Pumping Plant	<u>\$5,316</u>		<u>\$532</u>
18					
19		TREATMENT PLANT			
20	372	Oxidation Lagoon	\$0	0.0000%	\$0
21	373	Treatment and Disposal Equipment	\$6,137	5.0000%	\$307
22	374	Plant Sewers	\$0	0.0000%	\$0
23	375	Outfall Sewer Lines	\$0	0.0000%	\$0
24	376	Other Treatment and Disposal Plant Equipment	\$0	0.0000%	\$0
25		Total Treatment Plant	<u>\$6,137</u>		<u>\$307</u>
26					
27		GENERAL PLANT			
28	391.1	Office Furniture & Equipment	\$364	14.3000%	\$52
29	392	Transportation Equipment	\$0	0.0000%	\$0
30	393	Other General Equipment	\$0	0.0000%	\$0
31		Total General Plant	<u>\$364</u>		<u>\$52</u>
32					
33		TOTAL PLANT IN SERVICE	<u>\$34,289</u>		<u>\$1,350</u>
34		Total Depreciation			

To Page 3
Expense Schedule

Memo Attachment 3

Overview of Company & Customer Service Operations

**Engineering and Management Services Department
Review of L.W. Sewer Corporation
Customer Service Operations
QS-2004-0010**

The purpose of the Engineering and Management Services Department is to promote and encourage efficient and effective utility management. This purpose contributes to the Commission's overall mission to guarantee that customers receive safe and adequate service at the lowest possible cost, while providing utilities the opportunity to earn a fair return on their investment.

The Engineering and Management Services Department (EMSD) staff initiated an informal review of customer service processes, procedures, and practices at L.W. Sewer Corporation (Company) on August 9, 2004. Prior to on-site interviews, the EMSD staff examined Company tariffs, annual reports, Missouri Public Service Commission (Commission) complaint records, and other documentation related to the Company's customer service operations.

The objectives of this review were to document and analyze the management control processes, procedures, and practices used by the Company to ensure that its customers' service needs are met and to make recommendations, where appropriate, by which the Company may improve the quality of services provided to its customers. The findings of this review also provide the Commission with information regarding the Company's customer service operations.

The scope of this review focused on processes, procedures, and practices related to:

- Customer Billing
- Credit and Collections
- Complaints and Inquiries
- Customer Communication

This report contains the results of the EMSD staff's review.

Overview

On November 8, 1972, the Commission granted L.W. Sewer Corporation authority to provide sewer service in Case No. 17,314. The Company provides sewer service to 197

residential customers in a development surrounding Lake Wauwanoka located northeast of Hillsboro, Missouri.

Customer growth has been minimal. The Company has provided new service to approximately two or three additional customers each year over the past five years. Company management anticipates adding a total of about five additional customers over the next five years. Most of the new customers have lived in the area for a period of time and are converting from septic systems. About one-half of the customers consist of retirement families and the rest are working families. About 125 families live in the development full time while others only reside in the development for a portion of the year.

The President, Secretary, Treasurer, and a volunteer property owner are responsible for the operation of the Company. The President has overall responsibility for operation of the Company. His responsibilities include logging all incoming mail and responding to customer inquiries and complaints. The Secretary's responsibilities include taking minutes at the monthly meetings, handling the correspondence, and maintaining letter files. The Treasurer has responsibility for preparing and mailing the quarterly bills, posting payments and making bank deposits. The volunteer property owner takes care of most of the routine work associated with monitoring and maintaining the treatment plant. The Secretary and Treasurer are the only salaried employees of the Company. The Company also uses an outside firm that monitors the treatment plant operation and provides testing services. An outside contractor performs all construction work, including the completion of new service connections.

Customer Billing

All customers who apply to connect with the Company's collecting sewer main must pay a \$600 fee. The \$600 fee also applies to any customer requesting service who has been disconnected for nonpayment. This fee is used to pay a contractor to complete the service connection between a customer's service line and the Company's collecting sewer. The fee is also used for any inspection and/or engineering costs incurred by the Company. Beginning in August 2004, the Company will require new customers to complete a written application for sewer service. In addition to the written application, a Sewer Connection Inspection Schedule will be used to document the approval of plans for a connection and a final inspection of the completed connection.

All customers are billed \$39.54, quarterly, based on a flat monthly rate of \$13.18. Bills are usually mailed during the first week of each quarter and become delinquent approximately 34 days after the invoice date. For example, the bills for the July – September 2004 service period were mailed July 8 and became delinquent after August 15. The postcard bills are generated and printed on a Company computer and printer. Since the Company has no business office, all payments are received by mail. The treasurer posts payments to the appropriate accounts and makes a bank deposit of the receipts about once a week.

Credit and Collections

Customers who have not paid their sewer bill by the end of the second quarter of nonpayment receive a notice of disconnection that service will be disconnected within 30 days of the date of notice. These delinquent customers also receive a copy of the Company's "Billing Policy and Non-Payment Procedure." This document provides information contained in the Company's tariff regarding the rendering of bills, the customers' responsibility for payment, and disconnection procedures. This policy is not provided to new customers or customers who pay their bills on a timely basis. Company management stated about five or six customers typically wait until after they receive the disconnection notice before they pay, and one customer often does not pay until close to the scheduled disconnection date. The President stated that the Company has never had to disconnect service for nonpayment and has not had a problem with insufficient fund checks. The Company's tariff has no provision for a late payment charge.

Complaints and Inquiries

Customers with general questions or concerns may contact any of the Company officers. The President stated that the Company receives about 10 calls a year regarding sewer service questions, although the nature of these calls is not recorded. The President indicated that most calls occur after a significant rain or a power outage. A Company contact telephone number is not provided on customer bills. A review of Commission complaint/inquiry records showed one customer contact since January 2003.

Customer Communication

Information may be shared with customers in several ways. Company management may incorporate information in a property owner quarterly newsletter or post a notice on the bulletin board located at the entrance to the development. Information is sometimes distributed by using a general mailing, such as when notice is given of a rate increase. Some information is also shared informally through personal discussions with customers.

Findings, Conclusions, and Recommendations

The following discussion presents a summary of the findings, conclusions, and recommendations pertaining to the Company's customer service operations. The information presented in this section focuses on the following three issues that require Company management's attention:

- Billing Policy Provision
- Contact Telephone Number Provision
- Complaint and Inquiry Documentation

Billing Policy Provision

Most of the Company's customers have not seen the "Billing Policy and Non-Payment Procedure." Company management stated that it only mails a copy of its "Billing Policy and Non-Payment Procedure" to the customers who receive a disconnection notice. Since only about five or six customers receive a disconnection notice each quarter, most customers have never seen the policy. This lack of information could contribute to growth in the delinquency problem or dissatisfaction from uninformed customers. The provision of the "Billing Policy and Non-Payment Procedure" to all customers would help to ensure that everyone has an opportunity to understand Company rules.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Initiate action to ensure that all new and existing customers receive a copy of the Company's "Billing Policy and Non-Payment Procedure."

Contact Telephone Number Provision

Customers' bills do not provide a Company contact telephone number for customers to use when they have some question or concern. Customers must make their own determination of the appropriate person to call and find the telephone number in the telephone book. The need for this effort could lead to customer frustration and the possibility that a Company officer may be contacted who is unprepared to respond to a customer's need. The use of a Company contact telephone number on customer bills would help customers identify the appropriate person to call and enable them to receive a timely response to their concern.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Incorporate the appropriate Company contact telephone number(s) on customers' bills for customers to use when they have an inquiry or complaint.

Complaint and Inquiry Documentation

No record is kept of complaints and inquiries received by Company personnel. Although Company management stated customers seldom have questions or concerns; the lack of a record keeping system makes it impossible for the Company to provide accurate documentation of the nature of its complaints. In addition, Commission Rule 4 CSR 240-60.010(4) states:

The utility shall maintain a file of customer complaints received on the service it provides. The file shall include the name and address, as well as the nature of the complaint and date of occurrence. A detailed explanation of what the utility did to correct the trouble which originated the complaint shall be recorded.

Commission Rule 4 CSR 240-60.010(5) also states "...all records required by this chapter shall be preserved for two (2) years." The availability of documented complaint information would enable Company management to evaluate why customers contact the Company and determine if any measures could be taken to reduce customer contacts and improve customer satisfaction. The availability of documentation regarding customer contacts would also help to show the Company's responsiveness in addressing customer issues.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Develop and initiate a system for documenting customer contacts and maintain this record for at least two years.

Memo Attachment 4

Company Letter & Receipts re: Mailing of Annual Report

L.W. Sewer Corporation
P.O. Box 265
Hillsboro, MO 63050
(636) 797-3023

RECEIVED

MAY 04 2005

UTILITY OPERATIONS
DIVISION

April 30, 2005

Mr. Jim Russo
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102

Dear Mr. Russo:

I received a copy of the Order Directing Filing regarding an explanation of why L.W. Sewer Corporation's 2004 Annual Report was received late and thought it appropriate to forward a copy of our postal receipt dated April 14, 2005, which was the date we mailed the original report. We obviously are not able to explain the 11-day delay in delivery to the Public Service Commission; however, we hope this receipt is adequate proof that we certainly made every effort to file this report in a timely manner.

Also enclosed is a copy of our postal receipt for the mailing of the second copy of the Annual Report on April 25, 2005.

If there is anything else that we can do for you, please do not hesitate to contact us.

Sincerely,



Everett Clyde Pratt, President
L.W. Sewer Corporation

CP/lrp

Encl

Cc: Constance Hargis

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*2004
Annual
RA mailing*

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HILLSBORO, Missouri
630509998
2871440650-0096
04/14/2005 (636)789-2231 12:43:32 PM

Product Description	Sales Receipt		Final Price
	Sale Qty	Unit Price	
JEFFERSON CITY MO 65102 First-Class			\$1.75
Customer Postage			-\$1.48
			=====
Issue PVI:			\$0.27

Total: \$0.27

Paid by:
Cash \$0.30
Change Due: -\$0.03

Bill#: 1000400104039
Clerk: 06

— All sales final on stamps and postage. —
 Refunds for guaranteed services only.
 Thank you for your business.
 Customer Copy