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Missouri Public Service Commission

January 8, 2007

Big Island Water Company &
Big Island Sewer Company

393 Exhibit No. 102
Case No(s) WC-2006-0082/WO-2006-021
Date 3-7-07 Rptr PE

Dear Big Island Neighbor:

In September 2006, the Big Island developer, Folsom Ridge, became open to transferring ownership of the Big Island water and sewer utilities to nonprofit **customer owned** utility corporations organized under Missouri Statute 393. I asked if you were also in favor of the idea. Of the sixty (60) **occupied** homes that are actually CONNECTED to water and/or sewer, forty (40) responded in favor of ownership by nonprofit 393 companies. Of the approximately 100 **resident owned** lots on Big Island. The owners of 65 of those lots responded in favor of 393 ownership. Sixty-five percent (65%) of property owners favored 393 ownership. Only two responses were NOT in favor.

Time, energy, and money were subsequently invested to make the idea of 393 ownership a reality. Two nonprofit utility companies have been incorporated: Big Island Water Company & Big Island Sewer Company. Five residents, who are connected to BOTH water and sewer, serve as Directors for both companies: **Pam Holstead, Gail Snyder, Don Bracken, Bill Burford, and Jim Grayum.**

The 393 Board obtained copies of Bylaws used by other 393 utility companies for use as a guideline in drafting over 100 pages of Bylaws for the Big Island companies. The Bylaws will eventually be printed and made available to customers after (if) a transfer of assets takes place.

Representatives of the 393 Board met with representatives of the P.S.C. in November. We were told the 393 proposal was probably the best solution for addressing the issues which exist on Big Island. The 393 Board also had a lengthy conference with Lake Of The Ozarks Water & Sewer, which is a management company for utility systems in the lake area. This Company currently manages systems for Kinderhook, Windermere, New Tribes, City of Linn Creek, and has been selected by attorney Gary Cover to manage the utility companies for which Mr. Cover is the court appointed receiver. The Board is negotiating to hire this management company upon a transfer of ownership.

An inspection of the water and sewer facilities is scheduled with various professionals to pinpoint any critical installation or mechanical problems which may need to be addressed prior to an actual transfer. If you are aware of any such problems, please provide me or Gail Snyder with a detailed explanation immediately. Negotiations on the lengthy "Asset Transfer Agreement", which will transfer the current utility assets to the new 393 corporations, is nearing completion.

The Big Island Homeowners Association has scheduled a meeting for it's membership on Monday, January 29, at 10 am at Central Bank in Camdenton. Members are being asked to give the homeowners association Board authority to transfer the water and sewer utility assets. If such authority is given, the homeowners association Board will have the power to transfer the utility assets to the newly formed 393 companies. Your vote, whether in person, or by proxy, is very important to those who have worked so diligently on bringing the concept of 393 ownership into reality. We hope we can count on your support.

PH/s

Pamela Holstead, President
Big Island Water Company
Big Island Sewer Company

Should Big Island Water & Sewer Plants Be Transferred to Nonprofit Utility Companies Owned by the Customers?

(The following has been written by attorney, Pamela Holstead. This document is for informational purposes only and does not constitute a contract with the reader.)

Q: Why can't we leave things just as they are?

A: When a homeowners association owns a utility, it is authorized to provide utility service to its MEMBERS ONLY. There is an issue on Big Island as to whether or not all residents receiving utility services, or equipped to receive service in the future, are actually members of the homeowners association. It is this issue that clearly necessitates a change.

Q: If we have to make a change, what are the options?

A: Since ownership by a homeowners association is no longer an option on Big Island, there are only 2 other viable solutions. One option would be to transfer ownership of the utilities to a "for profit" private entity which would be regulated by the Missouri Public Service Commission (PSC). The second option would be to transfer ownership of the utilities to a "nonprofit" customer owned utility company, organized under chapter 393 of the Missouri Statutes, which would not be subject to PSC regulation.

Q: Which option will cost me the least amount of money?

A. Although both types of companies would incur the same operating expenses, a PSC regulated "for profit" entity would pass along to its customers the additional expenses of: PSC Regulatory fees, DNR fees, Profit for the Owner, and possibly the cost of purchasing a meter. Therefore the 393 nonprofit utility company would cost you less money.

Q: Should I be expecting a rate increase?

A: If you are CONNECTED to the system, Yes, a rate increase is inevitable with either option. If you have UNCONNECTED taps, under 393 ownership, you will pay nothing.

Q: How much of a rate increase are we talking about with a 393 Utility?

A: Keep in mind, only those who are connected to the system will be expected to pay for service. (Owners of the 22 water taps and 44 sewer taps that are NOT connected will no longer be billed anything until they are connected.) The Board of Directors for the 393 utility company forecast water rates of \$14 per month and sewer rates of \$21 per month for connected customers. (\$35 a month for both)

Q: How much of a rate increase would there be with a PSC regulated utility?

A: A MoPSC auditor recently addressed the issue of rates on Big Island. His recommendation was based upon 98 customers using both water and sewer. (We currently have 60 homes using sewer -- 48 of that number use both sewer and water). Until meters are installed, the PSC auditor projected a flat monthly water rate of \$21.75 and monthly sewer rate of \$42.86. (\$64.61 a month for both)

Q: Okay, the 393 Utility Company is looking good, but what about this issue of membership?

A: Membership in the 393 company works like your membership in Southwest Electric. If you are a customer of the 393 company, the law requires the 393 company to consider you a member. You will be expected to pay your fees and abide by the bylaws which are designed to protect the system. In return, you will be invited to attend an annual meeting held the 2nd Saturday in May. (No more weekday meetings) The only way you become a member is if you are a customer.

Q: Did I read correctly that I will no longer have to pay a monthly fee for my unconnected water or sewer tap under 393 Utility Company Ownership?

A: That is correct. If the current water and sewer systems are transferred to the 393 Companies, the 393 bylaws prohibit charging anyone unless they are actually hooked up and receiving water and/or sewer service.

Q: You mentioned two separate 393 Companies but only one Board of Directors - is that right?

A: The law requires we set up a separate company for each utility. However, the bylaws provide that whoever is elected to serve on the Board of Directors for Big Island Water Company shall also serve simultaneously on the Board of Directors for Big Island Sewer Company. All Directors must be a customer of both the water company AND the sewer company.

Q: Is the developer going to control the votes for the 393 Companies ?

A: Most homeowner associations are organized to give "ONE VOTE PER LOT". Therefore developers usually maintain full control until they have sold over 50% of the lots in their development. The nonprofit 393 utility companies are organized differently. They utilize the "ONE VOTE PER CUSTOMER" rule.

Q: Why would a developer give up control over the utilities he has installed when the development project is still underway?

A: Now you know why it has taken so long to get here. It wasn't until recently the developer became open to the idea of 393 ownership. It is customary for the bylaws to contain language that assures developers utility services will be provided to their development projects. The bylaws for the Big Island 393 companies will also contain such developer safeguards .

Q: What about future development, will the 393 Companies be constructing utility lines?

A: If future development on Big Island necessitates the expansion of current water and sewer utilities, plants, mains, etc.....the bylaws provide the cost of such expansion will be borne by the developer. The bylaws also require all new construction be inspected by a representative of the 393 company prior to being covered up. The management company will provide an inspector trained in providing this inspection service. The Department of Natural Resources will continue to be the regulatory agency for our utility systems.

Q: I purchased a tap but I'm not connected to the system yet - - will a place be reserved for me?

A: If you purchased a water or sewer tap but have not yet connected to the system, the 393 Company bylaws require a place be reserved for you until such time as you elect to connect to the system. When you connect, the only cost you will incur is that of connecting your home to your previously purchased tap.

Q: How much is it going to cost the 393 Companies to purchase the water and sewer system?

A: No money will be paid up front. Instead, the 393 Companies will agree to pay FOLSOM \$2,000 for every water tap and \$4,800 for every sewer tap purchased from the 393 Companies over the next ten years as consideration for the transfer of assets owned by Folsom (this includes real estate).

Q: Do the 393 Companies have any seed money with which to start up operations?

A: The 393 Companies have no money at this time. Under the terms of the asset transfer agreement, the 393 companies will receive the funds currently in the Big Island homeowners association bank account at closing.

Q: Will the Developer be providing any warranty or guarantee with regard to the water and sewer systems?

A: No. A condition of the transfer is that the system is transferred AS IS. The 393 Board has scheduled an inspection to acquaint ourselves with the system and seek answers to questions. Any resident who knows of an existing critical problem with the systems should contact Gail Snyder or Pam Holstead immediately with the precise location and nature of the problem. It is imperative we know the nature and location of any existing problem prior to signing the Asset Transfer Agreement. All transferable warranties on currently existing pumps and equipment will be transferred to the 393 companies.

Q: If there isn't any warranty, what happens if a major problem occurs?

A: If a major problem happens, the 393 company will have to correct it, just like a PSC regulated company would do. That is why it is important to maintain a good reserve account to cover unexpected expenses. If the reserve account isn't large enough, the company would borrow money for repairs and make loan payments out of regular income. We understand some government agencies have funds on hand for lending purposes. The 393 Company will make it a priority to build a hefty reserve account to cover unexpected expenses.

Q: Since the 393 utility companies are owned by the customers/members, does this mean the members or customers are opening themselves up to possible personal liability?

A: NO. Missouri Statutes 393.951 (water) and 393.861(sewer) provide that "no member shall be liable or responsible for any debts of the company." The 393 Companies will purchase insurance coverage to protect officers and directors.

(If you have additional questions, you may present them at your homeowners association meeting or contact Pam Holstead: [pamersbmo @ yahoo.com](mailto:pamersbmo@yahoo.com) Or (573) 317 - 1198.)