

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE SOUTH)	
LOGAN WATER ASSOCIATION FOR)	
APPROVAL OF A PROPOSED INCREASE)	CASE NO. 2002-00481
IN RATES FOR WATER SERVICE,)	
APPROVAL TO BORROW FUNDS, AND TO)	
INCREASE NON-RECURRING CHARGES)	

INTERIM ORDER

On March 3, 2003, South Logan Water Association (South Logan) filed an application with the Commission for approval to increase its rates for water service, to borrow funds, and to increase non-recurring charges. South Logan s application was received by the Commission on December 26, 2002, but was not considered filed until several filing deficiencies were cured on March 3, 2003. Included in South Logan s application was a request to increase its rates on an interim basis at the same time that it begins purchasing water from the Logan Todd Regional Water Commission (Logan Todd). According to South Logan s application, it does not have cash available to meet the increased purchased water costs from Logan Todd without implementing the rates proposed in this case. Logan Todd will charge a wholesale water rate of \$2.91 per thousand gallons, an increase of 81.9 percent over the wholesale rate of \$1.60 per thousand gallons that South Logan has paid its traditional water supplier, the city of Adairville (Adairville).

South Logan s requested revision in rates would produce additional annual revenues of \$380,670. Exhibit No. 4 of South Logan s application shows that

purchased water costs are expected to increase by \$253,725, which represents approximately 67 percent of the total increase.

South Logan also requested to increase certain non-recurring charges in its application, but it did not specifically request that those charges be approved on an interim basis. Therefore, the Commission takes no action relative to non-recurring charges in this Interim Order, but will address those charges in the final Order of this case.

On April 17, 2003, the Commission held a hearing relative to South Logan's request for interim rate relief. The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention (Attorney General), has intervened in this matter and participated in the hearing. At the hearing, South Logan testified that it connected to Logan Todd in March of 2003 and began purchasing a portion of its water needs at that time. On April 15, 2003, a second connection was made to Logan Todd and South Logan then began purchasing all of its water needs from Logan Todd. South Logan also testified that it needed additional sources of water because its traditional water source was experiencing low flows, that a new source was needed to meet growing demand, and that the new supply from Logan Todd may be adequate to meet South Logan's water needs for the next 50 years.

South Logan testified that failure to provide interim rate relief would put it into default, as it would be unable to pay its debt service and operating expenses. South Logan has no certificates of deposit from which to draw, and its cash in the bank is less than \$20,000. South Logan also testified that it has the ability to obtain short-term

financing from a local bank if necessary, although it is reluctant to assume additional debt.

South Logan has also requested interim approval of a surcharge of 19 cents per thousand gallons for a period of 60 months, or until \$143,801 has been collected. The purpose of the proposed surcharge is to repay Adairville for past investment made to serve the growing water needs of South Logan. South Logan testified that grant monies from government sources may be forthcoming in the next few months to help defray some of those past investment costs.

The Attorney General indicated at the hearing that South Logan's request for interim rate relief should be confined to the additional purchased water costs of \$1.31 per thousand gallons that South Logan will pay as a result of switching from Adairville to Logan Todd for its water supply needs. According to the Attorney General, any amount beyond the purchased water cost increase is troublesome, raising the possibility of administrative problems if the final rate determination in this case is less than any interim rate increase, which would require South Logan to make refunds to its customers. Moreover, the Attorney General expressed opposition to the interim approval of South Logan's proposed surcharge as a separate amount for collection.

Logan Todd is a cooperative effort between several water utilities in Logan and Todd counties to resolve their water needs on a regional basis. The purchased water cost of \$2.91 per thousand gallons represents a significant increase for South Logan, and it does not have the cash reserves needed to absorb this additional cost. Moreover, South Logan's annual reports on file with the Commission indicate that its financial position has been weak in the recent past. Specifically, it had a net loss of

\$101,419 in 2001, followed by another net loss of \$60,650 in 2002. Therefore, the Commission believes that the interim increase in general rates requested by South Logan should be granted, subject to refund pending the Commission's ultimate determination in this matter.

Relative to South Logan's proposed surcharge of 19 cents per thousand gallons, there is some uncertainty as to whether or not South Logan will ultimately be required to repay the debt related to Adairville's past investments in water plant. Therefore, the Commission is not convinced that denial of the proposed surcharge on an interim basis will adversely affect South Logan's financial position.

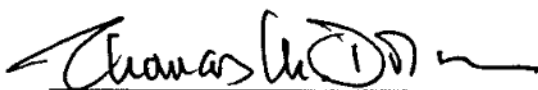
IT IS THEREFORE ORDERED that:

1. South Logan's request for approval to increase its general rates on an interim basis is approved.
2. South Logan's request for approval to implement a surcharge of 19 cents per thousand gallons on an interim basis is denied.
3. The charges in Appendix A, which is attached hereto and incorporated herein, are approved for services rendered on and after the date of this Order.
4. South Logan shall maintain its records in a manner which allows refunds to be made in the event that the Commission ultimately approves rates different from those approved herein on an interim basis.
5. Within 30 days of the date of this Order, South Logan shall file its revised tariff sheets setting out the charges approved herein.

Done at Frankfort, Kentucky, this 14th day of May, 2003.

By the Commission

ATTEST:

A handwritten signature in black ink, appearing to read "Thomas H. [unclear]", written over a horizontal line.

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2002-00481 DATED MAY 14, 2003

The following rates and charges are prescribed for the customers in the area served by South Logan Water Association. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

MONTHLY RATES

Customer Charge

5/8 Inch Meter	\$4.65
1 Inch Meter	5.94
1 ½ Inch Meter	9.59
2 Inch Meter	16.89
3 Inch Meter	24.19

Commodity Charge

First	2,000 gallons	\$6.70 per 1,000 gallons
Next	8,000 gallons	6.44 per 1,000 gallons
Next	40,000 gallons	6.18 per 1,000 gallons
Next	50,000 gallons	5.93 per 1,000 gallons
Over	100,000 gallons	5.67 per 1,000 gallons