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March 5, 2007

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PUBLIC SERVICE
COMMISSION

Kentucky Public Service Commission
P.O. Box 615
211 Sower Boulevard
Frankfort, Kentucky 40602-0615

Attn: Beth A. O'Donnell, Executive Director

Re: Case No. 2006-00327

Dear Beth:

This letter is to provide the Commission with a status update regarding the Applicants' current activities relating to the transfer of assets of Sandy Valley to Southern and Pikeville, as approved by Commission Order of January 22, 2007, in the case referenced above.

- Letters by Applicants, Pikeville and Southern, were directed to the Commission in a timely manner accepting the conditions set out by the Commission in the approval order.
- All documentation required of the Applicants by Rural Development and the Economic Development Administration relating to the assumption or payment of outstanding loans has been submitted, bond counsel has been engaged and documents are being processed. The projected date of completion of this work is April 1, 2007.
- Letters offering employment, illustrating salary and benefits, were delivered to all current employees of Sandy Valley on Wednesday, February 15, 2007. As of the date of this correspondence, one individual has accepted a position, one individual has declined a position and there has been no action on the part of the remaining three individuals.

- Arrangements have been made by Southern and Pikeville to open a staffed office at Harold, Kentucky near the Pike-Floyd County line to service all former customers of Sandy Valley, upon loan closing. This facility will serve effectively to provide a 'convenience center' for all former Sandy Valley customers as well as a location for potential sewer customers to sign up.
- All other stipulations contained in the ordering paragraphs of the Commission's January 22, 2007 Order will be carried out by the affected Applicant virtually immediately, upon loan closing. The Commission will be provided a detailed notice of such action, once all actions are completed. Applicants anticipate forwarding such notice not later than April 15, 2007.

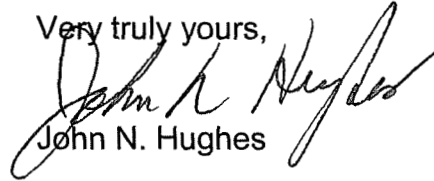
Additionally, to assure a smooth transition of ownership and provide better communication with customers and staff, the Applicants have assumed on-site administration and management of Sandy Valley's office at Betsy Layne, effective February 13, 2007. Ms. Sonya Newsome, Pikeville, oversees office functions and Mr. Donnie Slone, Pikeville, oversees field activities in the Pike County portion of the system while Mr. Dean Hall oversees field activities in the Floyd County portion of the system. This level of involvement became necessary for a number of reasons. A business office issue resulted despite repeated directives to proceed with the timely ordering of new customer billing stock, (provided to Sandy Valley office employees by representatives of both Pikeville and Southern) an order was not placed timely and Sandy Valley customer billings will be delayed approximately five (5) business days from the usual billing schedule. Customer bills for service through February will be mailed not later than Wednesday, March 7, 2007. Several circumstances relating to field conditions also warranted this intervention to avoid a potential interruption of services to one or more customers.

Also, Applicants' staff accompanied Sandy Valley field personnel in reading customer and master meters. Pikeville staff joined in reading meters in the Floyd County portion of the system, and using GPS equipment, captured approximately 400 customer meter locations. In subsequent reading cycles all customer meter locations will be captured in both the Floyd and Pike County portions of the system and brought into Pikeville's GIS mapping system. Pikeville will provide Southern an electronic and paper copy of this mapping data for its use, as it becomes available.

Finally, pending an update by RD regarding the date of loan closing, Southern and Pikeville will direct a 'welcome' letter to all customers in their respective portions of the Sandy Valley system during the week of March 18, 2007. This correspondence will convey appropriate contact information, cite the location, hours of operation and phone numbers for the new office at Harold, Kentucky, and provide billing date notice and directives regarding payments.

If you need or desire additional information, please feel free to contact me, Roger Recktenwald or the Applicants directly, at your convenience.

Very truly yours,

A handwritten signature in black ink, appearing to read "John N. Hughes". The signature is written in a cursive style with a large initial "J" and "H".

John N. Hughes

Attorney for Applicants