



RECEIVED

AUG - 6 2007

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
OFFICE OF THE ATTORNEY GENERAL

GREGORY D. STUMBO
ATTORNEY GENERAL

1024 CAPITAL CENTER DRIVE
SUITE 200
FRANKFORT, KY 40601-8204

August 3, 2007

Ms. Beth O'Donnell
Executive Director
Kentucky Public Service Commission
P.O. Box 615
Frankfort, KY 40602-0615

RE: In the Matter of Application of Fleming-Mason Energy Cooperative
Corporation for an Adjustment of Rates; Case No. 2007-00022

Dear Ms. O'Donnell:

This letter is with regard to a base rate case currently pending before the Commission, 2007-00022, regarding Fleming-Mason Energy Cooperative Corporation ["Fleming-Mason"].

During the course of reviewing Fleming-Mason's application, discovery conducted to date, as well as Commission orders pertaining to the company's prior rate case (2001-00244), the Attorney General has discovered significant irregularities of a legal nature that may need to be addressed before the current rate case proceeds any further. As was noted in the Commission Staff's second set of data requests, the Commission in Case No. 2001-00244 required Fleming-Mason to address several important issues, which included: (a) providing an updated depreciation study in the current rate case; (b) addressing four deficiencies in its previously-filed equity management plan; (c) providing detailed information regarding the status and financial condition of one of its subsidiaries, Fleming-Mason Service Corporation ["Service Corp."]; and (d) ceasing to guarantee the line of credit from NCSC to Service Corp. However, Fleming-Mason has failed to comply with all four of these requirements.

The Attorney General is especially troubled by Fleming-Mason's apparent disregard for the Commission's order to cease the guaranteeing of the NSCS line of credit to Service Corp. In Case No. 2001-00244, the Attorney General urged the Commission to order Fleming-Mason to divest itself of Service Corp, since evidence in that case revealed what appeared to be an interlocking directorate between the two entities, and significant underwriting of Service Corp.'s expenses by Fleming-Mason's ratepayers, the latter of which is expressly precluded under Kentucky law. While the Commission did not order such a divestiture, it did require Fleming-Mason to cease the practice of guaranteeing Service Corp.'s line of credit with NCSC. Five years have passed since the issuing of the



Ms. Beth O'Donnell, Executive Director
Kentucky Public Service Commission
August 3, 2007
Page Two

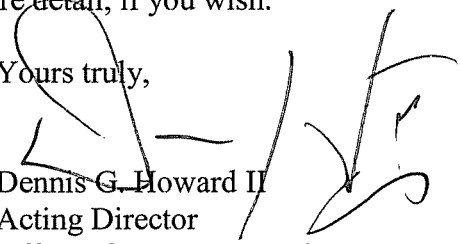
Commission's order in this regard, yet Fleming-Mason apparently continues to guarantee this line of credit. The Attorney General believes such disregard for the Commission's orders should not be tolerated or condoned.

Furthermore, the Attorney General is concerned about the relationship of Fleming-Mason to an entity that describes itself as being affiliated with the Service Corp.: "Kentucky Wireless Company, LLC" ["Wireless"]. The Attorney General's concern is that ratepayers of Fleming-Mason may be underwriting some expenses of Wireless.

For these reasons, the Attorney General proposes that the Commission consider scheduling an informal conference to discuss whether the current rate case should be held in abeyance, disapproved or any other action until such time as Fleming-Mason has demonstrated sufficiently that it has complied with the Commission's orders from the last rate case. Since Fleming-Mason for whatever reason has demonstrated an inability to comply with Commission orders, there appears to be good cause to believe it either will not, or cannot, comply with such orders as may be issued in the pending rate case.

Please feel free to contact us to discuss in more detail, if you wish.

Yours truly,


Dennis G. Howard II
Acting Director
Office of Rate Intervention

cc: Mr. Marvin W. Suit, Esq.