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Environmental and Public
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Vice Chairman

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Commissioner

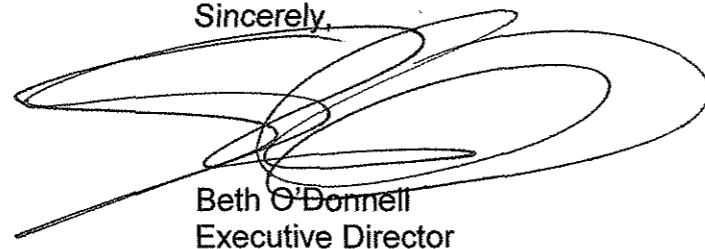
September 17, 2007

PARTIES OF RECORD:

RE: Case No. 2007-00022
APPLICATION OF FLEMING-MASON ENERGY COOPERATIVE, INC. FOR
AN ADJUSTMENT OF RATES

Enclosed please find a memorandum that has been filed in the record of the above-referenced case. Any comments regarding this memorandum's content should be submitted to the Commission within five days of receipt of this letter. Questions regarding this memorandum should be directed to Andrea Schroeder at (502) 564-3940, Extension 209.

Sincerely,



Beth O'Donnell
Executive Director

Attachment

INTRA-AGENCY MEMORANDUM
KENTUCKY PUBLIC SERVICE COMMISSION

TO: Main Case File – Case No. 2007-00022
FROM: Andrea Schroeder, Team Leader *AS*
DATE: September 17, 2007
RE: APPLICATION OF FLEMING-MASON ENERGY COOPERATIVE
CORPORATION FOR AN ADJUSTMENT OF RATES

Pursuant to the Commission's August 17, 2007 Order, an informal conference was held on August 23, 2007 at the Commission's offices in Frankfort, Kentucky. A list of the attendees is attached hereto as Appendix A.

The purpose of the conference was to discuss the issues raised by the Attorney General in his letters dated August 3, 2007 to the Commission's Executive Director and to counsel for Fleming-Mason, which are attached as Appendix B. The Attorney General briefly stated his concerns as outlined in the letters. Staff explained that the relief sought in the letter to the Commission was more appropriately addressed as a separate matter from the rate case. Fleming-Mason addressed each of the concerns raised in the letters.

Staff stated that the Commission's procedural schedule would allow the Attorney General the opportunity to request, in the record, the information he sought in his letter to Fleming-Mason and that if additional follow-up were needed, he could move the Commission to extend the procedural schedule.

Staff explained the process for filing a motion to request confidentiality of information in response to the request Fleming-Mason filed as part of a data request response.

The informal conference then adjourned.



COMMONWEALTH OF KENTUCKY
OFFICE OF THE ATTORNEY GENERAL

GREGORY D. STUMBO
ATTORNEY GENERAL

August 3, 2007

Appendix B
RECEIVED
AUG - 6 2007
PUBLIC SERVICE
COMMISSION

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

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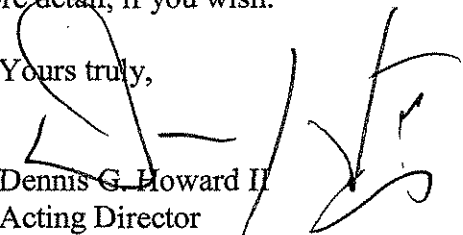
Commission's order in this regard, yet Fleming-Mason apparently continues to guarantee this line of credit. The Attorney General believes such disregard for the Commission's orders should not be tolerated or condoned.

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.



COMMONWEALTH OF KENTUCKY
OFFICE OF THE ATTORNEY GENERAL

GREGORY D. STUMBO
ATTORNEY GENERAL

August 3, 2007

TL: A. Schroeder
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PUBLIC SERVICE
COMMISSION

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FRANKFORT, KY 40601-8204

Hon. Marvin W. Suit, Esq.
Suit, McCartney & Price, PLLC
207 Court Sq.
Flemingsburg, KY 41041

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

Dear Mr. Suit:

This letter is written with regard to your client, Fleming-Mason Energy Cooperative Corp. ["Fleming-Mason"]. We just forwarded to you a copy of our letter to the Public Service Commission's Executive Director, Ms. Beth O'Donnell, in which we expressed major concerns with your client's capabilities of complying with Commission orders.

In order to help resolve our concerns, we are asking you client's cooperation in providing us with detailed information regarding the operation of the company, and all of its affiliated entities.

As we noted to in our letter to Ms. O'Donnell, it appears that Kentucky Wireless Company, LLC ["Wireless"] has identified itself as an affiliate of Fleming-Mason. The Attorney General is concerned about the relationships between Fleming-Mason, Fleming-Mason Services Corporation ["Services Corp."], and Wireless. In particular, we would like detailed information regarding sharing arrangements between the three entities (including office space, mailboxes, employees, salary sharing, accounting arrangements, and any and all costs that Fleming-Mason has incurred or may incur to underwrite the expenses of the other two entities, among other things). In addition, we would appreciate your client identifying any and all other entities that do or may have an affiliate or subsidiary relationship with Fleming-Mason, Service Corp., and/or Wireless.

Second, the Attorney General is very concerned regarding the 22,455% increase in retirement benefit payments from 2005 to 2006 (\$2397 in 2005; \$540,649 in 2006).



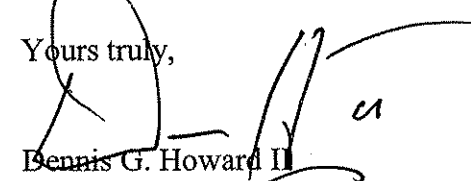
Hon. Marvin W. Suit, Esq.
August 3, 2007
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This increase in payments also represents an increase in the decline of the fund's entire value of 1% in 2005, to 14% of fund value in 2006. We are asking that your client fully identify the recipients of these payments, the nature of their responsibilities with Fleming-Mason, the amount of payment to each individual, and the date of each payment.

Third, we would like to know who owns the stock of Fleming-Mason and Service Corp., and the identity of the principals and manager of Wireless.

Last, we ask that your client provide us with a copy of Wireless' business plan.

Yours truly,



Dennis G. Howard II
Acting Director
Office of Rate Intervention

cc: Ms. Beth O'Donnell