



FLEMING-MASON ENERGY
COOPERATIVE, INC.

P.O. Box 328 • FLEMINGSBURG, KENTUCKY 41041 • (606) 845-2661 • FAX (606) 845-1008

February 13, 2008

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

RECEIVED
FEB 14 2008
PUBLIC SERVICE
COMMISSION

RE: Case No. 2007-00490

Dear Ms. O'Donnell:

Enclosed are the original and five copies of the responses to the information requested by the Commission in the letter dated February 5, 2008.

Please contact the office if further information is required.

Sincerely,

A handwritten signature in black ink that reads "Joni K. Hazelrigg".

Joni K. Hazelrigg
CFO

Enclosures

Cc: Attorney General's Office



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Fleming-Mason Energy
Case No. 2007-00490
Data Request of Commission Staff Dated February 5, 2008

1. When was Fleming-Mason's current perpetual line of credit established? Provide a copy of the term sheet and line of credit agreement.

Response:

The current line of credit was established January 13, 2000. A copy of the Line of Credit Agreement is attached.



NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
Powerful Financial Solutions

2201 Cooperative Way · Herndon, Virginia 20171-3025
<http://www.nrucfc.org>
703-709-6700

January 13, 2000

Mr. Anthony P. Overbey
President & CEO
Fleming-Mason Energy Cooperative, Inc.
P.O. Drawer 328
Flemingsburg, KY 41041

Dear Mr. Overby :

Re: Line of Credit # KY052-R-5102

I am happy to inform you that your cooperative's application for a perpetual line of credit has been approved in the amount of \$7,000,000. A copy of the approved Line of Credit Agreement is enclosed.

Please review the standard terms and conditions of the Line of Credit Agreement. In addition, please note the Effective Date and the Additional Terms and Conditions, if any, associated with the approval of this loan, as stated in the Line of Credit Agreement.

We are pleased to serve you and appreciate your interest in CFC. If you have any questions regarding the line of credit or any of CFC's other financial products and services, please feel free to call me at (800) 424-2954.

Sincerely,

A handwritten signature in black ink, appearing to read 'David G. Farrell'. The signature is written in a cursive style and is positioned above the printed name and title.

David G. Farrell
Associate Vice President

CC: Gerald Freehling, CFC Regional Vice President

Enclosure



**National Rural Utilities Cooperative Finance Corporation
Perpetual Line of Credit Agreement
("Agreement")**

Name of Borrower: Fleming-Mason Energy Cooperative Inc.

Address: P. O. Box 328, Flemingsburg, KY 41041

National Rural Utilities Cooperative Finance Corporation ("CFC"), a District of Columbia corporation, has approved Borrower for a revolving line of credit loan in an amount not to exceed Seven Million Dollars (\$7,000,000) (hereinafter referred to as the "CFC Commitment"). Borrower hereby agrees that the terms and conditions herein, plus any additional terms and conditions agreed to in writing by the parties, shall constitute a valid and binding agreement between Borrower and CFC. In consideration of their mutual promises hereunder and other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, CFC and Borrower agree to the following terms and conditions:

- 1. Revolving Credit and Term.** CFC agrees to advance funds to the Borrower pursuant to the terms and conditions hereof (each such advance of funds is referred to herein as an "Advance"), provided, however, that the amount at any time outstanding under this line of credit shall not exceed the CFC Commitment. The Borrower may borrow, repay and reborrow funds at any time or from time to time for a period up to twelve (12) months from the effective date hereof. This Agreement shall thereafter automatically renew for subsequent periods of twelve (12) months each. Either party may terminate this Agreement at the end of any period by providing written notice to the other party at least ninety (90) days prior to the expiration of such period.
- 2. Requisitions.** Requests for Advances shall be in such written form as CFC may reasonably require from time to time.
- 3. Interest Rate and Payment.** The Borrower unconditionally promises and agrees to pay, as and when due, interest on all amounts advanced hereunder from the date of each Advance and to repay all amounts advanced hereunder with interest on the date this Agreement terminates as provided herein. Interest shall be due and payable in accordance with CFC's regular billing cycles as may be in effect from time to time. CFC shall send a payment notice to the Borrower at least five days prior to the due date of any interest payment. All amounts shall be payable at CFC's main office at Woodland

Park, 2201 Cooperative Way, Herndon, Virginia 20171-3025 or at such other location as designated by CFC from time to time. The interest rate on all Advances will be equal to the total rate per annum as may be fixed by CFC from time to time, which shall not exceed the Prevailing Bank Prime Rate (as defined herein), plus one percent per annum. Interest will be computed on the basis of a 365 day year for the actual number of days that any Advance is outstanding. The effective date of an interest rate adjustment will be determined from time to time by CFC, provided that no such adjustment may be effective on a date other than the first or sixteenth day of any month, and any such adjustment shall remain in effect until any subsequent change in the interest rate occurs.

The "Prevailing Bank Prime Rate" is that bank prime rate published in the "Money Rates" column of the eastern edition of *The Wall Street Journal* on the publication day immediately preceding the day on which an adjustment in the interest rate hereof shall become effective. If *The Wall Street Journal* shall cease to be published, then the Prevailing Bank Prime Rate shall be determined by CFC by reference to another publication reporting bank prime rates in a similar manner.

4. **CFC Accounts.** CFC shall maintain in accordance with its usual practices an account or accounts evidencing the indebtedness of the Borrower resulting from each Advance and the amounts of principal and interest payable and paid hereunder. In any legal action or proceeding in respect of this Agreement, the entries made in such account or accounts (whether stored on computer memory, microfilm, payment notices or otherwise) shall be presumptive evidence (absent manifest error) of the existence and amounts of the Borrower's transactions therein recorded.
5. **Corporate and Regulatory Approvals.** Borrower represents and warrants that it has obtained any and all necessary corporate and regulatory approvals for Borrower to execute, deliver and perform its obligations under this Agreement.
6. **Reports.** During the term of this Agreement, Borrower agrees (a) to provide CFC, within 120 days of the end of Borrower's fiscal year, its annual financial statements, prepared in accordance with generally accepted accounting principles ("GAAP") and audited by an independent certified public accountant, or otherwise in form and substance satisfactory to CFC, and (b) to provide CFC with any other reports or information which CFC may from time to time reasonably request.
7. **Fees.** If any amount outstanding and due hereunder shall not be paid when due, Borrower agrees to pay on demand CFC's reasonable costs of collection or enforcement of this Agreement, or preparation therefor, including reasonable fees of counsel. If payment of any principal and/or interest due under the terms of this Agreement is not received at CFC's office in Herndon, Virginia, or such other location designated by CFC within 5 business days after the due date thereof, then Borrower shall pay to CFC, on demand, and in addition to all other amounts due under the terms of this Agreement, any late-payment and additional interest charges as may then be in effect pursuant to CFC's then current policies without setoff or counterclaim. For

purposes of this Agreement, a "business day" means a day that both CFC and the financial institution it employs for funds remittance are open for business.

8. **Limitation on Advances.** While an Advance is outstanding, CFC reserves the right to limit further Advances if the sum of (a) all Advances outstanding, (b) the amount of any further Advance requested, and (c) the total amount of Borrower's other unsecured outstanding debt, would exceed the CFC Commitment.
9. **Reduce Balance to Zero.** Each 12-month period while this Agreement is in effect, Borrower shall, for a period of at least five consecutive business days, reduce to zero all amounts outstanding hereunder. Borrower shall make the first balance reduction within 360 days of the first Advance hereunder. Each subsequent balance reduction shall be made within 360 days of the last day of such five-day period.
10. **Credit Support.** With CFC's prior written approval, this Agreement may be used as credit support for other financings.
11. **Notices, Acceleration of Debt and Waivers.** While an Advance is outstanding, Borrower agrees to notify CFC in writing of (a) any delinquency or default on any of its financial obligations, (b) any material adverse change in its financial or business condition, and (c) if any representation or warranty made in this Agreement is no longer true in any material respect. If any delinquency, default, or any other event as a result of which any holder of indebtedness may declare the same due and payable shall occur and continue uncorrected for more than any applicable grace period, or any representation or warranty herein shall no longer be true, or Borrower shall fail to perform or to comply with any term of this Agreement, or if the financial condition of Borrower shall have changed to the extent that such change, in the reasonable judgment of CFC, materially increases CFC's risk of repayment hereunder, then CFC may declare at any time all outstanding principal, interest and other amounts due hereunder immediately due and payable in full with accrued interest, without presentment or demand, and may withhold Advances. The Borrower waives the defense of usury and all rights to setoff, counterclaim, deduction or recoupment.
12. **Survival of Representations and Warranties and Payment Obligations.** Borrower agrees that its obligation to repay principal, interest and all other amounts due hereunder, and the representations and warranties made herein, shall survive termination of this Agreement. Borrower further agrees that such repayment obligations shall be automatically reinstated if and to the extent that for any reason any payment by or on behalf of the Borrower is rescinded, set aside or must be otherwise restored, whether as a result of any proceeding in bankruptcy or reorganization or otherwise.
13. **Representations and Warranties.** Borrower represents and warrants that as of the date of its application for this line of credit, and on the date of each Advance hereunder:
 - a) the Borrower is not in default of any of its financial obligations;

- b) there has been no material adverse change in the Borrower's business or financial condition from that set forth in its most recent audited financial statements;
- c) no litigation is pending or, to the best of Borrower's knowledge, threatened against the Borrower which, if adversely determined, would have a material adverse effect on the Borrower's ability to perform under this Agreement;
- d) the information contained in Borrower's audited financial statements, its other financial reports and information otherwise submitted in connection with this Agreement is complete and accurate, and said financial statements and financial reports fairly represent the financial condition of the Borrower as of the dates reflected thereon;
- e) the execution, delivery and performance of this Agreement has been duly authorized by the Borrower, which authorization has not been rescinded or modified; and
- f) all Advances hereunder will be used only for proper corporate purposes

14. Conditions of Lending. As a condition to CFC making Advances hereunder, each of the following conditions shall be satisfied at the time of each Advance:

- a) CFC shall have received the Borrower's most recent annual financial statements, prepared in accordance with GAAP and audited by an independent certified public accountant, or otherwise in form and substance satisfactory to CFC;
- b) all representations and warranties set forth herein shall be true and correct; and
- c) the Borrower shall have obtained any and all necessary corporate, regulatory and governmental approvals for the Borrower to execute, deliver and perform its obligations under this Agreement.

15. GOVERNING LAW; SUBMISSION TO JURISDICTION; WAIVER OF JURY TRIAL.

- (a) **THE PERFORMANCE AND CONSTRUCTION OF THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE COMMONWEALTH OF VIRGINIA.**
- (b) **BORROWER HEREBY SUBMITS TO THE NONEXCLUSIVE JURISDICTION OF THE UNITED STATES COURTS LOCATED IN VIRGINIA AND OF ANY STATE COURT SO LOCATED FOR PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. BORROWER IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE ESTABLISHING OF THE VENUE OF ANY SUCH**


PROCEEDING BROUGHT IN SUCH A COURT AND ANY CLAIM THAT ANY SUCH PROCEEDING HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

(c) EACH OF THE BORROWER AND CFC HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

16. **Severability.** If any term, provision or condition, or any part thereof, of this Agreement shall for any reason be found or held invalid or unenforceable by any court or governmental agency of competent jurisdiction, such invalidity or unenforceability shall not affect the remainder of such term, provision or condition nor any other term, provision or condition, and this Agreement shall survive and be construed as if such invalid or unenforceable term, provision or condition had not been contained herein.
17. **Setoff.** CFC is hereby authorized at any time and from time to time without prior notice to the Borrower to exercise rights of setoff or recoupment and apply any and all amounts held, or hereafter held, by CFC or owed to the Borrower or for the credit or account of the Borrower against any and all of the obligations of the Borrower now or hereafter existing hereunder. CFC agrees to notify the Borrower promptly after any such setoff or recoupment and the application thereof, provided that the failure to give such notice shall not affect the validity of such setoff, recoupment or application. The rights of CFC under this section are in addition to any other rights and remedies (including other rights of setoff or recoupment) which CFC may have.
18. **Additional Terms and Conditions.** Additional terms and conditions as set forth herein or attached hereto are an integral part of this Agreement.
19. **Termination and Cancellation of Existing Agreement.** Borrower agrees that its existing line(s) of credit No(s). 9909 with CFC, if any, and any agreement(s) relating thereto shall be terminated and any outstanding principal, interest and other amounts outstanding thereunder shall be transferred to the line of credit established pursuant to this Agreement and deemed an Advance hereunder.
20. **Miscellaneous.** (a) This Agreement contains the entire agreement of the parties hereto with respect to the matters covered and the transactions contemplated hereby, and no other agreement, statement or promise made in connection with this line of credit by any party hereto, or by any employee, officer, agent or attorney of any party hereto which is not contained herein shall be valid and binding. (b) Any amendment to this Agreement must be in writing signed by both parties. (c) No failure or delay by CFC in exercising any right or remedy hereunder shall operate as a waiver or preclude the future exercise thereof or of any other right or remedy. (d) If any payment is due from Borrower on a day which CFC is not open for business, then such payment shall be made on the next succeeding day on which CFC is open for business.

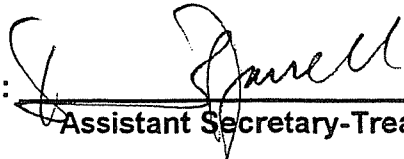
21. Additional Terms and Conditions.

Name of Borrower: Fleming-Mason Energy Cooperative, Inc.

Signed By: 

Title: President and Chief Executive Officer

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

By: 
Assistant Secretary-Treasurer

Loan Number: R-5102

(To be filled in by CFC) The effective date of this Agreement is: 2/18/2000

**CERTIFIED COPY OF MINUTES AUTHORIZING
Perpetual Line of Credit**

I, Lonnie C. Vice, do hereby certify that: I am the Secretary of Fleming-Mason Cooperative Inc. (the "Borrower") and further certify as follows:

The following is a true and correct copy of excerpts from the minutes of a meeting of the Board of Directors* Trustees* of the Borrower held on November 4, 1999, as they appear in the Minutes Book of the Borrower; the meeting was duly and properly called, with a quorum present and acting throughout; said resolutions were duly adopted thereat; the Perpetual Line of Credit (the "Agreement") submitted to National Rural Utilities Cooperative Finance Corporation ("CFC") is substantially in the form as presented to said meeting; the Board of Directors* Trustees* authorized the execution and delivery of the Agreement; and said resolutions have not been modified or rescinded:

"RESOLVED, that the Borrower establish a line of credit and authorize borrowing from the National Rural Utilities Cooperative Finance Corporation ("CFC") in an amount which shall not at any one time exceed Seven Million Dollars (\$ 7,000,000.00) (the "Line of Credit Amount"), for a term of twelve (12) months, which period shall automatically renew for successive twelve (12) month periods subject to the provisions of the Perpetual Line of Credit Agreement substantially in the form submitted to this meeting, a copy of which is attached hereto (the "Agreement"), and to pay such interest rate or rates as shall be prescribed in the Agreement; and,

RESOLVED, that the President and CEO
(Insert Title of Appropriate Official)

of the Borrower be and is hereby authorized to execute the Agreement on behalf of the Borrower, to execute any future amendments to said Agreement as such individual may deem appropriate within the Line of Credit Amount so authorized, and to execute such further documents as may be necessary or appropriate in order to comply with CFC's requirements; and,

RESOLVED, that it is the intent of the Board that upon execution and delivery of the Agreement to CFC, and when executed by CFC, the Agreement shall constitute a valid and binding agreement between CFC and the Borrower, enforceable in accordance with its terms; and

RESOLVED, that CFC shall be entitled to rely upon the direction of such officer or employee of Borrower as CFC reasonably believes is authorized on behalf of the Borrower to request and receive funds pursuant to the Agreement; and,

*Delete inapplicable word

RESOLVED, that CFC is hereby authorized to receive, review and make copies of any financial statements, documents, reports, contracts or other materials as CFC may reasonably request from time to time in connection with the Agreement; and

RESOLVED, that the appropriate officers are authorized to take all other actions they deem advisable to carry out the purpose of these resolutions."

IN WITNESS WHEREOF, I have hereunder set my hand and affixed the seal of the Borrower, this 4 day of November, 1999.

(Corporate Seal)



Secretary

Fleming-Mason Energy
Case No. 2007-00490
Data Request of Commission Staff Dated February 5, 2008

2. Refer to the responses to the Commission Staff's First Data Request dated January 10, 2008, Item 1 and 3. Fleming-Mason noted that it has been utilizing its line of credit to pay its power bills because its revenues had not kept up with increasing power costs. However, the rate increase effective January 1, 2008 should enable Fleming-Mason to better cover the increased power costs. In addition, Fleming-Mason's response to Item 3 indicates that the cost of work plans has been decreasing. Taken together these facts do not tend to support an increase in the line of credit as requested. Provide further explanation of why Fleming-Mason needs the increase in the line of credit.

Response:

Fleming-Mason's current line of credit has been at its maximum amount periodically over the last few months. We have been unable to pay all of the power bill on its due date. The additional revenue from the rate increase will alleviate the strain on the line of credit, but it will take some time for the additional revenue to make a substantial difference.

In addition, Fleming-Mason has approved a new work plan for the 2008-2009 time frame. RUS loans will not be available to draw down on this work plan until 2009 due to the back log at RUS. Fleming-Mason will not have access to long-term funds to finance the work plan in 2008. The work plan calls for over \$5,000,000 in expenditures for 2008.

Fleming-Mason is concerned about unexpected storms. In 2003, the ice storm cost approximately \$3,000,000. While FEMA reimbursed for this, the cash was several months in coming from FEMA.

Fleming-Mason Energy
Case No. 2007-00490
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3. Has the current line of credit been used in conjunction with the operation of Fleming-Mason's subsidiary, Fleming-Mason Service Corporation ("Service Corp.")? If yes, provide details as to the extent the line of credit has been utilized to provide funds for Service Corp.'s debt payments and operating expenses.

Response:

Fleming-Mason has used from its general funds to provide funds for the Service Corp. While the Service Corp. has been for sale, Fleming-Mason has strived to keep its operating expenses at a bare minimum.

Fleming-Mason Energy
Case No. 2007-00490
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4. Assume for purposes of this question that the Commission denies the request to increase the existing line of credit. Would the existing line of credit remain in effect? Explain the response.

Response:

Yes, the existing line of credit is perpetual and would remain in effect.