

December 18, 2003

CONFIDENTIAL

Mr. William F. Roberts
General Manager
Marshalls Energy Company, Inc.

Dear Mr. Roberts:

In planning and performing our audit of the financial statements of the Marshalls Energy Company, Inc. (MEC) for the year ended September 30, 2003, on which we have issued our report dated December 18, 2003, we developed the following recommendations concerning certain matters related to MEC's internal control and certain observations and recommendations on other accounting, administrative and operating matters. Our principal recommendations are summarized below:

(1) Gross Revenue Tax (GRT)

During the year ended September 30, 2003, MEC recorded GRT expense of \$221,524 based on reported taxable revenues of \$7,391,467. Our tests of revenues for the year ended September 30, 2003 indicated that taxable revenues totaled \$9,592,623, resulting in an understatement of GRT of approximately \$66,000. The omission was detected subsequent to submission of the third quarter tax return, therefore it has not been corrected. We recommend that management ensure that reported taxable revenues are correctly calculated to ensure that GRT is not misstated. This matter was discussed in our previous letter dated November 22, 2002.

(2) Depreciation Rates

MEC is required to apply RUS approved depreciation rates on all of its fixed assets. The list of approved depreciation rates could not be located when requested. We recommend that this list be located and copies provided to relevant accounting staff who are responsible for recording and depreciating fixed assets, to ensure compliance with RUS guidelines.

(3) Electric Plant

Of ten electric plant assets tested, one item (a laptop computer with \$1,753 net book value at September 30, 2003) has either been stolen or lost. We recommend that all fixed assets be periodically inventoried and that the fixed asset register be updated for inoperative equipment and fixed asset disposals. This matter was discussed in our previous letter dated November 22, 2002.

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This report is intended solely for the information and use of management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank the accounting staff and management for their assistance during the course of our audit. Should you have any questions regarding the matters discussed herein, please contact our office at your convenience.

Very truly yours,

Debbie J. Joubert