

SEP 30 2004

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September 28, 2004

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

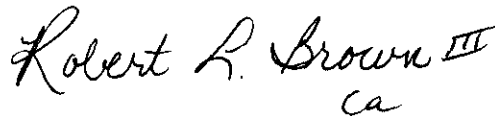
**RE: CITIPOWER, LLC - APPLICATION OF CITIPOWER, LLC FOR
APPROVAL OF NOTE RENEWAL
CASE NO. 2004-00123**

Dear Ms. O'Donnell:

Enclosed please find an original and six copies of the Response to Commission Staff's Second Data Request to Citipower, LLC as it relates to the above-mentioned matter to be properly filed.

Thank you for your assistance in this matter, and should you have any questions please do not hesitate to contact me.

Sincerely,

Handwritten signature of Robert L. Brown III in cursive script, with the initials 'ca' written below the signature.

Robert L. Brown III

RLB/ca

Enclosure

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

CITIPOWER, LLC

APPLICATION OF CITIPOWER, LCC FOR
APPROVAL OF NOTE RENEWAL

CASE NO. 2004-00123

RESPONSE TO COMMISSION STAFF'S SECOND DATA
REQUEST TO CITIPOWER, LLC

Comes now Citipower, LLC, ("Citipower") by and through the undersigned counsel, and states the following response to the Commission Staff's Second Data Request to Citipower, LLC, with regard to the above-referenced case number:

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SUPPLEMENTAL COMMENTS

All answers herein are subject to a planned approval request to the PSC regarding the segregation of regulated and non-regulated activities of Citipower into a holding company structure whereas Citipower will be a wholly and subsidiary of a holding company that will own a separate unregulated companies. Said structure shall further facilitate the segregation of debt between the regulated and non-regulated assets of the separate entities. Also, Citipower would state that the original November 11, 1997 Promissory Note for \$250,000.00 was a revolving line of credit which was periodically paid to zero. The last time this note was a zero balance was in December of 1998.



COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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CASE NO. 2004-00123

1. Refer to the November 19, 2003, note provided in the response to Item I of the Commission Staff's First Data Request dated June 15, 2004, ("Staff First Request"). Provide a schedule listing the interest paid on the note, the date of payment, and the interest rate used to determine the interest payment. The schedule should cover payments made from November 19, 2003 through August 31, 2004. Show any late payment charges separately from the interest payment on the note.

RESPONSE:

Schedule of interest paid on November 19, 2003 Note, 11-19-03 to 8-31-04:

Interest Paid	Date Paid	Interest Rate
\$11,890.87	2-13-04	4.75%
\$11,632.38	5-13-04	4.75%
\$12,224.19	8-17-04	5.00%

There were no late payment charges paid.

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Attorney for Citipower, LLC

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF CITIPOWER, LLC FOR
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CASE NO. 2004-00123

2. Refer to the cash flow projection provided by Citipower in its response to Item 4 of the Staff First Request.

a. Transportation Fees are projected to be \$33,000 each year from 2004 to 2008. What rate per Mcf has been charged for transportation thus far in 2004? Provide the transportation revenues recorded to date in 2004.

RESPONSE: \$.25 per Mcf has been charged for transportation in 2004. Transportation revenues of \$20,345.73 have been recorded from January 1, 2004 through July 31, 2004.

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2. Refer to the cash flow projection provided by Citipower in its response to Item 4 of the Staff First Request.

b. From 2003 to 2004, explain why gas service revenues increase by \$547,813 while gas purchase costs increase by only \$65,630.

RESPONSE: The gas service revenues and gas purchase costs for 2003 were actual amounts, and gas service revenues and gas purchase costs for 2004 were estimated based on assumptions about the authorized tariffs and cost of gas anticipated, as follows:

2003 Revenues = \$970,567 = \$13.4238 x 72,302 Mcf
2004 Revenues = \$1,518,380 = \$15.2500 x 99,566 Mcf

2003 Costs = \$510,857 = \$7.06560 x 72,302 Mcf
2004 Costs = \$576,487 = \$5.79000 x 99,566 Mcf

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2. Refer to the cash flow projection provided by Citipower in its response to Item 4 of the Staff First Request.

c. Explain why the following items in the "2003 Actual" column differ from what is shown in Citipower's 2003 annual report filed with the Commission.

(1) Depreciation and Amortization is \$224,732 on this schedule compared to \$129,133 in the annual report.

RESPONSE: The Forecast provided in response to the First Data Request was an existing forecast, first prepared March 2, 2004, and which was based on Citipower's preliminary 2003 general ledger and financial statements as were available on March 2, 2003. Citipower uses straight-line tax depreciation for recording depreciation in its general ledger. Citipower uses PSC mandated lives and methods for computing depreciation for the 2003 Annual Report. Projected 2003 Depreciation in the Forecast differs from the Annual Report primarily due to differences in lives between straight-line tax depreciation lives and PSC mandated lives. PSC mandated lives are much longer, generally double the tax lives.

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c. Explain why the following items in the "2003 Actual" column differ from what is shown in Citipower's 2003 annual report filed with the Commission.

(2) Interest Expense is \$50,973 on this schedule compared to \$91,761 in the annual report.

RESPONSE: Interest expense in the Annual Report includes \$40,788 of interest recognized on the note payable to Oneida Gas for LBU, LLC. This interest expense was netted against gross revenues of LBU, LLC in the \$168,520 of Earnings from Unregulated Investments in the Forecast, which was based on Citipower's preliminary 2003 general ledger and financial statements as were available March 2, 2004. Please also see Item 2.c.3 below.

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c. Explain why the following items in the "2003 Actual" column differ from what is shown in Citipower's 2003 annual report filed with the Commission.

(3) Earning from Unregulated Investments is \$168,520 on this schedule compared to Other Non-utility Income in the annual report of \$144,053.

RESPONSE: Earnings from Unregulated Investments per the Forecast and the Annual Report reconcile as follows:

\$ 168,520	Per the Forecast
\$ 40,788	Interest Expense re: LBU, LLC (see Item 2.c.2) above)
<u>\$ -65,255</u>	Provision for Citigas depreciation and other adjustments
\$ 144,053	Per the Annual Report

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