

ROBERT L. BROWN III
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July 26, 2004

RECEIVED

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PUBLIC SERVICE
COMMISSION

Public Service Commission
% Executive Director
211 Sower Blvd.
P.O. Box 615
Frankfort, KY 40602

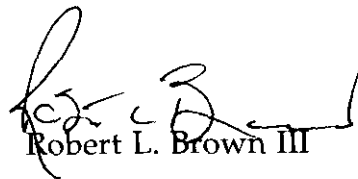
**RE: CITIPOWER, LLC - APPLICATION OF CITIPOWER, LLC FOR
APPROVAL OF NOTE RENEWAL
CASE NO. 2004-00123**

Dear Director:

Enclosed please find an original and six (6) copies of the Response to Commission Staff's First 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,


Robert L. Brown III

RLB/ca

Enclosures

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

FILED
2004
PUBLIC
SERVICE
COMMISSION

In the Matter of:

CITIPOWER, LLC

APPLICATION OF CITIPOWER, LLC FOR
APPROVAL OF NOTE RENEWAL

CASE NO. 2004-00123

**RESPONSE TO COMMISSION STAFF'S FIRST 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 First Data Request to Citipower, LLC, with regard to the above-referenced case number:

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF CITIPOWER, LLC FOR
APPROVAL OF NOTE RENEWAL

CASE NO. 2004-00123

1. Provide a copy of the note renewed by Citipower on November 19, 2003.

RESPONSE: A copy of the renewed note is attached.

*Law Offices of
Robert L. Brown III
1005 South Main Street
Corbin, Kentucky 40701
Attorney for Citipower, LLC*

CITIPOWER, LLC 122 ENTERPRISE RD. GREENSBORO, NC 27408	BANK OF MCCREARY COUNTY P.O. BOX WHITLEY CITY, KY 42653 COPY	SS# 61-1305266 Loan Number <u>710</u> Date <u>11-19-2003</u> Maturity Date <u>11-19-2004</u> Loan Amount \$ <u>993,173.81</u> Renewal Of <u>7100</u>
BORROWER'S NAME AND ADDRESS Includes each borrower above, jointly and severally.	LENDER'S NAME AND ADDRESS You include the lender, its successors and assigns.	

For value received, I promise to pay to you, or your order, at your address listed above the **PRINCIPAL** sum of **NINE HUNDRED NINETY THREE THOUSAND ONE HUNDRED SEVENTY THREE AND 81/100** Dollars \$ **993,173.81**

Single Advance: I will receive all of this principal sum on 11-19-2003. No additional advances are contemplated under this note.

Multiple Advance: The principal sum shown above is the maximum amount of principal I can borrow under this note. On _____ I will receive the amount of \$ _____ and future principal advances are contemplated.

Conditions: The conditions for future advances are _____

Open End Credit: You and I agree that I may borrow up to the maximum amount of principal more than one time. This feature is subject to all other conditions and expires on _____.

Closed End Credit: You and I agree that I may borrow up to the maximum only one time (and subject to all other conditions).

INTEREST: I agree to pay interest on the outstanding principal balance from 11-19-2003 at the rate of 4.750 % per year until 02-19-2004.

Variable Rate: This rate may then change as stated below.
 Index Rate: The future rate will be 0.750 PERCENT ABOVE the following index rate: THE HIGHEST RATE ON CORPORATE LOANS POSTED BY AT LEAST 75% OF THE USA'S THIRTY LARGEST BANKS KNOWN AS THE WALL STREET JOURNAL PRIME RATE.

No Index: The future rate will not be subject to any internal or external index. It will be entirely in your control.

Frequency and Timing: The rate on this note may change as often as EVERY 3RD MONTH BEGINNING 02-19-2004. A change in the interest rate will take effect ON THE SAME DAY.

Limitations: During the term of this loan, the applicable annual interest rate will not be more than _____ % or less than _____ %. The rate may not change more than _____ % each _____.

Effect of Variable Rate: A change in the interest rate will have the following effect on the payments:
 The amount of each scheduled payment will change. The amount of the final payment will change.

Accrual Method: Interest will be calculated on a ACTUAL/365 basis.

POST MATURITY RATE: I agree to pay interest on the unpaid balance of this note owing after maturity, and until paid in full, as stated below:
 on the same fixed or variable rate basis in effect before maturity (as indicated above).
 at a rate equal to _____.

LATE CHARGE: If a payment is made more than 10 days after it is due, I agree to pay a late charge of \$10.00.

ADDITIONAL CHARGES: In addition to interest, I agree to pay the following charges which are are not included in the principal amount above: _____


PAYMENTS: I agree to pay this note as follows:
QUARTERLY INTEREST PAYMENTS RANGING FROM \$11632.38 TO \$11890.88 BEGINNING 02-19-2004 AND 1 PAYMENT OF \$1,005,064.69 ON 11-19-2004. THIS IS A VARIABLE RATE LOAN AND THE PAYMENT AMOUNTS MAY CHANGE. THE FINAL PAYMENT MAY ALSO CHANGE.

ADDITIONAL TERMS:

SECURITY: This note is separately secured by (describe separate document by type and date):
RE MTG DATED 11/17/97 ON LAND & BLDG, SEC AGMTS DATED 12/16/98, 1/6/99, & 11/11/97
(This section is for your internal use. Failure to list a separate security document does not mean the agreement will not secure this note.)

PURPOSE: The purpose of this loan is RENEW #7100

SIGNATURES: I AGREE TO THE TERMS OF THIS NOTE (INCLUDING THOSE ON PAGE 2). I have received a copy on today's date.

CITIPOWER, LLC

 DANIEL R. FORSEBERG, PRESIDENT

JIM JOHNSON, SENIOR VICE PRESIDENT

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF CITIPOWER, LLC FOR
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2. As of June 1, 2004, what is the interest rate on the November 19, 2003
note?

RESPONSE: The interest rate on the note is currently 4.75%.

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Citipower Rate History

	Residential	Commercial	Industrial	Institutional
Jun-04	15.9941	15.9941	14.9941	14.9941
May-04	16.8951	16.8951	15.8951	15.8951
Apr-04	16.8951	16.8951	15.8951	15.8951
Mar-04	16.8951	16.8951	15.8951	15.8951
Feb-04	16.3555	16.3555	15.3555	15.3555
Jan-04	16.3555	16.3555	15.3555	15.3555
Dec-03	16.3555	16.3555	15.3555	15.3555
Nov-03	16.9636	16.9636	15.9636	15.9636
Oct-03	16.9636	16.9636	15.9636	15.9636
Sep-03	16.9636	16.9636	15.9636	15.9636
Aug-03	15.1428	15.1428	14.1428	14.1428
Jul-03	15.1428	15.1428	14.1428	14.1428
Jun-03	15.1428	15.1428	14.1428	14.1428
May-03	13.3772	13.3772	12.3772	12.3772
Apr-03	13.3772	13.3772	12.3772	12.3772
Mar-03	13.3772	13.3772	12.3772	12.3772
Feb-03	10.6205	10.6205	9.6205	9.6205
Jan-03	10.6205	10.6205	9.6205	9.6205
Dec-02	10.6205	10.6205	9.6205	9.6205
Nov-02	10.6228	10.6228	9.6228	9.6228
Oct-02	10.6228	10.6228	9.6228	9.6228
Sep-02	10.6228	10.6228	9.6228	9.6228
Aug-02	9.2300	9.2300	8.2300	8.2300
Jul-02	9.2300	9.2300	8.2300	8.2300
Jun-02	9.2300	9.2300	8.2300	8.2300
May-02	9.2300	9.2300	8.2300	8.2300
Apr-02	9.2300	9.2300	8.2300	8.2300
Mar-02	9.2300	9.2300	8.2300	8.2300
Feb-02	9.2300	9.2300	8.2300	8.2300
Jan-02	9.2300	9.2300	8.2300	8.2300
Dec-01	9.2300	9.2300	8.2300	8.2300
Nov-01	9.9000	9.9000	8.9000	8.9000
Oct-01	9.9000	9.9000	8.9000	8.9000
Sep-01	9.9000	9.9000	8.9000	8.9000
Aug-01	10.1900	10.1900	9.1900	9.1900
Jul-01	10.1900	10.1900	9.1900	9.1900
Jun-01	10.7300	10.7300	9.7300	9.7300
May-01	10.7300	10.7300	9.7300	9.7300
Apr-01	10.7300	10.7300	9.7300	9.7300
Mar-01	10.7300	10.7300	9.7300	9.7300
Feb-01	10.7300	10.7300	9.7300	9.7300
Jan-01	10.7300	10.7300	9.7300	9.7300
Dec-00	8.5000	8.5000	7.5000	7.5000
Nov-00	8.5000	8.5000	7.5000	7.5000
Oct-00	8.5000	8.5000	7.5000	7.5000

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3. Has Citipower made any principal payments on the November 19, 2003 note? If yes, indicate when the payments were made and the amount of each payment.

RESPONSE: No principal payments have been made on the note.

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4. Based on its current cash flow, provide Citipower's best estimate of a repayment schedule for the November 19, 2003 note. Provide a projected cash flow for Citipower for 2004.

RESPONSE: Citipower projects that it will begin repayment of the note beginning in 2005. A projected cash flow is attached.

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Citipower Future Cash Flow Projections

	2003 Actual	2004 Forecast	2005 Forecast	2006 Forecast	2007 Forecast	2008 Forecast
REVENUES						
Gas Sales:	\$ 970,567	\$ 1,518,380	\$ 1,483,953	\$ 1,390,070	\$ 1,417,871	\$ 1,446,229
Gas Sales Total	\$ 970,567	\$ 1,518,380	\$ 1,483,953	\$ 1,390,070	\$ 1,417,871	\$ 1,446,229
Transportation Fees:						
AGA Pipeline - KY	\$ 39,783	\$ 33,000	\$ 33,000	\$ 33,000	\$ 33,000	\$ 33,000
Hook-up Fees	\$ 5,043	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
Miscellaneous Customer Charges	\$ 5,522	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000
Total Operating Revenues	\$ 1,020,915	\$ 1,563,380	\$ 1,528,953	\$ 1,435,070	\$ 1,462,871	\$ 1,491,229
Cost of Goods Sold						
Natural Gas	\$ 510,857	\$ 576,487	\$ 635,980	\$ 648,699	\$ 661,673	\$ 674,907
Other: Compressor rent maintenance etc.	\$ 45,686	\$ 44,463	\$ 46,019	\$ 47,630	\$ 49,297	\$ 51,022
Total Cost of Goods Sold	\$ 556,543	\$ 620,950	\$ 681,999	\$ 696,329	\$ 710,970	\$ 725,929
Gross Profit	\$ 464,372	\$ 942,431	\$ 846,954	\$ 738,741	\$ 751,901	\$ 765,300
EXPENSES						
Administration and General	\$ 144,030	\$ 146,911	\$ 149,849	\$ 152,846	\$ 155,903	\$ 159,021
Customer Services, Repair, Maintenance	\$ 44,758	\$ 45,653	\$ 46,566	\$ 47,498	\$ 48,447	\$ 49,416
Depreciation & Amortization	\$ 224,732	\$ 225,000	\$ 225,000	\$ 225,000	\$ 225,000	\$ 225,000
Insurance	\$ 23,733	\$ 24,208	\$ 24,692	\$ 25,186	\$ 25,689	\$ 26,203
Legal & Professional Fees	\$ 47,248	\$ 48,193	\$ 49,157	\$ 50,140	\$ 51,143	\$ 52,166
Management Fees	\$ 171,385	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000
Other Expenses	\$ 133,310	\$ 135,976	\$ 138,696	\$ 141,470	\$ 144,299	\$ 147,185
Total Operating Expenses	\$ 789,196	\$ 685,941	\$ 693,959	\$ 702,139	\$ 710,481	\$ 718,991
Income (Loss) from Operations	\$ (324,824)	\$ 256,490	\$ 152,994	\$ 36,602	\$ 41,420	\$ 46,309
OTHER INCOME & (EXPENSE)						
Interest Income						
Interest Expense	\$ (50,973)	\$ (51,843)	\$ (43,719)	\$ (30,659)	\$ (12,089)	\$ (136)
Other Income misc.						
Other Non-operating expenses		\$ (50,000)	\$ (50,000)	\$ (50,000)	\$ (50,000)	\$ (50,000)
Earnings from Unregulated Investments (LBU and Citigas well income)	\$ 168,520	\$ 160,094	\$ 152,089	\$ 144,485	\$ 137,261	\$ 130,398
Citigas Fortuna Transportation Income						
Net Other Income & (Expense)	\$ 117,547	\$ 58,251	\$ 58,370	\$ 63,826	\$ 75,172	\$ 80,262
Net Income or (Loss)	\$ (207,277)	\$ 314,741	\$ 211,365	\$ 100,428	\$ 116,591	\$ 126,570
Cash Flow:						
Depreciation	\$ 224,732	\$ 225,000	\$ 225,000	\$ 225,000	\$ 225,000	\$ 225,000
LBU payments						
Other loan principal payments						
Net Cash Flow Citipower Assets	\$ 17,455	\$ 539,741	\$ 436,365	\$ 325,428	\$ 341,591	\$ 351,570

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5. Concerning the \$500,000 note for the construction of the 11.5 mile 4.5 inch pipeline;

a. Provide the location and purpose of the pipeline.

RESPONSE: The pipeline is situated along Highway 27 from Strunk, Kentucky in McCreary County to Paint Rock, Tennessee in Scott County. The pipeline is utilized to transport excess gas purchased from Forexco's producing wells in McCreary County to Citizen Utility Districts 8" high pressure line in Tennessee. Also, the line is used to transport purchased gas from Citizens for peak need gas to be used by the utility. An additional potential use of the line is to transport gas between Citipower's McCreary County utility and the Lick Branch Unit gas storage field in Tennessee.

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CASE NO. 2004-00123

5 b. Did the utility request a certificate of public convenience and necessity from the Commission to construct the line? If yes, provide the case number. If no, explain why not.

RESPONSE: No, a certificate of public convenience was not requested. This issue is currently being dealt with in PSC Case 2004-00101.

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CASE NO. 2004-00123

5c. Provide the annual net revenues Citipower receives from the operation of this line. If there are no associated revenues, provide the benefit of the line.

RESPONSE: In 2003, Citipower recorded approximately \$40,000 in revenues that were received for the operation of this line.

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5 d. Is this line used for a non-regulated business activity of Citipower?

Explain the response.

RESPONSE: Yes. The sale of gas to Citizens Utility District is an unregulated activity.

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6. Concerning the purchase of an interest in LBU, LLC ("LBU"):

a. Describe the nature of the business of LBU.

RESPONSE: The Lick Branch Unit is a gas storage/oil production field from which Citipower earns revenues for the leasing of the field to third parties and for the sale of oil production. Additional potential uses include the storage of purchased gas for the use in the McCreary County utility.

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6 b. As of January 1, 2004, describe the relationship between Citipower and LBU. Include the ownership percentage that Citipower has in LBU.

RESPONSE: Citipower owns a 87.52% interest in LBU, LLC, which owns an 49% in the Lick Branch Unit. Therefore, Citipower owns 42.88% of the Lick Branch Unit.

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6 c. Does the investment in LBU reflect a non-regulated business activity of Citipower? Explain the response.

RESPONSE: Yes. The fees earned from leasing space in the storage field and from the oil revenues are from unregulated activities.

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6 d. Provide the current balance of Citipower's Investment in LBU.

RESPONSE: Citipower's current investment balance in LBU is
\$2,300,636.62.

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6 e. Provide the annual net revenue Citipower receives from this investment. If there is no associated revenue, provide the benefit of the investment.

RESPONSE: Citipower earned \$141,000 from LBU in 2003.

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Law Offices of
Robert L. Brown III
1005 South Main Street
Corbin, Kentucky 40701
Telephone: (606) 528-3073
Attorney for Citipower, LLC

CERTIFICATE

I hereby certify that the above and foregoing was on the 26 day of July, 2004, served by mailing the original and six true and exact copies of same, all postage prepaid, addressed for delivery to:

Ms. Beth O'Donnell
Executive Director
COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
211 Sower Building
P. O. BOX 615
FRANKFORT, KENTUCKY 40602



Robert L. Brown III