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January 13, 2006

VIA FACSIMILE AND MAIL

RECEIVED

JAN 17 2006

PUBLIC SERVICE
COMMISSION

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

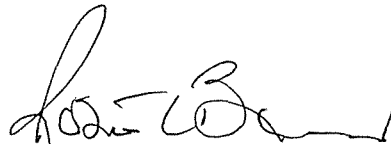
**RE: RESPONSE TO COMMISSION STAFF'S SECOND DATA REQUEST
TO CITIPOWER, LLC.
CASE NUMBER 2005-00319**

Dear Ms. O'Donnell:

Enclosed please find an original and six (6) copies of a Response to Commission Staff's Second Data Request to Citipower, LLC, as it relates to the above-mentioned matter. Please file the same at your earliest convenience.

Should you have any questions concerning this matter, please do not hesitate to contact me.

Sincerely,



Robert L. Brown III

RLB/ca

Enclosures

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

CITIPOWER, LLC

NOTICE OF GAS COST ADJUSTMENT
FILING OF CITIPOWER, LLC.

CASE NO. 2005-00319

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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COMMONWEALTH OF KENTUCKY
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In the Matter of:

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CASE NO. 2005-00319

1. Refer to Citipower's response to Item 1(b) of the First Data Request of Commission Staff ("Staff's First Request"). Provide the location of Citizens Gas Utility District, specifically, the state(s) and counties in which it is located.

RESPONSE: Helenwood, Tennessee, servicing Morgan and Scott Counties, Tennessee.

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2. Refer to Citipower's response to Item 1(e) of Staff's First Request.
 - a. Provide the location of the 11.5 mile pipeline formerly owned by Citipower, specifically, the state(s) and counties in which it is located.

RESPONSE: Scott County, Tennessee. See the response to question #6, Case Number 2004-00444, February 18, 2005. (Attached hereto.)

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF CITIPOWER, LLC FOR
APPROVAL OF REORGANIZATION PROPOSAL

CASE NO. 2004-00444

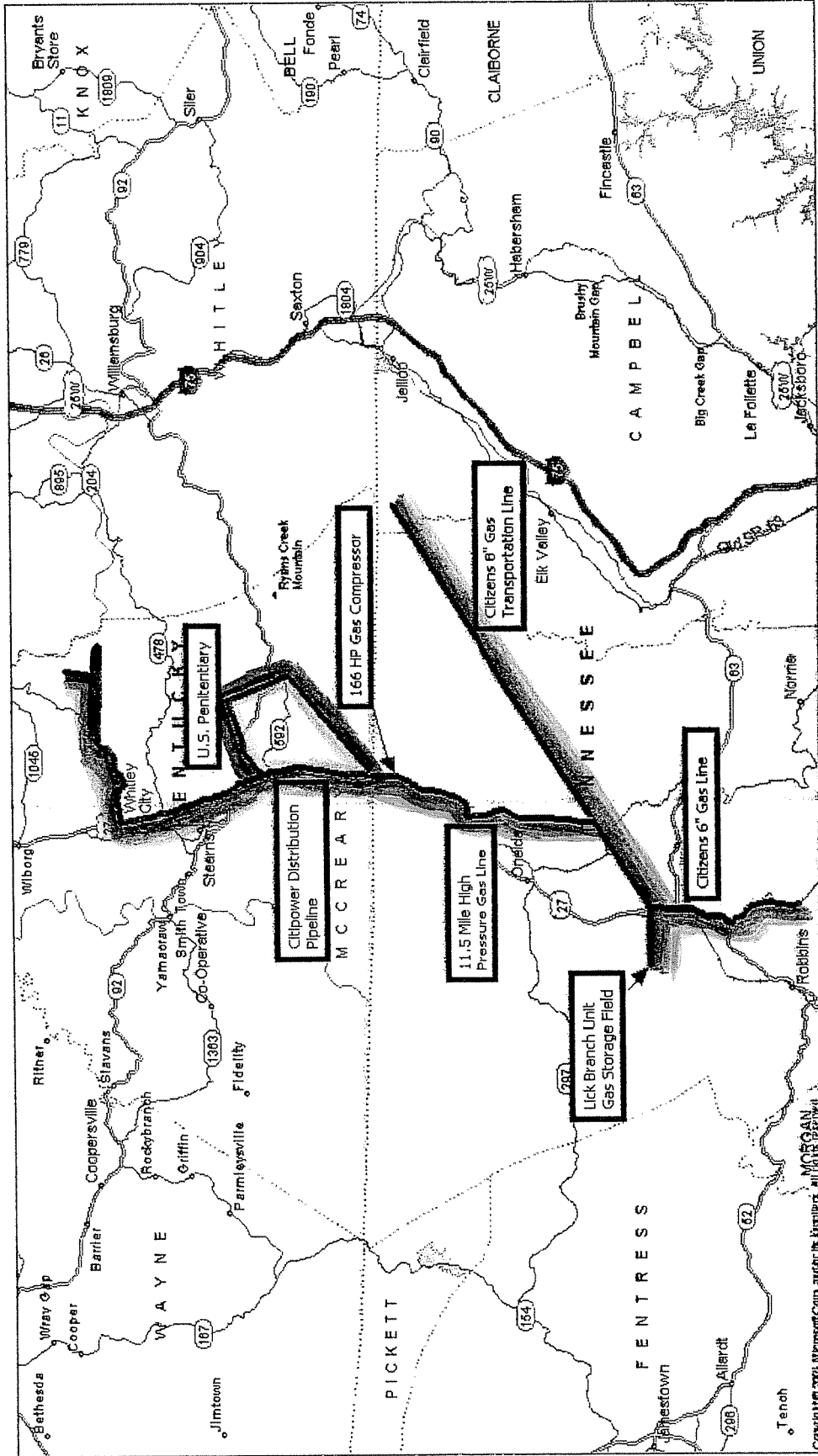
6. Provide a map of Citipower's system and, if possible, color-code the various assets and non-regulated interests being transferred.

RESPONSE: The only Citipower assets to be transferred to Citi Energy, LLC will be its pipeline in Tennessee, the assets of LBU, LLC, Citi Energy, LLC and one pick-up truck. The attached map shows the pipeline grid of Citipowers system.

The highlighted pipeline from the Kentucky/Tennessee state line that runs due south to the Citizens Gas 8' Gas Transportation Line is the only pipeline in the current Citipower system that will be transferred to Citi Energy, LLC.

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Citipower Pipeline Map



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2. Refer to Citipower's response to Item 1(e) of Staff's First Request.
 - b. Provide the approximate date that Citipower either constructed or acquired the 11.5 mile pipeline.

RESPONSE: The pipeline was constructed in 2001 and 2002 and booked and reported as a non-regulated activity.

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2. Refer to Citipower's response to Item 1(e) of Staff's First Request.
- c. Describe how Citipower recovered the cost of the pipeline during its ownership of the pipeline.

RESPONSE: Citipower did not recover the cost. Certain depreciation was taken as provided for previously.

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3. Refer to Citipower's response to Item 1(f) of the Staff's First Request. Since Citigas is regulated by neither the Federal Energy Regulatory Commission nor the Tennessee Valley Authority, describe Citigas's regulatory status. Is it an intrastate pipeline, a gathering system, or something else?

RESPONSE: Citipower laid the pipeline as a gathering pipeline to access gas supplies in northern Tennessee, if needed. Citigas continues to operate the pipeline as a gathering system and is non-jurisdictional to the Commission.

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CASE NO. 2005-00319

4. Refer to Citipower's response to Item 2(a) of Staff's First Request. Citipower states that the starting point for its derivation of the \$3.00 transportation fee is cost recovery of \$1,188,258 invested in the steel pipeline in Tennessee now owned by Citigas.

a. Citipower states that Citigas is spreading the cost over 10 years at 10 percent. Provide the basis for using 10 years and 10 percent in its calculation of the \$3.00 transportation charge.

RESPONSE: Citigas managements considers a 10% return and 10 year amortization a conservative return on investment.

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FILING OF CITIPOWER, LLC.**

CASE NO. 2005-00319

4. Refer to Citipower's response to Item 2(a) of Staff's First Request. Citipower states that the starting point for its derivation of the \$3.00 transportation fee is cost recovery of \$1,188,258 invested in the steel pipeline in Tn. now owned by Citigas.

b. If not provided in Citipower's response to another request, provide the calculation of the \$3.00 transportation fee.

RESPONSE: It is important to remember that Citipower and its customers are located in one of the most remote and rural counties in Kentucky without access to out-of-county gas except for the 11.5 mile steel Citigas pipeline. To date, the Commission, customers, and Citipower itself has requested or desires the ability to purchase out-of-county gas, if needed. This is possible via the 11.5 mile steel pipeline in Tennessee. The \$3.00 fee is the best estimate of what it would cost to provide the services needed to ensure a consistent, safe supply of gas to Citipower. The services provided go beyond what would be typically envisioned in a "transportation fee." Ensuring the quality and quantity needed on an "as needed" basis takes management expertise, field operation expertise, and a certain amount of administrative costs for insurance and similar services. It is unknown as to the exact costs of providing these services; however, Citipower does know that the services need to be provided. Therefore, the cost is a good faith combination of the pipeline cost and return as provided for the 4(a), this 4(b) response, and the response in 4(c).

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c. In response to Item 1(d) of Staff's First Request, Citipower states that its employees responsible for purchasing gas from Citigas are familiar with KRS 278.2207, which deals with affiliate transactions. KRS 278.2207(1)(b) states that "[s]ervices and products provided to the utility by an affiliate shall be priced at the affiliate's fully distributed cost but in no event greater than market." Demonstrate how the proposed \$3.00 transportation fee is based on Citigas's fully distributed cost and explain how Citipower and Citigas determined that the \$3.00 charge is reflective of the market price.

RESPONSE: See 4(b) above. This guarantee of service, coupled with an informal poll of an average of \$2.00 per MCF for other local Kentucky Utilities is the basis for the request for a \$3.00 charge. Citipower also considers relevant the ultimate consumer pricing of other gas utilities in Kentucky such as LG & E, Delta, Nami, Resources and others. Citipower recognizes that market demand, or the lack thereof, is an overriding factor that may keep pricing down irrespective of the ruling of the Commission.

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d. In an attachment to the response to Item 2(a) of Staff's First Request, Citipower provided a copy of its response to Item 5 of Staff's Second Request for information in Case No. 2004-00444.¹ The attachment indicates that the pipeline had accumulated depreciation of \$437,121.82 at the time of the response. Explain whether the accumulated depreciation of the 11.5 pipeline is included in the derivation of the \$3.00 transportation fee.

RESPONSE: No. See 4(b).

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e. Citipower also attached its response to Item 8 of Staff's Second Request for Information in Case No. 2004-00444 that explains which company Bill Webb would work for after the reorganization. Before the reorganization, who was responsible for Mr. Webb's salary?

RESPONSE: Before reorganization Bill Webb was an employee of Citipower.

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5. Refer to Citipower's response to Item 2(b) of Staff's First Request. Since the pipeline will be depreciated, explain how an adjustment based on the Consumer Price Index reflects Citigas's declining investment.

RESPONSE: Depreciation only addresses a fixed asset cost, and in this case spread over 40 years, the estimated life of the asset pursuant to the IRS. Depreciation does not account for labor, professional fees, maintenance, administrative, parts, and other costs, including subsequent regulatory approvals. The Consumer Price Index is a widely used method in business transactions to account for inflating costs associated with non-depreciable assets and the costs of doing business. Citipower also believes the Consumer Price Index is a more efficient and more accurate gauge than the current system of approval by the Commission in that the increases are more linear and gradual than the more dramatic increases and subsequent decline of margins.

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6. Refer to Citipower's response to Item 3(c) of Staff's First Request. Provide a further description of Citipower's gathering system, i.e., its location, whether it has any farm tap customers, the rate if charges any such farm tap customers, and any further uses that Citipower makes of its gathering system.

RESPONSE: There are no recent changes to gathering system and it is self contained in McCreary County. (See the map attached to response 2(a) hereinabove.) There are no present farm tap customers. The response to 3(c) of Staff's First Request is hypothetical in nature.

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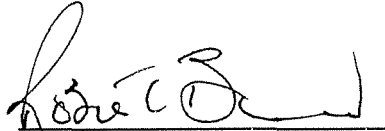
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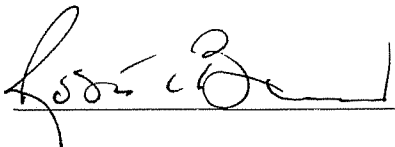
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Attorney for Citipower, LLC

CERTIFICATE

I hereby certify that the above and foregoing was on the 13 day of January, 2006, 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

Gregory D. Stumbo
Attorney General
1024 Capital Center Drive
Suite 200
Frankfort, Kentucky 40601-8204



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