

ROBERT L. BROWN III

ATTORNEY AT LAW

1005 SOUTH MAIN STREET
CORBIN, KENTUCKY 40701

(606) 528-3073

FAX (606) 528-3289

October 31, 2005

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PUBLIC SERVICE
COMMISSION

VIA FACSIMILE AND MAIL

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

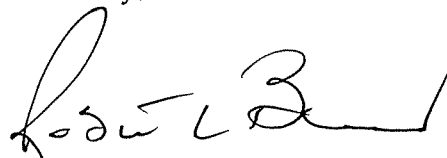
**RE: RESPONSE TO COMMISSION STAFF'S FIRST DATA REQUEST
TO CITIPOWER, LLC.
CASE NUMBER 2005-00319**

Dear Ms. O'Donnell:

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

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REGISTRY OF PUBLIC UTILITIES
2005-00319

In the Matter of:

CITIPOWER, LLC

NOTICE OF GAS COST ADJUSTMENT
FILING OF CITIPOWER, LLC.

CASE NO. 2005-00319

**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:

**NOTICE OF GAS COST ADJUSTMENT
FILING OF CITIPOWER, LLC.**

CASE NO. 2005-00319

1. Refer to the first page of the Gas Supply Guarantee Agreement (“Supply Agreement”), between Citipower and Citigas, L.L.C. (“Citigas”), Section A.

a. Provide a list of other pipelines, gathering lines and wells located within the vicinity of Citipower.

RESPONSE: None to our knowledge. The nearest lines and wells would be approximately ten (10) miles away.

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

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

NOTICE OF GAS COST ADJUSTMENT
FILING OF CITIPOWER, LLC.

CASE NO. 2005-00319

1. Refer to the first page of the Gas Supply Guarantee Agreement ("Supply Agreement"), between Citipower and Citigas, L.L.C. ("Citigas"), Section A.
 - b. Provide the names of customers served by Citigas other than Citipower.

RESPONSE: A Gas Supply Agreement exists with Citizens Gas Utility District.

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1. Refer to the first page of the Gas Supply Guarantee Agreement (“Supply Agreement”), between Citipower and Citigas, L.L.C. (“Citigas”), Section A.

c. Provide the locations of the meters which measure the gas that will be sold to Citipower under the Supply Agreement.

RESPONSE: The metering system is comprised of three separate measuring checks. The first is comprised of a number of meters at the wellheads in McCreary County. The gas is then fed to the Worley Compressor located on Highway 27 just North of the Tennessee State line. The gas is re-metered, compressed and sent back to customers at which time it is metered again at the purchasing point. Citipower and Citigas check and compare the readings of all the meters to assure compatible numbers.

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CASE NO. 2005-00319

1. Refer to the first page of the Gas Supply Guarantee Agreement (“Supply Agreement”), between Citipower and Citigas, L.L.C. (“Citigas”), Section A.

d. State whether the Citipower employees with responsibility for the purchasing gas from Citigas are familiar with KRS 278.2207, the statute that deals with transactions between a utility and its affiliates.

RESPONSE: Yes.

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1. Refer to the first page of the Gas Supply Guarantee Agreement ("Supply Agreement"), between Citipower and Citigas, L.L.C. ("Citigas"), Section A.

e. Are the pipelines and gathering lines owned by Citigas the same lines previously owned by Forexco? If no, when and from whom did Citigas obtain these lines?

RESPONSE: No, Citigas obtained an 11 1/2 mile pipeline formerly owned by Citipower in the recent corporate restructure. This pipeline is a non-regulated asset.

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1. Refer to the first page of the Gas Supply Guarantee Agreement (“Supply Agreement”), between Citipower and Citigas, L.L.C. (“Citigas”), Section A.

f. Is Citigas subject to the jurisdiction of the Federal Energy Regulatory Commission or Tennessee Regulatory Authority?

RESPONSE: No.

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In the Matter of:

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CASE NO. 2005-00319

2. Refer to the Supply Agreement, Article I, Transportation/Supply Guarantee Fee.

a. Provide the cost justification for the proposed \$3 per MMBTU transportation fee.

RESPONSE: The justification is based upon several factors with regard to the parent/affiliate Citigas, LLC. First, the cost (\$1,188,258.00) of the steel pipeline in Tennessee owned and paid for by Citigas must be considered due to the fact that the Federal Prison contract (the utilities largest customer) was conditioned upon the same. Furthermore, this pipeline affords Citipower and its customers the security and ability to purchase "outside" gas (although it has never done so) in the event local gas is unavailable. This cost recovery, spread over ten years, plus ten percent (10%), is the starting point for the fee calculations.

Secondly, Citigas is taking on the cost and obligations for the compressor costs (approximately \$75,000.00), the administration for the gas supply, the management cost and obligation for the flow of gas from the wellhead to the

utility customers, the cost and obligation of the sale or purchase of the gas supply, and the risk of loss for transporting the gas supply from the purchase point to the customer. (See Case No. 2004-00444 comments attached). In addition, Citigas is bearing the responsibility for maintaining safe delivery pressures to the utility customers. The combination of all of these factors justify a fair market charge of approximately \$3/MMGTU.

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1005 South Main Street
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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

1. Refer to Citipower's Response to First Data Request of Commission Staff ("Response to Staff's First Request"), Item 8. Citipower stats that Bill Web b will be moved to Citi Energy, LLC ("Citi Energy"), that the responsibility of gas supply will be transferred from Citipower to Citi Energy, and that Citipower will not place Bill Webb with another employee.

b. Explain why the responsibility for gas supply is being transferred to Citi Energy and what that responsibility entails.

RESPONSE: Citipower will remain responsible for obtaining the gas supply to feed into the utility system, and this will be conducted on a contract basis with Citigas and other third parties. However, Citipower will no longer have the internal responsibility of managing the flow of gas from the McCreary County weeks, i.e., the "gas supply". The managing of any third party well, the sale of excess gas, and the purchase of "short" supply will not be the obligation of Citipower.

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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

2. State whether Citipower currently performs any of the operations at the gas wells. If yes, explain what activities Citipower performs, provide the cost information, and state whether these activities will continue after the reorganization.

RESPONSE: Citipower's personnel performs chart-changing services at Forexco's wells. Citipower keeps hourly records accounting time they spend performing this service. After the reorganization, the utility will no longer provide any well services for Forexco.

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CASE NO. 2004-00444

5. Refer to Citipower's Response to Staff's First Request, Item 2. With the exception of the LBU, LLC Investment and Citigas LLC Investment account reductions, explain how the utility calculated the change in all other accounts affected by the reorganization.

RESPONSE: Cash (406,489.88) used to reduce overall debt. Fixed Assets (1,188,258.15) Tennessee Pipeline. Accumulated Depreciation (437,121.82) related to Tennessee Pipeline. Notes Payable (1,238,173.81) reduces Citipower debt to \$250,000.00.

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CASE NO. 2004-00444

8. State whether the person or persons who presently provide the day-to-day operations of the utility will change after the merger. If yes, state the reason for the change and provide the name and qualifications of the person or persons who will provide this service after the merger.

RESPONSE: Bill Webb will be moved to Citi Energy, LLC. The responsibility of gas supply will be transferred from Citipower to Citi Energy, LLC. Bill Webb will manage the 11.5 mile steel pipeline and compressor station in Tennessee. We do not intend to replace Bill Webb with another employee.

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2. Refer to the Supply Agreement, Article I, Transportation/Supply Guarantee Fee.

b. The transportation/supply fee will be adjusted each year based on the average general CPI Index. State why Citipower agreed to this adjustment. Explain why this adjustment is reasonable.

RESPONSE: This was an agreement entered into during the reorganization process. The reasonableness of this contract is that it is the most efficient and stable indication of consumer and market costs (i.e., labor, maintenance, administrative, parts). The index used is published by the federal government and used widely by industry. Further it prevents the need to continually require a contract renegotiation and costly approval process. Citipower and CitiGas believes it is the most accurate measure of a fair and reasonable market cost.

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2. Refer to the Supply Agreement, Article I, Transportation/Supply Guarantee Fee.

c. Provide a list of natural gas suppliers, other than Citigas, that Citipower considered for its gas supply.

RESPONSE: There are no other pipelines within the county. Citipower could buy from Citizens Gas Utility District but based upon discussions (several years ago) this would be a much greater cost to Citipower. There are negotiations ongoing with third parties with regard to new pipelines and gas supplies, however, they are in preliminary stages.

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3. Refer to the Supply Agreement, Article 8, 9.2. The agreement states that any additional lines will be jointly funded 50:50 by Citigas and Citipower.

a. Provide an estimate of the number of additional lines that Citipower or Citigas plans to install under this section of the agreement.

RESPONSE: None.

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3. Refer to the Supply Agreement, Article 8, 9.2. The agreement states that any additional lines will be jointly funded 50:50 by Citigas and Citipower.
 - b. Provide an estimate of the cost of additional lines that Citipower or Citigas plans to install under the agreement.

RESPONSE: None.

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3. Refer to the Supply Agreement, Article 8, 9.2. The agreement states that any additional lines will be jointly funded 50:50 by Citigas and Citipower.

c. State the reasons for proposing that ownership of any additional lines under the Supply Agreement will be funded equally by Citipower and Citigas. Explain why this cost sharing agreement is reasonable.

RESPONSE: The contemplation is that sometime in the future additional wells may be drilled and Citipower would benefit by adding to their gathering system (which they currently receive income from) and CitiGas would provide further access to third parties, the details of any such transaction are speculative and subject to the Commission's approval.

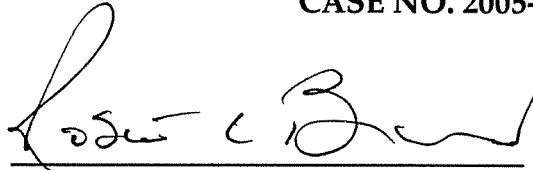
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Robert L. Brown III
1005 South Main Street
Corbin, Kentucky 40701
Telephone: (606) 528-3073
Attorney for Citipower, LLC

CERTIFICATE

I hereby certify that the above and foregoing was on the 31st day of October, 2005, served by faxing a copy and 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

Hon. Gregory D. Stumbo
Attorney General
David Edward Spenard
Assistant Attorney General
1024 Capital Center Drive
Suite 200
Frankfort, Kentucky 40601-8204



Robert L. Brown III

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PUBLIC SERVICE
COMMISSION

ROBERT L. BROWN III
LAW OFFICES
1005 S. MAIN STREET, SUITE 101
CORBIN, KENTUCKY 40701

TO:

Public Service Commission
Ms. Beth O'Donnell
Executive Director
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