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**PUBLIC SERVICE
COMMISSION**

March 19, 2004

Commonwealth of Kentucky
Public Service Commission
Attn: Office of Executive Director
211 Sower Blvd.
Frankfurt, Kentucky 40602

Case 2004-00123

Subject: Application for Note Renewal

Gentlemen,

Pursuant to KRS 278.300, Citipower, L.L.C. ("Citipower") seeks the Kentucky Public Service Commission's (the "Commission") approval for the renewal of short-term note payable to the Bank of McCreary County in the amount of \$993,174.

This note ("the note") is a combination of three notes that are comprised as follows:

Note	Orig. Date	Amount	Purpose of Note
Note #1	11-11-1997	\$250,000	Working capital and infrastructure
Note #2	12-16-1998	\$500,000	Construct 11.5 mile 4.5" pipeline
Note #3	01-06-1999	\$243,174	Purchase interest in LBU, LLC

The three separate notes were combined by Bank of McCreary County into a single loan on November 19, 2002. This loan became due on November 19, 2003, at which time it was renewed by Citipower. Because a portion of the note has now been renewed for a total term of over six years, it is necessary under KRS 278.300(8) for Citipower to seek Commission approval for renewal.

Terms of Loan

The note is payable to Bank of McCreary County at a rate of prime plus 0.75%. The current interest rate is 4.75%. The note matures on November 19, 2004. It is secured by the following: all assets tangible and intangible now owned or hereafter acquired including accounts receivable, inventory, pipeline, machinery, equipment and a real estate mortgage dated 11/17/97 on a building and land located in Whitley City, Kentucky.

Effect on Citipower Capital Structure

As Citipower is only seeking a renewal of the note, it will have no effect on its capital structure. At the end of 2003, Citipower's debt-to-equity ratio was 20%. Based on a review of other small utilities in Kentucky, based on data from the Commission's website, Citipower has by far the lowest debt-to-equity ratio among its peers.

At December 31, 2003, Citipower's capital structure was as follows:

Debt	\$1,238,174
Equity	\$6,191,972

The \$1,238,174 of total debt is comprised of the note to Bank of McCreary County and a separate \$245,000 short-term note that is scheduled to be repaid in 2004.

Citipower's Ability to Repay

Citipower has generated positive cash flows each month since December 2003 and expects to have positive cash flows for the entire year of 2004. The construction of the US Federal Prison in McCreary County (the "prison") in 2002 has been a major factor in Citipower's recent financial performance improvement.

Citipower's sales volumes grew from 48,242 Mcf in 2002 to 72,704 Mcf in 2003, almost entirely as a result of the prison. The prison is not yet occupied by inmates, but is expected to be so by mid-2004. If this occurs, volumes are expected to further increase to 100,000 Mcf in 2004 and up to 120,000 Mcf in 2005.

When the prison is fully occupied, Citipower expects to begin generating positive cash flows of over \$500,000 per year. Therefore, depending on the timing of the prison occupation, the Bank of McCreary note could most likely be paid off in as little as three years, if desired.

The annual interest payments related to the note are currently \$47,176 at the current interest rate of 4.75%. In 2003, interest payments related to the note totaled \$49,365.

Future of Note

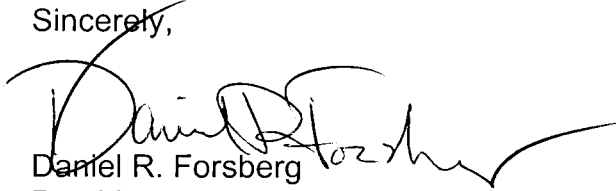
Because Citipower's cash flows will be highly dependent on the future increased gas usage of the prison, it does not desire to enter into a fixed interest rate or repayment schedule for the note at this time. Furthermore, the current interest rate is relatively low at 4.75%. When the prison is fully occupied and Citipower can make a firm determination of its future cash flows, it will seek to set up a longer term repayment schedule. Until such time, Citipower will continue to maintain the short-term status of the note and renew it in November 2004. If the Commission deems it necessary, Citipower will seek Commission approval to

renew the note at that time. However, Citipower respectfully requests that the Commission waive this requirement if the terms of the loan are not changed.

Conclusion

Citipower requests the Commission's approval of the November 2003 and November 2004 renewals of the subject note, assuming that the terms of the note are not changed. If Citipower seeks to renew the note in 2005, or the terms of the note are changed, Citipower will seek the Commission's approval for the renewal, or for the new terms, at that time.

Sincerely,



Daniel R. Forsberg
President