

ROBERT L. BROWN III

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1005 SOUTH MAIN STREET
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November 12, 2004

VIA HAND DELIVERY

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

RECEIVED

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PUBLIC SERVICE
COMMISSION

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

CITIPOWER, LLC - APPLICATION OF REORGANIZATION

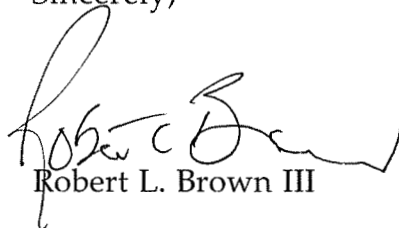
Dear Ms. O'Donnell:

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

Also enclosed is an original and six copies of an Application of Reorganization of Citipower, LLC, 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

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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 THIRD 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 Third 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. In the Supplemental Comments filed in Citipower's response to Commission Staff's Data Request of August 30, 2004 ("Second Data Request"), the utility identifies the original November 11, 1997, Promissory Note for \$250,000.00 as a revolving line of credit.

a. Provide, in detail, the purpose(s) for which Citipower used the funds.

RESPONSE: The Promissory Note proceeds in the original November 11, 1997 bank loan was used for Citipower working capital needs. There is insufficient data to at this point in time to detail the exact use of proceeds however, it is the belief of Citipower that the proceeds were used for regulated purposes and disclosed in various documentation filed with the PSC (i.e., The Alternative Rate Filing of Citipower, LLC, Case Number 99-225 and annual financial statements from 1997 forward). If the Application for Reorganization, together with the proposed plan for repayment of Citipower debt is not sufficient, Citipower will conduct a thorough audit as it relates to the use of these proceeds at a later date.

*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:

APPLICATION OF CITIPOWER, LLC FOR
APPROVAL OF NOTE RENEWAL

CASE NO. 2004-00123

1. In the Supplemental Comments filed in Citipower's response to Commission Staff's Data Request of August 30, 2004 ("Second Data Request"), the utility identifies the original November 11, 1997, Promissory Note for \$250,000.00 as a revolving line of credit.

b. State whether the funds were used for regulated or non-regulated activities.

RESPONSE: See response to 1a.

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Attorney for Citipower, LLC*

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In the Matter of:

APPLICATION OF CITIPOWER, LLC FOR
APPROVAL OF NOTE RENEWAL

CASE NO. 2004-00123

1. In the Supplemental Comments filed in Citipower's response to Commission Staff's Data Request of August 30, 2004 ("Second Data Request"), the utility identifies the original November 11, 1997, Promissory Note for \$250,000.00 as a revolving line of credit.

c. If the funds were used for current operations, explain why the utility chose to incur debt rather than file with the Commission an application for a rate increase.

RESPONSE: It is the best belief of Citipower that the bank credit was established by the utility in its initial operation, and because the utility had just converted from a farm tap and had only been under PSC jurisdiction for approximately thirty days at the time of the loan, it was premature to apply for a rate increase.

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COMMONWEALTH OF KENTUCKY
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In the Matter of:

APPLICATION OF CITIPOWER, LLC FOR
APPROVAL OF NOTE RENEWAL

CASE NO. 2004-00123

2. Citipower states in its Supplemental Comments that it is planning to segregate Citipower's regulated and non-regulated activities using a holding company structure. Given that the utility's current debt to the Bank of McCreary County matures on November 19, 2004, provide answers to the following:

a. Provide the anticipated date for filing for approval of the reorganization.

RESPONSE: The Application of Reorganization is filed contemporaneous with this response.

*Law Offices of
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1005 South Main Street
Corbin, Kentucky 40701
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CASE NO. 2004-00123

2. Citipower states in its Supplemental Comments that it is planning to segregate Citipower's regulated and non-regulated activities using a holding company structure. Given that the utility's current debt to the Bank of McCreary County matures on November 19, 2004, provide answers to the following:

b. State whether the note will be renewed in its entirety or will be separated into smaller notes.

RESPONSE: Please refer to the Application for Reorganization. The note will be separated into notes that will be collateralized and paid separately by regulated and non-regulated assets.

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APPROVAL OF NOTE RENEWAL

CASE NO. 2004-00123

2. Citipower states in its Supplemental Comments that it is planning to segregate Citipower's regulated and non-regulated activities using a holding company structure. Given that the utility's current debt to the Bank of McCreary County matures on November 19, 2004, provide answers to the following:

c. If the note will be separated into smaller notes, provide the amounts and names in which the notes will be renewed.

RESPONSE: See the Application for Reorganization.

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CASE NO. 2004-00123

2. Citipower states in its Supplemental Comments that it is planning to segregate Citipower's regulated and non-regulated activities using a holding company structure. Given that the utility's current debt to the Bank of McCreary County matures on November 19, 2004, provide answers to the following:

d. If the entire note or any part of the note will be renewed in Citipower's name, provide the terms and interest rate for the renewal.

RESPONSE: See the Application for Reorganization.

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3. In response to Item 2(b) of Commission Staff's Third Data Request, Citipower provided calculations for the 2003 and 2004 gas revenues and gas purchase costs. The 2003 gas revenues were calculated using \$13.4238 per Mcf and gas purchase costs were calculated using \$7.06560 per Mcf. For the 2004 estimates, the per Mcf rates used were \$15.2500 and \$5.79000, respectively. Given that Citipower has not filed a rate case with the Commission to change its base rate and that changes in gas costs are passed on to customers, explain how the per Mcf rate used to calculate revenues in 2004 could increase by \$1.8262 while the per Mcf rate used to calculate gas costs decreases by \$1.2756.

RESPONSE: The Mcf rate used to calculate revenues could increase by \$1.8262 while the per Mcf rate used to calculate gas costs decreases by \$1.2756, based on the rates approved and required by the PSC. They are the result of applying the PSC required gas cost recovery calculation to the changing gas costs and seasonal volumes experienced by Citipower.

Citipower files a "Quarterly Report of Gas Cost Recovery Rate Calculation"

quarterly as required by the PSC. That calculation requires Citipower to estimate the expected gas cost for future periods, and then subsequently adjust the rates (by an "actual adjustment") to ensure that Citipower recovers the actual cost of gas plus the base rate authorized by the PSC. The numbers given for the year 2003 are actual numbers, based on actual gas costs and on actual PSC approved tariffs which were based on the Citipower's "Quarterly Report of Gas Recovery Rate Calculation" filings.

Citipower anticipated an average "actual adjustment" of \$3.00 for 2004 when it prepared the forecast provided to the PSC, and subsequent events have supported the reasonableness of that estimate. For January and February 2004, the total "actual adjustment" was \$4.1094. For March, April and May 2004, the "actual adjustment" was \$3.9740. For June, July and August, the "actual adjustment" was \$2.9280. For September, October, and November, the "actual adjustment" is \$1.6653. For December, Citipower has filed a proposed calculation with an "actual adjustment" of \$1.6111. The calculation has not yet been approved by the PSC, but Citipower does not anticipate significant changes to the calculation.

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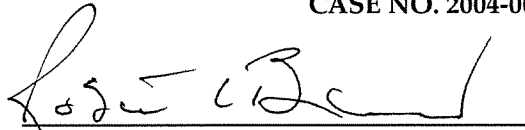
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Law Offices of
Robert L. Brown III
1005 South Main Street
Corbin, Kentucky 40701
Telephone: (606) 528-3073
Attorney for Citipower, LLC

CERTIFICATE

I hereby certify that the above and foregoing was on the 12 day of November, 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

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