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November 17, 2008

VIA FACSIMILE AND MAIL

RECEIVED

Ms. Stephanie Stumbo  
Executive Director  
Kentucky Public Service Commission  
211 Sower Blvd.  
P.O. Box 615  
Frankfort, KY 40602

NOV 19 2008  
PUBLIC SERVICE  
COMMISSION

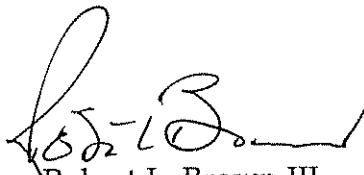
**RE: CITIPOWER, LLC – APPLICATION OF CITIPOWER, LLC FOR  
RATE ADJUSTMENT FOR SMALL UTILITIES PURSUANT TO  
KAR 5:076  
Case No. 2008-00392**

Dear Ms. Stumbo:

Enclosed please find the original and ten (10) copies of Citipower, LLC's Response to Commission Staff's First Data Request to Citipower, LLC as it relates to the above-mentioned matter.

Your attention to this matter is appreciated, and should you have any questions or comments, 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, LCC FOR  
RATE ADJUSTMENT FOR SMALL UTILITIES  
PURSUANT TO 807 KAR 5:076

CASE NO. 2008-00392

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:

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PUBLIC SERVICE  
COMMISSION

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF CITIPOWER, LCC FOR  
RATE ADJUSTMENT FOR SMALL UTILITIES  
PURSUANT TO 807 KAR 5:076

CASE NO. 2008-00392

1. Refer to paragraph 2 on page 2 of Exhibit 1 of Citipower's application, specifically, the amendments described for Citipower's 2007 annual report filed with the Commission.

a. Line 902, Meter Reading Labor, increased from \$273 to \$91,277.

Describe the manner in which Citipower performs meter reading, including the number of meter readers and whether they are Citipower employees or outside contractors. If they are Citipower employees, provide their annual and/or hourly rates of compensation and identify and describe the job duties they perform other than meter reading.

RESPONSE: Line 902 is comprised of Citipower employees and the duties have been performed consistent with the history of being regulated by the P.S.C. (see Case No. 2004-00444). The difference from \$273 to \$91,277 is a move from line 920 to line 902 for these services. Citipower has three employees to read meters provide customer service, customer hookups, lines, and to maintain equipment. The three employees' incur hourly rates at \$10.50, \$11.00 and \$14.00 per hour.

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CASE NO. 2008-00392

1. Refer to paragraph 2 on page 2 of Exhibit 1 of Citipower's application, specifically, the amendments described for Citipower's 2007 annual report filed with the Commission.

b. Line 903, Customer Records, increased from \$99 to \$33,605. Describe the manner in which Citipower maintains customer records, including whether the work is performed by Citipower employees, by outside contractors, or by Citienergy employees with the cost allocated to Citipower.

RESPONSE: Citipower employs one on-site office manager who keeps customer records that includes billing, accounts receivable, processing payments and customer service. The office manager is paid \$13.30 per hour.

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CASE NO. 2008-00392

1. Refer to paragraph 2 on page 2 of Exhibit 1 of Citipower's application, specifically, the amendments described for Citipower's 2007 annual report filed with the Commission.

c. Meter Reading Labor increased \$91,004, and Customer Records increased \$33,506, which totals \$124,510. Although not identified as such, it appears that these increases were offset by the reduction to Line 920, Administrative Salaries. Provide confirmation that these increases reflect the reclassification of amounts initially reported as administrative salaries.

RESPONSE: Yes, meter-reading labor was increased by \$91,004 and Customer Records was increased by \$33,506, with an offsetting reduction to line 920.

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CASE NO. 2008-00392

2. Refer to paragraph 3 on page 2 of Exhibit 1 of Citipower's application.
  - a. Clarify whether the \$110,000 identified as unpaid management fees were incurred solely for calendar year 2007.

RESPONSE: CitiEnergy's monthly \$10,000.00 management fee has not been paid since January 2007.

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2. Refer to paragraph 3 on page 2 of Exhibit 1 of Citipower's application.

b. The third sentence in the paragraph states that Citipower did not pay its management fees owed to Citienergy due to cash flow issues. Describe the nature of the cash flow issues and explain what actions, if any, Citipower has taken to address these issues.

RESPONSE: As stated in Exhibit 1 to the Application for Rate Adjustment, the main problem of the entity is that Operating expenses continue to be increased with no increase to income. A significant factor is that McCreary County is sparsely populated with a declining population. Further, the economic viability of the customer base is challenged. As customers are not increasing Citipower is addressing this issue by requesting a rate increase from the PSC. In addition, Citipower has been trying to manage quality customer service for these customers that remain and cut expenses in a reasonable manner. (See paragraph 1 of Exhibit 1 necessity for rate increase).

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In the Matter of:

APPLICATION OF CITIPOWER, LLC FOR  
APPROVAL OF NOTE RENEWAL

CASE NO. 2004-00123

2. Refer to paragraph 3 on page 2 of Exhibit 1 of Citipower's application.

c. The amount originally reported as Administrative Salaries was \$210,795 which was reduced by \$124,510 for a difference of \$86,285. Identify and describe the nature of the \$86,285 in Administrative Salaries, which appears to be in addition to the aforementioned management fees.

RESPONSE: The \$86,285 is broken down as follows:

CitiEnergy (January 2007 payment)	\$10,000	Management fee
Employee Training	\$ 4,173	Various workshops & seminars
Citipower Manager	\$72,112	Manager Salary

The \$86,285 is not in addition to the aforementioned management fees, but the management fees are part of this expense.

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3. Refer to Paragraph 5 on page 3 of Exhibit 1 of Citipower's application.
  - a. Explain how 13 percent was selected as the proposed "profit return" and provide the calculation which results in the \$1.78 per Mcf proposed rate increase.

RESPONSE: See 3b response. Exhibit 1, paragraph 5 of the Application for Rate Increase has a typo: the proposed rate change as listed in the Application and duly published is \$4.74 per Mcf [\$2.88 to reduce the loss and \$1.86 for reasonable profit (not \$1.78)].

Assuming all things being equal in the future, the 2007 results for Citipower reflect that if Citipower had \$2.88 more per Mcf sold ( $\$2.88 \times 86,828$ ) then it would not have lost \$249,848 but would have "broke even". The 13% calculation is based upon the 2007 sales figure ( $\$1,241,654 \times 13\% \div 86,828 \text{ Mcf} = \$1.86$ ). Thus, assuming \$2.88 more per Mcf sold ( $\$1,241,654 + \$250,065 = \$1,477,727$  gross sales), then another \$161,500 ( $\$1.86 \times 86,828$ ) would allow Citipower 13% return on actual 2007 sales or 9.9% on hypothetical sales. Citipower argues that this is fair and reasonable return on

its investment and considering its small size and considerable risk factors.

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3. Refer to Paragraph 5 on page 3 of Exhibit 1 of Citipower's application.

b. In the Staff Report issued in Case No. 1999-00225<sup>1</sup>, an 88-percent operating ratio was used to determine Citipower's revenue requirement, which is the method typically used by the Commission in cases involving smaller investor-owned utilities. Explain why Citipower did not use this method to calculate its proposed increase in revenues.

RESPONSE: See 3a response. An 88 percent operating ratio would sure help, however, in light of the costs and time to get rates increased, the unlikely growth of McCreary Counties customer base, and the risks associated with further decrease in sales volume (as experienced over the last three years), Citipower requested the method described in 3a to calculate its proposed increase.

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<sup>1</sup> Case No. 1999-00225, The Alternative Rate Filing of Citipower, LLC

COMMONWEALTH OF KENTUCKY  
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In the Matter of:

3. Refer to Paragraph 5 on page 3 of Exhibit 1 of Citipower's application.
  - c. Provide the calculation, based on recapturing the loss of \$249,848 incurred in 2007, which results in the proposed increase of \$2.88 per Mcf.

RESPONSE:  $2007 \text{ loss of } \$249,848 \div 86,828 \text{ Mcf} = \$2.88.$

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4. Refer to Citipower's response to the Commission's September 30, 2008 deficiency letter, which shows the number of bills rendered and Mcf sales by customer class for calendar year 2007.

a. Provide an analysis of the 2007 sales volumes which breaks them down by customer class on a monthly basis and which shows, also on a monthly basis, the Gas Cost Adjustment component of the rates charged by Citipower in 2007.

RESPONSE: Analysis of monthly sales volume by class and gas cost component attached as Exhibit "A".

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2007 # Customers						
Month	Res	Com	Public	Industrial	Total	
1	319	49	39	7	415	
2	320	49	39	7	417	
3	320	49	39	7	418	
4	313	48	39	7	411	
5	312	49	39	7	412	
6	303	47	39	7	402	
7	297	47	39	7	397	
8	297	47	39	7	398	
9	294	47	39	7	396	
10	299	47	39	7	402	
11	312	46	39	7	415	
12	316	46	39	7	420	
Rounding	3,702	571	468	84	4,903	

MCF Sold					
Res	Com	Public	Industrial	Total	
1,676	800	10,042	1,473	13,991	
2,154	1,055	10,700	1,741	15,650	
923	499	6,379	700	8,501	
815	444	6,233	526	8,018	
177	347	4,608	9	5,141	
89	288	3,211	1	3,589	
84	278	2,722	1	3,085	
89	309	2,544	1	2,943	
83	258	2,330	2	2,673	
230	336	4,111	38	4,715	
923	505	6,322	569	8,319	
1,303	660	7,320	903	10,186	
21	(12)	5	3	17	
8,567	5,767	66,527	5,967	86,828	

2007 Revenue					
Month	Res	Com	Public	Industrial	Total
1	25,830.01	12,211.27	21,024.71	143,319.33	202,385.32
2	33,104.89	16,143.34	24,852.63	152,710.41	226,811.27
3	12,550.01	6,455.99	8,554.34	77,897.62	105,457.96
4	10,975.39	5,920.55	6,426.13	76,123.61	99,445.68
5	2,958.59	4,745.29	121.22	56,331.49	64,156.59
6	2,166.95	4,305.20	38.50	43,455.00	49,965.65
7	2,105.25	4,173.10	38.50	36,865.25	43,182.10
8	2,182.55	4,615.35	38.10	34,455.90	41,291.90
9	2,167.12	4,222.25	65.61	34,684.37	41,139.35
10	4,086.03	5,399.80	591.34	61,053.83	71,131.00
11	14,819.34	8,039.22	8,450.98	93,841.94	125,151.48
12	21,351.89	10,753.28	13,769.20	111,640.33	157,514.70
	134,298.02	86,984.64	83,971.26	922,379.08	1,227,633.00

Revenue Breakdown		
Base Rate	Gas Cost Recovery	Total
78,855.67	123,529.65	202,385.32
88,645.48	138,165.79	226,811.27
47,830.66	57,627.30	105,457.96
45,030.87	54,414.81	99,445.68
28,589.75	35,566.84	64,156.59
19,970.07	29,995.58	49,965.65
17,203.63	25,978.47	43,182.10
16,464.43	24,827.47	41,291.90
14,933.44	26,205.91	41,139.35
26,306.13	44,824.87	71,131.00
46,843.08	78,308.40	125,151.48
57,570.41	99,944.29	157,514.70
488,243.61	739,389.39	1,227,633.00

QUESTION 4a  
Exhibit "A"

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF CITIPOWER, LLC FOR  
RATE ADJUSTMENT FOR SMALL UTILITIES  
PURSUANT TO 807 KAR 5:076

CASE NO. 2008-00392

4. Refer to Citipower's response to the Commission's September 30, 2008 deficiency letter, which shows the number of bills rendered and Mcf sales by customer class for calendar year 2007.

b. Describe the process and timetable under which Citipower operates when recording revenues from gas sales. The response must clearly indicate whether the revenues derived from Mcf sales for a specific month are recorded in that same month or if revenues lag Mcf sales until the following month.

RESPONSE: Revenues from MCF sales are recorded (accrued) the same month as actual sales.

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4. Refer to Citipower's response to the Commission's September 30, 2008 deficiency letter, which shows the number of bills rendered and Mcf sales by customer class for calendar year 2007.

c. Over 75 percent of Citipower's Mcf sales in 2007 are identified as sales to the "Public" customer class. Clarify whether "Public" is the same customer class identified in Citipower's tariffs as "Institutional" and explain why this class accounts for such a large part of Citipower's sales volumes.

RESPONSE: Public is the same as Institutional. A large part of Citipower's revenues are from the prison in McCreary County.

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5. Refer to Exhibit 2 of Citipower's application, specifically the column headed "2007", and to the Statement of Income in Citipower's revised 2007 annual report filed with the Commission. Other Income of \$14,021 consists of \$284 in Interest and Dividend Income and net revenues of \$13,737 from Non-utility Operations, as shown on the Statement of Income. Provide a full description of the non-utility activities in which Citipower is involved.

RESPONSE: The \$13,737 consists of late fees and hookup fees collected in addition to the \$284 in interest and dividend income.

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6. Refer to Exhibit 2 of Citipower's application. Explain the changes from calendar year 2006 to calendar year 2007 in the following expense items.

a. Account 853, Compressor Station Expenses – decreased from \$3,373 to zero.

RESPONSE: Account 853 Expense related to a compressor that was deemed to be no longer needed.

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6. Refer to Exhibit 2 of Citipower's application. Explain the changes from calendar year 2006 to calendar year 2007 in the following expense items.

b. Account 858, Transmission Compression by Others – increased from zero to \$3,857.

RESPONSE: Account 858, \$3,857.09 Expenses related to moving the Worley compressor which was discontinued.

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6. Refer to Exhibit 2 of Citipower's application. Explain the changes from calendar year 2006 to calendar year 2007 in the following expense items.
- c. Account 860, Rents, decreased from \$32,949 to zero.

RESPONSE: Account 860, see explanation for 6.a. above. Citipower was able to omit this reoccurring rent by elimination of the compressor.

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6. Refer to Exhibit 2 of Citipower's application. Explain the changes from calendar year 2006 to calendar year 2007 in the following expense items.

d. Account 864, Maintenance of Compression Equipment - decreased from \$3,235 to zero.

RESPONSE: Account 864, see explanation for 6a and 6c above.

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6. Refer to Exhibit 2 of Citipower's application. Explain the changes from calendar year 2006 to calendar year 2007 in the following expense items.

e. Account 867, Maintenance of Other Equipment – increased from zero to \$18,344.

RESPONSE: Account 867 \$18,344 Maintenance and insurance of Citipower vehicles.

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6. Refer to Exhibit 2 of Citipower's application. Explain the changes from calendar year 2006 to calendar year 2007 in the following expense items.

f. Account 881, Rents – decreased from \$9,585 to zero.

RESPONSE: Account 881, see explanation for 6a and 6c above.

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g. Account 902, Meter Reading Labor – increased from \$78,883 to \$91,277.

RESPONSE: Account 902, Labor cost increased in 2007 over 2006 on an annualized based of \$12,394. Cost of living increases, minor raises and overtime pay resulted in \$7,238. The remaining \$5,156 appears to be due to allocation of when hires occurred.

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6. Refer to Exhibit 2 of Citipower's application. Explain the changes from calendar year 2006 to calendar year 2007 in the following expense items.

h. Account 921, Office Supplies - decreased from \$28,824 to \$12,869.

RESPONSE: Account 921, \$12,869 total office expense of \$29,376 offset by a (\$16,516) credit from refund relating to Worley compressor which was discontinued.

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6. Refer to Exhibit 2 of Citipower's application. Explain the changes from calendar year 2006 to calendar year 2007 in the following expense items.

i. Account 923, Outside Service Employed- decreased from \$92,755 to \$76,447.

RESPONSE: Account 923 Outside Service Employed - audit fees were less in 2007.

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7. Refer to Exhibit 2 of Citipower's application and to Citipower's revised 2007 annual report filed with the Commission, specifically the Statement of Income and the Summary of Utility Plant and Accumulated Provisions for Depreciation, Amortization and Depletion schedule.

a. The amortization expense shown on Exhibit 2 is identified on the Statement of Income as Amortization of Utility Plant Acquisition Adjustment. The summary schedule in the annual report lists \$306,017 as Acquisition Adjustments. Describe the nature of these Acquisition Adjustments and explain whether the \$13,188 expense represents the annual amortization of the Acquisition Adjustment.

RESPONSE: The \$13,188 represents the 2007 amortization expense of the Gas Plant Acquisition Adjustments.

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7. Refer to Exhibit 2 of Citipower's application and to Citipower's revised 2007 annual report filed with the Commission, specifically the Statement of Income and the Summary of Utility Plant and Accumulated Provisions for Depreciation, Amortization and Depletion schedule.

b. The issue of Amortization Expense was addressed on page 32 of the Staff Report Issues in Case No. 1999-00225. The report, which was subsequently adopted by the Commission, noted that in response to a data request Citipower had stated that the amortization expense it reported in 1998 was for organizational costs, not an acquisition adjustment, and that its 1998 annual report showed \$73,350 in organizational costs recorded that year. Describe in detail the subsequent reporting and disposition, if any, of those organization costs.

RESPONSE: Unknown. Normally organizational costs are amortized over 60 months. Citipower has reviewed its records due to this request and not found the answer, however, in light of the request involving 1998 records and in light of 807 KAR 5:076 and the continued difficulties of operations, Citipower respectfully requests

that this issue be reviewed and investigated outside the scope of the pending Application for Rate Adjustment.

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PURSUANT TO 807 KAR 5:076

CASE NO. 2008-00392

8. Refer to Exhibit 3 of Citipower's application, its \$250,000 promissory note to Citienergy LLC dated October 4, 2005, which has a term of 8 years.

a. In Case No. 2004-00123<sup>2</sup> the Commission denied Citipower's request for approval of financing which included the costs of both regulated and non-regulated acquisitions, but indicated that if Citipower were to request approval of the indebtedness used solely for its regulated operations " . . . such request will be favorable considered." Explain whether Citipower sought Commission approval of the October 4, 2005 promissory note.

RESPONSE: Yes. In Case Number 2004-00444, the Commission ordered on April 14, 2005 that Citipower could keep \$250,000 in debt as a result of the approved reorganization of its corporate structure.

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<sup>2</sup> Case No. 2004-00123, Application of Citipower, LLC for Approval of Note Renewal, Order dated December 14, 2004.

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF CITIPOWER, LLC FOR  
RATE ADJUSTMENT FOR SMALL UTILITIES  
PURSUANT TO 807 KAR 5:076

CASE NO. 2008-00392

8. Refer to Exhibit 3 of Citipower's application, its \$250,000 promissory note to Citienergy LLC dated October 4, 2005, which has a term of 8 years.

b. The Commission's December 14, 2004 Order in Case No. 2004-00123 also referred to certain aspects of Citipower's proposed corporate reorganization, which the Commission approved in Case No. 2004-00444<sup>3</sup>. Specifically concerning the reconfiguration of its financing, after the newly created holding company paid off the portion of the bank note related to Citipower's non-regulated business activities, the Order noted that the remaining " . . . \$250,000 will remain with Citipower and be paid off with funds owed to Citipower by another associated company." The Order's footnote reference for that statement cites Citipower's application in Case No. 2004-00444 which stated that while Citipower was liable for the remaining \$250,000 of the bank note, it was " . . . owed \$250,000 by Forexco, Inc., which debt will be paid by Forexco, Inc., on or before December 31, 2004." Explain whether the \$250,000 was paid off by Forexco, Inc., or with the proceeds of the promissory note with Citienergy, LLC.

RESPONSE: The referenced \$250,000 note was paid by Forexco, Inc., in December 2004. See Response to Commission Staff's First Data Requests February 18, 2005.

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<sup>3</sup> Case No. 2004-00444, Application of Citipower, LLC for Approval of Reorganization



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In the Matter of:

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8. Refer to Exhibit 3 of Citipower's application, its \$250,000 promissory note to Citienergy LLC dated October 4, 2005, which has a term of 8 years.

c. Citipower's revised 2007 annual report filed with the Commission shows a note payable to Citienergy, LLC in the amount of \$211,396. Explain whether this is the outstanding balance of the October 4, 2005 \$250,000 promissory note.

RESPONSE: Yes, this is the same \$250,000 promissory note.

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8. Refer to Exhibit 3 of Citipower's application, its \$250,000 promissory note to Citienergy LLC dated October 4, 2005, which has a term of 8 years.

d. The promissory note carries an interest rate of 9.25 percent. Explain how it was determined that a promissory note with Citienergy, LLC at a 9.25 percent interest rate, was in the best interests of Citipower and its ratepayers, and explain whether the transaction was conducted at arm's length.

RESPONSE: The note payable to CitiEnergy with an interest rate of 9.25% is set at the same interest rate that CitiEnergy owes on its debt (that it took over as part of the aforementioned restructure). The terms of this note have not changed since 2005. The interest rate is arms length as Citipower pays CitiEnergy the same rate it (CitiEnergy) pays. In addition, the utility has lost \$327,781 over the last three years making it a questionable credit in the financial market.

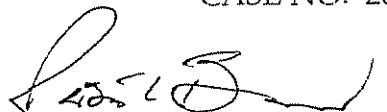
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CERTIFICATE

I hereby certify that the above and foregoing was on the 17 day of November, 2008, served by faxing and mailing the original and ten true and exact copies of same, all postage prepaid, addressed for delivery to:

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

And by mailing a true and correct copy to:

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



Robert L. Brown III