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**FACSIMILE LETTER**

TO: Public Service Commission  
ATTENTION: Ms. Beth O'Donnell

FACSIMILE #: (502) 564-3460

FROM: Robert L. Brown III



DATE: December 22, 2008

TIME: 4:10 pm

RE: CASE NO. 2008-0392

Total Number of Pages (including cover letter): 18

MESSAGE:

Please see the attached. A hard copy will follow in the mail.

REFERENCE #:

The information contained in this facsimile is **confidential** and may also be attorney -privileged. The information is intended only for the use of the individual or entity to whom it is addressed. If you have received this facsimile in error, please immediately notify us by a collect telephone call to (606) 528-3073 and return the original message to us at the address above by United States mail. Thank you.

**RECEIVED**

**DEC 22 2008**

**PUBLIC SERVICE  
COMMISSION**

ROBERT L. BROWN III  
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ROBERT L. BROWN III  
SARA B. MAHAN

(606) 528-3073  
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December 22, 2008

VIA FACSIMILE AND MAIL

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

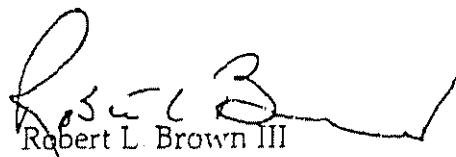
RE: CITIPOWER, LLC - APPLICATION OF CITIPOWER, LLC FOR  
RATE ADJUSTMENT FOR SMALL UTILITIES PURSUANT TO  
KAR 5:076  
Case No. 2008-00392

Dear Ms. Stumbo:

Enclosed please find the original and seven (7) copies of Citipower, LLC's Response to Supplemental Data Request of Commission Staff 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

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 SUPPLEMENTAL DATA REQUEST OF COMMISSION STAFF  
TO CITIPOWER, LLC

Comes now Citipower, LLC, ("Citipower") by and through the undersigned counsel, and states the following response to the Supplemental Data Request of Commission Staff to Citipower, LLC, with regard to the above-referenced case number:

Question 1a  
Page 1 of 1

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 responses to Items 1.c. and 2.c of the Commission Staff's October 29, 2008 data request ("Staff's first request"). The response to Item 1.c. indicates that Citipower employs an on-site office manager who is paid \$13.30 per hour while the response to Item 2.c. lists a "Citipower Manager" with a salary of \$72,112.

a. Clarify whether the on-site office manager and the "Citipower Manager" are two different positions or the same position.

RESPONSE:

These are two different positions.

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Question 1b  
Page 1 of 1

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 responses to Items 1.c. and 2.c of the Commission Staff's October 29, 2008 data request ("Staff's first request"). The response to Item 1.c. indicates that Citipower employs an on-site office manager who is paid \$13.30 per hour while the response to Item 2.c. lists a "Citipower Manager" with a salary of \$72,112.

b. If the on-site manager and the Citipower Manager are two different positions, list and describe the duties of each position.

RESPONSE:

The on-site manager is more of an administrative position at the McCreary County office, covering duties such as billing and accounts receivables, processing payments, customer service calls, general scheduling, etc. The Citipower Manager position oversees the utility from more of a managerial and officer perspective. Hiring, personnel issues, collection problems, compliance, field and office oversight, liaison with CitiEnergy and Citipower's board of directors are examples of the regular duties of this position. Both positions are critical to the ongoing operations of the utility and have been in place since 2002.

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Question 2a  
Page 1 of 1

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

2. Refer to the response to Items 2.a. and 2.c. of the Staff's first request. The response to Item 2.a. indicates that CitiEnergy, LLC ("CitiEnergy") charges Citipower a monthly management fee of \$10,000 while, as noted previously, the response to Item 2.c. lists a Citipower Manager with a salary of \$72,112.

a. Provide a detailed description of the management services Citipower receives from CitiEnergy.

RESPONSE:

The \$10,000 management fee is for Board of Director costs, accounting staff, legal coordination, regulatory and planning filings and oversight, together with strategic planning duties. These duties are primarily performed in Greensboro, North Carolina. Management fees have been in place since 2002.

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Question 2b  
Page 1 of 1

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

2. Refer to the response to Items 2.a. and 2.c. of the Staff's first request. The response to Item 2.a. indicates that CitiEnergy, LLC ("CitiEnergy") charges Citipower a monthly management fee of \$10,000 while, as noted previously, the response to Item 2.c. lists a Citipower Manager with a salary of \$72,112.

b Describe the relationship between CitiEnergy and Citipower and identify to what extent, if any, the two entities have common ownership.

RESPONSE:

CitiEnergy, owns 100% of Citipower. See Case No 2004-00444.

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Question 3a  
Page 1 of 1

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

3. Refer to the response to Item 3.a. of the Staff's first request and to Paragraph 5 on page 3 of Citipower's application.

a. Explain whether Citipower is familiar with the ratemaking principle which prohibits retroactive recovery of past losses and retroactive refunding of past profits.

RESPONSE:

Yes. The entire rate application is predicated upon a going forward basis and that 2008 financial results will closely resemble the results of 2005 through 2007. As historically accepted by the Commission, and as stated "assuming all things being equal in the future", is part of the basis for stating that the current rate base is inadequate. Further, Citipower is not requesting reimbursement, but simply pointing out that it cannot continue to lose money as in the past.

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COMMONWEALTH OF KENTUCKY  
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In the Matter of:

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

CASE NO. 2008-00392

3 Refer to the response to Item 3.a. of the Staff's first request and to Paragraph 5 on page 3 of Citipower's application.

b. Explain what is meant by "hypothetical" sales referenced in the second paragraph of the response. Provide the calculation of the 9.9 percent return on "hypothetical" sales.

RESPONSE:

Pro-forma. The underlying basis for calculations is historical data. The calculation is  $\$161,500 (\$1.86 \times 86,828 \text{ mcf}) / \$1,477,727$  which is 10.9%, not 9.9%. Citipower argues that this percentage is fair and reasonable return on its investment and considering its small size and considerable risk factors. This calculation does not consider the \$10,000 management fee referenced in 2 (a) above.

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Question 4  
Page 1 of 1

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

4. Refer to the response to Item 4.a. of the Staff's first request and to Exhibit 2 of Citipower's application. Based on its gas cost recovery revenue of \$739,389, shown in the data response, and its gas purchase expenses of \$832,235 shown in the exhibit, Citipower under-recovered its gas costs during 2007 by approximately \$92,800. Explain why an under-recovery or over-recovery of gas costs, which are reconciled via a gas distribution utility's gas cost adjustment mechanism, should be included in deriving the utility's revenue requirement for its base (non-gas cost) rates.

RESPONSE:

It should not be included in the utilities revenue requirement. Based upon a forward looking calculation using historical data (-\$157,048 / 86,828 mcf) \$1.81 is a break-even mcf additional rate. This calculation does not consider the \$10,000 management fee referenced in 2 (a) above.

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Question 5a

Page 1 of 1

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF CITIPOWER, LCC FOR  
RATE ADJUSTMENT FOR SMALL UTILITIES  
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CASE NO. 2008-00392

5. Refer to the responses to Items 4 a and 4.c. of the Staff's first request. The response to Item 4.a. reflects that more than 66,000 Mcf, which is more than 75 percent of Citipower's 2007 sales, were to the Public/Institutional customer class. The response to Item 4.c. states that a large part of Citipower's revenue is from the prison in McCreary County.

a Explain whether the McCreary County prison is considered a Public/Institutional customer by Citipower.

RESPONSE:

McCreary prison is considered Public.

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Question 5b  
Page 1 of 1

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

5. Refer to the responses to Items 4.a. and 4.c. of the Staff's first request. The response to Item 4.a. reflects that more than 66,000 Mcf, which is more than 75 percent of Citipower's 2007 sales, were to the Public/Institutional customer class. The response to Item 4.c. states that a large part of Citipower's revenue is from the prison in McCreary County.

b. Explain whether the schedule of revenue included in the response to Item 4.a., which shows 75 percent of Citipower's 2007 revenue coming from the industrial customers it serves, is in error and, if so, whether the revenue of \$922,379 identified as revenue from the industrial class should be identified as revenue from the Public/Institutional class.

RESPONSE:

The "Public" and "Industrial" column headings are reversed on response 4a. The \$922,379 revenue is from Public sales not Industrial (this was properly reported on 2007 annual report page 5).

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Question 6  
Page 1 of 1

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

6. Refer to the responses to Items 6.a, b., c., d., f., and h., of the Staff's first request, all of which refer to the elimination of the Worley compressor that was deemed to be no longer needed. With the elimination of the compressor, explain whether Citipower agrees that the \$3,857 expense incurred for moving the compressor and which was recorded in Account 858 is a nonrecurring expense that should not be included in determining Citipower's revenue requirements.

RESPONSE:

Yes.

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COMMONWEALTH OF KENTUCKY  
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CASE NO. 2008-00392

7. Refer to the response to Item 6.e. of the Staff's first request. Explain whether the increase in Account 867, from zero in 2006 to \$18,344 in 2007, which the response identifies as maintenance and insurance of Citipower vehicles, means that no maintenance expense or expense for insurance of vehicles was incurred in 2006. If no expense was incurred for insurance of Citipower's vehicles in 2006, explain whether that means Citipower's vehicles were not incurred at that time.

RESPONSE:

Vehicles were insured in 2005 and 2006. The insurance & maintenance costs for 2005 and 2006 were reported in other expense categories.

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COMMONWEALTH OF KENTUCKY  
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In the Matter of:

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CASE NO. 2008-00392

8. Refer to the responses to Items 8.a. and b. of Staff's first request, which concern Citipower's \$250,000 promissory note to CitiEnergy dated October 4, 2009.

a. The response to Item 8.a. states that "In Case No. 2004-00444, the Commission ordered on April 14, 2005 that Citipower could keep \$250,000 as a result of the approved reorganization of its corporate structure". Provide the specific language from the Commission's April 14, 2005 Order in Case No. 2004-00444<sup>1</sup> relied upon by Citipower in making this response.

RESPONSE:

See page 3 of the Commission's April 15, 2005 order in Case No. 2004-00444 – "This results in Citipower maintaining \$3.8 million in gross plant assets, \$2.173 million in equity, \$122,568 in cash, and \$250,000 in debt." See also page 4 of the Commission's April 15, 2005 order in Case No. 2004-00444 – "Therefore, we find that the corporate reorganization proposed by Citipower should be approved." See also Response #2 & #3 to Commission Staff's First Data request to Citipower, LLC dated February 18, 2005.

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<sup>1</sup> Case No. 2004-00444, Application of Citipower, LLC for Approval of Reorganization Proposal.

Question 8b  
Page 1 of 1

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF CITIPOWER, LLC FOR  
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CASE NO. 2008-00392

8. Refer to the responses to Items 8.a. and b. of Staff's first request, which concern Citipower's \$250,000 promissory note to CitiEnergy dated October 4, 2009.

b. The response to Item 8.b. states that "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". Describe how the \$250,000 it received from Forexco, Inc., was used by Citipower and identify the time period during which it was utilized

RESPONSE:

The referenced \$250,000 note to CitiEnergy is different than the \$250,000 note the utility received from Forexco in 2004. The funds received were used in operations and working capital needs in 2005. See also Response #5 & #6 to Commission Staff's Second Data request to Citipower, LLC dated March 9, 2005, and Response #6 Supplemental Response dated March 15, 2005.

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COMMONWEALTH OF KENTUCKY  
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In the Matter of:

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CASE NO. 2008-00392

8. Refer to the responses to Items 8 a. and b. of Staff's first request, which concern Citipower's \$250,000 promissory note to CitiEnergy dated October 4, 2009.

c. Exhibit 3 of Citipower's application is its \$250,000 promissory note to CitiEnergy dated October 4, 2005. Describe how the \$250,000 it received from CitiEnergy was used by Citipower and identify the time period during which it utilized.

RESPONSE:

See Response 8 (a) and 8 (b) above. Again, the \$250,000 note (now less than \$211,396) is the debt disclosed and approved in 2005. The proceeds were used as working capital prior to 2004. See case #2004-00444.

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Telephone: (606) 528-3073  
Attorney for Citipower, LLC

## CERTIFICATE

I hereby certify that the above and foregoing was on the 22 day of December, 2008, served by faxing and mailing the original and seven (7) 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