



DEPARTMENT OF THE ARMY
HEADQUARTERS, US ARMY ARMOR CENTER AND FORT KNOX
50 3RD AVENUE SUITE 229
FORT KNOX, KENTUCKY 40121-5230

REPLY TO
ATTENTION
OF:

April 21, 2010

Office of the Staff Judge Advocate
Administrative Law Division

VIA UPS

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Blvd.
Frankfort, Kentucky 40602

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APR 22 2010

**PUBLIC SERVICE
COMMISSION**

SUBJECT: In the Matter of: Application of Louisville Gas & Electric Company for an Adjustment of Electric and Gas Base Rates, **Case No. 2009-00549**

Dear Mr. Derouen:

Enclosed please find for filing in the subject proceeding the original and twelve copies of the Direct Testimony of Thomas J. Prisco on behalf of the United States Department of Defense and other Federal Executive Agencies ("DOD/FEA"). Please contact me if there are any questions regarding this filing.

Copies of the Testimony have been sent to all parties of record.

Sincerely,

Steven A. Edwards, Esq.
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Enclosures
CC: Parties of Record

1 **Q. PLEASE STATE YOUR FULL NAME, OCCUPATION AND**
2 **BUSINESS ADDRESS?**

3 A. My name is Thomas J. Prisco. I am a Systems Accountant, in the Regulatory
4 Law and Intellectual Property Division, Office of The Judge Advocate
5 General, Department of the Army. My business address is United States
6 Army Litigation Center, JALS-RL, Suite 713, 901 North Stuart Street,
7 Arlington, Virginia 22203-1837.

8
9 **Q. IN WHAT CAPACITY ARE YOU APPEARING BEFORE THIS**
10 **COMMISSION?**

11 A. I am appearing as a witness on behalf of the Department of Defense and all
12 Other Federal Executive Agencies, hereinafter referred to as “DOD”. The
13 Secretary of Defense besides providing representation for the military has
14 delegation authority from the General Services Administration (GSA) to
15 protect the consumer interest of all other federal executive civilian agencies in
16 this proceeding. DOD is especially interested in this proceeding before the
17 Kentucky Public Service Commission (“KPSC” or the Commission) because
18 it is a large purchaser of electricity and natural gas transportation service
19 provided by Louisville Gas and Electric Company (“LG&E or the
20 “Company”). As such the proposed revenue increase will have a significant
21 impact on DOD operations and decisions. This is especially true for Fort
22 Knox the largest federal customer of LG&E which is currently in the middle
23 of a major reorganization and expansion. Fort Knox a special contract

1 customer has a vast government owned and operated electric distribution
2 system to deliver electricity on post once it is received from LG&E at
3 transmission voltage

4
5 **Q. PLEASE SUMMARIZE YOUR PAST WORK EXPERIENCE, AND**
6 **EDUCATION.**

7 **A.** I've been employed in my current position since October 1987. Prior to
8 accepting his position, I was responsible for the development and deployment
9 of an accounting cost recovery system for the Army's VIABLE Project.
10 Additionally, I held various positions within the Headquarters of the Army
11 Information Systems Command to included Chief, Accounting Operations
12 Division, Staff Accountant, and Contracting Officer Technical Representative.
13 Before my employment with the Department of the Army, I held a range of
14 positions with the Radio Corporation of America (RCA). After completing a
15 four year tour of duty with the United States Air Force, I received a Bachelor
16 of Science degree with a major in accounting from the University of Scranton.
17 I have taken numerous professional development courses that include Price
18 and Cost Analysis, U.S. Army Financial Management, and Computer
19 Performance and Capacity Management. I also attended numerous
20 Regulatory Studies Programs and seminars.

21
22
23 **Q. HAVE YOU PREVIOUSLY TESTIFIED IN RATE PROCEEDINGS**
24 **BEFORE REGULATORY COMMISSIONS?**

1 A. Yes. I have presented testimony before numerous regulatory commissions in
2 Arizona, the District of Columbia, Florida, Georgia, Indiana, Kansas,
3 Kentucky, Maryland, Missouri, New Jersey, New York, North Carolina,
4 Pennsylvania, South Carolina, Texas, Wisconsin, FERC, and the ICC. My
5 participation in these jurisdictions is outlined on appendix A.

6

7 **Q. WOULD YOU OUTLINE THE SUBJECT MATTER OF THE EXPERT**
8 **TESTIMONY YOU HAVE PRESENTED BEFORE REGULATORY**
9 **COMMISSIONS?**

10 A. My testimony dealt with the overall revenue requirements, depreciation,
11 capital structure, cost of capital, valuation, integrated resource planning, rate
12 design, incentive rates, rate base and appropriate tariffs of communications,
13 electric, gas, and water utilities.

14

15 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
16 **PROCEEDING?**

17 Fort Knox, the largest federal customer on the LG&E system, is currently
18 experiencing a major reorganization and expansion. This evolution is slated
19 to continue through the end of the 2012 fiscal year (September 2012). The
20 expansion will add a significant number of military, civilian and contractor
21 personnel. Moreover the reorganization will change the complexion of
22 installation personnel from primarily transient trainees to permanent part
23 military and civilian positions. The key aspect of the new personnel makeup

1 is the accompaniment of family members. This will provide a substantial
2 economic impact on the surrounding communities. These facts have resulted
3 in a twofold purpose for my testimony in this proceeding: 1) I am requesting
4 the Commission consider establishing a type of economic development rider
5 (EDR) for LG&E's electric and gas systems to reward Fort Knox for the long
6 range benefits it will provide to the LG&E system and its customers; 2) I
7 reviewed LG&E's current application and have provided a number of revenue
8 requirement adjustments which may help to mitigate the impact of the
9 proposed rate increase on the DOD and other consumers.

10

11 **Q. SHOULD THE PROPOSED EDR APPLY EXCLUSIVELY TO THE FORT**
12 **KNOX MILITARY INSTALLATION?**

13 A. No, it should apply to any organization that can provide a significant positive
14 impact to the local economic community. The purpose of an EDR is to
15 encourage and/or reward industrial, commercial, and government
16 development in Kentucky. These organizations will attract capital
17 expenditures to Kentucky, and create jobs.” Fundamentally, the EDR is a
18 stimulus to promote economic activity and job growth within LG&E's service
19 territory. DOD's extensive expansion within the Company's service territory
20 is undeniably meeting this objective.

21

1 **Q. DOES THE REORGANIZATION AND EXPANSION AT FORT KNOX**
2 **RELATE TO THE ALREADY APPROVED 2005 BASE**
3 **REALIGNMENT AND CLOSURE?**

4 A. Yes.

5

6 **Q. WHY THEN SHOULD THE COMMISSION CONSIDER DOD'S**
7 **REQUEST TO QUALIFY FOR ECONOMIC INCENTIVES UNDER**
8 **AN EDR CONSIDERING THE EXPANSION AT FORT KNOX HAS**
9 **BEEN PREDETERMINED?**

10 A. The DOD should be allowed to benefit from the establishment of an EDR
11 because it is fundamentally the "fair and reasonable" thing to do. My
12 testimony will also outline some of the economic advantages the expansion
13 and reorganization will have at Fort Knox and the surrounding communities.
14 This will demonstrate an economic reward is reasonably justified. Another
15 aspect the Commission should take into consideration is the bulk of Fort
16 Knox's electric and gas load growth will occur subsequent to the completion
17 of this proceeding, and most likely prior to LG&E'S next base rate request.
18 The net result is a windfall for Company shareholders. It is not unconceivable
19 that a portion of this windfall could be shared with Fort Knox in the form of a
20 discount on any new load.

21

1 **Q. WHY SHOULD THE KPSC CONSIDER DOD’S REQUEST SINCE**
 2 **THE EXPECTED LOAD GROWTH IS OUTSIDE THE TEST PERIOD**
 3 **REQUESTED IN THIS PROCEEDING?**

4 A. The load growth is outside the test period; however it is a “known and
 5 measurable” adjustment. For beginners, employees of the new headquarters
 6 building for the Army’s Human Resource Command will start occupying the
 7 facility on June 3, 2010, six months ahead of schedule. This one facility has
 8 over a million square feet and will house between 4,000 and 4,500 employees.
 9 This is only part of the dynamic growth taking place on Fort Knox. The table
 10 below identifies the expected electric usage for the HRC facility in a typical
 11 fiscal year.

Month	HRC Model Estimated kWhr
October	3,314,448
November	3,210,668
December	3,315,773
January	3,317,442
February	2,993,172
March	3,312,719
April	3,203,871
May	3,350,299
June	3,312,704
July	3,428,525
August	3,426,026
September	3,239,370
Annual	39,425,017

1 DOD in this proceeding is not requesting an adjustment above its current load
2 but simply an opportunity to recoup a portion of its additional costs by means
3 of an EDR.

4

5 **Q. DO YOU HAVE A RECOMMENDATION ON HOW THE EDR**
6 **SHOULD BE STRUCTURED?**

7 A. The Commission Staff and the Company are more familiar with how they
8 would want EDR structured. They have established the Brownfield
9 Development Rider which is somewhat similar to how the EDR could be
10 structured. Listed below are some recommendations I believe should be
11 included:

12 Purpose: The purpose of the EDR is to encourage and/or reward new or
13 additional industrial, commercial, and government development
14 in LG&E'S service territory.

15 Rate: The EDR provides a discount over a five year period for any
16 substantial load growth which results in the creation of 50 new
17 permanent full-time jobs and has a capital investment of over
18 \$500,000.

19 Discount

20 Year 1- 25% on new load

21 Year 2- 20% on new load

22 Year 3 – 15% on new load

23 Year 4 – 10% on new load

24 Year 5 – 5% on new load

25

1 **Q. PLEASE ELABORATE ON THE DIRECT IMPACT THE 2005 BRAC**
2 **AND OTHER MILITARY REALIGNMENTS WILL HAVE IN THE**
3 **LG&E SERVICE TERRITORY.**

4 A. The significant increase in federal employment at Fort Knox will generate
5 millions of dollars of economic activity in the surrounding communities.
6 Ancillary job and economic growth should also develop in local communities,
7 served by LG&E, from the arrival of over 13,000 new soldiers, DAC,
8 contractors and their families. This new economic infusion of jobs will have
9 an impact on LG&E's earnings not only for the near term but well into the
10 future. Federal facilities once established are reasonably permanent for a
11 protracted period of time.

12
13 **Q. PLEASE CONTINUE.**

14 ✓ The BRAC and non-BRAC on-going construction projects which impact
15 the local community will total more than \$700.

16 ✓ As mentioned above the new Human Resources facility will house more
17 than 4,000 employees with nearly one million square feet of office space.

18 ✓ The realignment produces a net gain of over 4,500 permanent parties,
19 Department of the Army Civilians (DAC).

20 ✓ Military Gains

21

General Officers	11
Majors to Colonels	344
Lieutenants and Captains	116
Senior NCOs (E8-E9)	183
Mid-Career NCOs (E6-E7)	(534)
Junior NCOs (E5) and Junior Enlisted (E1-E4)	1,726

1

2 ✓ DA Civilian Gains

Grade Level	Salary (000)	Net Change
Senior (GS 12+)	\$63-\$136.3	857
Middle (GS 8-11)	\$39.6-68.7	602
Lower (GS 3-7)	\$22.9-46.5	787

3

4 ✓ This increase in population will have significant impacts to all aspects of
5 life for the communities within LG&E's service territory. As new
6 residents relocate to the region they will affect the economy, housing
7 markets, employment, retail businesses, social services, and governmental
8 institutions.

9 ✓ Overall, existing industries such as retail, service sectors, and
10 manufacturing will increase as the installation expands, which will serve
11 to strengthen the current economic base.

12 ✓ Disposable income, which is essentially consumer spending after taxes,
13 will increase.

14

1 **Q. PLEASE SUMMARIZE THE SECTION OF YOUR TESTIMONY**
2 **REGARDING THE ESTABLISHMENT OF AN EDR.**

3 A. Fort Knox, and any other major employer, that create jobs and stimulate the
4 local economy in a utility's service territory should be eligible for an
5 economic development incentive. An EDR rewards these organizations by
6 providing a short term utility discount (e.g. five years) in return for the lower
7 cost of service customers will realize over the life of any new or expanded
8 facility. The Fort is a worthy candidate for an EDR since it has a record of
9 longevity which provides a stable economy for the surrounding communities.
10 The local communities will not only benefit from the direct impact of
11 creating thousands of federal jobs, but will benefit indirectly by creating
12 construction jobs, providing new business opportunities in retail, the service
13 sectors, and manufacturing in the local community. The expansion reduces
14 unemployment and increases the disposable income of community residents.
15 It increases electric and gas sales on post, but also has an impact on sales of
16 utility service to the other customer classes. All these factors contribute to
17 increasing LG&E's bottom line. Clearly, providing a declining discount on
18 new electric and gas load over a five year period is a small price to pay.

19

20 **Q. HAVE YOU REVIEWED THE COMPANY'S PROPOSED REVENUE**
21 **REQUEST IN THIS PROCEEDING?**

22 Yes. My review of the Company's filing indicates that a revenue increase in
23 the neighborhood of \$58.6 million for electric and \$ \$16.3 million for gas may

1 be justified. My revenue requirement recommendation is supported by a
2 number of net operating income adjustments which are presented on
3 DOD/FEA Exhibit TJP-3. I will also point out that because of limited time
4 and resources a comprehensive analysis of all phases of the Company's
5 operation could not be accomplished. Therefore, issues not specifically
6 addressed in this testimony do not constitute an endorsement of LG&E's
7 position.

8
9 **Q. DO YOU HAVE ANY OBJECTION TO THE TEST PERIOD**

10 **PROPOSED BY THE COMPANY WITNESS?**

11 A. I have no objection to the use of the historical test period which includes the
12 twelve months ending October 31, 2009.

13
14 **Q. PLEASE LIST THE BASE RATE ADJUSTMENTS YOU ARE**
15 **RECOMMENDING IN YOUR DIRECT TESTIMONY.**

16 A. Recommended adjustments to LG&E's filing are listed below:

17 **Operating Income Adjustments**

- 18 • Adjustment to LG&E's annualized depreciation expense.
- 19 • Adjustment to reflect increases in labor and labor related costs.
- 20 • Adjustment to pension, post retirement and post employment.
- 21 • Adjustment for hazard tree program.
- 22 • Adjustment for injuries and damages FERC 925.
- 23 • Adjustment to the Company's proposed 2008 wind storm.

- 1 • Adjustment to 2009 winter storm damage request.
- 2 • Adjustment to USGC settlement of gypsum contract.
- 3 • Adjustment to property taxes.
- 4 • Adjustment to prior period income tax true-up.
- 5 • Adjustment for interest rate swaps amortization.
- 6 • Adjustment to proposed rate case amortization.

7

8 **Q. WHAT IS THE OVERALL COST OF CAPITAL AND THE**
9 **CAPITALIZATION YOU ARE UTILIZING IN THIS PROCEEDURE?**

10 A. I have made no adjustments to the capital structure proposed by LG&E shown
11 on Exhibit 2, of Mr. S. Bradford Rives testimony. However, in determining
12 the overall cost of capital I used the return on equity (ROE) for calculation
13 purposes of 10.35%. This ROE is a composite of the authorized rates of
14 return on common equity granted by state public utility commissions (PUC)
15 nationwide. I selected only those ROE's from PUC orders that correspond
16 with the proposed test period for this proceeding. The utilization of LG&E's
17 capitalization and the composite ROE provides an overall cost of capital for
18 electricity and gas of 7.70%. The calculation of the overall cost of capital is
19 provided on DOD/FEA Exhibit TJP-2. This exhibit also provides the
20 calculation of net operating revenues required by LG&E of \$139,071,754 for
21 electric (line 4) and \$35,925,069 for gas (line 8), also presented on line 1 of
22 DOD Exhibit TJP-1.

1 Q. PLEASE EXPLAIN YOUR ADJUSTMENT ON DOD/FEA EXHIBIT 4
2 WHICH CHANGES THE OPERATING EXPENSES SHOWN ON RIVES
3 EXHIBIT 1, SCHEDULE 1.15.

4 A. The Company's exhibit provides their proposed adjustment to depreciation
5 expense on net plant in service. Their adjustment also includes a large
6 increase in depreciation expense related to the proposed out of test period
7 addition of TC2 which is discussed by Company witness Mr. Lonnie E. Bellar
8 in his direct testimony. My adjustment only applies if the Commission
9 authorizes LG&E to include the post test period addition of TC2 to plant in
10 service. DOD/FEA Exhibit TJP-4 reduces the proposed depreciation expense
11 by \$3,016,633 for LG&E portion of TC2 and its transmission assets. This
12 represents a reduction of 7/12's of the Company's request since the TC2
13 facility, which is scheduled to be commercialized in June 2010, will only be
14 online for five of the twelve months succeeding the test period. Similarly, I
15 adjusted TC2 related transmission assets.

16

17

18 Q. DOD/FEA EXHIBIT TJP-5 ADJUSTS THE COMPANY'S PROPOSED
19 CHANGE TO LABOR AND LABOR-RELATED COSTS PLEASE
20 EXPLAIN.

21 A. The Company's proposed change annualizes a pay increase which occurs
22 outside the test period. Company witness Ms. Valerie L. Scott explains in her
23 testimony that union base wages and overtime were increased by 3.5% per the

1 union contract which became effective November 16, 2009. This pay increase
2 is outside the test period and should not be included in setting rate in this
3 proceeding.

4

5 Q. THE UNION CONTRACT REQUIRES THAT THE COMPANY
6 INCREASE WAGES BY 3.5% DOESN'T THIS CONSTITUTE A KNOWN
7 AND MEASURABLE EXPENSE?

8 A. Theoretically it would but only one aspect of the adjustment is known the
9 contracted percent of increase. There are other variables that can come into
10 play increases in productivity, the number of employees, actual overtime.
11 There is another regulatory practice that can be considered the matching
12 principle which matches revenues with expenses. Obviously, since the rates
13 in this proceeding are based on a historical test period they are set to match
14 revenues and expenses for that period. Allowing wage increases for the
15 subsequent year without providing an offset for revenues is contrary to the
16 matching principle. My adjustment to the proposed wage change reduces the
17 proposed operating expenses by \$1.4 million.

18

19 Q. PLEASE EXPLAIN THE ADJUSTMENT YOU MADE ON DOD/FEA
20 EXHIBIT TJP-6.

21 A. This adjustment just recognizes and substitutes the revised exhibit provided by
22 LG&E witness Ms. Valerie L. Scott regarding pension, post retirement and

1 post employment in response to a data request submitted by the Kentucky
2 Public Service Commission Staff.

3
4 Q. WHY ARE YOU OBJECTING TO THE PROPOSED ADJUSTMENT
5 SUBMITTED BY THE COMPANY FOR THE HAZARD TREE
6 PROGRAM?

7 A. According to Mr. S. Bradford Rives the adjustment reflects the possible
8 addition of a “Hazard Tree Program” to the Company’s vegetation
9 management program. Before any new program is provided LG&E should be
10 required to competitively bid the requirements to see if the proposed costs are
11 fair and reasonable.

12
13 Q. THE INJURIES AND DAMAGES ACCOUNT HAS TYPICALLY BEEN
14 NORMALIZED OVER A TEN YEAR PERIOD AND INCLUDED AN
15 INFLATION ADJUSTMENT. WHY ARE YOU DISALLOWING THE
16 PROPOSED INCREASE REQUESTED BY LG&E?

17 A. I have no problem with normalizing this account over a ten year period. My
18 concern with the proposed adjustment subtracts the 2009 test year
19 injury/damages incurred for the test period from the ten year average. I do not
20 have the value of the current normalized amount which should be reduced
21 from the average to determine the rate adjustment. Therefore, I eliminated the
22 proposed adjustment.

23

1 Q. PLEASE EXPLAIN YOUR RECOMMENDATION REGARDING THE
2 AMORTIZATION OF THE 2008 WIND STORM.

3 A. I used a ten year amortization period compared to the five year period
4 recommended by the Company. The reason for recommending the ten year
5 period is to help alleviate the rate impact on the various customer classes.
6 Having two major storms, albeit amortized over a five year period, in one test
7 period plus the already included ten year normalization of storm expenses
8 during a period of economic uncertainty puts a tremendous burden on some
9 ratepayers. Every legitimate effort should be made to reduce the utility rate
10 increases as much as possible. The Commission's authorization to let the
11 Company establish a regulatory asset guaranties LG&E wills recover storm
12 damage.

13

14 Q. PLEASE EXPLAIN YOUR RECOMMENDATION REGARDING THE
15 AMORTIZATION OF THE 2009 WINTER STORM.

16 A. I also used a ten year amortization period for recovery of the 2009 winter
17 storm costs compared to the five year period recommended by the Company.
18 I recommended the ten year period to help alleviate the rate impact on the
19 various customer classes. Again, having two major storms, albeit amortized
20 over a five year period, in one test period plus the already included ten year
21 normalization of storm expenses during a period of economic uncertainty puts
22 a tremendous burden on some ratepayers. Every legitimate effort should be
23 made to reduce the utility rate increases as much as possible.

1 Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO THE COMPANY'S
2 PROPOSED ENTRY REGARDING THE USGC SETTLEMENT OF
3 GYPSUM?

4 A. If the settlement with USGA results in the elimination of non-recurring
5 revenues and expenses there should be a downward adjustment to the expense
6 section. I have reversed the expense total to offset the loss of revenues and
7 with the decrease in expenses.

8

9 Q. PLEASE EXPLAIN YOUR ADJUSTMENT DOD/FEA EXHIBIT TJP-12
10 CONCERNING PROPERTY TAXES.

11 A. The Company reversed a test period credit from property taxes related to the
12 loss of the coal tax credit which expires in 2009. It is my understanding that
13 the 2009 credit will actually be received in 2010. Consequently I am
14 recommending that the Commission disallow the removal of the credit since
15 the test period includes the credit and the 2009 credit will be received in 2010.
16 Additionally, the Company is downplaying the possibility of receiving an
17 environmental credit for clean coal from TC2. Reading their testimony
18 they've convinced me the TC2 facility is top notch. Accordingly I would
19 assume the TC2 facility should have little problem meeting the environmental
20 standards established to receive the credit. The environmental credit for the
21 new plant and the pending recovery of the 2009 coal tax credit should ensure
22 the Company will continue to have a discount post test period.

23

1 Q. DO YOU AGREE THE COMPANY HAS PROPOSED A SIMILAR
2 ADJUSTMENT TO PRIOR PERIOD INCOME TAX TRU-UPS AND
3 ADJUSTMENTS WHICH YOU IDENTIFY ON DOD/FEA TJP-13?

4 A. Yes.

5

6 Q. WHAT ADJUSTMENT ARE YOU PROPOSING REGARDING THE
7 PRIOR PERIOD INCOME TAX TRU-UPS ADJUSTMENT?

8 A. I recommend eliminating the proposed removal of the coal tax credit for the
9 same reasons I presented in my above argument related to property tax.

10

11 Q. WHAT POSITION ARE YOU TAKING REGARDING THE COMPANY'S
12 PROPOSED ADJUSTMENT TO ESTABLISH A REGULATORY ASSET
13 AND AMORTIZE THE TERMINATION FEES ASSOCIATED WITH THE
14 INTEREST RATE SWAP SHOWN AN RIVES EXHIBIT 1, SCHEDULE
15 1.36?

16 A. I am recommending the Commission consider sharing the termination costs
17 between ratepayers and shareholders. The Company points out ratepayers
18 will benefit from reduced interest as a result of eliminating the interest rate
19 swap. LG&E is painting a rosy picture; if they were so sure of lower interest
20 rates why then did they enter into the agreement with Wachovia. Ratepayers
21 have been paying a higher interest rate to Wachovia as a security blanket to
22 provide protection from fluctuating variable interest rates. The security
23 blanket is gone and ratepayers are again exposed to the original risk.

1 Wachovia is definitely the winner in this transaction but ratepayers should not
2 have to bear the total costs. I understand the Company's position but feel they
3 deserve some of the blame. As mentioned earlier my adjustment on DOD
4 Exhibit TJP-14 shares the termination costs between customers and
5 shareholders and only allows the Company to book half the regulatory asset.

6

7 Q. THE COMMISSION HAS NORMALLY ALLOWED LG&E TO RECOUP
8 RATE CASE EXPENSES OVER A THREE YEAR PERIOD. WHY IS
9 YOUR TESTIMONY RECOMMENDING AMORTIZATION OVER A
10 FIVE YEAR PERIOD?

11 A. LG&E normally lets some time elapse between base rate cases. This base rate
12 proceeding comes within a year of the prior proceeding. This results in rates
13 including double the normal rate case expenses. The purpose for increasing
14 the amortization period is to spread out the impact of back to back base rate
15 proceedings on ratepayers.

16

17 Q. MR. PRISCO DOES THIS CONCLUDE YOUR TESTIMONY?

18 A. Yes.

19

**PROCEEDING APPEARANCES OF THOMAS J. PRISCO
BEFORE REGULATORY TRIBUNALS
1989 to PRESENT**

JURISDICTION	PROCEEDING	COMPANY
KENTUCKY	Case No. 10064	LOUISVILLE GAS AND ELECTRIC COMPANY
MISSOURI	Case No. TC 89-14	SOUTHWESTERN BELL TELEPHONE COMPANY
ARIZONA	Docket No. E-1051-88-146	MOUNTAIN STATES TELEPHONE AND TELEGRAPH COMPANY
MARYLAND	Case No. 8190	BALTIMORE GAS AND ELECTRIC COMPANY
NEW JERSEY	BRC Docket No. ER 89110912J .	JERSEY CENTRAL POWER AND LIGHT COMPANY
MARYLAND	Case No. 8278	BALTIMORE GAS AND ELECTRIC COMPANY
TEXAS	Docket No. 12,700	EL PASO ELECTRIC COMPANY
MARYLAND	Case No. 8251	POTOMAC ELECTRIC POWER COMPANY
GEORGIA	Docket No. 4188-U	UNITED CITIES GAS COMPANY
DISTRICT OF COLUMBIA	Case No. 912	POTOMAC ELECTRIC POWER COMPANY
ARIZONA	Docket No. U1993-90-270	TUCSON ELECTRIC POWER COMPANY
FLORIDA	Docket No. 900834-EI	DEMAND SIDE OPTIONS AND CONSERVATION RULES
MARYLAND	Case No. 8466	POTOMAC ELECTRIC POWER COMPANY
NEW JERSEY	BRC Docket No. WR 91081399J	NEW JERSEY AMERICAN WATER COMPANY
SOUTH CAROLINA	Docket No. 91-677-G	INTEGRATED RESOURCE PLANNING RULE MAKING FOR GAS UTILITIES
MARYLAND	Case No. 8487	BALTIMORE GAS AND ELECTRIC COMPANY
MARYLAND	Case No. 8466	POTOMAC ELECTRIC POWER COMPANY
MARYLAND	Case No. 8565	POTOMAC ELECTRIC POWER COMPANY
DISTRICT OF COLUMBIA	Case No. 929	POTOMAC ELECTRIC POWER COMPANY

**PROCEEDING APPEARANCES OF THOMAS J. PRISCO
BEFORE REGULATORY TRIBUNALS
1989 to PRESENT**

JURISDICTION	PROCEEDING	COMPANY
F.E.R.C.	Docket No. RS-92-26-000	UNITED GAS PIPELINE COMPANY (KOCH)
NEW JERSEY	BRC Docket No. WR92090908J	NEW JERSEY AMERICAN WATER COMPANY
GEORGIA	Docket No. 4451-U	ATLANTA GAS LIGHT COMPANY
SOUTH CAROLINA	Docket No. 83-730-G	ENERGY POLICY ACT OF 1992 SECTION 115 CONSERVATION EFFORTS OF GAS UTILITIES
I.C.C.	Docket No. AB-277 (Sub No. 2X)	WHEELING & LAKE ERIE RAILROAD COMPANY, LINE ABANDONMENT
NORTH CAROLINA	Docket No. E-100 (Sub 73)	INVESTIGATION OF SELF GENERATION AND ECONOMIC INCENTIVE RATES RULE MAKING
PENNSYLVANIA	Docket No. I-94-0032	INVESTIGATION INTO ELECTRIC POWER COMPETITION
F.E.R.C.	Docket No. RM 94-007-000	RECOVERY OF STRANDED COSTS BY PUBLIC AND TRANSMITTING UTILITIES
MARYLAND	Case No. 8678	INVESTIGATION OF ELECTRIC SERVICE COMPETITION AND REGULATORY POLICIES
F.E.R.C.	Docket No. RM 94-20-000	INVESTIGATION OF ALTERNATIVE POWER POOLING SOLUTIONS
GEORGIA	Docket No. 4697-U	ECONOMIC DEVELOPMENT INCENTIVE POLICY (GAS, ELECTRIC, TELECOMMUNICATIONS)
NEW YORK	Case Nos. 94-E-0098; 94-E-0099, and 94-E-100	NIAGARA MOHAWK POWER CORPORATION
PENNSYLVANIA	Docket No. R-00943271	PENNSYLVANIA POWER AND LIGHT COMPANY
INDIANA	Case no. 39,938	INDIANAPOLIS POWER AND LIGHT COMPANY
MARYLAND	Case No. 8697	BALTIMORE GAS AND ELECTRIC COMPANY
NEW YORK	Docket Nos. 96-E-0134 and 135	NIAGARA MOHAWK POWER CORPORATION
ARIZONA	Docket No. U1933-95-317	TUCSON ELECTRIC POWER COMPANY

**PROCEEDING APPEARANCES OF THOMAS J. PRISCO
BEFORE REGULATORY TRIBUNALS
1989 to PRESENT**

JURISDICTION	PROCEEDING	COMPANY
MARYLAND	Case No. 8725	BALTIMORE GAS AND ELECTRIC COMPANY MERGER WITH POTOMAC ELECTRIC POWER CO.
F.E.R.C.	Docket No. RM 96-11-000	NOI, PROPOSED RULE MAKING, CAPACITY RESER-VATION, OPEN ACCESS TRANSMISSION TARIFFS
PENNSYLVANIA	Docket No. P-00971183	PENNSYLVANIA POWER AND LIGHT COMPANY, RETAIL ACCESS PILOT PROGRAM
MARYLAND	Case No. 8738	COMMISSION'S INQUIRY INTO PROVISION AND REGULATION OF ELECTRIC SERVICE
PENNSYLVNAIA	Docket No. R-00973954	PENNSYLVANIA POWER AND LIGHT COMPANY, RESTRUCTURING PROCEEDING
GEORGIA	Docket No. 7656-U	NOI, NATURAL GAS COMPETITION AND DEREGULATION ACT OF 1997 FILING REQUIREMENT
MARYLAND	Case No. 8780	BALTIMORE GAS AND ELECTRIC COMPANY
PENNSYLVANIA	Docket No. R 0098-4280	PG ENERGY
MARYLAND	Case No. 8829	BALTIMORE GAS AND ELECTRIC COMPANY
KENTUCKY	Case No. 2000-080 & 2000-137	LOUISVILLE GAS AND ELECTRIC COMPANY
MARYLAND	Case No. 8920	WASHINGTON GAS LIGHT COMPANY
MARYLAND	Case No. 8959	WASHINGTON GAS LIGHT COMPANY
KANSAS	KCC Docket No. 99-GIMG-068-GIG	SOUTHERN STAR CENTRAL GAS PIPELINE, INC.
KANSAS	KCC Docket No. 03-KGSG-602-RTS	KANSAS GAS SERVICE A DIVISION OF ONEOK, INC.
KENTUCKY	Docket No. 2003-00433	LOUISVILLE GAS AND ELECTRIC COMPANY
GEORGIA	Docket No. 183000-U	GEORGIA POWER COMPANY
PENNSYLVANIA	Docket No. R-00049255 & C0001-5	PPL ELECTRIC UTILITIES CORPORATION
MARYLAND	Case No. 9036	BALTIMORE GAS & ELECTRIC
WISCONSIN	Docket No. 4220-UR-114	NORTHER STATES POWER COMPANY,

**PROCEEDING APPEARANCES OF THOMAS J. PRISCO
BEFORE REGULATORY TRIBUNALS
1989 to PRESENT**

JURISDICTION	PROCEEDING	COMPANY
		A WISCONSIN CORP. D/B/BA XCEL ENERGY
NORTH CAROLINA	Docket No. E-2, Sub 868	CAROLINA POWER & LIGHT COMPANY D/B/A PROGRESS ENERGY CAROLINAS
SOUTH CAROLINA	Docket No. 2006-157-G	SOUTH CAROLINA ELECTRIC AND GAS COMPANY

LOUISVILLE GAS AND ELECTRIC COMPANY
CALCULATION OF LG&E REVENUE DEFICIENCY
FOR THE TWELVE MONTHS ENDED OCTOBER 31, 2009

	Electric	Gas	Total
1 Net Operating Revenues Required (DOD/FEA Exhibit TJP-2)	\$139,071,754	\$ 35,925,069	\$174,996,823
2 Adjusted Net Operating Income (DOD/FEA Exhibit TJP-3)	<u>\$102,443,405</u>	<u>25,719,565</u>	<u>128,162,970</u>
3 Net Operating Income Deficiency	\$36,628,349	\$10,205,504	\$46,833,853
4 Gross Up Revenue Factor	<u>0.62521919</u>	<u>0.62521919</u>	<u>0.62521919</u>
5 Operating Deficiency	<u>\$58,584,812</u>	<u>\$16,323,082</u>	<u>\$74,907,894</u>

LOUISVILLE GAS AND ELECTRIC COMPANY
 CALCULATION OF COST OF CAPITAL
 & REVENUE REQUIREMENT
 AS OF OCTOBER 31, 2009

Electric A	LG&E Adjusted Capitalization B	LG&E Adjusted Capital Structure C	RATE D	WEIGHTED COST OF CAPITAL E
1 Long Term Debt	833,116,472	46.14%	4.61%	2.13%
2 Common Equity	<u>972,675,295</u>	53.86%	10.35%	5.57%
3 TOTAL	<u>\$1,805,791,767</u>	100.00%		<u>7.70%</u>
4 Revenue Requirement Based on Capitalization (line B3 * line E3)		<u>\$139,071,754</u>		
Gas	LG&E Adjusted Capitalization	LG&E Adjusted Capital Structure	RATE	WEIGHTED COST OF CAPITAL
5 Long Term Debt	215,211,210	46.14%	4.61%	2.13%
6 Common Equity	<u>251,261,753</u>	53.86%	10.35%	5.57%
7 TOTAL	<u>\$466,472,963</u>	100.00%		<u>7.70%</u>
8 Revenue Requirement Based on Capitalization (line B7 * line E7)		<u>\$35,925,069</u>		

LOUISVILLE GAS & ELECTRIC COMPANY
 ADJUSTMENTS TO LG&E'S ELECTRIC AND GAS OPERATING REVENUES, OPERATING EXPENSES AND NET OPERATING INCOME
 FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2003

	Electric			Gas			
	Ref. DOD/FEA Exhibit	Operating Revenues A	Operating Expenses B	Net Operating Income C	Operating Revenues D	Operating Expenses E	Net Operating Income F
1 LG&E adjusted net operating income (Rives Exhibit 1 line 52)		\$914,466,041	\$823,603,340	\$90,862,701	\$119,174,562	\$94,492,814	\$24,681,748
DOD Adjustments							
2 Adjustment to reflect annualized depreciation expense	4		(3,016,633)	3,016,633			
3 Adjustment to labor related costs	5		(1,145,808)	1,145,808		(286,452)	286,452
4 Adjustment to pro-forma pension and post retirement	6		(1,688,042)	1,688,042		(422,011)	422,011
5 Adjustment for hazard tree program	7		(1,759,303)	1,759,303			
6 Adjustment for injuries and damages FERC 925	8		(313,993)	313,993		(38,531)	38,531
7 Adjustment for 2008 wind storm	9		(2,354,034)	2,354,034			
8 Adjustment for 2009 winter storm damage	10		(4,367,070)	4,367,070		(16,769)	16,769
9 Adjustment for USGC settlement of gypsum contract	11		(960,424)	960,424			
10 Adjustment to LG&E proposed property tax	12		(976,551)	976,551			
11 Adjustment to prior year period income tax true-ups	13		1,037,813	(1,037,813)			
12 Adjustment for interest rate swap amortization	14		(3,777,781)	3,777,781		(944,446)	944,446
13 Adjustment to rate case amortization	15		(96,667)	96,667		(32,000)	32,000
14 Total DOD adjustments		\$0	(\$19,418,493)	\$19,418,493	\$0	(\$1,740,209)	\$1,740,209
15 Tax factor 40.3625		0	(7,837,789)	7,837,789	0	(702,392)	702,392
16 DOD adjustment to Net Operating Income		\$0	(\$11,580,704)	\$11,580,704	\$0	(\$1,037,817)	\$1,037,817
17 DOD adjusted net operating income		\$914,466,041	\$812,022,636	\$102,443,405	\$119,174,562	\$93,454,997	\$25,719,565

DOD/FEA EXHIBIT TJP-4

LOUISVILLE GAS & ELECTRIC COMPANY
ADJUSTMENT TO LG&E ANNUALIZED DEPRECIATION EXPENSES
FOR THE TWELVE MONTHS ENDED OCTOBER 31, 2009

	<u>Electric</u>
1 LG&E Adjustment to reflect annualized depreciation expense	\$6,204,918
2 DOD adjustment to annualized direct depreciation expense for TC2 assets under proposed TC2 rates as of 10/31/09 CWIP balacne	(2,673,728)
3 DOD adjustment to annualized direct depreciation expense for TC2 transmission assets under current TC2 rates as of 10/31/09 CWIP balacne	<u>(342,906)</u>
4 DOD revised total adjustment to reflect annualized depreication expense (Line 1 + ln 2 +ln 3)	<u><u>\$3,188,285</u></u>
5 DOD change to LG&E's pro-forma adjustment to reflect annulized depreciation expense (ln 1 - ln 25)	<u><u>(\$3,016,633)</u></u>

DOD/FEA EXHIBIT TJP-5

LOUISVILLE GAS & ELECTRIC COMPANY
CHANGE TO LG&E ADJUSTMENT TO REFLECT INCREASES IN LABOR
AND LABOR-RELATED COSTS
FOR THE TWELVE MONTHS ENDED OCTOBER 31, 2009

1 LG&E LABOR ADJUSTMENT TOTAL (RIVES EXH 1 SCH 1.16) (\$2,060,972 adj. for operating labor x 78.2%)		\$1,611,680
2 DOD adjustment to November 2009 union wage increase applied to annualize 10/31/09 wages (\$1,426,788 adj. for operating labor x 78.2%)		(1,115,748)
3 DOD adjustment to wage increase applied to union overtime annualized for 2010 (\$404,746 adj. for operating labor x 78.2%)		<u>(316,511)</u>
4 DOD revised total adjustment to Labor-Related Costs (Line 1 + ln 2 +ln 3)		<u>\$179,421</u>
5 DOD change to LG&E's pro-forma adjustment to reflect labor related costs (ln 4 - ln 1)		<u>(\$1,432,260)</u>
6 Electric Department	80%	(\$1,145,808)
7 Gas Department	20% \$	<u>(286,452)</u>
8 Total	\$	<u><u>(1,432,260)</u></u>

DOD/FEA EXHIBIT TJP-6

LOUISVILLE GAS & ELECTRIC COMPANY
ADJUSTMENT TO PENSION, POST RETIREMENT AND POST EMPLOYMENT
FOR THE TWELVE MONTHS ENDED OCTOBER 31, 2009

1 LG&E original adjustment for post retirement and post employment expenses in test year		\$393,531
2 Revised schedule in response of LGE KPSC-3 No. 19		<u>(1,716,522)</u>
3 Adjustment to Rives Exhibit 1, Schedule 1.17		<u><u>(\$2,110,053)</u></u>
4 Electric Department	80%	(\$1,688,042)
5 Gas Department	20%	<u>(422,011)</u>
6 Total		<u><u>(\$2,110,053)</u></u>

DOD/FEA EXHIBIT TJP-7

LOUISVILLE GAS & ELECTRIC COMPANY
ADJUSTMENT FOR HAZARD TREE PROGRAM
FOR THE TWELVE MONTHS ENDED OCTOBER 31, 2009

	<u>Electric</u>
1 LG&E proposed adjustment for hazard tree program	\$1,759,303
2 DOD proposed hazard tree program adjustment	<u>0</u>
3 Adjustment to hazard tree program	<u><u>(\$1,759,303)</u></u>

DOD/FEA EXHIBIT TJP-8

LOUISVILLE GAS & ELECTRIC COMPANY
ADJUSTMENT FOR INJURIES AND DAMAGES FERC ACCOUNT 925
FOR THE TWELVE MONTHS ENDED OCTOBER 31, 2009

	<u>Electric</u>	<u>Gas</u>
1 LG&E adjustment for injuries and damages FERC 925	\$313,993	\$38,531
2 DOD adjustment to injuries and damages FERC 925	<u>0</u>	<u>0</u>
3 Adjustment to injuries and damages FERC 925	<u>(\$313,993)</u>	<u>(\$38,531)</u>

DOD/FEA EXHIBIT TJP-9

LOUISVILLE GAS & ELECTRIC COMPANY
ADJUSTMENT FOR 2008 WIND STORM
FOR THE TWELVE MONTHS ENDED OCTOBER 31, 2009

	<u>Electric</u>
1 LG&E 2008 wind storm regulatory asset	\$23,540,333
2 DOD proposed amortization period 10 years	<u>10</u>
3 Amortization per year	\$2,354,033
4 LG&E proposed annual amortization 5 years	<u>4,708,067</u>
5 Adjustment to Rives Exhibit 1 Schedule 1.27	<u><u>(\$2,354,034)</u></u>

LOUISVILLE GAS & ELECTRIC COMPANY
 ADJUSTMENT FOR WINTER STORM DAMAGE
 FOR THE TWELVE MONTHS ENDED OCTOBER 31, 2009

	<u>Electric</u>	<u>Gas</u>
1 2009 Winter Storm Regulatory Asset	\$43,670,702	\$167,689
2 DOD recommended amortization period	<u>10</u>	<u>10</u>
3 Amortization per year	\$4,367,070	\$16,769
4 LG&E proposed yearly amortization	<u>8,734,140</u>	<u>33,538</u>
5 DOD adjustment to proposed amortization	<u>(\$4,367,070)</u>	<u>(\$16,769)</u>

LOUISVILLE GAS & ELECTRIC COMPANY
ADJUSTMENT FOR USGC SETTLEMENT OF GYPSUM CONTRACT
FOR THE TWELVE MONTHS ENDED OCTOBER 31, 2009

	<u>Electric</u>
1 LG&E adjustment for USGC settlement for gypsum contract	(\$1,134,812)
2 Reverse expense adjustment (\$480,212) *2	<u>(960,424)</u>
3 Should be original revenue adjustment for gypsum contract	<u>(174,388)</u>
4 DOD adjustment to LG&E gypsum expense	<u>(\$960,424)</u>

DOD/FEA EXHIBIT TJP-12

LOUISVILLE GAS & ELECTRIC COMPANY
ADJUSTMENT TO PROPERTY TAXES
FOR THE TWELVE MONTHS ENDED OCTOBER 31, 2009

	<u>Electric</u>
1 LG&E total property tax adjustment Rives Exhibit 1, Sch. 1.38	\$815,661
2 DOD Reversal of removal of coal tax credit	<u>(976,551)</u>
3 DOD recommended property tax adjustment	<u>(\$160,890)</u>
4 Adjustment to LG&E proposed property tax at	<u>(\$976,551)</u>

DOD/FEA EXHIBIT TJP-13

LOUISVILLE GAS & ELECTRIC COMPANY
ADJUSTMENT TO PRIOR PERIOD INCOME TAX TRUE-UPS AND ADJUSTMENTS
FOR THE TWELVE MONTHS ENDED OCTOBER 31, 2009

	<u>Electric</u>
1 LG&E proposed adjustment for prior period income tax true-ups	\$2,641,449
2 DOD Reversal of removal of coal tax credit	<u>(1,037,813)</u>
3 DOD proposed adjustment for prior period income tax true-ups	<u>\$1,603,636</u>
4 Adjustment to LG&E proposed property tax at	<u>\$1,037,813</u>

DOD/FEA EXHIBIT TJP-14

LOUISVILLE GAS & ELECTRIC COMPANY
 ADJUSTMENT FOR INTEREST RATE SWAP AMORTIZATION
 FOR THE TWELVE MONTHS ENDED OCTOBER 31, 2009

1 LG&E proposed interest rate swap regulatory asset		\$9,303,396
2 DOD proposed sharing responsibility 50/50 ratepayers and LG&E		<u>4,651,698</u>
3 Interest rate swap regulatory asset		\$4,651,698
4 Amortization period in years		<u>24.75</u>
5 One year amortization		<u>\$187,947</u>
6 Adjustment for reversal of regulatory asset		<u>(\$4,651,698)</u>
7 Electric Department	80% \$	(3,721,358)
8 Gas Department	20% \$	<u>(930,340)</u>
9 Total expense adjustment	\$	<u>(4,651,698)</u>
10 LG&E proposed amortization		\$258,476
11 DOD proposed annual amortization		<u>187,947</u>
12 Adjustment to LG&E annual amortization		<u>(\$70,529)</u>
13 Electric Department	80%	(\$56,423)
14 Gas Department	20%	<u>(14,106)</u>
15 Total		<u>(70,529)</u>

DOD/FEA EXHIBIT TJP-15

LOUISVILLE GAS & ELECTRIC COMPANY
 / ADJUSTMENT FOR RATE CASE AMORTIZATION
 FOR THE TWELVE MONTHS ENDED OCTOBER 31, 2009

	<u>Electric</u>	<u>Gas</u>
1 LG&E estimated rate case costs	\$725,000	\$240,000
2 Amortization period in years	<u>5</u>	<u>5</u>
3 Annual amortization	\$145,000	\$48,000
4 LG&E proposed 2009 annual amortization	<u>241,667</u>	<u>80,000</u>
5 Adjustment to rate case amortization	<u><u>(\$96,667)</u></u>	<u><u>(\$32,000)</u></u>

VERIFICATION

STATE OF VIRGINIA)
) SS
COUNTY OF ARLINGTON)

The undersigned, Thomas J. Prisco, being duly sworn, states that he is a Systems Accountant, to the United States Army Legal Services Agency, Department of the Army, that he has personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained therein are true and correct to the best of his information , knowledge and belief.

Thomas J Prisco
Thomas J. Prisco

Subscribed and sworn to before me, a Notary Public in and for the aforesaid County and State this 21st day of April 2010.



Robin Tunstall
NOTARY PUBLIC

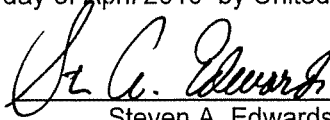
My Commission Expires:

September 30, 2012

CERTIFICATE OF SERVICE

Louisville Gas & Electric Company - Case No. 2009-00549

I hereby certify that a true and correct copy of the foregoing Direct Testimony of Thomas J. Prisco on behalf of the United States Department of Defense and other Federal Executive Agencies was served on the following parties on the 21st day of April 2010 by United States mail, postage prepaid.



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