**Before the Public Service Commission
of Kentucky**

Rebuttal Testimony

of

Michael Mosindy

on behalf of

Liberty Utilities Co.

Liberty™

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Michael Mosindy. My business address is 354 Davis Road, Oakville, Ontario.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Liberty Utilities (Canada) Corp. ("Liberty Canada") as Director, Treasury.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of Liberty Utilities Co.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL BACKGROUND.

A. Before joining Liberty Canada in 2014, I spent seven years working in finance in several industries in both public and private practice. I am an accountant, having received the Chartered Accountant designation in Canada, which is now referred to as a CPA, CA. That designation is similar to a Certified Public Accountant designation in the United States. I have also obtained a Bachelor of Commerce degree from Dalhousie University in Halifax, Nova Scotia. In addition, I have completed Level 1 of the Chartered Financial Analyst (CFA) program.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY?

A. I have not.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to respond to issues raised by witness Lane Kollen who submitted testimony on behalf of the Office of the Attorney General of the Commonwealth of Kentucky (the "AG") and the Kentucky Industrial Utility Customers, Inc. ("KIUC"). Specifically, I am responding to the incorrect assumptions relied upon, and the flawed conclusions reached, regarding financing costs related to ceasing the sale of receivables, as well as the effect of the transaction on the cost of long-term debt.

II. THE TERMINATION OF THE SALE OF RECEIVABLES WILL NOT RESULT IN INCREASED COSTS FOR KENTUCKY POWER'S CUSTOMERS.

Q. MR. KOLLEN STATES THAT FINANCING COSTS WILL INCREASE DUE TO LIBERTY NOT SELLING RECEIVABLES AS KENTUCKY POWER DOES. IS HE CORRECT?

A. No. The selling of receivables actually increases the company's costs because Kentucky Power is currently charged interest for the sale of receivables. The amount of interest charged on the accounts receivable financing is approximately 2.8%. Liberty does not sell its receivables, and as a result, there is no fee in what Liberty is paid related to the practice of selling receivables. Unfortunately, Mr. Kollen has relied upon the incorrect assumption that Liberty is solely comparing the cost of short-term debt rates between Liberty and Kentucky Power. Rather, Liberty has compared the costs associated with selling receivables to its short-term debt rate.

Q. HOW DOES LIBERTY HANDLE RECEIVABLES?

A. Liberty collects receivables in the normal course of business and does not sell them. If necessary, Liberty handles any cash working capital needs through a money pool. However, Liberty is not borrowing the full amount of its receivables from the money pool. Rather, Liberty is only utilizing the money pool for the amount of cash required for working capital needs. This uses a short-term debt rate, which for the 12 months ended December 31, 2021, was approximately 0.27%.

Q. HOW WILL TERMINATING THE SALE OF KENTUCKY POWER'S RECEIVABLES TO AEP CREDIT INC. DECREASE COSTS TO CUSTOMERS?

A. Simply put, it will decrease costs to customers because Kentucky Power will no longer be charged for the sale of receivables. Any cash working capital needs will be handled through the money pool, which incurs a much lower interest rate than the costs associated with the sale of receivables. Further, the amount financed will be lower because Liberty only utilizes the money pool if necessary, rather than selling a portion of its receivables.

Q. IS MR. KOLLEN CORRECT IN CONCLUDING THAT THE TERMINATION OF THE SALE OF RECEIVABLES WILL RESULT IN ANNUAL INCREASED COSTS OF $2.1 MILLION?

A. Mr. Kollen's numbers appear to be based entirely on speculation about how Liberty will handle receivables, without any factual support. It is incorrect for Mr. Kollen to conclude that costs will increase considering the fee charged for the sale of receivables will no longer be incurred. Further, Mr. Kollen's purported increase is based on incorrect assumptions regarding the amount that might be financed by Kentucky Power through the Liberty money pool. Under Liberty's ownership, Kentucky Power will not be financing the full cost of its receivables through the Liberty money pool; but even if Kentucky Power did, the financing costs would be lower than the fee associated with Kentucky Power's current sale of receivables.

Q. IF FOUND TO BE MORE BENEFICIAL FOR CUSTOMERS, WOULD LIBERTY CONSIDER FACTORING ITS RECEIVABLES?

A. Yes. Liberty would commit to factoring its receivables if found to be more beneficial to customers.

III. INCREASED COSTS DUE TO A POSSIBLE DOWNGRADE IN KENTUCKY POWER'S CREDIT RATE IS SPECULATION.

Q. IF A DOWNGRADE IN KENTUCKY POWER'S CREDIT RATING DID OCCUR, WOULD IT RESULT IN INCREASED COSTS OF KENTUCKY POWER'S LONG-TERM DEBT?

A. Not necessarily. One cannot definitively say, based on credit rating alone. Rating is only one investor consideration. Investors look at many factors including the size of the issuer, whether the issuer is an established borrower, the form of issuance, liquidity, and current market conditions. Because Liberty provides financing to its affiliates in lieu of each utility seeking third party financing, Kentucky Power will benefit from a larger company issuing the debt, which is expected to result in more attractive pricing. Further, Liberty plans to issue in the U.S. 144a market, which has more liquidity and potentially better pricing than the traditional private placement market (which is how Kentucky Power has obtained financing in the past). The U.S. 144a market consists of only qualified institutional buyers ("QIB"s) who are sophisticated investors with at least $100 million in assets. The U.S. 144a market is a very competitive market amongst QIBs, and typically results in lower pricing relative to the traditional private placement market. For example, Liberty's last offering of $600 million in September 2020, had approximately 85 investors, and was almost three times oversubscribed. This level of participation and the profile of investors that participated resulted in a low coupon of 2.05% on a 10-year offering.

Q. IS MR. KOLLEN CORRECT IN CONCLUDING THAT A POSSIBLE DOWNGRADE OF KENTUCKY POWER WILL RESULT IN ANNUAL INCREASED FINANCING COSTS OF $0.2 MILLION?

A. Again, it appears that Mr. Kollen's conclusion is based on speculation, and it is not clear from where his numbers are derived. It is simply not possible to monetarily quantify an effect because there are too may unknown variables. For example, Mr. Kollen's conclusion is based on the false premise that Liberty will issue $100 million in new long-term debt each year for 10 years. There is no basis for such an assumption, and Liberty has not announced any such plans. Further, Mr. Kollen bases his conclusion on an increase in 20 basis points. As I previously stated, one cannot assume that the cost of long-term debt will increase beyond what Kentucky Power has previously incurred, and even if it did, there is no basis for concluding it would be 20 basis points. Mr. Kollen indicated in his response to the Joint Applicants' Data Request No. 17(a) that recent Moody's credit trends shows that the differential in the yield on utility long-term debt between A and Baa is 29 basis points. However, a full rating category is a not a direct comparison of an expected one notch differential in rating. Based on my experience in issuing long-term debt, the cost depends on a number of factors, which include both market conditions and the term of the debt.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. It does.