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Alliance for Affordable Energy Calls Macquarie/Cleco Action Irresponsible

Companies Closed Transaction In Spite of Rehearing

*LPSC Dockets Regarding Double Leverage and Taxes Materially Impact LBO
Transaction*

Baton Rouge, April 14, 2016 – Today, the Alliance for Affordable Energy (Alliance), a consumer advocacy group based in New Orleans called Macquarie/Cleco irresponsible for closing on the leveraged buyout (LBO) transaction before the Commission considers rehearing on April 28th. Following the Louisiana Public Service Commission’s (LPSC) [rules of procedure](#) opponents of the deal filed the request for rehearing on April 7th. Cleco was afforded this same right to a rehearing after the Commission voted unanimously against the LBO on February 24th.

“The material risks in this proposed LBO are imminent, quantifiable and highly relevant. Since Macquarie/Cleco proposed a new, last minute transaction in the hallways during the March 28th special meeting, powerful new facts have come to light that the Alliance believes have a material impact on the leveraged buyout offer (LBO),” said Casey DeMoss, CEO of the Alliance for Affordable Energy. “It is highly risky and irresponsible to proceed with the transaction while the Commission continues its review.”

The Alliance applauds the Commission for opening two new dockets on April 4th to address the problems of double leverage and taxes, an essential problem in the LBO. It is incumbent upon all parties to review the implications of these dockets and allow financial experts and Rating Agencies to present findings at the upcoming April 28th rehearing of the LBO transaction, to which the Alliance and other intervenors are procedurally entitled. It is well within the LPSC’s authority to deny the sale, regardless of Macquarie/Cleco’s decision to close on the transaction. The companies closed the deal at their own risk.

A central feature of the LBO would have Cleco use a financial bait and switch known as double leverage. Under this scheme, the company would replace \$1.35 billion of utility equity that costs approximately 15% (pre-tax basis) with holding company debt that costs approximately 5% – with the intention of charging



customers for the higher cost equity. However, on April 4th, the Commission opened a docket investigating the practice of **double leverage** specifically stating ‘to the extent that double leverage is utilized to fund a utility’s capital structure, that any costs associated with such double leveraging [shall not be included in rates](#) paid by the utility’s retail ratepayers.’

“The Alliance believes that pursuant to the double leverage docket, customers should not be charged \$135 million per year of double leverage costs – just as when natural gas costs decline from \$4/mcf to \$2/mcf customers’ costs should also decline,” added Ms. DeMoss.

In addition, the Alliance cited the Commission’s April 4th docket regarding **taxes**, “that the only state and federal taxes that may be included in a utility’s retail rates will be those that [do not exceed the utility’s share of the actual taxes that will be paid](#) to those federal and state taxing authorities”. The proposed LBO would have Cleco charging customers at least \$30 million per year of taxes that are never paid to taxing authorities in addition to tax benefits from holding company debt.

As a regulated monopoly, Cleco is only permitted to charge customers for costs authorized by the LPSC. As such, revenues for Cleco will be directly impacted by the two new dockets. [Cleco has agreed to be bound](#) by the rulings in the double leverage and tax dockets, massively impacting the LBO in ways that have yet to be considered. Notably, the [recent downgrades from Moody’s and S&P to the precipice of junk status are completely silent](#) with respect to the financial consequences of the Double Leverage and Tax dockets opened by the Commission and this failure must be addressed.

The Alliance is concerned that the proposed LBO deal is a Trojan horse for customers designed to have them bear all the costs and risks of double leverage and excess taxes or otherwise be faced with the costs of a utility company downgraded to “junk” status.

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Founded in 1985, the Alliance for Affordable Energy promotes fair, affordable and environmentally responsible energy through education, advocacy and policy. From inception, the Alliance has advanced a philosophy that there is no conflict between lower energy costs and lower pollution, between good jobs and regulation, or between serving the public interest and making a reasonable profit.