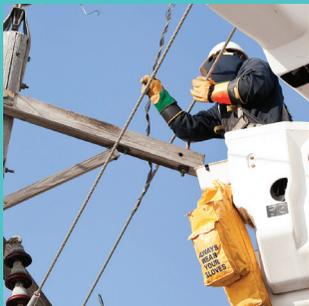


# Our CLECO, Our Community

Louisiana's Utility in Peril



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## **Acknowledgements:**

Report prepared by the Alliance for Affordable Energy  
[www.all4energy.org](http://www.all4energy.org)





# Executive Summary

**CLECO Power (CLECO)<sup>†</sup>, the oldest of Louisiana's major electric utility companies, is the target of a private equity takeover bid by a group of foreign owned investment funds. The takeover group is led by Australia based Macquarie Group Limited. In the group's application, which requires a vote by the Louisiana Public Service Commission (LPSC) expected later this year, the Macquarie-led group (MACQUARIE)<sup>††</sup> is proposing to buy all of the stock of CLECO's parent company to gain control of the utility.**

**As part of this deal, MACQUARIE and their partners would pay more than \$3.53 billion. To do so, the MAQUARIE group will increase CLECO's debt to nearly 90% of the value of its entire fleet of power plants.<sup>1</sup> This type of takeover is unprecedented in Louisiana. If approved, the takeover would put unprecedented risks and costs onto Louisiana ratepayers.**



**If approved, the deal would put unprecedented risks and costs onto Louisiana ratepayers.**

## This report provides a detailed analysis of the proposed takeover and why it is a bad deal for Louisiana.

### Our analysis focuses on five primary points:



**1** The proposed takeover deal would actually increase financial risk for the utility and customers, without due compensation. At the same time, proceeds from the projected sale would be heaped upon corporate executives and shareholders. Executives and shareholders would receive 99.3% of the sale's up front financial benefits. After selling their stock for a 14.8% premium, CLECO shareholders would have no risk, the CLECO CEO would receive an approximately \$30 million golden parachute<sup>2</sup> and bear no risk, and MACQUARIE would own another monopoly utility company with a guaranteed rate of return and a captive market of CLECO's 286,000 customers. Our state's electric utility customers, on the other hand, would get 35 cents per month and a concentration of amassed risks unheard of in a Louisiana since the Great Depression.

**2** MACQUARIE claims that customers won't be affected calls for the CLECO takeover deal to be approved, but the facts tell otherwise. The additional risk and financial burdens this deal places on the utility do in fact cause substantial harm customers. Unacceptable levels of debt, corporate shell games, and new earnings pressures leave utility customers exposed and threaten the financial stability of a crucial part of Louisiana's energy infrastructure.

**3** Over the past four years, CLECO's Board has been focused on selling the company, not serving their customers. Rates are too high and customer service is too low. Meanwhile, over the past 10 years, CLECO's net income has nearly tripled and base revenue has more than doubled, while retail customer volumes of electricity have actually declined.<sup>3</sup> The takeover would create serious new problems for ratepayers and aggravate the high costs customers face today. Rather than looking for ways to cash in for shareholders, CLECO needs to return to its historic roots and refocus attention on the company's guiding principle: putting customers first.<sup>4</sup>

**4** Louisiana's regulatory structure is not set up to properly vet a deal of this magnitude. Instead of expediting this takeover application, the LPSC should review and strengthen its merger and acquisition rules. Other states throughout the U.S. are considering their options in a regulatory sphere whose terrain has shifted since the repeal of the federal consumer protection law, the Public Utility Holding Company Act. Increasing numbers of public utility commissions and intervenors are questioning risky takeover bids and insisting that the public good be served. These precedents should guide the LPSC's consideration of CLECO's future.

**5** The Louisiana Public Service Commission (LPSC) is an independent regulatory agency dedicated to serving the public interest by assuring safe, reliable, and reasonably priced services provided by public utilities and motor carriers.<sup>5</sup> It is not the LPSC's job to enrich shareholders, nor should the LPSC show deference to foreign owned, private equity groups. MACQUARIE's leveraged buyout represents a significant risk for Louisiana, and the LPSC should protect customers from the consequences of this transaction.

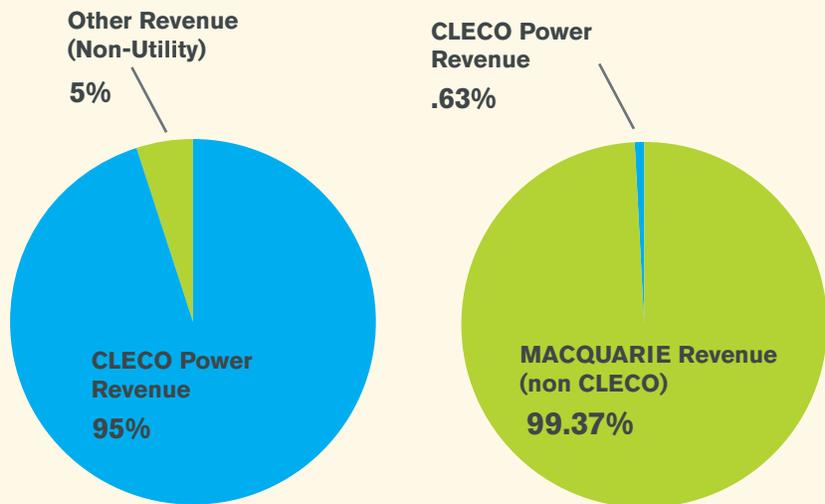
<sup>1</sup>CLECO is used to refer to Cleco Power and Cleco Corporation

<sup>2</sup>MACQUARIE is used to refer to the entire proposed acquisition group consisting of << MIRA, bcIMC, and John Hancock >>

**In light of these considerations, the LPSC's path forward is clear: MACQUARIE's application should be rejected.**

# I. The Devil Is in the Details

## CLECO Power's Importance under CLECO Corp. vs. MACQUARIE Group (% of total revenues)



### The Issue:

CLECO, the oldest of Louisiana's major electric utility companies, is the target of a private equity takeover bid by a group of foreign owned investment funds. The takeover group is led by Australia based Macquarie Group Limited (MACQUARIE). In the group's application, which requires a vote by the Louisiana Public Service Commission expected later this year, MACQUARIE is proposing to buy all of CLECO's stock to gain control of the company. MACQUARIE would be paying more than \$3.53 billion, using debt and equity, as part of this deal. This type of utility takeover is unprecedented in the history of our state.

In its application, MACQUARIE claims to meet and exceed Louisiana Public Service Commission (LPSC) requirements. However, a close inspection of the application reveals far more than MACQUARIE is telling. As always, the devil is in the details.

### The Evidence:

**Small Fish in a Big Shark Tank = Big Problems:** Through this takeover, CLECO Power's importance to its owners would drop dramatically, as would its clout at the corporate level. Today, CLECO Power dominates the operations of its parent company CLECO Corp., contributing 95% of its consolidated revenue.<sup>6</sup> Should the acquisition go forward, CLECO Power would be a decimal point in the new owners' holdings. CLECO's new owners have in excess of \$700 billion in assets under management;<sup>7</sup> CLECO's capitalization of \$4.4 billion is small potatoes in comparison, a mere 0.63 percent.<sup>8</sup>

As CLECO Power's relative contribution to shareholder earnings shrinks, so would MACQUARIE's stake in making sure Louisiana customers get the affordable service we deserve. Customers would thus risk paying even more for essential power services and infrastructure upgrades than they do today.

## A Complicated Group of Companies Who Want a Piece of CLECO

### The Primary Investors

The Investors plus equity commitments

MIP III/Macquarie Investment and Real Assets  
 Macquarie Capital Group Limited  
 British Columbia Investment Management Corp.  
 Manulife/John Hancock Financial  
 Alberta Teachers Retirement Fund  
 The Northwestern Mutual Life Insurance Company  
 GCM Infrastructure Holdings I, L.P.  
 Lombard Odier Macquarie Infrastructure Fund L.P.  
 Halifax Regional Municipality Master Trust  
 John Hancock Life Insurance Company  
 Allstate Insurance Company  
 VFMC  
 “and/or other parties”

### Country of Origin

Australia  
 Australia  
 Canada  
 Canada  
 Canada  
 USA  
 Cayman Islands  
 United Kingdom  
 Canada  
 USA  
 USA  
 Australia  
 Unknown

**The MACQUARIE takeover team is an international network of companies.**

### The Lenders

Canadian Imperial Bank of Commerce  
 Credit Agricole Corporate and Investment Bank  
 Sumitomo Mitsui Banking Corporation  
 The Bank of Nova Scotia  
 The Royal Bank of Scotland plc  
 RBS Securities Inc.  
 CoBank  
 ACB and Mizuho Bank, Ltd

Canada  
 France  
 Japan  
 Canada  
 Scotland  
 Scotland  
 USA  
 Japan

**This takeover would make CLECO Power the property of a highly complicated set of shell companies with no staff or assets of their own.**

The application reveals other disturbing facts. Through a complex set of financial maneuvers, CLECO’s existing board and shareholders are positioned to reap an enormous premium that saddles CLECO with unnecessary additional debt<sup>9</sup>— debt that Louisiana customers would eventually be on the hook to pay. Why should CLECO’s board take the sale premium and leave Louisiana residents holding the bag?

**Follow the Money? Not So Simple:** This deal would make CLECO Power the property of a highly complicated set of shell companies with no staff or assets of their own.<sup>†</sup> Today, CLECO’s corporate structure is straightforward: the electric utility, CLECO Power, is owned by CLECO Corp., which is in turn owned by shareholders. This simplicity makes it easy to trace financial dealings and assign accountability. Following the MACQUARIE takeover, this corporate structure would become impenetrable.

Owners of the new shell companies would be able to create tax loopholes and obscure the amount of debt that is actually propping up Louisiana’s utility company. Along with proposed changes in Cleco’s tax status, these developments would reduce financial transparency and limit LPSC oversight authority.

<sup>†</sup>The corporations that will own CLECO Corp.’s stock are “newly formed entities with essentially no assets other than the equity commitments of the Investors...”  
 Definitive Proxy Statement at 41.



**...the application claims to protect what we have, its provisions show a different strategy: drive Louisiana consumers toward a cliff and push us off once the deal is done.**

**No Win for Customers:** If this takeover was actually beneficial to ratepayers, the application would include detailed and enforceable commitments to lower rates, improve infrastructure, increase reliability and service quality, reduce financial risk, and pass on an equitable share of the purchase price premium to customers. The takeover application does none of these things. In fact, the applicants state they “do not anticipate material savings to result from the Transaction....”<sup>10</sup>

## CLECO Power customers currently have the highest monthly electric bills in Louisiana

When examined closely, the vast majority of MACQUARIE's so-called "commitments" are nothing more than empty promises. Committing to follow existing legal requirements is no commitment at all. It is simply complying with the law. Committing to maintain and continue current utility practices is not a benefit to customers, it is merely maintaining the status quo.

Other "commitments" include short-term promises lasting no more than two to three years, many of which are not enforceable. For example, the application promises delays before raising rates, laying off employees, reducing pensions (retiree benefits), and cutting costs for outage repairs. Though the application claims to protect what we have, its provisions show a different strategy: drive Louisiana consumers toward a cliff and push us off once the deal is done.

Other problems with the application include:

- ▶ Among residential customers of Louisiana's investor-owned utilities, those served by CLECO Power currently have the highest monthly bills. <sup>11</sup> Nowhere in the application is that fact mentioned. According to the public record, at no point during CLECO's search for acquirers, or during its negotiations with the acquirers, was that fact mentioned.
- ▶ Our region is prone to storm outages that severely disrupt lives and damage our economy. The application is silent on the issue of infrastructure upgrades and storm hardening. JD Power ranks CLECO near the bottom for customer satisfaction, but nowhere in the application is a commitment made to enhance service or improve customer complaints resolution.
- ▶ Despite a promise to appoint a certain number of board members that would live in Louisiana after the takeover, there is very little reason to believe this would protect the interests of Louisiana's customers. Ultimately, the board would still be hand selected by the new owners, whose priorities would not be locally focused. Once selected, the new board would be accountable to meeting the parent companies' financial expectations, regardless of the impact on Louisiana customers. If board members didn't perform, they surely would be replaced.

### Our Conclusion:

MACQUARIE would have us believe that customers will not notice the difference should the takeover be approved. Indeed, in the short-term their commitment is to maintain a flawed status quo. What about the unfair distribution of debt, the lack of local control, and payouts going to corporate executives and shareholders? There's plenty to notice in this deal. Louisiana's customers deserve better.

 **Does the LPSC find the changes in CLECO's corporate structure, reduction in clout, and pressure to increase earnings on the backs of customers for the profit of international private equity groups acceptable? If not, MACQUARIE's application should be rejected.**

# II. Who Takes the Risks? Who Gets the Benefits?

## Skewed Finances, Corporate Payouts (in millions)

Each customer would receive just 35¢ per month. The premium payment of \$435 million to shareholders is above and beyond the share's market value on the day the Merger Agreement was formalized. The premium payment was set at 14.8% above the stock value.



### The Issue:

The proposed CLECO takeover deal is a complex financial transaction with clear winners and losers. A detailed look at how the costs and benefits are distributed allows an accurate assessment of the deal's merit for Louisiana ratepayers.

### The Evidence:

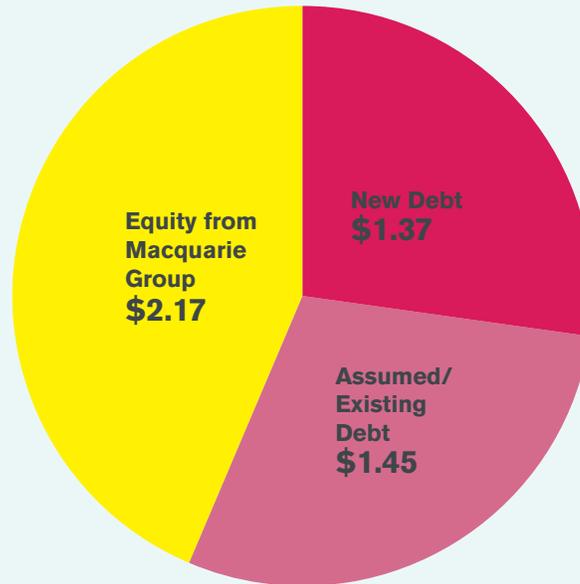
**Skimming the Cream:** At the time the first bid was announced, CLECO CEO Bruce Williamson personally stood to make nearly \$30 million from the sale. For more than two years leading up to the announcement, he and the board (of which Williamson also serves as president) had fielded inquiries and courted a number of potential takeover bids.<sup>12</sup> This fact was not made known to the public or state regulators until after several official LPSC decisions had been reached that substantially improved CLECO's future earnings. Withholding the buy-out information in this way was a breach of good faith negotiating.

Over the following months, Williamson initiated numerous discussions on behalf of the board wherein the prospects for a deal to sell the company were negotiated against a relentless drive for a higher purchase price for CLECO's shares, ultimately resulting in a 14.8% premium payment worth \$435 million for shareholders. In addition to Williamson, five other top executives are in line to receive personal financial windfalls totaling another \$17 million.

\*The corporations that will own CLECO Corp.'s stock are "newly formed entities with essentially no assets other than the equity commitments of the Investors..."

## Excessive Debt (in billions)

By pursuing this takeover bid, shareholders would take a \$435 million payout while saddling CLECO customers with three times that amount of new debt.



### DEFINITION of Leveraged Buyout - LBO

The acquisition of another company using a significant amount of borrowed money (bonds or loans) to meet the cost of acquisition. Often, the assets of the company being acquired are used as collateral for the loans in addition to the assets of the acquiring company. The purpose of leveraged buyouts is to allow companies to make large acquisitions without having to commit much capital.

By accepting this deal, CLECO's board, shareholders, and executives are voting to increase the company's debt by \$1.47 billion, taking a combined \$482 million payout and then just walking away.

**And for Customers...35 ¢ :** During negotiations, as summarized by CLECO's Proxy Statement to shareholders, CLECO corporate executives and the potential takeover bidders never bargained over real consumer benefits—they only offered mere continuations of the status quo.<sup>13</sup> What the Merger Agreement does include are 77 pages of single-spaced text written solely to ensure that both CLECO and MACQUARIE reaped maximum benefit in relation to cost.<sup>14</sup> For utility customers, these documents calculate nothing, say nothing, promise nothing, and protect nothing. If the motivation for this transaction had anything to do with customers, one would expect CLECO to have extracted something from MACQUARIE. The record shows otherwise.

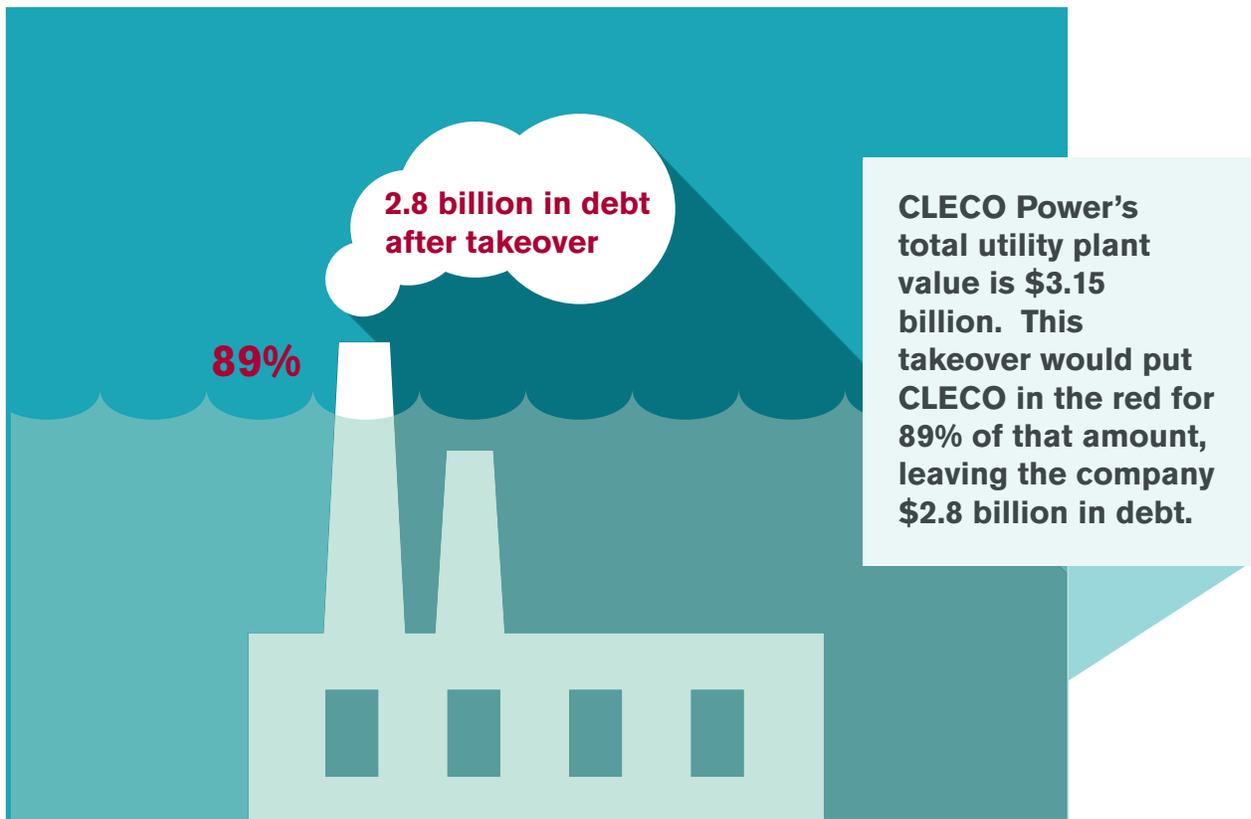
The only mention of substantive benefit to customers anywhere in the merger agreement are three years of estimated annual cost of service savings of \$1.2 million. With CLECO Power's electric sales in 2014 at \$1.226 billion,<sup>15</sup> this amounts to just 35 cents a month per customer.<sup>16</sup> Meanwhile, six corporate executives would receive a combined \$47 million, while shareholders would reap a \$435 million premium immediately. In other words, executives and shareholders would receive 99.3% of the sale's up front financial benefits.

**Who Pays? Customers of Course!** The MACQUARIE-led foreign investors expect to profit from this transaction. The willingness to pay a high premium suggests they are expecting to grow net income substantially. An assessment by CLECO's board and CEO cited in their proxy statement to shareholders stated that there are few future growth opportunities for the company in terms of physical expansion. But looking at trends in other jurisdictions shows that a significant source of future earnings does exist: money can be made from utility customers who have no alternative power company from which to seek service. The following methods have been used by private investment groups like MACQUARIE to increase profits after purchasing regulated monopoly utilities in the U.S.

- ▶ Charge customers more by convincing regulators to increase rate of return.
- ▶ Borrow money for dividend payments while leaving the utility saddled with the additional debt.
- ▶ Cut operating costs (eg. through employee layoffs, scaling back on system maintenance, and reducing pensions for retirees, all of which all are referenced in MACQUARIE's application, though promises are made to wait at least two years).
- ▶ Use loopholes to charge customers for taxes the company does not pay.
- ▶ Disguise debt as equity, thereby earning a higher rate of return outside the oversight of regulators.
- ▶ Use state tax credits to enhance profits instead of reducing costs to customers.
- ▶ Sell the utility's physical assets, which were paid for by utility customers.



**Louisiana's electric utility customers... would get 35¢ per month and a concentration of amassed risks unheard of in a Louisiana utility since the Great Depression.**



**Too Much Debt, Too Much Risk:** At least 10 mostly foreign-based lenders are putting up a considerable amount of loan money for the purchase to go through. Nearly half of the transaction would be paid for with new debt collateralized against the value of CLECO Corp., the acquisition target company. Known as a leveraged buyout, this type of transaction carries a host of risks for the utility, and by extension, for customers.

The amount of debt being used for the takeover is substantial. Of the \$3.53 billion acquisition price, an estimated \$1.45 billion will be paid in the form of new debt, all of which CLECO Corp. itself (the company being purchased) will be obligated to repay. This is in addition to the \$1.37 billion of existing debt the company already holds.

Let's put that in perspective. According to CLECO's recent SEC filings, CLECO Power's total utility plant value is \$3.15 billion.<sup>17</sup> This takeover would put CLECO in the red for 89% of that amount, leaving the company \$2.8 billion in debt. The numbers are even worse if you consider CLECO's approximate rate base<sup>18</sup> calculated by adding the utility's plant value (\$3.15 billion), plus regulatory assets (\$0.5 billion),<sup>19</sup> minus deferred taxes (\$1 billion).<sup>20</sup> By the time the takeover is complete, CLECO will be in more debt than the company is worth: 104% of \$2.65 billion.

Further, the new debt will be "secured by a pledge of the stock of CLECO Power," meaning if CLECO Corp. defaults on its debt, ownership of CLECO Power could pass to CLECO Corp.'s lenders. Put another way, ownership of a bankrupt CLECO could fall to unvetted foreign-based creditors. These creditors may have no intention or obligation to uphold prior commitments on rates and service entered into by MACQUARIE as a condition for approval of this transaction.<sup>21</sup>

CLECO's electric utility customers currently provide 95% of the company's earnings, so it is reasonable to expect that these customers will ultimately be the ones paying for the MACQUARIE takeover deal.

MACQUARIES business is assessing financial prospects, then buying and selling those prospects – all with the aim of maximizing gain. Neither MACQUARIE nor its lenders understand how to build power plants, create new energy services, forecast demand, or deal with operational efficiency. MACQUARIE has targeted CLECO because they view it as a sound and financially attractive investment with enough earning potential to justify paying an extra \$435 Million over CLECO's market price for the privilege of ownership.<sup>22</sup>

If CLECO Power is so desirable a purchase, why can't the company find a merger deal paid in full with real investment money? Why add over a billion dollars to the company's debt? And why are there no savings for customers.

**Restricting Access to Capital:** After more than one hundred years as a Louisiana owned and operated utility, CLECO would become the property of foreign private equity investors with no tie to our state. If they acquire all of CLECO's shares, MACQUARIE plans to delist and remove the publicly traded company from the stock exchange, thereby effectively cutting CLECO off from an important existing source of capital.

When publicly traded utility companies are taken private in this way, Moody's, Standard and Poor's, and Fitch's have historically downgraded a utility's credit rating. This, in turn, increases the cost of capital for building new power plants or upgrading utility infrastructure. The result? Higher costs for customers. Moreover, because CLECO would become a mere 0.63% of the takeover group's total market valuation (with a correspondingly miniscule level of clout), there is no guarantee that the holding company would make capital available in the amounts required to ensure quality and affordable service for Louisiana customers when it is needed.

### **Our Conclusion:**

A good deal is one that accounts for value with a fair balance of risk and rewards for each of the affected parties. For customers, this deal is anything but fair. Since 95% of CLECO's Corp. earnings are from its utility customers, it stands to reason that MACQUARIE's interest in buying the company centers on the value of CLECO Power's customers. After selling their stock for a 14.8% premium, CLECO shareholders would have no risk, the CLECO CEO would receive a golden parachute and bear no risk, and MACQUARIE would own another monopoly utility company with a guaranteed rate of return and a captive market of CLECO Power's 286,000 customers. Louisiana's electric utility customers, on the other hand, would get 35 cents per month and a concentration of amassed risks unheard of in a Louisiana utility since the Great Depression.



**Does the LPSC find this highly leveraged, risk-saturated deal acceptable? If not, MAQUARIE's application should be rejected.**

# III. Our CLECO, Our Community



## The Issue:

For more than a century, CLECO Power has served Louisiana families and businesses. CLECO's humble beginnings as an ice, dairy, and electric company reflect the company's loyalty to its customer base.<sup>23</sup> The company has expanded substantially over the past 101 years, from serving 5,432 rural Louisianans in 1945 to 286,000 customers in 23 parishes today.<sup>24</sup> Despite this track record, the new CEO and Board claim that they should sell the company to outside investors because they cannot see new growth potential.

Over the past four years, the Board and CEO have secured and maintained the highest utility rates in the state. Meanwhile CLECO spent \$23 million to renovate their headquarters building in Pineville, Louisiana even as questions mounted about the quality of the company's customer service. While CLECO management has focused on raising rates, Entergy Corporation has undergone an industrial renaissance, while improving customer service. Growth opportunities do exist for utility companies, but not in the places CLECO has been looking.

## CLECO Charges Customers the Most

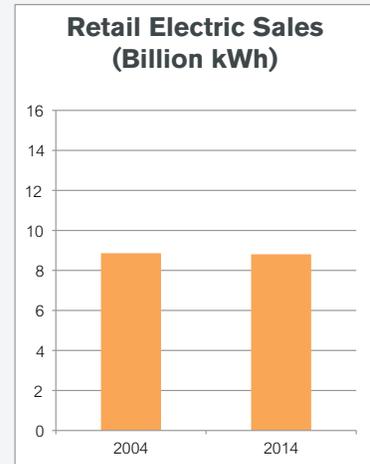
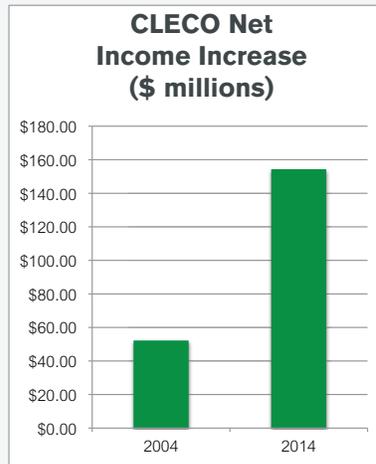
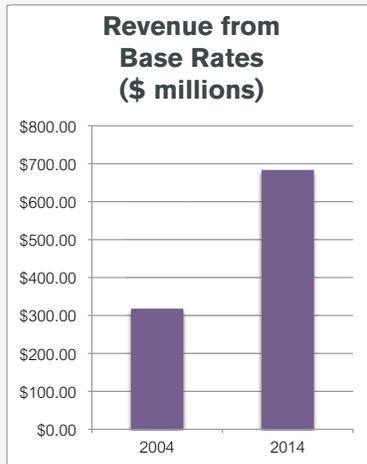
| Utility             | Average Customer Bill* |
|---------------------|------------------------|
| CLECO               | \$115.50               |
| Entergy New Orleans | \$109.11               |
| SWPCO               | \$104.10               |
| Entergy Gulf States | \$96.14                |
| Entergy LA Algiers  | \$91.97                |
| Entergy Louisiana   | \$80.44                |

\*Resident customer using 1,000 kWh (July 2015)

## The Evidence:

**Utility Profits While Customers Pay the Most:** For several years, CLECO Power has had the highest rates in Louisiana as well as the highest authorized return on equity (profit margin) among Louisiana's investor-owned utilities.<sup>25</sup> This means the families and businesses served by CLECO have paid substantially more than customers in other parts of the state. The utility's earnings margin also grew substantially over time. Between 2004 and 2014, CLECO doubled its income from base rates and tripled net income, while retail electric demand actually declined. Following the national economic downturn in 2008-09, the LPSC began raising questions about these costs, particularly CLECO's higher profit margin. Instead of fighting to reduce costs for their customers during hard times, CLECO's corporate executives were keeping costs high while they began looking for a way to sell the company.

## CLECO Earnings Tripled in the Past 10 Years, Sales Virtually Flat



Sources: CLECO 2005 10-K, page 29.  
CLECO 2014 10-K, page 32-33.

Before they announced this search for buyers, CLECO management first sought and secured decisions from the LPSC that would boost the company's bottom line... Just hours after these votes were secured, CLECO managers issued a press release announcing their intention to sell the company.

**A History of Selling Out:** CLECO's CEO, Bruce Williamson has made a career out of selling the companies he leads. Before Williamson put CLECO on the block, he unsuccessfully tried to find a buyer for his former employer, Dynegy, after previously selling off PanEnergy. Williamson's history of directing companies into acquisitions suggests that CLECO's Board was looking for someone to sell the company when they hired him in May 2011.

CLECO Corporation has been preparing itself for an acquisition for some time. In the summer of 2014, when the news of an "unsolicited bid" for CLECO broke, it was reported in "The Deal" that talks were already underway with intent to sell as early as the summer of 2013, followed by soft conversations with Borealis Infrastructure, a Canadian company, and MACQUARIE in the spring of 2014. The June 2014 bid by Borealis put CLECO in the spotlight, and stirred up interest by a handful of other interested buyers, including Centerpoint Energy and Iberdrola from Spain.<sup>26</sup>

Before they announced this search for buyers, CLECO management first sought and secured decisions from the LPSC that would boost the company's bottom line. These decisions included authorization for higher electric rate charges and increases to Cleco's return on equity (profit margin). Just hours after these votes were secured, CLECO managers issued a press release announcing their intention to sell. LPSC commissioners were shocked and demanded that CLECO's CEO and board explain why this information had been withheld. But the damage was done. Ultimately, no changes were made to the LPSC decision on CLECO's customer charges or allowable profit margin.

<sup>†</sup><https://www.cleco.com/-/guiding-principles>



**Instead of fighting to reduce costs for their customers during hard times, CLECO's corporate executives were keeping costs high while they began looking for a way to sell the company.**

**CLECO's latest CEO, Bruce Williamson has made a career out of selling the companies he leads.**

**Our Conclusion:**

Over the past 4 years, CLECO's Board has been focused on selling the company, not serving their customers. The proposed takeover would create serious new problems for ratepayers and aggravate the difficulties customers face today. Cleco needs to return to its roots and refocus attention on the company's guiding principle: putting customers first.<sup>†</sup> The takeover simply creates new problems and provides no solutions to a growing set of issues that have been mounting at the utility in recent years. This deal is bad for customers and bad for Louisiana.



**Does the LPSC believe that CLECO has negotiated in good faith and reached the best deal for Louisiana's utility customers? If not, MACQUARIE's application should be rejected.**

# IV. Taking the Long View:

## When Customers Bear the Risk, Holding Companies Reap the Profits

### The Issue:

The proposed CLECO takeover seeks to repeat a destructive pattern that our nation corrected by enacting the Public Utility Holding Company Act (PUHCA). Ten years after PUHCA was repealed in 2005, we are seeing history repeat itself in Louisiana.

### The Evidence:

**Rise and Fall of Massive Utility Holding Companies:** To put the CLECO deal in context, a little history is in order. The Great Depression was spurred on by the irresponsible behavior of utility holding companies that prioritized profits over efficiency or service. Through 1929, holding companies bought up utilities across the United States. Because they were so massive and operated in so many different jurisdictions, these new companies were difficult for state utility commissions to regulate. Multiple scandals erupted following the bankruptcies of 53 utilities during the Depression, which ultimately paved the way for new regulations.<sup>27</sup> PUHCA, passed in 1935, was designed to avoid crash and burn profiteering off public utilities.

For the next 70 years under PUHCA, there was not a single public utility bankruptcy.<sup>28</sup> The law worked because it prevented amassing of disparate companies, limited the amount of debt holding companies could pass on to their subsidiaries, and prevented looting and bankrupting of utilities and their customers.<sup>29</sup>

While PUHCA was in place and enforced properly by the SEC, a state commission could be relatively certain that its utility, on being acquired by some other entity, would not:

1. become an affiliate of utility businesses that were not part of the same integrated public utility system;
2. become an affiliate of substantial non-utility businesses without federal regulatory review;
3. become part of a corporate structure in which interaffiliate transactions (including transactions anywhere in the family, not just transactions to which the utility was a party) were unbounded by rules on interaffiliate prices aimed at preventing cross-subsidies;
4. become part of a holding company whose financial structures went unreviewed by regulators obligated to protect consumers; or
5. become part of a holding company system free to acquire any kind of company, anywhere, in any industry, from any country without advance review by some regulator for the effects on consumers.

A state commission could thus reasonably expect a potential acquirer who met PUHCA's conditions to make high quality, local utility service its priority.

**History Repeating, The Next Utility Bubble:** PUHCA was repealed in 2005, and less than a decade later, the largest public utility in Texas went belly up after a risky debt-financed purchase by a financial management holding company. Utilities are once again being consolidated under massive holding companies, pumped with debt, and stacked under many layers of shell companies.



**Just like speculators in the 1920s, MACQUARIE is hoping to purchase the utility company using a considerable amount of debt, then pay the debt off by milking CLECO's captive customers.**

In the same way, CLECO's takeover is being orchestrated by a group of remote financial managers looking for a safe cash cow. Just like speculators in the 1920s, MACQUARIE is hoping to purchase the utility company using a considerable amount of debt, then pay the debt off by milking CLECO's captive customers.

MACQUARIE'S attempted takeover of CLECO exposes customers to the very risks that for 70 years PUHCA specifically sought to protect customers against:

- ▶ Shell companies
- ▶ Excessive debt
- ▶ Hidden debt
- ▶ Credit downgrades
- ▶ Exposure to risk from unrelated volatile market forces
- ▶ Empire building by amassing utility and non-utility holdings
- ▶ Loading the utility with new debt for dividend payouts to executives and shareholders

## MACQUARIE Deal Fails Most of the LPSC's 18 Factors\*

**Exploiting the Gap in Regulatory Protection: The Louisiana Public Service Commission's existing laws governing mergers and acquisitions are inadequate for evaluation of the MACQUARIE takeover bid. In 1994, the LPSC established 18 factors for guiding decisions on mergers and acquisitions.<sup>30</sup> These guidelines were established when PUHCA protections still existed. Even so, the takeover bid still fails to satisfy most of the LPSC's 18 factors outright.**

| Factor  | Met | Not Met |
|---|-----|---------|
| Whether the transfer is in the public interest.   |     | ✓       |
| Whether the purchaser is ready, willing and able to continue providing safe, reliable and adequate service to the utility's ratepayers.   |     | ✓       |
| Whether the transfer will maintain or improve the financial condition of the resulting public utility or common carrier ratepayers.   |     | ✓       |
| Whether the proposed transfer will maintain or improve the quality of service to public utility or common carrier ratepayers.   |     | ✓       |
| Whether the transfer will provide net benefits to ratepayers in both the short term and the long term and provide a rate making method that will ensure, to the fullest extent possible, that ratepayers will receive the forecasted short and long term benefit. |     | ✓       |
| Whether the transfer will adversely affect competition.   |     | ✓       |
| Whether the transfer will maintain or improve the quality of management of the resulting public utility or common carrier doing business in the state.  |     | ✓       |
| Whether the transfer will be fair and reasonable to the affected public utility or common carrier employees.  |     | ✓       |
| Whether the transfer would be fair and reasonable to the majority of all affected public utility or common carrier shareholders.  |     | ✓       |
| Whether the transfer will be beneficial on an overall basis to State and local economies and to the communities in the area served by the public utility or common carrier.   |     | ✓       |
| Whether the transfer will preserve the jurisdiction of the Commission and the ability of the Commission to effectively regulate and audit public utility's or common carrier's operations in the State.   |     | ✓       |
| Whether conditions are necessary to prevent adverse consequences which may result from the transfer.  |     | ✓       |
| The history of compliance or noncompliance of the proposed acquiring entity or principals or affiliates have had with regulatory authorities in this State or other jurisdictions.  | ?   | ?       |
| Whether the acquiring entity, persons, or corporations have the financial ability to operate the public utility or common carrier system and maintain or upgrade the quality of the physical system.  |     | ✓       |
| Whether any repairs and/or improvements are required and the ability of acquiring entity to make those repairs and/or improvements.   | ?   | ?       |
| The ability of the acquiring entity to obtain all necessary health, safety and other permits.   | ?   | ?       |
| The manner of financing the transfer and any impact that may have on encumbering the assets of the entity and the potential impact on rates.  |     | ✓       |
| Whether there are any conditions which should be attached to the proposed acquisitions.   |     | ✓       |

\* Testimony of Scott Hempling pages 96-99

## Over the past 25 years, Louisiana has reviewed and approved a number of significant electric company mergers

Each of these transactions involved the merging of two existing utility companies, frequently adjoining. This takeover bid is a Leveraged Buyout by a private equity group, not a utility, and produces no significant benefits to customers. Louisiana has never allowed a leveraged buyout of a regulated electric utility, nor have they ever authorized the takeover of a regulated utility by a non-utility private equity group.

## Previous Louisiana Mergers Significantly Benefited Customers

**1993**

Entergy Corporation, Inc. and Gulf States Utilities

**1993**

Bossier Rural Electric Membership Corporation and Southwestern Electric Power Company\*

**1997**

Teche Electric Cooperative, Inc and Central Louisiana Electric Company, Inc. (CLECO)\*\*

**1999**

Southwestern Electric Power Company, Central and South West Corporation, and American Electric Power Company, Inc.

**2010**

Valley Electric Membership Corporation and Southwestern Electric Power Company

\* LPSC Order No. U-20315-A, page 1

\*\* LPSC Order No. U-21128, page 2

†Examples of savings to consumers from mergers include: “At the time, BREMCO’s members paid some of the highest retail electric rates in Louisiana, and SWEPCO’s rates were among the lowest... Upon approval of the merger, the bill for an average BREMCO residential customer, using 1000 kWh of electricity, immediately dropped from \$100 to \$70, under SWEPCO’s then current rates.”

“The merger will provide an average Teche customer with an immediate decrease of 11% in his rates...CLECO has warranted that it will not raise its rates to Teche’s customers for five years from the date of the merger. CLECO has committed further that its current ratepayers will pay no higher rates (either base or fuel) as a result of the merger than they would have paid absent the merger.”

Today these 18 factors are inadequate for scrutinizing the MAQUARIE takeover deal. Prior to reviewing private equity leveraged buyout deals, the LPSC first needs to develop their own robust ways to screen these kinds of potential acquisitions. Such screening analyses must ensure that the entities that own or influence utility infrastructure remain accountable to regulators, consumers, investors and the public—and make customer service their priority. Until substantial changes are made to the LPSC mergers and acquisitions rules, the commission cannot adequately review takeovers of this type.

While Louisiana has evaluated numerous utility mergers over the past 25 years, these decisions were completely different from the CLECO takeover bid on the table today. The older mergers involved combining two existing utility companies (frequently adjacent to one another). In each case, the takeovers created significant financial benefits for customers.†

The MACQUARIE takeover bid does not bring significant savings to customers from operational efficiency. Indeed, their application specifically states that “The Transaction is not a merger of two operating utilities; therefore, no significant synergies or cost savings are expected to result from the Transaction.”<sup>31</sup> The proposed takeover does bring unacceptable risks. Louisiana’s families and businesses do not have a choice in who provides their electricity service, but they certainly should not be made captive to a group of foreign private equity investors looking for their next cash cow.

### Our Conclusion:

The existing regulatory structure for vetting mergers and acquisitions in Louisiana was not designed for takeover attempts of this type and scale. The tools available to the LPSC are not enough to protect customers and preserve the public interest. Instead of expediting the merger application, the LPSC should review its merger and acquisition rules in a post-PUHCA world. The MACQUARIE deal is overly leveraged and not in the best interest of CLECO or its customers. As written, this deal could have disastrous consequences for Louisiana’s consumers and our state’s economy.

**In a post-PUHCA world, has the LPSC taken the necessary steps to fully and adequately protect customers from merger and acquisition deals unlike any in Louisiana history? If not, MACQUARIE’s application should be rejected.**

# V. Lessons from Other Jurisdictions

## **MACQUARIE's Relentless Drive to Increase Rates After their Takeover of Puget Sound Electric**

Rate Case filed 05-8-09

**2.8% increase in rates**

Rate Case filed 06-13-11

**3.2% increase in rates**

Rate Case filed 02-01-13

**3.0% increase in rates annually for two or three years starting in 2013**

**If this deal were presented to the Commission by CLECO in absence of a takeover bid, there is no question what the result would be. It would be rejected.**

### **The Issue:**

The gap in consumer protection created by repeal of PUCHA is not unique to Louisiana. Few states have yet responded to the erosion of legal requirements for mergers and acquisitions and the need to take steps to compensate for the lack of utility regulatory firewalls. Taking advantage of this gap in regulatory protection, large holding companies with disparate geographical and industry ties, like MACQUARIE, are buying up utilities across the country to maximize profits. This leaves ratepayers to foot the bill and shoulder huge risks. History is repeating itself.

There is plenty of recent history to consider as the LPSC seeks to determine the costs, risks, and regulatory complications of the MACQUARIE deal. From MACQUARIE's own record of consistent rate increases, to messy bankruptcies caused by leveraged buyouts, regulators are learning that these deals are not good for consumers.

### **The Evidence:**

**Life Under MACQUARIE - Higher Rates, Relentless Pushing:** MACQUARIE's previous American utility acquisitions have repeatedly led to a series of rate cases to increase corporate income. Duquesne Light, a Pennsylvania electric company acquired by a MACQUARIE-led group in 2007, applied for steep rate increases in 2010 and 2013. In 2006, MACQUARIE acquired Aquarion Water Company. Aquarion encompasses a multi-state service territory, meaning its rates are subject to review by three different utility commissions: Massachusetts, Connecticut, and New Hampshire. Since its acquisition, Aquarion has filed for three rate increases in Connecticut, two in Massachusetts and two New Hampshire. The approval of many of these rate increases has raised costs for customers in these jurisdictions and proved burdensome for the utility commissions attempting to manage their regulatory responsibilities.

# Utility Takeover Deals in the News:

## **Six Years Later, The Biggest Leveraged Buyout Deal in History Faces Spectacular Failure**

February 25th, 2013

## **CT preliminarily rejects \$3B Spanish utility takeover**

June 30th, 2015

## **NextEra's \$4.3B Acquisition of HEI Opposed by Hawaii State Agencies, Governor**

July 21st, 2015

The most extreme example of MACQUARIE's relentless drive towards higher rates is shown by Puget Sound Energy (PSE), a Washington electric utility. Soon after the 2009 MACQUARIE acquisition, PSE began filing rate case after rate case with the Washington Utility and Transportation Commission (WUTC). PSE applied for rate increases in 2009, 2010 and 2011, thereby heavily taxing the regulatory resources and capacity of the WUTC. To stop this flood of filings, the WUTC approved a multi-year plan in 2013 with automatic increases of up to 3% annually and a 2.2% annual increase for natural gas. The WUTC approved the plan because it would offer "a respite from the burdens and costs of the current pattern of almost continuous rate cases, with one general rate case filing following quickly after the resolution of another." However, the battle is still ongoing and the rate increases are now being litigated in the courts.

**Leveraged Buyouts Cause Big Problems:** The largest leveraged buyout in United States history, Energy Future Holdings Corporation's (EFH) buyout of Texas' largest utility TXU/Oncor, provides a clear example of how risky leveraged buyouts can go wrong. At the close of the deal, the company was left with \$42 billion in debt. In 2014, EFH/TXU/Oncor was no longer able to service its debt burden and filed for bankruptcy.

Before the buyout deal was inked, several stakeholders warned of the danger of taking on substantial debt. Customers have so far been somewhat shielded by safeguards known as "ring fencing" that insulated utility assets from its parent's creditors, though it remains to be seen whether they will be enough. It is not clear how this failed business will ultimately impact consumer rates, as the bankruptcy proceedings are ongoing. It is likely that as EFH loses the revenues from its unregulated subsidiaries, TXU/Oncor's required rate of return will bear the burden of paying EFH's bankruptcy debts.

Rather than looking for ways to cash in for shareholders, CLECO needs to return to its historic roots and refocus attention on the company's guiding principle: *putting customers first.*

**Regulators Are Starting to Protect Ratepayers:** Regulators across the country have begun to protect consumers from risky transactions, and a series of leveraged buyouts have been rejected by state utility commissions. In 2005, Texas Pacific Group (TPG) tried to purchase Portland General Electric (PGE), which at the time was owned by a bankrupt Enron.

During the acquisition process, confidential documents leaked to the press showed that TPG was running a campaign of misinformation. For example, TPG claimed to have no plans for cutting costs. The leaked documents showed that TPG actually planned massive layoffs in both customer service and at the largest generation facility. TPG also planned to cut capital investments in maintenance. Finally, TPG's repayment plan on its loans to acquire PGE clearly indicated their intent to sell the utility just five years after the acquisition. Based on these concerns, as well as concerns about the heavily leveraged transaction, the Oregon Public Utility Commission rejected the deal.

Regulators also cite uncertain jurisdictional lines as reasons to reject these acquisitions, since confusion as to who regulates what can undercut enforcement. In 2004, Saguaro Utility Group LLC tried to purchase Unisource, an Arizona company whose largest subsidiary is Tucson Electric Power. A regulatory judge and four out of five public utility commissioners rejected the deal due to concerns about increased leverage, an inexperienced controlling partner, and uncertainties with respect to state regulatory authority. There were also concerns that taking Unisource private would restrict the regulatory commission's access to information about the company.

The judge found that although the Saguaro Group promised more liquidity, improved capital structure, maintained local management, and continued local presence, these claims were either unfounded or were not enough to offset her concerns. Finally, she found that although there were ways to insulate Tucson Electric Power from bankruptcy proceedings, there would ultimately be no way to completely guarantee that the utility would not be looted to repay debt. She found this particularly troublesome, because, if this did occur, there would be no way to guarantee that any of the protective conditions imposed on the acquisitions could be enforced against the entity that acquired the stock through bankruptcy proceedings.

In July 2015, the Connecticut Public Utilities Regulatory Authority rejected a proposed merger between UIL Holdings and Spanish energy giant Iberdrola. The regulatory authority said the deal was "in effect asking for the Authority's and Connecticut ratepayers' leap of faith into an unknown situation." The deal was rejected due to a lack of benefits to customers and not enough protection from risk. Regulators said the proposed public benefits were "unquantifiable, have assigned values of zero and do not offer sufficient benefit for ratepayers."

### **Our Conclusion:**

As these examples illustrate, many states and jurisdictions are struggling to catch up with a changing regulatory environment. Although there are many cases of harmful deals being approved, there are also increasing numbers of cases throughout the U.S. in which regulatory agencies have rejected risky takeover bids and insist that the public good be served. The LPSC should apply these precedents as it considers CLECO's future.



**Can the LPSC use these lessons learned from other jurisdictions to protect customers against the dangers of this debt-ridden takeover bid? If so, the MACQUARIE deal should be rejected.**

# Conclusion

## The LPSC Should Protect Its Customers and Reject This Takeover Deal

**It is the LPSC's fundamental responsibility to stand behind customers to ensure they receive the best regulatory outcomes. It is not the LPSC's job to enrich shareholders, nor should the LPSC defer to outside private equity groups. MACQUARIE's leveraged buyout represents a significant risk for Louisiana, and the LPSC should protect ratepayers from the dangers posed by this transaction.**

**Other utility regulatory commissions have rejected acquisitions based on some of the same problems that CLECO's proposed takeover involves. The LPSC should follow these precedents and reject takeover bids that would impose costs on ratepayers or substantially burden them with debt and risk. This is particularly true when, as is the case with the MAQUARIE bid, the proposed deal only creates gain for corporate executives and shareholders. The LPSC should instead tell CLECO to uphold its obligations to customers - to improve its service and reduce costs for Louisiana's ratepayers. There should be real, significant, and enforceable benefits for any approved transaction of this type. The CLECO deal meets none of these criteria.**

# Endnotes

<sup>1</sup> Merger Application page 16 and CLECO 2014 10k page 66

<sup>2</sup> 2013 Proxy page 14

<sup>3</sup> 2004 10K and 2014 10K

<sup>4</sup> <https://www.cleco.com/-/guiding-principles>

<sup>5</sup> <http://www.lpsc.louisiana.gov>

<sup>6</sup> CLECO Corp.'s 2014 revenues were \$1.293 billion. The electric share was \$1.226 billion. See CLECO's 2014 10-K Report at 54.

<sup>7</sup> MIRA has over \$100 billion, British Columbia has \$91 billion (U.S.), and Manulife (John Hancock's owner) and its subsidiaries have \$509 billion. Application at 7-8.

<sup>8</sup> If we calculate the percentage using Macquarie Group Limited's \$486.3 billion (2015 Annual Report at 228) rather than MIRA's \$100 billion, CLECO's share drops to 0.41 percent.

<sup>9</sup> The amount of new debt is approximately three times the shareholder premium payment and executive compensation package combined.

<sup>10</sup> Joint Application at 16.

<sup>11</sup> Based on a comparison of hypothetical monthly bills for a 1000 kWh customer, taking into account customer charge, base rate, fuel adjustment charge, environmental charge, storm charge, franchise fee, infrastructure charge, CWIP refund rider, Ninemile generation charge, and MISO recovery rider. The comparison did not take into account tax or formula rate plan adjustments.

<sup>12</sup> Definitive Proxy Statement at 32

<sup>13</sup> As explained in Part IV below.

<sup>14</sup> Joint Application, Exhibit 3.

<sup>15</sup> See CLECO's 2014 10-K Report at 54.

<sup>16</sup> Cleco Power has about 286,000 customers. See CLECO's 2014 10-K Report at 12. 1.221 million divided by 286,000 is 4.23.

<sup>17</sup> CLECO 2014 10k at 65

<sup>18</sup> Rate base is the value of the utility's property on which they are allowed to earn a return. The commission sets this rate of return to insure the health of the company so it may continue to provide service to its customers.

<sup>19</sup> CLECO 2014 10k at 65

<sup>20</sup> CLECO 2014 10k at 66

<sup>21</sup> Whether this change in ownership would occur without Commission approval (by virtue of the Commission approving this transaction and all its terms), notwithstanding the 1994 General Order's requirement that control of a utility cannot be transferred without Commission approval, is a legal question the Commission should have the Applicants brief.

<sup>22</sup> Acquisition premium in dollars = (# shares outstanding) \* (stock price on day prior to announcement) \* (0.148), so 60,875,561 x 48.27 x 0.148 = \$434.9 million. The number of shares outstanding comes from the Definitive Proxy Statement (at 1). The stock price on day prior to announcement comes from the Application (at 37).

<sup>23</sup> "Cleco Corporation History," <http://www.fundinguniverse.com/company-histories/cleco-corporation-history/>

<sup>24</sup> "About Us," <https://www.cleco.com/about-us>

<sup>25</sup> See appendix Table 1.

<sup>26</sup> Unsolicited Bid Puts Cleco on the Block, Levin, A. June 19, 2014. [<http://www.thedeal.com/content/energy/unsolicited-bid-puts-cleco-on-the-block.php>]

<sup>27</sup> "Public vs. Private Power: From FDR to Today," Frontline, <http://www.pbs.org/wgbh/pages/frontline/shows/blackout/regulation/timeline.html#fn3>

<sup>28</sup> <https://www.citizen.org/documents/puhcafordummies.pdf>. Updated to include 2004-2005.

<sup>29</sup> Lynn Hargis, "PUHCA for Dummies: An Electricity Blackout and Energy Bill Primer," Citizen Power, 2003, page 2, <https://www.citizen.org/documents/puhcafordummies.pdf>

<sup>30</sup> Louisiana Public Service Commission General Order passed March 18, 1994.

<sup>31</sup> Joint Application at 42.



# Appendices

## Comparison of Electricity Bill Line Items for all Louisiana IOU

### Cleco

Customer Charge: \$9.00  
Base Rate: \$0.07125 (summer)  
FAC: \$0.02486 pkwh  
Environmental: \$0.00208 pkwh  
Storm : \$2.00 + \$0.00126 pkwh  
(ADTNL) infrastructure/Incremental  
\$0.00505 pkwh

### Entergy Gulf States

Customer Charge: \$4.46  
Base Rate: \$0.04092 pkwh  
(on actual bill analyzed, this was \$0.05408, a difference of \$0.01316. In Table 2, the actual base rate charged was used in calculation)  
FAC: \$0.02975  
Environmental: none listed  
Storm: \$0.00572  
(ADTNL) franchise fee \$0.00213 pkwh  
storm restoration offset: -\$0.00141 pkwh

### Entergy Louisiana

Customer Charge: \$7.04  
Base Rate: \$0.04779  
FAC: \$0.02364  
Environmental: \$0.00001  
Storm: (ADTNL) Municipal franchise fee

### Entergy Louisiana Algiers

Customer Charge: \$5.38  
Base Rate: \$0.05432  
(ADTNL) MISO Recovery Rider 3.7261%  
of base rate chg

### Entergy New Orleans

Customer Charge: \$8.07  
Base Rate: \$0.06002  
(on actual bill analyzed, this was the same: \$0.06002)  
FAC: \$0.02964  
Storm: 2.3246% of base rate charge  
Environmental: None listed  
(ADTNL) Franchise Fee \$0.00516  
MISO recovery rider 0.4949% of base rate charge  
Ninemile 6 Generation \$0.00452  
FRP: -10.5278 %

### Swepco

Customer Charge: \$5.49  
Base Rate: \$ 0.0597  
(On actual bill analyzed, this was \$0.064, a difference of \$0.0043. In Table 2, the actual base rate charged on bill was used in calculation)  
FAC: \$0.0354140  
Environmental: \$0.0003030  
Storm: None listed  
(ADTNL) Franchise Fee: \$0.00249  
CWIP Refund rider: -\$0.00

<sup>1</sup>Cleco Residential Rate Schedule, Effective 11/1/2014 [<https://www.cleco.com/documents/10180/0/Rates+residential+service/8b27e551-7d4c-4906-a8dd-efc0f2460185>]

<sup>2</sup>Entergy Gulf States Residential Rate Schedule, Effective 9/28/05 [[http://entergy-louisiana.com/content/price/tariffs/egsi/egsila\\_rs.pdf](http://entergy-louisiana.com/content/price/tariffs/egsi/egsila_rs.pdf)]

<sup>3</sup>Entergy Louisiana Residential Rate Schedule, Effective 1/31/2006 [[http://www.entergy-louisiana.com/content/price/tariffs/ell/ell\\_rs.pdf](http://www.entergy-louisiana.com/content/price/tariffs/ell/ell_rs.pdf)]

<sup>4</sup>Entergy Louisiana- Algiers Residential Rate Schedule, Effective July 2015 [[http://www.entergy-louisiana.com/content/price/tariffs/algiers/alg\\_rs.pdf](http://www.entergy-louisiana.com/content/price/tariffs/algiers/alg_rs.pdf)]

<sup>5</sup>Entergy New Orleans, Residential Rate Schedule Effective 6/1/2009 [[http://www.entergy-neworleans.com/content/price/tariffs/enoi\\_elec\\_res.pdf](http://www.entergy-neworleans.com/content/price/tariffs/enoi_elec_res.pdf)]

**TABLE 1.** Bill for 1000 kWh for each utility in Summer or Winter, calculating only customer charge and base rate

| Company                    | Season   | Cost  |
|----------------------------|----------|-------|
| Cleco                      | Summer   | 79.25 |
|                            | Winter   | 65.95 |
| Entergy Gulf States (EGSL) | All Year | 45.38 |
| Entergy Louisiana (ELL)    | Summer   | 47.79 |
|                            | Winter   | 45.38 |
| Entergy Louisiana Algiers  | Summer   | 59.70 |
|                            | Winter   | 57.88 |
| Entergy New Orleans (ENO)  | Summer   | 68.09 |
|                            | Winter   | 65.62 |
| Swepeco                    | Summer   | 65.19 |
|                            | Winter   | 51.84 |

<sup>6</sup>Swepeco Rate Schedule, Effective 3/1/2013 [[https://www.swepeco.com/global/utilities/lib/docs/ratesandtariffs/Louisiana/LouisianaA\\_06\\_06\\_2013.pdf](https://www.swepeco.com/global/utilities/lib/docs/ratesandtariffs/Louisiana/LouisianaA_06_06_2013.pdf)]

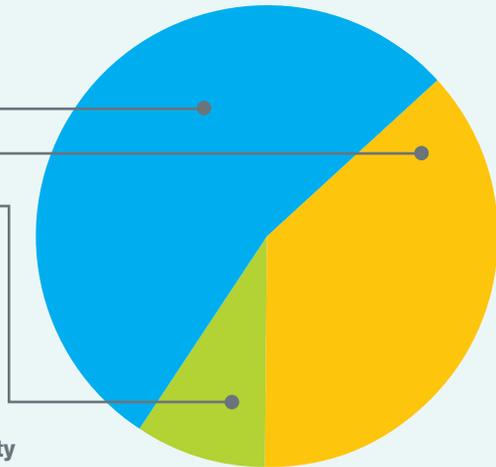
**TABLE 2.** Comparing Actual Residential Customer Bills – July 2015

|   | Cleco                 | EGSL      | ELL          | ELL-A*                      | ENO                         | SWEPCO     |
|---|-----------------------|-----------|--------------|-----------------------------|-----------------------------|------------|
| Customer Charge   | \$9.00                | \$4.46    | \$7.04 (min) | \$5.38                      | \$8.07                      | \$5.49     |
| Base Rate   | \$0.07125             | \$0.05408 | \$0.04779    | \$0.05432                   | \$0.06002                   | \$0.064    |
| FAC   | \$0.02486             | \$0.02975 | \$0.02364    | \$0.02855                   | \$0.02964                   | \$0.035414 |
| Environmental   | \$0.00208             |           | \$0.00001    |                             |                             | \$0.000303 |
| Storm   | \$2.00 +<br>\$0.00126 | \$0.00572 | \$0.0090     |                             | 2.3246% of<br>base rate chg |            |
| ADTNL   |                       |           |              |                             |                             |            |
| Franchise Fee   |                       | \$0.00213 |              | \$0.0017                    | \$0.00516                   | \$0.00249  |
| Infrastructure  | \$0.00505             |           |              |                             |                             |            |
| CWIP Refund Rider   |                       |           |              |                             |                             | -\$0.0036  |
| Ninemile 6 Generation   |                       |           |              |                             | \$0.00452                   |            |
| MISO recovery rider   |                       |           |              | 3.7261% of<br>base rate chg | 0.4949% of<br>base rate chg |            |
| TOTAL BILL FOR 1000 KWH<br>Does not include tax or FRP<br>adjustments | \$115.50              | \$96.14   | \$80.44      | \$91.97                     | \$109.11                    | \$104.10   |

\*ELL-Algiers Customer bill from February 2015. Information used from February bill: FAC, MISO Rider, Franchise Fee. Information used from Current Rate schedule: Customer Charge, Base Rate.

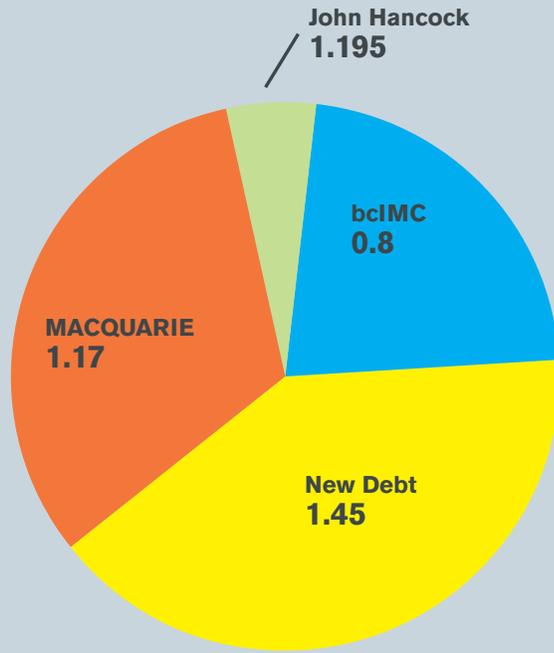
## The Primary Investors

|  |     |
|--|-----|
| Macquarie Investment and Real Assets         | 54% |
| British Columbia Investment Management Corp. | 37% |
| John Hancock Financial                       | 9%  |



|              |  |
|--------------|--|
| <b>TOTAL</b> | <b>\$3.5 Billion</b>                           |
| equity       | \$2,170  |
| debt fund 1  | \$1,450 a three-year acquisition loan facility |
| debt fund 2  | \$100 a five-year revolving loan facility      |
| debt fund 3  | \$350 five-year revolving loan facility        |

**Contributions  
Towards the  
Purchase Price  
(in billions)**



**Premium  
to CLECO  
Shareholders**

Total premium to  
shareholders: \$435 million

