CLECO TAKEOVER

The high cost of a bad deal

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Ackowledgements:
Report prepared by the Alliance for Affordable Energy
www.all4energy.org

Executive Summary

MACQUARIE and CLECO are pushing for an enormous amount of new debt, not to improve service or meet the electricity needs of customers, but to finance the utility's takeover. Ratepayers shouldn't be on the hook for risks that aren't in their best interests.

In the summer of 2014, CLECO's board made national headlines when it announced the utility company was for sale. Shortly afterward, they accepted a purchase offer of $4.7 billion from a group led by Australia-based MACQUARIE Infrastructure and Real Assets (MACQUARIE). This proposed deal, which must be approved by the Louisiana Public Service Commission, represents a radical departure from CLECO's historic relationship to the community during their previous century of service to Louisiana.

Forgetting Their Roots

For nearly 100 years, CLECO was known as the successful homegrown electric utility serving much of central and northern Louisiana. They were, in fact, responsible for bringing electricity to many parishes for the first time. CLECO's stated top priority was providing reliable electricity and excellent service at fair, competitive prices.

But after Hurricane Katrina things started to change as CLECO's board and executive team began to turn their backs on the best interest of customers while pursuing an aggressive new agenda to increase shareholder profits. While electricity sales were virtually flat, over the past decade CLECO has managed to double their revenues and triple corporate earnings. CLECO accomplished this by raising rates and cutting customer services. The goal? To bring the company to market for the highest price. The proposed deal with Maquarie does indeed represent a lucrative price for this very profitable utility. But even a superficial analysis shows just where the money goes: to corporate executives who will cash out and leave Louisiana consumers holding the bag.

A Bad Deal

If this proposed sale goes through, customers won't see relief from their high bills. Moreover, unlike CLECO's shareholders, board members, and executives, the customers of a monopoly utility cannot cash out and walk away. Through their high utility bills, customers will be left to pay the enormous debt incurred by the sale, could face further utility service cuts, and would be exposed for the first time to an array of global financial forces from MACQUARIE's otherwise unrelated business ventures.

MACQUARIE has built an empire across three continents by putting other people's money at risk. The firm uses shaky financial structures, such as leveraged buyouts, which make money for corporate insiders while leaving the newly acquired asset loaded with debt. Such debt can lead to downgrades in the asset's credit rating and even higher bills for customers.

The proposed CLECO deal is no different. MACQUARIE and CLECO are pushing for an enormous amount of new debt, not to improve service or meet the electricity needs of customers, but to finance the utility's takeover. Ratepayers shouldn't be on the hook for risks that aren't in their best interests.

Standing Our Ground

This deal is bad for CLECO and bad for Louisiana. It is up to the Louisiana Public Service Commission to protect the interests of ratepayers and stop this takeover. There is precedent for rejection, utility commissioners in Connecticut and Washington DC have rejected similar deals just this year, as did commissioners in Arizona and Oregon in previous years. In each case, the grounds for rejection was the same: the unnecessary risk to customers.

Both the Louisiana Public Service Commission Staff and the Alliance for Affordable Energy have filed formal comments raising serious issues with Maquarie's proposed takeover. Let's all urge the Public Service Commission to stand up for residents.

What Can You Do?

Tell your friends and family what is going on.

Tell your state representative or other elected officials you are concerned about the takeover deal.

Submit a letter to the editor.

Write or CALL your Public Service Commissioner and ask them to REJECT this bad deal.

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YOUR COMMISSIONERS
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I. Forgetting Their Roots:
Selling Over Serving

In the summer of 2014, CLECO made national headlines when it announced it was putting itself on the auction block. Shortly afterward, following interest by various American and international buyers, CLECO's Board accepted a purchase offer from MACQUARIE for $4.7 Billion. This proposed deal, which must be approved by the Louisiana Public Service Commission, is a radical departure from standards set during CLECO's previous century of service.

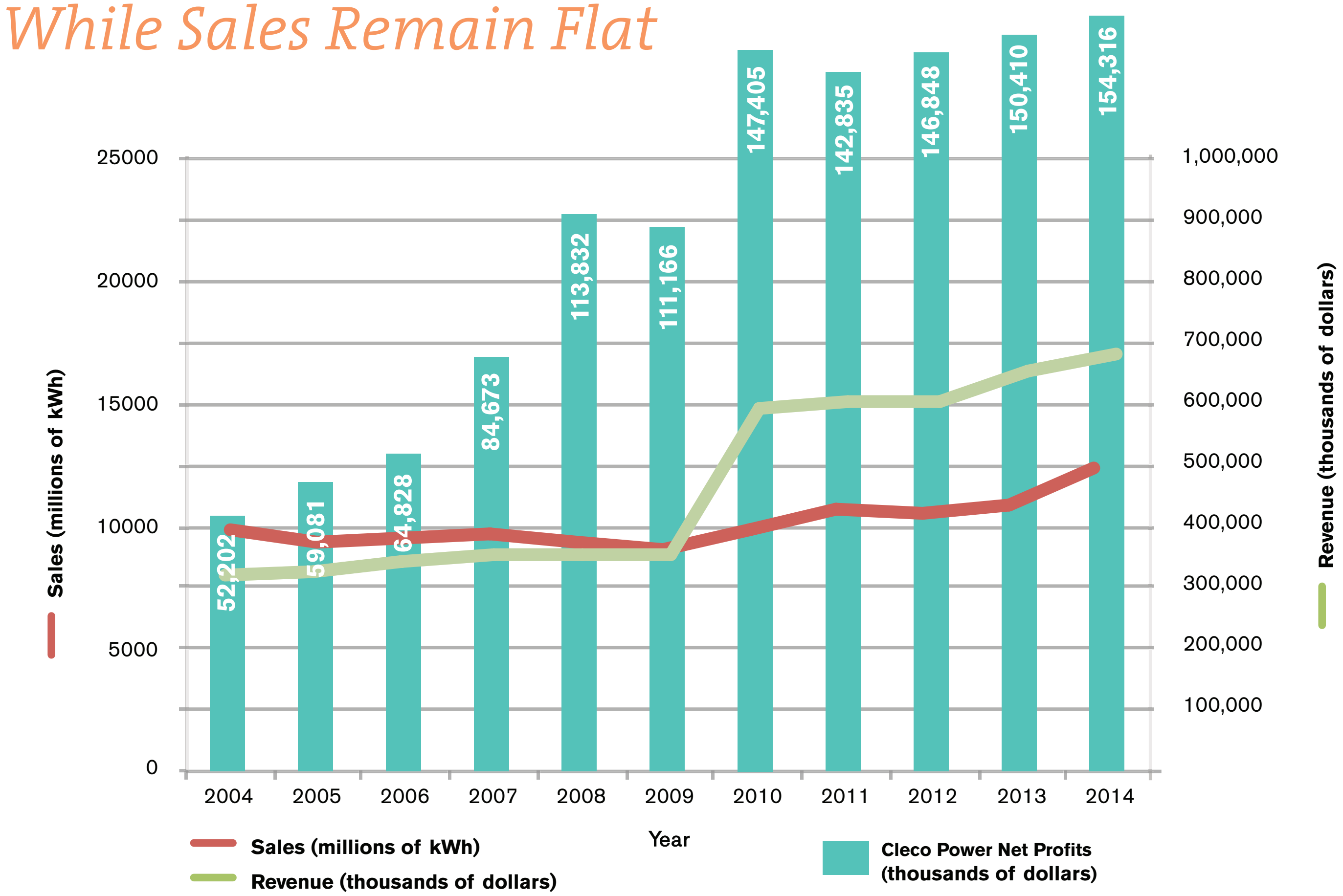
101 Years of Service

CLECO's is a well-known Louisiana success story featuring a company focused on its customers. The growth of the company has been steady—from one generator in Bunkie 101 years ago to a company serving 286,000 customers in 23 parishes today. In the early 2000s, JD Power and Associates praised CLECO as one of the three best utilities in the nation for customer service.[1] However, over the last decade, CLECO's ranking has fallen dramatically, to fourth from the bottom in their class in 2014.

CLECO Timeline: Seeking a Suitor

1906 – 2004	**A Century of Customer Service**	From a single, steam-driven generating power plant in Bunkie, LA, Cleco grows to provide electricity across Louisiana.
2005 – Present	**Shifting Priorities**	Cleco begins pushing the cost of previously unregulated power plants onto customers, whose bills go up sharply. Cleco also sells a large natural gas power plant to Entergy, pockets the money, then immediately prepares to build a new $1 billion coal and petroleum coke plant at ratepayers expense.
2009 – 2010	**Customer Pain, Corporate Profits**	Cleco secured Commission approval to lock in higher rates, just as the effects of the Great Recession and high unemployment are being felt throughout the state.
2011 – 2013	**Priming for a Sale**	Cleco's board hires Bruce Williamson, who serves as both the company's new CEO and board president. Cleco requests a Commission decision to continue their high rates, without stating their intention to sell the company. They spend $23 million renovating their headquarters, and Williamson begins fielding buyout offers.
2014	**Pushing for a Deal**	Unaware of Cleco executives' intentions to sell the company, the Commission approves Cleco's request to lock in the highest rates and authorized profit margins of any Louisiana investor owned monopoly utility company. The next day Cleco announces its intention to sell the company. Over several months, Williamson and Macquarie negotiate a flawed deal that that will maximize financial gain for corporate execs and shareholders. Their application indicates "no material savings" for customers. Cleco and Macquarie request expedited decision making on the deal, thereby restricting public knowledge and input. FOR SALE
2015	**Standing Our Ground**	In February, 2015, Cleco shareholders vote for the takeover bid, pushing the final decision to the LPSC. In formal filings with the Commission, the Alliance for Affordable Energy and LPSC staff raise major issues with the imbalance of financial risk in the deal and prepare for a hearing before the Administrative Law Judge, scheduled for Nov 9th-11th, 2015.

Profits and Revenues Skyrocket
While Sales Remain Flat



Shifting Priorities

Since 2009 CLECO's board and corporate executives have pursued a new and aggressive agenda based on increasing shareholder profits over serving customers. While electricity sales have been virtually flat over the past decade, CLECO's revenues have doubled and corporate earnings have tripled.[3] How did CLECO do it? By raising rates and cutting customer service. Why did CLECO do it? To bring the company to market for the highest price.

While CLECO's customers were suffering the worst effects of the Great Recession, CLECO Power dramatically increased their own revenues by a staggering 66.9% - the result of higher costs on customer electric bills.

In 2010, just as Louisiana's recession-induced unemployment rate peaked, CLECO's rates spiked, and have stayed high ever since. Revenue from rates increased 66.9% in 2010, just as many of CLECO's customers were suffering the worst effects of the recession. By 2011, when CLECO's board hired Bruce Williamson to act as CEO, the company had been made ripe for a sale, turning some of the highest profits and shares in its history. Williamson's professional history of preparing companies for sale was well known, and there is little doubt that he was tasked, once again, with obtaining high bids from buyers for this highly regulated, and very profitable utility.

This corporate strategy spurred sharp rises in CLECO stock, which reached an all time high in June 2015, just as news broke of the potential sale.

If the proposed sale goes through, customers won't see relief. Unlike CLECO's shareholders, board members, and executives, the customers of a monopoly utility cannot cash out and walk away. Ultimately customers must bear the burden of the deal and the debt—by paying even more than they do today.

II. MACQUARIE's Troubling History: International Goliath

A Pattern of Problems from Around the Globe

MACQUARIE and partners are private investment bankers. They excel at taking wealth from profitable businesses and public utilities and transferring this wealth to their own global financial services group. To achieve consistently high profit margins, MACQUARIE's deals frequently use shaky financial structures, such as leveraged buyouts, that leave the acquired asset with substantial debt.

MACQUARIE
Who are they? Who are their partners?

MACQUARIE has a history of borrowing as much as 85% of the funds needed for an asset's purchase. Then, when it's time to pay the debt, MACQUARIE either puts the company up for sale or places the burden of paying on someone else. This pattern occurs on a global scale.

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"

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

MACQUARIE'S Offices Across the Globe:

Australia
Austria
Argentina
Brazil
Canada
China
France
Germany
India
Indonesia
Ireland
Luxembourg
Japan
Korea
Malaysia
Mexico
Netherlands
New Zealand
Philippines
Russia
Singapore
South Africa
Sweden
Switzerland
Taiwan
Thailand
United Arab Emirates
United Kingdom
United States

Case Studies:
A Culture of Profit at All Costs

SEC Fines MACQUARIE $15 Million over Chinese Puda Coal Scandal	When US investors purchased shares in a company that was nothing more than an empty shell, they lost millions. **The SEC fined MACQUARIE $15 million for underwriting a public offering for China-based Puda Coal, even though MACQUARIE knew the company was worthless.** (2015) [4]
"Plainly Actionable as Fraud," Judge Rules in American Road LLC Case	In 2013, a New York State Supreme Court judge ruled that MACQUARIE was guilty of fraud when they used manipulated financial projections to purchase a toll road owned by American Roads LLC.. **This financing deal resembled subprime mortgaging backed by an insurance bond.** Less than a year later American Roads began drastically underperforming, placing the burden of debt on insurance company. [5] Unfortunately, this is not the only example of a toll road gone wrong under MACQUARIE's leadership. The San Diego South Bay Expressway, Chicago's Skyway, Virginia's Dulles Greenway, Portsmouth's Midtown Tunnel and Expressway, and the Indiana Toll Road Concession have all suffered negative consequences as a result of MACQUARIE's ownership. Just a few months ago, the Indiana Toll Road filed for bankruptcy, and Chicago's Skyway is up for sale after less than 10 of the 99 years MACQUARIE committed to keeping ownership. (2013) [6,7,8,9]
Cheating Leads to Investigation by Australian SIC and Lawsuits	In 2012, it was revealed that **MACQUARIE's financial advice division misled thousands of their investors leading to an investigation by the Australian Securities and Investments Commission**. Through either incompetence or malfeasance, MACQUARIE employees allowed misclassification of their investment customers to make excessively high risk investments using customers' money. Though the exact cause was never publicly revealed, corporate culture issues were evident. Executives at MACQUARIE Private Wealth were accused of cheating on annual competency exams using an internally circulated cheat sheet called the "Penske File." Management was dodgy with the press even after the cheat sheet went public. (2012-present) [10]
Telco Finance Scam in Australia	MACQUARIE, via its subsidiary MACQUARIE Equipment Rentals, is curently embroiled in a finance scam that has devastated Australian small businesses. Industry whistleblowers claimed they were taught to trick people by telling business owners that equipment was free. In fact, small business owners were signing a long-term, high-interest financing contract for the equipment. Four Corners, an investigative journalism TV program on ABC Australia, said their investigation revealed **evidence of "deceit and trickery in selling some of the deals, with fraudulent or doctored contracts, forged signatures, and finance companies directly debiting money from bank accounts without authorization."** (2010-present) [11]
Australian Senate Report: "Serious Compliance Deficiencies" at MACQUARIE	"MACQUARIE Group's private wealth unit [was] accused of not co-operating with the Senate committee that delved into unethical financial planning practices at the Commonwealth Bank of Australia [a business holding of the MACQUARIE Group]." **In connection with this investigation, the Australian Senate reported "serious compliance deficiencies within MACQUARIE Private Wealth."** (2014) [12]

II. MACQUARIE's Troubling History: The Reckless Drive for Profit

"The MACQUARIE model is justly famous around the world. It is quite possibly the most efficient method of legally relieving investors of their money ever conceived."
Alan Kohler, *The Sydney Morning Herald* [13]

A Duquesne Light 17.5% increase equated to an average $47 more per month for residential customers, while industrial customers faced about $500 more per month.

Relentlessly Pursuing Rate Hikes: MACQUARIE's Track Record in the U.S.

Soon after the 2009 MACQUARIE acquisition of Puget Energy, 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." [14]

In August 2013, Duquesne Light in Pennsylvania, another MACQUARIE holding, filed for a 17.6% rate increase, the third rate increase request since MACQUARIE took over the utility in 2006. The 17.6% increase equated to an average $47 more per month for residential customers, while industrial customers faced about $500 more per month. According to Electricity Watch, Duquesne Light has the highest rates in the Pittsburg area, 52% higher than the lowest competitive rate. [15]

In the case of Aquarion, a water utility in Connecticut acquired by MACQUARIE, customers have seen their rates steadily rise by 31% in the six years since MACQUARIE took over. Residents have expressed anger over the increases while Aquarion investors enjoyed a 9.59% rate of return. [16]

The House that Debt Built

MACQUARIE has built an empire by putting other people's money at risk. Bethany McLean, the investigative journalist who broke the infamous Enron scandal for Fortune magazine wrote that MACQUARIE's borrowing looks like a balloon mortgage. MACQUARIE utilizes a type of derivative, an "accreting swap," to secure a short-term, low interest rate with the plan of refinancing before the balloon explodes. [17]

Here's an example to help illustrate the danger: MACQUARIE-owned Chicago Skyway paid about $129,000 interest on $961 million of debt in 2007. In 2018, the interest payment for that year will be $480,000,000, more than half of the total owed in 2007. In summer of 2015, MACQUARIE announced that they were putting the Skyway up for sale, backing out of their original 99-year commitment and avoiding the balloon interest payment.

Dangerous Cost Cutting

Broadrock Renewables LLC, an energy facility in Johnstown, Rhode Island founded by MACQUARIE in 2010, has faced considerable problems since it began operations. The facility had been cited for many violations by building inspectors; in one case an inspector noted that a broomstick and duct tape was used to make a repair. In July 2013, a massive explosion occurred, severely damaging the facility. The investigation uncovered piping and other materials "insufficient for industrial use," a clear example of dangerous negligence by the owners. [18]

"Improper Procedures" in Puget Sound Energy

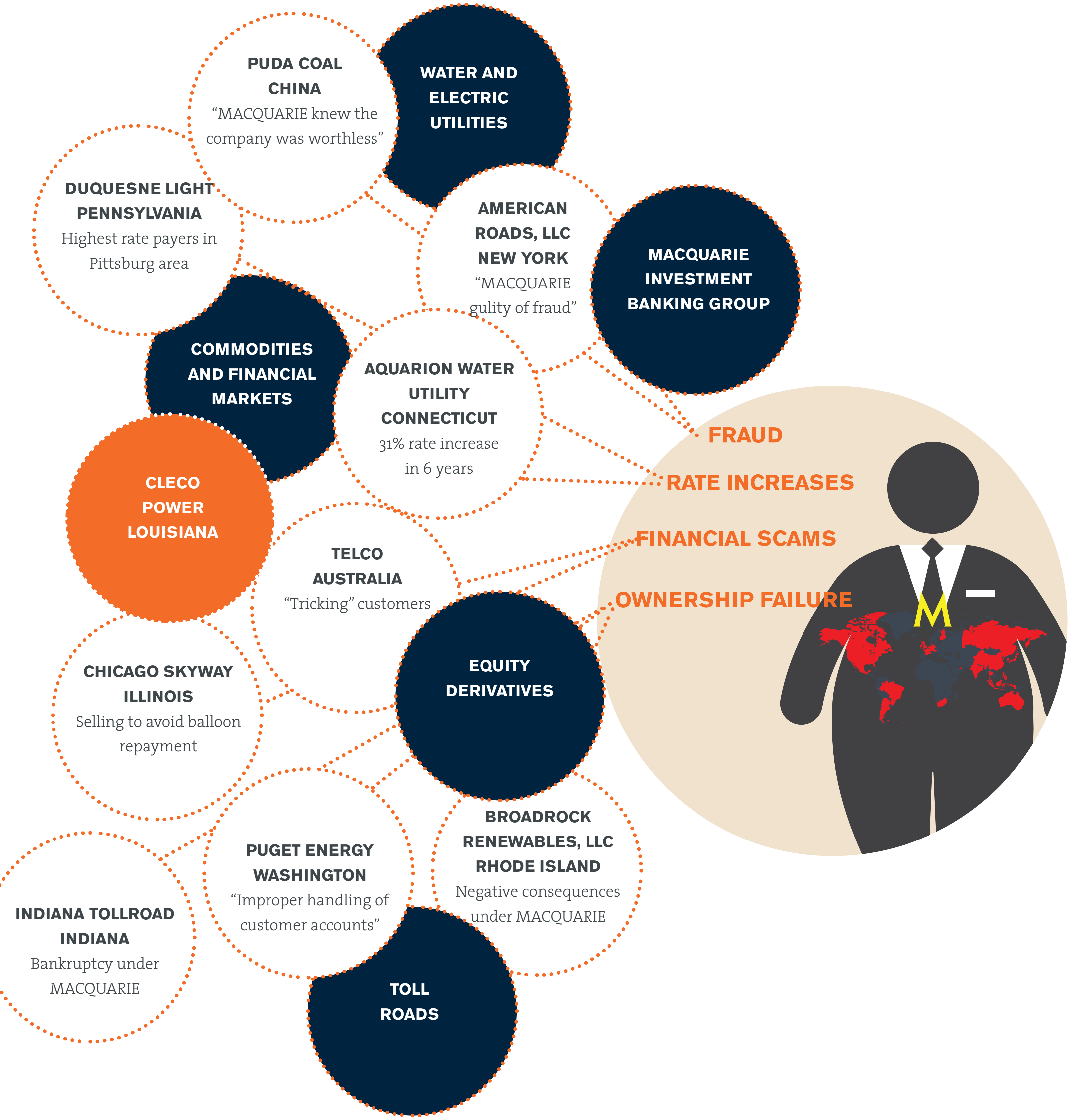
- **> bogus disconnect-visit fees**
- **> violating past orders**
- **> improperly handling customer accounts**

State regulators in Washington have fined Puget Sound Energy (PSE) several times since MACQUARIE acquired the utility in 2009. Charges focus on improper conduct, including charging bogus disconnect-visit fees, violating past orders, and improperly handling customer accounts. [19]

Using Debt to Pay Dividends

When MACQUARIE acquired Puget Energy they used a debt-heavy financing scheme very similar to what they are currently proposing for CLECO. These leveraged buyout deal structures leave the target company saddled with debt, which usually leads to downgrades in the company's credit ratings. Just a few years after being acquired by MACQUARIE, Puget Energy announced in 2015 that they are seeking a bond issue for $400 million of senior secured notes to refinance loans that were set to balloon in 2016 and 2017. But **$100 million of this new debt will be used directly to pay dividends to shareholders!** Citing this new debt as evidence of aggressive financial behavior, Moody's declared the bond issue "credit negative." MACQUARIE has set up a system that allows them to take the profits while rate payers hold the debt. [20]

III. Anatomy of a Bad Deal:
The Corporate Shell Game



Then

CLECO was a Louisiana-owned and customer focused company for a century.

Now

Since 2009, CLECO's executive team have pursued a new and aggressive agenda, based on increasing shareholder profits over serving customers.

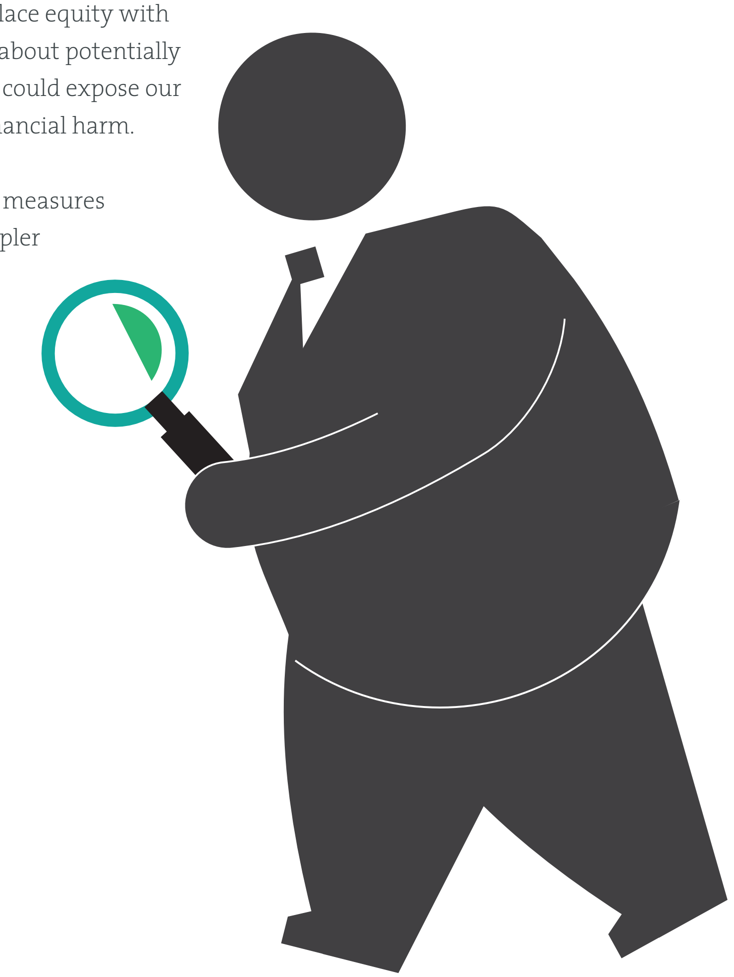
Cleco's corporate structure today is straightforward: the electric utility, CLECO Power, is owned by CLECO Corporation, a publicly traded company owned by its shareholders.

After a Takeover:

MACQUARIE is proposing a highly complex structure of shell companies and investment partnerships that would make financial oversight virtually impenetrable. If this takeover went through our utility, CLECO Power, would become the property of CLECO Corporate Holdings, which would be owned by CLECO Group, itself owned by CLECO Partners, which is jointly owned by British Columbia Investment Management Corp., John Hancock Financial, and MIP CLECO Partners. MIP CLECO Partners is itself owned by a consortium of co-investors and MIP III, which is owned by Macquarie Infrastructure Real Assets, which is a division of Macquarie Group Limited. Many of these are shell companies have no assets or employees of their own. As shell companies, however, they enable exploitation of tax loopholes, give MACQUARIE the ability to replace equity with hidden debt, and prevent regulators from knowing about potentially risky investments being made by MACQUARIE that could expose our utility to global market swings and destabilizing financial harm.

Promises to shield local utilities with "ring-fencing" measures stand in contrast with the benefits of the much simpler CLECO corporate structure we know today, and they underscore the increased danger inherent in complex shell company structures typical of leveraged buyouts and the financial dealings of mega-corporate conglomerates like MACQUARIE.

If CLECO or any other local utility went before the Louisiana Public Service Commission and tried to do what MACQUARIE is proposing, there is no question what would happen – they would be rejected. It should be no different with this corporate takeover.



IV. Anatomy of a Bad Deal:
Drowning in Debt

MACQUARIE and CLECO are pushing for an enormous amount of new debt — not to improve service or meet the electricity needs of customers, but to finance the utility's takeover by foreign investors. In exchange for a huge cash payout, the CLECO board members, executives, and shareholders authorizing this debt-financed sale would leave CLECO and its customers drowning in over $2.5 billion of debt. This translates into an average of $10,000 of debt PER CUSTOMER! Corporate insiders would profit, but the customers would pay the price. Any way you look at it, this is a bad deal for Louisiana.

On the Hook - Who Pays?...We Do!?!

CLECO's 286,000 electricity customers are the source for 95% of the company's income. So how much will this takeover cost? The $435 million dollar premium payout to shareholders (above and beyond the stock's present value) breaks down to an average of $1,520 per ratepayer. As noted, this makes each customer's share of the total debt nearly $10,000!

History provides important insight into what happens when monopoly acquirers are allowed to push the risks of their investing onto ratepayers. Piled high with debt and squeezed for profits, more than 50 utilities collapsed during the Great Depression, causing chaos for millions of customers. That's why new laws were enacted in the 1930s to prevent bad deals just like the one MACQUARIE has proposed for CLECO. Unfortunately those consumer protection laws were repealed in 2005. Since that time there have been a rash of leveraged buyouts, including the acquisition and subsequent financial collapse of Texas' largest utility, TXU / Oncor - a mess that is still unfolding for customers and utility regulators. These deals are far too risky and cost far too much. Ratepayers shouldn't be on the hook for risks that aren't in their best interests.

The Cost of Excessive Debt from a Leveraged Buyout

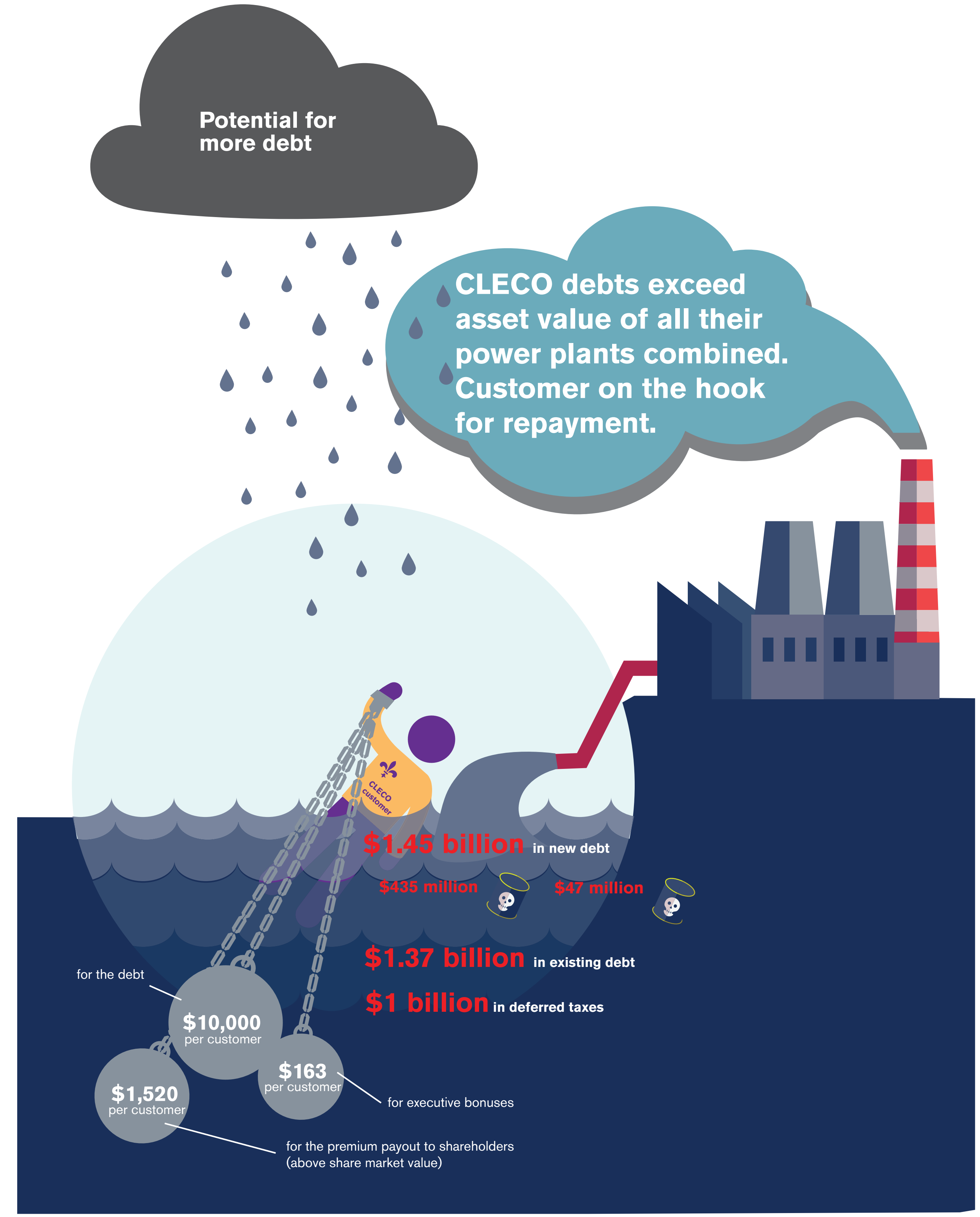
MACQUARIE won't say how they intend to recoup the cost of the takeover, but history shows that repayment comes with consequences for customers:

Higher Rates
In its other utility holdings, MACQUARIE has consistently and relentlessly pressured regulators to raise rates on customers.

Service Quality Suffers
To increase earnings after a leveraged buyout, it is common for new owners to cut costs by cutting corners, often at the expense of service quality. This can mean less accessible customer service agents, inadequate infrastructure maintenance, more frequent outages, and slower response times for restoration when the power goes out.

Inadequate Future Investment
To manage customer costs and ensure reliable service, utilities must periodically make large capital investments in power generation and infrastructure. Excessive debt inhibits these necessary capital projects and can force higher costs on customers.

Risk of Default
When a company is piled with more and more debt, the risk of default increases. Bankruptcies are messy, expensive, and could lead to the utility being taken over by creditors - all of which create service problems and added customer costs.



V. The Fallout

VI. Standing Our Ground

There is precedent for rejection. The Louisiana Public Service Commission has the power to stop this bad deal and would be in good company for doing so.

✔ In July 2015, Commissioners in Connecticut rejected a similar attempt at a utility takeover by foreign-owned investment group Iberdrola, citing lack of public benefits as well as excessive debt and risk for customers.

✔ In August 2015, regulators in Washington DC rejected a massive utility merger between Excelon and Pepco noting that it would undermine the local utility's focus on providing customers with safe, reliable, and affordable electricity.

✔ Commissioners in Arizona and Oregon foresaw these very issues years ago and rejected similar takeover deals because of increased risk from leveraged debt; restrictions on access to information for commission oversight; employee layoffs; and cutbacks on maintenance, customer service, and capital investments.

These examples show commissions around the U.S. saying no to deals that are not in the public interest. The CLECO acquisition deal, by far the worst ever proposed in Louisiana's history, is on par with the rejected deals cited above. It is up to the Louisiana Public Service Commission to protect the interests of CLECO customers and stop this deal.

Not all utility acquisitions are bad. The Louisiana Public Service Commission has approved several merger deals that delivered benefits to consumers.

1993 SWEPCO acquires BREMCO	Like CLECO today, BREMCO customers were paying the highest retail electric rates in Louisiana, while SWEPCO's rates were among the lowest. The result of this acquisition was an immediate 30% drop in customers' average monthly utility bills.
1997 CLECO acquires Teche Electric Cooperative	This decision resulted in an immediate 11% decrease in electric rates and came with the promise of no rate increases of any kind for at least five years.
2010 SWEPCO acquires VEMCO	Customers received an immediate rate decrease of 20%; all employees were retained with increases in pay and benefits.

These deals were not risky leveraged buyouts. Nor were they takeovers by foreign investment groups whose complex shell companies obscured regulatory oversight. Good deals reduce risk for customers, improve quality of service, and significantly lower costs for Louisiana's families and businesses. MACQUARIE's proposed deal offers none of these benefits.

Good deals reduce risk for customers, improve quality of service, and significantly lower costs for Louisiana's families and businesses. MACQUARIE's proposed deal offers none of these benefits.

The Commission is sworn to protect the public interest, but they need to hear from you now.

The Public Service Commission's mission is to "impartially, equitably, and efficiently regulate the rates and services of public utilities and motor carriers operating in the state so as to ensure safe, reliable, reasonably priced services for consumers and a fair rate of return for the regulated utilities..." (LPSC Strategic Plan)

How to Stop a Bad Deal

Filing formal objections

Both the Alliance for Affordable Energy and the staff of the Louisiana Public Service Commission have filed formal comments raising serious issues with the acquisition. From November 9th-11th, our expert witnesses will argue before an LPSC Administrative Law Judge in Pineville, Louisiana. The Alliance's witness, a nationally recognized utility mergers and acquisitions expert will explain in detail why a decision to reject MAQUARIE's proposal is the best protection for the public interest.

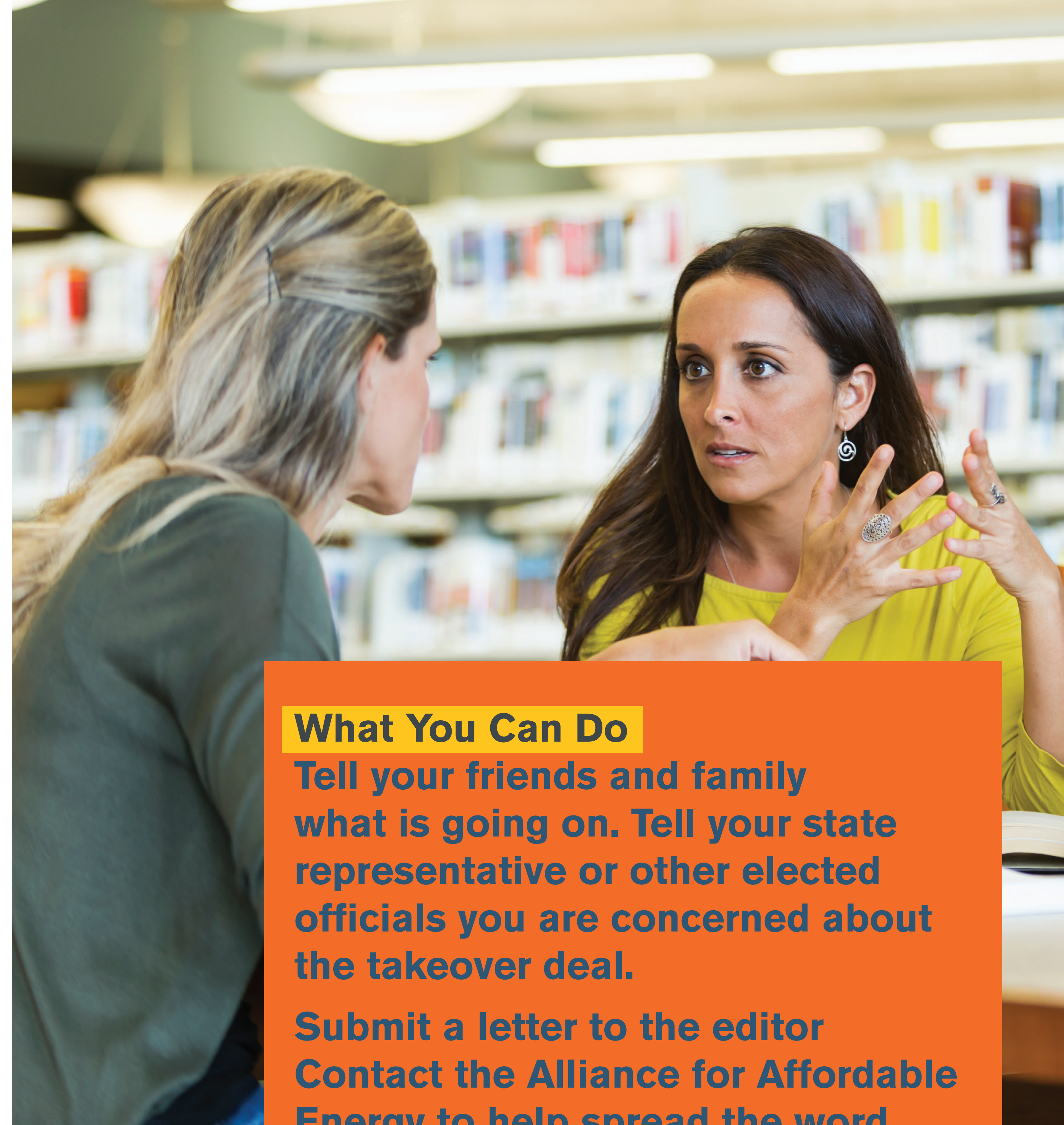
Informing the Public

Bad deals happen when affected people are left uninformed and out of the process. Through extensive research, the Alliance for Affordable Energy has uncovered facts about MACQUARIE's previous dealings and the financial problems with this takeover that the public has a right to know.

Call to Action

The Alliance is contacting commissioners, state representatives, the media, community groups, business associations, and concerned customers to help spread the word. The Commission is sworn to protect the public interest, but they need to hear from you now.

YOUR COMMISSIONERS
Eric Skrmetta (District 1): 504-846-6930
Scott Angelle (District 2): 225-342-6900
Lambert Boissiere (District 3): 504-680-9529
Clyde Holloway (District 4): 318-748-4715
Foster Campbell (District 5): 318-676-7464



What You Can Do

Tell your friends and family what is going on. Tell your state representative or other elected officials you are concerned about the takeover deal.

Submit a letter to the editor
Contact the Alliance for Affordable Energy to help spread the word
MOST IMPORTANTLY - Write or call the Public Service Commission.

Endnotes

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