

BEFORE THE
LOUISIANA PUBLIC SERVICE COMMISSION

EX PARTE:)
APPLICATION OF CLECO)
POWER LLC FOR: (1))
IMPLEMENTATION OF)
CHANGES IN RATES TO BE)
EFFECTIVE JULY 1, 2020; AND)
(2) EXTENSION OF EXISTING)
FORMULA RATE PLAN)

DOCKET NO. U-35299

2019 JUL 29 PM 3:15
U-35299
CLECO POWER LLC

DIRECT TESTIMONY

OF

J. SHANE HILTON

ON BEHALF OF

CLECO POWER LLC

JUNE 28, 2019

EXHIBITS

EXHIBIT NO.	DESCRIPTION

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I. INTRODUCTION AND BACKGROUND

Q: PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A: My name is J. Shane Hilton. I am the President of Cleco Power LLC (“Cleco Power”). My office address is 2030 Donahue Ferry Road, Pineville, Louisiana 71360.

Q: WHAT ARE YOUR RESPONSIBILITIES AS PRESIDENT OF CLECO POWER?

A: I have worked for Cleco Power for the past 30 years in various generation, transmission, power procurement, and gas procurement functions. I was appointed General Manager – Resource and Fuel in October 2003. The Transmission Operations, Transmission Planning and Operations Support function was added to my responsibilities, and I was appointed General Manager – Retail Operations in November 2004. In February 2012, I was named General Manager of Transmission Strategy. In May 2016, I was appointed Vice President of MISO Operations. As such, my responsibilities included the same Transmission Operations, Transmission Planning, and Operations Support functions as indicated previously, but with additional responsibilities focused on Regional Transmission Organizations (“RTO”) markets, operations, and strategy.

In 2019, I became President of Cleco Power. As President of Cleco Power, I am responsible for ensuring that Cleco Power remains financially healthy, operates efficiently, and provides safe, reliable, and reasonably-priced electric service to its customers.

II. PURPOSE OF TESTIMONY

Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A: My testimony supports Cleco Power's Application in this proceeding. My testimony briefly summarizes Cleco Power's Application for new base rates and an extension of its current Amended and Restated Formula Rate Plan ("Amended and Restated FRP"). My testimony further provides a general overview of Cleco Power's current corporate structure, service territory, generating assets, and retail and wholesale customers. My testimony also addresses the measures Cleco Power has taken to mitigate cost increases to its customers. Finally, my testimony concludes with a summary of each additional piece of testimony filed on behalf of Cleco Power in this proceeding.

Q: PLEASE SUMMARIZE CLECO POWER'S MATERIAL RATE MAKING REQUESTS IN THIS PROCEEDING.

A: Cleco Power's material rate making requests to the Louisiana Public Service Commission ("LPSC") in this proceeding are as follows: (i) authorization of its requested base rates; (ii) authorization of Cleco Power's proposed residential rate redesign; (iii) authorization of the implementation of residential revenue decoupling for Cleco Power's residential customers; (iv) authorization of Cleco Power's proposed treatment of excess deferred income taxes ("EDIT"), in order to comply with the requirements of LPSC General Order No. 11-30-2018 (R-34754), issued November 30, 2018, as amended by LPSC General Order No. 2-7-2019 (R-34754), issued February 7, 2019 (the "TCJA Order"), in LPSC Docket No. R-

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1 34754;¹ (v) authorization to recover in base rates the costs associated with the
2 construction and operation of the St. Mary Clean Energy Center;² (vi) authorization
3 to recover in base rates the costs associated with Cleco Power's Strategic Alignment
4 and Real-Time Transformation ("START") Project; (vii) authorization to recover in
5 base rates the costs associated with certain transmission projects; (viii)
6 authorization of Cleco Power's proposed treatment of shared services costs billed
7 to Cleco Power by Cleco Support Group LLC ("Cleco Support Group"); (ix)
8 authorization of an extension of, and certain modifications to, Cleco Power's
9 Amended and Restated Formula Plan, which the Commission authorized pursuant
10 to Order No. U-32779, issued June 27, 2014, in Docket U-32779;³ (x) authorization
11 and establishment of new base rate and Infrastructure and Incremental Cost
12 Recovery ("IICR") Rider FRP tariffs based on the rate base and expenses in the
13 historical year beginning July 1, 2017 and ending June 30, 2018, with pro forma
14 adjustments representative of the first-year new rates will be in effect for the test
15 year ending June 30, 2021; (xi) authorization of Cleco Power's proposed treatment

¹ Docket No. R-34754, Louisiana Public Service Commission, ex parte. *In re: Consideration of appropriate manner to flow through to ratepayers the benefits of the reduction in corporate income taxes as a result of the Tax Cuts and Jobs Act, treatment of the regulatory liability ordered by the Commission to be recorded by utilities pursuant to the Commission's Special Order No. 3-2018 and related matters.* Please see also Cleco Power's Application in LPSC Docket No. U-35049, which requested that Cleco Power be permitted to address EDIT in this rate case proceeding.

² See Docket No. U-33593, Cleco Power LLC, ex parte. *In re: Application of Cleco Power LLC for a Certificate of Public Convenience and Necessity authorizing Cleco Power LLC to construct, own, and operate a 40 megawatt generating unit at Cabot Corporation's Canal Carbon Black Plant in order to provide a source of renewable power for Cleco Power's customers; (ii) authorization to recover the costs associated with such 40 megawatt generating unit and related waste heat purchase and sale agreement in LPSC jurisdictional rates; and (iii) expedited treatment.*

³ Docket No. U-32779, Cleco Power LLC, ex parte. *In re: Application of Cleco Power LLC for: (i) Extension of its Formula Rate Plan, First Authorized by LPSC Order No. U-30689, issued October 28, 2010; and (ii) Consolidation of Docket No. U-32153 with this Docket.*

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of construction work in progress (“CWIP”) and allowance for funds used during construction (“AFUDC”); and (xii) authorization to close 5 underutilized customer service offices, pursuant to Section X of Cleco Power’s Service Quality Plan. The foregoing requests are addressed in comprehensive detail in the testimony of Cleco Power’s other witnesses in this proceeding; a brief discussion of these requests follows immediately below.

Base Rates; Customer Billings. As described in the Direct Testimony of Cleco Power witness J. Robert Cleghorn, Cleco Power proposes to bill its retail customers \$620 million annually, a 4% decrease from what customers would have otherwise paid during the test year, based upon base rates, energy efficiency revenues (“EE”), Rider FRP, CKR surcharge expiration (the CKR surcharge is the storm damage recovery surcharge that Cleco Power’s customers paid in connection with the recovery from Hurricanes Katrina and Rita), and EDIT bill credit (the EDIT bill credit represents the flowback to customers of EDIT pursuant to the TCJA General Order). This is illustrated in the table immediately below:

<i>millions</i>		Current	Proposed
1	Base Rates	\$572	\$682
2	Energy Efficiency	\$16	\$10
3	Rider FRP	\$36	(\$29)
4	CKR Surcharge	\$21	-
5	Subtotal	\$646	\$662
6	EDIT Bill Credit	-	(\$42)
7	TOTAL	\$646	\$620

Without taking into account the EDIT bill credit, the increase to \$662 million from \$646 million is driven in large part by substantial capital investments that Cleco

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1 Power has made, as well as by the increase in operating expenses that Cleco Power
2 has experienced since its last rate proceeding (and nets out the cessation of the CKR
3 surcharge revenues). Implementation of the \$42 million EDIT bill credit, however,
4 more than offsets the net increase, and results in an overall net reduction in Cleco
5 Power's annual non-Fuel Adjustment Clause ("FAC") and Environmental
6 Adjustment Clause ("EAC") bills of approximately 4%.

7 Residential Rate Redesign. Cleco Power is proposing a redesign of its residential
8 rate structure. Specifically, Cleco Power is proposing to expand its current two-tier
9 pricing structure for residential customers to a three-tier structure, to enhance the
10 savings realized by customers having a lower energy usage. This proposal is
11 described in detail in the Direct Testimony of Cleco Power witness J. Robert
12 Cleghorn.

13 Decoupling. Cleco Power is requesting LPSC authorization to implement
14 residential revenue decoupling. "Decoupling" is the common name given to
15 regulatory mechanisms that sever or weaken the link between utility revenues and
16 volumetric energy sales. Such rate structures have been shown to benefit utilities
17 by creating more financial certainty when energy sales decline, while also
18 benefitting ratepayers by lowering rates when energy sales increase. Cleco Power
19 maintains that the implementation of residential rate decoupling would benefit both
20 Cleco Power and its customers. Please refer to Mr. Cleghorn's Direct Testimony
21 for further details on residential rate decoupling.

22 EDIT. Cleco Power is proposing that EDIT be handled as follows: the
23 "unprotected" portion of EDIT would be credited to customers' bills over a 6-year

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1 period in each of the rate years ending June 2021, June 2022, June 2023, June 2024,
2 June 2025, and June 2026; and the “protected” portion of EDIT would be credited
3 to customers’ bills in accordance with the normalization rules of the U.S. Internal
4 Revenue Service. This proposal is intended to address the requirements of Sections
5 I(C), I(D), and I(E) of the Final Rule embedded in the TCJA Order. Please refer to
6 Mr. Cleghorn’s Direct Testimony for further details regarding Cleco Power’s
7 proposed treatment of EDIT.

8 St. Mary Clean Energy Center. Cleco Power is requesting recovery in base rates of
9 the costs associated with the construction, ownership and operation of the St. Mary
10 Clean Energy Center, subject to true-up following the conclusion of the prudence
11 review described below. The St. Mary Clean Energy Center (also known as the
12 “Cabot WHR Project”) was authorized by LPSC Order No. U-33593, issued
13 January 8, 2016. Cleco Power anticipates that the St. Mary Clean Energy Center
14 will enter commercial operation in the third quarter of 2019. The costs for the St.
15 Mary Clean Energy Center will be subject to a prudence review to be conducted in
16 Docket No. U-33593, as noted in Order No. U-33593, at paragraph IV(f). Please
17 refer to Mr. Cleghorn’s Direct Testimony for further details regarding Cleco
18 Power’s proposed treatment.

19 START Project. Cleco Power is requesting recovery in base rates of the costs
20 associated with the START Project. The START Project began in 2017, and
21 represents a substantial enhancement to Cleco Power’s software system capabilities
22 and the implementation of best-practice business processes for electric utilities.
23 Cleco Power maintains that the START Project will be beneficial to customers in

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1 the short-term through better customer service and increased reliability, and in the
2 long-term through new efficiencies that are expected to drive down costs. Please
3 refer to the Direct Testimony of Cleco Power witness Bruce Hawthorne for further
4 details regarding the START Project.

5 Transmission Projects. Cleco Power is requesting the recovery in base rates of the
6 costs associated with the Bayou Vista to Segura transmission project, the
7 Terrebonne to Bayou Vista transmission project, the Cenla Transmission Expansion
8 project, and Layfield/Messick transmission project (collectively, the “Transmission
9 Projects”). Please refer to Mr. Cleghorn’s Direct Testimony for further details.

10 Cleco Support Group Shared Services. Cleco Power is requesting LPSC
11 authorization of Cleco Power’s proposed treatment of the shared services costs that
12 are billed to Cleco Power by Cleco Support Group. Cleco Power is proposing to
13 remove Cleco Support Group billings from base rates and to include them in Rider
14 FRP. This would allow Cleco Power to adjust the actual Cleco Support Group
15 billings on an annual basis and true-up to actual billings. Including them in Rider
16 FRP would enable the LPSC Staff to review them as part of the review of Cleco
17 Power’s annual earnings monitoring reports. Please refer to Mr. Cleghorn’s Direct
18 Testimony for further details.

19 Extension and Modification of Amended and Restated FRP. Cleco Power is
20 requesting authorization of an extension of, and certain modifications to, its existing
21 Amended and Restated FRP. The new FRP, which would be titled the “Second
22 Amended and Restated Formula Rate Plan,” would have a term of 4 years,
23 beginning July 1, 2020. The requested modifications to the existing Amended and

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1 Restated FRP would include changes in its metrics, including a new target return
2 on equity of 11.00%, and a capital structure for ratemaking purposes of 53% equity
3 and 47% debt; and additions to the items eligible for recovery through Rider FRP.
4 Please refer to Mr. Cleghorn's Direct Testimony for further details regarding Cleco
5 Power's proposed extension of and modifications to the Amended and Restated
6 FRP.

7 Rider FRP. Cleco Power is requesting authorization and establishment of Rider
8 FRP tariffs based on the rate base and expenses in the historical year beginning July
9 1, 2017 and ending June 30, 2018, with pro forma adjustments representative of the
10 first-year new rates that will be in effect for the test year ending June 30, 2021.
11 Please refer to Mr. Cleghorn's Direct Testimony for further details.

12 CWIP and AFUDC. Cleco Power is requesting LPSC authorization to include
13 CWIP in rate base and a LPSC determination of AFUDC and regulatory assets for
14 AFUDC debt and equity gross-up. Specifically, Cleco Power is requesting that it
15 be expressly allowed to include the 13-month average value of CWIP (net of
16 accruals) in rate base, with an offsetting AFUDC income amount as determined by
17 utilizing the FERC formula for calculating AFUDC debt and equity components.
18 Please refer to Mr. Cleghorn's Direct Testimony for further details.

19 **Q: WHAT ARE CLECO POWER'S REASONS FOR REQUESTING A RATE**
20 **INCREASE?**

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1 A: Cleco Power has experienced significant cost increases in a variety of different
2 areas since its last full base rate case.⁴ While these cost increases, for the most part,
3 impact all electric utilities, due to Cleco Power's relatively small size in comparison
4 to other multi-jurisdictional electric utilities (including those with operations in
5 Louisiana), these cost increases represent a greater percentage of Cleco Power's
6 operating costs than those of the larger electric utilities. Although Cleco Power has
7 effectively managed its costs and avoided base rate increases to its customers, costs
8 have nonetheless continued to escalate, and Cleco Power now respectfully requests
9 an increase in its base rates to meet its operating and financial obligations. As
10 noted, these base rate increases are more than offset by various savings and rate
11 credits, resulting in an overall net reduction in Cleco Power's annual revenue
12 requirement.

13 **Q: IS CLECO POWER REQUESTING LPSC AUTHORIZATION TO CLOSE**
14 **CERTAIN CUSTOMER SERVICE OFFICES, AND IF SO, WHY?**

15 A: Yes, Cleco Power is seeking LPSC authorization to close five customer service
16 offices. Regulatory Commitment No. 7, established pursuant to Order No. U-
17 33434-A, issued April 7, 2016, created Cleco Power's Service Quality Plan
18 ("SQP").⁵ Article X of the SQP provides that "Cleco agrees to maintain its
19 currently existing Cleco customer service offices strategically across its service

⁴ LPSC Docket No. U-30689, Cleco Power LLC, ex parte. *In re: Application of Cleco Power LLC for: (1) Implementation of Changes in Rates and Formula Rate Plan to be Effective upon the Commercial Operation Date of Rodemacher Power Station Unit No. 3 (RPS-3); (2) Favorable Public Interest Determination for Transmission Upgrade in the Acadian Load Pocket; and (3) Renewal of Transaction Guidelines Applicable to Certain Economy Power Purchase from Acadia Power Partners LLC.*

⁵ The SQP was attached to Order No. U-33434-A as "Attachment B."

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1 territory.” Cleco Power interprets the foregoing provision as requiring prior LPSC
2 authorization for Cleco Power to close any of the referenced five customer service
3 offices. Cleco Power has studied operations at these customer service
4 offices, and determined that each had a low utilization. Therefore, Cleco Power
5 believes that these offices can be closed without detriment to Cleco Power’s
6 customer service. Please refer to Mr. Cleghorn’s Direct Testimony for further
7 details regarding the potential closure of these offices, and how Cleco Power
8 determined the closure of these offices would result in cost savings to its customers.

9 **Q: WHAT HAS CLECO POWER DONE TO MITIGATE COST INCREASES**
10 **TO ITS CUSTOMERS?**

11 A: Cleco Power has been focused on increasing affordability for its customers through
12 cost mitigation. In 2018, Cleco Power hired McKinsey & Company, Inc.
13 (“McKinsey”), an outside consulting firm, to assess Cleco Power’s best practices
14 and identify cost saving opportunities, while continuing to maintain high levels of
15 employee safety, customer reliability, customer service, environmental
16 stewardship, community involvement, and regulatory transparency. Upon
17 completion of its report, McKinsey identified \$5.6 million in operations and
18 maintenance (“O&M”) expense savings, and \$11.6 million in fuel inventory
19 reduction savings. The identified O&M savings result from a combination of
20 commercial rate negotiations for chemicals and services, more efficient use of
21 contractors and equipment, and the closure of certain customer service offices. The
22 one-time savings of \$11.6 million from fuel inventory reduction is the result of
23 petcoke inventory reduction for the Madison 3 generation unit, based on fuel

1 demand needs. For a more detailed discussion of these savings, please refer to Mr.
2 Cleghorn's Direct Testimony.

3 **III. THE OWNERSHIP OF CLECO POWER; CLECO POWER'S**
4 **SERVICE TERRITORY AND ELECTRIC OPERATIONS**

5 **Q: PLEASE DESCRIBE THE OWNERSHIP OF CLECO POWER.**

6 A: Cleco Power, a Louisiana limited liability company, is a wholly-owned subsidiary
7 of Cleco Corporate Holdings LLC ("Cleco Corp"), a Louisiana limited liability
8 company. Cleco Corp is a wholly-owned subsidiary of Cleco Group, LLC; Cleco
9 Group is in turn a wholly-owned subsidiary of Cleco Partners L.P. ("Cleco
10 Partners"). This ownership structure has existed since Cleco Power's original
11 parent company, Cleco Corporate Holdings Inc., a then-publicly traded company
12 under the New York Stock Exchange, was acquired by a consortium of private
13 infrastructure investors led by Macquarie Infrastructure and Real Assets
14 Corporation ("MIRA") in 2016. This acquisition was approved by the LPSC in
15 Order No. U-33434-A (the "2016 Merger Transaction"). Cleco Power notes that,
16 pursuant to the regulatory commitments that were established under Order No. U-
17 33434-A, Cleco Power is required to "file a full rate case in June 2019" (Regulatory
18 Commitment No. 4).

19 The owners of Cleco Partners consist of three major infrastructure investment
20 organizations with a history of successful and responsible long-term ownership and
21 operation of electric public utilities and other infrastructure assets in both the
22 United States and abroad. Specifically, Cleco Partners is owned by: (i) MIP Cleco

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1 Partners, L.P. (54%); (ii) British Columbia Investment Management Corporation
2 (“bcIMC”) (37%); (iii) and John Hancock Life Insurance Company (9%).

3 **Q: PLEASE DESCRIBE CLECO POWER’S SERVICE TERRITORY AND ITS**
4 **ELECTRIC OPERATIONS, GENERALLY.**

5 A: Cleco Power generates, transmits, and delivers electricity to approximately 291,000
6 customers located in three, non-contiguous service territories. Together, these
7 service territories comprise four service districts throughout the State of Louisiana,
8 and include at least part of 24 of the 64 parishes in Louisiana. A significant portion
9 of the territory is located in the central part of Louisiana, with an additional area
10 located on the north shore of Lake Pontchartrain. Energy growth for the Cleco
11 Power service territory is moderate and within a range of 0.4% to 0.6% annually.

12 In 2018, Cleco Power obtained approximately 99% of its energy from its own
13 resources and purchased the remaining 1% of energy from other providers. During
14 that same time period, Cleco Power’s net generating capacity was powered by the
15 following fuel sources, in approximate percentages: 65% from natural gas; 10%
16 from lignite; 5% from coal; and 20% from petroleum coke/coal. Cleco Power is a
17 member of Midcontinent Independent System Operator, Inc. (“MISO”).

18 Cleco Power’s total electric sales in 2018 were to the following customers, in
19 approximate percentages: 32% to residential customers; 23% to commercial
20 customers; 19% to industrial customers; 1% to other retail customers; and 25% to
21 resale customers. Temperature conditions generally impact Cleco Power’s sales,
22 causing these numbers to fluctuate month-to-month, especially during the summer
23 months when air conditioning load impacts energy sales greatly.

1 It should also be noted that the industrial customers served by Cleco Power have
2 greater energy needs than almost all of Cleco Power's other customers. Cleco
3 Power serves 568 industrial customers, making up just 0.2% of Cleco Power's total
4 customers; however, these industrial customers accounted for approximately 19%
5 of all Cleco Power's energy sales in 2019. Moreover, of Cleco Power's industrial
6 sales load, the 10 largest customers make up 62% of that load.

7 **IV. CLECO POWER'S EXISTING GENERATING CAPACITY**

8 **Q: PLEASE DESCRIBE CLECO POWER'S EXISTING GENERATING**
9 **UNITS.**

10 **A:** Cleco Power owns and operates the following generating units and power stations,
11 either in full ownership or in co-ownership: Dolet Hills Power Station ("Dolet
12 Hills"); Nesbitt Unit 1; Rodemacher Unit 2; Madison Unit 3; Acadia Power Station;
13 Coughlin Power Station; Teche Unit 3; Teche Unit 4; and, beginning in the third
14 quarter of 2019, the St. Mary Clean Energy Center.

15 Dolet Hills began commercial operation in 1986. Dolet Hills is located in DeSoto
16 Parish, LA, and has a 721 MW nameplate capacity. Cleco Power owns 50% of the
17 unit, in co-ownership with Southwestern Electric Power Company, Northeast Texas
18 Electric Cooperative, and Oklahoma Municipal Power, which each own 40.23%,
19 5.86%, and 3.91% of the unit, respectively.

20 Nesbitt Unit 1 began commercial operation in 1975. Nesbitt 1 is located in Rapides
21 Parish, LA, at the Brame Energy Center. The unit has a 446 MW nameplate
22 capacity. Cleco Power owns 100% of the unit.

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1 Rodemacher Unit 2 began commercial operation in 1982. Rodemacher Unit 2 is
2 located in Rapides Parish, LA, at the Brame Energy Center. The unit has a
3 nameplate capacity of 558 MW. Cleco Power owns 30% of the unit, in co-
4 ownership with Lafayette Public Power Authority and Louisiana Energy & Power
5 Authority, which each own 50% and 20% of the unit, respectively.

6 Madison Unit 3 began commercial operation in 2010 and is located in Rapides
7 Parish, LA, at the Braime Energy Center. It has a nameplate capacity of 704 MW.
8 Cleco Power owns 100% of the unit.

9 Acadia Power Station began commercial operation in 2002 and is located in Acadia
10 Parish, LA. Cleco Power owns Power Block One of Acadia Power Station, which
11 has a nameplate capacity of 580MW.

12 Coughlin Power Station began commercial operation in 2000 and is located in
13 Evangeline Parish, LA. It has a nameplate capacity of 923 MW. The power station
14 is 100% owned by Cleco Power.

15 Teche Unit 3 began commercial operation in 1971 and is located in St. Mary Parish,
16 LA. It has a nameplate capacity of 348 MW. Cleco Power owns 100% of the unit.

17 Teche Unit 4 began commercial operation in 2011 and is also located in St. Mary
18 Parish, LA. The unit has a nameplate capacity of 38 MW. The unit provides Cleco
19 Power's blackstart capability. Cleco Power owns 100% of the unit.

20 Lastly, the St. Mary Clean Energy Center is expected to begin commercial operation
21 in the third quarter of 2019. The St. Mary Clean Energy Center is located in St.
22 Mary Parish, LA adjacent to Cabot Corporation's carbon black manufacturing
23 facility in Franklin, LA. Construction of the project began in the fourth quarter of

1 2016. Upon completion, the St. Mary Clean Energy Center will have a nameplate
2 capacity of 49 MW and a net generating capacity of 47.6 MW. Cleco Power owns
3 100% of the plant.

4 **V. ADDITIONAL CONSIDERATIONS RELEVANT TO CLECO POWER'S**
5 **APPLICATION IN THIS PROCEEDING**

6 **Q: WHAT FINANCIAL CONSIDERATIONS SHOULD THE COMMISSION**
7 **TAKE INTO ACCOUNT WHEN IT CONSIDERS CLECO POWER'S**
8 **APPLICATION IN THIS PROCEEDING?**

9 A: Each of Cleco Power's credit ratings is currently high investment grade. Cleco
10 Power's credit ratings are important to its ability to borrow at reasonable interest
11 rates, thereby minimizing the interest expense paid by Cleco Power's customers
12 through rates. In turn, this rate case is important to Cleco Power's ability to
13 maintain its investment grade credit ratings, and avoid any downgrade of its credit
14 ratings. Factors that could lead to a downgrade include a less credit-supportive
15 regulatory framework, resulting in delays of recovery and weak financial ratios.
16 Additionally, a lower allowed return on equity ("ROE"), aggressive regulatory
17 treatment of the Tax Cuts and Jobs Act of 2017 (the "TCJA"), and/or material
18 disallowance or delays in cost and investment recovery could decrease Cleco
19 Power's cash flow such that its current senior unsecured credit ratings would be in
20 jeopardy. A downgrade by any credit rating agency would result in a smaller pool
21 of potential investors in Cleco Power's debt issuances, as well as increased costs of
22 debt, which would increase Cleco Power's overall cost of capital.

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1 Cleco Power is also seeking a 53% equity, 47% debt capital structure. Cleco
2 Power's stipulated equity percentage of capital was set at 51% for rate making
3 purposes in its last rate case.⁶ As of June, 2018, Cleco Power's actual equity
4 percentage was 53.5%. Additionally, Cleco Power's actual equity percentage of
5 capitalization has not declined below 53.0% since the rate year ended July 2011,
6 and has averaged 55.7% over the past five years. The difference in the equity
7 percentage established for ratemaking and Cleco Power's actual equity
8 capitalization causes Cleco Power to under-earn its ROE based on actual equity.
9 Decreasing Cleco Power's actual equity capitalization to 51% would require
10 issuing additional debt at Cleco Power and sending dividends upstream to the
11 owners of Cleco Power. This debt issuance would place undue pressure on Cleco
12 Power's credit metrics by increasing debt, increasing interest costs, and decreasing
13 cash flow. Cleco Power's management has deemed its current capital structure to
14 be prudent and appropriate for maintaining the financial soundness of the utility.
15 Additional, unnecessary leverage would weaken Cleco Power's financial strength,
16 potentially resulting in lower credit ratings and increased cost of incremental debt.
17 Basing the regulatory return on actual equity capitalization appropriately
18 compensates Cleco Power for the equity portion at risk.

19 **Q: WHAT MAJOR CAPITAL INVESTMENTS HAS CLECO POWER MADE**
20 **SINCE ITS LAST RATE PROCEEDING?**

⁶ See Order No. U-30689, issued October 28, 2010. This capital structure was continued in Cleco Power's FRP extension in Order No. U-32779, issued June 27, 2014.

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1 A: The major capital investments that Cleco Power has made since the conclusion of
2 Docket No. U-32779, extending Cleco Power's Amended and Restated FRP, are as
3 follows:

- 4 (i) the St. Mary Clean Energy Center Project;
- 5 (ii) the Transmission Projects;
- 6 (iii) the Coughlin Pipeline Project; and
- 7 (iv) the START Project;

8 Each of the foregoing projects represent significant investments made by Cleco
9 Power to ensure that customers receive reliable, reasonably-priced power. The St.
10 Mary Clean Energy Center Project will provide clean, emissions-free power. The
11 Transmission Projects will increase reliability, provide transmission system
12 redundancy, and provide hurricane hardening as-needed. The Coughlin Pipeline
13 Project will provide fuel delivery reliability and mitigate exposure to natural gas
14 transportation cost increases for Coughlin Power Station, one of Cleco Power's
15 lowest-cost generation resources. Finally, the START Project will provide a
16 platform for reliability, growth, and enhanced customer service, while
17 simultaneously addressing the problem of Cleco Power's aging and obsolete
18 information technology systems. In light of their substantial customer benefits,
19 Cleco Power is requesting the recovery of the cost of these projects in base rates,
20 as more fully described in Mr. Cleghorn's Direct Testimony.

21 **Q: WILL THE TCJA ALSO HAVE A SIGNIFICANT IMPACT ON CLECO**
22 **POWER'S RATES?**

1 A: Yes. In particular, the flowback of EDIT will affect rates and has the potential to
2 affect Cleco Power's credit ratings. Please refer to the Direct Testimony of Cleco
3 Power witnesses Kristin Guillory and J. Robert Cleghorn for further discussion of
4 the TCJA and its impact upon Cleco Power.

5 **VI. OVERVIEW OF CLECO POWER'S PRESENTATION**
6 **OF THIS RATE CASE**

7 **Q: PLEASE DESCRIBE THE DIRECT TESTIMONY OF CLECO POWER'S**
8 **OTHER WITNESSES IN THIS PROCEEDING.**

9 A: In addition to my testimony, the testimonies of four other Cleco Power witnesses
10 support Cleco Power's Application.

11 Cleco Power Witness J. Robert Cleghorn will present Cleco Power's pro forma base
12 rate expenses and base rate adjustments. Additionally, Mr. Cleghorn will discuss
13 the following topics: Cleco Power's projected revenues for the year ending June
14 30, 2021; the establishment of new base rates and Rider FRP tariffs; the proposed
15 allocation and timing of bill credits for EDIT, resulting from the TCJA; the
16 continuation of collection through Rider FRP of expenses associated with certain
17 renewable projects, MISO administrative charges, production O&M deferral, and
18 the Louisiana State Corporate Franchise Tax; proposed ratemaking for CWIP and
19 AFUDC; residential revenue decoupling; proposed residential rate redesign; and
20 miscellaneous other related topics.

21 Cleco Power Witness Kristin Guillory will present an overview of Cleco Power's
22 current financial metrics, including a discussion of Cleco Power's debt to equity
23 ratio and Cleco Power's current credit ratings.

**CLECO POWER LLC
DIRECT TESTIMONY OF J. SHANE HILTON
LPSC DOCKET NO. U-_____**

1 Cleco Power Witness Paul R. Moul will present his analysis of the required return
2 on equity that will enable Cleco Power to attract capital to support its investment
3 needs during the rate effective period. Mr. Moul also discusses Cleco Power's
4 proposed capital structure and his recommended overall cost of capital.

5 Lastly, Cleco Power Witness Bruce Hawthorne will discuss the START Project.
6 Mr. Hawthorne will also discuss how the START Project will create benefits for
7 ratepayers.

8 **Q: DOES THIS CONCLUDE YOUR TESTIMONY?**

9 **A:** Yes, at this time.

STATE OF Louisiana
PARISH/COUNTY OF Rapides

AFFIDAVIT

BE IT KNOWN, that before me, the undersigned Notary Public, duly commissioned and qualified for the state and parish/county aforesaid, personally came and appeared:

J. SHANE HILTON

("Affiant"), who after being duly sworn did depose and say:

1. Affiant has prepared Direct Testimony on behalf of Cleco Power LLC, dated June 28, 2019, in support of the Application of Cleco Power LLC for: (1) Implementation of Changes in Rates to be Effective July 1, 2020; and (2) Extension of Existing Formula Rate Plan.

2. To the best of Affiant's knowledge, information, and belief, Affiant's Direct Testimony is true, accurate, and complete in all material respects as of the date of this Affidavit.

Shane Hilton

J. Shane Hilton
Cleco Power LLC
2030 Donahue Ferry Road
Pineville, LA 71360

SWORN TO AND SUBSCRIBED
BEFORE ME, NOTARY PUBLIC,
THIS 25th DAY OF JUNE, 2019.

Catrina J. Ivey

NOTARY PUBLIC

BAR ROLL/NOTARY ID NO.: 51231
MY COMMISSION EXPIRES: at Death

