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LA Public Service Commission

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June 30, 2023

12922-0575

VIA HAND DELIVERY

Mr. Brandon M. Frey
Executive Secretary
Louisiana Public Service Commission
Galvez Building
602 North Fifth Street, 12th Floor
Baton Rouge, LA 70802

Re: Docket No. U-________, Cleco Power LLC, Ex Parte: Application of Cleco Power LLC for (1) Implementation of Changes in Rates to be Effective July 1, 2024; and (2) Extension of Existing Formula Rate Plan.

Dear Mr. Frey:

On behalf of Cleco Power LLC ("Cleco Power"), enclosed are one (1) original and three (3) copies of the captioned Application.

Cleco Power is requesting implementation of changes in its rates, and the extension of its existing Formula Rate Plan, with certain modifications more particularly described in the Application and accompanying testimony. Cleco Power's Application qualifies as a "change in rates" under Article IV, Section 21(D)(1) of the Louisiana Constitution, and is therefore subject to the public notice requirements specified therein. Accordingly, Cleco Power will effect such publication within twenty days after Cleco Power's Application is filed, and will provide the Commission with an affidavit of publication evidencing the same.

Also enclosed is Cleco Power's $50.00 filing fee, as required in <u>Exhibit B</u> to the Commission's Rules of Practice and Procedure.

Please return one (1) file-stamped copy of the Application to us.

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If you have any questions, or require any additional information whatsoever, please do not hesitate to contact us.

Respectfully submitted,

Nathan G. Huntwork

Counsel for Cleco Power LLC

NGH:CB:
Enclosures

cc: William Fontenot (via e-mail)
J. Robert Cleghorn (via e-mail)
Daniel T. Pancamo
John O. Shirley
Collin Buisson

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JUN 30 2023
LA Public Service Commission

BEFORE THE LOUISIANA PUBLIC SERVICE COMMISSION

EX PARTE:	)	
APPLICATION OF CLECO	)	
POWER LLC FOR: (1)	)	
IMPLEMENTATION OF	)	DOCKET NO. U-______
CHANGES IN RATES TO BE	)	
EFFECTIVE JULY 1, 2024; AND	)	
(2) EXTENSION OF EXISTING	)	
FORMULA RATE PLAN	)	

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I. INTRODUCTION AND SUMMARY

NOW BEFORE THE COMMISSION COMES Cleco Power LLC ("Cleco Power" or the "Company"), which hereby requests that the Louisiana Public Service Commission ("LPSC" or the "Commission") grant the following rate relief, authorizations, determinations, or findings: (i) authorization of Cleco Power's requested new base revenues amount; (ii) authorization of Cleco Power's proposed rate structure changes in various of the Company's retail tariffs; (iii) authorization of the implementation of residential revenue decoupling for Cleco Power's residential customers; (iv) authorization of an extension of, and certain modifications to, Cleco Power's existing Second Amended and Restated Formula Rate Plan ("FRP"), which the Commission authorized pursuant to Order No. U-35299, issued June 22, 2021 (the "2021 Rate Order");[1] (v) authorization and establishment of new base rates and Infrastructure and Incremental Cost Recovery ("IICR") Rider rate schedules based on the rate base and expenses in the historical year beginning July 1, 2021, and ending June 30, 2022, with attrition adjustments representative of the first year that new rates will be in effect for the test year ending June 30, 2025, and; (vii) authorization of a new Service Quality Plan ("SQP"), as negotiated among the parties in this proceeding. The foregoing requests are addressed in comprehensive detail in the testimony of Cleco Power's witnesses in this proceeding.

As described in greater detail in the Direct Testimony of Cleco Power witness William Fontenot, Cleco Power's rate case filing in this proceeding comes at a critical juncture in Cleco Power's history. There is enormous opportunity for the Company's customers to benefit through Cleco Power and the LPSC collaborating to enhance Cleco Power's affordability, reliability,

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[1] Docket No. U-35299, Cleco Power LLC, ex parte. *In re: Application for Implementation of Changes in Rates to be Effective July 1, 2020 and Extension of Existing Formula Plan.*

customer experience, and sustainability, through targeted efforts to expand sales and productive electricity use. Whether it is through sustainable and efficient operations which support customers' specific Environmental, Sustainability, and Governance ("ESG") goals or by providing opportunities to spread fixed costs across incremental usage for the benefit of all other customers, Cleco Power is eager to work with the Commission to capture this opportunity and ensure that the Company's customers benefit from the current energy transition from fossil fuel to renewable energy resources.

Indeed, Cleco Power has already implemented various cost-saving measures to maintain affordability and further is proposing certain mitigation efforts going forward to help manage customer bill impacts. However, these efforts cannot succeed without support from the Commission. Cleco Power's owners have foregone distributions in recent years and Cleco Power has underperformed relative to its target return on equity ("ROE") of 9.5% in each of the last three years. This has occurred despite the Company's aggressive efforts to control costs. In this regard, the Company's compound annual operations and maintenance ("O&M") expense growth rate of 1.7% from 2016-2022 is dramatically less than the compound growth rate for inflation of 3.4% for the same period. Going forward, the Company is proposing to mitigate the timing and magnitude of the rate impacts of this rate case, assuming reasonable resolution of Cleco Power's other ratemaking requests in this proceeding. The Company's specific rate impact mitigation proposals are described in detail in the Direct Testimony of Cleco Power witness J. Robert Cleghorn.

In summary, although the Company's indicative costs (costs the Company would ordinarily be entitled to recover under standard regulatory ratemaking principles) would require a $260.8 million increase in base revenues, the Company is proposing instead to implement a change in base revenues of $155.5 million, and the Company is only seeking recovery of $115.5 million of this increase in the first rate year of the Company's next FRP cycle. This mitigation is achieved through Cleco Power voluntarily forgoing the recovery of certain costs for the entirety of its next FRP cycle, and by proposed phase-in rate credits in the first two rate years of its next FRP cycle, leading to a first-year rate increase of only 3.9%, net of fuel and other savings. This proposed increase is significantly less than the rate of inflation. In terms of individual customer impact, the Company's proposed increase would result in roughly a $7 per month increase for a 1,000 kWh residential customer, from $131 to $138. Without this proposed mitigation, the indicative costs referenced above would suggest an increase of approximately $24 per month (from $131 to $156) for a 1,000 kWh residential customer in year 1.

For the avoidance of doubt, Cleco Power is requesting a base revenue increase of $155.5 million. However, to mitigate the bill impact of the requested base revenue increase upon the Company's customers, and assuming a reasonable resolution of this proceeding, Cleco Power is proposing a rate credit of $40 million in the first rate year, so that the net change in base revenues for the first rate year would be $115.5 million; in the second rate year, Cleco Power is proposing a rate credit of $20 million, so that the net change in base revenues for the second rate year would be $135.5 million. After the second rate year, the full requested base revenue increase of $155.5 million would go into effect.

Cleco Power's requests in this proceeding are supported by the direct testimony of the following witnesses addressing the topics noted, below:

- William Fontenot: providing an overview of Cleco Power's requests in this proceeding and describing Cleco Power's past, present, and future, including Cleco Power's transformative Vision 2025 strategy.

- J. Robert Cleghorn: describing Cleco Power's rate request; phase-in of rates; capacity position, including the impacts of the loss of the Dixie Electric Membership Corporation ("DEMCO") wholesale load; low load growth; and the retirement of the Dolet Hills Power Station.
- Christina C. McDowell: describing the test year with rate base and expense attrition adjustments; and Cleco Power's proposed Third Amended and Restated FRP.
- Roger A. Morin, Ph.D.: analyzing Cleco Power's appropriate return on equity.
- P. Andre Guillory II: describing Cleco Power's information technology, reliability, and customer service investments and the benefits to the Company's customers from those investments, and the renewal and extension of Cleco Power's SQP.
- Vincent M. Sipowicz: describing Cleco Power's credit ratings and the impact of Cleco Power's requested revenue increase on Cleco Power's credit metrics and ratings going forward.
- Francesca D. Winter: describing rate design and decoupling.

II. BACKGROUND FOR RATE CASE AND CLECO POWER'S VISION FOR THE FUTURE

As noted above and as further described in the Direct Testimony of Cleco Power witness William Fontenot, this rate case filing comes at a critical juncture for Cleco Power. As the Company manages the industry-wide transition from fossil fuels to renewables resources, Cleco Power senior management has developed a strategic plan called "Vision 2025," which is the Company's roadmap to provide safe, reliable, and clean electric service to customers at affordable rates, on a sustainable basis. At the center of Vision 2025 is customer reliability and affordability driving customer satisfaction. Vision 2025 sets specific goals and establishes the activities necessary to achieve those goals. Vision 2025 utilizes the following three-prong approach to realize the Company's goals:

- Invest in more efficient and cleaner generation technologies to establish the Cleco Power Clean Energy Corridor, including future solar farms, carbon capture and sequestration ("CCS") at Cleco Power's Madison 3 generating facility, and potential battery storage, as the Company retires various less efficient or obsolete generation units.
- Grow revenue via the Company's "Project Energizer," as customers electrify their operations, through the productive increase in electricity sales, thereby making Cleco Power's rates more affordable by spreading costs over a larger customer base.
- Control costs and improve customer service by leveraging Cleco Power's recently-implemented information technology platform (i.e., the SAP platform) as the foundation for more effective business processes executed by a more diverse and effective workforce.

While Vision 2025 is complicated by the cost pressures on the Company due in part to low load and revenue growth, through Vision 2025 Cleco Power is actively working to improve customer affordability. Indeed, Cleco Power's customers are already benefitting from Vision 2025. Dolet Hills Power Station has been retired, and Cleco Power has proposed to securitize the remaining uncollected costs associated with the plant and the related lignite mines. Cleco Power's retirement of Dolet Hills Power Station and proposed securitization financing is expected to save customers approximately $4.4 million per year. Further, the 47 MW St. Mary Clean Energy Center ("SMCEC") has been completed and is in service. This waste-heat fueled unit reliably provides about 3% of the Company's energy needs at an affordable cost without producing any incremental carbon emissions. Also, today, the Company utilizes its investment in its new SAP-based information technology platform to better manage costs, improve customer service, and improve service reliability. The SAP solution is the foundation for the Company's digital transformation using data and information to manage the business and make improved investment decisions.[2] Further, the SAP platform is also the foundation for effective digital customer service solutions. Please refer to the Direct Testimony of Cleco Power witness P. Andre Guillory II in this proceeding for a fuller discussion of these points.

As Cleco Power moves forward with Vision 2025, Cleco Power's customers can expect continued improvements in Cleco Power's reliability and affordability, all while the Company reduces carbon emissions to comply with future environmental regulations and to meet the Company's own ESG goals to reduce the Company's carbon footprint by 60% by 2030. As described in detail in the Direct Testimony of Cleco Power witness William Fontenot, the Company intends to achieve these reductions by establishing a "Clean Energy Corridor" whereby the Company will utilize emerging clean energy technologies like solar, CCS, and battery storage to complement its existing fossil fuel-based fleet.

This is a key element of Vision 2025 and of affordability for Cleco Power's customers in the future, as establishing a clean energy supply is the catalyst for revenue growth and customer affordability. Across the U.S., customers have established their own ESG strategies to decarbonize their businesses. The solution to these customers' decarbonization is electrification, which requires more use of Cleco Power's product. But in order to truly reduce carbon emissions, the Company

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[2] As noted above, the Company's expense compound annual growth rate of about 1.7% from 2016-2022 compares favorably to the general rate of inflation of 3.4% over the same period of time, demonstrating the success of Cleco Power's leveraging SAP and other cost control measures.

must serve these customers with "clean" decarbonized power. So, in effect, Cleco Power's envisioned clean power supply will provide the foundation to enable the Company's customers' decarbonization, and in turn grow revenues to support customer affordability.

To capture these future revenues, Cleco Power has established its Project Energizer, one of the key initiatives in Vision 2025. Project Energizer is a data-based marketing and economic development strategy designed to capture the emerging opportunities borne out of customers' desire to decarbonize. These efforts are already providing benefit in the form of new electric-driven gas compression customers connecting to the Company's grid, providing revenue growth and supporting customer affordability.

Pursuant to Vision 2025, Cleco Power has made investments in its operational technology infrastructure like advanced metering and logic-based, self-healing smart distribution systems (DSmart investments). Please refer to the Direct Testimony of Cleco Power witness P. Andre Guillory II in this proceeding for a fuller discussion of these points.

The financial benefits of the initiatives that Cleco Power has undertaken as part of Vision 2025 are benefiting Cleco Power's customers now and will continue to do so in the future by reducing costs for fuel and operations and maintenance, as well as by stimulating retail sales growth. However, in order to continue its efforts pursuant to Vision 2025 and achieve even greater customer benefits, Cleco Power must be able to raise debt and equity capital on reasonable terms on an ongoing basis. As discussed in detail in the Direct Testimonies of Cleco Power witnesses William Fontenot, Dr. Roger A. Morin, and Vincent M. Sipowicz, this is not happening at present. Cleco Power has earned well below its target ROE for the last three years, and the financial metrics supporting Cleco Power's current credit ratings will further erode if the Commission does not authorize Cleco Power's ratemaking requests in this proceeding. Further, if Cleco Power's requests in this proceeding are not granted, Cleco Power's ability to fund the provision of reliable service will be jeopardized. Cleco Power's cost of debt and equity capital (if sources are available at all) could increase dramatically, to the detriment of customers. Capital for Cleco Power's Vision 2025 may not be available, and, if Vision 2025 does not come to fruition, major, one-time economic development opportunities in Cleco Power's service territory related to the clean energy transition will be lost forever.

In summary, and as described in greater detail in the Direct Testimony of Cleco Power witness William Fontenot, this rate case request will effectively serve as a "bridge" to Cleco Power's future, when customers will experience the benefits from Cleco Power's transformative strategies in its Vision 2025 plan, like the Clean Energy Corridor and Project Energizer. Because Cleco Power is in an electrical infrastructure business, the full implementation of Vision 2025 and the transformation of the Company will take time, and the Company understands its customers' need for affordable energy today. Accordingly, while the revenue requirement calculations support a request for a rate increase of up to $260.8 million, the Company is instead requesting a reduced rate increase of $155.5 million (further mitigated, as noted above, by the phase-in rate credits in the first two rate years that new rates are in effect). While the Company is requesting a rate increase in this proceeding to ensure that the Company can continue to provide safe and reliable service while remaining financially viable, the Company has moderated the requested increase, proposed to extend its SQP, proposed a phase-in of the requested rate increase, and has committed to apply revenues from future capacity sales to offset the increased revenue requirement. For these reasons, the Company submits that its proposals in this proceeding fairly balance the needs of the Company, its customers, and other stakeholders and should be authorized by the Commission.

III. DESCRIPTION OF CLECO POWER

Cleco Power is a Louisiana limited liability company, and a wholly-owned subsidiary of Cleco Corporate Holdings LLC ("Cleco Corp"), also a Louisiana limited liability company. Cleco Power generates, transmits, and delivers electricity to approximately 291,000 customers located in three, non-contiguous service territories. Together, these service territories comprise four service districts throughout the State of Louisiana and include part of 24 of the 64 parishes in Louisiana. A significant portion of Cleco Power's service territory is located in the central part of Louisiana, with an additional area located north of New Orleans, commonly referred to as Northlake. Energy growth for the Cleco Power service territory is moderate and within a range of 0.3% to 0.4% annually. Cleco Power is a member of Midcontinent Independent System Operator, Inc. ("MISO").

Cleco Power also owns and operates the following generating units and power stations, either in full ownership or in co-ownership: Nesbitt Unit 1; Rodemacher Unit 2; Madison Unit 3; Acadia Power Station Power Block 1; Coughlin Power Station; Teche Unit 3; Teche Unit 4; and the St. Mary Clean Energy Center. Subsequent to the conclusion of the Company's last rate case in Docket No. U-35299, Cleco Power and its co-owner, Southwestern Electric Power Company, retired Dolet Hills Power Station, as of December 31, 2021. Please refer to LPSC Docket No. U-35753 for further information.

IV. COMMUNICATIONS

Cleco Power requests that communications concerning this Application be directed to:

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V. THE NEED FOR A BASE RATE INCREASE AND CLECO POWER'S PROPOSED MITIGATION

As described in detail in the Direct Testimony of Cleco Power witness J. Robert Cleghorn, the primary drivers of the indicative cost increases in the test year are: (i) the expiration of certain wholesale contracts will result in cost allocation realignment of rate base and expenses of $89.4 million to LPSC-jurisdictional customers; (ii) increased O&M expenses of $63.7 million; (iii) $40.0 million to replenish the Company's storm reserve; (iv) $36.9 million in additional depreciation expense, driven largely by capital expenditures since 2019 of approximately $233 million a year; and (v) $26.5 million of financing cost increases. In addition, Cleco Power faces cost pressure from low revenue growth in Cleco Power's service territory, severe hurricane and other weather events affecting the Company's service territory, and most recently, significant volatility in natural gas pricing. Cleco Power has specific plans to address the Company's cost issues.

A. Cost Pressures

The loss of the DEMCO wholesale load is a major driver of Cleco Power's ratemaking requests in this proceeding. Beginning April 1, 2014, Cleco Power served the DEMCO load pursuant to an all-requirements Power Supply and Service Agreement, dated January 30, 2012 (the "DEMCO PSSA"), with power generated by Cleco Power's generation fleet. The DEMCO PSSA was authorized pursuant to LPSC Order No. U-32275, issued December 20, 2012. The DEMCO PSSA expires March 31, 2024. As a result of a recent request for proposals process, however, DEMCO has chosen an alternative market-based energy solution to meet DEMCO's power supply requirements beginning in April 2024. DEMCO's decision in this regard was authorized by the Commission in Order No. U-36133, issued November 10, 2022. In the Company's opinion, DEMCO has essentially purchased a financial product to meet its power supply requirements; there is only a minimal amount of DEMCO's power supply requirement that is being provided by actual physical generation (a proposed 100 MW solar facility in Tangipahoa Parish; however, DEMCO's coincident peak load is over 500 MW). It should be noted that DEMCO is a winter-peaking utility, which means that under DEMCO's new power supply arrangement DEMCO will not have one MW of capacity that DEMCO can identify to serve its peak load, because the solar facility will be unable to produce power early in the morning on the coldest of winter days.

The implications of DEMCO's power supply requirement not being served by actual physical generation, and the material impact that it may have upon DEMCO's customers (as well as all utility customers in the state from a reliability and cost perspective), may be further addressed in the Commission's current rulemaking on resource adequacy in Docket No. R-36263.

Since its inception, the DEMCO PSSA has shielded Cleco Power's retail ratepayers from costs they would otherwise have borne. The cost consequence to Cleco Power of the loss of the DEMCO wholesale load (together with other wholesale load, though far less substantial than the DEMCO load), based on the reallocation of DEMCO's share of Cleco Power's costs from wholesale to retail, is $89.4 million per year and is a major component of the Company's requested rate increase in this proceeding. For the past nine years, the DEMCO PSSA benefitted Cleco Power's retail customers in that the Company accepted minimal (well below the Company's authorized retail ROE) returns on its allocable retail generation assets, thereby reducing the Company's retail customer costs for a 10-year period.

The additional key driver of Cleco Power's ratemaking requests in this proceeding is expense growth. Cleco Power's expenses have continued to increase and outpaced revenue growth, despite the cost-control measures and technology investments that the Company has implemented, resulting in an expense compound annual growth rate of about 1.7% from 2016-2022, which compares favorably with the general rate of inflation over the same period of time and demonstrates the success of Cleco Power's cost control measures. This has also been exacerbated by recent high inflation in 2021 and 2022, which has continued into 2023. Cost pressures are compounded by Cleco Power's low load growth, which has been virtually flat. This expense deficit versus revenue, combined with capital investments necessary to ensure reliable service, continues to challenge the Company's cost structure and accordingly the costs paid by the Company's customers.

Finally, as to low revenue growth, increasing sales provides the revenues to better spread costs across the Company's customer base and thereby reduce customers' individual costs. Since 2017, Cleco Power's organic sales growth has been 0.3 to 0.4% while expenses, particularly in 2022 from inflation, continue to increase. Flat revenues and increasing expenses alone over time will drive a need for a base rate increase. However, as described in detail in the Direct Testimony of Cleco Power witness William Fontenot, Project Energizer (a key component of Vision 2025) is expected to drive an increase in Cleco Power's usage base and allow for the spreading of fixed costs over a larger volume of sales, thus mitigating rate impacts on individual customers.

B. Cleco Power's Proposed Mitigation

The Direct Testimony of Cleco Power witness J. Robert Cleghorn describes in detail the cost pressures that Cleco Power currently faces. Mr. Cleghorn's testimony also describes the total amount of revenue increases that Cleco Power would be entitled to under standard cost-of-service regulatory ratemaking principles ("indicative cost increases") and the lesser amount that Cleco Power is actually requesting in this proceeding, in order to fairly balance the interests of its customers, the Company's financial soundness and ability to provide reliable service, and the interest of the Company's owners.

Cleco Power has utilized a customer-centric approach to address indicative cost increases of $260.8 million. The indicative cost increases represent the amount of additional cost that Cleco Power may incur to operate its business and reliably serve the Company's customers. As noted briefly above, primary drivers of the indicative cost increases are:

• The expiration of certain wholesale contracts will result in cost allocation realignment of remaining rate base and expenses of $89.4 million to LPSC-jurisdictional customers.

• O&M costs, depreciation expense, storm reserve replenishment, and financing cost increases totaling $171.4 million.

Rather than request the entirety of the foregoing indicative cost increases in base revenues effective July 1, 2024, Cleco Power proposes to prioritize customer affordability ahead of the Company's financial needs by voluntarily delaying recovery of more than 61.4% of the indicative costs (i.e., certain depreciation components; a portion of storm reserve replenishment) beyond the period for which the rates resulting from this rate case would be effective; committing to continued aggressive cost control; and recommending a three-year phase in of the requested increase.

With respect to the amount of base revenues increase that Cleco Power is requesting in this proceeding, Cleco Power is requesting base revenues effective July 1, 2024, totaling $818.9 million, offset by make-whole credits of $23.8 million, and further offset by a requested first year phase-in credit of $40 million for the twelve months ended ("TME") June 30, 2025, for a net base revenue effective July 1, 2024, of $755.0 million. The net change in first year base revenues of only $115.5 million (only 44.3% of the indicative cost increases described above), increases first-year total retail revenues by 3.9%, net of fuel and other savings. The impact of the requested base revenue increase on the 1,000 kWh residential customer bill, along with a requested increase in the residential customer charge, is projected to be a change from $131 per month (including $41 for fuel and environmental costs) to $138 per month (including $34 for fuel and environmental costs), an increase of $7 per month (5.2%).

As noted above, Cleco Power is requesting a base revenue increase of $155.5 million. However, to mitigate the bill impact of the requested base revenue increase upon the Company's customers, and assuming a reasonable resolution of all other issues in this proceeding, Cleco Power is proposing a rate credit of $40 million in the first rate year of its next FRP cycle, so that the net change in base revenues for the first rate year would be $115.5 million; in the second rate year, Cleco Power is proposing a rate credit of $20 million, so that the net change in base revenues for the second rate year would be $135.5 million. After the second rate year, the full requested base revenue increase of $155.5 million would go into effect.

VI. CLECO POWER'S OTHER MATERIAL RATEMAKING REQUESTS

A. History of Cleco Power's Current Second Amended and Restated Formula Rate Plan

Cleco Power's FRP was first authorized by LPSC Order No. U-30689, issued October 28, 2010 (the "2010 Rate Order"). Cleco Power filed an application with the Commission to renew its FRP for an additional term on April 19, 2013, in Docket No. U-32779. Cleco Power eventually reached a settlement in Docket No. U-32779, which the Commission approved, thereby extending, with some modifications, Cleco Power's FRP, for an additional term (the "Amended and Restated FRP"), with a new base rate case required to be filed by June 30, 2017. Order No. U-33434-A issued April 7, 2016 (the "Merger Order") extended Cleco Power's Amended and Restated FRP by an additional two years, with a full rate case to be filed by June 30, 2019, pursuant to regulatory commitment No. 4 (see Attachment A to the Merger Order).

In June 2019, Cleco Power filed an application with the Commission in accordance with the requirement of the Merger Order, requesting authorization for a change in Cleco Power's base rates and the extension of the Company's Amended and Restated FRP. Cleco Power eventually reached a settlement in Docket No. U-35299, which the Commission approved pursuant to the 2021 Rate Order. In that order, the Commission approved Cleco Power's Second Amended and

Restated FRP, which, among other things, extended the term of the Company's then-current FRP for an additional three years.

Cleco Power's Second Amended and Restated FRP is asymmetrical with respect to the risk that Cleco Power may not achieve its target ROE. If Cleco Power exceeds its target ROE (as specified in the Second Amended and Restated FRP), there are earnings sharing bands that could potentially apply, and have in the past resulted in the sharing of a portion of earnings with Cleco Power's customers. On the other hand, if Cleco Power earns less than its authorized target ROE, there is no feature in the Second Amended and Restated FRP that would enable Cleco Power to recover additional revenues from its customers for Cleco Power to meet its target ROE. Hence, the Second Amended and Restated FRP is asymmetrical regarding this risk.

The Second Amended and Restated FRP utilizes a capital structure for ratemaking purposes of 52.00% equity and 48.00% debt. The target ROE is 9.5%. The debt return is calculated as the weighted average cost of long-term debt as of the end of the applicable rate year, and short-term debt is based on a twelve-month average. The income tax rate was the combined federal and state rate, less Investment Tax Credit ("ITC"). Under the Second Amended and Restated FRP, earnings up to 10.00% are retained by Cleco Power. Earnings over 10.00%, but less than or equal to 10.5%, are shared, with 60.00% being refunded to customers and with 40.00% being retained by Cleco Power. The entirety of earnings in excess of 10.5% are refunded to Cleco Power's customers. These are the earnings sharing bands referenced above.

The Second Amended and Restated FRP contains provisions requiring annual review of Cleco Power's earnings, and for determining whether any refunds are due to Cleco Power's customers for the pertinent review period. Cleco Power files an earnings monitoring report each October, for the twelve months ended the immediately preceding June 30 (the "Monitoring

Report"). A docket is then opened with the Commission, and the LPSC Staff conducts an audit of Cleco Power's rate year. Depending upon the outcome of the LPSC Staff's audit, refunds may be due to Cleco Power's customers.

The Second Amended and Restated FRP also contains a Rider IICR mechanism that provides that prudently-incurred costs of Commission-approved projects may be recovered through a single line item on customers' bills identified as "Infrastructure and Incremental Costs Recovery." The costs recoverable under this provision are subject to change once per year.

B. Proposed Third Amended and Restated FRP

Cleco Power is requesting that the Commission authorize an extension of, and certain modifications to, its existing Second Amended and Restated FRP. The new FRP, which would be titled the "Third Amended and Restated Formula Rate Plan," would have a term of 4 years, beginning July 1, 2024. The requested modifications to the existing Second Amended and Restated FRP would include changes in its metrics, including a new target ROE of 10.4%, and additions to the items eligible for recovery through Rider IICR. Cleco Power is also proposing to include additional expenditures in Rider IICR and the realignment of certain items from base rates to Rider IICR, which will provide greater transparency and opportunity for review year-over-year. Cleco Power's proposed changes for the Third Amended and Restated FRP are described in greater detail in the Direct Testimony of Cleco Power witness Christina C. McDowell.

1. <u>ROE</u>

As described in greater detail in the Direct Testimony of Cleco Power witness Roger A. Morin, Ph.D., Cleco Power is requesting an increase to its target rate of return on common equity from 9.5% to 10.4%. This request is based on Dr. Morin's opinion that a fair, reasonable and sufficient ROE for Cleco Power is 10.4%. This recommended return is predicated on the

Commission's adoption of Cleco Power's proposed capital structure of 52% common equity capital. Pursuant to Dr. Morin's analysis, an ROE of 10.4% is required in order for the Company to: (i) attract capital on reasonable terms, (ii) maintain its financial integrity, and (iii) provide Cleco Power a fair opportunity to earn a return commensurate with returns on comparable risk investments.

Dr. Morin's recommendation is derived from cost of capital studies performed using financial models and from the application of Dr. Morin's professional judgment to the results. Dr. Morin applied various cost of capital methodologies, including Discounted Cash Flow ("DCF"), Capital Asset Pricing Model ("CAPM") and Risk Premium methodologies, to a group of investment-grade, dividend-paying, vertically-integrated electric utilities which are covered in Value Line's Electric Utility Composite. Dr. Morin's analysis shows that a 10.4% ROE fairly compensates investors, maintains Cleco Power's credit strength, and will permit the attraction of capital needed for utility infrastructure and reliability capital investments required in the service territory served by Cleco Power.

2. Credit Ratings and Proposed Capital Structure

As described in greater detail in the Direct Testimony of Cleco Power witness Vincent M. Sipowicz, Cleco Power is currently rated by S&P Global Ratings ("S&P"), Moody's Investor Service ("Moody's"), and Fitch Ratings ("Fitch"). The current senior unsecured issuance ratings are as follows:

- S&P – BBB+, stable outlook;
- Moody's – A3, stable outlook; and
- Fitch – BBB+, stable outlook.

Ratings of BBB- (Baa3 for Moody's) and above are considered investment grade. Each of Cleco Power's credit ratings are currently in the investment grade range. Cleco Power's credit ratings are important to the Company's ability to borrow at reasonable interest rates and minimize the interest expense paid by Cleco Power's customers. In turn, this rate case is important to Cleco Power's ability to maintain its current credit ratings. A downgrade by any credit rating agency would result in an erosion of investor confidence as well as an increased cost of debt, which would thereby increase Cleco Power's overall cost of capital.

In recent publications on Cleco Power, the rating agencies note that the Company's key credit strengths include the credit-supportive regulatory framework in Louisiana, Cleco Power's formula rate plan that provides timely cost and investment recovery, and the existing insulating ring fencing provisions contained in the Merger Order. Noted negative factors to Cleco Power's credit profile include a relatively small customer base and concentrated service territory, weak financial metrics, and exposure to severe weather conditions. All three rating agencies maintain a stable outlook on Cleco Power but note that credit metrics have been generally weak in recent years, largely due to the rate case delay in 2020 and the impact from storms in 2020 and 2021.

Factors that could lead to a credit rating downgrade at Cleco Power include deterioration of financial metrics, and changes in the regulatory environment that could be deemed less credit supportive. Specifically, S&P has noted expectations of Cleco Power maintaining a funds from operations ("FFO") to debt ratio of 21%-22%. Moody's indicates that "the Louisiana regulatory framework [becoming] less credit supportive or contentious," or a failure to maintain sustained cash flow from operations ("CFO") to debt coverage ratio greater than 20% as two key factors that could lead to a downgrade.

After two years of materially underperforming against ratings benchmarks (with coverage ratios in the mid-teens), the Moody's CFO to debt coverage ratio for the year ended December 2022 was approximately 20%, or right at the downward ratings threshold. For the five-year period from 2023 through 2027, assuming the requested phase-in of rates as described in the Direct Testimony of Cleco Power witness J. Robert Cleghorn in this proceeding, this ratio is projected to average approximately 23.5%. With 20% being the stated triggering threshold for an actual ratings downgrade, Cleco Power senior management deems it prudent to target achieving 22% on a forward-looking basis. This provides some level of mitigation against unforeseen events, weather related or otherwise, where financial underperformance could potentially cause a credit ratings downgrade. Cleco Power senior management believes this is particularly important considering Cleco Power is only now just returning to levels acceptable for the current ratings, after two years of underperformance, a period that saw S&P revise the Company's outlook from Stable to Negative (and back to Stable upon the successful securitization of storm costs in 2022 pursuant to LPSC Docket No. U-35807).

A decrease to projected revenues resulting from a denial or reduction of the rate increase requested in the Company's application in this proceeding would have a corresponding negative impact on the Company's projected credit ratios. A deterioration in the ratios could have negative ratings implications, up to and including a ratings downgrade. Additionally, an adverse ruling in this rate case, in isolation or in conjunction with the current proceedings related to the retirement of Dolet Hills Power Station, could itself call into doubt the rating agencies' current perception of Louisiana as a supportive regulatory environment. Cleco Power's regulatory environment is currently viewed as a positive credit factor, but if rating agencies were to stop viewing Louisiana as such, it could lead to negative ratings actions, including a potential downgrade.

C. Residential Rate Decoupling

As described in more detail in the Direct Testimony of Cleco Power witness Francesca D. Winter, Cleco Power is requesting LPSC authorization to implement residential revenue decoupling. "Decoupling" is the common name given to regulatory mechanisms that sever or weaken the link between utility revenues and volumetric sales. At times referred to as a "weather normalization adjustment," decoupling benefits customers by lowering bills when weather-related sales increase, while also benefiting utilities by creating more financial certainty when sales decline due to energy efficiency, distributed generation/net metering, conservation, and weather.

Cleco Power currently recovers substantially all its residential base revenue requirements through volumetric charges applied to customer consumption. Decoupling would effectively cap total base revenue for residential customers when weather has a higher-than-normal impact on their bills, while at the same time allowing the Company to realign its residential rate design without incurring substantial additional risk of revenue erosion.

As proposed, when weather and energy consumption are above normal and residential average base revenue exceeds the threshold established in this rate case, customers would realize reductions in their bills over a following twelve-month period. Conversely, when weather and energy consumption are below normal, and residential average base revenue is below the threshold established in this rate case, customers' bills would increase over a following twelve-month period. The details of Cleco Power's proposed residential decoupling are provided in the Direct Testimony of Cleco Power witness Francesca D. Winter.

D. Rate Structure Changes

As described in more detail in the Direct Testimony of Cleco Power witness Francesca D. Winter, Cleco Power is proposing a rate structure change to its General Service rate, specifically, to the General Service Secondary Supply Voltage Non-Demand ("General Service Non-Demand") rate. The proposed change is due to multiple customer complaints. Customers in this rate class with low load factors, but with high energy usage, have experienced large bill increases when moving from the General Service Non-Demand rate to the General Service Secondary Supply Voltage Demand rate ("General Service Demand"). In an effort to be mindful of customers' bills and to send the appropriate usage and price signals, Cleco Power is proposing three changes to this rate.

Cleco Power's current General Service Non-Demand tariff has a customer charge of $15.00 per month and an energy charge, per kWh, of $0.08446. Cleco Power is proposing a customer charge of $20.00 per month and to implement a second tier in the energy charge for any usage above 5,000 kWh. The first 5,000 kWh would be billed at a rate of $0.09471 per kWh and all kWh above 5,000 kWh would be billed at a rate of $0.11365 per kWh. This second tier would send a price signal to customers alerting them to the fact that their usage has increased, and should it continue to do so, they will be moved to the General Service Demand rate. This proposed change, as well as miscellaneous other changes to General Service Tariff, the Residential rate class customer charge, the General Service Demand and Municipal customer charges, and Cleco Alternative Rate for Electricity ("CARE") Tariff, are described in detail in the Direct Testimony of Cleco Power witness Francesca D. Winter.

E. Miscellaneous Requests

1. New Service Quality Plan

Pursuant to Order No. U-33434-A, issued April 7, 2016, the Commission required Cleco Power to implement a Service Quality Program. Pursuant to Order No. U-33434-A, prior to the expiration of the five (5) year term of the SQP, a new five (5) year SQP must be negotiated and submitted to the Commission for approval. Although the SQP has expired, Cleco Power has continued to comply with its terms and provisions and has submitted the periodic reports documenting such compliance. Cleco Power is requesting the negotiation of a five (5) year renewal of its SQP that would become effective with the implementation of new base rates as a result of this proceeding.

VII. REQUEST FOR TIMELY TREATMENT

Cleco Power is requesting that the Commission render a full decision on this Application within twelve months after its effective filing date, as provided in Louisiana Constitution Article 4, § 21 and La. R.S. 45:1163.1. Among other things, timely treatment would obviate the need for Cleco Power to file a protective bond or other security, were a full decision not so granted, in order to make effective the rate schedules proposed herein, subject to bond and refund, without the Commission's prior authorization. Timely treatment would further minimize the adverse effects of regulatory lag upon Cleco Power.

VIII. CLECO POWER'S REQUESTS TO THE COMMISSION

In conclusion, the Company views this rate case as a bridge to the future. Cleco Power's Vison 2025 and long-term commitment to service reliability, improved customer service through enhanced technology, and expanded sustainability options have provided and will continue to provide long-term value to Cleco Power's customers. Achieving continued benefits from these actions and the other aspects of Vision 2025 will require a continued supportive regulatory environment and a steady and predictable long-term partnership with this Commission. In recent years, the Company has been challenged with low load growth, but the future – one of decarbonization, electrification, and growth – is bright. As the Company manages the historic transition from fossil fuel-fired resources to renewable resources and cleaner technologies affecting the utility industry more broadly, the Company's Vision 2025 provides the right strategy to address the needs of Cleco Power's customers, now and in the future. It is the Company's management team and investors' strategy through Vision 2025 to ensure that Cleco Power sustainably, reliably, and affordably satisfies the needs of Cleco Power's customers. While the Company is requesting a rate increase in this proceeding to ensure that the Company can continue to provide safe and reliable service while remaining financially viable, the Company has moderated the requested increase, proposed to extend its SQP, proposed a phase-in of the requested rate increase, and has committed to apply revenues from future capacity sales to offset the increased revenue requirement.

WHEREFORE, for the foregoing reasons, and as more fully described in the testimonial exhibits to this Application, Cleco Power requests that the Commission act expeditiously in granting the rate relief requested in this Application. More specifically, Cleco Power requests that the Commission grant the following authorizations, make the following determinations, and otherwise take the following actions:

(i) authorization of Cleco Power's requested increase in annual rate base revenue requirement to $155.5 million, subject to phase-in rate credits in years one and two of Cleco Power's next FRP cycle;

(ii) authorization of Cleco Power's proposed rate structure changes in various of it retail tariffs;

(iii) authorization of the implementation of residential revenue decoupling for Cleco Power's residential customers;

(iv) authorization of an extension of, and certain modifications to, Cleco Power's Second Amended and Restated FRP, which the Commission authorized pursuant to the 2021 Rate Order;

(v) authorization and establishment of new base rates and Rider IICR rate schedules based on the rate base and expenses in the historical year beginning July 1, 2021, and ending June 30, 2022, with attrition adjustments representative of the first year that new rates will be in effect for the test year ending June 30, 2025

(vi) authorization of a new Service Quality Plan;

(vii) that the Commission's order in this proceeding be effective upon issuance; and

(viii) any and all other relief necessary to implement Cleco Power's requests in this proceeding.

Respectfully submitted,

Cleco Power LLC

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<u>Exhibits</u>

1. Direct Testimony of William Fontenot
2. Direct Testimony of J. Robert Cleghorn
3. Direct Testimony of Christina C. McDowell
4. Direct Testimony of Vincent M. Sipowicz
5. Direct Testimony of P. Andre Guillory II
6. Direct Testimony of Francesca D. Winter
7. Direct Testimony of Roger A. Morin, PhD