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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, 2024; AND (2) EXTENSION OF EXISTING FORMULA RATE PLAN	)	DOCKET NO. U-______

DIRECT TESTIMONY

OF

WILLIAM FONTENOT

ON BEHALF OF

CLECO POWER LLC

JUNE 30, 2023

EXHIBITS

EXHIBIT NO.	DESCRIPTION
WF-1	Clean Energy Corridor

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I. INTRODUCTION AND BACKGROUND

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

A: My name is William Fontenot. I am the President and Chief Executive Officer ("CEO") of Cleco Corporate Holdings LLC ("Cleco Corp"), which is the parent holding company of Cleco Power LLC ("Cleco Power" or the "Company"). My business address is 2030 Donahue Ferry Road, Pineville, Louisiana, 71360.

Q: PLEASE DESCRIBE YOUR JOB RESPONSIBILITIES.

A: For the past five years, as CEO, my responsibilities have included the overall management, oversight, and the development and execution of the corporate strategies of Cleco Corp and its subsidiaries. Cleco Corp's business includes the Louisiana Public Service Commission ("LPSC" or the "Commission") regulated power business, Cleco Power, and the unregulated wholesale generation business, Cleco Cajun LLC.

Q: PLEASE DESCRIBE YOUR PROFESSIONAL AND EDUCATIONAL HISTORY.

A: I received a bachelor's degree in electrical engineering from Louisiana State University in Baton Rouge, Louisiana in 1985. I began my career with Cleco in April 1986, holding numerous executive leadership positions with increasing responsibilities, including interim CEO of Cleco Power from February 2017 to January 2018, chief operating officer of Cleco Power from April 2016 to February 2017, and senior vice president of utility operations for Cleco Power from March 2012 to April 2016. I assumed my current leadership role as President and CEO of Cleco Corp in January 2018. My experience is broad and includes the commercial development and restructuring of merchant power businesses, construction of large-scale generation units, and operating experience in electric generation, transmission, and distribution as the chief operating officer.

Q: HAVE YOU PREVIOUSLY PRESENTED TESTIMONY IN A REGULATORY PROCEEDING BEFORE THE LOUISIANA PUBLIC SERVICE COMMISSION ("LPSC" OR THE "COMMISSION")?

A: No.

Q: PLEASE PROVIDE AN OVERVIEW OF CLECO POWER'S REQUEST.

A: In summary, the Company is proposing to implement a change in the first rate year base revenues of $115.5 million leading to an increase of 3.9%, net of fuel and other savings while extending our Service Quality Plan. The Company's indicative costs (that is, the total amount of revenue increases that Cleco Power would be entitled to under standard cost-of-service regulatory ratemaking principles) would require a $260.8 million increase. With the customer's interests in mind, Cleco Power is requesting approximately 44% of the indicative cost increase. This proposed increase is significantly less than the rate of inflation. In terms of impact on individual customers in the first year, the Company is proposing to limit the indicative rate increase to roughly $7 per month 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. 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.

Q: PLEASE DESCRIBE THE CHALLENGES WHICH THE COMPANY FACES TODAY AND HOW THE COMPANY PLANS TO ADDRESS THOSE CHALLENGES IN A WAY WHICH BENEFITS CUSTOMERS.

A: This filing 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, customer experience, and sustainability through targeted efforts to expand sales and productive electricity use. Whether it is through efficient operations, supply of low carbon power to 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 stands ready to work with this Commission to capture this opportunity and ensure that the Company's customers benefit from the current U.S. energy transition to cleaner, lower carbon energy resources. To that end, as I will discuss in greater detail, Cleco Power has 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. As I describe elsewhere in my testimony, Cleco Powers' investors (as defined below) 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 fact, 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. This means that, on a real dollar basis, Cleco Power's O&M expenses have dropped about 10.2% over that 6 year 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 other items. The Company's specific mitigation proposals are described in detail in the Direct Testimony of Cleco Power witness J. Robert Cleghorn.

Q: WHAT ARE THE PRIMARY DRIVERS FOR THE INDICATIVE COST INCREASES?

A: As noted in Mr. Cleghorn's Direct Testimony, the primary drivers of the indicative cost increases are as follows: (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 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.

Q: HOW DOES UTILITY RATEMAKING WORK AND WHY IS CLECO POWER FILING THIS REQUEST AT THIS TIME?

A: In principle, utility rates are set to recover prudently-incurred costs, enable the utility to raise capital for necessary investments, and enable the utility to earn a fair return on its investments, while simultaneously considering reliability and affordability for customers. As a regulated utility operating under the LPSC's well-established principles intended to achieve just and reasonable rates, Cleco Power operates within that business model.

In addition to the foregone investor distributions referenced above, Cleco Power and the investors have not achieved the targeted or fair ROE authorized by the Commission in Order No. U-35299, issued June 16, 2021 (the "2021 Rate Order"), which is 9.5%. In the past three years, Cleco Power's actual ROE has been as follows:

2020	7.91%
2021	7.24%
2022	8.37%

While this has benefited customers in the short-term, in the long-term a failure to pay distributions and achieving returns consistently below the target ROE are not sustainable and must be addressed by the Company and the Commission. The rate increases requested in this application are, therefore, necessary to support Cleco Power's customer's needs.

Reiterating, today, the Company could support a request for a rate increase of up to $260.8 million; however, the Company is instead requesting a phased-in reduced rate increase of $155.5 million. With affordability in mind and to moderate the impact of the proposed rate increase on its customers, Cleco Power is proposing to phase-in the rate increase over multiple years through annual rate credits in years 1 and 2 of the Company's next formula rate plan cycle. The proposed rate credit in year 1 would be $40 million. The proposed rate credit in year 2 would be $20 million. The $155.5 million requested rate increase would thus not occur until year 3.

Finally, on timing of this filing, and pursuant to the 2021 Rate Order, Cleco Power was required to file a full rate case no later than March 31, 2023. Pursuant to Commission action taken at the March 15, 2023, Business and Executive Meeting, the Commission authorized an extension of the filing date to June 30, 2023. Cleco Power's last rate case was initiated in June of 2019, and the Company's current rates became effective as of July 1, 2021.[1]

Q: WHAT SPECIFIC TOPICS WILL YOU ADDRESS IN YOUR TESTIMONY?

A: My testimony will describe:

1. Cleco Power's Vision 2025 and the Company's customer-centric focus on affordability, reliability, and customer satisfaction;
2. Cleco Power's past and present;
3. The impact of low load growth and associated flat revenue growth on Cleco Power's customers and the Company's rates;
4. The rate impacts of Hurricanes Laura, Delta, Zeta, and Ida and the 2021 Winter Storms Uri and Viola;
5. The rate impacts of recent natural gas price volatility;
6. Increases in Cleco Power's expenses and related pressures on the Company's financial performance; and
7. The supporting testimony of the other witnesses supporting Cleco Power's application in this proceeding.

II. CLECO POWER'S VISION 2025 AND CUSTOMER AFFORDABILITY

Q: PLEASE DESCRIBE VISION 2025 AND ITS PURPOSE.

A: 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. Vision 2025 kicks off the Company's efforts to become the leading clean energy company in Louisiana. Most importantly, customer satisfaction through reliability and affordability are at the center of Vision 2025. Vision 2025 sets specific goals and establishes the activities necessary to achieve those

[1] Cleco Power filed its application in Docket No. U-35299 on June 28, 2019.

goals. Vision 2025 utilizes the following three-prong approach to realize the Company's goals:

- Invest in more efficient and cleaner generation technologies to complement the existing fossil fuel fleet and 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 our "Project Energizer," to increase electricity sales to customers seeking to electrify their own operations, which in turn will make our rates more affordable as our fixed costs are spread over a larger sales volume.
- Control costs and improve customer service by leveraging Cleco Power's recently-implemented information technology platform (i.e., the SAP platform)

In short, we plan to make the fleet cleaner and more efficient, control our costs, and grow our way to affordability. This case describes this plan and our progress so far.

Q: HAVE CLECO POWER'S CUSTOMERS ALREADY BENEFITTED FROM THE THREE-PRONG APPROACH DESCRIBED ABOVE?

A: Yes. For example, 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 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. I note in this regard that the Company's expense compound annual growth rate of about 1.7% from 2016-2022, which compares favorably to the general rate of inflation of 3.4% over the same period of time, demonstrates the success of Cleco Power's leveraging SAP and other cost control measures. Finally, 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 in this proceeding for a fuller discussion of these points.

Q: WHAT ARE THE NEXT STEPS FOR VISION 2025 AND HOW WILL THEY IMPACT CUSTOMERS?

A: As Cleco Power continues to execute its three-prong Vision 2025 strategy, 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 noted above, the Company intends to achieve these reductions by establishing a Clean Energy Corridor whereby the Company will utilize emerging clean energy technologies like solar, and CCS, and battery storage to complement its existing fossil fuel-based fleet.

This is key, 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 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 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).[2] Again, please refer to the Direct Testimony of Cleco Power witness P. Andre Guillory 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

[2] A smart grid incorporates elements such as real-time monitoring, automated outage management and faster restoration, time of use pricing signals, enhanced energy management, and web portals and mobile apps.

on reasonable terms on an ongoing basis. This, in turn, requires Cleco Power to demonstrate that it can generate reasonable returns on capital already invested in the business. As discussed further in my testimony and in the Direct Testimony of Cleco Power Witness Vincent Sipowicz, Cleco Power has earned well below its target ROE for the last three years. 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.

Q: WHAT IS THE FUTURE CLECO POWER CLEAN ENERGY CORRIDOR?

A: The Cleco Power Clean Energy Corridor combines the existing fossil fleet with various clean technologies enabling cleaner power solutions for the Company's customers. This Clean Energy Corridor will stretch from the northwest part of the Company's service territory in Desoto Parish to the south-central portion in St Mary Parish. Please see Exhibit WF-1 for an illustration of the Clean Energy Corridor. The development of Cleco Power's Clean Energy Corridor began in 2019 with the commercial operation of the SMCEC, which currently provides approximately 3% of the supply requirements of the Company's customers. The Clean Energy Corridor will be enhanced as the Company's current fossil-fueled generating fleet along Interstate 49 is optimized by: (i) retiring various obsolete fossil fuel units (such as Teche Unit 3); (ii) receipt of approximately 8% of the Company's power requirements from a 240 MW solar generating facility (repurposing the transmission interconnection of the recently retired Dolet Hills Power Station); (iii) developing a CCS project, known as "Project Diamond Vault," at Cleco Power's Madison 3 generating unit;[3] (iv) developing future solar energy production facilities, as described below; and (iv) using emerging technologies like battery storage and potentially hydrogen. The recently-enacted Federal Inflation Reduction Act of 2022 (the "IRA")[4] will fund or subsidize these investments to materially mitigate the cost impacts to the Company's customers.

Q: PLEASE DESCRIBE THE COMPANY'S PLANS FOR THE DOLET HILLS SITE.

A: On August 3, 2022, Cleco Power filed an application for Commission authorization of a power purchase agreement for solar energy and related attributes that will be generated by a 240 MW solar generating facility to be developed near the Dolet Hills Power Station site (the "Dolet Hills Solar PPA"). The solar generating facility would utilize the existing interconnection at Dolet Hills Power Station. Cleco Power's request to certificate the Dolet Hills Solar PPA is currently pending before the Commission in LPSC Docket No. U-36502.[5] If the Commission authorizes the Dolet Hills Solar PPA, it will provide almost 8% of the Company's energy requirements, at a very attractive cost.

Q: PLEASE DESCRIBE THE COMPANY'S PLANS TO CAPTURE AND SEQUESTER CO2 FROM ITS MADISON 3 UNIT.

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[3] A 600 MW solid fuel-fired (petroleum coke) generating unit that is the highest carbon emitter in the Company's generation fleet, as described further, below.

[4] H.R. 5376, Public Law No. 117-169 (08/16/2022).

[5] LPSC Docket No. U-36502, Cleco Power LLC, ex parte. *In re: Application for Certificate of Public Convenience and Necessity for Cleco Power to enter into a Proposed Power Purchase Agreement between Dolet Hills Solar, LLC and Cleco Power and Authorization to Recover Associated Changes in Rates.*

A: The other transformative decarbonization project that is a key element of the Clean Energy Corridor is Cleco Power's Project Diamond Vault, which was announced in April 2022. Diamond Vault is expected to reduce Madison 3's CO2 emissions by 95%. Madison 3 is the largest CO2 emitter in Cleco Power's fleet. Diamond Vault is expected to reduce Cleco Power's company-wide emissions by approximately 40%. Federal tax credits, through the federal IRA, will provide sufficient revenue streams to financially support the CCS technology investment in Project Diamond Vault.

Q: PLEASE DESCRIBE HOW CLECO'S CLEAN ENERGY CORRIDOR FITS INTO THE COMPANY'S INTEGRATED RESOURCE PLAN.

A: The elements of the Cleco Clean Energy Corridor are more specifically described in the recently-filed Cleco Power Final Integrated Resource Plan Report,[6] which indicates that Cleco Power will seek in the near future as much as 500 MW of additional solar resources along with batteries and energy storage options, as well as other emerging technologies. Again, the establishing of Cleco Power's Clean Energy Corridor is the catalyst to enable the Company's customers' own decarbonization and attainment of their own ESG goals through increased use of the Company's product. Cleco Power's customers will benefit from such sales as fixed costs are spread over a broader usage base.

Q: PLEASE DESCRIBE THE ACTIONS THAT CLECO POWER HAS TAKEN TO ADDRESS CUSTOMER AFFORDABILITY ISSUES.

A: Since the conclusion of Cleco Power's last rate case in June 2021 and the issuance of the 2021 Rate Order (for rates that became effective July 1, 2021), Cleco Power has undergone

[6] Cleco Power's Final Integrated Resource Plan Report was filed on May 31, 2023, in LPSC Docket No. I-36175.

numerous changes structurally, operationally, and financially, all in support of providing reliable, affordable power to Cleco Power's customers. This is evidenced in Cleco Power's cost controls to maintain its O&M expenses at a 1.7% compound annual growth rate versus a compound growth rate for inflation of 3.4% from 2016-2022. While Cleco Power's investment in and use of its new information technology platform has aided the Company's cost structure and decision making, overall revenue growth for Cleco Power has been minimal and, over time, has been the Company's "Achilles heel" from an affordability perspective. Despite the effective Cleco Power cost controls, the Company's expense growth of 1.7% continues to outpace the Company's revenue growth of 0.3 to 0.4% annually, adversely impacting the Company's cost structure over time.

As noted above, Cleco Power's application in this proceeding comes at a critical juncture for the Company. Having been taken private by a consortium of infrastructure investors in 2016, through its prior Vision 2020 Cleco Power's management has spent the last approximately seven years modernizing Cleco Power in terms of its operations, workforce, culture, and information technology infrastructure, while engaging in rigorous cost-control efforts, all in an effort to address customer affordability.

Vision 2025 will further transform the Company from what it is today. The Company and its customers are now poised to reap the benefits of these efforts. Many of Cleco Power's current industrial customers, and other potential new customers, have identified decarbonization as a key business objective in their respective ESG strategies. New customers seeking clean energy solutions pursuant to the IRA are emerging, and Cleco Power's Project Energizer team has been established to capture those opportunities. It is important to reiterate, that in order to help customers achieve their decarbonization objectives, Cleco Power must first decarbonize its own power supply. If the Company can decarbonize its generation power supply, it will enable the Company's customers to meet their ESG objectives and will expand customer use of electricity, which will spur load and revenue growth and moderate the cost structure of Cleco Power. Based on conversations with existing and prospective customers, the interest in decarbonization related to ESG goals is real, robust, and accelerating.

Indeed, Cleco Power and its customers have already begun to benefit from decarbonization. In 2022, Cleco Power initiated its Project Energizer to expand and enhance the Company's clean energy marketing efforts. As a result, the Company has already contracted with additional large customers and is in active discussions with other potential customers for future service opportunities. Project Energizer is a targeted approach to expand electrification in the Company's service territory. The project targets expansion of electrification of natural gas compression; the increased penetration of consumer electric vehicles; and the electrification of commercial transportation and equipment. Project Energizer also provides for a transformed, targeted approach to economic development of emerging clean energy businesses like aviation and maritime fuels, resulting from corporate ESG strategies and IRA tax credits. To date, Cleco Power's efforts have locked in significant increased growth serving the natural gas compression business in the Company's service territory, partially offsetting otherwise smaller increases in customer usage patterns, and the Company is currently in negotiations with numerous potential new customers.

The same will hold true for Cleco Power's residential customers who desire to reduce their carbon footprint (for example, residential customers who purchase electric vehicles, electric water heaters, and heat pumps); this too will drive increased revenue growth. Cleco Power is poised to capture these revenue growth opportunities through the Company's Project Energizer, which includes marketing and newly-revised and enhanced economic development efforts. Revenue growth resulting from the expansion of the Company's customer base will allow Cleco Power to spread its fixed costs over a larger usage base, in turn lowering bills and aiding affordability.

Q: HOW DOES VISION 2025 RELATE TO CLECO POWER'S REQUESTS IN THIS PROCEEDING?

A: 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 years that new rates are in effect). Please see the Direct Testimony of Cleco Power witness J. Robert Cleghorn for a detailed explanation of the costs that Cleco Power could seek (but is proposing to forgo assuming reasonable resolution of other requests) in this rate case, and the proposed phase-in of the rate increase over multiple years in order to moderate customer rate impacts. Cleco Power estimates residential customer savings of $6 per 1,000 kWh and $3 per 1,000 kWh for years 1 and 2, respectively, of the next Formula Rate Plan cycle.

Q: WILL THE OUTCOME OF THIS RATE CASE AFFECT CLECO POWER'S FINANCIAL SOUNDNESS AND CREDIT RATINGS?

A: Yes. Cleco Power, as an electrical infrastructure company, must remain financially sound in order to meet its customer's needs. As described in detail in the Direct Testimony of Cleco Power witness Vincent Sipowicz, the rate increase proposed herein is necessary to allow Cleco Power to continue to provide safe and reliable service, while maintaining its credit ratings and financial soundness. Without a rate structure that will support Cleco Power's ability to attract both debt and equity capital, the Company will be unable to implement its Vision 2025, and Cleco Power's customers will not receive its many long-term benefits. Further, Cleco Power's service territory potentially will miss out permanently on one-time economic development opportunities related to the energy transition.

Cleco Power's management and its board maintain that the rates and structure proposed in this application are necessary to provide a pathway for what is to come: a more reliable, sustainable, cleaner, and more affordable Cleco Power.

III. CLECO POWER'S PAST AND PRESENT

Q: WHO ARE THE CURRENT OWNERS AND WHEN DID THEY PURCHASE CLECO CORP?

A: In 2016, the Commission authorized the acquisition of Cleco Corp, the parent holding company of Cleco Power, by a consortium of infrastructure investors comprised of Macquarie Infrastructure and Real Assets and its co-investors, the British Columbia Investment Management Corporation, and John Hancock, under the partnership Cleco Partners L.P. (collectively, the "investors"). The Commission authorized the transaction that took Cleco Corp private pursuant to Order No. U-33434-A, issued April 7, 2016.[7] The transaction transformed the Company from publicly traded to privately held by the investors, allowing the Company to become more flexible and enabling the Company to make long-term decisions to support the Company's infrastructure and development based on the best interests of the Company and its customers, rather than simply engaging in short-term, quarter-to-quarter decision-making driven by the equity markets.

Q: WHAT HAS BEEN THE FOCUS OF CLECO POWER'S SENIOR MANAGEMENT SINCE CLECO CORP BECAME PRIVATELY-HELD IN 2016?

A: Since 2016, Cleco Power's management has focused on achieving a more balanced approach to serving Cleco Power's stakeholders; that is, a holistic, long-term approach that balances the needs of the Company's customers, employees, and the investors in decision-making. As an electric infrastructure owner and operator, continued investment by the Company is necessary to ensure delivery of a reliable and resilient product for the Company's customers; however, this investment strategy must also consider the cost impact to the Company's customers. Cleco Power's investors and senior management team are committed to meeting the needs of Cleco Power's customers by balancing investment versus cost impact; this is and has been the focus of ongoing and intensive discussions in the Cleco Corp and Cleco Power board room.

As a result, the Company today is a more sustainable, more customer-focused organization than ever before, with a vision and a plan to address Cleco Power's cost issues to support satisfied customers.

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[7] LPSC Docket No. U-33434, Cleco Power LLC, ex parte. *In re: Joint Application of Cleco Power LLC and Cleco Partners L.P. for: (i) Authorization for the Change of Ownership and Control of Cleco Power LLC and (ii) Expedited Treatment.*

Q: WHAT SPECIFIC ACTIONS HAVE THE INVESTORS TAKEN TO ENSURE THE FINANCIAL SOUNDNESS OF THE COMPANY AND ENSURE AFFORDABILITY FOR CUSTOMERS?

A: Cleco Power's investors took no distributions during the period 2019 through the first quarter of 2022, in order to support Cleco Power's credit quality during difficult times. Instead, the distributions were in effect reinvested in the Company, which was critically important especially during the period in which the Company dealt with the effects of the COVID-19 pandemic and restored electric service in the aftermath of Hurricanes Laura, Delta, Zeta, and Ida. Such dividend measures protected the Company's credit quality and cost of debt. Also, as previously noted, Cleco Power and its investors have not received the targeted 9.5% ROE for the past three years.

Q: WHAT CHALLENGES CONFRONT CLECO POWER?

A: Cleco Power is currently confronted with significant cost issues, as I describe in detail elsewhere in my testimony. Cleco Power is heavily focused on remedying the Company's cost issues, but this process will take time.

These cost issues are largely driven by 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.

Q: HAS CLECO POWER PREVIOUSLY ADDRESSED SIMILAR COST ISSUES?

A: Yes, Cleco Power has previously been successful in addressing similar cost issues. In 2017, senior management's balanced approach culminated in the form of Cleco Power's prior Vision 2020. This resulted in a maintaining our O&M compound annual growth rate at a 1.7% discount to inflation while still reliably serving our customers. This was enabled by:

- Data and information-based decision making to cost effectively support our customer needs,
- A transformation into a more modern company through the implementation of new, state-of-the-art information technology systems across the Cleco enterprise that are now complemented with Cleco Power's newly-implemented customer portal in "MyAccount," all in support of a more cybersecure digital environment, improved customer experience, and efficiency.
- A continuation of Cleco Power's technological transformation by investing in grid modernization, automation, improved data-driven vegetation management practices to support enhanced reliability, and incorporation of best practices; and
- an increasingly diverse and effective workforce attributable to the Company's improved, inclusive hiring practices and employee training and development practices.

IV. ISSUES IMPACTING CLECO POWER'S COST STRUCTURE

a. Low Revenue Growth Impact on Cleco Power's customers

Q: HOW DOES REVENUE GROWTH IMPACT CUSTOMER COSTS?

A: 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. In this proceeding, as noted above the primary drivers for Cleco Power's request for a base rate increase are: (i) the $89.4 million cost impacts of the recent loss of wholesale load, mainly Dixie Electric Membership Corporation ("DEMCO"); and (ii) the increased operating expenses. More broadly, the Company needs to recover the cost of various investments necessary to support the reliable and efficient operation of Cleco Power's generation, transmission, and distribution systems.

Q: WHAT HAPPENED TO THE DEMCO WHOLESALE LOAD?

A: 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.[8] 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.

[8] For a detailed explanation of Cleco Power's positions on these matters, please refer to Cleco Power's testimony and other pleadings in that proceeding.

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.[9]

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, based on the reallocation of DEMCO's share of Cleco Power's costs from wholesale to retail, 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 return on equity) returns on its allocable retail generation assets, thereby reducing the Company's retail customer costs for a 10-year period.

Pursuant to the LPSC rulemaking on resource adequacy in Docket No. R-36263, Cleco Power assumes that DEMCO (and the other Louisiana electric cooperatives) will need to seek capacity resources from actual, physical generation located in MISO Zone 9 to complement the financial product that the Commission authorized in Docket No. U-36133. Should Cleco Power provide such supply capacity to DEMCO (or any of the Louisiana electric cooperatives), the associated revenues could be used to reduce Cleco Power's retail customers' costs. The cost impact of the loss of the DEMCO load will be somewhat offset by estimated fuel cost savings of $24.8 million attributable to the loss the DEMCO load.

[9] LPSC Docket No. R-36263, Louisiana Public Service Commission, ex parte. *In re: Consideration of Whether the Commission Should Adopt Minimum Physical Capacity Threshold Requirements for Load Serving Entities*

This is discussed in greater detail in the Direct Testimony of Cleco Power witness J. Robert Cleghorn in this proceeding.

b. Hurricanes Laura, Delta, Zeta, and Ida, and the 2021 Winter Storms

Q: WHAT WEATHER EVENTS HAVE IMPACTED CLECO POWER'S SERVICE AREA SINCE 2020?

A: Since the summer of 2020, Cleco Power's service territory has been impacted by Hurricanes Laura, Delta, Zeta, and Ida, as well as Winter Storms Uri and Viola. These events have further impacted Cleco Power's cost structure. Under Order No. U-35807-A, issued April 1, 2022, the Commission authorized Cleco Power's recovery of approximately $424.1 million for the storm costs and the funding of storm reserves (one for Hurricane Ida storm costs, which is currently in a Commission prudence review in Docket No. U-35807, and one for a restricted storm reserve for future storm events). Under Order No. U-35807-B, issued April 1, 2022, the Commission authorized Cleco Power's securitization financing of the $424.1 securitization principal. Cleco Power utilized low-cost securitization financing to reduce the storm impacts to its customers.

Q: HOW HAVE THESE WEATHER EVENTS IMPACTED CLECO POWER CUSTOMERS' BILLS?

A: As noted, Cleco Power utilized a securitization financing for the recovery of the costs incurred to restore service following Hurricanes Laura, Delta, Zeta, and Ida and Winter Storms Uri and Viola. The securitization financing resulted in substantially beneficial rates relative to standard utility ratemaking, saving customers approximately $155,946,579 (present value) of net value benefit, or $278,963,719 (nominal value) of net value benefit.[10] However, the storms have nonetheless caused upward pressure on Cleco Power's customers' bills, resulting in a monthly storm securitization surcharge to a 1,000 kWh customer of approximately $4.14 (net of a surcredit) for some 20 years.

c. Recent Natural Gas Price Volatility

Q: HAVE NATURAL GAS PRICES BEEN VOLATILE RECENTLY, AND, IF SO, HOW HAS THAT VOLATILITY IMPACTED CUSTOMERS' BILLS?

A: Yes, over the past two summers, natural gas prices have been extremely volatile, which has also put significant upward pressure on customers' bills across the U.S., including Cleco Power customers. Cleco Power's generation fleet is approximately 60% fired by natural gas, and the recent rise in natural gas prices materially impacted the bills of Cleco Power's customers throughout the second, third, and fourth quarters of 2022. This, compounded with the recovery of prudently-incurred Dolet Hills Power Station fuel inventory throughout 2019, 2020, and 2021, has resulted in high fuel costs and negative customer sentiment. Additionally, rising natural gas prices drove Cleco Power's fuel to in excess of 8.528 cents for the billing month of October 2022, again driving negative customer sentiment and reduced satisfaction. As noted at multiple Commission meetings in 2022, these increased fuel costs were not unique to Cleco Power or its customers. Indeed, during the July 2023 Business and Executive meeting in Shreveport, the Executive Secretary compared bills for the largest utility providers in the State, including Entergy Louisiana, Cleco Power, SWEPCO, and DEMCO, and found that all four providers were

[10] Please refer to the Issuance Advice Letter filed with the Commission on June 13, 2002, p. 14 of 26, in Docket No. U-35807.

subject to significant volatility, driving customer dissatisfaction and constituent complaints to the Commission.

Q: WHAT ARE CLECO POWER'S EXPECTATIONS FOR NATURAL GAS PRICES IN THE NEAR FUTURE?

A: While Cleco Power hopes that high natural gas prices will be transitory, and there has been some moderating of natural gas prices recently, it remains to be seen whether natural gas prices will subside on a more permanent basis.

Q: WHAT ACTIONS HAS CLECO POWER TAKEN TO MITIGATE THE IMPACT OF NATURAL GAS PRICE VOLATILITY ON CUSTOMERS' BILLS?

A: With the recent moderation of natural gas prices in 2023, the Company hedged approximately 40% of its natural gas supply requirement, which collectively with its coal supply stabilizes approximately 65% of the Company's fuel costs for the summer of 2023. This should materially mitigate any potential 2023 customer exposure to rising natural gas prices. The recent hedged volumes protect the Company's customers relative to the summer 2022 experience, during which fuel reached approximately $0.08 per kWh alone. Additionally, Cleco Power has access to natural gas storage at the Pine Prairie Energy Center and has pipeline laterals connecting to the Company's Coughlin Power Station and Acadia Power Block 1, which provide reliability and flexibility as to natural gas availability and pricing during severe weather events or other potential supply disruptions. The capacity to withdraw stored natural gas and the injection of natural gas into storage can reduce the impact of natural gas price volatility on customers' bills.

Finally, Cleco Power has established a future fuel cost hedging program utilizing probabilistic fuel cost models to make hedging decisions to stabilize customer costs. This program will be implemented in the summer 2023.

V. INCREASES IN CLECO POWER'S EXPENSES ARE PRESSURING THE COMPANY'S FINANCIAL PERFORMANCE

Q: PLEASE DESCRIBE ANY GENERAL ECONOMIC FACTORS THAT ARE NEGATIVELY IMPACTING CLECO POWER AND DRIVING ITS NEED FOR INCREASED RATES.

A: 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 O&M 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,[11] and the loss of the Company's DEMCO PSSA in 2024. 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.

Q: ARE UPWARD PRESSURES ON CLECO POWER'S RATES CONTINUING?

[11] Please refer to Cleco Power's Final IRP Report, filed May 31, 2023, in LPSC Docket No. I-36175. The Final IRP Report at p. 15 states that "[e]nergy growth within Cleco Power's service territory is moderate and within a range of 0.3% to 0.4%".

A: Yes. In the near-term there is continuing upward pressure on expenses without a concurrent increase in revenues, which is adversely affecting Cleco Power's financial performance and its ability to achieve its target return on equity. This has implications for both Cleco Power's ability to attract needed capital, both equity and debt, and its ability to provide reliable service and is, accordingly, driving Cleco Power's request for an increase in rates as described in the testimony of the other witnesses in this proceeding. While Cleco Power is requesting a rate increase, Cleco Power senior management and its board have attempted to balance the Company's needs versus the customers' needs in the form of a reduced request (see "Cleco Power Customer Impact Moderation Measures" as discussed in the Direct Testimony of Cleco Power witness J. Robert Cleghorn) and a phased-in approach to such increases.

VI. OVERVIEW OF OTHER SUPPORTING TESTIMONY

Q: PLEASE PROVIDE AN OVERVIEW OF THE TESTIMONY OF THE COMPANY'S OTHER WITNESSES SUPPORTING CLECO POWER'S APPLICATION IN THIS PROCEEDING.

A: Cleco Power's application in this proceeding is supporting by the direct testimony of the following 6 additional witnesses:

- J. Robert Cleghorn: rate request; phase-in of rates; capacity position, including the impacts of the loss of the DEMCO wholesale load; low load growth; and the retirement of the Dolet Hills Power Station.
- Christina C. McDowell: Test year with rate base and expense attrition adjustments.
- Roger A. Morin, Ph.D.: Appropriate return on equity.

- P. Andre Guillory II: Cleco Power's information technology, reliability, and customer service investments and the benefits to the Company's customers from those investments, and the extension of Cleco Power's Service Quality Plan.
- Vincent M. Sipowicz: 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: Rate design and decoupling.

VII. CONCLUSION

Q: DOES THIS CONCLUDE YOUR TESTIMONY?

A: I would like to reiterate that this rate case is 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 has provided and will continue to provide long-term value to our 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 our customers' needs. 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, we have moderated the requested increase, proposed a phase-in of the requested rate increase, proposed to extend our Service Quality Plan and have committed to apply revenues from future capacity sales to offset the increased revenue requirement. For these reasons, I believe the Company's requests in this proceeding fairly balance the needs of the Company, its customers, and other stakeholders. This concludes my testimony.

STATE OF LOUISIANA

PARISH 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:

WILLIAM FONTENOT

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

1. Affiant has prepared Direct Testimony on behalf of Cleco Power LLC, dated June 30, 2023, in support of the 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.

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.

William Fontenot
Cleco Corporate Holdings LLC
2030 Donahue Ferry Road
Pineville, LA 71360

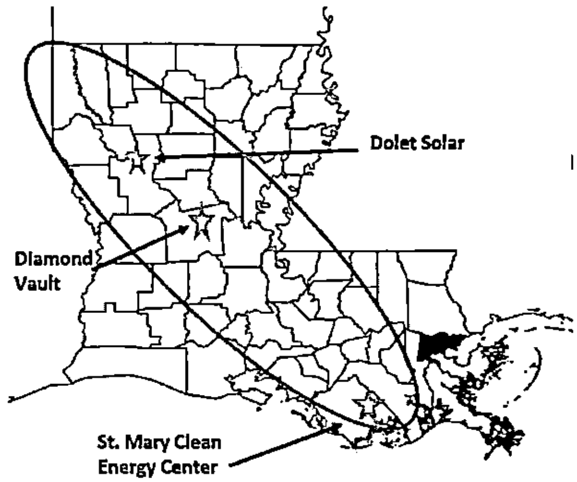
SWORN TO AND SUBSCRIBED
BEFORE ME, NOTARY PUBLIC,
THIS 26th DAY OF JUNE, 2023.

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

CATINA L. IVEY
NOTARY PUBLIC
COMMISSIONED FOR LIFE
NOTARY ID NO. 51231
RAPIDES PARISH, LA
RAPIDES PARISH

Building Cleco's Future Clean Energy Corridor

- **Project Diamond Vault**
  - To be funded by enhanced tax credits from Inflation Reduction Act
  - To provide 40% to 50% of company's energy requirements
- **Dolet Hills Solar Project**
  - To provide 240 MWs or about 8% of company's energy requirements
- **St. Mary Clean Energy Center**
  - Placed into service August 2019
  - Provides up to 50 MWs
- **Additional solar sites secured in Rapides Parish**
  - Potential for ~ 200 MWs of solar power



"If we build it (decarbonized power supply), they (electrification) will come."

The future "Clean Energy Corridor" enables the capture of clean energy-related opportunities.