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JUN 30 2023

BEFORE THE

LOUISIANA PUBLIC SERVICE COMMISSION LA 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)

DIRECT TESTIMONY

OF

VINCENT M. SIPOWICZ

ON BEHALF OF

CLECO POWER LLC

JUNE 30, 2023

**CLECO POWER LLC
DIRECT TESTIMONY OF VINCENT M. SIPOWICZ
LPSC DOCKET NO. U-_____**

EXHIBITS

EXHIBIT NO.	DESCRIPTION

TABLE OF CONTENTS

I. INTRODUCTION AND BACKGROUND	1
II. PURPOSE OF TESTIMONY	2
III. CREDIT RATINGS	2

I. INTRODUCTION AND BACKGROUND

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

A: My name is Vincent M. Sipowicz. I am the Vice President and Treasurer for Cleco Corporate Holdings LLC ("Cleco Corp"). My business address is 2030 Donahue Ferry Road, Pineville, Louisiana, 71360.

Q: PLEASE DESCRIBE YOUR JOB RESPONSIBILITIES.

A: My current responsibilities include managing all debt and financing activity at Cleco Corp and Cleco Power LLC ("Cleco Power" or "the Company"), including debt issuances and refinancings; maintaining relationships with credit rating agencies and managing credit ratings; managing relationships with banks and fixed income investors; maintaining company cash and liquidity; and providing financial analysis, forecasts and funding plans to company management, as well as the Board of Managers, for financial decision making.

Q: PLEASE BRIEFLY DESCRIBE YOUR PROFESSIONAL AND EDUCATIONAL HISTORY.

A: I hold a Bachelor of Arts degree with a major in Mathematics from Duke University and a Master of Business Administration degree from the Tuck School of Business at Dartmouth College. I joined Cleco Corp in my current role as Vice President and Treasurer in 2020. From 2003 to 2020 I worked for the AES Corporation in Arlington, Virginia, a global energy company operating a portfolio of electric generation and regulated utility businesses. While at AES, I held several positions of increasing responsibility in Financial Planning and Analysis, Investors Relations and Treasury. The majority of my tenure at the AES Corporation was spent in Treasury, where I was responsible for managing a \$6 billion

1 corporate debt portfolio, maintaining corporate credit ratings and relationships with credit
2 rating agencies, and managing cash and liquidity planning.

3 **II. PURPOSE OF TESTIMONY**

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

5 **A:** My testimony supports Cleco Power's Application in this proceeding. My testimony
6 specifically discusses Cleco Power's current credit ratings and the impact of the requested
7 revenue increase on Cleco Power's credit metrics and ratings going forward.

8 **III. CREDIT RATINGS**

9 **Q: WHY ARE CREDIT RATINGS IMPORTANT?**

10 **A:** Credit ratings are indications of a company's ability to service and repay its debt
11 obligations. Debt investors rely heavily on these ratings to ascertain the risks associated
12 with specific debt issuers and issuances. All else being equal, higher credit ratings usually
13 correspond to lower yield requirements on the part of fixed income investors. That is,
14 investors are willing to accept a lower yield on their holdings in return for the lower risk
15 that a higher-rated debt security affords. Generally speaking, the higher the rating, the
16 lower the interest rate paid by an issuer. In the case of regulated utilities, these lower rates
17 translate to lower interest costs borne by customers.

18 **Q: WHAT ARE CLECO POWER'S CURRENT CREDIT RATINGS?**

19 **A:** Cleco Power is currently rated by S&P Global Ratings ("S&P"), Moody's Investor Service
20 ("Moody's"), and Fitch Ratings ("Fitch"). The current senior unsecured issuance ratings
21 are as follows:

- 22 • S&P – BBB+, stable outlook;
- 23 • 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 comfortably 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.

Q: WHAT ARE SOME OF THE KEY RATINGS CONSIDERATIONS FOR CLECO POWER?

A: 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 plan¹ that provides timely cost and investment recovery, and the existing insulating ring fencing provisions contained in LPSC Order No. U-33434-A, issued April 7, 2016. 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

¹ Cleco Power's Second Amended and Restated Formula Rate Plan was authorized by LPSC Order No. U-35299, issued June 22, 2021.

**CLECO POWER LLC
DIRECT TESTIMONY OF VINCENT M. SIPOWICZ
LPSC DOCKET NO. U-_____**

1 years, largely due to the rate case delay in 2020² and the impact from storms in 2020 and
2 2021.

3 **Q: WHAT ARE SOME FACTORS THAT COULD CAUSE A CREDIT RATING**
4 **DOWNGRADE AT CLECO POWER?**

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

12 **Q: WHAT ARE CLECO POWER’S CURRENT CASH TO DEBT METRICS, AND**
13 **WHERE ARE THEY PROJECTED TO BE WITH THE CURRENT RATE CASE**
14 **REVENUE REQUEST?**

15 **A:** After two years of materially underperforming against ratings benchmarks (with coverage
16 ratios in the mid-teens), the Moody’s CFO to debt, coverage ratio for the year ended
17 December 2022 was approximately 20%, or right at the downward ratings threshold. For
18 the five-year period from 2023 through 2027, assuming the requested phase-in of rates as
19 described in the Direct Testimony of Cleco Power witness J. Robert Cleghorn in this
20 proceeding, this ratio is projected to average approximately 23.5%. With 20% being the
21 stated triggering threshold for an actual ratings downgrade, Cleco Power senior

² LPSC Docket No. U-35299, Cleco Power, ex parte. *In re: Application for Implementation of Changes in Rates to be Effective July 1, 2020 and Extension of Existing Formula Rate Plan.*

1 management deems it prudent to target achieving 22% on a forward-looking basis. This
2 provides some level of mitigation against unforeseen events, weather related or otherwise,
3 where financial underperformance could potentially cause a credit ratings downgrade.
4 Cleco Power senior management believes this is particularly important considering Cleco
5 Power is only now just returning to levels acceptable for the current ratings, after two years
6 of underperformance, a period that saw S&P revise the Company's outlook from Stable to
7 Negative (and back to Stable upon the successful securitization of storm costs in 2022 in
8 LPSC Docket No. U-35807³).

9 **Q: IF THE REQUESTED RATE INCREASE IS ASSUMED IN THE PROJECTIONS**
10 **FOR CREDIT RATIOS, WOULD A RULING THAT FELL SHORT OF THE**
11 **REQUESTED RATE INCREASE HAVE A DETRIMENTAL IMPACT ON CREDIT**
12 **RATIOS AND CREDIT RATINGS?**

13 **A:** Yes, a decrease to projected revenues resulting from a denial or reduction of the rate
14 increase requested in the Company's application in this proceeding would have a
15 corresponding negative impact on the Company's projected credit ratios. A deterioration
16 in the ratios could have negative ratings implications, up to and including a ratings
17 downgrade. For reference, each \$15 million in revenue and cash flow is equivalent to a
18 change of approximately 1% of the CFO or FFO to debt coverage ratio. Additionally, an
19 adverse ruling in this rate case, in isolation or in conjunction with the current proceedings

³ LPSC Docket No. U-35807, Cleco Power LLC, ex parte. *In re: Application of Cleco Power LLC for: (I) Recovery in Rates of Certain Storm Damage Costs Incurred a Result of Hurricanes Laura, Delta, and Zeta and Winter Storms Uri and Viola, Related Securitization Financing and Establishment of a Storm Reserve; and (II) Expedited Treatment.*

**CLECO POWER LLC
DIRECT TESTIMONY OF VINCENT M. SIPOWICZ
LPSC DOCKET NO. U-_____**

1 related to the retirement of Dolet Hills Power Station,⁴ could itself call into doubt the rating
2 agencies' current perception of Louisiana as a supportive regulatory environment. As I
3 mentioned, Cleco Power's regulatory environment is currently viewed as a positive credit
4 factor, but if rating agencies were to stop viewing Louisiana as such, it could lead to
5 negative ratings actions, including a potential downgrade.

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

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

⁴ LPSC Docket No. U-35753, Cleco Power LLC and Southwestern Electric Power Company, ex parte. *In re: Joint Application for: (I) Authorization to Close the Oxbow Mine; and (II) Authorization to Include and Defer Certain Accelerated Mine Closing Costs in Fuel and Related Ratemaking Treatments; (III) Review of Cleco Power and Southwestern Electric Power to Retire Dolet Hills Power Station by December 31, 2021, Including Whether Such Decision was Prudent; and (IV) Related Rate Issues.*

STATE OF LOUISIANA

PARISH OF RAPIDES

AFFIDAVIT

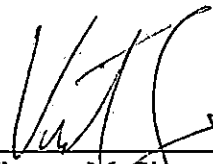
BE IT KNOWN, that before me, the undersigned Notary Public, duly commissioned and qualified for the state and parish/county aforesaid, personally came and appeared:

VINCENT M. SIPOWICZ

("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.



Vincent M. Sipowicz
Cleco Corporate Holdings LLC
2030 Donahue Ferry Road
Pineville, LA 71360

SWORN TO AND SUBSCRIBED
BEFORE ME, NOTARY PUBLIC,
THIS 19th DAY OF JUNE, 2023.



NOTARY PUBLIC

BAR ROLL/NOTARY ID NO.: 51231

MY COMMISSION EXPIRES: at death

