

Our Successful Effort to Retain Lafayette Utilities System (LUS)



Initial Background

- LUS Provides:

- Electric
- Water
- Sewer



- Telecommunications services to a city of over 125,000

- Gross Revenues of over \$300,000, with Electric Revenues at \$200,000

- In-Lieu-of-Tax \$23 million (enough to cover base salaries of Police and Fire)



Lafayette's Home Rule Charter Government

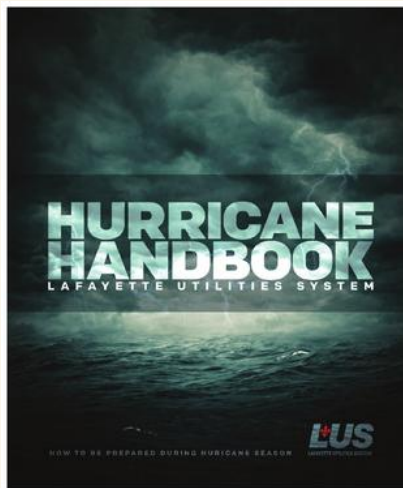
- Established (in 1976), the following:
 - **“The City shall not sell, lease or in any manner dispose of the Utility System or an substantial part thereof without approval be a majority vote of the qualified electors voting in an election call for that purpose...”**
- That same basic language was included in all subsequent Charter revisions.
- This will be a key issue in this presentation.

THINK: Storm Management

- Before the Storm
- During the Storm
- After the Storm

“Before The Storm” – The LUS Tradition

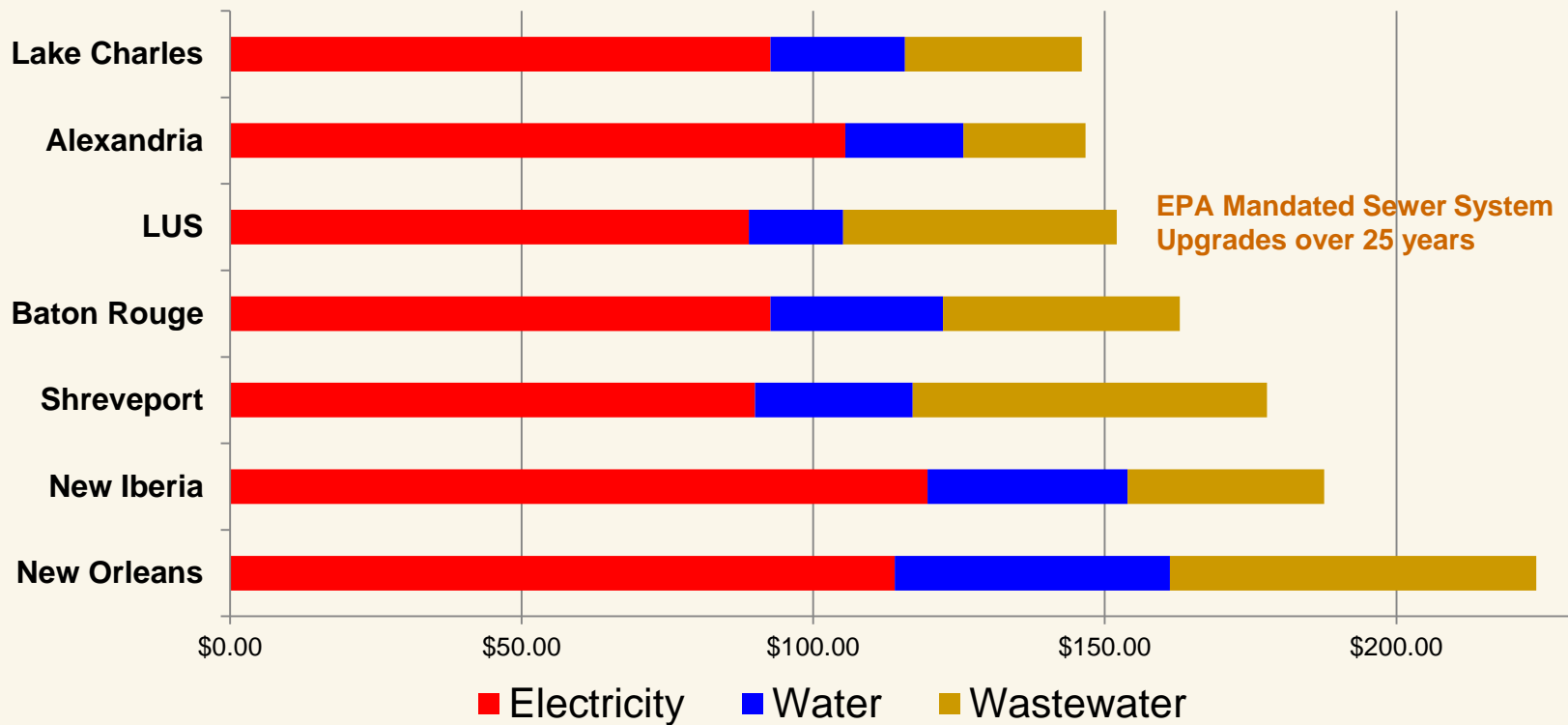
- Close Communications with Elected Officials, Media and the Public
- Being upfront on Storm Events
- Participant in Major Event Sponsorships



Enjoying Lowest Electric Rates In the State

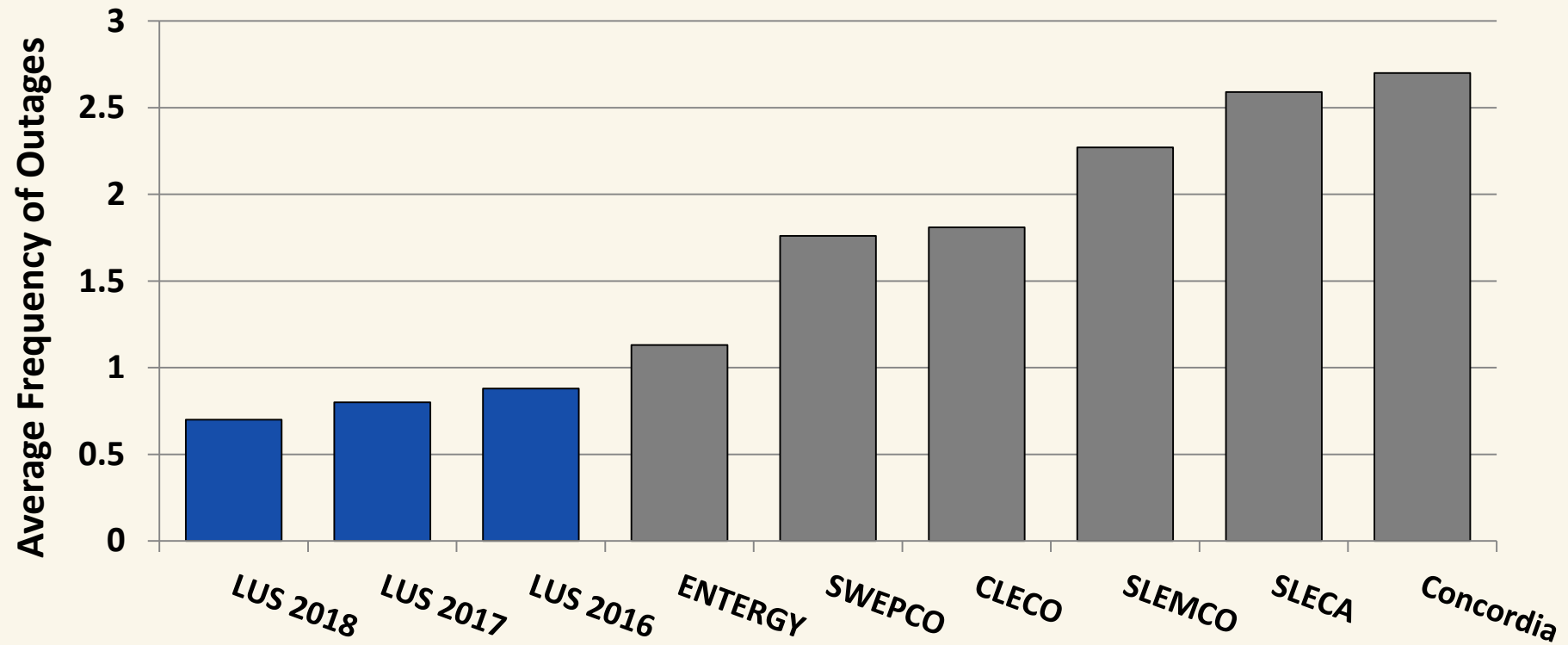


Amongst Lowest Overall Rates in the State

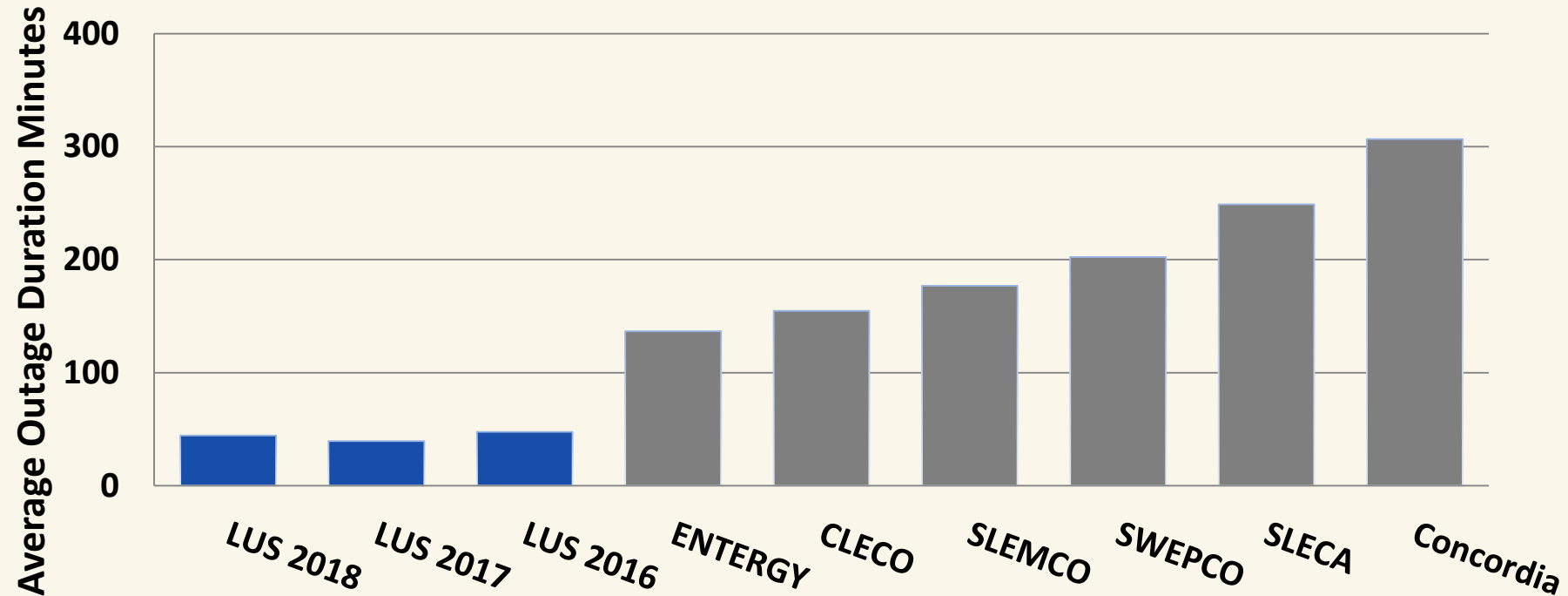


Residential Costs (12 month comparison based on 1,000 kWh and 7,000 gallons per month)

LUS – Fewest Electric Power Interruptions SAIFI



LUS - Shortest Electric Power Interruptions SAIDI



How Much Is Electric Reliability Worth?

- **LUS customers saved about \$180 million* in 2017**

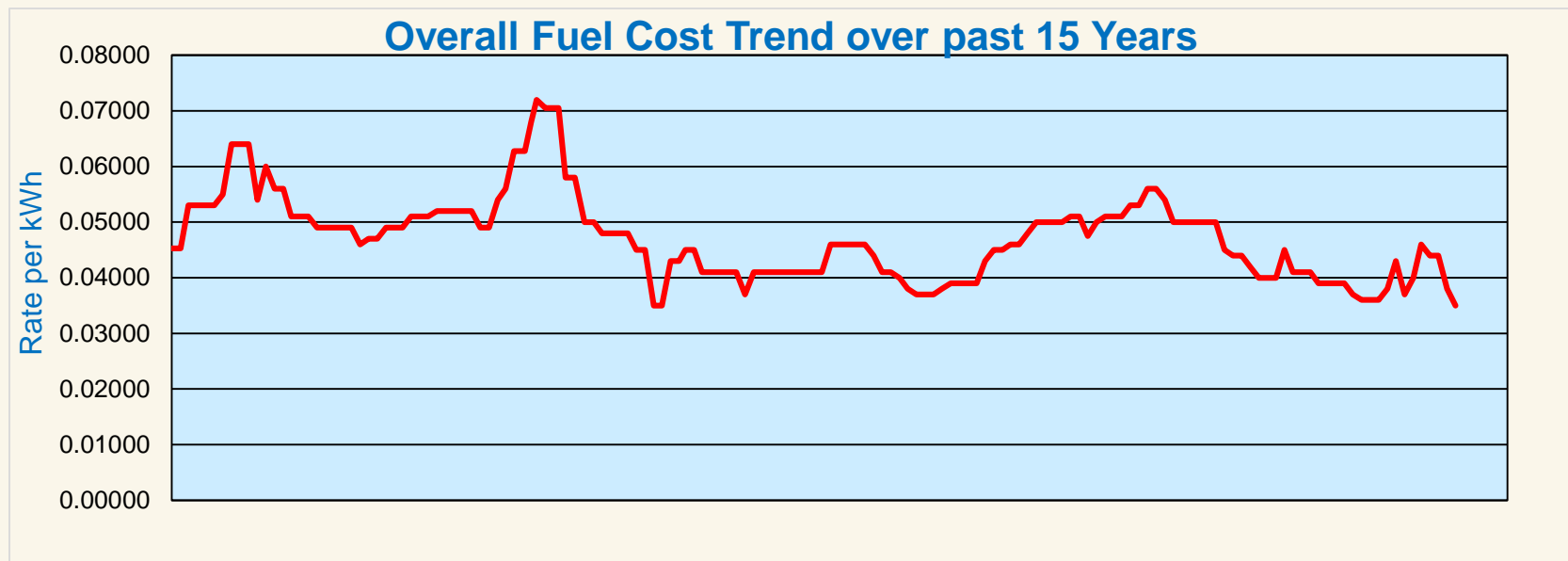
(When compared to the Louisiana state average, as estimated by a Reliability Calculator funded by Lawrence Berkeley National Laboratory and the DOE)

- Pro-active Engineering
- Aggressive use of Technology
- A Passion for System Maintenance



Reducing Costs While Adding Renewables

- Renewables increased to 32% in January 2019...
- ...Without increasing rates to LUS customers



- Bottom Line – LUS has long maintained a High Degree of Customer Satisfaction

“The Storm Begins” New Mayor – New Vision

- During election campaign – Secret plans contrived to “Monetize” LUS
 - Using new dollars to fund capital projects in a tax averse Lafayette
- After supporting the Council’s LUS 2016 rate increase to build new generation, the Mayor stopped pursuit of the project in April 2017
- Indicated Bernhard Capital Partners was making a bid to Buy the Electric System

A Different World



Jim Bernhard – Had a previous history in Major Acquisitions

- Mayor indicated the Bernhard assessment would last less than 4 months
 - It lasted 18 months, instead
- A review of Bernhard's history with the Shaw Group, Stone and Webster and Chicago Bridge and Iron suggested reasons for concern and caution
 - Multiple delays/ infractions for nuclear plant and other generation projects
 - Fines and Jail Times ensued

...Hey, Do You Want a Job?



- Within months, Bernhard representatives offered me a job to oversee their new company called “NextGen” – I told them No!
- NextGen made Massive Information Requests for their “Due Diligence” purposes
 - Including requests for records and information that would violate NERC requirements (We said “No” – they said they would pursue, anyway) – They never got them
- In the meantime, more-and-more members of the community reached out to me about what they were hearing “on the street” about the possible sale of the utility system
- I remained guarded with my responses

Rumors Float – The Story Breaks



- Finally a member of the local Press found out enough to print a story
- Knowing it would be difficult for the press to piece enough the story, I decided to Early Retirement
- Met with employees to let them know what was happening
- Began meeting with close press associates that same day

Bad Politics and Communications



- The Mayor did not advise the Council, or the Press, about his unusual initiative to monetize LUS – even though he was advised many times about the Charter provisions protecting the Utility system...



- In addition, the fact that the Mayor was only entertaining a proposal from Bernhard Capital Partners created the “Smell of Dirty Politics” , and immediate trouble for the Mayor

Bernhard Makes His First Pitch to the Public

- Bernhard asks to be guest speaker at the Lafayette Rotary Club
 - He did not know I was a member until he saw me there
 - His 1st negative pitch was that “LUS has a Horrible Safety Record”
- (Fact Check: LUS Safety record was 2X better than the Industry Average)
 - He promised Lafayette a “Fortune 500” NextGEN headquarters (1000+ employees)
 - And, alleged Economic Benefits of \$4.1 Billion to Lafayette
 - His ultimate Target – Public Power Utilities in the Southeast



New Trick Concerning “Sale or Lease” of LUS

- Bernhard’s Legal Team Offers a Legal Opinion
- That, Bernhard can enter into a “Management Agreement” of up to 99 years
 - Which they contend does not conflict with the Charter requirement for a public vote
- Mayor said 99 years was too long - - he opted instead only “40 year” deal

Press, Council, Business Community and Citizens Express Concern

- Bernhard's Presentation Highlights – October 9, 2018
 - His general tone - “LUS is Being Run Poorly”
 - “Bad” Safety Record, “Inadequate” Maintenance, “Inefficient” Generation
 - He offered a “40-year agreement” with \$1.3 Billion in financial benefits to Lafayette:
 - \$920 million in guaranteed In-Lieu-of-Taxes over 40 years
 - \$184 million which NextGEN would pay off LUS's outstanding debt
 - \$140 million in upfront cash to the City of Lafayette
 - \$ 64 million in “growth sharing payments” if LUS electric base revenues increase by 2.1% per year
 - Decrease Residential Base Electric Rate by 10% first 3 years



Peeling the Onion

- “LUS is Being Poorly Run”?
 - Never mentions LUS having the Best Reliability in the State
 - Only one sentence in his 58 page report indicates LUS has Low Rates
 - Water, Sewer and Electric are all one-sided indicating upgrade needs
 - Without recognizing LUS upgrades and other scheduled upgrades
 - It was then discovered that Bernhard Capital Partners has already acquired electric and water consultants and contractors ...
 - With plans were to use their “in-house partners” to design and perform work without having to follow by “Public Bid Laws” (Extra Profit \$\$\$\$!)

Peeling the Onion (cont.)

- More fallacies in their “alleged \$1.3 Billion” in “Financial Benefits”
 - \$920 million in guaranteed In-Lieu-of-Taxes over 40 years
 - Current LUS ILOT averages \$23 million per year today – But ...
 - ILOT naturally increases each year (based on number of customers & rates)
 - NOTE: LUS ILOT was \$8 million 40 years ago – so over the next 40 years, at that rate of growth, it could continue to grow – conservatively accumulating to over \$1.4 billion!
 - Far more than \$920 million

Peeling the Onion (Fowl Smell)

- Additional fallacies in their alleged \$1.3 Billion in “Financial Benefits”
 - \$184 million which NextGEN would pay off LUS’s outstanding debt
 - Even though they are paying off the debt, NextGEN will be keeping rates the same – so ultimately they get their money back
 - \$140 million in upfront cash to the City of Lafayette
 - A One-time payment from Bernhard for a 40 year deal.
 - \$ 64 million in “growth sharing payments” if LUS electric base revenues increase by 2.1% per year
 - Lafayette’s historical sales growth is less than 1%, so LUS will likely never receive such payments
 - Decrease Residential Base Electric Rate by 10% for the First 3 years
 - Residential and Business Customers saw the hypocrisy

Bernhard's Sales Pitch

- Late October - Last Minute desperate outreach to the Community



- Renting space in Downtown to lure citizens with Free Food and Music
- Reaching out to the Business Community and the Chamber of Commerce
 - Major local contractor chosen to build alleged “Bernhard Tower”
- “Push Poll” survey – 90% of those polled were said to be against selling LUS

Showdown Council Meeting November 5, 2018

- Council member sponsored a resolution calling for RFP's for other companies could make an offer
- A 2nd Council member sponsored a second resolution indicating Lafayette was not interested in Selling, Leasing or entering into a Management Contract

- In my address to the Council I disclosed that the Bernhard team had made 4 job offers to me
 - With the most recent one having only been 13 days earlier
- Council defeated the first resolution & unanimously supported the 2nd resolution - We Won!
- The Mayor subsequently announced that he was no longer pursuing his LUS initiative

- The Nightmare was coming to an end
 - Thanks to huge support from Citizens and the Council

“After The Storm” There Was Some Unfinished Business

- The interpretation of the Charter provision concerning the Utility System needed to be addressed
 - Coincidentally, some of my former fellow directors were working to amend the City Charter
 - The timing was right to amend the “Sale or Lease” provision
- December 8, 2018 – The Charter Amendment Passed!
- Now it is clear that a majority of future voters must support the Sale, Lease, or placement of a Management Contract before another entity to operate the Utilities System
- LUS is Protected!

Lessons Learned

- Never take your Utility System for granted
- “Mind Your Knitting”
 - Communicate with your major stakeholders regularly
 - Chamber
 - Business Community
 - Neighborhood Organizations
 - Stay close to the local media – make sure they know you and trust you
 - Keep Rates Fair and Reasonable
 - Keep Your System Reliable (Reliability is more important than anything)
 - Protect Your System by Ensuring the Requirement of a Public Referendum

Closing Remarks

- Bernhard's Team was clearly being driven hard to achieve desired results
 - Most of his team were from IOU's who did not really understand the Public Power business and mindset
- It was relatively easy to point out the fallacies in their proposal
- But, it took a lot of community backbone to stand up to them

- A better prepared and more prudent organized effort against a Public Power community could be much more difficult

- If the Mayor and elected officials are with you, that is great
- Alternatively, you need the Community on your side – Thanks