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 a substantial part thereof without approval by 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

- **LUS** ($86.64)
- **ENTERGY** ($90.26)
- **SLEMCO** ($101.29)
- **CLECO** ($119.27 (34% higher))
Amongst Lowest Overall Rates in the State

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

EPA Mandated Sewer System Upgrades over 25 years
LUS – **Fewest** Electric Power Interruptions

**SAIFI**

Average Frequency of Outages

- LUS 2018
- LUS 2017
- LUS 2016
- ENTERGY
- SWEP CO
- CLECO
- SLEM CO
- SLECA
- Concordia
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 pursing 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