

CLECO POWER LLC  
Form 10-Q  
November 02, 2009

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2009

Or

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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Commission file number 1-15759

CLECO CORPORATION  
(Exact name of registrant as specified in its charter)

Louisiana  
(State or other jurisdiction of incorporation or organization)

72-1445282  
(I.R.S. Employer Identification No.)

2030 Donahue Ferry Road, Pineville, Louisiana  
(Address of principal executive offices)

71360-5226  
(Zip Code)

Registrant's telephone number, including area code: (318) 484-7400

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Commission file number 1-05663

CLECO POWER LLC  
(Exact name of registrant as specified in its charter)

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Louisiana  
(State or other jurisdiction of incorporation or organization)

72-0244480  
(I.R.S. Employer Identification No.)

2030 Donahue Ferry Road, Pineville, Louisiana  
(Address of principal executive offices)

71360-5226  
(Zip Code)

Registrant's telephone number, including area code: (318) 484-7400

Indicate by check mark whether the Registrants: (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrants were required to file such reports) and (2) have been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the Registrants have submitted electronically and posted on their corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrants were required to submit and post such files). Yes  No

Indicate by check mark whether Cleco Corporation is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):  
Large accelerated filer  Accelerated filer  Non-accelerated filer  (Do not check if a smaller reporting company)  Smaller reporting company

Indicate by check mark whether Cleco Power LLC is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):  
Large accelerated filer  Accelerated filer  Non-accelerated filer  (Do not check if a smaller reporting company)  Smaller reporting company

Indicate by check mark whether the Registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act) Yes  No

Number of shares outstanding of each of Cleco Corporation's classes of Common Stock, as of the latest practicable date.

| Registrant        | Description of Class           | Shares Outstanding at October 27, 2009 |
|-------------------|--------------------------------|--|
| Cleco Corporation | Common Stock, \$1.00 Par Value | 60,479,653                             |

Cleco Power LLC, a wholly owned subsidiary of Cleco Corporation, meets the conditions set forth in General Instructions H(1)(a) and (b) of Form 10-Q and is therefore filing this Form 10-Q with the reduced disclosure format.



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This combined Form 10-Q is separately filed by Cleco Corporation and Cleco Power. Information in this filing relating to Cleco Power is filed by Cleco Corporation and separately by Cleco Power on its own behalf. Cleco Power makes no representation as to information relating to Cleco Corporation (except as it may relate to Cleco Power) or any other affiliate or subsidiary of Cleco Corporation.

This report should be read in its entirety as it pertains to each respective Registrant. The Notes to the Unaudited Condensed Consolidated Financial Statements are combined.

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## GLOSSARY OF TERMS

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References in this filing, including all items in Parts I and II, to “Cleco” mean Cleco Corporation and its subsidiaries, including Cleco Power, and references to “Cleco Power” mean Cleco Power LLC and its subsidiary, unless the context clearly indicates otherwise. Additional abbreviations or acronyms used in this filing, including all items in Parts I and II are defined below:

| ABBREVIATION<br>OR ACRONYM  | DEFINITION   |
|-----------------------------|--|
| 401(k) Plan                 | Cleco Power 401(k) Savings and Investment Plan   |
| Acadia                      | Acadia Power Partners, LLC and its combined-cycle, natural gas-fired power plant near Eunice, Louisiana, 50% owned by APH and 50% owned by Cajun. Prior to September 13, 2007, Acadia was 50% owned by APH and 50% owned by Calpine Acadia Holdings, LLC.  |
| Acadiana Load Pocket        | An area in south central Louisiana that has experienced regular transmission constraints caused by local load and lack of generation. Transmission within the Acadiana Load Pocket is owned by several entities, including Cleco Power.  |
| AFUDC                       | Allowance for Funds Used During Construction   |
| Amended EPC Contract        | Amended and Restated EPC Contract between Cleco Power and Shaw, executed on May 12, 2006, for engineering, procurement, and construction of Rodemacher Unit 3, as amended by Amendment No. 1 thereto effective March 9, 2007, Amendment No. 2 thereto dated as of July 2, 2008, Amendment No. 3 thereto dated as of July 22, 2009, and Amendment No. 4 thereto dated October 19, 2009. |
| APH                         | Acadia Power Holdings LLC, a wholly owned subsidiary of Midstream  |
| Attala                      | Attala Transmission LLC, a wholly owned subsidiary of Cleco Corporation. Prior to February 1, 2007, Attala was a wholly owned subsidiary of Midstream.   |
| Bear Energy                 | BE Louisiana LLC, an indirect wholly owned subsidiary of JPMorgan Chase & Co. In September 2008, BE Louisiana LLC was merged into JPMVEC.  |
| Bear Stearns Companies Inc. | The parent company of Bear, Stearns & Co. Inc.   |
| Cajun                       | Cajun Gas Energy L.L.C.  |
| Cleco Energy                | Cleco Energy LLC, a wholly owned subsidiary of Midstream   |
| Cleco Innovations LLC       | A wholly owned subsidiary of Cleco Corporation   |
| Cleco Katrina/Rita          | Cleco Katrina/Rita Hurricane Recovery Funding LLC, a wholly owned subsidiary of Cleco Power  |
| Codification                | FASB Accounting Standards Codification™ the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities.  |
| Diversified Lands           | Diversified Lands LLC, a wholly owned subsidiary of Cleco Innovations LLC  |
| Entergy                     | Entergy Corporation  |
| Entergy Gulf States         | Entergy Gulf States, Inc.  |
| Entergy Louisiana           | Entergy Louisiana, LLC   |

|                              |   |
|------------------------------|---|
| Entergy Mississippi          | Entergy Mississippi, Inc.   |
| Entergy Services             | Entergy Services, Inc., as agent for Entergy Louisiana and Entergy Gulf States  |
| EPA                          | United States Environmental Protection Agency   |
| EPC                          | Engineering, Procurement, and Construction  |
| ERO                          | Electric Reliability Organization   |
| ESPP                         | Cleco Corporation Employee Stock Purchase Plan  |
| Evangeline                   | Cleco Evangeline LLC, a wholly owned subsidiary of Midstream, and its combined-cycle, natural gas-fired power plant located in Evangeline Parish, Louisiana   |
| Evangeline Tolling Agreement | Capacity Sale and Tolling Agreement between Evangeline and BE Louisiana LLC (as successor to Williams Power Company, Inc. (formerly known as Williams Energy Marketing & Trading Company)) which expires in 2020. In September 2008, BE Louisiana LLC was merged into JPMVEC. |
| FASB                         | Financial Accounting Standards Board  |
| FERC                         | Federal Energy Regulatory Commission  |
| GAAP                         | Generally Accepted Accounting Principles in the United States   |
| GDP-IPD                      | Gross Domestic Product – Implicit Price Deflator  |
| GO Zone                      | Gulf Opportunity Zone Act of 2005 (Public Law 109-135)  |
| ICT                          | Independent Coordinator of Transmission   |
| Interconnection Agreement    | One of two Interconnection Agreement and Real Estate Agreements, one between Attala and Entergy Mississippi, and the other between Perryville and Entergy Louisiana   |
| IRP                          | Integrated Resource Planning  |
| IRS                          | Internal Revenue Service  |
| JPMVEC                       | J.P. Morgan Ventures Energy Corporation. In September 2008, Bear Energy was merged into JPMVEC.   |
| kWh                          | Kilowatt-hour(s) as applicable  |
| LIBOR                        | London Inter-Bank Offer Rate  |
| Lignite Mining Agreement     | Dolet Hills Mine Lignite Mining Agreement, dated as of May 31, 2001   |
| LPSC                         | Louisiana Public Service Commission   |
| LTICP                        | Cleco Corporation Long-Term Incentive Compensation Plan   |
| Midstream                    | Cleco Midstream Resources LLC, a wholly owned subsidiary of Cleco Corporation   |
| MMBtu                        | Million British thermal units   |
| Moody's                      | Moody's Investors Service   |
| MW                           | Megawatt(s) as applicable   |
| NAC                          | North American Coal Corporation   |
| OCI                          | Other Comprehensive Income  |

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| ABBREVIATION<br>OR ACRONYM | DEFINITION   |
|----------------------------|--|
| PCAOB                      | Public Company Accounting Oversight Board  |
| PCB                        | Polychlorinated biphenyls  |
| Perryville                 | Perryville Energy Partners, L.L.C., a wholly owned subsidiary of Cleco Corporation. Prior to February 1, 2007, Perryville was a wholly owned subsidiary of Perryville Energy Holdings LLC, a wholly owned subsidiary of Midstream. |
| Power Purchase Agreement   | Power Purchase Agreement, dated as of January 28, 2004, between Perryville and Entergy Services  |
| PRP                        | Potentially responsible party  |
| Registrant(s)              | Cleco Corporation and Cleco Power  |
| RFP                        | Request for Proposal   |
| Rodemacher Unit 3          | A 600-MW solid-fuel generating unit under construction by Cleco Power at its existing Rodemacher plant site in Boyce, Louisiana  |
| RTO                        | Regional Transmission Organization   |
| Sale Agreement             | Purchase and Sale Agreement, dated as of January 28, 2004, between Perryville and Entergy Louisiana  |
| SEC                        | Securities and Exchange Commission   |
| SERP                       | Cleco Corporation Supplemental Executive Retirement Plan   |
| Shaw                       | Shaw Contractors, Inc., a subsidiary of The Shaw Group Inc.  |
| Support Group              | Cleco Support Group LLC, a wholly owned subsidiary of Cleco Corporation  |
| SWEPCO                     | Southwestern Electric Power Company, a wholly owned subsidiary of American Electric Power Company, Inc.  |
| VaR                        | Value-at-risk  |
| Williams                   | Williams Power Company, Inc.   |

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#### CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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This Quarterly Report on Form 10-Q includes “forward-looking statements” about future events, circumstances, and results. All statements other than statements of historical fact included in this Quarterly Report are forward-looking statements, including, without limitation, statements regarding the construction, timing, and cost of Rodemacher Unit 3; JPMVEC’s performance under the Evangeline Tolling Agreement; future capital expenditures; projections; business strategies; goals; competitive strengths; market and industry developments; development and operation of facilities; future environmental regulations and remediation liabilities; and the anticipated outcome of various regulatory and legal proceedings. Although the Registrants believe that the expectations reflected in such forward-looking statements are reasonable, such forward-looking statements are based on numerous assumptions (some of which may prove to be incorrect) and are subject to risks and uncertainties that could cause the actual results to differ materially from the Registrants’ expectations. In addition to any assumptions and other factors referred to specifically in connection with these forward-looking statements, the following list identifies some of the factors that could cause the Registrants’ actual results to differ materially from those contemplated in any of the Registrants’ forward-looking statements:

- § Factors affecting utility operations, such as unusual weather conditions or other natural phenomena; catastrophic weather-related damage (such as hurricanes and other storms); unscheduled generation outages; unanticipated maintenance or repairs; unanticipated changes to fuel costs, cost of and reliance on natural gas as a component of Cleco’s generation fuel mix and their impact on competition and franchises, fuel supply costs or availability constraints due to higher demand, shortages, transportation problems or other developments; decreased customer load; environmental incidents; environmental compliance costs; or power transmission system constraints;
- § Cleco Corporation’s holding company structure and its dependence on the earnings, dividends, or distributions from its subsidiaries to meet its debt obligations and pay dividends on its common stock;
- § Cleco Power’s ability to construct, operate, and maintain, within its projected costs (including financing) and timeframe, Rodemacher Unit 3, in addition to any other self-build projects identified in future IRP and RFP processes;
- § Dependence of Cleco Power for energy from sources other than its facilities and the uncertainty of future long-term sources of such additional energy;
- § Nonperformance by and creditworthiness of counterparties under tolling, power purchase, and energy service agreements, or the restructuring of those agreements, including possible termination;
- § Regulatory factors such as changes in rate-setting policies, recovery of investments made under traditional regulation, recovery of storm restoration costs; the frequency and timing of rate increases or decreases, the results of periodic fuel audits, the results of the IRP and RFP processes, the formation of the RTOs and the ICTs, and the compliance with the ERO reliability standards for bulk power systems by Cleco Power, Acadia, and Evangeline;
- § Financial or regulatory accounting principles or policies imposed by FASB, the SEC, the PCAOB, FERC, the LPSC or similar entities with regulatory or accounting oversight;



§ Economic conditions, including the ability of customers to continue paying for utility bills, related growth and/or down-sizing of businesses in Cleco's service area, monetary fluctuations, changes in commodity prices, and inflation rates;

§ The current global financial crisis and U.S. recession;

§ Credit ratings of Cleco Corporation, Cleco Power, and Evangeline;

§ Ability to remain in compliance with debt covenants;

§ Changing market conditions and a variety of other factors associated with physical energy, financial transactions, and energy service activities, including, but not limited to, price, basis, credit, liquidity, volatility, capacity, transmission, interest rates, and warranty risks;

§ Acts of terrorism;

§ Availability or cost of capital resulting from changes in Cleco's business or financial condition, interest rates, or market perceptions of the electric utility industry and energy-related industries;

§ Uncertain tax positions;

§ Employee work force factors, including work stoppages and changes in key executives;

§ Legal, environmental, and regulatory delays and other obstacles associated with mergers, acquisitions, reorganizations, investments in joint ventures, or other capital projects, including Rodemacher Unit 3, the joint project to upgrade the Acadiana Load Pocket transmission system, Cleco Power's acquisition of 50% of Acadia, and Entergy Louisiana's acquisition of the remaining 50% of Acadia;

§ Costs and other effects of legal and administrative proceedings, settlements, investigations, claims, and other matters;

§ Changes in federal, state, or local laws, and changes in tax laws or rates, regulating policies or environmental laws and regulations; and

§ Ability of Cleco Power to recover, from its retail customers, the costs of compliance with environmental laws and regulations.

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For additional discussion of these factors and other factors that could cause actual results to differ materially from those contemplated in the Registrants' forward-looking statements, please read "Risk Factors" in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

All subsequent written and oral forward-looking statements attributable to the Registrants or persons acting on their behalf are expressly qualified in their entirety by the factors identified above.

The Registrants undertake no obligation to update any forward-looking statements, whether as a result of changes in actual results, changes in assumptions, or other factors affecting such statements.

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PART I — FINANCIAL INFORMATION

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ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Cleco Corporation

These unaudited condensed consolidated financial statements should be read in conjunction with Cleco Corporation's Consolidated Financial Statements and Notes included in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2008. For more information on the basis of presentation, see "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 1 — Summary of Significant Accounting Policies — Basis of Presentation."

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CLECO CORPORATION  
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CLECO CORPORATION

Condensed Consolidated Statements of Income (Unaudited)

| (THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)   | FOR THE THREE MONTHS ENDED SEPTEMBER 30, |            |
|---|--|------------|
|   | 2009                                     | 2008       |
| Operating revenue   |  |            |
| Electric operations   | \$228,952                                | \$333,936  |
| Other operations  | 9,859                                    | 7,004      |
| Affiliate revenue   | 2,689                                    | 2,735      |
| Total operating revenue   | 241,500                                  | 343,675    |
| Operating expenses  |  |            |
| Fuel used for electric generation   | 74,585                                   | 93,717     |
| Power purchased for utility customers   | 61,943                                   | 150,502    |
| Other operations  | 26,667                                   | 24,822     |
| Maintenance   | 10,452                                   | 10,754     |
| Depreciation  | 19,620                                   | 19,283     |
| Taxes other than income taxes   | 7,479                                    | 9,033      |
| Loss on sale of assets  | 77                                       | -          |
| Total operating expenses  | 200,823                                  | 308,111    |
| Operating income  | 40,677                                   | 35,564     |
| Interest income   | 369                                      | 1,669      |
| Allowance for other funds used during construction  | 17,813                                   | 17,786     |
| Equity income from investees  | 15,587                                   | 9,662      |
| Other income  | 2,079                                    | 937        |
| Other expense   | (849)                                    | (2,276)    |
| Interest charges  |  |            |
| Interest charges, including amortization of debt expenses, premium, and discount, net of capitalized interest | 17,361                                   | 20,619     |
| Allowance for borrowed funds used during construction   | (6,523)                                  | (4,923)    |
| Total interest charges  | 10,838                                   | 15,696     |
| Income before income taxes  | 64,838                                   | 47,646     |
| Federal and state income tax expense  | 4,983                                    | 10,513     |
| Net income  | 59,855                                   | 37,133     |
| Preferred dividends requirements, net of tax  | 12                                       | 12         |
| Net income applicable to common stock   | \$59,843                                 | \$37,121   |
| Average shares of common stock outstanding  |  |            |
| Basic   | 60,234,243                               | 60,031,962 |
| Diluted   | 60,556,768                               | 60,291,616 |
| Basic earnings per share  |  |            |
| From continuing operations  | \$0.99                                   | \$0.62     |

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|   |         |         |
|---|---------|---------|
| Net income applicable to common stock   | \$0.99  | \$0.62  |
| Diluted earnings per share  |         |         |
| From continuing operations  | \$0.99  | \$0.62  |
| Net income applicable to common stock   | \$0.99  | \$0.62  |
| Cash dividends paid per share of common stock   | \$0.225 | \$0.225 |
| The accompanying notes are an integral part of the condensed consolidated financial statements. |         |         |

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Condensed Consolidated Statements of Comprehensive Income (Unaudited)

| (THOUSANDS)   | FOR THE THREE<br>MONTHS ENDED<br>SEPTEMBER 30, |          |
|---|--|----------|
|   | 2009   | 2008     |
| Net income  | \$59,855                                       | \$37,133 |
| Other comprehensive loss, net of tax:   |  |          |
| Net unrealized loss from available-for-sale securities (net of tax benefit of \$11 in 2008)             | -  | (24 )    |
| Amortization of post-retirement benefit net loss (net of tax benefit of \$91 in 2009 and \$130 in 2008) | (123 )   | (153 )   |
| Cash flow hedge:  |  |          |
| Net derivatives loss arising during the period (net of tax benefit of \$356 in 2009)                    | (569 )   | -        |
| Reclassification to interest expense (net of tax expense of \$36 in 2009)                               | 58   | -        |
| Other comprehensive loss  | (634 )   | (177 )   |
| Comprehensive income, net of tax  | \$59,221                                       | \$36,956 |

The accompanying notes are an integral part of the condensed consolidated financial statements.

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Condensed Consolidated Statements of Income (Unaudited)

| (THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)   | FOR THE NINE MONTHS<br>ENDED SEPTEMBER 30, |            |
|---|--|------------|
|   | 2009                                       | 2008       |
| Operating revenue   |  |            |
| Electric operations   | \$627,469                                  | \$803,397  |
| Other operations  | 25,680                                     | 29,826     |
| Affiliate revenue   | 8,513                                      | 7,790      |
| Total operating revenue   | 661,662                                    | 841,013    |
| Operating expenses  |  |            |
| Fuel used for electric generation   | 213,213                                    | 162,140    |
| Power purchased for utility customers   | 164,209                                    | 392,245    |
| Other operations  | 77,557                                     | 69,958     |
| Maintenance   | 35,777                                     | 35,456     |
| Depreciation  | 58,233                                     | 57,970     |
| Taxes other than income taxes   | 22,812                                     | 27,320     |
| Loss (gain) on sale of assets   | 77   | (99 )      |
| Total operating expenses  | 571,878                                    | 744,990    |
| Operating income  | 89,784                                     | 96,023     |
| Interest income   | 1,051                                      | 4,544      |
| Allowance for other funds used during construction  | 52,341                                     | 46,462     |
| Equity income from investees  | 710  | 2,723      |
| Other income  | 4,753                                      | 1,094      |
| Other expense   | (2,181 )                                   | (4,322 )   |
| Interest charges  |  |            |
| Interest charges, including amortization of debt expenses, premium, and discount, net of capitalized interest | 58,827                                     | 49,884     |
| Allowance for borrowed funds used during construction   | (19,157 )                                  | (14,526 )  |
| Total interest charges  | 39,670                                     | 35,358     |
| Income before income taxes  | 106,788                                    | 111,166    |
| Federal and state income tax expense  | 13,258                                     | 22,573     |
| Net income  | 93,530                                     | 88,593     |
| Preferred dividends requirements, net of tax  | 35   | 35         |
| Net income applicable to common stock   | \$93,495                                   | \$88,558   |
| Average shares of common stock outstanding  |  |            |
| Basic   | 60,167,644                                 | 59,975,190 |
| Diluted   | 60,390,454                                 | 60,146,501 |
| Basic earnings per share  |  |            |
| From continuing operations  | \$1.55                                     | \$1.48     |
| Net income applicable to common stock   | \$1.55                                     | \$1.48     |

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|   |         |         |
|---|---------|---------|
| Diluted earnings per share  |         |         |
| From continuing operations  | \$1.55  | \$1.47  |
| Net income applicable to common stock   | \$1.55  | \$1.47  |
| Cash dividends paid per share of common stock   | \$0.675 | \$0.675 |
| The accompanying notes are an integral part of the condensed consolidated financial statements. |         |         |



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CLECO CORPORATION

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Condensed Consolidated Statements of Comprehensive Income (Unaudited)

| (THOUSANDS)  | FOR THE NINE<br>MONTHS ENDED<br>SEPTEMBER 30, |          |
|--|---|----------|
|  | 2009  | 2008     |
| Net income   | \$93,530                                      | \$88,593 |
| Other comprehensive income (loss), net of tax:   |   |          |
| Net unrealized loss from available-for-sale securities (net of tax benefit of \$11 in 2008)              | -   | (68 )    |
| Amortization of post-retirement benefit net loss (net of tax benefit of \$119 in 2009 and \$130 in 2008) | (120 )  | (161 )   |
| Cash flow hedge:   |   |          |
| Net derivatives loss arising during the period (net of tax benefit of \$356 in 2009)                     | (569 )  | -        |
| Reclassification to interest expense (net of tax expense of \$36 in 2009)                                | 58  | -        |
| Other comprehensive income (loss)  | (631 )  | (229 )   |
| Comprehensive income, net of tax   | \$92,899                                      | \$88,364 |

The accompanying notes are an integral part of the condensed consolidated financial statements.

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CLECO CORPORATION

Condensed Consolidated Balance Sheets (Unaudited)

| (THOUSANDS)  | AT<br>SEPTEMBER<br>30, 2009 | AT<br>DECEMBER<br>31, 2008 |
|--|-----------------------------|----------------------------|
| <b>Assets</b>  |                             |                            |
| <b>Current assets</b>  |                             |                            |
| Cash and cash equivalents  | \$ 49,283                   | \$ 97,483                  |
| Restricted cash  | 25,124                      | 62,311                     |
| Customer accounts receivable (less allowance for doubtful accounts of \$1,576 in 2009 and \$1,632 in 2008) | 44,233                      | 40,677                     |
| Accounts receivable – affiliate  | 10,939                      | 3,428                      |
| Other accounts receivable (less allowance for doubtful accounts of \$22 in 2009 and \$0 in 2008)           | 23,791                      | 34,209                     |
| Taxes receivable   | 27,268                      | 13,663                     |
| Unbilled revenue   | 23,250                      | 19,713                     |
| Fuel inventory, at average cost  | 75,191                      | 57,221                     |
| Material and supplies inventory, at average cost   | 41,136                      | 37,547                     |
| Risk management assets, net  | 4,679                       | 368                        |
| Accumulated deferred fuel  | 27,288                      | 69,154                     |
| Cash surrender value of company-/trust-owned life insurance policies                                       | 28,347                      | 22,934                     |
| Prepayments  | 2,651                       | 3,751                      |
| Regulatory assets – other  | 9,878                       | 2,553                      |
| Other current assets   | 1,824                       | 1,367                      |
| Total current assets   | 394,882                     | 466,379                    |
| <b>Property, plant and equipment</b>   |                             |                            |
| Property, plant and equipment  | 2,094,766                   | 2,015,269                  |
| Accumulated depreciation   | (985,301 )                  | (948,581 )                 |
| Net property, plant and equipment  | 1,109,465                   | 1,066,688                  |
| Construction work in progress  | 1,099,088                   | 978,598                    |
| Total property, plant and equipment, net   | 2,208,553                   | 2,045,286                  |
| Equity investment in investees   | 262,472                     | 249,144                    |
| Prepayments  | 5,103                       | 6,067                      |
| Restricted cash  | 30,916                      | 40,671                     |
| Regulatory assets and liabilities – deferred taxes, net  | 227,947                     | 174,804                    |
| Regulatory assets – other  | 206,386                     | 158,206                    |
| Intangible asset   | 159,801                     | 167,826                    |
| Other deferred charges   | 33,158                      | 32,821                     |
| Total assets   | \$ 3,529,218                | \$ 3,341,204               |

The accompanying notes are an integral part of the condensed consolidated financial statements.

(Continued on next page)

CLECO CORPORATION  
CLECO POWER

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CLECO CORPORATION

Condensed Consolidated Balance Sheets (Unaudited) (Continued)

| (THOUSANDS)  | AT<br>SEPTEMBER<br>30, 2009 | AT<br>DECEMBER<br>31, 2008 |
|--|-----------------------------|----------------------------|
| Liabilities and shareholders' equity   |                             |                            |
| Liabilities  |                             |                            |
| Current liabilities  |                             |                            |
| Long-term debt due within one year   | \$ 11,478                   | \$ 63,546                  |
| Accounts payable   | 69,657                      | 117,337                    |
| Retainage  | 28                          | 12,734                     |
| Accounts payable – affiliate   | 12,284                      | 8,229                      |
| Customer deposits  | 33,155                      | 27,155                     |
| Interest accrued   | 16,390                      | 16,787                     |
| Accumulated current deferred taxes, net  | 52,160                      | 64,838                     |
| Risk management liability, net   | 17,521                      | 30,109                     |
| Regulatory liabilities – other   | 27,570                      | 392                        |
| Deferred compensation  | 6,652                       | 5,118                      |
| Other current liabilities  | 12,775                      | 14,588                     |
| Total current liabilities  | 259,670                     | 360,833                    |
| Deferred credits   |                             |                            |
| Accumulated deferred federal and state income taxes, net   | 414,350                     | 373,825                    |
| Accumulated deferred investment tax credits  | 10,287                      | 11,286                     |
| Postretirement benefit obligations   | 142,571                     | 155,910                    |
| Regulatory liabilities – other   | 155,746                     | 85,496                     |
| Restricted storm reserve   | 25,090                      | 27,411                     |
| Uncertain tax positions  | 74,810                      | 76,124                     |
| Other deferred credits   | 91,360                      | 82,635                     |
| Total deferred credits   | 914,214                     | 812,687                    |
| Long-term debt, net  | 1,238,238                   | 1,106,819                  |
| Total liabilities  | 2,412,122                   | 2,280,339                  |
| Commitments and Contingencies (Note 10)  |                             |                            |
| Shareholders' equity   |                             |                            |
| Preferred stock  |                             |                            |
| Not subject to mandatory redemption, \$100 par value, authorized 1,491,000 shares, issued 10,288 shares at September 30, 2009 and December 31, 2008, respectively          | 1,029                       | 1,029                      |
| Common shareholders' equity  |                             |                            |
| Common stock, \$1 par value, authorized 100,000,000 shares, issued 60,271,221 and 60,066,345 shares and outstanding 60,251,985 and 60,042,514 shares at September 30, 2009 |                             |                            |
| and December 31, 2008, respectively  | 60,271                      | 60,066                     |

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|   |              |              |
|---|--------------|--------------|
| Premium on common stock   | 398,492      | 394,517      |
| Retained earnings   | 668,103      | 615,514      |
| Treasury stock, at cost, 19,236 and 23,831 shares at September 30, 2009 and December 31, 2008, respectively | (335 )       | (428 )       |
| Accumulated other comprehensive loss  | (10,464 )    | (9,833 )     |
| Total common shareholders' equity   | 1,116,067    | 1,059,836    |
| Total shareholders' equity  | 1,117,096    | 1,060,865    |
| Total liabilities and shareholders' equity  | \$ 3,529,218 | \$ 3,341,204 |

The accompanying notes are an integral part of the condensed consolidated financial statements.

CLECO CORPORATION  
CLECO POWER

2009 3RD QUARTER FORM 10-Q

CLECO CORPORATION

Condensed Consolidated Statements of Cash Flows (Unaudited)

| (THOUSANDS)   | FOR THE NINE<br>MONTHS ENDED<br>SEPTEMBER 30, |            |
|---|---|------------|
|   | 2009  | 2008       |
| Operating activities  |   |            |
| Net income  | \$93,530                                      | \$88,593   |
| Adjustments to reconcile net income to net cash provided by operating activities: |   |            |
| Depreciation and amortization   | 96,051  | 81,335     |
| Loss (gain) on sale of assets   | 77  | (99 )      |
| Provision for doubtful accounts   | 1,444   | 2,906      |
| Return on equity investment in investees  | 750   | 8,690      |
| Income from equity investments  | (710 )  | (2,723 )   |
| Unearned compensation expense   | 4,388   | 2,994      |
| Allowance for other funds used during construction                                | (52,341 )                                     | (46,462 )  |
| Amortization of investment tax credits  | (999 )  | (1,035 )   |
| Net deferred income taxes   | (6,061 )                                      | (10,098 )  |
| Deferred fuel costs   | 20,035  | (25 )      |
| Loss on economic hedges   | 144   | 434        |
| Cash surrender value of company-/trust-owned life insurance                       | (4,406 )                                      | 2,603      |
| Changes in assets and liabilities:  |   |            |
| Accounts receivable   | 1,351   | (24,414 )  |
| Accounts and notes receivable, affiliate  | (7,511 )                                      | 14,373     |
| Unbilled revenue  | (3,537 )                                      | (1,583 )   |
| Fuel, materials and supplies inventory  | (21,559 )                                     | (4,336 )   |
| Prepayments   | 1,761   | 1,725      |
| Accounts payable  | (40,667 )                                     | 6,456      |
| Accounts and notes payable, affiliate   | (9,882 )                                      | (38,472 )  |
| Customer deposits   | 10,155  | 4,396      |
| Post retirement benefit obligations   | (13,339 )                                     | -          |
| Regulatory assets and liabilities, net  | 34,201  | 32,119     |
| Other deferred accounts   | (33,299 )                                     | (63,971 )  |
| Retainage payable   | (12,706 )                                     | 10,551     |
| Taxes accrued   | 188   | 22,874     |
| Interest accrued  | (396 )  | (2,289 )   |
| Risk management assets and liabilities, net                                       | (2,337 )                                      | (8,827 )   |
| Other operating   | (894 )  | 1,387      |
| Net cash provided by operating activities   | 53,431  | 77,102     |
| Investing activities  |   |            |
| Additions to property, plant and equipment  | (190,296 )                                    | (264,303 ) |

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|   |            |            |
|---|------------|------------|
| Allowance for other funds used during construction                    | 52,341     | 46,462     |
| Proceeds from sale of property, plant and equipment                   | 570        | 99         |
| Return of equity investment in investees                              | 850        | 95         |
| Contributions to equity investees                                     | (29,666 )  | (14,697 )  |
| Premiums paid on company-/trust-owned life insurance                  | (400 )     | (629 )     |
| Settlements received from insurance policies                          | -          | 941        |
| Net transfer of cash from (to) restricted accounts                    | 46,942     | (44,625 )  |
| Other investing   | -          | 599        |
| Net cash used in investing activities                                 | (119,659 ) | (276,058 ) |
| Financing activities  |            |            |
| Retirement of long-term obligations                                   | (114,805 ) | (350,231 ) |
| Repayment of capital leases   | (1,028 )   | (87 )      |
| Issuance of long-term debt  | 173,000    | 537,541    |
| Deferred financing costs  | (517 )     | (315 )     |
| Dividends paid on preferred stock                                     | (35 )      | (35 )      |
| Dividends paid on common stock  | (40,654 )  | (40,521 )  |
| Other financing   | 2,067      | 983        |
| Net cash provided by financing activities                             | 18,028     | 147,335    |
| Net decrease in cash and cash equivalents                             | (48,200 )  | (51,621 )  |
| Cash and cash equivalents at beginning of period                      | 97,483     | 129,013    |
| Cash and cash equivalents at end of period                            | \$49,283   | \$77,392   |
| Supplementary cash flow information                                   |            |            |
| Interest paid (net of amount capitalized)                             | \$51,327   | \$33,950   |
| Income taxes paid   | \$8,131    | \$40,180   |
| Supplementary non-cash investing and financing activities             |            |            |
| Issuance of treasury stock – LTICP                                    | \$93       | \$79       |
| Issuance of common stock – LTICP/ESPP                                 | \$217      | \$93       |
| Accrued additions to property, plant and equipment not reported above | \$1,179    | \$10,868   |
| Incurrence of capital lease obligation – barges                       | \$22,050   | \$-        |

The accompanying notes are an integral part of the condensed consolidated financial statements.

CLECO CORPORATION  
CLECO POWER

2009 3RD QUARTER FORM 10-Q

PART I — FINANCIAL INFORMATION

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ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Cleco Power

These unaudited condensed consolidated financial statements should be read in conjunction with Cleco Power's Consolidated Financial Statements and Notes included in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2008. For more information on the basis of presentation, see "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 1 — Summary of Significant Accounting Policies — Basis of Presentation."



CLECO CORPORATION  
CLECO POWER

2009 3RD QUARTER FORM 10-Q

CLECO POWER

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Condensed Consolidated Statements of Income (Unaudited)

| (THOUSANDS)  | FOR THE THREE<br>MONTHS ENDED<br>SEPTEMBER 30, |           |
|--|--|-----------|
|  | 2009   | 2008      |
| Operating revenue  |  |           |
| Electric operations  | \$228,952                                      | \$333,936 |
| Other operations   | 9,834  | 6,981     |
| Affiliate revenue  | 349  | 425       |
| Total operating revenue  | 239,135  | 341,342   |
| Operating expenses   |  |           |
| Fuel used for electric generation  | 74,585   | 93,717    |
| Power purchased for utility customers  | 61,943   | 150,502   |
| Other operations   | 25,165   | 23,242    |
| Maintenance  | 9,602  | 9,719     |
| Depreciation   | 19,310   | 18,861    |
| Taxes other than income taxes  | 7,809  | 8,732     |
| Loss on sale of assets   | 70   | -         |
| Total operating expenses   | 198,484  | 304,773   |
| Operating income   | 40,651   | 36,569    |
| Interest income  | 341  | 1,545     |
| Allowance for other funds used during construction                               | 17,813   | 17,786    |
| Other income   | 538  | 956       |
| Other expense  | (830 )   | (779 )    |
| Interest charges   |  |           |
| Interest charges, including amortization of debt expenses, premium, and discount | 20,168   | 19,896    |
| Allowance for borrowed funds used during construction                            | (6,523 )                                       | (4,923 )  |
| Total interest charges   | 13,645   | 14,973    |
| Income before income taxes   | 44,868   | 41,104    |
| Federal and state income taxes   | 1,316  | 10,566    |
| Net income   | \$43,552                                       | \$30,538  |

The accompanying notes are an integral part of the condensed consolidated financial statements.

CLECO CORPORATION  
CLECO POWER

2009 3RD QUARTER FORM 10-Q

CLECO POWER

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Condensed Consolidated Statements of Income (Unaudited)

| (THOUSANDS)  | FOR THE NINE<br>MONTHS ENDED<br>SEPTEMBER 30, |           |
|--|---|-----------|
|  | 2009  | 2008      |
| Operating revenue  |   |           |
| Electric operations  | \$627,469                                     | \$803,397 |
| Other operations   | 25,609  | 29,757    |
| Affiliate revenue  | 1,046   | 1,527     |
| Total operating revenue  | 654,124                                       | 834,681   |
| Operating expenses   |   |           |
| Fuel used for electric generation  | 213,213                                       | 162,140   |
| Power purchased for utility customers  | 164,209                                       | 392,245   |
| Other operations   | 72,814  | 65,862    |
| Maintenance  | 32,705  | 32,556    |
| Depreciation   | 57,339  | 56,886    |
| Taxes other than income taxes  | 23,172  | 24,727    |
| Loss on sale of assets   | 70  | -         |
| Total operating expenses   | 563,522                                       | 734,416   |
| Operating income   | 90,602  | 100,265   |
| Interest income  | 999   | 3,121     |
| Allowance for other funds used during construction                               | 52,341  | 46,462    |
| Other income   | 2,138   | 1,172     |
| Other expense  | (2,985 )                                      | (1,643 )  |
| Interest charges   |   |           |
| Interest charges, including amortization of debt expenses, premium, and discount | 59,443  | 45,961    |
| Allowance for borrowed funds used during construction                            | (19,157 )                                     | (14,526 ) |
| Total interest charges   | 40,286  | 31,435    |
| Income before income taxes   | 102,809                                       | 117,942   |
| Federal and state income taxes   | 14,033  | 27,135    |
| Net income   | \$88,776                                      | \$90,807  |

The accompanying notes are an integral part of the condensed consolidated financial statements.

CLECO CORPORATION  
CLECO POWER

2009 3RD QUARTER FORM 10-Q

CLECO POWER

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Condensed Consolidated Balance Sheets (Unaudited)

| (THOUSANDS)  | AT<br>SEPTEMBER<br>30, 2009 | AT<br>DECEMBER<br>31, 2008 |
|--|-----------------------------|----------------------------|
| Assets   |                             |                            |
| Utility plant and equipment  |                             |                            |
| Property, plant and equipment  | \$ 2,078,372                | \$ 1,999,119               |
| Accumulated depreciation   | (973,398 )                  | (937,568 )                 |
| Net property, plant and equipment  | 1,104,974                   | 1,061,551                  |
| Construction work in progress  | 1,097,865                   | 977,377                    |
| Total utility plant, net   | 2,202,839                   | 2,038,928                  |
| Current assets   |                             |                            |
| Cash and cash equivalents  | 35,010                      | 91,542                     |
| Restricted cash  | 25,124                      | 62,311                     |
| Customer accounts receivable (less allowance for doubtful accounts of \$1,576 in 2009 and \$1,632 in 2008) | 44,233                      | 40,677                     |
| Other accounts receivable (less allowance for doubtful accounts of \$22 in 2009 and \$0 in 2008)           | 22,787                      | 34,130                     |
| Taxes receivable   | -                           | 5,992                      |
| Accounts receivable – affiliate  | 2,452                       | 2,059                      |
| Unbilled revenue   | 23,250                      | 19,713                     |
| Fuel inventory, at average cost  | 75,191                      | 57,221                     |
| Material and supplies inventory, at average cost   | 41,136                      | 37,547                     |
| Risk management assets, net  | 4,679                       | 368                        |
| Prepayments  | 2,273                       | 3,099                      |
| Regulatory assets – other  | 9,878                       | 2,553                      |
| Accumulated deferred fuel  | 27,288                      | 69,154                     |
| Cash surrender value of life insurance policies  | 5,722                       | 5,563                      |
| Other current assets   | 1,031                       | 1,144                      |
| Total current assets   | 320,054                     | 433,073                    |
| Prepayments  | 5,103                       | 6,067                      |
| Restricted cash  | 30,820                      | 40,574                     |
| Regulatory assets and liabilities – deferred taxes, net  | 227,947                     | 174,804                    |
| Regulatory assets – other  | 206,386                     | 158,206                    |
| Intangible asset   | 159,801                     | 167,826                    |
| Other deferred charges   | 21,865                      | 22,119                     |
| Total assets   | \$ 3,174,815                | \$ 3,041,597               |
| Liabilities and member's equity  |                             |                            |
| Member's equity  | \$ 987,119                  | \$ 929,178                 |
| Long-term debt, net  | 1,120,238                   | 1,076,819                  |

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|   |              |              |
|---|--------------|--------------|
| Total capitalization  | 2,107,357    | 2,005,997    |
| Current liabilities   |              |              |
| Long-term debt due within one year  | 11,478       | 63,546       |
| Accounts payable  | 65,974       | 109,450      |
| Accounts payable – affiliate  | 6,325        | 7,536        |
| Retainage   | 28           | 12,734       |
| Customer deposits   | 33,155       | 27,155       |
| Taxes accrued   | 36,011       | -            |
| Interest accrued  | 16,740       | 16,762       |
| Accumulated deferred taxes, net   | 54,546       | 67,233       |
| Risk management liability, net  | 17,521       | 30,109       |
| Regulatory liabilities – other  | 27,570       | 392          |
| Other current liabilities   | 10,353       | 10,200       |
| Total current liabilities   | 279,701      | 345,117      |
| Deferred credits  |              |              |
| Accumulated deferred federal and state income taxes, net  | 386,654      | 337,148      |
| Accumulated deferred investment tax credits   | 10,287       | 11,286       |
| Postretirement benefit obligations  | 113,391      | 128,373      |
| Regulatory liabilities – other  | 155,746      | 85,496       |
| Restricted storm reserve  | 25,090       | 27,411       |
| Uncertain tax positions   | 54,509       | 54,306       |
| Other deferred credits  | 42,080       | 46,463       |
| Total deferred credits  | 787,757      | 690,483      |
| Total liabilities and member’s equity   | \$ 3,174,815 | \$ 3,041,597 |
| The accompanying notes are an integral part of the condensed consolidated financial statements. |              |              |

CLECO CORPORATION  
CLECO POWER

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CLECO POWER

Condensed Consolidated Statements of Cash Flows (Unaudited)

| (THOUSANDS)   | FOR THE NINE<br>MONTHS ENDED<br>SEPTEMBER 30, |            |
|---|---|------------|
|   | 2009  | 2008       |
| Operating activities  |   |            |
| Net income  | \$88,776                                      | \$90,807   |
| Adjustments to reconcile net income to net cash provided by operating activities: |   |            |
| Depreciation and amortization   | 66,496  | 63,543     |
| Loss on sale of assets  | 70  | -          |
| Provision for doubtful accounts   | 1,444   | 2,901      |
| Unearned compensation expense   | 1,348   | 867        |
| Allowance for other funds used during construction                                | (52,341 )                                     | (46,462 )  |
| Amortization of investment tax credits  | (999 )  | (1,035 )   |
| Net deferred income taxes   | 4,552   | (4,577 )   |
| Deferred fuel costs   | 20,035  | (25 )      |
| Loss on economic hedges   | 144   | 434        |
| Cash surrender value of company-owned life insurance                              | (641 )  | (317 )     |
| Changes in assets and liabilities:  |   |            |
| Accounts receivable   | 2,273   | (24,760 )  |
| Accounts and notes receivable, affiliate  | (272 )  | 15,209     |
| Unbilled revenue  | (3,537 )                                      | (1,583 )   |
| Fuel, materials and supplies inventory  | (21,559 )                                     | (4,336 )   |
| Prepayments   | 2,272   | 1,636      |
| Accounts payable  | (36,375 )                                     | 8,947      |
| Accounts and notes payable, affiliate   | (1,643 )                                      | (12,990 )  |
| Customer deposits   | 10,155  | 4,396      |
| Post retirement benefit obligations   | (14,982 )                                     | (772 )     |
| Regulatory assets and liabilities, net  | 34,201  | 32,119     |
| Other deferred accounts   | (31,404 )                                     | (68,764 )  |
| Retainage payable   | (12,706 )                                     | 10,551     |
| Taxes accrued   | 42,003  | 17,872     |
| Interest accrued  | (22 )   | 2,043      |
| Risk management assets and liabilities, net                                       | (2,337 )                                      | (8,827 )   |
| Other operating   | 60  | 2,191      |
| Net cash provided by operating activities   | 95,011  | 79,068     |
| Investing activities  |   |            |
| Additions to property, plant and equipment  | (190,047 )                                    | (263,454 ) |
| Allowance for other funds used during construction                                | 52,341  | 46,462     |
| Proceeds from sale of property, plant and equipment                               | 570   | 99         |

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|   |            |            |
|---|------------|------------|
| Premiums paid on company-owned life insurance   | -          | (424 )     |
| Net transfer of cash from (to) restricted accounts  | 46,942     | (44,624 )  |
| Other investing   | 1          | -          |
| Net cash used in investing activities   | (90,193 )  | (261,941 ) |
| Financing activities  |            |            |
| Retirement of long-term obligations   | (114,805 ) | (250,231 ) |
| Repayment of capital leases   | (1,028 )   | (87 )      |
| Issuance of long-term debt  | 85,000     | 489,541    |
| Distribution to parent  | (30,000 )  | -          |
| Deferred financing costs  | (517 )     | (315 )     |
| Net cash (used in) provided by financing activities   | (61,350 )  | 238,908    |
| Net (decrease) increase in cash and cash equivalents  | (56,532 )  | 56,035     |
| Cash and cash equivalents at beginning of period  | 91,542     | 11,944     |
| Cash and cash equivalents at end of period  | \$35,010   | \$67,979   |
| Supplementary cash flow information   |            |            |
| Interest paid (net of amount capitalized)   | \$50,086   | \$29,531   |
| Income taxes paid   | \$8,104    | \$2,100    |
| Supplementary non-cash investing and financing activities                                       |            |            |
| Accrued additions to property, plant and equipment not reported above                           | \$1,179    | \$10,868   |
| Incurrence of capital lease obligation – barges   | \$22,050   | \$-        |
| The accompanying notes are an integral part of the condensed consolidated financial statements. |            |            |

CLECO CORPORATION  
CLECO POWER

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Index to Applicable Notes to the Unaudited Condensed Consolidated Financial Statements of Registrants

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|         |   |                                   |
|---------|---|-----------------------------------|
| Note 1  | Summary of Significant Accounting Policies  | Cleco Corporation and Cleco Power |
| Note 2  | Recent Accounting Standards   | Cleco Corporation and Cleco Power |
| Note 3  | Regulatory Assets and Liabilities   | Cleco Corporation and Cleco Power |
| Note 4  | Fair Value Accounting   | Cleco Corporation and Cleco Power |
| Note 5  | Debt  | Cleco Corporation and Cleco Power |
| Note 6  | Pension Plan and Employee Benefits  | Cleco Corporation and Cleco Power |
| Note 7  | Income Taxes  | Cleco Corporation and Cleco Power |
| Note 8  | Disclosures about Segments  | Cleco Corporation                 |
| Note 9  | Equity Investment in Investees  | Cleco Corporation                 |
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| Note 11 | Affiliate Transactions  | Cleco Corporation and Cleco Power |
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| Note 13 | Subsequent Events   | Cleco Corporation and Cleco Power |

Notes to the Unaudited Condensed Consolidated Financial Statements

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Note 1 — Summary of Significant Accounting Policies

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Principles of Consolidation

The accompanying condensed consolidated financial statements of Cleco include the accounts of Cleco and its majority-owned subsidiaries after elimination of intercompany accounts and transactions.

Using the authoritative guidance for variable interest entities, Cleco has determined that it is not the primary beneficiary of Evangeline, Perryville, Attala, and Acadia. Cleco determined it was not the primary beneficiary by examining all interests that could absorb expected losses and expected gains. This examination used assumptions about the expected rate of inflation, changes in the market price of natural gas as compared to the market price of electricity, length of contracts, variability of revenue stream as compared to variability of expenses, and maximum

exposure to loss. Cleco reports its investment in these entities on the equity method of accounting. As a result, the assets and liabilities of these entities are represented by one line item corresponding to Cleco's equity investment in these entities. The pre-tax results of operations of these entities are reported as equity income or loss from investees on Cleco Corporation's Condensed Consolidated Statements of Income. For additional information on the operations of these entities, see Note 9 — "Equity Investment in Investees."

#### Basis of Presentation

The condensed consolidated financial statements of Cleco Corporation and Cleco Power have been prepared pursuant to the rules and regulations of the SEC. Accordingly, certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted; however, Cleco believes that the disclosures are adequate to make the information presented not misleading.

The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. The unaudited financial information included in the condensed consolidated financial statements of Cleco Corporation and Cleco Power reflects all adjustments of a normal recurring nature which are, in the opinion of the management of Cleco Corporation and Cleco Power, necessary for a fair statement of the financial position and the results of operations for the interim periods. Information for interim periods is affected by seasonal variations in sales, rate changes, timing of fuel expense recovery and other factors, and is not indicative necessarily of the results that may be expected for the full fiscal year. For more information on recent accounting standards and their effect on financial results, see Note 2 — "Recent Accounting Standards."

#### Restricted Cash

Various agreements to which Cleco is subject contain covenants that restrict its use of cash. As certain provisions under these agreements are met, cash is transferred out of related escrow accounts and becomes available for general corporate purposes. At September 30, 2009, and December 31, 2008, \$56.0 million and \$103.0 million of cash, respectively, were restricted. The \$47.0 million decrease is primarily due to the use of \$17.4 million of funds for GO Zone project costs, the release of \$14.7 million for the construction of Cleco Power's solid waste disposal facilities at Rodemacher Unit 3, a \$12.7 million net decrease in Cleco Katrina/Rita restricted cash due to the payment of operating expenses, interest, and principal on storm recovery bonds, offset by collections, and Cleco Power's use of \$2.2 million for approved storm damage costs. At September 30, 2009, restricted cash consisted of \$0.1 million under the Diversified Lands mitigation escrow agreement, \$27.2 million reserved at Cleco Power for GO



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CLECO POWER

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Zone project costs, \$25.2 million reserved at Cleco Power for future storm restoration costs, and \$3.5 million at Cleco Katrina/Rita restricted for payment of operating expenses, interest, and principal on storm recovery bonds.

#### Fair Value Measurements and Disclosures

Various accounting pronouncements require certain assets and liabilities to be measured at their fair values. Some assets and liabilities are required to be measured at their fair value each reporting period, while others are required to be measured only one time, generally the date of acquisition or issuance. Cleco and Cleco Power are required to disclose the fair value of certain assets and liabilities by one of three levels when required for recognition purposes under GAAP. Other financial assets and liabilities, such as long-term debt, are reported at their carrying values at their date of issuance on the condensed consolidated balance sheets with their fair values disclosed without regard to the three levels. For more information about fair value levels, see Note 4 — “Fair Value Accounting.”

#### Risk Management

Market risk inherent in Cleco Power’s market risk-sensitive instruments and positions includes potential changes arising from changes in interest rates and the commodity market prices of power and natural gas on different energy exchanges. Cleco’s Energy Market Risk Management Policy authorizes the use of various derivative instruments, including exchange traded futures and option contracts, forward purchase and sales contracts, and swap transactions to reduce exposure to fluctuations in the price of power and natural gas. Cleco uses the authoritative guidance as it relates to derivatives and hedging to determine whether the market risk-sensitive instruments and positions are required to be marked-to-market. Generally, Cleco Power’s market risk-sensitive instruments and positions qualify for the normal-purchase, normal-sale exception to mark-to-market accounting because Cleco Power takes physical delivery and the instruments and positions are used to satisfy customer requirements. Cleco Power has entered into certain financial transactions it considers economic hedges to mitigate the risk associated with the fixed-price power to be provided to a wholesale customer through December 2010. The economic hedges cover approximately 98% of the estimated daily peak-hour power sales to the wholesale customer. These transactions meet the definition of derivatives but do not meet the accounting criteria to be considered hedges. These transactions are marked-to-market with the resulting gain or loss recorded on the income statement as a component of operating revenue. For the three and nine months ended September 30, 2009, and 2008, the following gains and losses related to these economic hedge transactions were recorded in other operations revenue.

| (THOUSANDS)                | FOR THE THREE<br>MONTHS ENDED<br>SEPTEMBER 30, |            | FOR THE NINE<br>MONTHS ENDED<br>SEPTEMBER 30, |        |
|----------------------------|--|------------|---|--------|
|                            | 2009   | 2008       | 2009  | 2008   |
| Realized (loss) gain       | \$(524 )                                       | \$163      | \$(1,405 )                                    | \$950  |
| Mark-to-market gain (loss) | 487  | (4,940 )   | (144 )  | (433 ) |
| Total (loss) gain          | \$(37 )  | \$(4,777 ) | \$(1,549 )                                    | \$517  |

Cleco Power has entered into other positions to mitigate the volatility in customer fuel costs. These positions are marked-to-market with the resulting gain or loss recorded on the balance sheet as a component of the accumulated deferred fuel asset or liability and a component of risk management assets or liabilities. When these positions close, actual gains or losses will be included in the fuel adjustment clause and reflected on customers’ bills as a component of the fuel cost adjustment. Based on market prices at September 30, 2009, and December 31, 2008, the net

mark-to-market impact relating to these positions were losses of \$29.6 million and \$57.4 million, respectively. The decreased loss is primarily due to the closing of certain natural gas positions. Deferred losses relating to closed natural gas positions totaled \$6.4 million at September 30, 2009, and December 31, 2008.

Cleco Power maintains margin accounts with commodity brokers used to partially fund the acquisition of natural gas futures, options, and swap contracts. These contracts/positions are used to mitigate the risks associated with the fixed-price power sales and volatility in customer fuel costs noted above. At September 30, 2009, and December 31, 2008, Cleco Power had deposited net collateral of \$12.5 million and \$16.5 million, respectively, to cover margin requirements relating to open natural gas futures, options, and swap positions.

Cleco and Cleco Power maintain a master netting agreement policy and monitor credit risk exposure through review of counterparty credit quality, counterparty credit exposure, and counterparty concentration levels. Cleco manages these risks by establishing appropriate credit and concentration limits on transactions with counterparties and by requiring contractual guarantees, cash deposits, or letters of credit from counterparties or their affiliates, as deemed necessary. Cleco Power has agreements in place with various counterparties that authorize the netting of financial buys and sells and contract payments to mitigate credit risk for transactions entered into for risk management purposes.

In August 2009, Cleco Power entered into a \$50.0 million bank loan with variable interest, paid monthly, calculated at 3.00% plus the one-month LIBOR. The loan matures on August 19, 2012, and can be repaid before maturity without penalty. In order to mitigate risk of the future floating interest rates, Cleco Power entered into an interest rate swap. Based on the notional amount of the bank loan, the swap requires a monthly net settlement between Cleco Power's fixed payment of 1.84% and the swap counterparty's floating payment of the one-month LIBOR. The swap matures on May 31, 2012. Under the authoritative guidance for derivatives and hedging, the swap meets the criteria of a cash flow hedge. Changes in the swap's fair value related to the effective portion of cash flow hedges are recognized in other comprehensive income, whereas changes in the fair value related to the ineffective

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portion are recognized in earnings. As time passes and settlements are made, the swap's other comprehensive income fair values are reclassified into earnings as a component of interest expense. For the three and nine months ended September 30, 2009, there were \$0.1 million of reclassification adjustments from other comprehensive income to interest

expense. There was no impact to earnings due to ineffectiveness for the three or nine months ended September 30, 2009. For more information on accounting for derivatives, see Note 4 — "Fair Value Accounting."

## Earnings per Average Common Share

The following table shows the calculation of basic and diluted earnings per share.

| (THOUSANDS, EXCEPT<br>SHARES AND PER SHARE<br>AMOUNTS)                 | FOR THE THREE MONTHS ENDED<br>SEPTEMBER 30, |            |                                |          |            |                                |
|--|---|------------|--------------------------------|----------|------------|--------------------------------|
|  | INCOME                                      | SHARES     | 2009<br>PER<br>SHARE<br>AMOUNT | INCOME   | SHARES     | 2008<br>PER<br>SHARE<br>AMOUNT |
| Net income   | \$59,855                                    |            |                                | \$37,133 |            |                                |
| Deduct: non-participating stock<br>dividends (4.5% preferred<br>stock) | 12  |            |                                | 12       |            |                                |
| Basic earnings per share   |   |            |                                |          |            |                                |
| Net income applicable to<br>common stock                               | \$59,843                                    |            | \$0.99                         | \$37,121 |            | \$0.62                         |
| Total basic net income<br>applicable to common stock                   | \$59,843                                    | 60,234,243 | \$0.99                         | \$37,121 | 60,031,962 | \$0.62                         |
| Effect of Dilutive Securities  |   |            |                                |          |            |                                |
| Add: stock option grants   |   | 28,578     |                                |          | 62,289     |                                |
| Add: restricted stock (LTICP)  |   | 293,947    |                                |          | 197,365    |                                |
| Diluted earnings per share   |   |            |                                |          |            |                                |
| Net income applicable to<br>common stock                               | \$59,843                                    |            | \$0.99                         | \$37,121 |            | \$0.62                         |
| Total diluted net income<br>applicable to common stock                 | \$59,843                                    | 60,556,768 | \$0.99                         | \$37,121 | 60,291,616 | \$0.62                         |

| (THOUSANDS, EXCEPT<br>SHARES AND PER SHARE<br>AMOUNTS)       | FOR THE NINE MONTHS ENDED<br>SEPTEMBER 30, |        |                                |          |        |                                |
|--|--|--------|--------------------------------|----------|--------|--------------------------------|
|  | INCOME                                     | SHARES | 2009<br>PER<br>SHARE<br>AMOUNT | INCOME   | SHARES | 2008<br>PER<br>SHARE<br>AMOUNT |
| Net income   | \$93,530                                   |        |                                | \$88,593 |        |                                |
| Deduct: non-participating stock<br>dividends (4.5% preferred | 35   |        |                                | 35       |        |                                |

stock)

|   |          |            |         |          |            |         |
|---|----------|------------|---------|----------|------------|---------|
| Basic earnings per share                            |          |            |         |          |            |         |
| Net income applicable to common stock               | \$93,495 |            | \$ 1.55 | \$88,558 |            | \$ 1.48 |
| Total basic net income applicable to common stock   | \$93,495 | 60,167,644 | \$ 1.55 | \$88,558 | 59,975,190 | \$ 1.48 |
| Effect of Dilutive Securities                       |          |            |         |          |            |         |
| Add: stock option grants                            |          | 26,269     |         |          | 63,833     |         |
| Add: restricted stock (LTICP)                       |          | 196,541    |         |          | 107,478    |         |
| Diluted earnings per share                          |          |            |         |          |            |         |
| Net income applicable to common stock               | \$93,495 |            | \$ 1.55 | \$88,558 |            | \$ 1.47 |
| Total diluted net income applicable to common stock | \$93,495 | 60,390,454 | \$ 1.55 | \$88,558 | 60,146,501 | \$ 1.47 |

During the first quarter of 2009, Cleco implemented an amendment to the authoritative guidance for calculating basic earnings per share. For additional information on Cleco's implementation of Codification Topic Earnings Per Share, see Note 2 — "Recent Accounting Standards."

Stock option grants are excluded from the computation of diluted earnings per share if the exercise price is higher than the average market price. There were no stock option grants excluded from the computation of diluted earnings per share for the three or nine months ended September 30, 2008, due to the average market price being higher than the exercise prices of the stock options. Stock option grants excluded from the computation for the three and nine months ended September 30, 2009, are presented in the following tables.

|                              | FOR THE THREE MONTHS ENDED<br>SEPTEMBER 30, 2009 |                            |        |
|------------------------------|--|----------------------------|--------|
|                              | STRIKE<br>PRICE                                  | AVERAGE<br>MARKET<br>PRICE | SHARES |
| Stock option grants excluded | 24.00<br>\$-24.25                                | \$23.90                    | 36,433 |

|                              | FOR THE NINE MONTHS ENDED<br>SEPTEMBER 30, 2009 |                            |        |
|------------------------------|---|----------------------------|--------|
|                              | STRIKE<br>PRICE                                 | AVERAGE<br>MARKET<br>PRICE | SHARES |
| Stock option grants excluded | 22.69<br>\$-24.25                               | \$22.50                    | 69,433 |

#### Employee Stock Purchase Plan

In July 2000, Cleco Corporation's Board of Directors ratified the adoption of a procedure providing for the automatic reinvestment of dividends (the "DRIP Feature") received with respect to the stock held by participants in the ESPP. At that time, the Board of Directors reserved 20,000 shares of common stock (40,000 after giving effect for a 2-for-1 stock split) for issuance pursuant to the DRIP Feature. In January 2009, the Board of Directors approved and authorized an additional 50,000 shares of common stock to be reserved for issuance under the DRIP Feature of the ESPP.

#### Stock-Based Compensation

At September 30, 2009, Cleco had one share-based compensation plan: the LTICP. Options or restricted shares of Cleco Corporation common stock, known as non-vested stock

compensation, common stock equivalents, and stock appreciation rights may be granted to certain officers, key employees, or directors of Cleco Corporation and its subsidiaries pursuant to the LTICP.

On January 30, 2009, Cleco granted 97,149 shares of non-vested stock and 74,253 common stock equivalent units to

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certain officers, key employees, and directors of Cleco Corporation and its subsidiaries pursuant to the LTICP. Cleco and Cleco Power reported pre-tax compensation expense for their share-based compensation plans as shown in the following table:

| (THOUSANDS)                                 | CLECO CORPORATION<br>CLECO POWER            |          |        |        | CLECO CORPORATION<br>CLECO POWER           |          |          |        |
|---|---|----------|--------|--------|--|----------|----------|--------|
|   | 2009  | 2008     | 2009   | 2008   | 2009                                       | 2008     | 2009     | 2008   |
|   | FOR THE THREE MONTHS<br>ENDED SEPTEMBER 30, |          |        |        | FOR THE NINE MONTHS<br>ENDED SEPTEMBER 30, |          |          |        |
| Equity classification                       |   |          |        |        |  |          |          |        |
| Non-vested stock                            | \$ 563                                      | \$ 396   | \$ 150 | \$ 113 | \$ 1,618                                   | \$ 1,179 | \$ 432   | \$ 310 |
| Stock options                               | 13  | 14       | -      | -      | 38   | 42       | -        | -      |
| Total                                       | \$ 576                                      | \$ 410   | \$ 150 | \$ 113 | \$ 1,656                                   | \$ 1,221 | \$ 432   | \$ 310 |
| Liability classification                    |   |          |        |        |  |          |          |        |
| Common stock equivalent units               | \$ 1,244                                    | \$ 827   | \$ 428 | \$ 308 | \$ 2,418                                   | \$ 1,504 | \$ 916   | \$ 557 |
| Total pre-tax compensation expense          | \$ 1,820                                    | \$ 1,237 | \$ 578 | \$ 421 | \$ 4,074                                   | \$ 2,725 | \$ 1,348 | \$ 867 |
| Tax benefit (excluding income tax gross-up) | \$ 700                                      | \$ 476   | \$ 222 | \$ 162 | \$ 1,568                                   | \$ 1,049 | \$ 519   | \$ 334 |

Note 2 — Recent Accounting Standards

The Registrants adopted, or will adopt, the recent accounting standards listed below on their respective effective dates. In April 2008, FASB amended the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. This amendment allows an entity to use its own experience in renewing arrangements or to use market assumptions about renewal in determining the useful life of a recognized intangible asset. This amendment also requires additional disclosure about the renewal costs. This amendment is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. The adoption of this amendment did not have an impact on the financial condition or results of operations of the Registrants.

In June 2008, FASB amended the authoritative guidance on earnings per share to determine whether non-vested instruments issued in share-based payment transactions are participating securities when calculating earnings per share. This amendment states that non-vested share-based instruments that contain nonforfeitable rights to dividends or dividend equivalents are participating securities and are required to be included in the computation of earnings per share pursuant to the two-class method. This amendment is effective for fiscal years and interim periods beginning after December 15, 2008. Earnings per share for prior periods presented are required to be adjusted retrospectively to conform to this amendment. The implementation of this amendment did not have an impact on the financial condition or results of operations of the Registrants.

In September 2008, FASB amended the authoritative guidance on fair value measurements and disclosures for accounting and disclosure at fair value for liabilities that contain inseparable third-party credit enhancements. This amendment requires issuers of liabilities to exclude the third-party credit enhancement when calculating the fair value of the liability for both recognition and disclosure purposes. Also, proceeds received by the issuer for liabilities within the scope of this amendment represent consideration for both the liability and the credit enhancement and shall be allocated to both the liability and the premium for the credit enhancement. The provisions of this amendment are effective on a prospective basis in the first reporting period beginning on or after December 15, 2008. The implementation of this amendment did not have an impact on the financial condition or results of operations of the Registrants.

In December 2008, FASB amended the authoritative guidance for compensation as it relates to retirement benefits and an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. This amendment also includes a technical change that requires a nonpublic entity to disclose net periodic benefit cost for each annual period for which a statement of income is presented. This amendment is effective for the first fiscal year ending after December 15, 2009. Since the adoption of this amendment is a change in disclosure, the adoption will not have any effect on the financial condition or results of operations of the Registrants.

In February 2009, the SEC issued its final rules requiring public companies to provide the SEC with supplemental financial information in interactive data format using eXtensible Business Reporting Language or XBRL. The information will be provided as an exhibit to the related SEC filing. The Registrants are required to include certain financial information in XBRL format in certain SEC filings beginning with the fiscal period ending June 30, 2010. On April 1, 2009, FASB amended the authoritative guidance on business combinations to address application issues raised by preparers, auditors, and members of the legal profession on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. This amendment applies to all assets acquired and liabilities assumed in a business combination that arise from contingencies that would be within the scope of the contingencies accounting standard if the contingency is not acquired or assumed in a business combination, except for assets and liabilities arising from contingencies that are subject to specific guidance in the business combinations accounting standard. An acquirer shall develop a systematic and rational basis for subsequently measuring and accounting for assets and liabilities arising from contingencies depending on their nature. An acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effects of a business combination that occurs either during the current reporting period or after the reporting period but before the financial statements are issued. This

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amendment was effective for assets and liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of this amendment had no impact on the financial condition or results of operations of the Registrants.

On April 9, 2009, FASB amended the other-than-temporary impairment guidance in GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. If the fair value of a debt security is less than its amortized value, these amendments require companies to assess whether the impairment is recognized depending on a combination of its intent to sell the security and its ability to hold the security until recovery of its amortized cost basis. If an entity intends to sell the debt security or it is more likely than not the entity will be required to sell the security, an other-than-temporary impairment is considered to have occurred and an impairment expense equal to the difference between fair market value and amortized costs should be recognized. If an entity does not intend to sell the security and it is not more likely than not the entity will be required to sell the security, then the entity will only recognize the credit loss as an expense. The amount of loss relating to other factors will be recognized as a reduction in other comprehensive income. These amendments also include guidance on calculating credit loss and additional disclosures. These amendments are effective for interim and annual reporting periods ending after June 15, 2009. The implementation of these amendments did not have an impact on the financial condition or results of operations of the Registrants.

On April 9, 2009, FASB amended the accounting standard to provide additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. This amendment also includes guidance on identifying circumstances that indicate a transaction is not orderly. This amendment applies to all assets and liabilities within the scope of the fair value accounting standard. When weighing indications of fair value resulting from the use of multiple valuation techniques, a reporting entity shall consider the reasonableness of the range of fair value estimates. The objective is to determine the point within that range that is most representative of fair value under current market conditions. A reporting entity shall evaluate the circumstances to determine whether the transaction is orderly based on the weight of the evidence. In its determinations, a reporting entity need not undertake all possible efforts, but shall not ignore information that is available without undue cost and effort. A reporting entity would be expected to have sufficient information to conclude whether a transaction is orderly when it is party to the transaction. This amendment is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. This amendment does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, this amendment requires comparative disclosures only for periods ending after initial adoption. The implementation of this amendment did not have an impact on the financial condition or results of operations of the Registrants.

On April 9, 2009, FASB amended the accounting standards which require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies. These amendments apply to all financial instruments within the scope of the authoritative guidance for financial instruments, financial services, and receivables held by publicly traded companies. A publicly traded company shall include disclosures about the fair value of its financial instruments whenever it issues summarized financial information for interim reporting periods. These amendments shall be effective for interim reporting periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. These amendments do not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, these amendments require comparative disclosures only for periods ending after initial adoption. Since the adoption of these amendments is only a change in disclosure, adoption did not have any effect on the financial condition or results of operations of the Registrants.

On June 4, 2009, FASB amended the authoritative guidance on accounting for events occurring subsequent to the balance sheet date, but before the issuance of financial statements. Certain subsequent events would require an entity



to make adjustments to the financial statements and disclosure, whereas other events would only require disclosure. Additionally, all entities are required to disclose the date through which they have evaluated subsequent events and whether the date corresponds with the release of their financial statements. This amendment is effective for financial statements issued for fiscal years and interim periods beginning after June 15, 2009. Implementation of this amendment did not have an impact on the financial condition or results of operations of the Registrants.

On June 12, 2009, FASB amended the authoritative guidance on transfer and servicing to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. This amendment is effective for fiscal years beginning after November 15, 2009. Implementation of this amendment is not expected to have an impact on the financial condition or results of operations of the Registrants.

On June 12, 2009, FASB amended the authoritative guidance on consolidation which requires an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. In order to be the primary beneficiary of a variable interest entity, an enterprise must have (a) the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance,

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and (b) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. Along with these criteria, an enterprise is now required to assess whether it has an implicit financial responsibility to ensure that a variable interest entity operates as designed when determining (a) above. Also, the enterprise is required to perform ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. The quantitative approach previously required for determining the primary beneficiary has been eliminated. Additional disclosures are now required in order to provide users of financial statements with more transparent information about an enterprise's involvement in a variable interest entity. This amendment is effective for the first fiscal year beginning after November 15, 2009. Management is currently evaluating the impact this amendment will have on the financial condition and results of operations of the Registrants.

On June 29, 2009, FASB amended the authoritative guidance which identified the sources of accounting principles and the framework for selecting them. Codification has become the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. This amendment was effective for financial statements issued for interim and annual periods ending after September 15, 2009.

On August 28, 2009, FASB amended the authoritative guidance on fair value measurements and disclosures in order to clarify the fair value of a liability. The best measurement of a liability would be a quoted price in an active market of the liability or an identical liability. If the quoted price of the liability is not available, then an entity could use a quoted price of the liability quoted as an asset, quoted prices of similar liabilities traded as assets, or a valuation technique consistent with the principles contained in the Fair Value Measurements and Disclosures Topic, such as present value. If an asset quote is used, the fair market value should be adjusted for factors specific to an asset that is not applicable to a liability. Regardless of the method used to determine fair value, restrictions on transfer of the liability should not be factored into the valuation of the liability. This amendment is effective for the first reporting period beginning after October 1, 2009. Management believes the adoption of this amendment will not have a material effect on the financial condition or results of operations of the Registrants.

In September 2009, FASB issued various technical corrections to the Codification that did not have a material effect on the financial condition or results of operations of the Registrants.

In September 2009, the FASB amended revenue recognition of arrangements with multiple deliverables. If an arrangement contains multiple deliverables, the selling entity must first determine the best estimate of the selling price of each deliverable. Then the selling entity must allocate the selling price of the entire arrangement based upon the relative best estimate of the selling price of each deliverable. This amendment also contains additional disclosures such as the nature of the arrangement, significant deliverables and general timing. This amendment is effective for arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Management is currently evaluating the impact this amendment will have on the financial condition or results of operations of the Registrants.

### Note 3 — Regulatory Assets and Liabilities

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Cleco Power follows the authoritative guidance of regulated operations which allows utilities to capitalize or defer certain costs based on regulatory approval and management's ongoing assessment that it is probable these items will be recovered through the ratemaking process.

The following chart summarizes Cleco Power's regulatory assets and liabilities at September 30, 2009, and December 31, 2008:

| (THOUSANDS)   | AT<br>SEPTEMBER<br>30,<br>2009 | AT<br>DECEMBER<br>31,<br>2008 |
|---|--------------------------------|-------------------------------|
| Regulatory assets and liabilities – deferred taxes, net | \$ 227,947                     | \$ 174,804                    |
| Deferred mining costs                                   | \$ 24,853                      | \$ 26,811                     |
| Deferred interest costs                                 | 7,495                          | 7,779                         |
| Deferred asset removal costs                            | 698                            | 658                           |
| Deferred postretirement plan costs                      | 110,819                        | 112,213                       |
| Deferred tree trimming costs                            | 12,010                         | 5,915                         |
| Deferred training costs                                 | 5,716                          | 2,520                         |
| Deferred storm surcredit, net                           | 5,842                          | 4,863                         |
| Deferred construction carrying costs                    | 48,831                         | -                             |
| Regulatory assets – other                               | \$ 216,264                     | \$ 160,759                    |
| Deferred fuel transportation revenue                    | \$ (85 )                       | \$ (392 )                     |
| Deferred construction carrying costs                    | (183,231 )                     | (85,496 )                     |
| Regulatory liabilities – other                          | \$ (183,316 )                  | \$ (85,888 )                  |
| Deferred fuel and purchased power                       | 27,288                         | 69,154                        |
| Total regulatory assets and liabilities, net            | \$ 288,183                     | \$ 318,829                    |

#### Deferred Taxes

Cleco Power has recorded a net regulatory asset related to deferred income taxes in accordance with the authoritative guidance on income taxes. The related regulatory asset or liability recorded represents the effect of tax benefits or detriments that must be flowed through to customers as they are received or paid. Generally, the recovery periods for regulatory assets and liabilities are based on assets' lives, which are typically 30 years or greater. The amounts deferred are attributable to differences between book and tax recovery periods. At September 30, 2009, Cleco Power had regulatory assets and liabilities – deferred taxes, net of \$227.9 million. The \$53.1 million increase from December 31, 2008, was primarily the result of the collection and deferral of carrying costs for Cleco Power's construction of Rodemacher Unit 3.

#### Deferred Tree Trimming Costs

In January 2008, the LPSC approved Cleco Power's request to establish a regulatory asset for costs incurred to trim, cut, or remove trees that were damaged by Hurricanes Katrina and Rita, but were not addressed as part of the restoration efforts. The regulatory asset is capped at \$12.0 million in actual expenditures plus a 12.4% grossed-up rate of return. Recovery of these expenditures was requested in Cleco Power's base

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rate application filed on July 14, 2008, and was approved by the LPSC on October 14, 2009. At September 30, 2009, the regulatory asset consisted of \$10.9 million of actual expenditures and \$1.1 million related to the grossed-up rate of return.

#### Deferred Training Costs

In February 2008, the LPSC approved Cleco Power's request to establish a regulatory asset which is being charged with training costs associated with existing processes and technology for new employees at Rodemacher Unit 3. Recovery of these expenditures was requested in Cleco Power's base rate application filed on July 14, 2008, and were covered by the retail rate plan which was approved by the LPSC on October 14, 2009. At September 30, 2009, Cleco Power had deferred \$5.7 million of Rodemacher Unit 3 training costs.

#### Deferred Storm Surcredit, net

Cleco Power has recorded a storm surcredit as the result of a settlement with the LPSC that addressed, among other things, the recovery of the storm damages related to Hurricanes Katrina and Rita. In the settlement, Cleco Power was required to implement a surcredit to provide ratepayers with the economic benefit of the carrying charges of all accumulated deferred income tax liabilities due to the storm damage costs at a 12.2% rate of return which was set in LPSC Order No. U-29157A. The accumulated deferred income tax liability includes deductions for operation and maintenance expense, casualty loss, and depreciation against taxable income in the year incurred and all subsequent periods. The settlement, through a true-up mechanism, allows the surcredit to be adjusted to reflect the actual tax deductions allowed by the IRS.

Cleco Power also was allowed to record a corresponding regulatory asset in an amount representing the flow back of the carrying charges to ratepayers. This amount is being amortized over the life of the storm recovery bonds. The corresponding regulatory asset will be adjusted through the same surcredit true-up mechanism at the time of a final determination of the tax benefit for storm damage costs by the IRS.

As a result of the settlement with the LPSC, Cleco Power was required to implement a surcredit when funds were withdrawn from the restricted storm reserve. In October 2008, Cleco Power withdrew funds from the restricted storm reserve to pay for damage caused by Hurricanes Gustav and Ike resulting in the establishment of a surcredit. However, rather than refunding this amount, Cleco Power requested and received approval from the LPSC to replenish the restricted storm reserve. At September 30, 2009, Cleco Power had \$5.8 million in deferred storm surcredit, net.

#### Deferred Construction Carrying Costs

In February 2006, the LPSC approved Cleco Power's plans to build Rodemacher Unit 3. Terms of the approval included authorization for Cleco Power to collect from customers an amount equal to 75% of the LPSC-jurisdictional portion of the carrying costs of capital during the construction phase of the unit. In any calendar year during the construction period, the amount collected from customers is not to exceed 6.5% of Cleco Power's projected retail revenues. Cleco Power began collection of the carrying costs and established a regulatory liability in May 2006. As of September 30, 2009, Cleco Power had collected \$134.4 million in construction carrying costs.

On October 14, 2009, the LPSC voted unanimously to approve Cleco Power's retail rate plan. The retail rate plan establishes that a minimum of \$183.2 million be returned to customers over a five-year period and that Cleco Power will record a regulatory asset for all amounts above the actual amount collected from customers. At September 30, 2009, Cleco Power recognized the minimum regulatory liability of \$183.2 million and the related regulatory asset of \$48.8 million. Upon commercial operations of Rodemacher Unit 3, the regulatory asset will be amortized over a five-year period. At September 30, 2009, \$27.5 million was due to be returned to customers within one year.

#### Deferred Fuel and Purchased Power Costs

The cost of fuel used for electric generation and the cost of power purchased for utility customers are recovered through the LPSC-established fuel adjustment clause, which enables Cleco Power to pass on to its customers substantially all such charges. For the three months ended September 30, 2009, approximately 95% of Cleco Power's total fuel cost was regulated by the LPSC, while the remainder was regulated by FERC. Deferred fuel and purchased power costs recorded at September 30, 2009, and December 31, 2008, were under-recoveries of \$27.3 million and \$69.2 million, respectively, and are scheduled to be collected from customers in future months. The \$41.9 million decrease in the under-recovered funds was primarily the result of a \$27.8 million decreased loss in the mark-to-market of natural gas hedge positions due to the close of certain natural gas positions, and the collection of \$14.9 million in additional fuel and purchased power costs. These decreases were partially offset by the deferral of \$0.6 million in additional fuel and purchased power costs. For additional information on Cleco Power's treatment of natural gas hedges, see Note 1 — "Summary of Significant Accounting Policies — Risk Management."

#### Note 4 — Fair Value Accounting

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The amounts reflected in the Condensed Consolidated Balance Sheets of Cleco and Cleco Power at September 30, 2009, and December 31, 2008, for cash and cash equivalents, restricted cash, accounts receivable, accounts payable, and short-term debt approximate fair value because of their short-term nature. Estimates of the fair value of Cleco and Cleco Power's long-term debt and Cleco's nonconvertible preferred stock are based upon the quoted market price for the same or similar issues or by a discounted present value analysis of future cash flows using current rates obtained by Cleco and Cleco Power for debt and by Cleco for preferred stock with similar maturities. The estimated fair value of energy market positions is based upon observed market prices when available. When such market prices are not available, management estimates market value at a discrete point in time by assessing market

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conditions and observed volatility. These estimates are subjective in nature and involve uncertainties. Therefore, actual results may differ from these estimates.

## Cleco

| (THOUSANDS)   | AT SEPTEMBER 30,<br>2009 |                            | AT DECEMBER 31,<br>2008 |                            |
|---|--------------------------|----------------------------|-------------------------|----------------------------|
|   | CARRYING<br>VALUE        | ESTIMATED<br>FAIR<br>VALUE | CARRYING<br>VALUE       | ESTIMATED<br>FAIR<br>VALUE |
| Financial instruments not marked-to-market          |                          |                            |                         |                            |
| Cash and cash equivalents                           | \$49,283                 | \$ 49,283                  | \$97,483                | \$ 97,483                  |
| Restricted cash                                     | \$56,040                 | \$ 56,040                  | \$102,982               | \$ 102,982                 |
| Long-term debt, excluding debt issuance costs       | \$1,232,545              | \$ 1,242,206               | \$1,172,874             | \$ 1,110,171               |
| Preferred stock not subject to mandatory redemption | \$1,029                  | \$ 792                     | \$1,029                 | \$ 699                     |

| (THOUSANDS)                               | ORIGINAL<br>VALUE | AT SEPTEMBER 30,<br>2009                                 |                            | ORIGINAL<br>VALUE | AT DECEMBER 31,<br>2008                                  |                            |
|---|-------------------|--|----------------------------|-------------------|--|----------------------------|
|   |                   | OTHER<br>UNREALIZED<br>LOSSES<br>DURING<br>THE<br>PERIOD | ESTIMATED<br>FAIR<br>VALUE |                   | OTHER<br>UNREALIZED<br>LOSSES<br>DURING<br>THE<br>PERIOD | ESTIMATED<br>FAIR<br>VALUE |
| Financial instruments<br>marked-to-market |                   |  |                            |                   |  |                            |
| Energy market positions                   |                   |  |                            |                   |  |                            |
| Assets                                    | \$104,075         | \$(17,064 )  | \$ 86,487                  | \$159,432         | \$(47,293 )  | \$ 117,851                 |
| Liabilities                               | \$151,943         | \$(12,942 )  | \$ 139,001                 | \$221,083         | \$(10,315 )  | \$ 210,768                 |
| Interest rate swap liability              | \$-               | \$(833 )   | \$ 833                     | \$-               | \$-  | \$ -                       |

## Cleco Power

| (THOUSANDS)                                   | AT SEPTEMBER 30,<br>2009 |                            | AT DECEMBER 31,<br>2008 |                            |
|---|--------------------------|----------------------------|-------------------------|----------------------------|
|   | CARRYING<br>VALUE        | ESTIMATED<br>FAIR<br>VALUE | CARRYING<br>VALUE       | ESTIMATED<br>FAIR<br>VALUE |
| Financial instruments not marked-to-market    |                          |                            |                         |                            |
| Cash and cash equivalents                     | \$35,010                 | \$ 35,010                  | \$91,542                | \$ 91,542                  |
| Restricted cash                               | \$55,944                 | \$ 55,944                  | \$102,885               | \$ 102,885                 |
| Long-term debt, excluding debt issuance costs | \$1,114,545              | \$ 1,124,206               | \$1,142,874             | \$ 1,080,171               |

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| (THOUSANDS)                               | AT SEPTEMBER 30,<br>2009                                 |                            |                   | AT DECEMBER 31,<br>2008                                  |                            |                   |
|---|--|----------------------------|-------------------|--|----------------------------|-------------------|
|   | OTHER<br>UNREALIZED<br>LOSSES<br>DURING<br>THE<br>PERIOD | ESTIMATED<br>FAIR<br>VALUE | ORIGINAL<br>VALUE | OTHER<br>UNREALIZED<br>LOSSES<br>DURING<br>THE<br>PERIOD | ESTIMATED<br>FAIR<br>VALUE | ORIGINAL<br>VALUE |
| Financial instruments<br>marked-to-market |  |                            |                   |  |                            |                   |
| Energy market positions                   |  |                            |                   |  |                            |                   |
| Assets                                    | \$104,075  | \$(17,064 )                | \$ 86,487         | \$159,432  | \$(47,293 )                | \$ 117,851        |
| Liabilities                               | \$151,943  | \$(12,942 )                | \$ 139,001        | \$221,083  | \$(10,315 )                | \$ 210,768        |
| Interest rate swap liability              | \$-  | \$(833 )                   | \$ 833            | \$-  | \$-                        | \$ -              |

The financial instruments not marked-to-market are reported on Cleco's and Cleco Power's Consolidated Balance Sheets at carrying value. The financial instruments marked-to-market represent market risk recorded in the financial statements because, to the extent Cleco and Cleco Power have an open position, they are exposed to the risk that fluctuating market prices may adversely affect their financial condition or results of operations upon settlement. Original value represents the fair value of the positions at the time originated.

At September 30, 2009, Cleco and Cleco Power were exposed to concentration of credit risk through their short-term investments classified as cash equivalents. Cleco had \$45.2 million in short-term investments in an institutional money market fund. If the money market funds failed to perform under the terms of the investment, Cleco would be exposed to a loss of the invested amounts. Cleco Power had \$31.0 million in short-term investments in several institutional money market funds. If the money market funds failed to perform under the terms of the investments, Cleco Power would be exposed to a loss of the invested amounts. Collateral on these types of investments is not required by either Cleco or Cleco Power. In order to mitigate potential credit risk, Cleco and Cleco Power have established guidelines for short-term investments. Money market funds must have at least \$1.0 billion in assets under management; must have been in existence for not less than two years; must have portfolios not comprised of more than 50% of securities issued by foreign entities; and must be rated in the top two ratings' categories by at least one nationally recognized rating agency. Commercial paper must be issued by a company with headquarters in the U.S. and rated not less than A1 by Standard & Poor's or P1 by Moody's. For split-rated issuers, the second rating must not be lower than

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either A2 or P2; the issuer's long-term debt must be rated not lower than A by Standard & Poor's or A2 by Moody's; and the issuer cannot be on negative credit watch. Investments in commercial paper rated A2 by Standard & Poor's or P2 by Moody's may be made if approved by the appropriate level of management.

Cleco Power was exposed to concentration of credit risk through its energy marketing assets. At September 30, 2009, Cleco Power had energy marketing assets with an estimated fair value of \$86.5 million. These energy marketing assets represent open natural gas purchase positions, primarily financial hedge transactions. Cleco Power entered into these positions to mitigate the volatility in the cost of fuel purchased for utility generation and the risk associated with the fixed-price power that is being provided to a wholesale customer through December 2010. If the counterparties to these assets fail to perform under the terms of the investment, Cleco Power would be exposed to a loss of \$86.5 million. For information about credit risk management and how these risks are mitigated on energy marketing assets, see Note 1 — "Summary of Significant Accounting Policies — Risk Management."

#### Interest Rate Swap

In August 2009, Cleco Power entered into a \$50.0 million bank loan with variable interest, paid monthly, and calculated at 3.00% plus the one-month LIBOR. The loan matures on August 19, 2012, and can be repaid before maturity without penalty. In order to mitigate risk of the future floating interest rates, Cleco Power entered into an interest rate swap with JPMorgan Chase Bank, N.A. Based on the notional amount of the bank loan, the swap requires a monthly net settlement between Cleco Power's fixed payment of 1.84% and the swap counterparty's floating payment of the one-month LIBOR. The swap matures on May 31, 2012. Both the bank loan and the swap were effective the same day and require monthly payments near the end of the month. From the inception of the loan to September 30, 2009, Cleco Power recognized net interest expense equal to an annual rate of 4.84% on the bank loan. Since both the bank loan and the swap require payments near the end of the month, the cash payments are materially close to the interest expense recognized.

The swap is considered a derivative and is carried on the balance sheet at its fair value. Its fair value is calculated by the present value of the fixed payments as compared to expected future LIBOR rates. Since future LIBOR rates are not available for each month until termination, quoted LIBOR rates from an active exchange for observable time periods were used to create a forward "LIBOR curve" for all months until termination. Because of the inputs and common techniques used to calculate fair value, the swap valuation is considered Level 2. The notional amount of \$50.0 million is only used to calculate the net interest payment and is not a part of the net settlement itself. As such, the repayment of the \$50.0 million is excluded from the fair value calculation. The bank loan is carried on the balance sheet at the original issuance amount, less principal payments.

The swap meets the criteria of a cash flow hedge under the authoritative guidance as it relates to derivatives and hedging. Changes in the swap's fair value related to the effective portion are recognized in other comprehensive income, whereas changes in the fair value related to the ineffective portion are recognized in earnings. As time passes and settlements are made, the swap's other comprehensive income fair values are reclassified into earnings as a component of interest expense. For the three and nine months ended September 30, 2009, there were \$0.1 million of reclassification adjustments from other comprehensive income to interest expense. There was no impact to earnings due to ineffectiveness for the three or nine months ended September 30, 2009.

#### Fair Value Measurements and Disclosures

Entities are required to classify assets and liabilities measured at their fair value according to three different levels depending on the inputs used in determining fair value.

§ Level 1 – unadjusted quoted prices in active, liquid markets for the identical asset or liability;

§



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Level 2 – quoted prices for similar assets and liabilities in active markets or other inputs that are observable for the asset or liability, including inputs that can be corroborated by observable market data, observable interest rate yield curves and volatilities;

§ Level 3 – unobservable inputs based upon the entities' own assumptions.

The tables below disclose for Cleco and Cleco Power the fair value of financial assets and liabilities measured on a recurring basis and within the scope of the authoritative guidance for fair value measurements and disclosures.

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Cleco

CLECO CONSOLIDATED FAIR VALUE MEASUREMENTS AT REPORTING DATE  
USING:

| (THOUSANDS)                      | AT<br>SEPTEMBER<br>30, 2009 | QUOTED<br>PRICES<br>IN<br>ACTIVE<br>MARKETS<br>FOR IDENTICAL<br>ASSETS (LEVEL 1) | SIGNIFICANT<br>OTHER<br>OBSERVABLE<br>INPUTS (LEVEL 2) | SIGNIFICANT<br>UNOBSERVABLE<br>INPUTS (LEVEL 3) | AT<br>DECEMBER<br>31, 2008 | QUOTED<br>PRICES<br>IN<br>ACTIVE<br>MARKETS<br>FOR IDENTICAL<br>ASSETS (LEVEL 1) | SIGNIFICANT<br>OTHER<br>OBSERVABLE<br>INPUTS (LEVEL 2) | SIGNIFICANT<br>UNOBSERVABLE<br>INPUTS (LEVEL 3) |
|----------------------------------|-----------------------------|--|--|---|----------------------------|--|--|---|
|                                  |                             |  |  |   |                            |  |  |   |
| Asset Description                |                             |  |  |   |                            |  |  |   |
| Energy market derivatives        | \$ 262                      | \$ -   | \$ 262   | \$ -  | \$ 3,687                   | \$ -   | \$ 3,687   | \$ -  |
| Institutional money market funds | 101,051                     | -  | 101,051  | -   | 204,789                    | -  | 204,789  | -   |
| Total                            | \$ 101,313                  | \$ -   | \$ 101,313   | \$ -  | \$ 208,476                 | \$ -   | \$ 208,476   | \$ -  |

CLECO CONSOLIDATED FAIR VALUE MEASUREMENTS AT REPORTING DATE  
USING:

| (THOUSANDS)               | AT<br>SEPTEMBER<br>30, 2009 | QUOTED<br>PRICES<br>IN<br>ACTIVE<br>MARKETS<br>FOR IDENTICAL<br>LIABILITIES (LEVEL 1) | SIGNIFICANT<br>OTHER<br>OBSERVABLE<br>INPUTS (LEVEL 2) | SIGNIFICANT<br>UNOBSERVABLE<br>INPUTS (LEVEL 3) | AT<br>DECEMBER<br>31, 2008 | QUOTED<br>PRICES<br>IN<br>ACTIVE<br>MARKETS<br>FOR IDENTICAL<br>LIABILITIES (LEVEL 1) | SIGNIFICANT<br>OTHER<br>OBSERVABLE<br>INPUTS (LEVEL 2) | SIGNIFICANT<br>UNOBSERVABLE<br>INPUTS (LEVEL 3) |
|---------------------------|-----------------------------|---|--|---|----------------------------|---|--|---|
|                           |                             |   |  |   |                            |   |  |   |
| Liability Description     |                             |   |  |   |                            |   |  |   |
| Energy market derivatives | \$30,268                    | \$ 9,672  | \$ 20,596  | \$ -  | \$ 61,295                  | \$ 13,757   | \$ 47,538  | \$ -  |
| Interest rate swap        | 833                         | -   | 833  | -   | -                          | -   | -  | -   |
| Total                     | \$31,101                    | \$ 9,672  | \$ 21,429  | \$ -  | \$ 61,295                  | \$ 13,757   | \$ 47,538  | \$ -  |

Cleco Power

## CLECO POWER FAIR VALUE MEASUREMENTS AT REPORTING DATE USING:

(THOUSANDS) SIGNIFICANT SIGNIFICANT SIGNIFICANT SIGNIFICANT

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| Asset Description                | AT        | QUOTED    | OTHER      | UNOBSERVABLE | AT         | QUOTED    | OTHER      | UNOBSERVABLE |
|----------------------------------|-----------|-----------|------------|--------------|------------|-----------|------------|--------------|
|                                  | SEPTEMBER | PRICES    | OBSERVABLE | INPUTS       | DECEMBER   | PRICES    | OBSERVABLE | INPUTS       |
|                                  | 30, 2009  | IN        | INPUTS     | (LEVEL       | 31, 2008   | IN        | INPUTS     | (LEVEL       |
|                                  |           | ACTIVE    | (LEVEL 2)  | 3)           |            | ACTIVE    | (LEVEL 2)  | 3)           |
|                                  |           | MARKETS   |            |              |            | MARKETS   |            |              |
|                                  |           | FOR       |            |              |            | FOR       |            |              |
|                                  |           | IDENTICAL |            |              |            | IDENTICAL |            |              |
|                                  |           | ASSETS    |            |              |            | ASSETS    |            |              |
|                                  |           | (LEVEL    |            |              |            | (LEVEL    |            |              |
|                                  |           | 1)        |            |              |            | 1)        |            |              |
| Energy market derivatives        | \$262     | \$ -      | \$ 262     | \$ -         | \$ 3,687   | \$ -      | \$ 3,687   | \$ -         |
| Institutional money market funds | 86,851    | -         | 86,851     | -            | 198,989    | -         | 198,989    | -            |
| Total                            | \$87,113  | \$ -      | \$ 87,113  | \$ -         | \$ 202,676 | \$ -      | \$ 202,676 | \$ -         |

CLECO POWER FAIR VALUE MEASUREMENTS AT REPORTING DATE USING:

| Liability Description     | AT        | QUOTED    | OTHER       | UNOBSERVABLE | AT        | QUOTED    | OTHER       | UNOBSERVABLE |
|---------------------------|-----------|-----------|-------------|--------------|-----------|-----------|-------------|--------------|
|                           | SEPTEMBER | PRICES    | OBSERVABLE  | INPUTS       | DECEMBER  | PRICES    | OBSERVABLE  | INPUTS       |
| (THOUSANDS)               | 30, 2009  | IN        | INPUTS      | (LEVEL       | 31, 2008  | IN        | INPUTS      | (LEVEL       |
|                           |           | ACTIVE    | (LEVEL 2)   | 3)           |           | ACTIVE    | (LEVEL 2)   | 3)           |
|                           |           | MARKETS   |             |              |           | MARKETS   |             |              |
|                           |           | FOR       | SIGNIFICANT | SIGNIFICANT  |           | FOR       | SIGNIFICANT | SIGNIFICANT  |
|                           |           | IDENTICAL | LIABILITIES | LIABILITIES  |           | IDENTICAL | LIABILITIES | LIABILITIES  |
|                           |           | ASSETS    | (LEVEL      | INPUTS       |           | ASSETS    | (LEVEL      | INPUTS       |
|                           |           | (LEVEL    | 1)          | (LEVEL 2)    |           | (LEVEL    | 1)          | (LEVEL 2)    |
|                           |           | 3)        |             | 3)           |           | 3)        |             | 3)           |
| Energy market derivatives | \$30,268  | \$ 9,672  | \$ 20,596   | \$ -         | \$ 61,295 | \$ 13,757 | \$ 47,538   | \$ -         |
| Interest rate swap        | 833       | -         | 833         | -            | -         | -         | -           | -            |
| Total                     | \$31,101  | \$ 9,672  | \$ 21,429   | \$ -         | \$ 61,295 | \$ 13,757 | \$ 47,538   | \$ -         |

The derivative assets and liabilities are classified as either current or non-current depending on when the positions close. All energy market derivative current assets and current liabilities are reported as a net current risk management asset or liability. All energy market derivative non-current assets and non-current liabilities are reported net in other deferred charges or other deferred credits. Net presentation is appropriate due to the right of offset included in the master netting agreements. On the balance sheet, the net current and net non-current energy market derivative positions are netted with the applicable margin deposits. At September 30, 2009, a net current risk management asset of \$4.7 million represented current deferred options. At September 30, 2009, a net current risk management liability of \$17.5 million represented the current energy market derivative positions of \$30.1 million reduced by current margin deposits of \$12.6 million. The non-current asset energy market derivative positions of \$0.1 million reduced by non-current margin collections of less than \$0.1 million were recorded in other deferred credits. The \$101.1 million in institutional money market funds was reported on the Cleco Consolidated balance sheet in cash and cash equivalents, current restricted cash, and non-current restricted cash in the amounts of \$45.2 million, \$25.1 million, and \$30.8 million, respectively. At Cleco Power, cash and cash equivalents, current restricted cash, and restricted non-current cash were \$31.0 million, \$25.1 million, and \$30.8 million, respectively, as of September 30, 2009.

Cleco utilizes different valuation techniques for fair value calculations. In order to measure the fair value for Level 1 assets and liabilities, Cleco obtains the closing price from published indices in active markets for the various instruments and multiplies this price by the appropriate number of instruments held. Level 2 fair values for assets and liabilities are determined by obtaining the closing price from published indices in active markets for instruments that are similar to Cleco's assets and liabilities. The fair value obtained is then discounted to the current period using a U.S. Treasury published interest rate as a proxy for a risk-free rate of return. For

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some options, Cleco uses the Black-Scholes model using observable and available inputs to calculate the fair value, consistent with the income approach. These techniques have been applied consistently from fiscal period to fiscal period. Level 3 fair values allow for situations in which there is little, if any, market activity for the asset or liability at the measurement date. Cleco had no Level 3 assets or liabilities at September 30, 2009, or December 31, 2008.

#### Derivatives and Hedging

A disclosure amendment to the authoritative guidance on derivatives and hedging which requires entities to provide greater transparency in interim and annual financial statements became effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. This amendment requires enhanced disclosures about a company's derivative activities and how the related hedged items affect a company's financial position, financial performance and cash flows. Cleco is required to provide qualitative disclosures about derivative fair value, gains and losses, and credit-risk-related contingent features in derivative agreements.

The following table presents the fair values of derivative instruments and their respective line item as recorded on the Condensed Consolidated Balance Sheets of Cleco and Cleco Power at September 30, 2009:

| (THOUSANDS)<br>AT SEPTEMBER 30, 2009 | DERIVATIVES NOT<br>DESIGNATED AS HEDGING<br>INSTRUMENTS<br>LIABILITY DERIVATIVES<br>BALANCE<br>SHEET LINE<br>ITEM | FAIR VALUE   |
|--------------------------------------|---|--------------|
| Commodity contracts                  |   |              |
| Economic hedges:                     |   |              |
| Current                              | Risk management liability, net  | \$ (397 )    |
| Long-term                            | Other deferred charges  | 16           |
| Fuel cost hedges:                    |   |              |
| Current                              | Risk management liability, net  | (29,752 )    |
| Long-term                            | Other deferred charges  | 127          |
| Total                                |   | \$ (30,006 ) |

The following table presents the effect of derivatives not designated as hedging instruments on Cleco and Cleco Power's Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2009:

| (THOUSANDS) | LOSS IN<br>INCOME OF | AMOUNT OF<br>LOSS | AMOUNT OF<br>LOSS |
|-------------|----------------------|-------------------|-------------------|
|-------------|----------------------|-------------------|-------------------|

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|                     | DERIVATIVES<br>LINE ITEM          | RECOGNIZED<br>IN INCOME<br>ON<br>DERIVATIVES<br>THREE<br>MONTHS<br>ENDED<br>SEPTEMBER<br>30, 2009 | RECOGNIZED<br>IN INCOME<br>ON<br>DERIVATIVES<br>NINE<br>MONTHS<br>ENDED<br>SEPTEMBER<br>30, 2009 |
|---------------------|-----------------------------------|---|--|
| Commodity contracts |                                   |   |  |
| Economic hedges     | Other operations revenue          | \$ 37 (1)   | \$ 1,549 (2)   |
| Fuel cost hedges(3) | Fuel used for electric generation | 28,271  | 74,632   |
| <b>Total</b>        |                                   | <b>\$ 28,308</b>  | <b>\$ 76,181</b>   |

(1)For the three months ended September 30, 2009, Cleco recognized \$0.5 million of mark-to-market gains related to economic hedges.

(2)For the nine months ended September 30, 2009, Cleco recognized \$0.1 million of mark-to-market losses related to economic hedges.

(3)In accordance with the authoritative guidance for regulated operations, an additional \$29.6 million of unrealized losses and \$6.4 million of deferred losses associated with fuel cost hedges are reported in Accumulated Deferred Fuel on the balance sheet. As gains and losses are realized in

future periods, they will be recorded as Fuel Used for Electric Generation on the Income Statement. For more information, see Note 3 — “Regulatory Assets and Liabilities — Deferred Fuel and Purchased Power Costs.”

At September 30, 2009, Cleco had 17.01 million MMBtus of natural gas fuel cost hedge contracts, which is approximately 29% of the estimated natural gas requirements for a two-year period. Cleco had an additional 56,000 MMBtus hedged through 2010, resulting from economic hedges, which is approximately 90% of the estimated daily peak-hour sales to a wholesale customer.

The following table presents the fair values of derivatives designated as hedging instruments and their respective line item as recorded on the Condensed Consolidated Balance Sheets of Cleco and Cleco Power at September 30, 2009:

| (THOUSANDS)<br>AT SEPTEMBER 30, 2009 | DERIVATIVES NOT<br>DESIGNATED AS HEDGING<br>INSTRUMENTS<br>LIABILITY DERIVATIVES<br>BALANCE<br>SHEET<br>LINE ITEM | FAIR VALUE    |
|--------------------------------------|---|---------------|
| Cash flow hedges:                    | Other current liabilities   | \$ 533        |
|                                      | Other deferred credits  | 300           |
| <b>Total</b>                         |   | <b>\$ 833</b> |

The following table presents the effect of derivatives designated as hedging instruments on Cleco and Cleco Power's Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2009:

| (THOUSANDS)        | AMOUNT OF<br>LOSS<br>RECOGNIZED<br>IN OCI<br>THREE<br>MONTHS<br>ENDED<br>SEPTEMBER<br>30, 2009 | LOCATION OF<br>LOSS<br>RECLASSIFIED<br>FROM<br>ACCUMULATED<br>OCI<br>INTO INCOME<br>(EFFECTIVE<br>PORTION) | AMOUNT OF<br>LOSS<br>RECLASSED<br>FROM<br>ACCUMULATED<br>OCI<br>INTO<br>INCOME<br>(EFFECTIVE<br>PORTION)<br>THREE<br>MONTHS<br>ENDED<br>SEPTEMBER<br>30, 2009 |
|--------------------|--|--|---|
| Interest rate swap | \$ 925   | Interest charges   | \$ 94   |

| (THOUSANDS)        | AMOUNT OF<br>LOSS<br>RECOGNIZED<br>IN OCI<br>NINE<br>MONTHS<br>ENDED<br>SEPTEMBER<br>30, 2009 | LOCATION OF<br>LOSS<br>RECLASSIFIED<br>FROM<br>ACCUMULATED<br>OCI<br>INTO INCOME<br>(EFFECTIVE<br>PORTION) | AMOUNT OF<br>LOSS<br>RECLASSED<br>FROM<br>ACCUMULATED<br>OCI<br>INTO<br>INCOME<br>(EFFECTIVE<br>PORTION)<br>NINE<br>MONTHS<br>ENDED<br>SEPTEMBER<br>30, 2009 |
|--------------------|---|--|--|
| Interest rate swap | \$ 925  | Interest charges   | \$ 94  |

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Cleco and Cleco Power did not record any expense related to the ineffectiveness of hedges for the three or nine months ended September 30, 2009. For additional information, see “— Interest Rate Swap.”

Note 5 — Debt

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Long-term Debt

Cleco had no short-term debt outstanding at September 30, 2009, or December 31, 2008. At September 30, 2009, Cleco's long-term debt outstanding was \$1.2 billion, of which \$11.5 million was due within one year, compared to \$1.2 billion outstanding at December 31, 2008, which included \$63.5 million due within one year. The long-term debt due within one year at September 30, 2009, represents \$11.5 million of principal payments for the Cleco Katrina/Rita storm recovery bonds scheduled to be paid in the next twelve months. For Cleco, long-term debt increased \$79.4 million primarily due to an \$88.0 million increase in Cleco Corporation's credit facility draws, the execution of a \$50.0 million variable-rate monthly bank loan in August 2009, a \$35.0 million increase in Cleco Power's credit facility draws, and a \$19.5 million increase in long-term capital leases. These increases were partially offset by the \$50.0 million repayment of a medium-term note at maturity in May 2009, the \$49.5 million repayment of insured quarterly notes in August 2009, and \$13.5 million related to Cleco Katrina/Rita storm recovery bond principal payments made in March and September 2009. During January 2009, Cleco Power entered into a lease agreement for barges to be used for fuel transportation for Rodemacher Unit 3. For additional information, see Note 10 — “Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Other Contingencies — Fuel Transportation Agreement.”

Cleco Power had no short-term debt outstanding at September 30, 2009, or December 31, 2008. At September 30, 2009, Cleco Power's long-term debt outstanding was \$1.1 billion, of which \$11.5 million was due within one year, compared to \$1.1 billion outstanding at December 31, 2008, of which \$63.5 million was due within one year. The long-term debt due within one year at September 30, 2009, represents principal payments for the Cleco Katrina/Rita storm recovery bonds scheduled to be paid in the next twelve months. For Cleco Power, long-term debt decreased \$8.6 million primarily due to the \$50.0 million repayment of a medium-term note at maturity in May 2009, the \$49.5 million repayment of insured quarterly notes in August 2009, and \$13.5 million related to Cleco Katrina/Rita storm recovery bond principal payments made in March and September 2009. These decreases were partially offset by the issuance of a \$50.0 million variable-rate monthly bank loan in August 2009, an increase of \$35.0 million in Cleco Power's credit facility draws, and a \$19.5 million increase in long-term capital leases. During January 2009, Cleco Power entered into a lease agreement for barges to be used for fuel transportation for Rodemacher Unit 3. For additional information, see Note 10 — “Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Other Contingencies — Fuel Transportation Agreement.”

In August 2009, Cleco Power redeemed all \$49.5 million principal amount of its outstanding 6.05% insured quarterly notes due June 2012. The notes were replaced with a one-month LIBOR plus 3.00% floating rate bank loan maturing on August 19, 2012. In July 2009, Cleco Power locked in a \$50.0 million interest rate swap arrangement related to this loan. This swap was effective on August 19, 2009 and will mature on May 31, 2012. For additional information, see Note 4 — “Fair Value Accounting — Interest Rate Swap.”

In August 2009, Cleco Corporation and the lenders under its \$150.0 million five-year credit facility amended the credit facility to increase the threshold in a representation that the present value of all accumulated benefit obligations under Cleco's pension plan is allowed to exceed the fair market value of the assets of the plan. At December 31, 2008, the present value of all accumulated benefit obligations under the pension plan exceeded the fair market value of the plan assets by approximately \$61.4 million. In connection with the amendment, the lenders under the credit facility



waived each event of default relating to the breach of the representation from December 31, 2008, to the date of the amendment. In connection with the waiver and amendment, Cleco Corporation paid the lenders approximately \$0.1 million, which fees are included in interest expense for the three months ended September 30, 2009.

In August 2009, Cleco Power and the lenders under its \$275.0 million five-year credit facility amended the credit facility to increase the threshold in a representation that the present value of all accumulated benefit obligations under Cleco's pension plan is allowed to exceed the fair market value of the assets of the plan. At December 31, 2008, the present value of all accumulated benefit obligations under the pension plan exceeded the fair market value of the plan assets by approximately \$61.4 million. In connection with the amendment, the lenders under the credit facility waived each event of default relating to the breach of the representation from December 31, 2008, to the date of the amendment. In connection with the waiver and amendment, Cleco Power paid the lenders approximately \$0.1 million, which fees are included in interest expense for the three months ended September 30, 2009.

Note 6 — Pension Plan and Employee Benefits

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Pension Plan and Other Benefits Plan

Most employees hired before August 1, 2007 are covered by a non-contributory, defined benefit pension plan. Benefits under the plan reflect an employee's years of service, age at retirement, and highest total average compensation for any consecutive five calendar years during the last 10 years of employment with Cleco Corporation. Cleco Corporation's policy is to base its contributions to the employee pension plan upon actuarial computations utilizing the projected unit credit method, subject to the IRS's full funding limitation. During the nine months ended September 30, 2009, \$18.8 million of discretionary contributions were made to the pension plan for the 2008 plan year. Cleco Power expects to be required to make

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an additional \$72.0 million in contributions to the pension plan over the next five years, including \$4.8 million in 2010. The required contributions are driven by liability funding target percentages set by law which could cause the required contributions to be uneven among the years. The ultimate amount and timing of the contributions will be affected by changes in the discount rate, changes in the funding regulations, and actual returns on fund assets. Cleco Power is considered the plan sponsor, and Support Group is considered the plan administrator.

Cleco Corporation's retirees and their dependents are eligible to receive medical, dental, vision, and life insurance benefits (other benefits). Cleco Corporation recognizes the expected cost of these other benefits during the periods in which the benefits are earned.

The components of net periodic pension and other benefit cost for the three and nine months ended September 30, 2009, and 2008, are as follows:

| (THOUSANDS)                          | PENSION BENEFITS<br>FOR THE THREE MONTHS ENDED SEPTEMBER<br>30, |          | OTHER BENEFITS<br>FOR THE THREE MONTHS ENDED SEPTEMBER<br>30, |        |
|--------------------------------------|---|----------|---|--------|
|                                      | 2009  | 2008     | 2009  | 2008   |
| Components of periodic benefit costs |   |          |   |        |
| Service cost                         | \$1,798   | \$1,470  | \$355   | \$339  |
| Interest cost                        | 4,150   | 3,964    | 614   | 454    |
| Expected return on plan assets       | (4,450 )  | (5,044 ) | -   | -      |
| Transition obligation                | -   | -        | 5   | 5      |
| Prior period service credit (cost)   | 432   | (18 )    | (516 )  | (518 ) |
| Net loss                             | -   | -        | 209   | 196    |
| Net periodic benefit cost            | \$1,930   | \$372    | \$667   | \$476  |

| (THOUSANDS)                          | PENSION BENEFITS<br>FOR THE NINE MONTHS ENDED SEPTEMBER<br>30, |           | OTHER BENEFITS<br>FOR THE NINE MONTHS ENDED SEPTEMBER<br>30, |          |
|--------------------------------------|--|-----------|--|----------|
|                                      | 2009   | 2008      | 2009   | 2008     |
| Components of periodic benefit costs |  |           |  |          |
| Service cost                         | \$5,257  | \$4,409   | \$1,060  | \$1,059  |
| Interest cost                        | 12,340   | 11,892    | 1,605  | 1,486    |
| Expected return on plan assets       | (14,597 )  | (15,133 ) | -  | -        |
| Transition obligation                | -  | -         | 15   | 15       |
| Prior period service credit (cost)   | 1,394  | (53 )     | (1,548 )   | (1,549 ) |
| Net loss                             | -  | -         | 672  | 695      |
| Net periodic benefit cost            | \$4,394  | \$1,115   | \$1,804  | \$1,706  |

Since Cleco Power is the pension plan sponsor and the related trust holds the assets, the prepaid benefit cost of the pension plan is reflected at Cleco Power. The liability of Cleco Corporation's other subsidiaries is transferred, with a like amount of assets, to Cleco Power monthly. The expense of the pension plan related to Cleco Corporation's other subsidiaries for the three and nine months ended September 30, 2009, was \$0.5 million and \$1.4 million, respectively, compared to \$0.4 million and \$1.1 million for the same periods in 2008.

Cleco Corporation is the plan sponsor for the other benefit plans. There are no assets set aside in a trust, and the liabilities are reported on the individual subsidiaries' financial statements. The expense related to other benefits reflected in Cleco Power's Condensed Consolidated Statements of Income for the three and nine months ended

September 30, 2009, was \$0.6 million and \$1.5 million, respectively, net of Medicare Part D subsidy of \$0.1 million and \$0.3 million, respectively. For the same periods in 2008, Cleco Power recognized \$0.5 million and \$1.4 million of expense, respectively, net of Medicare Part D subsidy of \$0.1 million and \$0.2 million, respectively.

#### SERP

Certain Cleco executive officers are covered by the SERP. The SERP is a non-qualified, non-contributory, defined benefit pension plan. Benefits under the plan reflect an employee's years of service, age at retirement, and the sum of the highest base salary paid out of the last five calendar years and the average of the three highest annual bonuses paid during the 60 months prior to retirement, reduced by benefits received from any other defined benefit pension plan, SERP Plan or Cleco contributions under the enhanced 401(k) Plan to the extent such contributions exceed the limits of the 401(k) Plan. Cleco Corporation does not fund the SERP liability, but instead pays for current benefits out of the general funds available. Cleco Power has formed a Rabbi Trust designated as the beneficiary for life insurance policies issued on the SERP participants. Proceeds from the life insurance policies are expected to be used to pay the SERP participants' life insurance benefits, as well as future SERP benefit payments. However, since SERP is a non-qualified plan, the assets of the trust could be used to satisfy general creditors of Cleco Power in the event of insolvency. All SERP benefits are paid out of the general cash available of the respective companies from which the officer retired. No contributions to the SERP were made during the nine months ended September 30, 2009, or 2008. Cleco Power is considered the plan sponsor, and Support Group is considered the plan administrator. The components of the net SERP cost are as follows:

| (THOUSANDS)                          | FOR THE THREE<br>MONTHS ENDED<br>SEPTEMBER 30, |       | FOR THE NINE<br>MONTHS ENDED<br>SEPTEMBER 30, |         |
|--------------------------------------|--|-------|---|---------|
|                                      | 2009   | 2008  | 2009  | 2008    |
| Components of periodic benefit costs |  |       |   |         |
| Service cost                         | \$456  | \$329 | \$1,206                                       | \$1,046 |
| Interest cost                        | 111  | 534   | 1,511   | 1,424   |
| Prior period service cost            | 13   | 13    | 40  | 40      |
| Net loss (gain)                      | 76   | (15 ) | 583   | 492     |
| Net periodic benefit cost            | \$656  | \$861 | \$3,340                                       | \$3,002 |

The SERP liabilities are reported on the individual subsidiaries' financial statements. The expense related to the SERP reflected on Cleco Power's Consolidated Statements of Income was \$0.1 million and \$0.8 million for the three and nine months ended September 30, 2009, respectively, compared to \$0.2 million and \$0.7 million for the same periods in 2008.

#### 401(k) Plan

Most employees are eligible to participate in the 401(k) Plan. In August 2007, Cleco Corporation's Board of Directors approved an amendment to the 401(k) Plan to provide an enhanced 401(k) benefit for employees not otherwise eligible to participate in Cleco's pension plan. Beginning January 2008,

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Cleco Corporation made matching contributions and funded dividend reinvestments related to Cleco Corporation common stock with cash.

The table below contains information about the 401(k) Plan.

| (THOUSANDS)         | FOR THE THREE MONTHS ENDED SEPTEMBER 30, |       | FOR THE NINE MONTHS ENDED SEPTEMBER 30, |         |
|---------------------|--|-------|---|---------|
|                     | 2009                                     | 2008  | 2009                                    | 2008    |
| 401(k) Plan expense | \$903                                    | \$970 | \$2,853                                 | \$2,661 |

Cleco Power is the plan sponsor for the 401(k) Plan. The expense of the 401(k) Plan related to Cleco Corporation's other subsidiaries for the three and nine months ended September 30, 2009, was \$0.2 million and \$0.8 million, respectively, compared to \$0.3 million and \$0.7 million for the same periods in 2008.

Note 7 — Income Taxes

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The following tables summarize the effective income tax rates for Cleco Corporation and Cleco Power for the three- and nine-month periods ended September 30, 2009, and 2008.

| (THOUSANDS)       | FOR THE THREE MONTHS ENDED SEPTEMBER 30, |       | FOR THE NINE MONTHS ENDED SEPTEMBER 30, |       |
|-------------------|--|-------|---|-------|
|                   | 2009                                     | 2008  | 2009                                    | 2008  |
| Cleco Corporation | 7.7%                                     | 22.1% | 12.4%                                   | 20.3% |
| Cleco Power       | 2.9%                                     | 25.7% | 13.6%                                   | 23.0% |

For the three- and nine-month periods ended September 30, 2009 and 2008, the effective income tax rate for Cleco Corporation and Cleco Power was less than the federal statutory rate primarily due to the flow-through of tax benefits associated with AFUDC equity recorded as a result of the construction of Rodemacher Unit 3. During the second quarter of 2009, the IRS issued its report for the tax years 2001 through 2003. The unagreed upon issues relate to the recovery period of the Evangeline facility and bonus depreciation related to the Perryville facility. These issues were appealed by Cleco and are appropriately included in tax reserves in the financial statements. Cleco is currently under federal and state audits for fiscal years 2004 through 2007. It is reasonably possible that the unrecognized tax benefits could increase or decrease by \$20.4 million over the next twelve months as the unagreed upon issues are resolved. A potential change would not have a material impact on the Registrants' respective annual effective tax rate.

Note 8 — Disclosures about Segments

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Cleco's reportable segments are based on its method of internal reporting, which disaggregates business units by first-tier subsidiary. Cleco's reportable segments are Cleco Power and Midstream. The reconciling items in the following tables consist of the holding company, a shared services subsidiary, two transmission interconnection facilities, and an investment subsidiary.

Each reportable segment engages in business activities from which it earns revenue and incurs expenses. Segment managers report periodically to Cleco's Chief Executive Officer (the chief operating decision-maker) with discrete financial information and, at least quarterly, present discrete financial information to Cleco Corporation's Board of Directors. Each reportable segment prepared budgets for 2009 that were presented to and approved by Cleco Corporation's Board of Directors.

The financial results of Cleco's segments are presented on an accrual basis. Management evaluates the performance of its segments and allocates resources to them based on segment profit and the requirements to implement new strategic initiatives and projects to meet current business objectives. Material intercompany transactions occur on a regular basis. These intercompany transactions relate primarily to joint and common administrative support services provided by Support Group.

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## SEGMENT INFORMATION FOR THE THREE MONTHS ENDED SEPTEMBER 30,

| 2009 (THOUSANDS)  | CLECO<br>POWER                                  | MIDSTREAM  | RECONCILING<br>ITEMS | ELIMINATIONS  | CONSOLIDATED |
|---|---|------------|----------------------|---------------|--------------|
| Revenue   |   |            |                      |               |              |
| Electric operations   | \$228,952                                       | \$ -       | \$ -                 | \$ -          | \$ 228,952   |
| Other operations  | 9,834   | -          | 27                   | (2 )          | 9,859        |
| Affiliate revenue   | 6   | 2,087      | 596                  | -             | 2,689        |
| Intercompany revenue  | 343   | -          | 11,372               | (11,715 )     | -            |
| Operating revenue   | \$239,135                                       | \$ 2,087   | \$ 11,995            | \$ (11,717 )  | \$ 241,500   |
| Depreciation expense  | \$19,310  | \$ 44      | \$ 266               | \$ -          | \$ 19,620    |
| Interest charges  | \$13,645  | \$ 1,396   | \$ (2,895 )          | \$ (1,308 )   | \$ 10,838    |
| Interest income   | \$341   | \$ -       | \$ 1,336             | \$ (1,308 )   | \$ 369       |
| Equity income from investees                                    | \$-   | \$ 15,108  | \$ 479               | \$ -          | \$ 15,587    |
| Federal and state income tax<br>expense (benefit)               | \$1,316   | \$ 4,923   | \$ (1,256 )          | \$ -          | \$ 4,983     |
| Segment profit (1)  | \$43,552  | \$ 8,412   | \$ 7,891             | \$ -          | \$ 59,855    |
| Additions to long-lived assets                                  | \$61,837  | \$ 3       | \$ (182 )            | \$ -          | \$ 61,658    |
| Equity investment in investees                                  | \$-   | \$ 247,713 | \$ 129,514           | \$ (114,755 ) | \$ 262,472   |
| Total segment assets  | \$3,174,815                                     | \$ 265,786 | \$ 403,053           | \$ (314,436 ) | \$ 3,529,218 |
| (1) Reconciliation of segment profit<br>to consolidated profit: | Segment<br>profit                               |            |                      | \$ 59,855     |              |
|   | Unallocated items:                              |            |                      |               |              |
|   | Preferred dividends<br>requirements, net of tax |            |                      | 12            |              |
|   | Net income applicable to common stock           |            |                      | \$ 59,843     |              |

| 2008 (THOUSANDS)                                  | CLECO<br>POWER | MIDSTREAM | RECONCILING<br>ITEMS | ELIMINATIONS | CONSOLIDATED |
|---|----------------|-----------|----------------------|--------------|--------------|
| Revenue   |                |           |                      |              |              |
| Electric operations                               | \$333,936      | \$ -      | \$ -                 | \$ -         | \$ 333,936   |
| Other operations                                  | 6,981          | -         | 25                   | (2 )         | 7,004        |
| Affiliate revenue                                 | 7              | 2,143     | 585                  | -            | 2,735        |
| Intercompany revenue                              | 418            | (12 )     | 10,974               | (11,380 )    | -            |
| Operating revenue, net                            | \$341,342      | \$ 2,131  | \$ 11,584            | \$ (11,382 ) | \$ 343,675   |
| Depreciation expense                              | \$18,861       | \$ 78     | \$ 344               | \$ -         | \$ 19,283    |
| Interest charges                                  | \$14,973       | \$ 1,566  | \$ 722               | \$ (1,565 )  | \$ 15,696    |
| Interest income                                   | \$1,545        | \$ -      | \$ 1,689             | \$ (1,565 )  | \$ 1,669     |
| Equity income from investees                      | \$-            | \$ 9,223  | \$ 439               | \$ -         | \$ 9,662     |
| Federal and state income tax<br>expense (benefit) | \$10,566       | \$ 2,383  | \$ (2,436 )          | \$ -         | \$ 10,513    |

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|  |  |            |            |               |              |
|--|--|------------|------------|---------------|--------------|
| Segment profit (1)   | \$30,538                                     | \$ 4,573   | \$ 2,022   | \$ -          | \$ 37,133    |
| Additions to long-lived assets                               | \$61,327                                     | \$ 23      | \$ 242     | \$ -          | \$ 61,592    |
| Equity investment in investees (2)                           | \$-  | \$ 234,273 | \$ 14,871  | \$ -          | \$ 249,144   |
| Total segment assets (2)                                     | \$3,041,597                                  | \$ 250,882 | \$ 324,232 | \$ (275,507 ) | \$ 3,341,204 |
| (1) Reconciliation of segment profit to consolidated profit: | Segment profit                               |            |            | \$ 37,133     |              |
| (2) Balances as of December 31, 2008                         |  |            |            |               |              |
|  | Unallocated items:                           |            |            |               |              |
|  | Preferred dividends requirements, net of tax |            |            | 12            |              |
|  | Net income applicable to common stock        |            |            | \$ 37,121     |              |

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## SEGMENT INFORMATION FOR THE NINE MONTHS ENDED SEPTEMBER 30,

| 2009 (THOUSANDS)  | CLECO<br>POWER                                  | MIDSTREAM   | RECONCILING<br>ITEMS | ELIMINATIONS  | CONSOLIDATED |
|---|---|-------------|----------------------|---------------|--------------|
| Revenue   |   |             |                      |               |              |
| Electric operations   | \$ 627,469                                      | \$ -        | \$ -                 | \$ -          | \$ 627,469   |
| Other operations  | 25,609  | 1           | 78                   | (8 )          | 25,680       |
| Affiliate revenue   | 17  | 6,627       | 1,869                | -             | 8,513        |
| Intercompany revenue  | 1,029   | -           | 31,987               | (33,016 )     | -            |
| Operating revenue   | \$ 654,124                                      | \$ 6,628    | \$ 33,934            | \$ (33,024 )  | \$ 661,662   |
| Depreciation expense  | \$ 57,339                                       | \$ 132      | \$ 762               | \$ -          | \$ 58,233    |
| Interest charges  | \$ 40,286                                       | \$ 6,034    | \$ (2,692 )          | \$ (3,958 )   | \$ 39,670    |
| Interest income   | \$ 999  | \$ -        | \$ 4,010             | \$ (3,958 )   | \$ 1,051     |
| Equity (loss) income from investees                             | \$ -  | \$ (782 )   | \$ 1,492             | \$ -          | \$ 710       |
| Federal and state income tax<br>expense (benefit)               | \$ 14,033                                       | \$ (3,469 ) | \$ 2,694             | \$ -          | \$ 13,258    |
| Segment profit (loss) (1)                                       | \$ 88,776                                       | \$ (4,997 ) | \$ 9,751             | \$ -          | \$ 93,530    |
| Additions to long-lived assets                                  | \$ 183,248                                      | \$ 54       | \$ 194               | \$ -          | \$ 183,496   |
| Equity investment in investees                                  | \$ -  | \$ 247,713  | \$ 129,514           | \$ (114,755 ) | \$ 262,472   |
| Total segment assets  | \$ 3,174,815                                    | \$ 265,786  | \$ 403,053           | \$ (314,436 ) | \$ 3,529,218 |
| (1) Reconciliation of segment profit<br>to consolidated profit: | Segment<br>profit                               |             |                      | \$ 93,530     |              |
|   | Unallocated items:                              |             |                      |               |              |
|   | Preferred dividends<br>requirements, net of tax |             |                      | 35            |              |
|   | Net income applicable to common stock           |             |                      | \$ 93,495     |              |

| 2008 (THOUSANDS)                                  | CLECO<br>POWER | MIDSTREAM   | RECONCILING<br>ITEMS | ELIMINATIONS | CONSOLIDATED |
|---|----------------|-------------|----------------------|--------------|--------------|
| Revenue   |                |             |                      |              |              |
| Electric operations                               | \$ 803,397     | \$ -        | \$ -                 | \$ -         | \$ 803,397   |
| Other operations                                  | 29,757         | 1           | 76                   | (8 )         | 29,826       |
| Affiliate revenue                                 | 21             | 5,892       | 1,877                | -            | 7,790        |
| Intercompany revenue                              | 1,506          | -           | 30,859               | (32,365 )    | -            |
| Operating revenue                                 | \$ 834,681     | \$ 5,893    | \$ 32,812            | \$ (32,373 ) | \$ 841,013   |
| Depreciation expense                              | \$ 56,886      | \$ 230      | \$ 854               | \$ -         | \$ 57,970    |
| Interest charges                                  | \$ 31,435      | \$ 5,057    | \$ 3,943             | \$ (5,077 )  | \$ 35,358    |
| Interest income                                   | \$ 3,121       | \$ -        | \$ 6,498             | \$ (5,075 )  | \$ 4,544     |
| Equity income from investees                      | \$ -           | \$ 1,660    | \$ 1,063             | \$ -         | \$ 2,723     |
| Federal and state income tax<br>expense (benefit) | \$ 27,135      | \$ (2,298 ) | \$ (2,264 )          | \$ -         | \$ 22,573    |
| Segment profit (loss) (1)                         | \$ 90,807      | \$ (2,955 ) | \$ 741               | \$ -         | \$ 88,593    |



|  |  |            |            |               |              |
|--|--|------------|------------|---------------|--------------|
| Additions to long-lived assets                               | \$ 244,143                                   | \$ 63      | \$ 786     | \$ -          | \$ 244,992   |
| Equity investment in investees (2)                           | \$ -   | \$ 234,273 | \$ 14,871  | \$ -          | \$ 249,144   |
| Total segment assets (2)                                     | \$ 3,041,597                                 | \$ 250,882 | \$ 324,232 | \$ (275,507 ) | \$ 3,341,204 |
| (1) Reconciliation of segment profit to consolidated profit: | Segment profit                               |            |            | \$ 88,593     |              |
| (2) Balances as of December 31, 2008                         |  |            |            |               |              |
|  | Unallocated items:                           |            |            |               |              |
|  | Preferred dividends requirements, net of tax |            |            | 35            |              |
|  | Net income applicable to common stock        |            |            | \$ 88,558     |              |

#### Note 9 — Equity Investment in Investees

Cleco reports its investment in Acadia, Evangeline, and certain other subsidiaries on the equity method of accounting. Under the equity method, the assets and liabilities of these entities are reported as equity investment in investees on Cleco Corporation's Condensed Consolidated Balance Sheets. The revenue and expenses (excluding income taxes) of these entities are netted and reported as equity income or loss from investees on Cleco Corporation's Condensed Consolidated Statements of Income.

Equity investment in investees at September 30, 2009, represents primarily Midstream's \$181.0 million investment in Acadia, owned 50% by APH and 50% by Cajun, and its \$66.7 million investment in Evangeline, owned 100% by Midstream. Equity investment in investees also represents a \$7.1 million investment in Attala and a \$7.6 million equity investment in Perryville, both owned 100% by Cleco Corporation. Equity investments which are less than 100% owned by Cleco Innovations LLC represent less than \$0.1 million of the total balance.

The following table presents the equity (loss) income from each investment accounted for using the equity method.

| (THOUSANDS)  | FOR THE THREE MONTHS ENDED SEPTEMBER 30, |             |
|--|--|-------------|
|  | 2009                                     | 2008        |
| Acadia   | \$ (700 )                                | \$ (1,091 ) |
| Evangeline   | 15,808                                   | 10,314      |
| Other subsidiaries 100% owned by Cleco Corporation   | 470                                      | 439         |
| Subsidiary less than 100% owned by Cleco Innovations | 9  | -           |
| Total equity income                                  | \$ 15,587                                | \$ 9,662    |

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| (THOUSANDS)  | FOR THE NINE<br>MONTHS ENDED<br>SEPTEMBER 30, |            |
|--|---|------------|
|  | 2009  | 2008       |
| Acadia   | \$(11,588 )                                   | \$(7,869 ) |
| Evangeline   | 10,806  | 9,529      |
| Other subsidiaries 100% owned by Cleco Corporation   | 1,483   | 1,063      |
| Subsidiary less than 100% owned by Cleco Innovations | 9   | -          |
| Total equity income                                  | \$710   | \$2,723    |

## Acadia

Since Acadia is owned 50% by APH and 50% by Cajun, neither owner is the primary beneficiary, and Acadia is accounted for as an equity method investment. Cleco's current assessment of its maximum exposure to loss related to Acadia at September 30, 2009, consists of its equity investment of \$181.0 million. The table below presents the components of Midstream's equity investment in Acadia.

| INCEPTION TO DATE (THOUSANDS)       | AT<br>SEPTEMBER<br>30,<br>2009 | AT<br>DECEMBER<br>31,<br>2008 |
|-------------------------------------|--------------------------------|-------------------------------|
| Contributed assets (cash and land)  | \$ 272,956                     | \$ 259,019                    |
| Income before taxes                 | 148,855                        | 160,444                       |
| Impairment of investment            | (45,847 )                      | (45,847 )                     |
| Capitalized interest and other      | 19,722                         | 19,722                        |
| Less: non-cash distribution         | 78,200                         | 78,200                        |
| Less: cash distributions            | 136,464                        | 136,464                       |
| Total equity investment in investee | \$ 181,022                     | \$ 178,674                    |

The \$78.2 million non-cash distribution is the distribution of the Calpine Energy Services, L.P. claim from Acadia to APH. The cash distributions of \$136.5 million were used to pay interest and repay principal on a loan from Cleco Corporation relating to this investment. Midstream's equity, as reported on the balance sheet of Acadia at September 30, 2009, was \$207.1 million. The difference between the \$207.1 million and the equity investment in investee of \$181.0 million as shown in the previous table is \$26.1 million, and consists of the \$45.8 million other-than-temporary impairment of APH's investment in Acadia, partially offset by \$19.7 million of interest capitalized on funds contributed to Acadia.

The following tables contain summarized financial information for Acadia.

| (THOUSANDS)                        | AT<br>SEPTEMBER<br>30,<br>2009 | AT<br>DECEMBER<br>31,<br>2008 |
|------------------------------------|--------------------------------|-------------------------------|
| Current assets                     | \$ 223,598                     | \$ 5,413                      |
| Property, plant and equipment, net | 196,552                        | 405,565                       |
| Total assets                       | \$ 420,150                     | \$ 410,978                    |

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|   |    |         |    |         |
|---|----|---------|----|---------|
| Current liabilities                     | \$ | 5,854   | \$ | 1,380   |
| Partners' capital                       |    | 414,296 |    | 409,598 |
| Total liabilities and partners' capital | \$ | 420,150 | \$ | 410,978 |

| (THOUSANDS)             | FOR THE THREE MONTHS ENDED SEPTEMBER 30, |            | FOR THE NINE MONTHS ENDED SEPTEMBER 30, |             |
|-------------------------|--|------------|---|-------------|
|                         | 2009                                     | 2008       | 2009                                    | 2008        |
| Operating revenue       | \$27,241                                 | \$45,542   | \$49,190                                | \$70,479    |
| Operating expenses      | 28,677                                   | 47,775     | 66,314                                  | 86,443      |
| Other income (expense ) | 36                                       | 51         | (6,052 )                                | (88 )       |
| Loss before taxes       | \$(1,400 )                               | \$(2,182 ) | \$(23,176 )                             | \$(16,052 ) |

Income tax benefits recorded on APH's financial statements related to Midstream's 50% ownership interest in Acadia were \$1.4 million and \$7.3 million for the three and nine months ended September 30, 2009, respectively, compared to \$1.2 million and \$5.3 million for the three and nine months ended September 30, 2008, respectively.

In 2009, Cleco Power announced Acadia was selected as the winning bidder in Cleco Power's 2007 long-term request for capacity beginning in 2010. Cleco Power will own and operate one of Acadia's two 580-MW units and will also operate the other unit on behalf of Acadia or a future owner. The carrying value of the unit has been classified as an asset held for sale in Acadia's current assets. No gain or loss has been recorded, as the fair value less the costs to sell are greater than the carrying value, and the transaction has not yet closed.

Cleco Power and the parties have executed the definitive agreements. However, prior to closing the transaction, valued at approximately \$300 million, Cleco Power must receive approvals from the LPSC and FERC. In a process that remains under the supervision of an independent monitor appointed by the LPSC, Cleco Power and Acadia plan to complete the transaction in the first quarter of 2010. Beginning in January 2010, the agreements provide that Acadia will continue to operate the plant and serve Cleco Power under a tolling agreement covering 50% of the Acadia power station until the transaction is closed, after which Cleco Power will own and operate one of Acadia's two 580-MW units and will also operate the other unit on behalf of Acadia or a future owner. This tolling agreement was approved by the LPSC in October 2009. The tolling agreement must also be approved by FERC.

On October 30, 2009, Acadia and Entergy Louisiana announced that definitive agreements have been executed whereby Entergy Louisiana will purchase 50% of Acadia or one of its two 580-MW units. The transaction is anticipated to be completed in late 2010 or early 2011. The agreements provide that, beginning in May 2010, Acadia will serve Entergy Louisiana under a tolling agreement covering 50% of Acadia until the sale is completed. Both the asset sale and interim tolling agreement require regulatory approval. Cleco Power will operate both units at Acadia after the Entergy transaction is completed.

In connection with these transactions and in exchange for reasonable consideration, APH has agreed to indemnify, upon the closing of the transactions, Cajun and its affiliates against 100% of Acadia's liabilities and other obligations related to both the Cleco Power and Entergy transactions.

#### Evangeline

Since its inception, Cleco has had 100% ownership and voting interest of Evangeline. Through an analysis of variable interests, such as Cleco's investment, the long-term debt, the tolling counterparty, and the potential to absorb expected losses and gains, Cleco has determined that it is not the primary beneficiary. The determination is driven by several factors such as:

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- § The tolling counterparty is at risk to absorb market losses and gains, which are primarily determined by the relative price of electricity and natural gas.
- § The debt is non-recourse to Cleco; therefore, the debt-holders main security is the underlying assets of Evangeline.
- § Cleco's risk of loss is limited to its investment plus the \$15.0 million letter of credit issued on behalf of the tolling counterparty.
- § The size of Evangeline's debt compared to the size of Cleco's investment at risk.

Since Cleco is not the primary beneficiary, Evangeline is accounted for as an equity method investment. Cleco's current assessment of its maximum exposure to loss related to Evangeline at September 30, 2009, consists of its equity investment of \$66.7 million and \$15.0 million of possible draws on the letter of credit Cleco has posted on Evangeline's behalf, for a total of \$81.7 million. The following table presents the components of Midstream's equity investment in Evangeline.

|                                     | AT<br>SEPTEMBER<br>30,<br>2009 | AT<br>DECEMBER<br>31,<br>2008 |
|-------------------------------------|--------------------------------|-------------------------------|
| INCEPTION TO DATE (THOUSANDS)       |                                |                               |
| Contributed assets (cash)           | \$ 49,961                      | \$ 49,961                     |
| Net income                          | 162,404                        | 151,599                       |
| Less: non-cash distributions        | 16,620                         | 16,907                        |
| Less: cash distributions            | 129,054                        | 129,054                       |
| Total equity investment in investee | \$ 66,691                      | \$ 55,599                     |

The following tables contain summarized financial information for Evangeline.

|  | AT<br>SEPTEMBER<br>30,<br>2009 | AT<br>DECEMBER<br>31,<br>2008 |
|--|--------------------------------|-------------------------------|
| (THOUSANDS)                            |                                |                               |
| Current assets                         | \$ 32,160                      | \$ 25,750                     |
| Accounts receivable - affiliate        | 40                             | 1                             |
| Property, plant and equipment, net     | 183,678                        | 180,051                       |
| Other assets                           | 38,490                         | 42,528                        |
| Total assets                           | \$ 254,368                     | \$ 248,330                    |
| Current liabilities                    | \$ 31,685                      | \$ 20,244                     |
| Accounts payable - affiliate           | 516                            | 3,512                         |
| Long-term debt, net                    | 153,564                        | 161,762                       |
| Other liabilities                      | 71,228                         | 71,845                        |
| Member's deficit                       | (2,625 )                       | (9,033 )                      |
| Total liabilities and member's deficit | \$ 254,368                     | \$ 248,330                    |

|             | FOR THE THREE<br>MONTHS ENDED<br>SEPTEMBER 30, |      | FOR THE NINE<br>MONTHS ENDED<br>SEPTEMBER 30, |      |
|-------------|--|------|---|------|
| (THOUSANDS) | 2009   | 2008 | 2009  | 2008 |

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|                        |          |          |          |          |
|------------------------|----------|----------|----------|----------|
| Operating revenue      | \$25,753 | \$26,452 | \$48,989 | \$49,866 |
| Operating expenses     | 4,589    | 9,844    | 20,313   | 22,068   |
| Depreciation           | 1,396    | 1,339    | 4,136    | 4,032    |
| Interest charges       | 3,981    | 4,526    | 12,424   | 13,863   |
| Interest income        | -        | 102      | -        | 360      |
| Other income (expense) | 21       | (531 )   | (1,310 ) | (734 )   |
| Income before taxes    | \$15,808 | \$10,314 | \$10,806 | \$9,529  |

The difference between the equity investment in investee and member's deficit shown in the tables above is due to income tax items being reported in the corresponding tax accounts on Midstream's financial statements, rather than the equity investment account.

Cleco Corporation has posted a \$15.0 million letter of credit on behalf of the Evangeline Tolling Agreement counterparty. The letter of credit can be drawn in the event Evangeline defaults on the tolling agreement.

Evangeline's restricted cash at September 30, 2009, and December 31, 2008, was \$22.3 million and \$25.0 million, respectively. This cash is restricted under Evangeline's senior secured bond indenture.

Income taxes recorded on Midstream's financial statements related to Midstream's 100% ownership interest in Evangeline were expenses of \$6.3 million and \$4.4 million for the three and nine months ended September 30, 2009, respectively, compared to \$3.7 million expense and \$3.4 million benefit for the three and nine months ended September 30, 2008, respectively.

Prior to November 9, 2007, all of the capacity and output of the power plant had been tolled to Williams, which paid Evangeline certain fixed and variable amounts. In November 2007, The Williams Companies, Inc. assigned all of its rights and interests in its tolling agreement with Evangeline to Bear Energy. In May 2008, JPMorgan Chase & Co. completed the acquisition of Bear Stearns Companies Inc., the parent company of Bear Energy. In September 2008, Bear Energy was merged into JPMVEC. For more information regarding the Evangeline Tolling Agreement, see Note 10 — "Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Risks and Uncertainties."

#### Other Subsidiaries 100% owned by Cleco Corporation

The information about these entities is aggregated because their method of operation, size, and risk are materially similar. Both entities own transmission assets, provide transmission services to one customer under a long-term contract at a FERC-approved cost of service rate, and are capitalized with 100% equity.

Through an analysis of variable interests, such as Cleco's investment and the single counterparty that has a long-term lease of the facilities, Cleco has determined that it is not the primary beneficiary of either entity. The determination is driven by several factors such as:

- § Each entity has only one customer under the long-term agreements accounted for as direct financing leases.
  - § Both entities can only charge FERC-approved tariffs.
- § Both entities have the ability to change the tariff if actual expenses are materially different than expected expenses.
  - § The lease counterparty is required to make lease payments regardless of the use of the assets.
  - § Cleco's risk of loss is limited to its investment.

Since Cleco is not the primary beneficiary, the investments in Perryville and Attala are accounted for as equity method investments.

Cleco's current assessment of its maximum exposure to loss with respect to Perryville and Attala at September 30,

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2009, consists of its equity investment of \$14.7 million. The following table presents the components of Cleco Corporation's equity investment in Perryville and Attala.

|                                     | AT<br>SEPTEMBER<br>30,<br>2009 | AT<br>DECEMBER<br>31,<br>2008 |
|-------------------------------------|--------------------------------|-------------------------------|
| INCEPTION TO DATE (THOUSANDS)       |                                |                               |
| Contributed assets (cash)           | \$ 132,960                     | \$ 132,960                    |
| Net income                          | 55,650                         | 54,166                        |
| Less: non-cash distributions        | 20,875                         | 20,869                        |
| Less: cash distributions            | 152,989                        | 151,389                       |
| Total equity investment in investee | \$ 14,746                      | \$ 14,868                     |

The following tables contain summarized financial information for Perryville and Attala.

|                                       | AT<br>SEPTEMBER<br>30,<br>2009 | AT<br>DECEMBER<br>31,<br>2008 |
|---------------------------------------|--------------------------------|-------------------------------|
| (THOUSANDS)                           |                                |                               |
| Current assets                        | \$ 3,044                       | \$ 4,905                      |
| Other assets                          | 16,782                         | 14,166                        |
| Total assets                          | \$ 19,826                      | \$ 19,071                     |
| Current liabilities                   | \$ 1,196                       | \$ 9                          |
| Accounts payable - affiliate          | 2                              | 2                             |
| Other liabilities                     | 745                            | 484                           |
| Member's equity                       | 17,883                         | 18,576                        |
| Total liabilities and member's equity | \$ 19,826                      | \$ 19,071                     |

|                     | FOR THE THREE<br>MONTHS ENDED<br>SEPTEMBER 30, |       | FOR THE NINE<br>MONTHS ENDED<br>SEPTEMBER 30, |         |
|---------------------|--|-------|---|---------|
| (THOUSANDS)         | 2009   | 2008  | 2009  | 2008    |
| Operating revenue   | \$488  | \$492 | \$1,471                                       | \$1,484 |
| Operating expense   | 57   | 53    | 451   | 421     |
| Interest income     | 39   | -     | 463   | -       |
| Income before taxes | \$470  | \$439 | \$1,483                                       | \$1,063 |

The difference between the equity investment in investee and member's equity shown in the tables above is due to income tax items being reported in the corresponding tax accounts on Cleco Corporation's financial statements, rather than the equity investment account.

The transmission assets utilized by Perryville and Attala are accounted for as direct financing leases and are included in other assets in the summarized financial information above.

Income tax expense recorded on Cleco's financial statements related to Cleco Corporation's 100% interest in Perryville and Attala was \$0.2 million and \$0.6 million for the three and nine months ended September 30, 2009, respectively, compared to \$0.2 million and \$0.4 million for the three and nine months ended September 30, 2008, respectively.

Note 10 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees

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Litigation

On June 22, 2005, the City of Alexandria, Louisiana (the City), a current wholesale municipal customer of Cleco Power, filed a lawsuit in Ninth Judicial District Court against Cleco Corporation, Cleco Power, and certain other subsidiaries. The lawsuit alleges unspecified damages as a result of certain sales made to the City, revenue derived by Cleco using the City's power generating facilities under contracts with the City, and other alleged improper conduct, including, without limitation, allegations that Cleco fraudulently mishandled the management of the City's power requirements under the contracts. The lawsuit was moved to and currently is pending in the U.S. District Court for the Western District of Louisiana. Effective December 30, 2008, the City Council of Alexandria passed an ordinance authorizing the mayor to settle the litigation by executing a new 13-year power supply agreement with Cleco. Pending execution of this new supply agreement, the presiding judge agreed to dismiss the claims asserted in the litigation without prejudice. The mayor declined to execute the new supply agreement and upon motion of the city, the judge reinstated the lawsuit on October 16, 2009. The litigation will now be resolved by trial, which has been scheduled to commence on February 22, 2010. Management believes the dispute will not have a material adverse effect on the Registrants' financial condition, results of operations, or cash flows.

On October 8, 2007, Cleco received a Special Notice for Remedial Investigation and Feasibility Study from the EPA. The special notice requested that Cleco Corporation and Cleco Power, along with many other listed potentially responsible parties, enter into negotiations with the EPA for the performance of a Remedial Investigation and Feasibility Study at an area known as the Devil's Swamp Lake northwest of Baton Rouge, Louisiana. The EPA has identified Cleco as one of many companies sending PCB wastes for disposal to the site. The Devil's Swamp Lake site has been proposed to be added to the National Priorities List (NPL) based on the release of PCBs to fisheries and wetlands located on the site. The EPA has yet to make a final determination on whether to add Devil's Swamp Lake to the NPL. The EPA and a number of PRPs met on January 31, 2008, for an organizational meeting to discuss the background of the site. The PRPs began discussing a potential proposal to the EPA on February 19, 2008. Negotiations among the PRPs and the EPA are ongoing in regard to the remedial investigation and feasibility study at the Devil's Swamp site, with little progress having been made since the January 2008 meeting. The PRPs alleged to have disposed PCBs at the site have proposed a tentative cost sharing formula with the facility owner to fund the remedial investigation. The response to the proposal has been pending for months. Since this investigation is in the preliminary stages, management is unable to determine whether the costs associated with possible remediation of the facility site will have a material adverse effect on the Registrants' results of operations, financial condition, and cash flows.

Cleco is involved in regulatory, environmental, and legal proceedings before various courts, regulatory commissions, and governmental agencies regarding matters arising in the ordinary course of business. Some of these proceedings, such as fuel review and environmental issues, could involve substantial amounts. Management regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. Management believes the disposition of these matters will not have a material adverse effect on the Registrants' financial condition, results of operations, or cash flows.

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## Off-Balance Sheet Commitments and Disclosures about Guarantees

Cleco Corporation and Cleco Power have entered into various off-balance sheet commitments, in the form of guarantees and standby letters of credit, in order to facilitate their activities and the activities of Cleco Corporation's subsidiaries and equity investees (affiliates). Cleco Corporation and Cleco Power also have agreed to contractual terms that require them to pay third parties if certain triggering events occur. These contractual terms generally are defined as guarantees in the authoritative guidance.

Cleco Corporation entered into these off-balance sheet commitments in order to entice desired counterparties to contract with its affiliates by providing some measure of credit assurance to the counterparty in the event Cleco's affiliates do not fulfill certain contractual obligations. If Cleco Corporation had not provided the off-balance sheet commitments, the desired counterparties may not have contracted with Cleco's affiliates, or may have contracted with them at terms less favorable to its affiliates.

The off-balance sheet commitments are not recognized on Cleco's Condensed Consolidated Balance Sheets, because it has been determined that Cleco's affiliates are able to perform these obligations under their contracts and that it is not probable that payments by Cleco will be required. Some of these commitments reduce borrowings available to Cleco Corporation under its credit facility pursuant to the terms of the credit facility. Cleco's off-balance sheet commitments as of September 30, 2009, are summarized in the following table, and a discussion of the off-balance sheet commitments follows the table. The discussion should be read in conjunction with the table to understand the impact of the off-balance sheet commitments on Cleco's financial condition.

| (THOUSANDS)  | FACE<br>AMOUNT | REDUCTIONS | NET<br>AMOUNT | AT<br>SEPTEMBER<br>30, 2009<br>REDUCTIONS<br>TO THE<br>AMOUNT<br>AVAILABLE<br>TO BE DRAWN<br>ON<br>CLECO<br>CORPORATION'S<br>CREDIT<br>FACILITY |
|--|----------------|------------|---------------|---|
| Cleco Corporation  |                |            |               |   |
| Guarantee issued to Entergy companies for performance obligations of Perryville                    | \$ 177,400     | \$ 135,000 | \$ 42,400     | \$ 328  |
| Guarantees issued to purchasers of the assets of Cleco Energy                                      | 1,000          | -          | 1,000         | 1,000   |
| Obligations under standby letter of credit issued to the Evangeline Tolling Agreement counterparty | 15,000         | -          | 15,000        | 15,000  |
| Guarantee issued to Entergy Mississippi on behalf of Attala  | 500            | -          | 500           | 500   |
| Guarantee issued to Tenaska Gas Storage, LLC on behalf of Acadia                                   | 10,000         | -          | 10,000        | 10,000  |
| Cleco Power  |                |            |               |   |



|  |           |            |          |           |
|--|-----------|------------|----------|-----------|
| Obligations under standby letter of credit issued to the Louisiana Department of Labor | 3,525     | -          | 3,525    | -         |
| Obligations under the Lignite Mining Agreement   | 3,488     | -          | 3,488    | -         |
| Total  | \$210,913 | \$ 135,000 | \$75,913 | \$ 26,828 |

Cleco Corporation provided a limited guarantee and an indemnification to Entergy Louisiana and Entergy Gulf States for Perryville's performance, indemnity, representation, and warranty obligations under the Sale Agreement, the Power Purchase Agreement, and other ancillary agreements related to the sale of the Perryville facility. As of September 30, 2009, the aggregate guarantee of \$177.4 million is limited to \$42.4 million due to the performance of some of the underlying obligations that were guaranteed. Management believes it is unlikely that Cleco Corporation will have any other liabilities which would give rise to indemnity claims. The discounted probability-weighted liability under the guarantees and indemnifications as of September 30, 2009, was \$0.3 million, resulting in a corresponding reduction in the available credit under Cleco's credit facility, which was determined in accordance with the facility's definition of a contingent obligation. The contingent obligation reduces the amount available under the credit facility by an amount equal to the maximum reasonably anticipated liability in respect of the contingent obligation as determined in good faith.

In November 2004, Cleco completed the sale of substantially all of the assets of Cleco Energy. Cleco Corporation provided guarantees to the buyers of Cleco Energy's assets for the payment and performance of the indemnity obligations of Cleco Energy. The aggregate amount of the guarantees was \$1.4 million, of which \$0.4 million expired on September 27, 2009, and \$1.0 million expired on October 20, 2009. These guarantees do not fall within the scope of the authoritative guidance for guarantees. Cleco Energy issued guarantees and indemnifications that fall within the recognition scope of the authoritative guidance for guarantees, because they relate to the past performance obligations of the disposed assets and also contain provisions requiring payment for potential damages. The maximum aggregate potential payment under the guarantees and indemnifications as of September 30, 2009, was \$1.0 million. The discounted probability-weighted liability as of September 30, 2009, was \$0.1 million.

If Evangeline fails to perform certain obligations under its tolling agreement, Cleco Corporation will be required to make payments to the Evangeline Tolling Agreement counterparty. Cleco Corporation's obligation under the Evangeline commitment is in the form of a standby letter of credit from investment grade banks and is limited to \$15.0 million. Rating triggers do not exist in the Evangeline Tolling Agreement. Cleco expects Evangeline to be able to meet its obligations under the tolling agreement and does not expect Cleco Corporation to be required to make payments to the counterparty. However, under the covenants associated with Cleco Corporation's credit facility, the entire net amount of the Evangeline commitment reduces the amount that can be borrowed under the credit facility. The letter of credit for Evangeline is expected to be renewed annually until 2020.

In January 2006, Cleco Corporation provided a \$0.5 million guarantee to Entergy Mississippi for Attala's obligations under

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the Interconnection Agreement. This guarantee will be effective through the life of the agreement.

In February 2009, Cleco Corporation provided a \$10.0 million guarantee to Tenaska Gas Storage, LLC for Acadia's obligation under the Energy Management Services Agreement. This guarantee expired on October 31, 2009.

The State of Louisiana allows employers of certain financial net worth to self-insure their workers' compensation benefits. Cleco Power has a certificate of self-insurance from the Louisiana Office of Workers' Compensation and is required to post a \$3.5 million letter of credit, an amount equal to 110% of the average losses over the previous three years, as surety.

As part of the Lignite Mining Agreement entered into in 2001, Cleco Power and SWEPCO, joint owners of Dolet Hills, have agreed to pay the lignite miner's loan and lease principal obligations when due, if the lignite miner does not have sufficient funds or credit to pay. Any amounts paid on behalf of the miner would be credited by the lignite miner against the next invoice for lignite delivered. At September 30, 2009, Cleco Power's 50% exposure for this obligation was approximately \$3.5 million. The lignite mining contract is in place until 2011 and does not affect the amount Cleco Corporation can borrow under its credit facility.

The following table summarizes the expected termination dates of the guarantees and standby letters of credit discussed above:

| (THOUSANDS)                  | NET<br>AMOUNT<br>COMMITTED | AT SEPTEMBER 30,<br>2009                      |              |              |           |
|------------------------------|----------------------------|---|--------------|--------------|-----------|
|                              |                            | AMOUNT OF COMMITMENT EXPIRATION PER<br>PERIOD |              |              |           |
|                              |                            | LESS<br>THAN<br>ONE<br>YEAR                   | MORE<br>THAN |              | 5 YEARS   |
|                              |                            |   | 1-3<br>YEARS | 3-5<br>YEARS |           |
| Guarantees                   | \$ 57,388                  | \$ 11,000                                     | \$ 3,488     | \$ -         | \$ 42,900 |
| Standby letters of credit    | 18,525                     | 3,525   | -            | -            | 15,000    |
| Total commercial commitments | \$ 75,913                  | \$ 14,525                                     | \$ 3,488     | \$ -         | \$ 57,900 |

In its bylaws, Cleco Corporation has agreed to indemnify directors, officers, agents and employees who are made a party to a pending or completed suit, arbitration, investigation, or other proceeding whether civil, criminal, investigative or administrative, if the basis of inclusion arises as the result of acts conducted in the discharge of their official capacity. Cleco Corporation has purchased various insurance policies to reduce the risks associated with the indemnification. In its Operating Agreement, Cleco Power provides for the same indemnification as described above with respect to its managers, officers, agents, and employees.

Generally, neither Cleco Corporation nor Cleco Power has recourse that would enable them to recover amounts paid under their guarantee or indemnification obligations. The one exception is the insurance contracts associated with the indemnification of directors, managers, officers, agents, and employees. There are no assets held as collateral for third parties that either Cleco Corporation or Cleco Power could obtain and liquidate to recover amounts paid pursuant to the guarantees.

#### Other Contingencies

General Electric Equipment Services Corporation

Cleco Power has entered into an operating lease agreement with General Electric Equipment Services Corporation for leasing railcars in order to transport coal to its Rodemacher Power Station Unit 2. The lease contains a provision for early termination, along with an associated termination fee. The termination provision can only be exercised in December 2010. If exercised by Cleco Power, the termination fee would be approximately \$1.3 million. At this time, Cleco Power has no plans to early terminate this lease, which expires in March 2017.

#### CBL Capital Corporation

Cleco Power has entered into an operating lease agreement with CBL Capital Corporation, which was acquired by GE Capital Commercial, Inc. (GE Capital). This is a master leasing agreement for company vehicles and other equipment. On November 14, 2008, Cleco Power was notified by GE Capital that it was electing to terminate the lease. Pursuant to the terms of the lease agreement, the termination date was effective January 13, 2009. Cleco Power has one year from the termination date to enter into a new operating lease with a third party and/or negotiate the purchase of such equipment for the unamortized balance. The unamortized balance of equipment under the GE Capital lease was \$5.3 million at September 30, 2009. Cleco Power expects to purchase the vehicles and equipment under the lease agreement during the fourth quarter of 2009.

#### LPSC Fuel Audit

The LPSC Fuel Adjustment Clause General Order issued November 6, 1997, in Docket No. U-21497 provides that an audit will be performed not less than every other year. Cleco Power currently has fuel adjustment clause filings for 2003 through 2008 subject to audit. In July 2006, the LPSC informed Cleco Power that it was planning to conduct a periodic fuel audit that included fuel adjustment clause filings for January 2003 through December 2004. In March 2009, the LPSC indicated its intent to proceed with the audit for the years 2003 through 2008. However, this review is still pending. Cleco Power could be required to make a substantial refund of previously recorded revenue as a result of these audits, and such refund could result in a material adverse effect on the Registrants' results of operations, financial condition, and cash flows.

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## Fuel Transportation Agreement

Cleco Power has entered into an agreement that meets the accounting definition of a capital lease for barges in order to transport petroleum coke and limestone to Rodemacher Unit 3. The 42 dedicated barges were delivered between January 6 and February 12, 2009.

The lease rate contains a fixed portion of \$225 per day per barge and a variable component of \$75 adjusted by Producer Price Index (PPI) annually for executory costs. If the barges are idle, the lessor is required to attempt to sublease the barges to third parties with the revenue reducing Cleco Power's lease payment. During the three and nine months ended September 30, 2009, Cleco Power did not receive any revenue from subleases.

The initial term of this agreement is five years and the agreement will terminate December 31, 2013. Cleco will have an option to renew this agreement for a second five-year term in full or in part and, at its option, purchase any or all of the dedicated barges. If Cleco does not renew this agreement for the renewal term, then the lessor has the option to require Cleco to purchase any or all of the barges. If Cleco Power purchases the barges on December 31, 2013, the purchase price of all 42 barges will be \$21.7 million.

This agreement contains a provision for early termination upon the occurrence of any one of four cancellation events. The following is an analysis of the leased property under capital leases by major classes:

| CLASSES OF PROPERTY (THOUSANDS) | AT<br>SEPTEMBER<br>30,<br>2009 | AT<br>DECEMBER<br>31,<br>2008 |
|---------------------------------|--------------------------------|-------------------------------|
| Barges                          | \$ 22,050                      | \$ -                          |
| Other                           | 555                            | 555                           |
| Total capital leases            | 22,605                         | 555                           |
| Less: accumulated amortization  | 1,958                          | 342                           |
| Net capital leases              | \$ 20,647                      | \$ 213                        |

The amount listed as other in the chart above includes a capital lease agreement for miscellaneous equipment by Cleco Power. This lease terminates December 31, 2010.

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of September 30, 2009.

## (THOUSANDS)

|   |           |
|---|-----------|
| Three months ending December 31, 2009       | \$ 1,196  |
| Years ending December 31,                   |           |
| 2010  | 4,748     |
| 2011  | 4,622     |
| 2012  | 4,634     |
| 2013  | 4,622     |
| 2014  | 4,622     |
| Thereafter                                  | 18,499    |
| Total minimum lease payments                | 42,943    |
| Less: executory costs                       | 10,854    |
| Net minimum lease payments                  | 32,089    |
| Less: amount representing interest          | 10,822    |
| Present value of net minimum lease payments | \$ 21,267 |

|                         |          |
|-------------------------|----------|
| Current liabilities     | \$1,598  |
| Non-current liabilities | \$19,669 |

During the three and nine months ended September 30, 2009, Cleco Power incurred immaterial amounts of contingent rent related to the increase in the PPI.

#### Oxbow Lignite Mine Acquisition

In April 2009, Cleco Power entered into an agreement with SWEPCO to purchase the Oxbow Lignite Company from NAC. In September 2009, the LPSC approved the joint application authorizing the acquisition of Oxbow Lignite Company. The purchase price of approximately \$42.0 million includes the lignite reserves, mining equipment, and related assets and permits. Cleco Power's 50% portion of the purchase price for the lignite reserves is approximately \$12.9 million. The lignite reserves of approximately 120 million tons acquired under this agreement are expected to fuel the Dolet Hills Power Station through 2026. SWEPCO's subsidiary, Dolet Hills Lignite Company, LLC, will acquire the mining equipment and related assets and permits for approximately \$15.8 million and will operate the new mine along with its current operations at the Dolet Hills Lignite Mine on similar terms. The existing Red River Lignite Supply and Transportation Agreement with NAC will terminate upon the closing of this transaction. Pending approval by the Arkansas Public Service Commission, a condition precedent for SWEPCO to close, the closing of this transaction is expected to occur in December 2009.

#### Rodemacher Unit 3

In August 2005, Cleco Power entered into an EPC contract with Shaw to construct Rodemacher Unit 3. Cleco Power began construction of Rodemacher Unit 3 in May 2006. In May 2006, Cleco Power and Shaw entered into an Amended EPC Contract, which provided for substantial completion of construction of Rodemacher Unit 3 by September 30, 2009. In July 2008, Cleco Power and Shaw amended this contract to provide for substantial completion as early as June 30, 2009. On October 19, 2009, Cleco and Shaw again amended the EPC Contract to extend the substantial completion date to September 28, 2009.

In December 2008, Cleco Power received correspondence from Shaw providing damage estimates of \$12.3 million due to alleged force majeure events related to Hurricanes Gustav and Ike and a schedule extension of 15 days. In April 2009, Shaw withdrew such estimates and in July 2009, Shaw submitted a formal claim for such events in the amount of \$23.0 million and a schedule extension of 48 days. Additionally, in June 2009, Shaw notified Cleco of an alleged event of default claiming that the on-site fuel for Rodemacher Unit 3 did not meet the specifications under the Amended EPC Contract. In October 2009, under the terms of the Amended EPC Contract, Shaw withdrew its request for recovery of any and all claims relating to fuel quality and agreed to limit the claims for force majeure related costs, not to exceed \$24.0 million less a settlement credit of \$6.0 million .. The force majeure related claims remain in dispute resolution under the Amended EPC Contract. The Registrants do not believe the resolution of these claims will have a material adverse effect on the Registrants' results of operations, financial condition, or cash flows.

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#### Acadia Transactions

On February 26, 2009, Cleco Power announced that it had chosen the acquisition of 50% of the Acadia power station, or one of its two 580-MW units, as the lowest bid in its 2007 long-term RFP. Cleco Power will own and operate one unit and operate the other 580-MW unit on behalf of Acadia or a future owner. Cleco Power and the parties have executed the definitive agreements. However, prior to closing the transaction, valued at approximately \$300 million, Cleco Power must receive approvals from the LPSC and FERC. In a process that remains under the supervision of an independent monitor appointed by the LPSC, Cleco Power and Acadia plan to complete the transaction in the first quarter of 2010. Beginning in January 2010, the agreements provide that Acadia will continue to operate the plant and serve Cleco Power under a tolling agreement covering 50% of the Acadia power station until the transaction is closed, after which Cleco Power will own and operate one unit and operate the other 580-MW unit on behalf of Acadia or a future owner. This tolling agreement was approved by the LPSC in October 2009. The tolling agreement must also be approved by FERC.

On October 30, 2009, Acadia and Entergy Louisiana announced that definitive agreements have been executed whereby Entergy Louisiana will purchase 50% of the Acadia power station, or one of its two 580-MW units. The transaction is anticipated to be completed in late 2010 or early 2011. The agreements provide that, beginning in May 2010, Acadia will serve Entergy Louisiana under a tolling agreement covering 50% of the Acadia power station until the sale is completed. Both the asset sale and interim tolling agreement require regulatory approval. Cleco Power will operate both units at Acadia power station after the Entergy transaction is completed.

In connection with these transactions and in exchange for reasonable consideration, APH has agreed to indemnify, upon the closing of these transactions, Cajun and its affiliates against 100% of Acadia's liabilities and other obligations related to both the Cleco Power and Entergy transactions.

#### Other

Cleco has accrued for liabilities to third parties, employee benefits, and storm damages.

#### Risks and Uncertainties

##### Cleco Corporation

Cleco Corporation could be subject to possible adverse consequences if Cleco's counterparties fail to perform their obligations or if Cleco Corporation or its affiliates are not in compliance with loan agreements or bond indentures.

##### Evangeline Tolling Agreement

During 2008, JPMorgan Chase & Co. acquired The Bear Stearns Companies Inc. In connection with the acquisition, JPMorgan Chase & Co. guaranteed certain obligations of The Bear Stearns Companies Inc. and its subsidiaries, including obligations under the Evangeline Tolling Agreement. In September 2008, Bear Energy was merged into JPMVEC. If JPMorgan Chase & Co. or any successor or assignee were to fail to perform its payment obligations, such failure could have a material adverse effect on Cleco Corporation's results of operations, financial condition, and cash flows for the following reasons, among others:

§ If such failure to perform constituted a default under the tolling agreement, the holders of the Evangeline bonds would have the right to declare the entire outstanding principal amount (\$161.8 million at September 30, 2009) and interest to be immediately due and payable, which could result in:

- o Cleco seeking to refinance the bonds, the terms of which may be less favorable than existing terms;
- o Cleco causing Evangeline to seek protection under federal bankruptcy laws; or
- o the trustee of the bonds foreclosing on the mortgage and assuming ownership of the Evangeline plant;

- § Cleco may not be able to enter into agreements in replacement of the Evangeline Tolling Agreement on terms as favorable as that agreement or at all;
- § Cleco's equity investment in Evangeline may be impaired, requiring a write-down to its fair market value, which could be substantial; and
- § Cleco's credit ratings could be downgraded, which would increase borrowing costs and limit sources of financing.

#### Other

Access to capital markets is a significant source of funding for both short- and long-term capital requirements not satisfied by operating cash flows. Recent market conditions have limited the availability and have increased the costs of capital for many companies. The inability to raise capital on favorable terms could negatively affect Cleco Corporation's and Cleco Power's ability to maintain and expand their businesses. After assessing the current operating performance, liquidity, and credit ratings of Cleco, management believes that Cleco will have access to the capital markets at prevailing market rates for companies with comparable credit ratings. At September 30, 2009, Moody's and Standard & Poor's outlooks for Cleco Corporation were stable. If Cleco Corporation's credit ratings were to be downgraded by Moody's and Standard & Poor's, Cleco Corporation would be required to pay additional fees and higher interest rates under its bank credit and other debt agreements.

Changes in the regulatory environment or market forces could cause Cleco to determine its assets have suffered an other-than-temporary decline in value, whereby an impairment would be required to be taken and Cleco's financial condition could be materially adversely affected.

#### Cleco Power

Cleco Power supplies a portion of its customers' electric power requirements from its own generation facilities. In addition to power obtained from power purchase agreements, Cleco Power purchases power from other utilities and marketers to supplement its generation at times of relatively high

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demand or when the purchase price of power is less than its own cost of generation. Due to its location on the transmission grid, Cleco Power relies on two main suppliers of electric transmission when accessing external power markets. At times, constraints limit the amount of purchased power these transmission providers can deliver into Cleco Power's service territory.

Access to capital markets is a significant source of funding for both short- and long-term capital requirements not satisfied by operating cash flows. Recent market conditions have limited the availability and have increased the costs of capital for many companies. The inability to raise capital on favorable terms could negatively affect Cleco Power's ability to maintain and expand its businesses. After assessing the current operating performance, liquidity, and credit ratings of Cleco Power, management believes that Cleco Power will have access to the capital markets at prevailing market rates for companies with comparable credit ratings. At September 30, 2009, Standard & Poor's outlook for Cleco Power was stable. In June 2009, Moody's placed Cleco Power's rating under review for possible downgrade. Cleco Power is currently rated one level higher by Moody's than by Standard & Poor's. Cleco Power pays fees and interest under its bank credit and other debt agreements based on the higher of the two credit ratings. If Cleco Power's credit ratings were to be downgraded by Moody's, Cleco Power would be required to pay additional fees and higher interest rates. Cleco Power's collateral for derivatives is based on the lower of the two credit ratings. If Cleco Power's credit ratings were to be downgraded by Standard & Poor's, Cleco Power would be required to pay additional collateral for derivatives.

In August 2005, Cleco Power entered into an EPC contract with Shaw to construct Rodemacher Unit 3. In May 2006, Cleco Power and Shaw entered into an Amended EPC Contract. Under the terms of the Amended EPC Contract, in the event Cleco Power does not maintain a senior unsecured credit rating of either: (i) Baa3 or better from Moody's or (ii) BBB- or better from Standard & Poor's, Cleco Power will be required to provide a letter of credit to Shaw in the amount of \$20.0 million. In the event of further downgrade to both of its credit ratings to: (i) Ba2 or below from Moody's, and (ii) BB or below from Standard & Poor's, Cleco Power will be required to provide an additional \$15.0 million letter of credit to Shaw.

#### Note 11 — Affiliate Transactions

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Cleco has affiliate balances that were not eliminated as of September 30, 2009. The balances were not eliminated due to the use of the equity method of accounting for Evangeline, Perryville, Attala, and Acadia. For information on the Evangeline, Perryville, Attala, and Acadia equity investments, see Note 9 — "Equity Investment in Investees." At September 30, 2009, the payable to Evangeline was \$12.2 million and the payable to Acadia was \$0.1 million. Also, at September 30, 2009, the receivable from Evangeline was \$10.5 million and the receivable from Acadia was \$0.4 million. The receivable from Perryville and Attala combined was less than \$0.1 million.

Cleco Power has affiliate balances that are payable to or due from its affiliates. At September 30, 2009, the payable to Support Group was \$5.5 million, the payable to Cleco Corporation was \$0.8 million, and the payable to other affiliates was less than \$0.1 million. Also, at September 30, 2009, the receivable from Support Group was \$2.4 million, and the receivable from other affiliates was \$0.1 million.

#### Note 12 — Intangible Asset

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During the first quarter of 2008, Cleco Katrina/Rita acquired a \$177.5 million intangible asset which includes \$176.0 million for the right to bill and collect storm recovery charges from customers of Cleco Power and \$1.5 million of financing costs. This intangible asset is expected to have a life of 12 years, but could have a life of up to 15 years



depending on the time period required to collect the required amount from Cleco Power's customers. The intangible asset is being amortized according to the estimated collections from Cleco Power's customers. At the end of its life, this asset will have no residual value. For the three and nine months ended September 30, 2009, Cleco Katrina/Rita recognized amortization expense of \$2.7 million and \$8.0 million, respectively, compared to \$2.7 million and \$6.3 million, respectively, for the same periods in 2008. The tables below provide additional information about this intangible asset.

| (THOUSANDS)              | AT<br>SEPTEMBER<br>30, 2009 |
|--------------------------|-----------------------------|
| Gross carrying amount    | \$ 177,537                  |
| Accumulated amortization | 17,736                      |
| Intangible asset         | \$ 159,801                  |

| (THOUSANDS)                                     |            |
|---|------------|
| Expected amortization expense                   |            |
| For the twelve months ending September 30, 2010 | \$ 11,346  |
| For the twelve months ending September 30, 2011 | 12,127     |
| For the twelve months ending September 30, 2012 | 12,955     |
| For the twelve months ending September 30, 2013 | 13,803     |
| Thereafter                                      | 109,570    |
| Total intangible asset                          | \$ 159,801 |

#### Note 13 — Subsequent Events

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As of October 30, 2009, management has evaluated the potential recognition or disclosure of events or transactions that occurred in the period after the balance sheet date of September 30, 2009. The date October 30, 2009, represents the date that Cleco issued the financial statements for the period ended September 30, 2009.

On October 2, 2009, Cleco Power entered into a treasury rate lock contract in order to mitigate the interest rate exposure on possible future debt issuances. The notional amount of the treasury rate lock was \$75.0 million. The 4.005% lock rate was based on the 30-year treasury note yield as of October 2, 2009.

In July 2008, Cleco Power filed a rate plan to establish new rates to be effective upon commercial operation of Rodemacher Unit 3. On October 14, 2009, the LPSC approved Cleco Power's new rate plan, which includes a target return on equity of 10.7% with sharing occurring after 11.3%. The new

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rates will be effective upon commercial operation of Rodemacher Unit 3.

On October 30, 2009, Acadia and Entergy Louisiana announced that definitive agreements have been executed whereby Entergy Louisiana will purchase 50% of the Acadia power station, or one of its two 580-MW units. The transaction is anticipated to be completed in late 2010 or early 2011. The agreements provide that, beginning in May 2010, Acadia will serve Entergy Louisiana under a tolling agreement covering 50% of the Acadia power station until the sale is completed. Both the asset sale and interim tolling agreement require regulatory approval. Cleco Power will operate both units at the Acadia power station after the Entergy transaction is completed.

On October 30, 2009, Cleco Corporation filed a shelf registration statement with the SEC registering the offer and sale of up to \$300.0 million of Cleco Corporation debt securities. In addition, on such date, Cleco Power filed a shelf registration statement with the SEC registering the offer and the sale of up to \$500.0 million of Cleco Power debt securities. Both shelf registration statements became effective upon filing with the SEC.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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The following discussion and analysis should be read in combination with the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2008, and Cleco Corporation and Cleco Power's Condensed Consolidated Financial Statements contained in this Form 10-Q. The information included therein is essential to understanding the following discussion and analysis. Below is information concerning the consolidated results of operations of Cleco for the three and nine months ended September 30, 2009, and September 30, 2008.

### OVERVIEW

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Cleco is a regional energy services holding company that conducts substantially all of its business operations through its two primary subsidiaries:

- § Cleco Power, an integrated electric utility services company regulated by the LPSC, FERC, and other regulators, which serves approximately 276,000 customers across Louisiana and also engages in energy management activities; and
- § Midstream, a merchant energy company regulated by FERC, which owns and operates a merchant power plant (Evangeline). Midstream also owns a 50% interest in a merchant power plant (Acadia) and operates the plant on behalf of its partner.

While management believes that Cleco remains a strong company, Cleco continues to focus on several challenges and factors that could affect its results of operations and financial condition in the near term.

#### Cleco Power

Many factors affect Cleco Power's primary business of selling electricity. These factors include the presence of a stable regulatory environment, which can impact cost recovery and return on equity, as well as the recovery of costs related to growing energy demand and rising fuel prices; the ability to increase energy sales while containing costs; and the ability to meet increasingly stringent regulatory and environmental standards.

As part of a plan to diversify its fuel mix, combat rising fuel prices, and resolve its long-term generation capacity needs, Cleco Power began constructing a 600-MW solid-fuel generating unit at its Rodemacher power plant in May 2006. When complete, Rodemacher Unit 3 will meet a portion of the utility's power supply needs and help stabilize

customer fuel costs. The project's capital cost, including carrying costs during construction, is estimated at \$1.0 billion. Shaw has informed Cleco that it anticipates the plant will be substantially complete and operational in late December 2009. Cleco Power's current base rates have been extended through the commercial operation of Rodemacher Unit 3.

In July 2008, Cleco Power filed a rate plan to establish new rates to be effective upon commercial operation of Rodemacher Unit 3. As part of the new rate plan, Cleco Power requested a return on equity of 12.25%. Cleco Power's current base rates allow it the opportunity to earn a maximum regulated return on equity of 11.65%, which is based on a return on equity of 11.25%, with any regulated earnings between 11.25% and 12.25% shared between shareholders and customers in a 40/60 ratio. Cleco Power is currently recording AFUDC associated with construction of Rodemacher Unit 3. Once the unit begins commercial operation, Cleco Power will no longer record AFUDC related to Rodemacher Unit 3. Recovery of the Rodemacher Unit 3 investment is the largest component in Cleco Power's new rate plan. On October 14, 2009, the LPSC approved Cleco Power's new retail rate plan which includes a target return on equity of 10.7% with sharing occurring after 11.3%. The new rates will be effective upon commercial operation of Rodemacher Unit 3. The retail rate plan is expected to increase retail base revenues in the first twelve months of Rodemacher Unit 3 commercial operations by approximately \$173.0 million with an anticipated net billing decrease for retail customers of approximately \$40.0 million, or 5.0%, including a reduction of approximately \$97.0 million resulting from the cessation of collection of and the refund of Rodemacher Unit 3 construction financing costs based on a five-year crediting period. For additional information, see "— Financial Condition — Liquidity and Capital Resources — Regulatory Matters — Retail Rates of Cleco Power" and "— Rodemacher Unit 3."

Cleco Power continues to evaluate a range of other power supply options for the remainder of 2009 and beyond. As such, Cleco Power is continuing to update its IRP to look at future sources of supply. Cleco Power released a RFP in

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October 2007 seeking long-term resources to fill the needs identified by the latest IRP. On February 26, 2009, Cleco Power announced that it had chosen the acquisition of 50% of the Acadia power station, or one of its two 580-MW units, as the lowest bid in its 2007 long-term RFP for capacity beginning in 2010. Cleco Power will own and operate one unit and operate the other 580-MW unit on behalf of Acadia or a future owner as described further below under “— Midstream.” Cleco Power and the parties have executed the definitive agreements. However, prior to closing the transaction, valued at approximately \$300 million, Cleco Power must receive approvals from the LPSC and FERC. In a process that remains under the supervision of an independent monitor appointed by the LPSC, Cleco Power and Acadia plan to complete the transaction in the first quarter of 2010. Beginning in January 2010, the agreements provide that Acadia will operate the plant and serve Cleco Power under a tolling agreement covering 50% of the Acadia power station until the transaction is closed. This tolling agreement was approved by the LPSC in October 2009. The tolling agreement must also be approved by FERC.

In October 2009, one of Cleco Power’s large industrial customers announced that it would be closing its operations in December 2009. Cleco Power’s annual base revenue billings to this customer were expected to be approximately \$2.3 million.

#### Midstream

Acadia resides in the Southeastern Electric Reliability Council (SERC)-Entergy sub-region. For merchant generators, this sub-region is challenged both by the general oversupply of gas-fired generation available to serve the Entergy system needs and the physical transmission constraints that can limit the amount of power that can be delivered. The SERC-Entergy sub-region has reserve margins among the highest in the nation. These high reserve margins can lead to lower capacity factors and lower profitability for Acadia. In the coming years, the wholesale power market within the SERC-Entergy sub-region is expected to tighten as load grows. The tightening wholesale power market is expected to result in higher wholesale power prices. At times, transmission availability limits the wholesale markets accessible by Acadia resulting in limited buyers for Acadia’s output. Because of Acadia’s location on the transmission grid, Acadia has interconnections with two main suppliers of electric transmission when accessing external power markets.

Acadia markets short-, mid-, and long-term products where available. Through its third-party energy marketer, Acadia pursues opportunities in the hourly, weekly, monthly, and annual markets. In addition, Acadia actively participates in long-term requests for capacity and energy. Acadia’s success in these marketing efforts is a primary driver of its earnings and cash flow.

On February 26, 2009, Cleco Power announced that it had selected Acadia’s proposal to fulfill Cleco Power’s capacity and energy needs as defined in the Cleco Power 2007 long-term RFP. Under the proposed arrangement, Cleco Power would acquire and operate one of Acadia’s generating units and operate the other unit, as described further above under “— Cleco Power.”

On October 30, 2009, Acadia and Entergy Louisiana announced that definitive agreements have been executed whereby Entergy Louisiana will purchase 50% of the Acadia power station, or one of its two 580-MW units. The transaction is anticipated to be completed in late 2010 or early 2011. The agreements provide that, beginning in May 2010, Acadia will serve Entergy Louisiana under a tolling agreement covering 50% of the Acadia power station until the sale is completed. Both the asset sale and interim tolling agreement require regulatory approval. Cleco Power will operate both units at Acadia after the Entergy transaction is completed.

Midstream’s other principal source of revenue is the Evangeline Tolling Agreement, under which the counterparty has the right to dispatch the electric generation capacity of the facility. Profitability of Midstream’s investment in Evangeline depends principally upon continued performance by JPMVEC of its payment obligations under the tolling agreement and controlling maintenance expenses associated with the facility.

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Comparison of the Three Months Ended September 30, 2009, and 2008

Cleco Consolidated

| (THOUSANDS)  | FOR THE THREE MONTHS ENDED<br>SEPTEMBER 30, |           |                                     |          |
|--|---|-----------|-------------------------------------|----------|
|  | 2009  | 2008      | FAVORABLE/(UNFAVORABLE)<br>VARIANCE | CHANGE   |
| Operating revenue, net                             | \$241,500                                   | \$343,675 | \$ (102,175 )                       | (29.7 )% |
| Operating expenses                                 | 200,823                                     | 308,111   | 107,288                             | 34.8 %   |
| Operating income                                   | \$40,677                                    | \$35,564  | \$ 5,113                            | 14.4 %   |
| Interest income                                    | \$369                                       | \$1,669   | \$ (1,300 )                         | (77.9 )% |
| Allowance for other funds used during construction | \$17,813                                    | \$17,786  | \$ 27                               | 0.2 %    |
| Equity income from investees                       | \$15,587                                    | \$9,662   | \$ 5,925                            | 61.3 %   |
| Other income                                       | \$2,079                                     | \$937     | \$ 1,142                            | 121.9 %  |
| Other expense                                      | \$849                                       | \$2,276   | \$ 1,427                            | 62.7 %   |
| Interest charges                                   | \$10,838                                    | \$15,696  | \$ 4,858                            | 31.0 %   |
| Federal and state income taxes                     | \$4,983                                     | \$10,513  | \$ 5,530                            | 52.6 %   |
| Net income applicable to common stock              | \$59,843                                    | \$37,121  | \$ 22,722                           | 61.2 %   |

Consolidated net income applicable to common stock increased \$22.7 million, or 61.2%, in the third quarter of 2009 compared to the third quarter of 2008 primarily due to increased Cleco Power, Midstream, and corporate earnings.

Operating revenue, net decreased \$102.2 million, or 29.7%, in the third quarter of 2009 compared to the third quarter of 2008 largely as a result of lower fuel cost recovery revenue at Cleco Power.

Operating expenses decreased \$107.3 million, or 34.8%, in the third quarter of 2009 compared to the third quarter of 2008 primarily due to lower per-unit costs and volumes of purchased power for utility customers.

Interest income decreased \$1.3 million, or 77.9%, in the third quarter of 2009 compared to the third quarter of 2008 primarily due to a lower recovery of interest costs relating to Cleco Power's lower deferred lignite mining costs.

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Equity income from investees increased \$5.9 million, or 61.3%, in the third quarter of 2009 compared to the third quarter of 2008 primarily due to increased equity income at Evangeline.

Other income increased \$1.1 million, or 121.9%, during the third quarter of 2009 compared to the third quarter of 2008 primarily due to the recognition of an increase in the cash surrender value of life insurance policies at Cleco Corporation.

Other expense decreased \$1.4 million, or 62.7%, during the third quarter of 2009 compared to the third quarter of 2008 primarily due to the absence in 2009 of decreases in the cash surrender value of life insurance policies at Cleco Corporation during the third quarter of 2008.

Interest charges decreased \$4.9 million, or 31.0%, during the third quarter of 2009 compared to the third quarter of 2008 primarily due to the settlement of a franchise tax lawsuit and lower net interest charges at Cleco Power as discussed below.

Federal and state income taxes decreased \$5.5 million, or 52.6%, in the third quarter of 2009 compared to the third quarter of 2008 primarily due to a decrease in forecasted pre-tax income and due to the increased impact that equity AFUDC had on actual pre-tax income. The effective income tax rate is less than the expected statutory rate primarily due to the significant impact of flow-through treatment on plant-related differences such as equity AFUDC.

Results of operations for Cleco Power and Midstream are more fully described below.

## Cleco Power

| (THOUSANDS)   | FOR THE THREE MONTHS ENDED<br>SEPTEMBER 30, |           |                                     |          |
|---|---|-----------|-------------------------------------|----------|
|   | 2009  | 2008      | FAVORABLE/(UNFAVORABLE)<br>VARIANCE | CHANGE   |
| Operating revenue                                   |   |           |                                     |          |
| Base  | \$ 103,198                                  | \$ 99,090 | \$ 4,108                            | 4.1 %    |
| Fuel cost recovery                                  | 125,754                                     | 234,846   | (109,092 )                          | (46.5 )% |
| Other operations                                    | 9,834                                       | 6,981     | 2,853                               | 40.9 %   |
| Affiliate revenue                                   | 6   | 7         | (1 )                                | (14.3 )% |
| Intercompany revenue                                | 343   | 418       | (75 )                               | (17.9 )% |
| Operating revenue, net                              | 239,135                                     | 341,342   | (102,207 )                          | (29.9 )% |
| Operating expenses                                  |   |           |                                     |          |
| Fuel used for electric generation – recoverable     | 72,512                                      | 90,846    | 18,334                              | 20.2 %   |
| Power purchased for utility customers – recoverable | 53,242                                      | 144,000   | 90,758                              | 63.0 %   |
| Non-recoverable fuel and power purchased            | 10,774                                      | 9,373     | (1,401 )                            | (14.9 )% |
| Other operations                                    | 25,165                                      | 23,242    | (1,923 )                            | (8.3 )%  |
| Maintenance   | 9,602                                       | 9,719     | 117                                 | 1.2 %    |
| Depreciation  | 19,310                                      | 18,861    | (449 )                              | (2.4 )%  |
| Taxes other than income taxes                       | 7,809                                       | 8,732     | 923                                 | 10.6 %   |
| Loss on sale of assets                              | 70  | -         | (70 )                               | -        |
| Total operating expenses                            | 198,484                                     | 304,773   | 106,289                             | 34.9 %   |
| Operating income                                    | \$ 40,651                                   | \$ 36,569 | \$ 4,082                            | 11.2 %   |
| Interest income                                     | \$ 341                                      | \$ 1,545  | \$ (1,204 )                         | (77.9 )% |
| Allowance for other funds used during construction  | \$ 17,813                                   | \$ 17,786 | \$ 27                               | 0.2 %    |
| Interest charges                                    | \$ 13,645                                   | \$ 14,973 | \$ 1,328                            | 8.9 %    |
| Federal and state income taxes                      | \$ 1,316                                    | \$ 10,566 | \$ 9,250                            | 87.5 %   |
| Net income  | \$ 43,552                                   | \$ 30,538 | \$ 13,014                           | 42.6 %   |

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Cleco Power's net income in the third quarter of 2009 increased \$13.0 million, or 42.6%, compared to the third quarter of 2008. Contributing factors include:

- § higher base revenue,
- § higher other operations revenue,
- § lower interest charges,
- § lower taxes other than income taxes, and
- § lower effective income tax rate.

These were partially offset by:

- § lower interest income,
- § higher other operations expense, and
- § higher non-recoverable fuel and purchased power expenses.

| (MILLION kWh)                             | FOR THE THREE MONTHS ENDED<br>SEPTEMBER 30, |       |                             |
|---|---|-------|-----------------------------|
|   | 2009  | 2008  | FAVORABLE/<br>(UNFAVORABLE) |
| Electric sales                            |   |       |                             |
| Residential                               | 1,207                                       | 1,144 | 5.5 %                       |
| Commercial                                | 743   | 721   | 3.1 %                       |
| Industrial                                | 577   | 762   | (24.3)%                     |
| Other retail                              | 36  | 36    | -                           |
| Total retail                              | 2,563                                       | 2,663 | (3.8)%                      |
| Sales for resale                          | 199   | 153   | 30.1 %                      |
| Unbilled                                  | (95)  | (134) | 29.1 %                      |
| Total retail and wholesale customer sales | 2,667                                       | 2,682 | (0.6)%                      |

| (THOUSANDS)                               | FOR THE THREE MONTHS ENDED<br>SEPTEMBER 30, |          |                             |
|---|---|----------|-----------------------------|
|   | 2009  | 2008     | FAVORABLE/<br>(UNFAVORABLE) |
| Electric sales                            |   |          |                             |
| Residential                               | \$53,970                                    | \$51,490 | 4.8 %                       |
| Commercial                                | 25,802                                      | 25,195   | 2.4 %                       |
| Industrial                                | 12,912                                      | 14,585   | (11.5) %                    |
| Other retail                              | 1,491                                       | 1,469    | 1.5 %                       |
| Storm surcharge                           | 5,054                                       | 5,455    | (7.4) %                     |
| Total retail                              | 99,229                                      | 98,194   | 1.1 %                       |
| Sales for resale                          | 7,435                                       | 5,759    | 29.1 %                      |
| Unbilled                                  | (3,466 )                                    | (4,863 ) | 28.7 %                      |
| Total retail and wholesale customer sales | \$103,198                                   | \$99,090 | 4.1 %                       |

Cleco Power's residential customers' demand for electricity largely is affected by weather. Weather generally is measured in cooling-degree days and heating-degree days. A cooling-degree day is an indication of the likelihood that a consumer will use air conditioning, while a heating-degree day is an indication of the likelihood that a consumer will use heating. An increase in heating-degree days does not produce the same increase in revenue as an increase in cooling-degree days, because more alternative heating sources are available. Normal heating- and cooling-degree days are calculated for a month by separately calculating the average actual heating- and cooling-degree days for that

month over a period of 30 years.

The following chart shows how cooling-degree days varied from normal conditions and from the prior period. Cleco Power uses temperature data collected by the National Oceanic and Atmospheric Administration to determine degree days.



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|                        | FOR THE THREE MONTHS<br>ENDED SEPTEMBER 30, |       |        |                              |        |
|------------------------|---|-------|--------|------------------------------|--------|
|                        | 2009  | 2008  | NORMAL | 2009 CHANGE<br>PRIOR<br>YEAR | NORMAL |
| Cooling-degree<br>days | 1,584                                       | 1,541 | 1,468  | 2.8%                         | 7.9%   |

**Base**  
Base revenue increased \$4.1 million, or 4.1%, during the third quarter of 2009 compared to the third quarter of 2008. The increase was primarily due to higher residential usage per customer, Cleco Power providing service to a new wholesale customer that commenced in April 2009, and the absence of hurricane-related outages. Partially offsetting these increases were lower sales to industrial customers as a result of decreased production at one of Cleco Power's large industrial customers and the start of a large industrial customer cogenerating a portion of its electricity requirements. For information on the anticipated effects of changes in revenue from an industrial customer, see "— Overview — Cleco Power." For information on the effects of future energy sales on Cleco Power's financial condition, results of operations, and cash flows, see "Risk Factors — Future Electricity Sales" in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

**Fuel Cost Recovery**  
Fuel cost recovery revenue billed to customers decreased \$109.1 million, or 46.5%, during the third quarter of 2009 compared to the third quarter in 2008 primarily due to decreases in the per-unit cost and volume of power purchased for utility customers. Partially offsetting this decrease were increases in the per-unit cost and volume of fuel used for electric generation. Changes in fuel costs historically have not significantly affected Cleco Power's net income. Generally, fuel and purchased power expenses are recovered through the LPSC-established fuel adjustment clause, which enables Cleco Power to pass on to its customers substantially all such charges. Approximately 95% of Cleco Power's total fuel cost during the third quarter of 2009 was regulated by the LPSC, while the remainder was regulated by FERC. Recovery of fuel adjustment clause costs is subject to refund until approval is received from the LPSC. For information on Cleco Power's pending fuel audit, see Item 1, "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 10 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — LPSC Fuel Audit."

**Other Operations**  
Other operations revenue increased \$2.9 million, or 40.9%, in the third quarter of 2009 compared to the third quarter of 2008 primarily due to a \$4.7 million net gain relating to economic hedge transactions associated with fixed-price power being provided to a wholesale customer. Partially offsetting this increase was \$1.8 million of lower other miscellaneous revenue. For information on Cleco's energy commodity activities, see Item 3, "Quantitative and Qualitative Disclosures about Market Risk — Risk Overview — Commodity Price Risks."

**Operating Expenses**  
Operating expenses decreased \$106.3 million, or 34.9%, in the third quarter of 2009 compared to the third quarter of 2008. Fuel used for electric generation (recoverable) decreased \$18.3 million, or 20.2%, primarily due to recovery of higher fuel costs deferred in prior periods. Partially offsetting this decrease were higher per-unit costs and volumes of fuel used as compared to the third quarter of 2008, as a result of realized losses on fuel hedging due to the price

volatility of natural gas. Power purchased for utility customers (recoverable) decreased \$90.8 million, or 63.0%, largely due to lower per-unit costs and volumes of purchased power. Fuel used for electric generation and power purchased for utility customers generally are influenced by natural gas prices, as well as availability of transmission. However, other factors such as scheduled and/or unscheduled outages, unusual maintenance or repairs, or other developments may affect fuel used for electric generation and power purchased for utility customers. Non-recoverable fuel and power purchased increased \$1.4 million, or 14.9%, primarily due to higher net capacity payments made during the third quarter of 2009. Other operations expense increased \$1.9 million, or 8.3%, primarily due to higher general liability expense, and higher employee benefit costs and administrative expenses. Taxes other than income taxes decreased \$0.9 million, or 10.6%, primarily due to lower property taxes and franchise fees.

#### Interest Income

Interest income decreased \$1.2 million, or 77.9%, during the third quarter of 2009 compared to the third quarter of 2008 primarily due to a lower recovery of interest costs relating to Cleco Power's lower deferred lignite mining costs.

#### Allowance for Other Funds Used During Construction

Allowance for other funds used during construction comprised 40.9% of Cleco Power's net income for the third quarter of 2009 compared to 58.2% for the third quarter of 2008. Cleco Power is currently recording AFUDC associated with construction of Rodemacher Unit 3. Once the unit begins commercial operations, Cleco Power will no longer record AFUDC related to Rodemacher Unit 3.

#### Interest Charges

Interest charges decreased \$1.3 million, or 8.9%, during the third quarter of 2009 compared to the third quarter of 2008 primarily due to the capitalization of an additional \$1.6 million of allowance for borrowed funds used during construction associated with Rodemacher Unit 3, \$1.3 million primarily from interest related to uncertain tax positions, and \$0.2 million of other miscellaneous interest charges. Partially offsetting these decreases was \$1.8 million related to the December 2008 issuance of GO Zone bonds.

#### Income Taxes

Federal and state income taxes decreased \$9.3 million, or 87.5%, in the third quarter of 2009 compared to the third quarter of 2008 primarily due to a decrease in forecasted pre-tax

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income and due to the increased impact that equity AFUDC had on actual pre-tax income. The effective income tax rate is less than the expected statutory rate primarily due to the significant impact of flow-through treatment on plant-related differences such as equity AFUDC.

## Midstream

| (THOUSANDS)                          | FOR THE THREE MONTHS ENDED SEPTEMBER 30, |          |                                     |           |
|--------------------------------------|--|----------|-------------------------------------|-----------|
|                                      | 2009                                     | 2008     | FAVORABLE/(UNFAVORABLE)<br>VARIANCE | CHANGE    |
| Operating revenue                    |  |          |                                     |           |
| Affiliate revenue                    | \$2,087                                  | \$2,131  | \$ (44 )                            | (2.1 )%   |
| Operating revenue                    | 2,087                                    | 2,131    | (44 )                               | (2.1 )%   |
| Operating expenses                   |  |          |                                     |           |
| Other operations                     | 1,508                                    | 1,717    | 209                                 | 12.2 %    |
| Maintenance                          | 808                                      | 938      | 130                                 | 13.9 %    |
| Depreciation                         | 44                                       | 78       | 34                                  | 43.6 %    |
| Taxes other than income taxes        | 92                                       | 94       | 2                                   | 2.1 %     |
| Loss on sale of assets               | 5  | -        | (5 )                                | -         |
| Total operating expenses             | 2,457                                    | 2,827    | 370                                 | 13.1 %    |
| Operating loss                       | \$(370 )                                 | \$(696 ) | \$ 326                              | 46.8 %    |
| Equity income from investees         | \$15,108                                 | \$9,223  | \$ 5,885                            | 63.8 %    |
| Federal and state income tax expense | \$4,923                                  | \$2,383  | \$ (2,540 )                         | (106.6 )% |
| Net income                           | \$8,412                                  | \$4,573  | \$ 3,839                            | 83.9 %    |

Factors affecting Midstream during the third quarter of 2009 are described below.

## Equity Income from Investees

Equity income from investees increased \$5.9 million, or 63.8%, during the third quarter of 2009 compared to the third quarter of 2008. The increase was due to a \$5.5 million increase in equity earnings at Evangeline and a \$0.4 million decrease in equity losses at APH. The increased earnings at Evangeline were primarily due to lower maintenance expenses and the absence of replacement power purchases primarily due to the absence in 2009 of an unplanned outage at Evangeline that occurred in 2008. The decrease in losses at APH was due to higher net revenue from Acadia's short-term tolling agreement with Cleco Power and lower depreciation expense. For additional information on Evangeline and Acadia, see Item 1, "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 9 — Equity Investment in Investees."

## Income Taxes

Federal and state income taxes increased \$2.5 million, or 106.6%, during the third quarter of 2009 compared to the third quarter of 2008 primarily due to an increase in pre-tax income.

## Comparison of the Nine Months Ended September 30, 2009, and 2008

## Cleco Consolidated

FOR THE NINE MONTHS ENDED  
SEPTEMBER 30,  
FAVORABLE/(UNFAVORABLE)

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| (THOUSANDS)  | 2009      | 2008      | VARIANCE      | CHANGE   |
|--|-----------|-----------|---------------|----------|
| Operating revenue, net                             | \$661,662 | \$841,013 | \$ (179,351 ) | (21.3 )% |
| Operating expenses                                 | 571,878   | 744,990   | 173,112       | 23.2 %   |
| Operating income                                   | \$89,784  | \$96,023  | \$ (6,239 )   | (6.5 )%  |
| Interest income                                    | \$1,051   | \$4,544   | (3,493 )      | (76.9 )% |
| Allowance for other funds used during construction | \$52,341  | \$46,462  | \$ 5,879      | 12.7 %   |
| Equity income from investees                       | \$710     | \$2,723   | \$ (2,013 )   | (73.9 )% |
| Other income                                       | \$4,753   | \$1,094   | \$ 3,659      | 334.5 %  |
| Other expense                                      | \$2,181   | \$4,322   | \$ 2,141      | 49.5 %   |
| Interest charges                                   | \$39,670  | \$35,358  | \$ (4,312 )   | (12.2 )% |
| Federal and state income taxes                     | \$13,258  | \$22,573  | \$ 9,315      | 41.3 %   |
| Net income applicable to common stock              | \$93,495  | \$88,558  | \$ 4,937      | 5.6 %    |

Consolidated net income applicable to common stock increased \$4.9 million, or 5.6%, in the first nine months of 2009 compared to the first nine months of 2008 primarily due to increased corporate earnings. Partially offsetting this increase were lower earnings at Cleco Power and higher losses at Midstream.

Operating revenue, net decreased \$179.4 million, or 21.3%, in the first nine months of 2009 compared to the first nine months of 2008 largely as a result of lower fuel cost recovery revenue at Cleco Power.

Operating expenses decreased \$173.1 million, or 23.2%, in the first nine months of 2009 compared to the first nine months of 2008 primarily due to lower per-unit costs and volumes of purchased power for utility customers.

Interest income decreased \$3.5 million, or 76.9%, in the first nine months of 2009 compared to the first nine months of 2008 primarily due to lower interest rates and lower average investment balances. Also contributing to the decrease was a lower recovery of interest costs relating to Cleco Power's lower deferred lignite mining costs.

Allowance for other funds used during construction increased \$5.9 million, or 12.7%, in the first nine months of 2009 compared to the first nine months of 2008 primarily due to increased construction activity at Rodemacher Unit 3.

Equity income from investees decreased \$2.0 million, or 73.9%, in the first nine months of 2009 compared to the first nine months of 2008 primarily due to increased equity losses at APH, partially offset by equity earnings at Evangeline.

Other income increased \$3.7 million, or 334.5%, in the first nine months of 2009 compared to the first nine months of 2008 primarily due to the recognition of an increase in the cash surrender value of life insurance policies at Cleco Corporation and higher mutual assistance revenue at Cleco Power.

Other expense decreased \$2.1 million, or 49.5% in the first nine months of 2009 compared to the first nine months of 2008 primarily due to the absence in 2009 of decreases in the cash surrender value of life insurance policies at Cleco Corporation during 2008. Partially offsetting this decrease were higher mutual assistance expenses at Cleco Power.

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Interest charges increased \$4.3 million, or 12.2%, during the first nine months of 2009 compared to the first nine months of 2008 primarily due to higher net interest charges at Cleco Power as discussed below, partially offset by lower interest charges at Cleco Corporation from the repayment of senior notes and the settlement of a franchise tax lawsuit.

Federal and state income taxes decreased \$9.3 million, or 41.3%, during the first nine months of 2009 compared to the first nine months of 2008 primarily due to a decrease in pre-tax income, increases in forecasted equity AFUDC and forecasted permanent tax deductions, and a decrease in deferred state income taxes related to changes in state flow-through items. The effective income tax rate is less than the expected statutory rate primarily due to the significant impact of flow-through treatment on plant-related differences such as equity AFUDC.

Results of operations for Cleco Power and Midstream are more fully described below.

## Cleco Power

| (THOUSANDS)   | FOR THE NINE MONTHS ENDED<br>SEPTEMBER 30, |           |                                     |          |
|---|--|-----------|-------------------------------------|----------|
|   | 2009                                       | 2008      | FAVORABLE/(UNFAVORABLE)<br>VARIANCE | CHANGE   |
| Operating revenue                                   |  |           |                                     |          |
| Base  | \$270,937                                  | \$270,933 | \$ 4                                | -        |
| Fuel cost recovery                                  | 356,532                                    | 532,464   | (175,932 )                          | (33.0 )% |
| Other operations                                    | 25,609                                     | 29,757    | (4,148 )                            | (13.9 )% |
| Affiliate revenue                                   | 17   | 21        | (4 )                                | (19.0 )% |
| Intercompany revenue                                | 1,029                                      | 1,506     | (477 )                              | (31.7 )% |
| Operating revenue, net                              | 654,124                                    | 834,681   | (180,557 )                          | (21.6 )% |
| Operating expenses                                  |  |           |                                     |          |
| Fuel used for electric generation – recoverable     | 207,470                                    | 154,347   | (53,123 )                           | (34.4 )% |
| Power purchased for utility customers – recoverable | 149,063                                    | 378,137   | 229,074                             | 60.6 %   |
| Non-recoverable fuel and power purchased            | 20,889                                     | 21,901    | 1,012                               | 4.6 %    |
| Other operations                                    | 72,814                                     | 65,862    | (6,952 )                            | (10.6 )% |
| Maintenance   | 32,705                                     | 32,556    | (149 )                              | (0.5 )%  |
| Depreciation  | 57,339                                     | 56,886    | (453 )                              | (0.8 )%  |
| Taxes other than income taxes                       | 23,172                                     | 24,727    | 1,555                               | 6.3 %    |
| Loss on sale of assets                              | 70   | -         | (70 )                               | -        |
| Total operating expenses                            | 563,522                                    | 734,416   | 170,894                             | 23.3 %   |
| Operating income                                    | \$90,602                                   | \$100,265 | \$ (9,663 )                         | (9.6 )%  |
| Interest income                                     | \$999                                      | \$3,121   | \$ (2,122 )                         | (68.0 )% |
| Allowance for other funds used during construction  | \$52,341                                   | \$46,462  | \$ 5,879                            | 12.7 %   |
| Other income  | \$2,138                                    | \$1,172   | \$ 966                              | 82.4 %   |
| Other expense                                       | \$2,985                                    | \$1,643   | \$ (1,342 )                         | (81.7 )% |
| Interest charges                                    | \$40,286                                   | \$31,435  | \$ (8,851 )                         | (28.2 )% |
| Federal and state income taxes                      | \$14,033                                   | \$27,135  | \$ 13,102                           | 48.3 %   |
| Net income  | \$88,776                                   | \$90,807  | \$ (2,031 )                         | (2.2 )%  |

Cleco Power's net income in the first nine months of 2009 decreased \$2.0 million, or 2.2%, compared to the first nine months of 2008. Contributing factors include:

§ higher interest charges,  
 § higher other operations and maintenance expenses,  
 § lower other operations revenue,  
 § lower interest income, and  
 § higher other expense.

These were partially offset by:

§ higher allowance for other funds used during construction,  
 § lower non-recoverable fuel and power purchased expenses,  
 § lower taxes other than income taxes,  
 § higher other income, and  
 § lower effective income tax rate.

FOR THE NINE MONTHS ENDED  
 SEPTEMBER 30,

| (MILLION kWh)                                   | 2009  | 2008  | FAVORABLE/<br>(UNFAVORABLE) |
|---|-------|-------|-----------------------------|
| Electric sales                                  |       |       |                             |
| Residential                                     | 2,814 | 2,789 | 0.9 %                       |
| Commercial                                      | 1,882 | 1,874 | 0.4 %                       |
| Industrial                                      | 1,633 | 2,177 | (25.0)%                     |
| Other retail                                    | 103   | 101   | 2.0 %                       |
| Total retail                                    | 6,432 | 6,941 | (7.3)%                      |
| Sales for resale                                | 432   | 327   | 32.1 %                      |
| Unbilled  | 98    | 12    | 716.7 %                     |
| Total retail and<br>wholesale customer<br>sales | 6,962 | 7,280 | (4.4)%                      |

FOR THE NINE MONTHS ENDED  
 SEPTEMBER 30,

| (THOUSANDS)                               | 2009      | 2008      | FAVORABLE/<br>(UNFAVORABLE) |
|---|-----------|-----------|-----------------------------|
| Electric sales                            |           |           |                             |
| Residential                               | \$122,486 | \$121,236 | 1.0 %                       |
| Commercial                                | 71,871    | 71,258    | 0.9 %                       |
| Industrial                                | 38,046    | 41,580    | (8.5)%                      |
| Other retail                              | 4,288     | 4,205     | 2.0 %                       |
| Storm surcharge                           | 14,674    | 15,641    | (6.2)%                      |
| Total retail                              | 251,365   | 253,920   | (1.0)%                      |
| Sales for resale                          | 16,034    | 15,430    | 3.9 %                       |
| Unbilled                                  | 3,538     | 1,583     | 123.5 %                     |
| Total retail and wholesale customer sales | \$270,937 | \$270,933 | -                           |

The following chart shows how cooling- and heating-degree days varied from normal conditions and from the prior period. Cleco Power uses temperature data collected by the National Oceanic and Atmospheric Administration to determine degree days.

FOR THE NINE MONTHS ENDED  
SEPTEMBER 30,

|                        | 2009  | 2008  | NORMAL | 2009 CHANGE<br>PRIOR<br>YEAR | NORMAL  |
|------------------------|-------|-------|--------|------------------------------|---------|
| Heating-degree<br>days | 779   | 860   | 1,026  | (9.4)%                       | (24.1)% |
| Cooling-degree<br>days | 2,763 | 2,699 | 2,436  | 2.4 %                        | 13.4 %  |

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## Base

Overall, base revenue was essentially the same during the first nine months of 2009 compared to the first nine months of 2008. Some of the significant increases in base revenue during the first nine months of 2009 were attributable to Cleco Power providing service to a new wholesale customer that commenced in April 2009 and higher residential sales primarily from an increase in the number of customers served. Some of the significant decreases in base revenue were attributable to lower sales to industrial customers as a result of decreased production at one of Cleco Power's large industrial customers and the start of a large industrial customer cogenerating a portion of its electricity requirements. For information on the anticipated effects of changes in revenue from an industrial customer, see "Overview — Cleco Power." For information on the effects of future energy sales on Cleco Power's financial condition, results of operations, and cash flows, see "Risk Factors — Future Electricity Sales" in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

## Fuel Cost Recovery

Fuel cost recovery revenue billed to customers decreased \$175.9 million, or 33.0%, during the first nine months of 2009 compared to the first nine months in 2008 primarily due to decreases in the per-unit cost and volume of power purchased for utility customers. Partially offsetting the decrease were increases in the per-unit cost and volume of fuel used for electric generation. For information on Cleco Power's ability to recover fuel and purchase power costs, see "— Comparison of the Three Months Ended September 30, 2009, and 2008 — Cleco Power — Fuel Cost Recovery."

## Other Operations

Other operations revenue decreased \$4.1 million, or 13.9%, in the first nine months of 2009 compared to the first nine months of 2008 primarily due to a \$2.1 million net loss relating to economic hedge transactions associated with fixed-price power being provided to a wholesale customer. Also contributing to this decrease was \$2.0 million of lower other miscellaneous revenue. For information on Cleco's energy commodity activities, see Item 3, "Quantitative and Qualitative Disclosures about Market Risk — Risk Overview — Commodity Price Risks."

## Operating Expenses

Operating expenses decreased \$170.9 million, or 23.3%, in the first nine months of 2009 compared to the first nine months of 2008. Fuel used for electric generation (recoverable) increased \$53.1 million, or 34.4%, primarily due to recovery of higher fuel costs deferred in prior periods and higher per-unit costs of fuel used as compared to the first nine months of 2008. This is a result of realized losses on fuel hedging due to the price volatility of natural gas. Also contributing to the increase were higher volumes of fuel used for electric generation. Power purchased for utility customers (recoverable) decreased \$229.1 million, or 60.6%, largely due to lower per-unit costs and volumes of purchased power. Fuel used for electric generation and power purchased for utility customers generally are influenced by natural gas prices, as well as availability of transmission. However, other factors such as scheduled and/or unscheduled outages, unusual maintenance or repairs, or other developments may affect fuel used for electric generation and power purchased for utility customers. Non-recoverable fuel and purchased power decreased \$1.0 million, or 4.6%, primarily due to lower non-recoverable expenses primarily related to fixed-price power being provided to a wholesale customer. Partially offsetting this decrease were higher net capacity charges. Other operations expense increased \$7.0 million, or 10.6%, primarily due to higher general liability expense, higher employee benefit costs, training, and administrative expenses. Taxes other than income taxes decreased \$1.6 million, or 6.3%, primarily due to lower property taxes and franchise fees.

## Interest Income



Interest income decreased \$2.1 million, or 68.0%, during the first nine months of 2009 compared to the first nine months of 2008 primarily due to a lower recovery of interest costs relating to Cleco Power's lower deferred lignite mining costs and lower average investment balances.

#### Allowance for Other Funds Used During Construction

Allowance for other funds used during construction increased \$5.9 million, or 12.7%, during the first nine months of 2009 compared to the first nine months of 2008 primarily due to increased construction activity at Rodemacher Unit 3. Allowance for other funds used during construction comprised 59.0% of Cleco Power's net income for the first nine months of 2009, compared to 51.2% for the first nine months of 2008. Cleco Power is currently recording AFUDC associated with construction of Rodemacher Unit 3. Once the unit begins commercial operations, Cleco Power will no longer record AFUDC related to Rodemacher Unit 3.

#### Other Income

Other income increased \$1.0 million, or 82.4%, in the first nine months of 2009 compared to the first nine months of 2008 primarily due to higher revenue from mutual assistance to other utilities for restoration efforts.

#### Other Expense

Other expense increased \$1.3 million, or 81.7%, in the first nine months of 2009 compared to the first nine months of 2008 primarily due to higher expenses from mutual assistance to other utilities for restoration efforts.

#### Interest Charges

Interest charges increased \$8.9 million, or 28.2%, during the first nine months of 2009 compared to the first nine months of 2008 primarily due to \$7.0 million related to the May 2008 issuance of senior notes, \$5.3 million related to the December 2008 issuance of GO Zone bonds, \$1.4 million related to the March 2008 issuance of storm recovery bonds, and \$1.1

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## 2009 3RD QUARTER FORM 10-Q

million related to solid waste disposal facility bonds. Partially offsetting these increases were the capitalization of an additional \$4.6 million of allowance for borrowed funds used during construction associated with Rodemacher Unit 3 and \$1.3 million of lower other miscellaneous interest charges.

## Income Taxes

Federal and state income taxes decreased \$13.1 million, or 48.3%, during the first nine months of 2009 compared to the first nine months of 2008 primarily due to a decrease in pre-tax income, increases in forecasted equity AFUDC and forecasted permanent tax deductions, and a decrease in deferred state income taxes related to changes in state flow-through items. The effective income tax rate is less than the expected statutory rate primarily due to the significant impact of flow-through treatment on plant-related differences such as equity AFUDC.

## Midstream

| (THOUSANDS)                          | FOR THE NINE MONTHS ENDED SEPTEMBER 30, |            |                                     |           |
|--------------------------------------|---|------------|-------------------------------------|-----------|
|                                      | 2009                                    | 2008       | FAVORABLE/(UNFAVORABLE)<br>VARIANCE | CHANGE    |
| Operating revenue                    |   |            |                                     |           |
| Other operations                     | \$1                                     | \$1        | \$ -                                | -         |
| Affiliate revenue                    | 6,627                                   | 5,892      | 735                                 | 12.5 %    |
| Operating revenue                    | 6,628                                   | 5,893      | 735                                 | 12.5 %    |
| Operating expenses                   |   |            |                                     |           |
| Other operations                     | 4,887                                   | 4,662      | (225 )                              | (4.8 )%   |
| Maintenance                          | 2,963                                   | 2,667      | (296 )                              | (11.1 )%  |
| Depreciation                         | 132                                     | 230        | 98                                  | 42.6 %    |
| Taxes other than income taxes        | 310                                     | 272        | (38 )                               | (14.0 )%  |
| Loss (gain) on sales of assets       | 5                                       | (99 )      | (104 )                              | (105.1 )% |
| Total operating expenses             | 8,297                                   | 7,732      | (565 )                              | (7.3 )%   |
| Operating loss                       | (1,669 )                                | (1,839 )   | 170                                 | 9.2 %     |
| Equity (loss) income from investees  | \$(782 )                                | \$1,660    | \$ (2,442 )                         | (147.1 )% |
| Interest charges                     | \$6,034                                 | \$5,057    | \$ (977 )                           | (19.3 )%  |
| Federal and state income tax benefit | \$(3,469 )                              | \$(2,298 ) | \$ 1,171                            | 51.0 %    |
| Net loss                             | \$(4,997 )                              | \$(2,955 ) | \$ (2,042 )                         | (69.1 )%  |

Factors affecting Midstream during the first nine months of 2009 are described below.

## Operating Revenue and Operating Expenses

Operating revenue increased \$0.7 million, or 12.5%, during the first nine months of 2009 compared to the first nine months of 2008. Operating expenses increased \$0.6 million, or 7.3%, during the first nine months of 2009 compared to the first nine months of 2008. The increases were primarily due to additional employees hired by Cleco Generation Services LLC for the benefit of Midstream to provide power plant operations, maintenance, and engineering services to Acadia and Evangeline. As a result, revenue and expenses associated with these services are included in affiliate revenue and operating expenses, respectively.

## Equity Income from Investees

Equity income from investees decreased \$2.4 million, or 147.1%, during the first nine months of 2009 compared to the first nine months of 2008. The decrease was due to a \$3.7 million increase in equity losses at APH, partially offset

by a \$1.3 million increase in equity earnings at Evangeline. The increased loss at APH was primarily due to an unplanned outage at the facility during 2009, resulting in higher removal and retirement costs and higher turbine and general maintenance expenses. Also contributing to the increased losses were higher legal fees. These decreases were partially offset by higher net revenue from Acadia's short-term tolling agreement with Cleco Power. The increased earnings at Evangeline were primarily due to the absence of replacement power purchases resulting from Evangeline's 2008 unplanned outage. Also contributing to the increase were lower gas tax expenses and lower interest charges. For additional information on Evangeline and Acadia, see Item 1, "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 9 — Equity Investment in Investees."

#### Interest Charges

Interest charges increased \$1.0 million, or 19.3%, during the first nine months of 2009 compared to the first nine months of 2008 primarily due to additional estimated interest costs related to an IRS audit. Partially offsetting this increase was a lower interest rate and a lower balance on affiliate debt relating to APH's investment in Acadia.

#### Income Taxes

Federal and state income taxes decreased \$1.2 million, or 51.0%, during the first nine months of 2009 compared to the first nine months of 2008 primarily due to a decrease in pre-tax income.

### FINANCIAL CONDITION

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#### Liquidity and Capital Resources

##### General Considerations and Credit-Related Risks

##### Credit Ratings and Counterparties

At September 30, 2009, Standard & Poor's outlooks for both Cleco Corporation and Cleco Power were stable. In June 2009, Moody's affirmed Cleco Corporation's rating with a stable outlook and placed Cleco Power's ratings under review for possible downgrade. If Cleco Corporation's credit ratings were to be downgraded by Moody's and Standard & Poor's, Cleco Corporation would be required to pay additional fees and higher interest rates under its bank credit and other debt agreements. Cleco Power is currently rated one level higher by Moody's than by Standard & Poor's. Cleco Power pays fees and interest under its bank credit and other debt agreements based on the higher of the two credit ratings. If Cleco

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Power's credit ratings were to be downgraded by Moody's, Cleco Power would be required to pay additional fees and higher interest rates. Cleco Power's collateral for derivatives is based on the lower of the two credit ratings. If Cleco Power's credit ratings were to be downgraded by Standard & Poor's, Cleco Power would be required to pay additional collateral for derivatives.

During 2008, JPMorgan Chase & Co. acquired The Bear Stearns Companies Inc. In connection with the acquisition, JPMorgan Chase & Co. guaranteed certain obligations of The Bear Stearns Companies Inc. and its subsidiaries, including obligations under the Evangeline Tolling Agreement. In September 2008, Bear Energy was merged into JPMVEC. At September 30, 2009, Moody's outlook for Evangeline was stable. The tolling agreement is the principal source of cash flow for Evangeline. For more information regarding Evangeline's tolling agreement, see Item 1, "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 10 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Risk and Uncertainties — Cleco Corporation — Evangeline Tolling Agreement."

In August 2005, Cleco Power entered into an EPC contract with Shaw to construct Rodemacher Unit 3. In May 2006, Cleco Power and Shaw entered into an Amended EPC Contract. Under the terms of the Amended EPC Contract, in the event Cleco Power does not maintain a senior unsecured credit rating of either: (i) Baa3 or better from Moody's or (ii) BBB- or better from Standard & Poor's, Cleco Power will be required to provide a letter of credit to Shaw in the amount of \$20.0 million. In the event of further downgrade to both of its credit ratings to: (i) Ba2 or below from Moody's, and (ii) BB or below from Standard & Poor's, Cleco Power will be required to provide an additional \$15.0 million letter of credit to Shaw.

With respect to any open power or natural gas trading positions that Cleco may initiate in the future, Cleco may be required to provide credit support (or pay liquidated damages). The amount of credit support that Cleco may be required to provide at any point in the future is dependent on the amount of the initial transaction, changes in the market price of power and natural gas, the changes in open power and gas positions, and changes in the amount counterparties owe Cleco. Changes in any of these factors could cause the amount of requested credit support to increase or decrease. For additional information, as well as a discussion of other factors affecting Cleco's financial condition relating to its credit ratings, the credit ratings of its counterparties, and other credit-related risks, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Liquidity and Capital Resources — General Considerations and Credit-Related Risks — Credit Ratings and Counterparties" in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

#### Global Financial Crisis

The continued credit crisis and related turmoil in the global financial system may have an impact on Cleco's business and financial condition. Cleco may face significant challenges if conditions in the financial markets do not improve. Cleco's ability to access the capital markets may be severely restricted at a time when Cleco would like, or need, to do so, which could have a material impact on its ability to fund capital expenditures or debt service or on Cleco's flexibility to react to changing economic and business conditions. The credit crisis could have a material negative impact on Cleco's lenders or Cleco's customers causing them to fail to meet their obligations to Cleco or to delay payment of such obligations. Moreover, as a result of the global financial crisis, the pension plan portfolio could continue to experience significant losses in the future.

#### Fair Value Measurements

Various accounting pronouncements require certain assets and liabilities to be measured at their fair values. Some assets and liabilities are required to be measured at their fair value each reporting period, while others are required to be measured only one time, generally the date of acquisition or issuance. Cleco and Cleco Power are required to disclose the fair value of certain assets and liabilities by one of three levels when required for recognition purposes

under GAAP. Other financial assets and liabilities, such as long-term debt, are reported at their carrying values at their date of issuance on the condensed consolidated balance sheets with their fair values disclosed without regard to the three levels. For more information about fair value levels, see Item 1, “Notes to the Unaudited Condensed Consolidated Financial Statements — Note 4 — Fair Value Accounting.”

#### Debt

At September 30, 2009, Cleco Corporation and Cleco Power were in compliance with the covenants in their credit facilities. In August 2009, Cleco Corporation and Cleco Power entered into amendments to their respective credit facilities that increased thresholds in a representation relating to pension plan obligations above the amount of the current plan assets. Cleco Corporation and Cleco Power incurred \$0.1 million in expenses obtaining bank waivers related to the amendments. If Cleco Corporation were to default under the covenants in its various credit facilities, it would be unable to borrow additional funds under the facilities. Further, if Cleco Power were to default under its credit facility, Cleco Corporation would be considered in default under its credit facility. The bonds issued by Evangeline are non-recourse to Cleco Corporation, and a default on these bonds would not be considered a default under Cleco Corporation’s credit facility. If Cleco Corporation’s credit ratings were to be downgraded one level below investment grade, Cleco Corporation would be required to pay fees and interest at a rate of 0.45% higher than the current level for its \$150.0 million credit facility. A similar downgrade to credit ratings of Cleco Power would require Cleco Power to pay fees and interest at a rate of 0.70% higher than the current level on its \$275.0 million credit facility.

#### Cleco Consolidated

Cleco had no short-term debt outstanding at September 30, 2009, or December 31, 2008. At September 30, 2009, Cleco’s long-term debt outstanding was \$1.2 billion, of which \$11.5 million was due within one year, compared to \$1.2 billion outstanding at December 31, 2008, which included \$63.5 million due within one year. The long-term debt due within one year

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at September 30, 2009, represents principal payments for the Cleco Katrina/Rita storm recovery bonds scheduled to be paid in the next twelve months.

For Cleco, long-term debt increased \$79.4 million primarily due to an \$88.0 million increase in Cleco Corporation's credit facility draws, the execution of a \$50.0 million variable-rate monthly bank loan in August 2009, a \$35.0 million increase in Cleco Power's credit facility draws, and a \$19.5 million increase in long-term capital leases. These increases were partially offset by the \$50.0 million repayment of a medium-term note at maturity in May 2009, the \$49.5 million repayment of insured quarterly notes in August 2009, and \$13.5 million related to scheduled Cleco Katrina/Rita storm recovery bond principal payments. During January 2009, Cleco Power entered into a lease agreement for barges to be used for fuel transportation for Rodemacher Unit 3. For additional information, see Item 1, "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 10 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Other Contingencies — Fuel Transportation Agreement" and "— Cleco Corporation (Holding Company Level)" and "— Cleco Power" below.

During July 2009, Cleco Power elected to redeem all \$49.5 million principal amount of its outstanding 6.05% insured quarterly notes due June 2012. The notes were redeemed on August 19, 2009. Once redeemed, the notes were replaced with a one-month LIBOR plus 3.00% floating rate bank loan, maturing on August 19, 2012. In July 2009, Cleco Power locked in a \$50.0 million interest rate swap arrangement related to this loan. This swap was effective on August 19, 2009 and will mature on May 31, 2012. For additional information, see Item 1, "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 4 — Fair Value Accounting — Interest Rate Swap."

At September 30, 2009, and December 31, 2008, Cleco had a working capital surplus of \$135.2 million and \$105.5 million, respectively. Included in working capital at September 30, 2009, and December 31, 2008, was \$25.1 million and \$62.3 million, respectively, which was restricted for the use of debt payments and other restricted uses. The \$29.7 million increase in working capital is primarily due to the repayment of a medium-term note and the decreases in accounts payable. These increases were partially offset by the payment of dividends, the deferral of additional construction carrying costs to be refunded to customers over the next twelve months, and additions to property, plant and equipment, including Rodemacher Unit 3. An uncommitted bank line of credit up to \$10.0 million also is available to support Cleco's working capital needs.

Cash and cash equivalents available at September 30, 2009, were \$49.3 million combined with \$257.0 million facility capacity (\$17.0 million from Cleco Corporation and \$240.0 million from Cleco Power) for total liquidity of \$306.3 million. Cash and cash equivalents decreased \$48.2 million as compared to December 31, 2008. This decrease is primarily due to additions to property, plant and equipment, including Rodemacher Unit 3.

#### Cleco Corporation (Holding Company Level)

Cleco Corporation had no short-term debt outstanding at September 30, 2009 or December 31, 2008. At September 30, 2009, and December 31, 2008, Cleco Corporation had \$118.0 million and \$30.0 million, respectively, of long-term debt outstanding. The increase in long-term debt was due to the increase in draws on Cleco Corporation's credit facility. Cleco Corporation's \$150.0 million five-year credit facility matures on June 2, 2011. This facility provides for working capital and other needs. Cleco Corporation's borrowing costs under the facility are equal to LIBOR plus 0.65%, including facility fees.

At September 30, 2009, credit facility draws and off-balance sheet commitments reduced available borrowings by \$118.0 million and \$15.0 million, respectively, leaving available capacity of \$17.0 million. For more information about these commitments, see "— Off-Balance Sheet Commitments." An uncommitted bank line of credit up to \$10.0 million also is available to support Cleco Corporation's working capital needs.

Cash and cash equivalents available at September 30, 2009, were \$14.3 million, combined with \$17.0 million facility capacity for total liquidity of \$31.3 million. Cash and cash equivalents increased \$8.4 million, when compared to December 31, 2008, primarily due to draws under Cleco Corporation's credit facility, partially offset by the use of

those funds for general operating needs.

#### Cleco Power

There was no short-term debt outstanding at Cleco Power at September 30, 2009, or December 31, 2008. At September 30, 2009, Cleco Power's long-term debt outstanding was \$1.1 billion, of which \$11.5 million was long-term debt due within one year, compared to \$1.1 billion at December 31, 2008, of which \$63.5 million was due within one year.

For Cleco Power, long-term debt decreased \$8.6 million primarily due to the \$50.0 million repayment of a medium-term note at maturity in May 2009, the \$49.5 million repayment of insured quarterly notes in August 2009, and \$13.5 million related to scheduled Cleco Katrina/Rita storm recovery bond principal payments. These decreases were partially offset by the execution of a \$50.0 million variable-rate monthly bank loan in August 2009, an increase of \$35.0 million in Cleco Power's credit facility draws, and a \$19.5 million increase in long-term capital leases. During January 2009, Cleco Power entered in a lease agreement for barges to be used for fuel transportation for Rodemacher Unit 3. For additional information, see Note 10 — "Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Other Contingencies — Fuel Transportation Agreement."

During July 2009, Cleco Power elected to redeem all \$49.5 million principal amount of its outstanding 6.05% insured quarterly notes due June 2012. The notes were redeemed on August 19, 2009. Once redeemed, the notes were replaced with a one-month LIBOR plus 3.00% floating rate bank loan, maturing on August 19, 2012. In July 2009, Cleco Power locked in a \$50.0 million interest rate swap arrangement related to this loan. This swap was effective on August 19, 2009 and will

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mature on May 31, 2012. For additional information, see Item 1, "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 4 — Fair Value Accounting — Interest Rate Swap."

At September 30, 2009, and December 31, 2008, Cleco Power had a working capital surplus of \$40.4 million and \$88.0 million, respectively. Included in working capital at September 30, 2009, and December 31, 2008 was \$25.1 million and \$62.3 million, respectively, which was restricted for the use of debt payments. The \$47.6 million decrease in working capital is primarily due to increased federal income taxes payable, the deferral of additional construction carrying costs to be refunded to customers over the next twelve months, and additions to property plant and equipment, including Rodemacher Unit 3.

Cleco Power's \$275.0 million five-year credit facility matures on June 2, 2011. This facility provides for working capital and other needs. Cleco Power's borrowing costs under the facility are equal to LIBOR plus 0.400%, including facility fees. At September 30, 2009, \$35.0 million was outstanding under Cleco Power's \$275.0 million, five-year revolving facility. An uncommitted line of credit with a bank in an amount up to \$10.0 million also is available to support Cleco Power's working capital needs.

Cash and cash equivalents available at September 30, 2009, were \$35.0 million, combined with \$240.0 million facility capacity for total liquidity of \$275.0 million. Cash and cash equivalents decreased \$56.5 million as compared to December 31, 2008. This decrease is primarily due to additions to property, plant and equipment, including Rodemacher Unit 3.

In February 2006, the LPSC approved Cleco Power's plans to build Rodemacher Unit 3. Terms of the approval included acceptance of an LPSC Staff recommendation that Cleco Power collect from customers an amount equal to 75% of the carrying costs of capital during the construction phase of the unit. Cleco Power had collected \$134.4 million and \$85.5 million at September 30, 2009, and December 31, 2008, respectively. In addition to this recovery, Cleco Power is funding the construction costs related to Rodemacher Unit 3 by utilizing cash on hand, available funds from its credit facility, the issuance of long-term debt, and equity contributions from Cleco Corporation. On October 14, 2009, the LPSC approved Cleco Power's new retail rate plan, which established that a minimum of \$183.2 million be returned to customers over a five-year period. For more information regarding the refunding of Rodemacher Unit 3 construction carrying costs please read Item 1, "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 3 — Regulatory Assets and Liabilities — Deferred Construction Carrying Cost."

#### Midstream

Midstream had no debt outstanding at September 30, 2009, or December 31, 2008.

Evangeline, which is accounted for under the equity method, had no short-term debt outstanding at September 30, 2009, or December 31, 2008. Evangeline had \$161.8 million and \$168.9 million of long-term debt outstanding at September 30, 2009, and December 31, 2008, respectively, in the form of 8.82% Senior Secured Bonds due 2019. Of these amounts, \$8.2 million and \$7.1 million were due within one year at September 30, 2009, and December 31, 2008, respectively. The bonds issued by Evangeline are non-recourse to Cleco Corporation.

#### Restricted Cash

Various agreements to which Cleco is subject contain covenants that restrict its use of cash. As certain provisions under these agreements are met, cash is transferred out of related escrow accounts and becomes available for general corporate purposes. At September 30, 2009, and December 31, 2008, \$56.0 million and \$103.0 million of cash, respectively, were restricted. The \$47.0 million decrease is primarily due to the use of \$17.4 million of funds for GO Zone project costs, the release of \$14.7 million for the construction of Cleco Power's solid waste disposal facilities at Rodemacher Unit 3, a \$12.7 million net decrease in Cleco Katrina/Rita restricted cash due to the payment of operating expenses, interest, and principal on storm recovery bonds, offset by collections, and Cleco Power's use of \$2.2 million for approved storm damage costs. At September 30, 2009, the \$56.0 million of restricted cash consisted of \$0.1



million under the Diversified Lands mitigation escrow agreement, \$27.2 million reserved at Cleco Power for GO Zone project costs, \$25.2 million reserved at Cleco Power for future storm restoration costs, and \$3.5 million at Cleco Katrina/Rita restricted for payment of operating expense, interest and principal on storm recovery bonds.

Evangeline's restricted cash is not reflected in Cleco Corporation's Condensed Consolidated Balance Sheets due to the equity method of accounting. Evangeline's restricted cash at September 30, 2009, and December 31, 2008, was \$22.3 million and \$25.0 million, respectively. This cash is restricted under Evangeline's senior secured bond indenture.

#### Cleco Cash Flows

##### Net Cash Provided by Operating Activities

Net cash provided by operating activities was \$53.4 million during the first nine months of 2009 compared to \$77.1 million during the first nine months of 2008.

Cash provided by operating activities during the first nine months of 2009 decreased \$23.7 million from that reported during the first nine months of 2008, primarily due to higher purchases of fuel, materials, and supplies inventories, mostly related to preparation for Rodemacher Unit 3 to begin commercial operation; higher gas and power purchase payments being made in 2009 than in 2008; higher post retirement benefit contribution payments into the Cleco pension plan; a large retainage payment made to Shaw related to work completed on Rodemacher Unit 3; higher state income tax payments, and a 2008 property tax bill that was received and paid in January 2009. These were partially offset by higher deferred fuel costs, mostly due to fluctuations in fuel prices, higher add back of non-cash depreciation, primarily due to

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higher New Market Tax Credit amortization, and increased collections of customer accounts.

#### Net Cash Used in Investing Activities

Net cash used in investing activities was \$119.7 million during the first nine months of 2009 compared to \$276.1 million during the first nine months of 2008. Net cash used in 2009 was \$156.4 million lower than 2008 primarily due to lower additions to property, plant and equipment related to the Rodemacher Unit 3 project, and transfers from restricted accounts. This was partially offset by higher investments in equity investees.

During the first nine months of 2009, Cleco had additions to property, plant and equipment, net of AFUDC, of \$138.0 million, a \$15.7 million investment in New Market Tax Credits, and a \$13.9 million investment in Acadia. This was partially offset by \$46.9 million of cash transferred from restricted accounts, primarily related to solid waste disposal, GO Zone, and storm restoration bonds.

During the first nine months of 2008, Cleco had additions to property, plant and equipment, net of AFUDC, of \$217.8 million, an \$8.4 million investment in New Market Tax Credits, a \$6.4 million investment in Perryville, and \$44.6 million of cash became restricted, primarily related to storm restoration bonds.

#### Net Cash Provided by Financing Activities

Net cash provided by financing activities was \$18.0 million during the first nine months of 2009 compared to \$147.3 million during the first nine months of 2008. Net cash provided by financing activities in 2009 was \$129.3 million lower than 2008, primarily due to the lower issuances of long-term debt, partially offset by lower retirements of long-term debt.

During the first nine months of 2009, Cleco received net proceeds of \$173.0 million from the issuance of long-term debt. This was partially offset by \$115.8 million of cash used for repayment of long-term debt and capital leases, and \$40.7 million used to pay dividends.

During the first nine months of 2008, Cleco received net proceeds of \$537.5 million from the issuance of long-term debt, which was partially offset by \$190.0 million of cash used to repay borrowings under Cleco Power's credit facility, \$160.3 million of cash used for repayment of long-term debt and capital leases, and \$40.5 million used to pay dividends.

#### Cleco Power Cash Flows

#### Net Cash Provided by Operating Activities

Net cash provided by operating activities was \$95.0 million during the first nine months of 2009 compared to \$79.1 million during the first nine months of 2008.

Cash provided by operating activities during the first nine months of 2009 increased \$15.9 million from that reported during the first nine months of 2008 primarily due to higher deferred fuel costs, mostly due to fluctuations in fuel prices; higher collections of customer accounts; and the 2009 receipt of a federal income tax refund. These were partially offset by higher purchases of fuel, materials, and supplies inventories, mostly related to preparation for Rodemacher Unit 3 to begin commercial operation; higher gas and power purchase payments being made in 2009 than in 2008; higher post retirement benefit contribution payments into the Cleco pension plan; and a large retainage payment made to Shaw related to work completed on Rodemacher Unit 3.

#### Net Cash Used in Investing Activities

Net cash used in investing activities was \$90.2 million during the first nine months of 2009 compared to \$261.9 million during the first nine months of 2008. Net cash used during the first nine months of 2009 was \$171.7 million lower than the first nine months of 2008, primarily due to lower additions to property, plant and equipment related to

the Rodemacher Unit 3 project, and transfers from restricted accounts.

During the first nine months of 2009, Cleco Power had additions to property, plant and equipment, net of AFUDC, of \$137.7 million. This was partially offset by \$46.9 million of cash transferred from restricted accounts, primarily related to solid waste disposal, GO Zone, and storm restoration bonds.

During the first nine months of 2008, Cleco had additions to property, plant and equipment, net of AFUDC, of \$217.0 million and \$44.6 million of cash became restricted, primarily related to storm restoration bonds.

#### Net Cash Provided by Financing Activities

Net cash used in financing activities was \$61.4 million during the first nine months of 2009 compared to cash provided of \$238.9 million during the first nine months of 2008. Net cash provided by financing activities during the first nine months of 2009 was \$300.3 million lower than the first nine months of 2008, primarily due to distributions to Cleco Corporation and lower issuances of long-term debt, partially offset by lower retirements of long-term debt. During the first nine months of 2009, Cleco Power used \$115.8 million of cash for repayment of long-term debt and capital leases, and paid \$30.0 million in distributions to Cleco Corporation. This was partially offset by net proceeds of \$85.0 million from the issuance of long-term debt.

During the first nine months of 2008, Cleco Power received net proceeds of \$489.5 million from the issuance of long-term debt, which was partially offset by \$190.0 million of cash used to repay borrowings under Cleco Power's credit facility, and \$60.3 million of cash used for repayment of long-term debt and capital leases.

#### Shelf Registrations

Cleco Corporation has one shelf registration statement on file (Registration No. 333-162772) with the SEC. Registration Statement No. 333-162772 became effective on October 30, 2009, and allows for the issuance by Cleco Corporation of up to \$300.0 million of debt securities. Cleco Power also has one shelf registration statement on file (Registration No. 333-162773) with the SEC. Registration Statement No. 333-162773 became effective on October 30, 2009, and allows for the issuance by Cleco Power of up to \$500.0 million of debt securities.

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#### Contractual Obligations and Other Commitments

Cleco, in the normal course of business activities, enters into a variety of contractual obligations. Some of these result in direct obligations that are reflected in the Consolidated Balance Sheets while other commitments, some firm and some based on uncertainties, are not reflected in the consolidated financial statements.

For additional information regarding Cleco's Contractual Obligations and Other Commitments, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Liquidity and Capital Resources — Cash Generation and Cash Requirements — Contractual Obligations and Other Commitments" in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

#### Off-Balance Sheet Commitments

Cleco Corporation and Cleco Power have entered into various off-balance sheet commitments, in the form of guarantees and standby letters of credit, in order to facilitate their activities and the activities of Cleco Corporation's subsidiaries and equity investees (affiliates). Cleco Corporation and Cleco Power have also agreed to contractual terms that require them to pay third parties if certain triggering events occur. These contractual terms generally are defined as guarantees in the authoritative guidance.

Cleco Corporation entered into these off-balance sheet commitments in order to entice desired counterparties to contract with its affiliates by providing some measure of credit assurance to the counterparty in the event Cleco's affiliates do not fulfill certain contractual obligations. If Cleco Corporation had not provided the off-balance sheet commitments, the desired counterparties may not have contracted with Cleco's affiliates, or may have contracted with them at terms less favorable to its affiliates.

The off-balance sheet commitments are not recognized on Cleco's Condensed Consolidated Balance Sheets, because it has been determined that Cleco's affiliates are able to perform the obligations under their contracts and that it is not probable that payments by Cleco will be required. Some of these commitments reduce borrowings available to Cleco Corporation under its credit facility pursuant to the terms of the credit facility. Cleco's off-balance sheet commitments as of September 30, 2009, are summarized in the following table, and a discussion of the off-balance sheet commitments follows the table. The discussion should be read in conjunction with the table to understand the impact of the off-balance sheet commitments on Cleco's financial condition.

|   | FACE       | REDUCTIONS | NET       | AT<br>SEPTEMBER<br>30, 2009<br>REDUCTIONS<br>TO THE<br>AMOUNT<br>AVAILABLE<br>TO BE DRAWN<br>ON<br>CLECO<br>CORPORATION'S<br>CREDIT<br>FACILITY |
|---|------------|------------|-----------|---|
| (THOUSANDS)   | AMOUNT     |            | AMOUNT    |   |
| Cleco Corporation   |            |            |           |   |
| Guarantee issued to Entergy companies for performance obligations of Perryville | \$ 177,400 | \$ 135,000 | \$ 42,400 | \$ 328  |

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|  |           |            |          |           |
|--|-----------|------------|----------|-----------|
| Guarantees issued to purchasers of the assets of Cleco Energy                                      | 1,000     | -          | 1,000    | 1,000     |
| Obligations under standby letter of credit issued to the Evangeline Tolling Agreement counterparty | 15,000    | -          | 15,000   | 15,000    |
| Guarantee issued to Entergy Mississippi on behalf of Attala  | 500       | -          | 500      | 500       |
| Guarantee issued to Tenaska Gas Storage, LLC on behalf of Acadia                                   | 10,000    | -          | 10,000   | 10,000    |
| Cleco Power  |           |            |          |           |
| Obligations under standby letter of credit issued to the Louisiana Department of Labor             | 3,525     | -          | 3,525    | -         |
| Obligations under the Lignite Mining Agreement   | 3,488     | -          | 3,488    | -         |
| Total  | \$210,913 | \$ 135,000 | \$75,913 | \$ 26,828 |

Cleco Corporation provided a limited guarantee and an indemnification to Entergy Louisiana and Entergy Gulf States for Perryville's performance, indemnity, representation, and warranty obligations under the Sale Agreement, the Power Purchase Agreement, and other ancillary agreements related to the sale of the Perryville facility. As of September 30, 2009, the aggregate guarantee of \$177.4 million is limited to \$42.4 million due to the performance of some of the underlying obligations that were guaranteed. Management believes it is unlikely that Cleco Corporation will have any other liabilities which would give rise to indemnity claims. The discounted probability-weighted liability under the guarantees and indemnifications as of September 30, 2009, was \$0.3 million, resulting in a corresponding reduction in the available credit under Cleco's credit facility, which was determined in accordance with the facility's definition of a contingent obligation. The contingent obligation reduces the amount available under the credit facility by an amount equal to the maximum reasonably anticipated liability in respect of the contingent obligation as determined in good faith.

In November 2004, Cleco completed the sale of substantially all of the assets of Cleco Energy. Cleco Corporation provided guarantees to the buyers of Cleco Energy's assets for the payment and performance of the indemnity obligations of Cleco Energy. The aggregate amount of the guarantees was \$1.4 million, of which \$0.4 million expired on September 27, 2009, and \$1.0 million expired on October 20, 2009. These guarantees do not fall within the scope of the authoritative guidance for guarantees. Cleco Energy issued guarantees and indemnifications that fall within the recognition scope of the authoritative guidance for guarantees, because they relate to the past performance obligations of the disposed assets and also contain provisions requiring payment for potential damages. The maximum aggregate potential payment under the guarantees and indemnifications as of September 30, 2009, was \$1.0 million. The discounted probability-weighted liability as of September 30, 2009, was \$0.1 million.

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If Evangeline fails to perform certain obligations under its tolling agreement, Cleco Corporation will be required to make payments to the Evangeline Tolling Agreement counterparty. Cleco Corporation's obligation under the Evangeline commitment is in the form of a standby letter of credit from investment grade banks and is limited to \$15.0 million. Rating triggers do not exist in the Evangeline Tolling Agreement. Cleco expects Evangeline to be able to meet its obligations under the tolling agreement and does not expect Cleco Corporation to be required to make payments to the counterparty. However, under the covenants associated with Cleco Corporation's credit facility, the entire net amount of the Evangeline commitment reduces the amount that can be borrowed under the credit facility. The letter of credit for Evangeline is expected to be renewed annually until 2020.

In January 2006, Cleco Corporation provided a \$0.5 million guarantee to Entergy Mississippi for Attala's obligations under the Interconnection Agreement. This guarantee will be effective through the life of the agreement.

In February 2009, Cleco Corporation provided a \$10.0 million guarantee to Tenaska Gas Storage, LLC for Acadia's obligation under the Energy Management Services Agreement. This guarantee expired on October 31, 2009.

The State of Louisiana allows employers of certain financial net worth to self-insure their workers' compensation benefits. Cleco Power has a certificate of self-insurance from the Louisiana Office of Workers' Compensation and is required to post a \$3.5 million letter of credit, an amount equal to 110% of the average losses over the previous three years, as surety.

As part of the Lignite Mining Agreement entered into in 2001, Cleco Power and SWEPCO, joint owners of Dolet Hills, have agreed to pay the lignite miner's loan and lease principal obligations when due, if the lignite miner does not have sufficient funds or credit to pay. Any amounts paid on behalf of the miner would be credited by the lignite miner against the next invoice for lignite delivered. At September 30, 2009, Cleco Power's 50% exposure for this obligation was approximately \$3.5 million. The lignite mining contract is in place until 2011 and does not affect the amount Cleco Corporation can borrow under its credit facility.

The following table summarizes the expected termination dates of the guarantees and standby letters of credit discussed above:

|                              | AT SEPTEMBER 30,<br>2009   |   |              |              |          |
|------------------------------|----------------------------|---|--------------|--------------|----------|
|                              | NET<br>AMOUNT<br>COMMITTED | AMOUNT OF COMMITMENT EXPIRATION PER<br>PERIOD |              |              |          |
|                              |                            | LESS<br>THAN<br>ONE<br>YEAR                   | MORE<br>THAN |              | 5 YEARS  |
|                              |                            |   | 1-3<br>YEARS | 3-5<br>YEARS |          |
| (THOUSANDS)                  |                            |   |              |              |          |
| Guarantees                   | \$ 57,388                  | \$11,000                                      | \$3,488      | \$-          | \$42,900 |
| Standby letters of credit    | 18,525                     | 3,525   | -            | -            | 15,000   |
| Total commercial commitments | \$ 75,913                  | \$14,525                                      | \$3,488      | \$-          | \$57,900 |

In its bylaws, Cleco Corporation has agreed to indemnify directors, officers, agents and employees who are made a party to a pending or completed suit, arbitration, investigation, or other proceeding whether civil, criminal, investigative or administrative, if the basis of inclusion of such individual arises as the result of acts conducted in the discharge of their official capacity. Cleco Corporation has purchased various insurance policies to reduce the risks associated with the indemnification. In its Operating Agreement, Cleco Power provides for the same indemnification as described above for its managers, officers, agents, and employees.

Generally, neither Cleco Corporation nor Cleco Power has recourse that would enable them to recover amounts paid under their guarantee or indemnification obligations. The one exception is the insurance contracts associated with the indemnification of directors, managers, officers, agents, and employees. There are no assets held as collateral for third parties that either Cleco Corporation or Cleco Power could obtain and liquidate to recover amounts paid pursuant to the guarantees.

## Regulatory Matters

### Wholesale Rates of Cleco

For information on the wholesale rates of Cleco, please read “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Liquidity and Capital Resources — Regulatory Matters — Wholesale Rates of Cleco” in the Registrants’ Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

### Retail Rates of Cleco Power

In January 2008, Cleco Power filed its monitoring report for the 12-month period ended September 30, 2007. On June 1, 2009, Cleco Power filed its monitoring report for the year ended September 30, 2008. Cleco Power does not anticipate that the LPSC will proceed with its review of these reports until the fourth quarter of 2009.

On July 14, 2008, Cleco Power filed a request for a new rate plan with the LPSC to increase its base rates for electricity. Cleco Power sought recovery of revenues sufficient to cover the addition of Rodemacher Unit 3 to its existing expense and rate base levels. Cleco Power and the LPSC Staff filed testimony in support of an uncontested stipulated settlement on September 21, 2009.

The retail rate plan is expected to increase retail base revenues, in the first twelve months of Rodemacher Unit 3 commercial operations, by approximately \$173.0 million with an anticipated net billing decrease for retail customers of approximately \$40.0 million, or 5.0% (assuming a gas price of \$5/MMBtu), including a reduction of approximately \$97.0 million resulting from the cessation of collection of and the refund of Rodemacher Unit 3 construction financing based on a five-

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year crediting period. The retail rate plan provides for the placement of Rodemacher Unit 3 in rate base and recovery of the operating costs of Rodemacher Unit 3 in rate base and recovery of other costs including costs associated with damage caused by Hurricanes Gustav and Ike.

The retail rate plan includes a Formula Rate Plan (FRP) that has a target return on equity of 10.7%, including returning to retail customers 60.0% of earnings over 11.3% and all earnings over 12.3%. The capital structure assumes an equity ratio of 51.0%. The FRP also has a mechanism allowing for recovery of future revenue requirements for the Acadiana Load Pocket transmission project and, if approved by a separate proceeding, the acquisition of the Acadia power plant as a result of the Cleco Power 2007 Long-Term RFP. The retail rate plan allows Cleco Power to propose additional projects to the LPSC during the FRP's initial four-year term.

On October 14, 2009, the LPSC voted unanimously to approve the retail rate plan for Cleco Power. The retail rate plan will be effective upon commercial operation of Rodemacher Unit 3. Shaw has informed Cleco that it anticipates the plant will be substantially complete and operational in late December 2009.

For additional information on other regulatory aspects of retail rates concerning Cleco Power, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Liquidity and Capital Resources — Regulatory Matters — Retail Rates of Cleco Power" in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

#### Wholesale Electric Markets

For information on regulatory aspects of wholesale electric markets affecting Cleco, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Liquidity and Capital Resources — Regulatory Matters — Market Restructuring — Wholesale Electric Markets" in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

#### Retail Electric Markets

For a discussion of the regulatory aspects of retail electric markets affecting Cleco Power, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Liquidity and Capital Resources — Regulatory Matters — Retail Electric Markets" in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

#### Generation RFP

##### 2008 Short-Term RFP for 2009 Resources

In March 2008, Cleco Power issued a RFP for a minimum of 50 MW up to 450 MW to meet its 2009 capacity and energy requirements. Cleco Power selected and negotiated a 235-MW peaking product with Acadia. The product was for supply that started March 1, 2009, and ended October 1, 2009.

On January 6, 2009, Cleco Power issued a RFP for a minimum capacity amount of 50 MW up to 200 MW in order to serve additional load. Cleco Power has selected and negotiated a 200-MW intermediate product with NRG Power Marketing, Inc. The product was for supply that started April 1, 2009, and ended November 1, 2009.

##### 2007 Long-Term RFP

In June 2007, Cleco Power filed a proposed RFP with the LPSC for up to approximately 600 MW of intermediate and/or peaking resources to meet projected load growth over a 10-year period beginning in 2010. To meet these needs, Cleco Power asked for products with a term of 2 to 30 years. Out of the approximately 600-MW total, up to approximately 350 MW may be sourced from a peaking resource. After the LPSC review, the RFP was issued in October 2007, and bids were received in December 2007. On February 26, 2009, Cleco Power announced that it had



chosen the acquisition of 50% of the Acadia power station, or one of its two 580-MW units, as the lowest bid in its 2007 long-term RFP. Cleco Power will own and operate one unit and operate the other 580-MW unit on behalf of Acadia or a future owner. Cleco Power and the parties have executed the definitive agreements. However, prior to closing the transaction, valued at approximately \$300 million, Cleco Power must receive approvals from the LPSC and FERC. In a process that remains under the supervision of an independent monitor appointed by the LPSC, Cleco Power and Acadia plan to complete the transaction in the first quarter of 2010. Beginning in January 2010, the agreements provide that Acadia will operate the plant and serve Cleco Power under a tolling agreement covering 50% of the Acadia power station until the transaction is closed, after which Cleco Power will own and operate one unit and operate the other 580-MW unit on behalf of Acadia or a future owner. This tolling agreement was approved by the LPSC in October 2009. The tolling agreement must also be approved by FERC.

#### Rodemacher Unit 3

In May 2006, Cleco Power began construction of Rodemacher Unit 3 which will provide a portion of the utility's power supply needs. Rodemacher Unit 3 will be capable of burning various solid fuels but primarily is expected to burn petroleum coke produced by several refineries throughout the Gulf Coast region. Cleco Power has entered into contracts with suppliers to collectively supply over 1.4 million tons of petroleum coke annually for a three-to-five year period beginning in 2009, representing over 90% of Rodemacher Unit 3 fuel requirements for such period. All environmental permits for the unit have been received. Shaw anticipates the plant will be substantially complete and operational in late December 2009.

In May 2006, Cleco Power and Shaw entered into an Amended EPC Contract, which provided for substantial completion of the construction of Rodemacher Unit 3 by September 30, 2009. On July 2, 2008, Cleco Power and Shaw amended this contract further to provide for substantial completion as early as June 30, 2009. On October 19, 2009, Cleco and Shaw again amended the EPC Contract to extend

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the substantial completion date to September 28, 2009, as a result of a broader settlement of fuel and force majeure related Shaw claims. Under the amended contract, the lump-sum price is \$795.5 million. Under the terms of this amendment, Shaw withdrew its request for recovery of any and all claims relating to fuel quality and agreed to limit the claims for force majeure related costs, not to exceed \$24.0 million less a settlement credit of \$6.0 million. The force majeure related claims remain in dispute resolution. The total capital cost estimate for the project, including AFUDC, Amended EPC Contract costs, and other development expenses, is approximately \$1.0 billion. As of September 30, 2009, Cleco Power had incurred approximately \$970.9 million in project costs, including AFUDC. Under the Amended EPC Contract, Shaw is subject to payment of liquidated damages if certain operating performance criteria and schedule dates are not met. The Amended EPC Contract allows for termination if certain milestones, approvals, or other terms and conditions are not met, or at Cleco Power's sole discretion, which would require payment of termination fees. As of September 30, 2009, the maximum termination costs would have been \$795.1 million or an additional \$7.0 million more than the capital expended to date. In support of its performance obligations, Shaw has provided a \$58.9 million letter of credit to Cleco Power. In addition to the letter of credit, Shaw also posted a \$200.0 million payment and performance bond in favor of Cleco Power in support of its performance obligations under the Amended EPC Contract. The Amended EPC Contract also provides for Shaw to: (a) allow retention or (b) issue an additional letter of credit, in an amount equal to 7.5% of the payments made by Cleco Power under the contract. Effective September 30, 2009, Shaw's amended letter of credit for retainage was \$58.1 million. The retention and letters of credit are provided in support of Shaw's potential payment of liquidated damages, or other payment performance obligations. Both letters of credit have been extended to September 2010. The Amended EPC Contract also provides in the event Cleco Power does not maintain a senior unsecured credit rating of either: (i) Baa3 or better from Moody's or (ii) BBB- or better from Standard & Poor's, that Cleco Power will be required to provide a letter of credit to Shaw in the amount of \$20.0 million. In the event of further downgrade to both of its credit ratings to: (i) Ba2 or below from Moody's, and (ii) BB or below from Standard & Poor's, Cleco Power will be required to provide an additional \$15.0 million letter of credit to Shaw.

#### Lignite Deferral

Cleco Power operates a generating unit jointly owned with SWEPCO that uses lignite as its fuel source. In May 2001, Cleco Power (along with SWEPCO) entered into the Lignite Mining Agreement with DHLIC, the operator of the Dolet Hills mine. As ordered then by the LPSC, Cleco Power's retail customers began receiving fuel cost savings equal to 2% of the projected costs under the previous mining contract (the benchmark price) through the year 2011. Actual mining costs incurred above 98% of the benchmark price were deferred, and can be recovered from retail customers through the fuel adjustment clause only when the actual mining costs are below 98% of the benchmark price. The benchmark price used the GDP-IPD index as a proxy for the numerous escalators in the previous mining contract. During the course of the contract, Cleco Power and SWEPCO determined that the GDP-IPD index did not appropriately reflect the increase in mining costs caused by sharp increases in diesel fuel and electricity costs associated with the mining operation. Because of this disconnect between the GDP-IPD index and actual mining costs, a significant amount of mining costs was being deferred by Cleco Power. At September 30, 2009, and December 31, 2008, Cleco Power had \$24.9 million and \$26.8 million, respectively, in deferred costs remaining uncollected.

In 2006, Cleco Power recognized that there was a possibility it may not recover all or part of the lignite mining costs it had deferred. On November 15, 2006, Cleco Power and SWEPCO submitted a joint application to the LPSC requesting approval for Cleco Power to recover its existing deferral balance, and eliminate any future benchmarking of lignite mining costs. In December 2007, the LPSC approved a settlement agreement between Cleco Power, SWEPCO and the LPSC Staff authorizing Cleco Power to recover the existing deferred mining cost balance, including interest, over approximately 11.5 years. The settlement also established a new benchmark utilizing the contract's

escalators to assure a minimum 2% savings to customers compared to the costs under the prior mining contract. Under the settlement, the benchmarking was scheduled to end after April 2011. Cleco Power and SWEPCO also agreed to commit to continued operation of the mining operation through 2016 as long as the operation of the mine was considered prudent. Cleco Power did not record any additional deferred fuel costs under the new benchmarking method.

On September 30, 2009, the LPSC agreed to discontinue benchmarking and the corresponding potential to defer future lignite mining costs while preserving the recovery of the legacy deferred fuel balance previously authorized.

#### Oxbow Lignite Mine Acquisition

In April 2009, Cleco Power entered into an agreement with SWEPCO to purchase the Oxbow Lignite Company from NAC. In September 2009, the LPSC approved the joint application authorizing the acquisition of the Oxbow Lignite Company. The purchase price of approximately \$42.0 million includes the lignite reserves, mining equipment, and related assets and permits. Cleco Power's 50% portion of the purchase price for the lignite reserves is approximately \$12.9 million. The lignite reserves of approximately 120 million tons acquired under this agreement are expected to fuel the Dolet Hills Power Station through 2026. SWEPCO's subsidiary, Dolet Hills Lignite Company, LLC, will acquire the mining equipment and related assets and permits for approximately \$15.8 million and will operate the new mine along with its current operations at the Dolet Hills Lignite Mine on similar terms. The existing Red River Lignite Supply and Transportation Agreement with NAC will terminate upon the closing of this transaction. Pending approval by the Arkansas Public Service Commission, a

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condition precedent for SWEPCO to close, the closing of this transaction is expected to occur in December 2009.

#### Acadiana Load Pocket

In September 2008, Cleco Power entered into an agreement with Lafayette Utilities System, a municipal utility, and Entergy Gulf States Louisiana, a subsidiary of Entergy Corporation, to upgrade interconnected transmission systems in south Louisiana. The project received the LPSC's approval in February 2009 and confirmation that it is in the public's interest. Also in February 2009, approval was received from Southwest Power Pool, Cleco Power's reliability coordinator, to begin construction. The joint project includes expanding and upgrading the electric transmission infrastructure in south central Louisiana in an area known as the "Acadiana Load Pocket."

The project includes upgrades to certain existing electric facilities as well as the construction of new substations, transmission lines, and capacitor banks. The total estimated cost is approximately \$250.0 million. Each utility is responsible for various components of the project. Cleco Power's portion of the cost is approximately \$150.0 million, including AFUDC. The first phase of construction began in September 2009, with the final phase scheduled to be completed in 2012. At September 30, 2009, Cleco Power had spent \$5.4 million on the Acadiana Load Pocket project. Upgrading the interconnected transmission system is expected to increase capacity, reduce transmission constraints, and improve electric service for customers served by all three utilities.

#### Franchises

On January 13, 2009, the Coushatta City Council voted to accept the early renewal of its franchise agreement with Cleco Power. The Coushatta agreement was set to expire in November 2010. The renewal extends the agreement for 30 years until January 2039. Approximately 1,400 Cleco Power customers are located in Coushatta.

On May 14, 2009, the Bunkie City Council voted to accept the early renewal of its franchise agreement with Cleco Power. The Bunkie agreement was set to expire in September 2012. The renewal extends the agreement for 27 years until May 2036. Approximately 2,200 Cleco Power customers are located in Bunkie.

On May 19, 2009, the mayor of Abita Springs signed into ordinance a new franchise agreement with Cleco Power. This franchise agreement replaced the previous Abita Springs agreement which was set to expire in July 2012. The new agreement term is for 25 years and is set to expire May 2034. Approximately 710 Cleco Power customers are located in Abita Springs.

On July 22, 2009, the Simmesport City Council voted to accept the early renewal of its franchise agreement with Cleco Power. The Simmesport agreement was set to expire in January 2012. The renewal extends the agreement for 28 years until July 2037. Approximately 1,200 Cleco Power customers are located in Simmesport.

In July 2009, the City of Opelousas notified Cleco Power that it will begin formally requesting proposals from other power companies to supply its electricity needs. The current agreement is set to expire in August 2011. The City of Opelousas has until December 31, 2009, to notify Cleco of its intent to terminate the agreement at the end of its current term. If notification is not received, the franchise agreement will automatically renew for an additional ten years. For the twelve-month period ended September 30, 2009, Cleco Power's base revenue was \$8.2 million from the City of Opelousas. Approximately 10,000 customers are located in the City of Opelousas. While the City of Opelousas owns the power system, Cleco Power has performed upgrades and expansions since the inception of the agreement. If the franchise agreement is not renewed by the City of Opelousas, the City of Opelousas will be liable to Cleco Power for the cost of the upgrades and expansions.

On September 14, 2009, the Mansfield City Council voted to accept the early renewal of its franchise agreement with Cleco Power. The Mansfield agreement was set to expire in June 2012. The renewal extends the agreement for 30 years until September 2039. Approximately 2,700 Cleco Power customers are located in Mansfield.

For additional information on Cleco Power's electric service franchises, please read "Business — Regulatory Matters, Industry Developments, and Franchises — Franchises" in the Registrants' Combined Annual Report on Form 10-K for the

fiscal year ended December 31, 2008.

#### Environmental Matters

Cleco is subject to extensive environmental regulation by federal, state and local authorities and is required to comply with numerous environmental laws and regulations, and to obtain and to comply with numerous governmental permits, in operating its facilities. In addition, existing environmental laws, regulations and permits could be revised or reinterpreted; new laws and regulations could be adopted or become applicable to Cleco or its facilities; and future changes in environmental laws and regulations could occur, including potential regulatory and enforcement developments related to air emissions. Cleco may incur significant additional costs to comply with these revisions, reinterpretations, and requirements. If Cleco fails to comply with these revisions, reinterpretations, and requirements, it could be subject to civil or criminal liabilities and fines.

On March 19, 2008, Cleco Power received a consolidated compliance order and notice of potential penalty (CO/NOPP) from the Louisiana Department of Environmental Quality (LDEQ) for alleged violations of the air quality rules at its Dolet Hills and Rodemacher Power Stations. On May 15, 2008, Cleco Power and the LDEQ entered into a dispute resolution agreement to give the parties additional time to discuss resolution of this CO/NOPP. The dispute resolution agreement has been extended on several occasions. Cleco and the LDEQ have reached a tentative agreement to settle the pending enforcement action for approximately \$22,850. The matter is currently pending before the Administrative Law Judge until the settlement agreement is finally executed. The proposed settlement was publicly noticed in accordance with LDEQ

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procedures in September and October 2009. Cleco expects the proposed agreement to be executed during the fourth quarter of 2009 or the first quarter of 2010, at which time the matter will be closed.

On September 3, 2009, Dolet Hills Power Station received a notice from EPA Region 6, alleging that the facility may be in violation of the Accident Prevention requirements of Section 112 (r)(7) of the CAA and the Chemical Accident Prevention provisions in 40 CFR Part 68. EPA claims that the facility may have been required to have a risk management plan (RMP) for the chemical, anhydrous ammonia, which is used and stored on site. EPA alleges that Dolet Hills exceeded the threshold quantity of 10,000 pounds of anhydrous ammonia in a single process which triggers the requirement to have such a plan in place. EPA made this claim after a review of their Central Data Exchange which includes information submitted to EPA in the Toxic Release Inventory. In the notice, EPA has offered to settle the matter which would include the payment of a non-negotiable penalty of \$145,802 and the correction of the alleged deficiencies. Cleco Power contends that Dolet Hills employed administrative controls to limit the quantity of ammonia stored to less than 10,000 pounds which was sufficient to exempt the facility from the RMP program requirements. Cleco Power has provided documentation supporting its position and awaits a response from EPA Region 6.

The LDEQ issued a Louisiana Pollutant Discharge Elimination System (LPDES) waste water permit renewal for Evangeline Power Station on June 22, 2006. This waste water permit contained certain additional Copper and Total Dissolved Solids (TDS) permit limitations that Cleco contended were beyond the legal authority of LDEQ to include in the waste water permit. Cleco challenged these permit provisions by filing a de novo review judicial appeal on September 26, 2006, in district court in East Baton Rouge Parish, Louisiana. The appealed Copper and TDS permit limitations were stayed during litigation. The uncontested portions of the Evangeline waste water permit were effective January 1, 2007. During the litigation, Cleco and LDEQ were actively engaged in settlement discussions regarding the appealed provisions of the waste water permit. In December 2008, Cleco filed an application with the LDEQ modifying its LPDES permit to incorporate new Copper and TDS discharge limitations that were agreed to by both parties. On August 27, 2009, LDEQ issued a modified water permit with the agreed upon Copper and TDS limits which the facility does expect can be met. The effective date of the modified permit is October 1, 2009. The modified permit resolves the issues on appeal, and the matter is now closed.

On May 1, 2009, the Acadia power station became subject to certain daily maximum and monthly average discharge limitations for total sulfate under the terms of LPDES Water Discharge Permit No. LA0112836, issued by the LDEQ in April 2006. The facility was unable to achieve compliance with these discharge limitations, and received a compliance order from LDEQ on July 31, 2009 to address the total sulfate violations. Acadia believes that the total sulfate limits in the LPDES permit were calculated in error and are erroneously low. Acadia has since submitted a permit modification application to LDEQ which, once acted on and issued, should result in increased total sulfate limitations to levels that can be met by the facility. Acadia has also submitted to the agency a detailed plan of action that has been or will be taken to comply with the proposed new limits. Further, in issuing the subject compliance order, LDEQ also conducted a file review of the Acadia power station's LPDES records dating back to May 2006. During the file review, LDEQ noted violations of various daily maximum temperatures and whole effluent toxicity limits. LDEQ also found that Acadia had previously corrected and resubmitted discharge monitoring reports for four months in 2007, which LDEQ contends are not timely submittals. LDEQ included these violations as well as the total sulfate violations in the compliance order. Pending issuance of an amended permit, Acadia will continue to operate under the terms of the compliance order until the modified LPDES permit is received and becomes effective. For each of the violations described above, LDEQ has the right to seek civil penalties. At this time, Acadia is unable to determine whether LDEQ will pursue any civil penalties as part of this enforcement action or what the penalty amounts will be.

For a discussion of other Cleco environmental matters, please read "Business — Environmental Matters" in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

#### Recent Accounting Standards

For a discussion of recent accounting standards, see Item 1, “Notes to the Unaudited Condensed Consolidated Financial Statements — Note 2 — Recent Accounting Standards” of this form 10-Q, which discussion is incorporated herein by reference.

#### CRITICAL ACCOUNTING POLICIES

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Cleco’s critical accounting policies include those accounting policies that are both important to Cleco’s financial condition and results of operations and those that require management to make difficult, subjective, or complex judgments about future events, which could result in a material impact to the financial statements of Cleco Corporation’s segments or to Cleco as a consolidated entity. The financial statements contained in this report are prepared in accordance with accounting principles generally accepted in the United States of America, which require Cleco to make estimates and assumptions. Estimates and assumptions about future events and their effects cannot be made with certainty. Management bases its current estimates and assumptions on historical experience and on various other factors that are believed to be reasonable under the circumstances. On an ongoing basis, these estimates and assumptions are evaluated and, if necessary, adjustments are made when warranted by new or updated information or by a change in circumstances or environment. Actual results may differ significantly from these estimates under different assumptions or conditions. For a discussion of Cleco’s critical accounting policies, see “Management’s Discussion and Analysis of Financial Condition and

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Results of Operations — Critical Accounting Policies” in the Registrant’s Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

#### CLECO POWER — NARRATIVE ANALYSIS OF RESULTS OF OPERATIONS

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Set forth below is information concerning the results of operations of Cleco Power for the three and nine months ended September 30, 2009, and September 30, 2008. The following narrative analysis should be read in combination with Cleco Power’s Unaudited Condensed Consolidated Financial Statements and the Notes contained in this Form 10-Q.

Cleco Power meets the conditions specified in General Instructions H(1)(a) and (b) to Form 10-Q and is therefore permitted to use the reduced disclosure format for wholly owned subsidiaries of reporting companies. Accordingly, Cleco Power has omitted from this report the information called for by Item 2 (Management’s Discussion and Analysis of Financial Condition and Results of Operations) and Item 3 (Quantitative and Qualitative Disclosures about Market Risk) of Part I of Form 10-Q and the following Part II items of Form 10-Q: Item 2 (Unregistered Sales of Equity Securities and Use of Proceeds) and Item 3 (Defaults upon Senior Securities). Pursuant to the General Instructions, Cleco Power has included an explanation of the reasons for material changes in the amount of revenue and expense items of Cleco Power between the first nine months of 2009 and the first nine months of 2008. Reference is made to Management’s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of the Registrants’ Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

For an explanation of material changes in the amount of revenue and expense items of Cleco Power between the third quarter of 2009 and the third quarter of 2008, see “— Results of Operations — Comparison of the Three Months Ended September 30, 2009, and 2008 — Cleco Power” of this Form 10-Q, which discussion is incorporated herein by reference. For an explanation of material changes in the amount of revenue and expense items of Cleco Power between the first nine months of 2009 and the first nine months of 2008, see “— Results of Operations — Comparison of the Nine Months Ended September 30, 2009, and 2008 — Cleco Power” of this Form 10-Q, which discussion is incorporated herein by reference.

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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##### Risk Overview

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Market risk inherent in Cleco’s market risk-sensitive instruments and positions includes potential changes arising from changes in interest rates and the commodity market prices of power and natural gas in the industry on different energy exchanges. Cleco is subject to market risk associated with economic hedges relating to open natural gas contracts. Cleco also is subject to market risk associated with its remaining tolling agreement counterparty. For additional information concerning Cleco’s market risk associated with its remaining counterparty, see Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Liquidity and Capital Resources — General Considerations and Credit-Related Risks.”

Cleco uses the authoritative guidance on derivatives and hedging to determine whether the market risk-sensitive instruments and positions are required to be marked-to-market. Generally, Cleco Power’s market risk-sensitive instruments and positions qualify for the normal-purchase, normal-sale exception to mark-to-market accounting since Cleco Power takes physical delivery and the instruments and positions are used to satisfy customer requirements.



Cleco's exposure to market risk, as discussed below, represents an estimate of possible changes in the fair value or future earnings that would occur, assuming possible future movements in the interest rates and commodity prices of power and natural gas. Management's views on market risk are not necessarily indicative of actual results, nor do they represent the maximum possible gains or losses. The views do represent, within the parameters disclosed, what management estimates may happen.

Cleco monitors credit risk exposure through reviews of counterparty credit quality, aggregate counterparty credit exposure, and aggregate counterparty concentration levels. Cleco manages these risks by establishing appropriate credit and concentration limits on transactions with counterparties and requiring contractual guarantees, cash deposits, or letters of credit from counterparties or their affiliates, as deemed necessary. Cleco Power has agreements in place with various counterparties that authorize the netting of financial transactions and contract payments to mitigate credit risk for transactions entered into for risk management purposes.

Access to capital markets is a significant source of funding for both short- and long-term capital requirements not satisfied by operating cash flows. Recent market conditions have limited the availability and have increased the costs of capital for many companies. The inability to raise capital on favorable terms could negatively affect Cleco's ability to maintain and expand its businesses. After assessing the current operating performance, liquidity, and credit ratings, management believes that it will have access to the capital markets at prevailing market rates for companies with comparable credit ratings. If Cleco Corporation's credit ratings were to be downgraded by Moody's and Standard & Poor's, Cleco Corporation would be required to pay additional fees and higher interest rates under its bank credit and other debt agreements. Cleco Power is currently rated one level higher by Moody's than by Standard & Poor's. Cleco Power pays fees and interest under its bank credit and other debt agreements based on the higher of the two credit ratings. If Cleco Power's credit ratings were to be downgraded by Moody's, Cleco Power would be required to pay additional fees and higher interest rates. Cleco Power's collateral for derivatives is based

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on the lower of the two credit ratings. If Cleco Power's credit ratings were to be downgraded by Standard & Poor's, Cleco Power would be required to pay additional collateral for derivatives.

#### Interest Rate Risks

Cleco monitors its mix of fixed- and variable-rate debt obligations in light of changing market conditions and from time to time may alter that mix, for example, refinancing balances outstanding under its variable-rate credit facility with fixed-rate debt. Calculations of the changes in fair market value and interest expense of the debt securities are made over a one-year period.

Sensitivity to changes in interest rates for fixed-rate obligations is computed by calculating the current fair market value using a net present value model based upon a 1% change in the average interest rate applicable to such debt. Sensitivity to changes in interest rates for variable-rate obligations is computed by assuming a 1% change in the current interest rate applicable to such debt.

At September 30, 2009, Cleco Corporation had \$118.0 million principal amount of long-term variable-rate debt outstanding under its \$150.0 million five-year credit facility at a weighted average interest rate of 0.768%. The borrowings under the credit facility are considered long-term as the credit facility does not expire until 2011. The borrowing costs under the facility are equal to LIBOR plus 0.65%, including facility fees. The existing borrowings had 30-day terms and matured on October 16, 2009, and October 30, 2009. The amounts of the borrowings were renewed at maturity, rather than repaid. Each 1% increase in the interest rate applicable to such debt would have resulted in a \$1.2 million decrease in pre-tax earnings of Cleco. Cleco had no short-term variable-rate debt as of September 30, 2009.

For more information regarding Cleco Power's current variable-rate debt outstanding and interest rate swap, please refer to "— Cleco Power" below.

#### Commodity Price Risks

Management believes Cleco has controls in place to minimize the risks involved in its financial and energy commodity activities. Independent controls over energy commodity functions consist of a middle office (risk management), a back office (accounting), regulatory compliance staff, as well as monitoring by a risk management committee comprised of officers and the General Manager – Internal Audit, who are appointed by Cleco Corporation's Board of Directors. Risk limits are recommended by the Risk Management Committee and monitored through a daily risk report that identifies the current VaR, current market conditions, and concentration of energy market positions. During 2005, Cleco Power entered into certain financial hedge transactions it considers economic hedges to mitigate the risk associated with fixed-price power to be provided to a wholesale customer through December 2010. These transactions are derivatives as defined by the authoritative guidance on derivatives and hedging but do not meet the accounting criteria to be considered hedges. These transactions are marked-to-market with the resulting gain or loss recorded on the income statement as a component of operating revenue. At September 30, 2009, the positions had a negative mark-to-market value of \$0.4 million, which is a decrease of \$0.2 million from the negative mark-to-market value of \$0.2 million at December 31, 2008. In addition, these positions resulted in a realized loss of \$1.4 million for the nine-month period ended September 30, 2009. In light of these economic hedge transactions, volatility in natural gas prices will likely cause fluctuations in the market value of open natural gas positions and ultimately in Cleco Power's future earnings.

Cleco Power provides fuel for generation and purchases power to meet the power demands of customers. Cleco Power has entered into positions to mitigate the volatility in customer fuel costs, as encouraged by an LPSC order. Cleco Power's fuel stabilization policy targets higher levels of minimum hedging percentages and mitigates the volatility in customer fuel costs. The change in positions could result in increased volatility in the marked-to-market amounts for the financial positions. These positions are marked-to-market with the resulting gain or loss recorded on

the balance sheet as a component of the accumulated deferred fuel asset or liability and a component of the risk management assets or liabilities. When these positions close, actual gains or losses are deferred and included in the fuel adjustment clause in the month the physical contract settles. Based on market prices at September 30, 2009, the net mark-to-market impact related to open natural gas positions was a loss of \$29.6 million. The majority of these natural gas positions will close over the next twelve months. Deferred losses relating to closed natural gas positions totaled \$6.4 million at September 30, 2009, and December 31, 2008.

Cleco utilizes a VaR model to assess the market risk of its hedging portfolios, including derivative financial instruments. VaR represents the potential loss in fair value for an instrument from adverse changes in market factors over a defined period of time with a specified confidence level. VaR is calculated daily, using the variance/covariance method with delta approximation, assuming a holding period of one day, and a 95% confidence level for natural gas and power positions. Volatility is calculated daily from historical forward prices using the exponentially weighted moving average method.

Based on these assumptions, the VaR relating to Cleco Power's hedge transactions for the three and nine months ended September 30, 2009, as well as the VaR at December 31, 2008, is summarized below:

| (THOUSANDS)      | FOR THE THREE MONTHS<br>ENDED SEPTEMBER 30, 2009 |           |           |                                |                               |
|------------------|--|-----------|-----------|--------------------------------|-------------------------------|
|                  | HIGH   | LOW       | AVERAGE   |                                |                               |
| Economic hedges  | \$157.0  | \$69.4    | \$114.0   |                                |                               |
| Fuel cost hedges | \$4,857.8  | \$1,846.0 | \$3,262.8 |                                |                               |
|                  | FOR THE NINE MONTHS<br>ENDED SEPTEMBER 30, 2009  |           |           | AT<br>SEPTEMBER<br>30,<br>2009 | AT<br>DECEMBER<br>31,<br>2008 |
| (THOUSANDS)      | HIGH   | LOW       | AVERAGE   |                                |                               |
| Economic hedges  | \$268.1  | \$69.4    | \$161.2   | \$ 140.3                       | \$ 239.0                      |
| Fuel cost hedges | \$7,292.8  | \$1,846.0 | \$4,061.6 | \$ 3,885.9                     | \$ 6,519.0                    |

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Please refer to “— Risk Overview” above for a discussion of market risk inherent in Cleco Power’s market risk-sensitive instruments.

Cleco Power has entered into various fixed-rate debt obligations. Please refer to “— Interest Rate Risks” above for a discussion of Cleco Power’s borrowing under its credit facility and how it monitors its mix of fixed-rate debt obligations and the manner of calculating changes in fair market value and interest expense of its debt obligations.

At September 30, 2009, Cleco Power had \$35.0 million principal amount of long-term variable-rate debt outstanding under its \$275.0 million five-year credit facility at a weighted average interest rate of 0.574%. The borrowings under the credit facility are considered long-term as the credit facility does not expire until 2011. The borrowing costs under the facility are equal to LIBOR plus 0.40%, including facility fees. The existing borrowings had 30-day terms and matured on October 2, 2009, and October 28, 2009. The amounts of the borrowings were renewed at maturity, rather than repaid. Each 1% increase in the interest rate applicable to such debt would have resulted in a \$0.3 million decrease in pre-tax earnings of Cleco Power. Cleco Power had no short-term variable-rate debt as of September 30, 2009.

At September 30, 2009, Cleco Power had an additional \$50.0 million principal amount of long-term variable-rate debt outstanding with an interest rate of 3.00% plus one-month LIBOR. Each 1% increase in the interest rate applicable to such debt would cause a \$0.5 million decrease in the pre-tax earnings of Cleco Power. During 2009, Cleco Power locked in an interest rate swap, effective concurrent with issuing the \$50.0 million variable-rate debt, for the notional amount of the debt requiring a monthly net settlement between Cleco Power’s fixed 1.84% and the swap counterparty’s floating payment of the one-month LIBOR. Each 1% increase in the interest rate applicable to the interest rate swap would cause a \$0.5 million increase in the pre-tax earnings of Cleco Power.

Please refer to “— Commodity Price Risks” above for a discussion of controls, transactions, VaR, and market value maturities associated with Cleco Power’s energy commodity activities.

#### ITEM 4 AND 4T. CONTROLS AND PROCEDURES

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##### Disclosure Controls and Procedures

As of September 30, 2009, evaluations were performed under the supervision and with the participation of Cleco Corporation and Cleco Power LLC (individually “Registrant” and collectively the “Registrants”) management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO). The evaluations assessed the effectiveness of the Registrants’ disclosure controls and procedures. Based on the evaluations, the CEO and CFO have concluded that the Registrants’ disclosure controls and procedures are effective to ensure that information required to be disclosed by each Registrant in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms; and that the Registrants’ disclosure controls and procedures are also effective in ensuring that such information is accumulated and communicated to the Registrants’ management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

**Changes in Internal Controls over Financial Reporting**

Under the supervision and with the participation of the Registrants' management, including the CEO and CFO, the Registrants evaluated changes in internal control over financial reporting that occurred during the quarter ended September 30, 2009, and found no change that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

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PART II — OTHER INFORMATION

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ITEM 1. LEGAL PROCEEDINGS

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CLECO

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For information on legal proceedings affecting Cleco, see Part I, Item 1, “Notes to the Unaudited Condensed Consolidated Financial Statements — Note 10 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Litigation.”

CLECO POWER

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For information on legal proceedings affecting Cleco Power, see Part I, Item 1, “Notes to the Unaudited Condensed Consolidated Financial Statements — Note 10 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Litigation.”

ITEM 1A. RISK FACTORS

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There have been no material changes from the risk factors disclosed under the heading “Risk Factors” in Item 1A of the Registrants’ Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (the “2008 Annual Report on Form 10-K”). For risks that could affect actual results and cause results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Registrants, see the risk factors disclosed under “Risk Factors” in Item 1A of the 2008 Annual Report on Form 10-K.

ITEM 5. OTHER INFORMATION

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On October 30, 2009, Cleco Corporation’s Board of Directors amended Cleco Corporation’s Bylaws (the “Amendment”) to effect certain changes with respect to the adjournment of shareholder meetings and to the procedures for shareholders to nominate directors and propose other matters for consideration at a meeting of shareholders. Among other provisions, the Amendment amended the Bylaws to permit the Chairman of the Board of Directors to adjourn a shareholder meeting, whether or not a quorum is present. The Amendment also amended the Bylaws to clarify that the advance notice provisions of the Bylaws are the exclusive means for a shareholder to make director nominations or submit other business before a meeting of shareholders (other than matters properly brought under Rule 14a-8 of

the SEC's proxy rules, which contains its own procedural requirements).

The Amendment also amended the Bylaws to require any shareholder submitting a proposal or a nomination of a person for election as a director to include the following additional information in the notice:

- § as to the shareholder proposing such business and the beneficial owner, if any, on whose behalf the proposal is made (each such shareholder or beneficial owner, a "Proposing Person"), all ownership interests, including derivatives, hedged positions and other economic and voting interests, any proportionate interest in shares of Cleco Corporation common stock or derivative instruments held by a general or limited partnership in which such Proposing Person is a general partner or beneficially owns an interest in a general partner, any pledge by or short interest of such Proposing Person of any shares of Cleco Corporation common stock, any rights to dividends on shares of Cleco Corporation common stock owned beneficially by such Proposing Person that are separated or separable from the underlying shares, any performance-related fees to which such Proposing Person is entitled based on any increase or decrease in the value of shares of Cleco Corporation common stock or derivative instruments, a representation regarding whether such Proposing Person intends to solicit proxies with respect to the business desired to be brought before the meeting and whether such Proposing Person intends to appear in person or by proxy at the meeting;
- § any other information relating to such Proposing Person that would be required to be disclosed in solicitations of proxies for the proposal;
- § a description of all agreements, arrangements and understandings between the Proposing Person and any other person or persons in connection with any business or proposal by such shareholder; and
- § with respect to a nomination of a director, a description of the material terms of all direct and indirect compensation and other material monetary arrangements during the past three years, and any other material relationships between or among any Proposing Person and their respective affiliates, on the one hand, and each proposed nominee and his or her respective affiliates, on the other hand, including all information that would be required to be disclosed pursuant to Rule 404 promulgated under Regulation S-K if such Proposing Person were the "registrant" for purposes of such rule and the nominee were a director or executive officer of such registrant.

The Amendment also provides that a Proposing Person must be a shareholder of record as of the time of giving the notice provided for in the Bylaws and at the time of the meeting at which the nomination or proposal will be considered. The Proposing Person must update and supplement the required information as of the record date and within 10 business days prior to the date of the meeting.

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The Amendment also amended the Bylaws to permit Cleco Corporation to require director nominees to complete a written questionnaire in a form provided by Cleco Corporation and make certain representations to Cleco Corporation relating to voting commitments, compensation and other economic arrangements and future compliance with Cleco Corporation's corporate governance and other policies and guidelines applicable to directors.

The foregoing description of the Amendment does not purport to be complete and is qualified in its entirety by reference to the Amendment being filed with this report as Exhibit 3.1 and incorporated by reference herein. Pursuant to Cleco Corporation's Bylaws, the Amendment will become effective on October 30, 2010.



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ITEM 6. EXHIBITS

CLECO  
CORPORATION

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|-------|---|
| 3.1   | Amendment to the Bylaws of Cleco Corporation, effective October 30, 2010  |
| 3.2   | Bylaws of Cleco Corporation, revised effective July 1, 2009 (Filed as Exhibit 3.1 to Form 10-Q of Cleco Corporation (Commission File No. 001-15759) for the quarter ended June 30, 2009 and incorporated herein by reference) |
| 10.1  | Summary of Director Compensation, Benefits and Policies, Revised on July 31, 2009   |
| 10.2  | First Amended and Restated Credit Agreement dated as of June 2, 2006 among Cleco Corporation, The Bank of New York, as Administrative Agent, and the lenders and other parties thereto  |
| 10.3  | Second Amended and Restated Limited Liability Company Agreement of Acadia Power Partners, LLC, dated as of May 9, 2003  |
| 10.4  | Amendment No. 1 and Waiver No. 1, dated as of August 18, 2009, to and under the First Amended and Restated Credit Agreement, dated as of June 2, 2006, among Cleco Corporation, the Lenders party thereto                     |
| 12(a) | Computation of Ratios of Earnings to Fixed Charges and of Earnings to Combined Fixed Charges and Preferred Stock Dividends for the three-, nine-, and twelve-month periods ended September 30, 2009, for Cleco Corporation    |
| 31.1  | CEO Certification in accordance with section 302 of the Sarbanes-Oxley Act of 2002  |
| 31.2  | CFO Certification in accordance with section 302 of the Sarbanes-Oxley Act of 2002  |
| 32.1  | CEO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002   |
| 32.2  | CFO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002   |

CLECO POWER

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|------|--|
| 3.3  | Operating Agreement of Cleco Power LLC, revised effective July 1, 2009 (Filed as Exhibit 3.2 to Form 10-Q of Cleco Power LLC (Commission File No. 001-05663) for the quarter ended June 30, 2009 and incorporated herein by reference) |
| 10.5 | Amendment No. 1 and Waiver No. 1, dated as of August 18, 2009, to and under the First Amended and Restated Credit Agreement, dated as of June 2, 2006, among Cleco Power LLC, the Lenders party thereto                                |

12(b)

Computation of Ratios of Earnings to Fixed Charges for the three-, nine-, and twelve-month periods ended September 30, 2009, for Cleco Power

31.3 CEO Certification in accordance with section 302 of the Sarbanes-Oxley Act of 2002

31.4 CFO Certification in accordance with section 302 of the Sarbanes-Oxley Act of 2002

32.3 CEO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002

32.4 CFO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURE

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Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CLECO CORPORATION  
(Registrant)

By: /s/ R. Russell  
Davis  
R. Russell Davis  
Vice President - Investor Relations & Chief  
Accounting Officer

Date: October 30, 2009

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CLECO CORPORATION  
CLECO POWER

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SIGNATURE

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Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CLECO POWER LLC  
(Registrant)

By: /s/ R. Russell Davis

R. Russell Davis  
Vice President - Investor Relations & Chief  
Accounting Officer

Date: October 30, 2009

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