

CLECO CORP
Form 10-Q
April 28, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2014

Or

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

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

Commission file number 1-05663

CLECO POWER LLC

(Exact name of registrant as specified in its charter)

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

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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 April 22, 2014
Cleco Corporation	Common Stock, \$1.00 Par Value	60,359,534

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 Quarterly Report on 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

References in this filing to “Cleco”, including all items in Parts I and II, mean Cleco Corporation and its subsidiaries, including Cleco Power, and references to “Cleco Power” mean Cleco Power LLC and its subsidiaries, 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 OR ACRONYM	DEFINITION
401(k) Plan	Cleco Power 401(k) Savings and Investment Plan
ABR	Alternate Base Rate which is the greater of the prime rate, the federal funds effective rate plus 0.50%, or the LIBOR plus 1.0%
Acadia	Acadia Power Partners, LLC, a wholly owned subsidiary of Acadia Power Holdings LLC, a wholly owned subsidiary of Midstream
Acadia Unit 1	Cleco Power’s 580-MW, combined cycle, natural gas-fired power plant located at the Acadia Power Station in Eunice, Louisiana
Acadia Unit 2	Entergy Louisiana’s 580-MW, combined cycle, natural gas-fired power plant located at the Acadia Power Station in Eunice, Louisiana
AFUDC	Allowance for Funds Used During Construction
Amended Lignite Mining Agreement	Amended and restated lignite mining agreement effective December 29, 2009
AMI	Advanced Metering Infrastructure
ARRA	American Recovery and Reinvestment Act of 2009, an economic stimulus package passed by Congress in February 2009
Attala	Attala Transmission LLC, a wholly owned subsidiary of Cleco Corporation
CERCLA	The Comprehensive Environmental Response, Compensation, and Liability Act of 1980
Cleco Katrina/Rita	Cleco Katrina/Rita Hurricane Recovery Funding LLC, a wholly owned subsidiary of Cleco Power
Coughlin	Coughlin Power Station, a 775-MW combined-cycle, natural gas-fired power plant located in St. Landry, Louisiana
DHLC	Dolet Hills Lignite Company, LLC, a wholly owned subsidiary of SWEPCO
Diversified Lands	Diversified Lands LLC, a wholly owned subsidiary of Cleco Corporation
Dodd-Frank Act	The Dodd-Frank Wall Street Reform and Consumer Protection Act, signed into law on July 21, 2010.
Dolet Hills	A 650-MW lignite/natural gas generating unit at Cleco Power’s plant site in Mansfield, Louisiana. Cleco Power has a 50% ownership interest in the capacity of Dolet Hills.
Entergy Gulf States	Entergy Gulf States Louisiana, L.L.C.
Entergy Louisiana	Entergy Louisiana, LLC
Entergy Mississippi	Entergy Mississippi, Inc.
EPA	United States Environmental Protection Agency
ERO	Electric Reliability Organization
ESPP	Cleco Corporation Employee Stock Purchase Plan
Evangeline	Cleco Evangeline LLC, a wholly owned subsidiary of Midstream
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FTRs	Financial transmission rights are used to provide a financial hedge to manage the risk of congestion cost in the Day-Ahead Energy and Operating Reserve Market.
FRP	Formula Rate Plan
GAAP	Generally Accepted Accounting Principles in the United States

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GO Zone	Gulf Opportunity Zone Act of 2005 (Public Law 109-135)
Interconnection Agreement	One of two Interconnection 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
kWh	Kilowatt-hour(s) as applicable
LIBOR	London Inter-Bank Offer Rate
LMP	Locational Marginal Price
LPSC	Louisiana Public Service Commission
LTICP	Cleco Corporation Long-Term Incentive Compensation Plan
Madison Unit 3	A 600-MW solid-fuel generating unit at Cleco Power's plant site in Boyce, Louisiana
MATS	Mercury and Air Toxics Standards
Midstream	Cleco Midstream Resources LLC, a wholly owned subsidiary of Cleco Corporation
MISO	Midcontinent Independent System Operator, Inc.
Moody's	Moody's Investors Service, a credit rating agency
MW	Megawatt(s) as applicable
MWh	Megawatt-hour(s) as applicable
NERC	North American Electric Reliability Corporation
NMTC	New Markets Tax Credit
NMTC Fund	USB NMTC Fund 2008-1 LLC was formed to invest in projects qualifying for New Markets Tax Credits and Solar Projects

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ABBREVIATION OR ACRONYM	DEFINITION
OCI	Other Comprehensive Income
Oxbow	Oxbow Lignite Company, LLC, 50% owned by Cleco Power and 50% owned by SWEPCO
Perryville	Perryville Energy Partners, L.L.C., a wholly owned subsidiary of Cleco Corporation
Power Purchase Agreement	Power Purchase Agreement, dated as of January 28, 2004, between Perryville and Entergy Services, Inc., as agent for Entergy Louisiana and Entergy Gulf States
Registrant(s)	Cleco Corporation and Cleco Power
RFP	Request for Proposal
Rodemacher Unit 2	A 523-MW coal/natural gas generating unit at Cleco Power's plant site in Boyce, Louisiana. Cleco Power has a 30% ownership interest in the capacity of Rodemacher Unit 2.
RTO	Regional Transmission Organization
Sale Agreement	Purchase and Sale Agreement, dated as of January 28, 2004, between Perryville and Entergy Louisiana
S&P	Standard & Poor's Ratings Services, a credit rating agency
SEC	Securities and Exchange Commission
SERP	Cleco Corporation Supplemental Executive Retirement Plan
SPP RE	Southwest Power Pool Regional Entity
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

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Combined 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 Combined Quarterly Report are forward-looking statements, including, without limitation, future capital expenditures; projections, including with respect to base revenue; business strategies; goals, beliefs, plans, and objectives; competitive strengths; market developments; development and operation of facilities; growth in sales volume; meeting capacity requirements; expansion of service to existing customers and service to new customers; future environmental regulations and remediation liabilities; electric customer credits; 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 or severe drought conditions); unscheduled generation outages; unanticipated maintenance or repairs; unanticipated changes to fuel costs, fuel supply costs or availability constraints due to higher demand, shortages, transportation problems, or other developments; fuel mix of Cleco’s generation facilities; decreased customer load; environmental incidents and compliance costs; and 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 maintain its right to sell wholesale generation at market-based rates within its control area,

Cleco Power’s dependence on energy from sources other than its facilities and future sources of such additional energy,

nonperformance by and creditworthiness of the guarantor counterparty of the NMTC Fund,

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 impact that rate cases

or requests for extensions of an FRP may have on wholesale decisions of Cleco Power, the results of periodic NERC

and LPSC audits, participation in MISO and the related operating challenges and uncertainties, including increased

wholesale competition relative to more suppliers, and the compliance

with the ERO reliability standards for bulk power systems by Cleco Power,

reliance on third parties for determination of Cleco Power’s commitments and obligations to markets for generation resources and reliance on third party transmission services,

financial or regulatory accounting principles or policies imposed by FASB, the SEC, FERC, the LPSC, or similar

entities with regulatory or accounting oversight,

economic conditions, including the ability of customers to continue paying 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 and U.S. economic environment,

credit ratings of Cleco Corporation and Cleco Power,

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,
the availability and use of alternative sources of energy and technologies, such as wind, solar, and distributed generation,
the imposition of energy efficiency requirements or increased conservation efforts of customers,
reliability of Cleco Power's generating facilities,
acts of terrorism, cyber attacks, data security breaches or other attempts to disrupt Cleco's business or the business of third parties, or other man-made disasters,
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,
changes in federal, state, or local laws (including tax laws), changes in tax rates, disallowances of uncertain tax positions, or changes in other regulating policies that may result in a change to tax benefits or expenses,
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 the MATS project,
costs and other effects of legal and administrative proceedings, settlements, investigations, claims, and other matters,
the impact of current or future environmental laws and regulations, including those related to greenhouse gases and
energy efficiency that could limit or terminate the operation of certain generating units, increase costs, or reduce customer demand for electricity,

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the ability of Cleco Power to recover from its customers the costs of compliance with environmental laws and regulations, including capital expenditures associated with MATS,
the ability of Dolet Hills lignite reserve to provide sufficient fuel to the Dolet Hills Power Station until at least 2036,
and
the ability of Cleco Power to recover from its customers the costs associated with the transfer of Coughlin.
For more 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, 2013. 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

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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, 2013. 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

Condensed Consolidated Statements of Income (Unaudited)

(THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	FOR THE THREE MONTHS ENDED MAR. 31,	
	2014	2013
Operating revenue		
Electric operations	\$269,759	\$229,425
Other operations	14,814	11,543
Gross operating revenue	284,573	240,968
Electric customer credits	(186)	(21)
Operating revenue, net	284,387	240,947
Operating expenses		
Fuel used for electric generation	59,047	85,365
Power purchased for utility customers	52,724	4,856
Other operations	26,993	26,924
Maintenance	32,369	17,635
Depreciation	41,741	34,032
Taxes other than income taxes	14,106	12,634
Loss on sale of assets	69	1,034
Total operating expenses	227,049	182,480
Operating income	57,338	58,467
Interest income	602	201
Allowance for other funds used during construction	1,631	1,164
Other income	971	2,273
Other expense	(672)	(435)
Interest charges		
Interest charges, including amortization of debt expense, premium, and discount, net	20,758	21,831
Allowance for borrowed funds used during construction	(490)	(375)
Total interest charges	20,268	21,456
Income before income taxes	39,602	40,214
Federal and state income tax expense	13,678	13,081
Net income applicable to common stock	\$25,924	\$27,133
Average number of basic common shares outstanding	60,472,969	60,399,697
Average number of diluted common shares outstanding	60,713,587	60,667,401
Basic earnings per share		
Net income applicable to common stock	\$0.43	\$0.45
Diluted earnings per share		
Net income applicable to common stock	\$0.43	\$0.45
Cash dividends paid per share of common stock	\$0.3625	\$0.3375

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

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CLECO CORPORATION

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(THOUSANDS)	FOR THE THREE MONTHS ENDED MAR.	
	31, 2014	2013
Net income	\$25,924	\$27,133
Other comprehensive income, net of tax:		
Amortization of postretirement benefits (net of tax expense of \$528 in 2014 and \$336 in 2013)	844	536
Net gain on cash flow hedges (net of tax expense of \$33 in 2014 and \$836 in 2013)	53	1,337
Total other comprehensive income, net of tax	897	1,873
Comprehensive income, net of tax	\$26,821	\$29,006

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

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Condensed Consolidated Balance Sheets (Unaudited)

(THOUSANDS)	AT MAR. 31, 2014	AT DEC. 31, 2013
Assets		
Current assets		
Cash and cash equivalents	\$18,157	\$28,656
Restricted cash and cash equivalents	3,893	8,986
Customer accounts receivable (less allowance for doubtful accounts of \$723 in 2014 and \$849 in 2013)	48,936	50,567
Other accounts receivable	51,836	46,981
Unbilled revenue	25,452	31,166
Fuel inventory, at average cost	53,644	60,913
Material and supplies inventory, at average cost	63,095	62,811
Energy risk management assets	3,972	9,020
Accumulated deferred federal and state income taxes, net	72,180	94,179
Accumulated deferred fuel	1,582	—
Cash surrender value of company-/trust-owned life insurance policies	67,237	64,720
Prepayments	5,945	9,204
Regulatory assets - other	5,930	5,975
Other current assets	1,575	404
Total current assets	423,434	473,582
Property, plant, and equipment		
Property, plant, and equipment	4,326,317	4,326,522
Accumulated depreciation	(1,371,281)	(1,351,223)
Net property, plant, and equipment	2,955,036	2,975,299
Construction work in progress	156,048	107,841
Total property, plant, and equipment, net	3,111,084	3,083,140
Equity investment in investees	14,540	14,540
Prepayments	4,532	4,510
Restricted cash and cash equivalents	14,494	5,033
Restricted investments	—	12,829
Regulatory assets - deferred taxes, net	230,489	229,173
Regulatory assets - other	245,185	249,677
Net investment in direct financing lease	13,517	13,523
Intangible asset	102,487	106,007
Other deferred charges	23,235	23,248
Total assets	\$4,182,997	\$4,215,262

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

(Continued on next page)

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CLECO CORPORATION

Condensed Consolidated Balance Sheets (Unaudited)

(THOUSANDS)	AT MAR. 31, 2014	AT DEC. 31, 2013
Liabilities and shareholders' equity		
Liabilities		
Current liabilities		
Long-term debt due within one year	\$17,688	\$17,182
Accounts payable	111,454	110,544
Customer deposits	50,247	48,456
Provision for rate refund	3,720	3,533
Taxes payable	18,766	18,680
Interest accrued	29,472	12,188
Accumulated deferred fuel	—	3,869
Energy risk management liabilities	64	382
Deferred compensation	10,852	11,081
Uncertain tax positions	4,610	4,610
Other current liabilities	14,198	12,948
Total current liabilities	261,071	243,473
Long-term liabilities and deferred credits		
Accumulated deferred federal and state income taxes, net	860,033	869,150
Accumulated deferred investment tax credits	4,905	5,144
Postretirement benefit obligations	104,189	103,483
Restricted storm reserve	14,025	17,646
Tax credit fund investment, net	32,350	41,840
Contingent sale obligations	900	900
Other deferred credits	31,777	31,929
Total long-term liabilities and deferred credits	1,048,179	1,070,092
Long-term debt, net	1,296,965	1,315,500
Total liabilities	2,606,215	2,629,065
Commitments and Contingencies (Note 11)		
Shareholders' equity		
Common shareholders' equity		
Common stock, \$1 par value, authorized 100,000,000 shares, issued 61,051,286 and 61,047,006 shares and outstanding 60,359,534 and 60,454,520 shares at March 31, 2014 and December 31, 2013, respectively	61,051	61,047
Premium on common stock	415,708	422,624
Retained earnings	1,152,801	1,149,003
Treasury stock, at cost, 691,752 and 592,486 shares at March 31, 2014 and December 31, 2013, respectively	(27,799)	(20,601)
Accumulated other comprehensive loss	(24,979)	(25,876)
Total shareholders' equity	1,576,782	1,586,197
Total liabilities and shareholders' equity	\$4,182,997	\$4,215,262

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

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Condensed Consolidated Statements of Cash Flows (Unaudited)

(THOUSANDS)	FOR THE THREE MONTHS ENDED MAR.	
	31, 2014	2013
Operating activities		
Net income	\$25,924	\$27,133
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	45,137	38,586
Unearned compensation expense	1,977	1,510
Allowance for other funds used during construction	(1,631)	(1,164)
Net deferred income taxes	10,366	10,030
Deferred fuel costs	(148)	4,493
Cash surrender value of company-/trust-owned life insurance	(1,113)	(2,071)
Changes in assets and liabilities:		
Accounts receivable	(1,541)	12,059
Unbilled revenue	5,714	4,845
Fuel, materials and supplies inventory	6,985	10,619
Prepayments	3,237	1,628
Accounts payable	(13,672)	(37,345)
Customer deposits	2,598	3,074
Postretirement benefit obligations	2,142	(32,422)
Regulatory assets and liabilities, net	(4,367)	(4,836)
Other deferred accounts	(4,691)	2,121
Taxes accrued	(3,702)	55,930
Interest accrued	17,283	13,276
Other operating	46	(4,019)
Net cash provided by operating activities	90,544	103,447
Investing activities		
Additions to property, plant, and equipment	(47,139)	(44,887)
Allowance for other funds used during construction	1,631	1,164
Return of investment in company-owned life insurance	1,303	—
Premiums paid on company-/trust-owned life insurance	(1,404)	—
Return of equity investment in tax credit fund	478	9
Contributions to tax credit fund	(11,182)	(12,081)
Transfer of cash (to) from restricted accounts	(4,367)	5,154
Purchase of restricted investments	—	(1,447)
Sale of restricted investments	11,138	—
Maturity of restricted investments	1,458	1,409
Other investing	122	969
Net cash used in investing activities	(47,962)	(49,710)
Financing activities		
Draws on credit facility	40,000	108,000
Payments on credit facility	(50,000)	(118,000)
Issuance of long-term debt	—	60,000
Retirement of long-term debt	(7,581)	(7,129)

Repurchase of long-term debt	—	(60,000)
Repurchase of common stock	(12,449)	—
Dividends paid on common stock	(22,450)	(20,593)
Other financing	(601)	(568)
Net cash used in financing activities	(53,081)	(38,290)
Net (decrease) increase in cash and cash equivalents	(10,499)	15,447
Cash and cash equivalents at beginning of period	28,656	31,020
Cash and cash equivalents at end of period	\$18,157	\$46,467
Supplementary cash flow information		
Interest paid (net of amount capitalized)	\$4,346	\$6,326
Income taxes paid (refunded), net	\$9,971	\$(45,343)
Supplementary non-cash investing and financing activities		
Accrued additions to property, plant, and equipment	\$29,476	\$9,191
Non-cash additions to property, plant, and equipment, net	\$—	\$1,134
Issuance of common stock – ESPP	\$75	\$78

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

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Condensed Consolidated Statements of Changes in Common Shareholders' Equity (Unaudited)

(THOUSANDS, EXCEPT SHARE AMOUNTS)	COMMON STOCK		TREASURY STOCK		PREMIUM ON COMMON STOCK	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TOTAL SHAREHOLDERS' EQUITY
	SHARES	AMOUNT	SHARES	COST				
Balances, Dec. 31, 2012	60,961,570	\$ 60,962	(606,025)	\$(21,072)	\$ 416,619	\$ 1,075,074	\$ (32,370)	\$ 1,499,213
Common stock issued for compensatory plans	85,436	85	3,159	110	1,260	—	—	1,455
Dividends on common stock, \$0.3375 per share	—	—	—	—	—	(20,544)	—	(20,544)
Net income	—	—	—	—	—	27,133	—	27,133
Other comprehensive income, net of tax	—	—	—	—	—	—	1,873	1,873
Balances, Mar. 31, 2013	61,047,006	\$ 61,047	(602,866)	\$(20,962)	\$ 417,879	\$ 1,081,663	\$ (30,497)	\$ 1,509,130
Balances, Dec. 31, 2013	61,047,006	\$ 61,047	(592,486)	\$(20,601)	\$ 422,624	\$ 1,149,003	\$ (25,876)	\$ 1,586,197
Common stock issued for compensatory plans	4,280	4	150,734	5,251	(6,916)	—	—	(1,661)
Repurchase of common stock	—	—	(250,000)	(12,449)	—	—	—	(12,449)
Dividends on common stock, \$0.3625 per share	—	—	—	—	—	(22,126)	—	(22,126)
Net income	—	—	—	—	—	25,924	—	25,924
Other comprehensive income, net of tax	—	—	—	—	—	—	897	897
Balances, Mar. 31, 2014	61,051,286	\$ 61,051	(691,752)	\$(27,799)	\$ 415,708	\$ 1,152,801	\$ (24,979)	\$ 1,576,782

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

CLECO CORPORATION
CLECO POWER

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ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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, 2013. 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 POWER

Condensed Consolidated Statements of Income (Unaudited)

(THOUSANDS)	FOR THE THREE MONTHS ENDED MAR.	
	31, 2014	2013
Operating revenue		
Electric operations	\$269,759	\$229,425
Other operations	14,272	11,038
Affiliate revenue	335	336
Gross operating revenue	284,366	240,799
Electric customer credits	(186	) (21
Operating revenue, net	284,180	240,778
Operating expenses		
Fuel used for electric generation	59,047	85,365
Power purchased for utility customers	58,191	9,693
Other operations	25,321	25,373
Maintenance	30,256	14,794
Depreciation	40,203	32,330
Taxes other than income taxes	12,974	11,458
Total operating expenses	225,992	179,013
Operating income	58,188	61,765
Interest income	602	198
Allowance for other funds used during construction	1,631	1,164
Other income	363	697
Other expense	(509	) (444
Interest charges		
Interest charges, including amortization of debt expense, premium, and discount, net	20,248	21,724
Allowance for borrowed funds used during construction	(490	) (375
Total interest charges	19,758	21,349
Income before income taxes	40,517	42,031
Federal and state income tax expense	14,210	14,238
Net income	\$26,307	\$27,793

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 Comprehensive Income (Unaudited)

(THOUSANDS)	FOR THE THREE MONTHS ENDED MAR.	
	31, 2014	2013
Net income	\$26,307	\$27,793
Other comprehensive income, net of tax:		
Amortization of postretirement benefits (net of tax expense of \$328 in 2014 and \$157 in 2013)	525	251
Net gain on cash flow hedges (net of tax expense of \$33 in 2014 and \$836 in 2013)	53	1,337
Total other comprehensive income, net of tax	578	1,588
Comprehensive income, net of tax	\$26,885	\$29,381

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

CLECO CORPORATION
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CLECO POWER

Condensed Consolidated Balance Sheets (Unaudited)

(THOUSANDS)	AT MAR. 31, 2014	AT DEC. 31, 2013
Assets		
Utility plant and equipment		
Property, plant, and equipment	\$4,311,221	\$4,052,774
Accumulated depreciation	(1,361,984)	(1,260,843)
Net property, plant, and equipment	2,949,237	2,791,931
Construction work in progress	152,386	104,113
Total utility plant, net	3,101,623	2,896,044
Current assets		
Cash and cash equivalents	11,464	21,055
Restricted cash and cash equivalents	3,893	8,986
Customer accounts receivable (less allowance for doubtful accounts of \$723 in 2014 and \$849 in 2013)	48,936	50,567
Accounts receivable - affiliate	2,932	1,045
Other accounts receivable	51,804	46,939
Unbilled revenue	25,452	31,166
Fuel inventory, at average cost	53,644	60,913
Material and supplies inventory, at average cost	63,095	59,964
Energy risk management asset	3,972	9,020
Accumulated deferred federal and state income taxes, net	58,256	80,981
Accumulated deferred fuel	1,582	—
Cash surrender value of company-owned life insurance policies	19,420	19,326
Prepayments	4,166	7,074
Regulatory assets - other	5,930	5,975
Other current assets	1,177	388
Total current assets	355,723	403,399
Equity investment in investee	14,532	14,532
Prepayments	4,532	4,510
Restricted cash and cash equivalents	14,473	5,012
Restricted investments	—	12,829
Regulatory assets - deferred taxes, net	230,489	229,173
Regulatory assets - other	245,185	249,677
Intangible asset	102,487	106,007
Other deferred charges	22,540	22,529
Total assets	\$4,091,584	\$3,943,712

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

(Continued on next page)

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CLECO POWER

Condensed Consolidated Balance Sheets (Unaudited)

(THOUSANDS)	AT MAR. 31, 2014	AT DEC. 31, 2013
Liabilities and member's equity		
Member's equity	\$1,500,538	\$1,370,573
Long-term debt, net	1,281,965	1,310,500
Total capitalization	2,782,503	2,681,073
Current liabilities		
Long-term debt due within one year	17,688	17,182
Accounts payable	105,784	98,785
Accounts payable - affiliate	7,793	8,386
Customer deposits	50,247	48,456
Provision for rate refund	3,720	3,533
Taxes payable	982	6,700
Interest accrued	27,977	13,589
Accumulated deferred fuel	—	3,869
Energy risk management liabilities	64	382
Other current liabilities	10,904	9,791
Total current liabilities	225,159	210,673
Commitments and Contingencies (Note 11)		
Long-term liabilities and deferred credits		
Accumulated deferred federal and state income taxes, net	980,908	945,559
Accumulated deferred investment tax credits	4,905	5,144
Postretirement benefit obligations	53,249	52,953
Restricted storm reserve	14,025	17,646
Other deferred credits	30,835	30,664
Total long-term liabilities and deferred credits	1,083,922	1,051,966
Total liabilities and member's equity	\$4,091,584	\$3,943,712

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

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CLECO POWER

Condensed Consolidated Statements of Cash Flows (Unaudited)

(THOUSANDS)	FOR THE THREE MONTHS ENDED MAR.	
	31, 2014	2013
Operating activities		
Net income	\$26,307	\$27,793
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	42,358	35,094
Allowance for other funds used during construction	(1,631	) (1,164
Net deferred income taxes	14,472	14,560
Deferred fuel costs	(148	) 4,493
Changes in assets and liabilities:		
Accounts receivable	(1,524	) 12,098
Accounts and notes receivable, affiliate	(1,389	) 2,033
Unbilled revenue	5,714	4,845
Fuel, materials and supplies inventory	7,018	10,655
Prepayments	3,055	1,062
Accounts payable	(7,806	) (31,744
Accounts and notes payable, affiliate	(1,150	) (3,621
Customer deposits	2,598	3,074
Postretirement benefit obligations	1,307	(32,903
Regulatory assets and liabilities, net	(4,367	) (4,836
Other deferred accounts	(4,691	) 1,650
Taxes accrued	(5,719	) 8,688
Interest accrued	14,388	13,457
Other operating	403	(2,136
Net cash provided by operating activities	89,195	63,098
Investing activities		
Additions to property, plant, and equipment	(46,894	) (43,599
Allowance for other funds used during construction	1,631	1,164
Return of investment in company-owned life insurance	1,303	—
Transfer of cash (to) from restricted accounts	(4,367	) 5,154
Purchase of restricted investments	—	(1,447
Sale of restricted investments	11,138	—
Maturity of restricted investments	1,458	1,409
Other investing	123	988
Net cash used in investing activities	(35,608	) (36,331
Financing activities		
Draws on credit facility	20,000	90,000
Payments on credit facility	(40,000	) (90,000
Issuance of long-term debt	—	60,000
Retirement of long-term debt	(7,581	) (7,129
Repurchase of long-term debt	—	(60,000
Distribution to parent	(35,000) —
Other financing	(597) (567

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Net cash used in financing activities	(63,178)	(7,696)
Net (decrease) increase in cash and cash equivalents	(9,591)	19,071	
Cash and cash equivalents at beginning of period	21,055		23,368	
Cash and cash equivalents at end of period	\$11,464		\$42,439	
Supplementary cash flow information				
Interest paid (net of amount capitalized)	\$4,381		\$6,260	
Income taxes refunded, net	\$(788)	\$—	
Supplementary non-cash investing and financing activities				
Accrued additions to property, plant, and equipment	\$29,381		\$7,634	
Non-cash additions to property, plant, and equipment, net	\$176,244		\$1,134	
The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.				

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Condensed Consolidated Statements of Changes in Member's Equity (Unaudited)

(THOUSANDS)	MEMBER'S EQUITY	ACCUMULATED OTHER COMPREHENSIVE LOSS	TOTAL MEMBER'S EQUITY
Balances, Dec. 31, 2012	\$ 1,340,340	\$ (20,421)	\$ 1,319,919
Other comprehensive income, net of tax	—	1,588	1,588
Net income	27,793	—	27,793
Balances, Mar. 31, 2013	\$ 1,368,133	\$ (18,833)	\$ 1,349,300
Balances, Dec. 31, 2013	\$ 1,385,750	\$ (15,177)	\$ 1,370,573
Other comprehensive income, net of tax	—	578	578
Contributions	138,080	—	138,080
Distributions to parent	(35,000)	—	(35,000)
Net income	26,307	—	26,307
Balances, Mar. 31, 2014	\$ 1,515,137	\$ (14,599)	\$ 1,500,538

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

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

Note 1	Summary of Significant Accounting Policies	Cleco Corporation and Cleco Power
Note 2	Recent Authoritative Guidance	Cleco Corporation and Cleco Power
Note 3	Regulatory Assets and Liabilities	Cleco Corporation and Cleco Power
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Note 12	Affiliate Transactions	Cleco Corporation and Cleco Power
Note 13	Accumulated Other Comprehensive Loss	Cleco Corporation and Cleco Power
Note 14	Coughlin Transfer	Cleco Corporation and Cleco Power

Notes to the Unaudited Condensed Consolidated Financial Statements

Note 1 — Summary of Significant Accounting Policies

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.

Basis of Presentation

The Condensed Consolidated Financial Statements of Cleco Corporation and Cleco Power have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, these Condensed Consolidated Financial Statements do not include all of the information and notes required by GAAP for annual financial statements. The year-end Condensed Consolidated Balance Sheet data was derived from audited financial statements. Because the interim Condensed Consolidated Financial Statements and the accompanying notes do not include all of the information and notes required by GAAP for annual financial statements, the Condensed Consolidated Financial Statements and other information included in this quarterly report should be read in conjunction with the consolidated financial statements and accompanying notes in the Registrants' Combined Annual Report on Form 10-K for the year ended December 31, 2013.

These Condensed Consolidated Financial Statements, in the opinion of management, reflect all normal recurring adjustments that are necessary to fairly present the financial position and results of operations of Cleco. Amounts reported in Cleco's interim financial statements are not necessarily indicative of amounts expected for the annual periods due to the effects of seasonal temperature variations on energy consumption, regulatory rulings, the timing of maintenance on electric generating units, changes in mark-to-market valuations, changing commodity prices, and other factors.

In preparing financial statements that conform to GAAP, management must make estimates and assumptions that affect the reported amounts of assets and liabilities, the

reported amounts of revenues and expenses, and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. For more information on recent authoritative guidance and its effect on financial results, see Note 2 — "Recent Authoritative Guidance."

Property, Plant, and Equipment

Property, plant, and equipment consists primarily of regulated utility generation and energy transmission assets. Regulated assets, utilized primarily for retail operations and electric transmission and distribution, are stated at the cost of construction, which includes certain materials, labor, payroll taxes and benefits, administrative and general costs, and the estimated cost of funds used during construction. Jointly owned assets are reflected in property, plant, and equipment at Cleco Power's share of the cost to construct or purchase the assets.

During the first quarter of 2014, Cleco's investment in regulated utility property, plant, and equipment increased primarily due to the transfer of Coughlin from Midstream to Cleco Power. The transfer of Coughlin was recorded on Cleco Power's books at the historical carrying value of approximately \$176.0 million, net of the related accumulated depreciation of \$82.6 million. The transfer of Coughlin was accounted for as a business under common control, which is typically accounted for as if the transfer had occurred at the beginning of the period. However, management determined the retrospective application of this transfer to be quantitatively and qualitatively immaterial when taken as a whole in relation to Cleco Power's financial statements. As a result, Cleco Power's financial statements were not retrospectively adjusted to reflect the transfer. For more information regarding the Coughlin transfer, see Note 14 — "Coughlin Transfer."

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Cleco's property, plant, and equipment consisted of:

(THOUSANDS)	AT MAR. 31, 2014	AT DEC. 31, 2013
Regulated utility plants	\$4,311,221	\$4,052,774
Other	15,096	273,748
Total property, plant, and equipment	4,326,317	4,326,522
Accumulated depreciation	(1,371,281	) (1,351,223
Net property, plant, and equipment	\$2,955,036	\$2,975,299

Restricted Cash and Cash Equivalents

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 its intended purposes and/or general corporate purposes. Cleco's restricted cash and cash equivalents consisted of:

(THOUSANDS)	AT MAR. 31, 2014	AT DEC. 31, 2013
Diversified Lands' mitigation escrow	\$21	\$21
Cleco Katrina/Rita's storm recovery bonds	3,893	8,986
Cleco Power's future storm restoration costs	14,025	4,726
Cleco Power's building renovation escrow	448	286
Total restricted cash and cash equivalents	\$18,387	\$14,019

Cleco Katrina/Rita has the right to bill and collect storm restoration costs from Cleco Power's customers. As cash is collected, it is restricted for payment of administration fees, interest, and principal on storm recovery bonds. During the three months ended March 31, 2014, Cleco Katrina/Rita collected \$5.5 million net of administration fees. In March 2014, Cleco Katrina/Rita used \$7.6 million for scheduled storm recovery bond principal payments and \$3.0 million for related interest.

Cleco Power's restricted cash and cash equivalents held for future storm restoration costs increased \$9.3 million from December 31, 2013, primarily due to the transfer of \$13.2 million of restricted investments that were held with an outside investment manager and liquidated during the first quarter of 2014. The liquidated holdings are now held in restricted cash and cash equivalents and reported in the above table in Cleco Power's future storm restoration costs. Partially offsetting this amount was the transfer of \$4.0 million to cover the expenses associated with recent storm activity.

In connection with Cleco Power's building modernization project, Cleco Power was required to establish an escrow account with a qualified financial institution and deposit all retainage monies as they accrue under the construction contract. Upon completion of the construction work, the funds including any interest held in the escrow account will be released from escrow and paid to the construction contractor.

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 debt 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. For more information about fair value levels, see Note 4 — "Fair Value Accounting."

Risk Management

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, FTRs, and natural gas in the industry 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, FTRs, and natural gas. Cleco applies 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 may also enter into mitigating positions that would not meet the requirements of a normal-purchase, normal-sale transaction in order to attempt 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 energy risk management assets or liabilities. Such gain or loss is deferred as a component of deferred fuel assets or liabilities in accordance with regulatory policy. When these positions close, actual gains or losses will be included in the FAC and reflected on customers' bills as a component of the fuel cost adjustment. As part of the integration into MISO, Cleco Power was awarded FTRs in November 2013. Cleco Power also purchased FTRs in auctions facilitated by MISO. FTRs provide a financial hedge to manage the risk of congestion cost in the Day-Ahead Energy Market. FTRs represent rights to congestion credits or charges along a transmission path during a given time frame for a certain MW quantity. At March 31, 2014, Cleco and Cleco Power's Condensed Consolidated Balance Sheets reflected open FTR positions of \$4.0 million in Energy risk management assets and \$0.1 million in Energy risk management liabilities, compared with \$9.0 million in Energy risk management assets and \$0.4 million in Energy risk management liabilities at December 31, 2013. There were no open natural gas positions at March 31, 2014 or December 31, 2013.

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.

Cleco has entered into various contracts to mitigate the volatility in interest rate risk. These contracts include, but are not limited to, interest rate swaps and treasury rate locks. For more information on the interest rate risk contracts, see Note 4 — "Fair Value Accounting — Derivatives and Hedging."

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Accounting for MISO Transactions

Cleco Power participates in the energy market through MISO. MISO requires Cleco Power to submit hourly day-ahead, real time and FTR bids and offers for energy at locations across the MISO region. In each monthly reporting period, the hourly sale and purchase net amounts are aggregated and separately reported in Electric operations or Power purchased for utility

customers on Cleco's Condensed Consolidated Statements of Income. For more information on FTRs, see Note 4 — "Fair Value Accounting — Derivatives and Hedging."

Earnings per Average Common Share

The following tables show the calculation of basic and diluted earnings per share:

(THOUSANDS, EXCEPT SHARES AND PER SHARE AMOUNTS)	INCOME	SHARES	2014 PER SHARE AMOUNT	FOR THE THREE MONTHS ENDED MAR. 31,		
				INCOME	SHARES	2013 PER SHARE AMOUNT
Basic net income applicable to common stock	\$25,924	60,472,969	\$0.43	\$27,133	60,399,697	\$ 0.45
Effect of dilutive securities						
Add: restricted stock (LTICP)		240,618			267,704	
Diluted net income applicable to common stock	\$25,924	60,713,587	\$0.43	\$27,133	60,667,401	\$ 0.45

Stock option grants are excluded from the computation of diluted earnings per share if the exercise price is higher than the average market price. All stock options were exercised during 2012 and no additional options were granted through March 31, 2014. Therefore, no stock option grants were excluded from the computation of diluted earnings per share for the three months ended March 31, 2014 and 2013.

Stock-Based Compensation

At March 31, 2014, Cleco had two stock-based compensation plans, the ESPP and the LTICP. Substantially all employees, excluding officers and general managers, may choose to participate in the ESPP and purchase a limited amount of common stock at a discount through a stock option agreement. Options or restricted shares of stock, known as non-vested stock as defined by the authoritative guidance on stock-based 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.

During the three months ended March 31, 2014, Cleco granted 120,935 shares of non-vested stock to certain officers, and key employees 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		CLECO POWER	
	2014	2013	2014	2013
Equity classification				
Non-vested stock	\$1,922	\$1,428	\$426	\$331
Total equity classification	\$1,922	\$1,428	\$426	\$331
Liability classification				

Common stock equivalent units	\$—	\$1	\$—	\$—
Total pre-tax compensation expense	\$1,922	\$1,429	\$426	\$331
Tax benefit	\$739	\$550	\$164	\$127

Common Stock Repurchase Program

In January 2011, Cleco Corporation's Board of Directors approved the implementation of a new common stock repurchase program. This program authorizes management to repurchase, from time to time, shares of common stock so that Cleco's diluted average shares of common stock outstanding remain approximately equal to its diluted average shares of

common stock outstanding for 2010. Under this program, purchases may be made on a discretionary basis at times and in amounts as determined by management, subject to market conditions, legal requirements and other factors. Purchases under the program will not be announced in advance and may be made in the open market or through privately negotiated transactions. During the three months ended March 31, 2014, 250,000 shares of common stock were repurchased by Cleco Corporation. During the three months ended March 31, 2013, Cleco Corporation repurchased no shares of common stock.

Note 2 — Recent Authoritative Guidance

The Registrants adopted, or will adopt, the recent authoritative guidance listed below on their respective effective dates.

In February 2013, FASB revised the disclosure requirements related to items reclassified out of accumulated other comprehensive income. This guidance is intended to improve the transparency of changes in OCI. This revision is effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. Cleco adopted the revisions to this amendment during the first quarter of 2013. The adoption of this revision did not have an impact on the financial condition, results of operations, or cash flows of the Registrants because it relates to disclosures. For more information on items reclassified out of accumulated other comprehensive income, see Note 13 — "Accumulated Other Comprehensive Loss."

In February 2013, FASB issued guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. The adoption of this guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this guidance did not have an impact on the financial condition, results of operations, or cash flows of the Registrants.

In April 2013, FASB issued guidance on applying the liquidation basis of accounting and the related disclosure requirements. Under this accounting standards update, an entity must use the liquidation basis of accounting to present its financial statements when it determines that liquidation is imminent, unless the liquidation is the same as that under the plan specified in an entity's governing documents created at its inception. The adoption of this standard is effective for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013, and

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interim reporting periods therein. The adoption of this guidance did not have an impact on the financial condition, results of operations, or cash flows of the Registrants.

In July 2013, FASB amended the income tax guidance to provide for the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The adoption of this guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this guidance did not have an impact on the financial condition, results of operations, or cash flows of the Registrants.

In January 2014, FASB amended the accounting guidance for investments in qualified affordable housing projects. This guidance modifies the conditions that must be met to present the pretax effects and related tax benefits of such investments as a component of income taxes. The adoption of this guidance is effective for annual periods and interim reporting periods within those annual periods, beginning after December 31, 2014. Management is currently evaluating the effect the adoption of this guidance will have on the financial condition, results of operations, or cash flows of the Registrants.

In January 2014, FASB amended the accounting guidance for service concession arrangements. This guidance states that certain service concession arrangements with public-sector grantors are not within the scope of lease accounting. Operating entities entering into these arrangements should not recognize the related infrastructure as its property, plant and equipment and should apply other accounting guidance. The adoption of this guidance is effective for interim periods beginning after December 15, 2014. Management is currently evaluating the effect the adoption of this guidance will have on the financial condition, results of operations, or cash flows of the Registrants.

In April 2014, FASB amended the accounting guidance for the reporting of discontinued operations. These amendments improve the definition of discontinued operations by limiting discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have or will have a major effect on an entity's operations and financial results. This guidance also requires additional disclosures about discontinued operations. The adoption of this guidance is effective for all disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. The adoption of this guidance is not expected to have an effect on the financial condition, results of operations, or cash flows of the Registrants.

Note 3 — Regulatory Assets and Liabilities

Cleco Power follows the authoritative guidance on 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 table summarizes Cleco Power's regulatory assets and liabilities at March 31, 2014 and December 31, 2013:

(THOUSANDS)	AT MAR. 31, 2014	AT DEC. 31, 2013
Regulatory assets – deferred taxes, net	\$230,489	\$229,173
Mining costs	\$13,382	\$14,019
Interest costs	5,853	5,943
Asset removal costs	954	936
Postretirement plan costs	91,638	93,333
Tree trimming costs	5,560	4,840
Training costs	7,136	7,175
Surcredits, net	17,033	16,738
Amended Lignite mining agreement contingency	3,781	3,781
Power purchase agreement capacity costs	6,143	9,749
AMI deferred revenue requirement	5,400	4,682
Production Operations & Maintenance expenses	8,459	8,459
AFUDC equity gross-up	73,257	73,306

Rate case costs	—	45	
Acadia Unit 1 acquisition costs	2,734	2,760	
Financing costs	9,679	9,772	
Biomass costs	106	114	
Total regulatory assets – other	\$251,115	\$255,652	
Fuel and purchased power	1,582	(3,869))
Total regulatory assets, net	\$483,186	\$480,956	

Power Purchase Agreement Capacity Costs

In March 2012, Cleco Power received approval from the LPSC for a three-year power purchase agreement with Evangeline providing 730 MW of capacity and energy beginning May 1, 2012 and ending April 30, 2015. The LPSC order allowed Cleco Power to defer and recover a portion of capacity costs associated with the power purchase agreement. On March 15, 2014, Coughlin was transferred to Cleco Power and the power purchase agreement was terminated. The recovery of the remaining capacity costs will be determined as part of Cleco Power's FRP extension.

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 FAC, which enables Cleco Power to pass on to its customers substantially all such charges. For the three months ended March 31, 2014, approximately 88% of Cleco Power's total fuel cost was regulated by the LPSC, while the remainder was regulated by FERC.

The \$5.5 million change in the under/over recovered costs was primarily due to a \$4.7 million decrease in net mark-to-market gains as a result of lower valuations of open FTR positions and the settlement of certain positions, and an \$0.8 million increase in fuel and purchased power costs.

Note 4 — Fair Value Accounting

The amounts reflected in Cleco and Cleco Power's Condensed Consolidated Balance Sheets at March 31, 2014 and December 31, 2013, for cash equivalents, restricted cash equivalents, accounts receivable, other accounts receivable, accounts payable, and short-term debt approximate fair value because of their short-term nature.

The following tables summarize the carrying value and estimated market value of Cleco and Cleco Power's financial instruments not measured at fair value in Cleco and Cleco Power's Condensed Consolidated Balance Sheets.

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Cleco

(THOUSANDS)	AT MAR. 31, 2014		AT DEC. 31, 2013	
	CARRYING VALUE	ESTIMATED FAIR VALUE	CARRYING VALUE	ESTIMATED FAIR VALUE
Financial instruments not marked-to-market:				
Cash equivalents	\$12,176	\$ 12,176	\$22,204	\$ 22,204
Restricted cash equivalents	\$18,362	\$ 18,362	\$14,019	\$ 14,019
Long-term debt, excluding debt issuance costs	\$1,313,649	\$ 1,473,263	\$1,331,230	\$ 1,420,048

Cleco Power

(THOUSANDS)	AT MAR. 31, 2014		AT DEC. 31, 2013	
	CARRYING VALUE	ESTIMATED FAIR VALUE	CARRYING VALUE	ESTIMATED FAIR VALUE
Financial instruments not marked-to-market:				
Cash equivalents	\$5,900	\$ 5,900	\$14,900	\$ 14,900
Restricted cash equivalents	\$18,341	\$ 18,341	\$13,998	\$ 13,998
Long-term debt, excluding debt issuance costs	\$1,298,649	\$ 1,458,263	\$1,326,230	\$ 1,415,048

Fair Value Measurements and Disclosures

The authoritative guidance on fair value measurements requires entities to classify assets and liabilities that are either measured or disclosed at their fair value according to three different levels depending on the inputs used in determining fair value.

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

Cleco

CLECO CONSOLIDATED FAIR VALUE MEASUREMENTS AT REPORTING DATE
USING:

(THOUSANDS)	AT MAR. 31, 2014	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)			SIGNIFICANTLY OTHER OBSERVABLE INPUTS (LEVEL 2)			SIGNIFICANTLY UNOBSERVABLE INPUTS (LEVEL 3)			AT DEC. 31, 2013	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)			SIGNIFICANTLY OTHER OBSERVABLE INPUTS (LEVEL 2)			SIGNIFICANTLY UNOBSERVABLE INPUTS (LEVEL 3)		
		Asset Description																		
Institutional money market funds	\$30,538	\$ —	\$ 30,538	\$ —					\$36,100	\$ —	\$ 36,100	\$ —								
Commercial paper	—	—	—	—					1,483	—	1,483	—								
Municipal bonds	—	—	—	—					9,831	—	9,831	—								
Corporate bonds	—	—	—	—					515	—	515	—								

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Federal agency mortgage-backed securities	—	—	—	—	1,000	—	1,000	—
FTRs	3,972	—	—	3,972	9,020	—	—	9,020
Total assets	\$34,510	\$ —	\$ 30,538	\$ 3,972	\$57,949	\$ —	\$ 48,929	\$ 9,020
Liability Description								
Long-term debt	1,473,263	—	1,473,263	—	1,420,048	—	1,420,048	—
FTRs	64	—	—	64	382	—	—	382
Total liabilities	\$1,473,327	\$ —	\$ 1,473,263	\$ 64	\$1,420,430	\$ —	\$ 1,420,048	\$ 382

Cleco Power

CLECO POWER FAIR VALUE MEASUREMENTS AT REPORTING DATE USING:

(THOUSANDS)	AT MAR. 31, 2014	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)			SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)			SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)			QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)			SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)			SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)		
		AT MAR. 31, 2014	AT MAR. 31, 2014	AT MAR. 31, 2014	AT MAR. 31, 2014	AT MAR. 31, 2014	AT MAR. 31, 2014	AT MAR. 31, 2014	AT MAR. 31, 2014	AT MAR. 31, 2014	AT MAR. 31, 2014	AT MAR. 31, 2014	AT MAR. 31, 2014	AT MAR. 31, 2014	AT MAR. 31, 2014	AT MAR. 31, 2014	AT MAR. 31, 2014	AT MAR. 31, 2014	AT MAR. 31, 2014
Asset Description																			
Institutional money market funds	\$24,241	\$ —	\$ 24,241	\$ —	\$28,775	\$ —	\$ 28,775	\$ —											
Commercial paper	—	—	—	—	1,483	—	1,483	—											
Municipal bonds	—	—	—	—	9,831	—	9,831	—											
Corporate bonds	—	—	—	—	515	—	515	—											
Federal agency mortgage-backed securities	—	\$ —	—	—	1,000	—	1,000	—											
FTRs	3,972	\$ —	—	3,972	9,020	—	—	9,020											
Total assets	\$28,213	\$ —	\$ 24,241	\$ 3,972	\$50,624	\$ —	\$ 41,604	\$ 9,020											
Liability Description																			
Long-term debt	1,458,263	—	1,458,263	—	1,415,048	—	1,415,048	—											
FTRs	64	—	—	64	382	—	—	382											
Total liabilities	\$1,458,327	\$ —	\$ 1,458,263	\$ 64	\$1,415,430	\$ —	\$ 1,415,048	\$ 382											

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The following table summarizes the changes in the fair value of FTR assets and liabilities classified as Level 3 in the fair value hierarchy as of March 31, 2014:

(THOUSANDS)

Beginning balance at January 1, 2014	\$8,638
Realized losses	(747)*
Unrealized losses	(1,060)*
Purchases	(85)
Sales	(321)
Settlements	(2,517)
Ending balance at March 31, 2014	\$3,908

* Unrealized gains and losses are reported in Accumulated deferred fuel on the balance sheet. As gains and losses are realized in future periods, they will be recorded as Electric operations or Power purchased for utility customers on the income statement.

The following table quantifies the significant unobservable inputs used in developing the fair value of Level 3 positions at March 31, 2014 and December 31, 2013:

(THOUSANDS, EXCEPT FORWARD PRICE RANGE)	FAIR VALUE		VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUTS	FORWARD PRICE RANGE	
	Assets	Liabilities			Low	High
FTRs at Mar. 31, 2014	\$3,972	\$64	Discounted cash flow	Estimated auction price	\$(5.24)	\$6.95
FTRs at Dec. 31, 2013	\$9,020	\$382	Discounted cash flow	Estimated auction price	\$(4.88)	\$33.75

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 are determined by obtaining the closing price of similar assets and liabilities from published indices in active markets and then discounted to the current period using a U.S. Treasury published interest rate as a proxy for a risk-free rate of return. Cleco has consistently applied the Level 2 fair value technique from fiscal period to fiscal period. Level 3 fair values are situations in which there is little, if any, market activity for the asset or liability at the measurement date and therefore estimated prices are used in the discounted cash flow approach.

The assets and liabilities reported at fair value are grouped into classes based on the underlying nature and risks associated with the individual asset or liability.

At March 31, 2014, Cleco and Cleco Power were exposed to concentrations of credit risk through their short-term investments classified as cash equivalents and restricted cash equivalents. The institutional money market funds were reported on the Cleco Condensed Consolidated Balance Sheet in cash and cash equivalents, current restricted cash and cash equivalents, and non-current restricted cash and cash equivalents of \$12.2 million, \$3.9 million, and \$14.4 million, respectively, at March 31, 2014. At Cleco Power, the institutional money market funds were reported on the Condensed Consolidated Balance Sheet in cash and cash equivalents, current restricted cash and cash equivalents, and non-current restricted cash and cash equivalents of \$5.9 million, \$3.9 million, and \$14.4 million,

respectively, at March 31, 2014. If the money market funds failed to perform under the terms of the investments, Cleco and 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. The Level 2 institutional money market funds asset consists of a single class. In order to capture interest income and minimize risk, cash is invested in money market funds that invest primarily in short-term securities in order to maintain liquidity and achieve the goal of a net asset value of a dollar. The risks associated with this

class are counterparty risk of the fund manager and risk of price volatility associated with the underlying securities of the fund.

The commercial paper, municipal bonds, corporate bonds, and federal agency mortgage-backed securities were reported on Cleco and Cleco Power's Condensed Consolidated Balance Sheets in restricted investments in the amount of \$1.5 million, \$9.8 million, \$0.5 million and \$1.0 million at December 31, 2013, respectively. During the first quarter of 2014, Cleco ended its relationship with its outside investment manager and liquidated all holdings in these restricted investments. The Level 2 commercial paper, municipal bonds, corporate bonds, and federal agency mortgage-backed securities consisted of a single class. In order to maximize income, meet the requirements established by the LPSC for the restricted reserve fund, and maintain safety and liquidity, restricted cash and cash equivalents were invested in short-term, fixed-income debt instruments. The risks associated with this class were counterparty risk of the outside investment manager and risk of price volatility associated with the commercial paper, municipal bonds, corporate bonds, and federal agency mortgage-backed securities. Quarterly, Cleco received reports from the trustee for the investment manager which provided the fair value measurement. Cleco performed an evaluation of those reports to verify the fair value of the securities.

The Level 3 FTRs consist of a single class. As part of Cleco Power's integration into MISO, Cleco Power was awarded FTRs in November 2013. Cleco Power also purchased FTRs in auctions facilitated by MISO. Cleco Power's FTRs were priced using MISO's monthly estimated auction prices. The monthly estimated auction prices are discounted to net present value to determine fair value. FTRs are categorized as Level 3 fair value measurements because the only relevant pricing available comes from MISO auctions, which occur monthly in the Multi-Period Monthly Auction. For more information about FTRs, see "—Derivatives and Hedging."

The Level 2 long-term debt liability consists of a single class. In order to fund capital requirements, Cleco issues long-term, fixed and variable rate debt with various tenors. The fair value of this class fluctuates as the market interest

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rates for fixed and variable rate debt with similar tenors and credit ratings change. The fair value of the debt could also change from period to period due to changes in the credit rating of the Cleco entity that issued the debt.

During the three months ended March 31, 2014, and the year ended December 31, 2013, Cleco did not experience any transfers between levels.

Restricted Investments

In September 2007, the LPSC authorized the funding and securitization of a \$50.0 million reserve for Cleco Power's future storm costs. On July 1, 2012, Cleco Power transferred \$13.0 million of the related restricted cash and cash equivalents to an outside investment manager. Investments made by the investment manager were restricted to the criteria established by management in Cleco Power's guidelines for short-term investments. During the first quarter of 2014, Cleco ended its relationship with this outside investment manager and liquidated all holdings in these restricted investments.

The cash and cash equivalents were reflected in Cleco and Cleco Power's Condensed Consolidated Balance Sheets at December 31, 2013, as restricted cash and cash equivalents at their approximate fair value because of their short-term nature.

The debt securities were recorded at fair value on Cleco and Cleco Power's Condensed Consolidated Balance Sheets at December 31, 2013, as restricted investments. The investments in debt securities included municipal bonds, corporate bonds, federal agency mortgage-backed securities, and commercial paper with original maturity dates of more than three months and were classified as available-for-sale securities and reported at fair value. Because Cleco Power's investment strategy for these investments was within the requirements established by the LPSC for the restricted reserve fund, realized and unrealized gains and losses, interest income, investment management fees, and custody fees were recorded directly to Cleco Power's restricted storm reserve rather than in earnings or OCI. As a result, no amounts were recorded to OCI for these investments. The unrealized gains and losses on Cleco Power's debt securities at December 31, 2013, were caused by interest rate movements.

The following table provides a reconciliation of Cleco Power's available-for-sale debt securities from amortized cost to fair value at December 31, 2013:

(THOUSANDS)	AT DEC. 31, 2013			FAIR VALUE
	AMORTIZED COST	TOTAL UNREALIZED GAINS ⁽¹⁾	TOTAL UNREALIZED LOSSES ⁽¹⁾	
Municipal bonds	\$9,838	\$ 8	\$ 15	\$9,831
Corporate bonds	513	2	—	515
Federal agency mortgage-backed securities	1,000	—	—	1,000
Commercial paper	1,483	—	—	1,483
Total available-for-sale debt securities	\$12,834	\$ 10	\$ 15	\$12,829

⁽¹⁾ Unrealized gains and losses are recorded to the restricted storm reserve.

For the three months ended March 31, 2014, Cleco Power recognized less than \$0.1 million of realized gains as a result of the portfolio being liquidated. Realized gains and losses were determined on a specific identification basis.

Derivatives and Hedging

The authoritative guidance on derivatives and hedging requires entities to provide transparent 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 and quantitative disclosures about derivative fair

value, gains and losses, and credit-risk-related contingent features in derivative agreements.

Commodity Contracts

The following table presents the fair values of derivative instruments and their respective line items as recorded on Cleco and Cleco Power's Condensed Consolidated Balance Sheets at March 31, 2014 and December 31, 2013:

(THOUSANDS)	DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS		
	BALANCE SHEET LINE ITEM	AT MAR. 31, 2014	AT DEC. 31, 2013
Commodity contracts			
FTRs:			
Current	Energy risk management assets	\$3,972	\$9,020
Current	Energy risk management liabilities	64	382
Total		\$3,908	\$8,638

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 months ended March 31, 2014:

FOR THE THREE MONTHS ENDED		
MAR. 31,		
(THOUSANDS)	DERIVATIVES LINE ITEM	2014 AMOUNT OF GAIN/(LOSS) RECOGNIZED IN INCOME ON DERIVATIVES
Commodity contracts		
FTRs	Electric operations	\$3,965
FTRs	Power purchased for utility customers	(1,115)
Total		\$2,850

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At March 31, 2014 and December 31, 2013, Cleco Power had no open positions hedged for natural gas. As part of the integration into MISO, Cleco Power was awarded FTRs in November 2013. Cleco Power also purchased FTRs in auctions facilitated by MISO. FTRs provide a financial hedge to manage the risk of congestion cost in the Day-Ahead Energy Market. FTRs represent rights to congestion credits or charges along a transmission path during a given time frame for a certain MW quantity. At March 31, 2014 and December 31, 2013, Cleco Power had 3.8 million MWh and 6.8 million MWh, respectively, of FTRs hedged.

Interest Rate Derivatives

In November 2011, Cleco Power entered into a pay fixed/receive variable forward starting interest rate swap contract in order to mitigate the interest rate exposure on coupon payments related to the remaining \$50.0 million fixed-rate forecasted debt issuance. The forward starting interest rate swap had a spot 30-year all-in swap rate of 3.05%, notional amount of \$50.0 million, with the pricing date of May 14, 2013, or the issuance of the notes, whichever was earlier. The forward starting interest rate swap met the criteria of a cash flow hedge under the authoritative guidance as it related to derivatives and hedging and was carried on the balance sheet at its fair value.

During the first quarter of 2013, Cleco determined that the forward starting interest rate swap ceased to be highly effective in offsetting changes in the cash flows of the forecasted coupon payments and discontinued hedge accounting prospectively. In May 2013, upon pricing of the 2008 Series B GO Zone bonds, Cleco Power settled the forward starting interest rate swap at a loss of \$3.3 million. Of this amount, Cleco Power deferred \$2.9 million as a regulatory asset and recognized \$0.4 million in OCI. In May 2013, Cleco Power began amortizing these losses over the 25-year term of the related debt.

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 months ended March 31, 2014 and 2013.

	FOR THE THREE MONTHS ENDED MAR. 31,			
	2014		2013	
(THOUSANDS)	AMOUNT OF GAIN RECOGNIZED IN OCI	AMOUNT OF LOSS RECLASSIFIED FROM ACCUMULATED OCI INTO INCOME (EFFECTIVE PORTION)	AMOUNT OF GAIN RECOGNIZED IN OCI	AMOUNT OF LOSS RECLASSIFIED FROM ACCUMULATED OCI INTO INCOME (EFFECTIVE PORTION)
Interest rate derivatives ⁽¹⁾	\$—	\$(86)*	\$1,762	\$(20)*

* The loss reclassified from accumulated OCI into income (effective portion) is reflected in interest charges.

⁽¹⁾ During the three months ended March 31, 2013, Cleco recorded ineffectiveness and losses related to the interest rate derivatives as a regulatory asset of \$0.4 million.

At March 31, 2014, Cleco Power expected \$0.3 million of the effective portion of deferred net losses related to interest rate derivatives to be reclassified from accumulated OCI to interest charges over the next 12 months.

Note 5 — Debt

Short-term Debt

At March 31, 2014 and December 31, 2013, Cleco and Cleco Power had no short-term debt outstanding.

Long-term Debt

At March 31, 2014, Cleco's long-term debt outstanding was \$1.31 billion, of which \$17.7 million was due within one year. The long-term debt due within one year at March 31, 2014, represents \$15.4 million principal payments for the Cleco Katrina/Rita storm recovery bonds and \$2.3 million of capital lease payments.

For Cleco, long-term debt decreased \$18.0 million from December 31, 2013, primarily due to a \$10.0 million net reduction in credit facility draws, a \$7.6 million scheduled Cleco Katrina/Rita storm recovery bond principal payment made in March 2014, and a \$0.5 million decrease in capital lease obligations. These decreases were partially offset by debt discount amortizations of \$0.1 million.

At March 31, 2014, Cleco Power's long-term debt outstanding was \$1.30 billion of which \$17.7 million was due within one year. The long-term debt due within one year at March 31, 2014, represents \$15.4 million principal payments for the Cleco Katrina/Rita storm recovery bonds and \$2.3 million of capital lease payments.

For Cleco Power, long-term debt decreased \$28.0 million from December 31, 2013, primarily due to a \$20.0 million repayment of credit facility draws, a \$7.6 million scheduled Cleco Katrina/Rita storm recovery bond principal payment made in March 2014, and a \$0.5 million decrease in capital lease obligations. These decreases were partially offset by debt discount amortizations of \$0.1 million.

Credit Facilities

At March 31, 2014, Cleco Corporation had \$15.0 million of borrowings outstanding under its existing \$250.0 million credit facility and Cleco Power had no borrowings outstanding under its existing \$300.0 million credit facility. In December 2013, Cleco Power provided a \$1.0 million letter of credit to MISO pursuant to the credit requirements of FTRs. This letter of credit is automatically renewed each year and reduces Cleco Power's credit facility capacity. On April 8, 2014, Cleco Power increased the letter of credit to \$2.0 million.

Note 6 — Pension Plan and Employee Benefits

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 ten years of employment with Cleco. Cleco'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. Cleco does not expect to make any required or discretionary contributions to the pension plan in 2014. In January 2013, Cleco Power made \$34.0 million in discretionary contributions to the pension plan designated for the 2012 plan year. 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 may 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's retirees and their dependents may be eligible to receive medical, dental, vision, and life insurance benefits

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(other benefits). Cleco 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 months ended March 31, 2014 and 2013, are as follows:

(THOUSANDS)	PENSION BENEFITS		OTHER BENEFITS	
	FOR THE THREE MONTHS ENDED MAR. 31,			
	2014	2013	2014	2013
Components of periodic benefit cost:				
Service cost	\$2,005	\$2,484	\$405	\$314
Interest cost	4,930	4,437	463	481
Expected return on plan assets	(6,083)	(5,764)	—	—
Amortizations:				
Transition obligation	—	—	5	4
Prior period service cost (credit)	(18)	(18)	30	—
Net loss	1,713	3,373	177	318
Net periodic benefit cost	\$2,547	\$4,512	\$1,080	\$1,117

Because Cleco Power is the pension plan sponsor and the related trust holds the assets, the net unfunded status of the pension plan is reflected at Cleco Power. The liability of Cleco's other subsidiaries is transferred with a like amount of assets to Cleco Power monthly. The expense of the pension plan related to Cleco's other subsidiaries for the three months ended March 31, 2014 and 2013, was \$0.5 million and \$0.6 million, respectively.

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 current portion of the other benefits liability for Cleco at March 31, 2014 and December 31, 2013 was \$3.5 million. The current portion of the other benefits liability for Cleco Power at March 31, 2014 and December 31, 2013 was \$3.2 million. The expense related to other benefits reflected in Cleco Power's Condensed Consolidated Statements of Income for the three months ended March 31, 2014 and 2013, was \$0.9 million and \$1.0 million, respectively.

SERP

Certain Cleco officers are covered by SERP. 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 plus the average of the three highest cash 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 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 SERP participants. Proceeds from the life insurance policies are expected to be used to pay the SERP participants' death benefits, as well as future SERP payments. However, because 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 SERP were made during the three months ended March 31, 2014 or 2013. Cleco Power is considered

the plan sponsor and Support Group is considered the plan administrator. The components of net periodic SERP benefit cost for the three months ended March 31, 2014 and 2013, are as follows:

(THOUSANDS)	FOR THE THREE MONTHS ENDED	
	2014	2013
Components of periodic benefit cost:		

Service cost	\$468	\$506
Interest cost	725	678
Amortizations:		
Prior period service cost	12	14
Net loss	385	536
Net periodic benefit cost	\$1,590	\$1,734

The SERP liabilities are reported on the individual subsidiaries' financial statements. The current portion of the SERP liability for Cleco at March 31, 2014 and December 31, 2013 was \$2.7 million. The current portion of the SERP liability for Cleco Power at March 31, 2014 and December 31, 2013 was \$0.9 million and \$0.7 million, respectively. The expense related to SERP reflected on Cleco Power's Condensed Consolidated Statements of Income was \$0.3 million for the three months ended March 31, 2014, compared to \$0.4 million for the same period in 2013.

401(k) Plan

Cleco's 401(k) Plan is intended to provide active, eligible employees with voluntary, long-term savings and investment opportunities. The Plan is a defined contribution plan and is subject to the applicable provisions of the Employee Retirement Income Security Act of 1974. In accordance with the Plan, employer contributions can be in the form of Cleco Corporation stock or cash. Cash contributions are invested in proportion to the participant's voluntary contribution investment choices. Plan participants are allowed to choose whether to have dividends on Cleco Corporation common stock distributed in cash or reinvested in additional shares of Cleco Corporation common stock. Participation in the Plan is voluntary and active Cleco employees are eligible to participate. Cleco's 401(k) Plan expense for the three months ended March 31, 2014 and 2013 is as follows:

(THOUSANDS)	FOR THE THREE MONTHS ENDED MAR. 31,	
	2014	2013
401(k) Plan expense	\$1,369	\$1,279

Cleco Power is the plan sponsor for the 401(k) Plan. The expense of the 401(k) Plan related to Cleco's other subsidiaries for the three months ended March 31, 2014 and 2013, was \$0.3 million and \$0.4 million, respectively.

Note 7 — Income Taxes

The following table summarizes the effective income tax rates for Cleco and Cleco Power for the three month periods ended March 31, 2014 and 2013.

	FOR THE THREE MONTHS ENDED MAR. 31,		
	2014		2013
Cleco	34.5	%	32.5
Cleco Power	35.1	%	33.9

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Effective Tax Rates

For the three months ended March 31, 2014 and 2013, the effective income tax rate for Cleco was different than the federal statutory rate due to permanent tax deductions, the flowthrough of tax benefits associated with AFUDC equity, tax benefits delivered from Cleco's investment in the NMTC Fund, and state tax expense.

For the three months ended March 31, 2014 and 2013, the effective income tax rate for Cleco Power was different than the federal statutory rate due to permanent tax deductions, the flowthrough of tax benefits associated with AFUDC equity, and state tax expense.

Valuation Allowance

Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. As of March 31, 2014 and December 31, 2013, Cleco had a deferred tax asset resulting from NMTC carryforwards of \$96.5 million and \$95.4 million, respectively. If the NMTC carryforwards are not utilized, they will begin to expire in 2029. Management considers it more likely than not that all deferred tax assets related to NMTC carryforwards will be realized; therefore, no valuation allowance has been recorded.

Net Operating Losses

As of March 31, 2014, Cleco had a net operating loss carryforward primarily related to a tax accounting method change for bonus depreciation associated with Madison Unit 3. Cleco considers it more likely than not that these income tax losses generated will be utilized to reduce future income taxes, and Cleco expects to utilize the entire net operating loss carryforward within the statutory deadlines.

Uncertain Tax Positions

Cleco classifies all interest related to uncertain tax positions as a component of interest payable and interest expense. The total amounts of interest payable and interest expense related to uncertain tax positions, as reflected on Cleco and Cleco Power's Condensed Consolidated Balance Sheets and Statements of Income, are shown in the following tables.

(THOUSANDS)	AT MAR. 31, 2014	AT DEC. 31, 2013
Interest payable		
Cleco	\$96	\$88
Cleco Power	\$12	\$11

The interest payable reflects the amount of interest anticipated to be paid to taxing authorities. These amounts do not include any offset for amounts that may be recovered from customers under existing rate orders. The amounts expected to be recoverable from Cleco Power's customers under existing rate orders at March 31, 2014 and December 31, 2013, are \$8.7 million and \$8.4 million, respectively.

(THOUSANDS)	FOR THE THREE MONTHS ENDED MAR. 31,	
	2014	2013
Interest charges		
Cleco	\$30	\$(69)
Cleco Power	\$1	\$121

The interest charges reflect the amount of interest anticipated to be paid to or received from taxing authorities. These amounts do not include any offset for the amounts that

may be recovered from customers under the existing rate orders. The amounts expected to be recoverable from Cleco Power's customers under existing rate orders at March 31, 2014 and March 31, 2013, increased by \$0.6 million and \$0.7 million, respectively.

The federal income tax years that remain subject to examination by the IRS are 2010 through 2012. The Louisiana state income tax years that remain subject to examination by the Louisiana Department of Revenue are 2005 through 2012. At December 31, 2012, Cleco had \$60.4 million deposited with the IRS, of which Cleco received a refund of tax

and interest in January 2013 from the IRS of \$42.3 million relating to tax years 2001 through 2008.

Cleco is currently under audit by the IRS for the years 2010 through 2012. During 2013, Cleco increased its liability for uncertain tax positions. In addition, Cleco reclassified all uncertain tax positions to current from noncurrent as it expects to settle all outstanding audits within the next 12 months. Cleco estimates that it is reasonably possible that the balance of unrecognized tax benefits as of March 31, 2014, could decrease by a maximum of \$4.6 million for Cleco and the balance for Cleco Power would be unchanged in the next 12 months as a result of reaching settlements with the IRS and state tax authorities. The settlements could involve the payment of additional taxes, the adjustment of deferred taxes, and/or the recognition of tax benefits, which may have an effect on Cleco's effective tax rate.

Cleco classifies income tax penalties as a component of other expense. For the three months ended March 31, 2014 and 2013, the amount of penalties recognized was immaterial.

Note 8 — Disclosures about Segments

Cleco's reportable segments are based on its method of internal reporting, which disaggregates business units by its first-tier subsidiary. Cleco's reportable segments are Cleco Power and Midstream. On March 15, 2014, the Coughlin generating assets were transferred from Midstream to Cleco Power. Due to this transfer, there will be minimal operating activity and operating earnings at Midstream in future periods. For more information, see "— Note 14 — Coughlin Transfer." The holding company, a shared services subsidiary, two transmission interconnection facility subsidiaries, and an investment subsidiary are shown as Other in the following tables.

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 2014 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. Prior to March 15, 2014, these intercompany transactions related primarily to the power purchase agreement between Cleco Power and Evangeline that began in 2012 and joint and common administrative support services provided by Support Group. Subsequent to March 15, 2014,

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these intercompany transactions relate primarily to joint and common administrative support services provided by Support Group.

SEGMENT INFORMATION FOR THE THREE MONTHS ENDED MAR. 31,

2014 (THOUSANDS)	CLECO POWER	MIDSTREAM MOTHER	ELIMINATIONS	CONSOLIDATED
Revenue				
Electric operations	\$269,759	\$ —	\$ —	\$ 269,759
Tolling operations	—	5,467	—	(5,467) —
Other operations	14,272	—	541	1 14,814
Electric customer credits	(186)	—	—	(186)
Affiliate revenue	335	—	13,192	(13,527) —
Operating revenue, net	\$284,180	\$ 5,467	\$13,733	\$ (18,993) \$ 284,387
Depreciation	\$40,203	\$ 1,269	\$269	\$ — \$ 41,741
Interest charges	\$19,758	\$ 13	\$362	\$ 135 \$ 20,268
Interest income	\$602	\$ —	\$(133)	\$ 133 \$ 602
Federal and state income tax expense (benefit)	\$14,210	\$(81)	\$(451)	\$ — \$ 13,678
Net income (loss)	\$26,307	\$(130)	\$(252)	\$(1) \$ 25,924
Additions to (reductions in) long-lived assets	\$234,153	\$(176,293)	\$196	\$ — \$ 58,056
Equity investment in investees	\$14,532	\$ —	\$8	\$ — \$ 14,540
Total segment assets	\$4,091,584	\$ 51,180	\$66,632	\$ (26,399) \$ 4,182,997
2013 (THOUSANDS)	CLECO POWER	MIDSTREAM MOTHER	ELIMINATIONS	CONSOLIDATED
Revenue				
Electric operations	\$229,425	\$ —	\$ —	\$ 229,425
Tolling operations	—	4,837	—	(4,837) —
Other operations	11,038	1	504	— 11,543
Electric customer credits	(21)	—	—	(21)
Affiliate revenue	336	—	11,925	(12,261) \$ —
Operating revenue, net	\$240,778	\$ 4,838	\$12,429	\$ (17,098) \$ 240,947
Depreciation	\$32,330	\$ 1,500	\$203	\$ (1) \$ 34,032
Interest charges	\$21,349	\$(239)	\$163	\$ 183 \$ 21,456
Interest income	\$198	\$ —	\$(180)	\$ 183 \$ 201
Federal and state income tax expense (benefit)	\$14,238	\$(840)	\$(317)	\$ — \$ 13,081
Net income (loss)	\$27,793	\$(1,334)	\$674	\$ — \$ 27,133
Additions to long-lived assets	\$41,558	\$ 1,829	\$561	\$ — \$ 43,948
Equity investment in investees ⁽¹⁾	\$14,532	\$ —	\$8	\$ — \$ 14,540
Total segment assets ⁽¹⁾	\$3,943,712	\$ 225,832	\$88,234	\$ (42,516) \$ 4,215,262

⁽¹⁾ Balances as of December 31, 2013

Note 9 — Electric Customer Credits

The current amount of Cleco Power's annual retail earnings is subject to the terms of an FRP established by the LPSC effective February 12, 2010. The FRP allows Cleco Power the opportunity to earn a target return on equity of 10.7%, including returning to retail customers 60% of retail earnings between 11.3% and 12.3% and all retail earnings over 12.3%. The amount of credits due customers, if any, is determined by Cleco Power and the LPSC annually. The ultimate amount of any customer refund is subject to LPSC approval. Cleco Power must file annual monitoring reports no later than October 31 for the 12-month period ending June 30.

On October 31, 2013, Cleco Power filed its monitoring report for the 12 months ended June 30, 2013 which indicated that \$2.2 million was due to be returned to customers. On April 9, 2014, the LPSC Staff filed their report indicating agreement with Cleco Power's refund calculation for the 12 months ended June 30, 2013. Cleco Power anticipates approval of the LPSC Staff's report in the second quarter of 2014 and expects to issue refunds for this filing on customers'

bills in the third quarter of 2014. The accrual for estimated electric customer credits reflected on Cleco and Cleco Power's Condensed Consolidated Balance Sheets at March 31, 2014 and December 31, 2013, was \$3.7 million and \$3.5 million, respectively.

In April 2013, Cleco Power filed an application with the LPSC to extend its current FRP and seek rate recovery of Coughlin. After evaluating various rate options, on March 26, 2014, Cleco Power filed supplemental information supporting its request in this application. The docket is currently in the discovery phase. Cleco Power expects LPSC action on this request by the end of the second quarter of 2014.

Note 10 — Variable Interest Entities

Cleco reports its investments in VIEs in accordance with the authoritative guidance. Cleco and Cleco Power report the investment in Oxbow on the equity method of accounting. Under the equity method, the assets and liabilities of this entity are reported as equity investment in investees on Cleco and Cleco Power's Condensed Consolidated Balance Sheets. The revenue and expenses (excluding income taxes) of this entity

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are netted and reported as equity income or loss from investees on Cleco and Cleco Power's Condensed Consolidated Statements of Income.

Equity Method VIEs

Equity investment in investees at March 31, 2014, primarily represents Cleco Power's \$14.5 million investment in Oxbow. Equity investments that are less than 100% owned by Diversified Lands represented less than \$0.1 million of the total balance.

Oxbow

Oxbow is owned 50% by Cleco Power and 50% by SWEPCO and is accounted for as an equity method investment. Cleco Power is not the primary beneficiary because it shares the power to control Oxbow's significant activities with SWEPCO. Cleco's current assessment of its maximum exposure to loss related to Oxbow at March 31, 2014, consisted of its equity investment of \$14.5 million. The following table presents the components of Cleco Power's equity investment in Oxbow.

INCEPTION TO DATE (THOUSANDS)	AT MAR. 31, 2014	AT DEC. 31, 2013
Purchase price	\$12,873	\$12,873
Cash contributions	1,659	1,659
Total equity investment in investee	\$14,532	\$14,532

The following table compares the carrying amount of Oxbow's assets and liabilities with Cleco's maximum exposure to loss related to its investment in Oxbow.

(THOUSANDS)	AT MAR. 31, 2014	AT DEC. 31, 2013
Oxbow's net assets/liabilities	\$29,065	\$29,065
Cleco Power's 50% equity	\$14,532	\$14,532
Cleco's maximum exposure to loss	\$14,532	\$14,532

The following tables contain summarized financial information for Oxbow.

(THOUSANDS)	AT MAR. 31, 2014	AT DEC. 31, 2013
Current assets	\$2,303	\$2,289
Property, plant, and equipment, net	22,587	22,611
Other assets	4,248	4,256
Total assets	\$29,138	\$29,156
Current liabilities	\$61	\$91
Other liabilities	12	—
Partners' capital	29,065	29,065
Total liabilities and partners' capital	\$29,138	\$29,156

(THOUSANDS)	FOR THE THREE MONTHS ENDED MAR. 31,	
	2014	2013
Operating revenue	\$585	\$429
Operating expenses	585	429
Income before taxes	\$—	\$—

Oxbow's property, plant, and equipment, net consists of land and lignite reserves. The lignite reserves are intended to be used to provide fuel to the Dolet Hills Power Station. DHLC mines the lignite reserves at Oxbow through the Amended Lignite Mining Agreement.

Oxbow has no third-party agreements, guarantees, or other third-party commitments that contain obligations affecting Cleco Power's investment in Oxbow.

Note 11 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees

Litigation

Devil's Swamp

In October 2007, Cleco received a Special Notice for Remedial Investigation and Feasibility Study (RI/FS) from the EPA pursuant to CERCLA (also known as the Superfund statute). CERCLA establishes several classes of PRPs for a contaminated site, and imposes strict, joint, and several liability on those PRPs for the cost of response to the contamination. The special notice requested that Cleco Corporation and Cleco Power, along with many other listed PRPs, enter into negotiations with the EPA for the performance of an RI/FS at an area known as the Devil's Swamp Lake site just northwest of Baton Rouge, Louisiana. The EPA identified Cleco as one of many companies that was sending polychlorinated biphenyl wastes for disposal to the site. The Devil's Swamp Lake site has been proposed to be added to the National Priorities List based on the release of PCBs to fisheries and wetlands located on the site, but no final determination has been made. The PRPs began discussing a potential proposal to the EPA in February 2008. The EPA issued a Unilateral Administrative Order to PRP's Clean Harbors, Inc. and Baton Rouge Disposal to Conduct an RI/FS on December 3, 2009. The Tier 1 part of the study was complete in June 2012. Field activities for the Tier 2 investigation were completed in July 2012. Currently, the study/remedy selection task continues, and there is no record of a decision. Therefore, management is unable to determine how significant Cleco's share of the costs associated with the RI/FS and possible response action at the facility site, if any, may be and whether or not this will have a material adverse effect on the Registrants' financial condition, results of operations, or cash flows.

Discrimination Complaints

In December 2009, a complaint was filed in the U.S. District Court for the Western District of Louisiana (the Court) on behalf of eight current employees and four former employees alleging that Cleco discriminated against each of them on the basis of race. Each was seeking various remedies provided under applicable statutes prohibiting racial discrimination in the workplace, and together, the plaintiffs requested monetary compensation exceeding \$35.0 million. In July 2010, the plaintiffs moved to add an additional current employee alleging that Cleco had discriminated on the basis of race. The additional plaintiff sought compensation of no less than \$2.5 million and became the thirteenth plaintiff. In April 2011, Cleco entered into a settlement with one of the current employees which resulted in a dismissal of one of the thirteen cases with prejudice. In September 2011, the Court ruled on Cleco's summary judgment motions, with the end result that eleven of the twelve remaining plaintiffs had at least one claim remaining. In February 2013, the Court ruled on the second motion for summary judgment, filed by Cleco in March 2012, in each of the eleven cases and each such case was dismissed with prejudice. Appeals were filed in ten of the eleven dismissed cases to the United States Court of Appeals for the Fifth Circuit (the Fifth Circuit). In June 2013, the Fifth Circuit clerk dismissed the appeals of two of the current employees due to their failure to file a brief in support of their respective

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appeals. On various dates in August through November 2013, the Fifth Circuit affirmed the trial court judgments in favor of Cleco in seven of the eight remaining cases. On April 8, 2014, the Fifth Circuit affirmed the Court's summary judgment dismissing the wrongful termination and other discrimination claims of the one remaining plaintiff, a former employee. Excepted from its ruling was one claim that the former employee alleged arising from a disciplinary warning Cleco issued to the former employee. The former employee who received the disciplinary warning served as one of Cleco's human resources representatives. This one claim has been remanded to the Court for trial or other further proceedings.

City of Opelousas

In March 2010, a complaint was filed in the 27th Judicial District Court of St. Landry Parish, State of Louisiana, on behalf of three Cleco Power customers in Opelousas, Louisiana. The complaint alleges that Cleco Power overcharged the plaintiffs by applying to customers in Opelousas the same retail rates as Cleco Power applies to all of its retail customers. The plaintiffs claim that Cleco Power owes customers in Opelousas more than \$30.0 million as a result of the alleged overcharges. The plaintiffs allege that Cleco Power should have established, solely for customers in Opelousas, retail rates that are separate and distinct from the retail rates that apply to other customers of Cleco Power and that Cleco Power should not collect from customers in Opelousas the storm surcharge approved by the LPSC following hurricanes Katrina and Rita. In April 2010, Cleco Power filed a petition with the LPSC appealing to its expertise in declaring that the ratepayers of Opelousas have been properly charged the rates that are applicable to Cleco Power's retail customers and that no overcharges have been collected.

In May 2010, a second class action lawsuit was filed in the 27th Judicial District Court for St. Landry Parish, State of Louisiana, repeating the allegations of the first complaint, which was submitted on behalf of 249 Opelousas residents. In January 2011, the presiding judge in the state court proceeding ruled that the jurisdiction to hear the two class actions resides in the state court and not with the LPSC as argued by both Cleco and the LPSC Staff. Both Cleco and the LPSC Staff appealed this ruling to the Third Circuit Court of Appeals for the State of Louisiana (Third Circuit). In September 2011, the Third Circuit denied both appeals. In October 2011, both Cleco and the LPSC appealed the Third Circuit's ruling to the Louisiana Supreme Court. In February 2011, the administrative law judge (ALJ) in the LPSC proceeding ruled that the LPSC has jurisdiction to decide the claims raised by the class action plaintiffs. At its December 2011 Business and Executive Session, the LPSC adopted the ALJ's recommendation that Cleco be granted summary judgment in its declaratory action finding that Cleco's ratepayers in the City of Opelousas have been served under applicable rates and policies approved by the LPSC and Cleco's Opelousas ratepayers have not been overcharged in connection with LPSC rates or ratemaking. In January 2012, the class action plaintiffs filed their appeal of such LPSC decision to the 19th Judicial District Court for East Baton Rouge Parish, State of Louisiana. In December 2012, the Louisiana Supreme Court issued its opinion accepting Cleco's jurisdictional arguments and dismissed the state court claims. The only matter remaining is before the 19th Judicial District Court to review the LPSC ruling in Cleco's favor that it had properly charged the ratepayers of Opelousas. In view of the

uncertainty of the claims, management is not able to predict or give a reasonable estimate of the possible range of liability, if any, of these claims. However, if it is found that Cleco Power overcharged customers resulting in a refund, any such refund could have a material adverse effect on the Registrants' results of operations, financial condition, and cash flows.

Other

Cleco is involved in various litigation matters, including regulatory, environmental, and administrative proceedings before various courts, regulatory commissions, arbitrators, and governmental agencies regarding matters arising in the ordinary course of business. The liability Cleco may ultimately incur with respect to any one of these matters in the event of a negative outcome may be in excess of amounts currently accrued. Management regularly analyzes current information and, as of March 31, 2014, believes the probable and reasonably estimable liabilities based on the eventual disposition of these matters is approximately \$10.5 million and has accrued this amount.

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 management has 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. Cleco’s off-balance sheet commitments as of March 31, 2014, 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)	AT MAR. 31, 2014 FACE AMOUNT
Cleco Corporation	
Guarantee issued to Entergy Mississippi on behalf of Attala	\$500
Cleco Power	
Obligations under standby letter of credit issued to the Louisiana Department of Labor	3,725
Obligations under standby letter of credit issued to MISO	1,000
Total	\$5,225

There were no reductions against the face amount for any of these commitments.

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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 until obligations are performed or extinguished. 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 \$3.7 million letter of credit, an amount equal to 110% of the average losses over the previous three years, as surety.

In December 2013, Cleco Power provided a \$1.0 million letter of credit to MISO pursuant to the credit requirements of FTRs. On April 8, 2014, Cleco Power increased the letter of credit to \$2.0 million. The letter of credit is automatically renewed each year and reduces Cleco Power's credit facility capacity.

Cleco Corporation provided indemnifications to Cleco Power as a result of the transfer of Coughlin to Cleco Power on March 15, 2014. Cleco Power also provided indemnifications to Cleco Corporation and Evangeline as a result of the transfer of Coughlin to Cleco Power. The maximum amount of the potential payment to Cleco Power, Cleco Corporation, and Evangeline for their respective indemnifications is \$40.0 million, except for indemnifications relating to the fundamental organizational structure of Cleco Corporation and Evangeline and of Cleco Power, respectively, of which the maximum amount is \$400.0 million.

Disclosures about Guarantees

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 in 2004. This is a continuing guarantee and all obligations of Cleco Corporation shall continue until the guaranteed obligations have been fully performed or otherwise extinguished. The discounted probability-weighted liability under the guarantees and indemnifications recognized on Cleco's Condensed Consolidated Balance Sheet as of March 31, 2014, was \$0.2 million. The maximum amount of the potential payment to Entergy Louisiana and Entergy Gulf States is \$42.4 million. Currently, management does not expect to be required to pay Entergy Louisiana and Entergy Gulf States under the guarantee.

In April 2011, Acadia completed its disposition of Acadia Unit 2 to Entergy Louisiana. Limited guarantees and indemnifications were provided to Entergy Louisiana and an indemnification liability of \$21.8 million, which represents the fair value of these indemnifications was recorded on Cleco's Condensed Consolidated Balance Sheet. The indemnification liabilities are reduced through expiration of the contractual life or through a reduction in the probability of a claim arising. The indemnification obligation is expected to have a term of three years. After the three-year period, a residual value of approximately \$0.2 million will

remain. At March 31, 2014, an indemnification liability of \$0.9 million remained, which represents the risk of payment, as a contingent sale obligation recorded on Cleco's Condensed Consolidated Balance Sheet. For the three months ended March 31, 2014 and 2013, no income was recognized. The maximum amount of the potential payment to Entergy Louisiana for the indemnifications is the purchase price of \$298.8 million, except for the liabilities retained for which there is no maximum amount. Cleco Corporation is obligated to pay the same maximum amounts as Acadia if Acadia is unable to pay claims to Entergy Louisiana pursuant to the guarantee.

As part of the Amended Lignite Mining Agreement, Cleco Power and SWEPCO, joint owners of Dolet Hills, have agreed to pay the loan and lease principal obligations of the lignite miner, DHLIC, when due if they do not have sufficient funds or credit to pay. Any amounts paid on behalf of the miner would be credited by the lignite miner against future invoices for lignite delivered. At March 31, 2014, Cleco Power had a liability of \$3.8 million related to the amended agreement. The maximum projected payment by Cleco Power under this guarantee is estimated to be \$98.1 million; however, the Amended Lignite Mining Agreement does not contain a cap. The projection is based on the forecasted loan and lease obligations to be incurred by DHLIC, primarily for purchases of equipment. Cleco Power has the right to dispute the incurrence of loan and lease obligations through the review of the mining plan before the incurrence of such loan and lease obligations. The Amended Lignite Mining Agreement is not expected to terminate

pursuant to its terms until 2036 and does not affect the amount the Registrants can borrow under their credit facilities. Currently, management does not expect to be required to pay DHLC under the guarantee.

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 or indemnification obligations.

The following table summarizes the expected amount of commitment termination per period of off-balance sheet commitments and on-balance sheet guarantees discussed above.

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	AT MAR. 31, 2014			
	AMOUNT OF COMMITMENT EXPIRATION PER PERIOD			
(THOUSANDS)	NET AMOUNT COMMITTED	LESS THAN ONE YEAR	1-3 YEARS	3-5 YEARS 5 YEARS
Off-balance sheet commitments	\$ 5,225	\$3,725	\$—	