Cleco Corporate Holdings LLC
Form 10-Q
August 10, 2017

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
Or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-15759
CLECO CORPORATE HOLDINGS LLC
(Exact name of registrant as specified in its charter)

Louisiana	72-1445282
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2030 Donahue Ferry Road, Pineville, Louisiana	71360-5226
(Address of principal executive offices)	(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	72-0244480
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2030 Donahue Ferry Road, Pineville, Louisiana	71360-5226
(Address of principal executive offices)	(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 x No ¨

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

Indicate by check mark whether Cleco Corporate Holdings LLC is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x (Do not check if a smaller reporting company) Smaller reporting company ¨
Emerging growth company ¨
If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether Cleco Power LLC is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company,"and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x (Do not check if a smaller reporting company)
Smaller reporting company ¨
Emerging growth company ¨
If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

As of August 10, 2017, Cleco Corporate Holdings LLC has no common stock outstanding. All of the outstanding interest of Cleco Corporate Holdings LLC is held by Cleco Group LLC, a wholly owned subsidiary of Cleco Partners L.P.

Cleco Power LLC, a wholly owned subsidiary of Cleco Corporate Holdings LLC, 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 Corporate Holdings LLC and Cleco Power LLC. Information in this filing relating to Cleco Power LLC is filed by Cleco Corporate Holdings LLC and separately by Cleco Power LLC on its own behalf. Cleco Power LLC makes no representation as to information relating to Cleco Corporate Holdings LLC (except as it may relate to Cleco Power LLC) or any other affiliate or subsidiary of Cleco Corporate Holdings LLC.
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
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 LIBOR plus 1.0%
Acadia	Acadia Power Partners, LLC, previously a wholly owned subsidiary of Midstream. Acadia Power Partners, LLC was dissolved effective August 29, 2014.
Acadia Unit 1	Cleco Power's 580-MW, combined cycle power plant located at the Acadia Power Station in Eunice, Louisiana
Acadia Unit 2	Entergy Louisiana's 580-MW, combined cycle power plant located at the Acadia Power Station in Eunice, Louisiana, which is operated by Cleco Power
AFUDC	Allowance for Funds Used During Construction
ALJ	Administrative Law Judge
Amended Lignite Mining Agreement	Amended and restated lignite mining agreement effective December 29, 2009
AMI	Advanced Metering Infrastructure
AOCI	Accumulated Other Comprehensive Income (Loss)
ARO	Asset Retirement Obligation
ARRA	American Recovery and Reinvestment Act of 2009
Attala	Attala Transmission LLC, a wholly owned subsidiary of Cleco Holdings
bcIMC	British Columbia Investment Management Corporation
CCR	Coal combustion by-products or residual
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Cleco	Cleco Holdings and its subsidiaries
Cleco Corporation	Pre-merger entity that was converted to a limited liability company and changed its name to Cleco Corporate Holdings LLC on April 13, 2016
Cleco Group	Cleco Group LLC, a wholly owned subsidiary of Cleco Partners
Cleco Holdings	Cleco Corporate Holdings LLC, a wholly owned subsidiary of Cleco Group
Cleco Katrina/Rita	Cleco Katrina/Rita Hurricane Recovery Funding LLC, a wholly owned subsidiary of Cleco Power
Cleco Partners	Cleco Partners L.P., a Delaware limited partnership that is owned by a consortium of investors, including funds or investment vehicles managed by MIRA, bcIMC, John Hancock Financial, and other infrastructure investors.
Cleco Power	Cleco Power LLC and its subsidiaries, a wholly owned subsidiary of Cleco Holdings
Coughlin	Cleco Power's 775-MW, combined-cycle power plant located in St. Landry, Louisiana
CPP	Clean Power Plan
DHLC	Dolet Hills Lignite Company, LLC, a wholly owned subsidiary of SWEPCO
Diversified Lands	Diversified Lands LLC, a wholly owned subsidiary of Cleco Holdings
Dolet Hills	A facility consisting of Dolet Hills Power Station, the Dolet Hills mine, and the Oxbow mine
Dolet Hills Power Station	A 650-MW generating unit at Cleco Power's plant site in Mansfield, Louisiana. Cleco Power has a 50% ownership interest in the capacity of Dolet Hills.
EAC	Environmental Adjustment Clause
EBITDA	Earnings before interest, taxes, depreciation, and amortization
EGU	Electric Generating Unit

Entergy Gulf States	Entergy Gulf States Louisiana, LLC
Entergy Louisiana	Entergy Louisiana, LLC
EPA	U.S. Environmental Protection Agency
ERO	Electric Reliability Organization
ESPP	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
FTR	Financial Transmission Right
FRP	Formula Rate Plan
GAAP	Generally Accepted Accounting Principles in the U.S.
IRS	Internal Revenue Service
kWh	Kilowatt-hour(s)
LED	Louisiana Economic Development
LIBOR	London Interbank Offered Rate
LPSC	Louisiana Public Service Commission
LTIP	Long-Term Incentive Compensation Plan

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ABBREVIATION OR ACRONYM	DEFINITION
MATS	Mercury and Air Toxics Standards
Merger	Merger of Merger Sub with and into Cleco Corporation pursuant to the terms of the Merger Agreement which was completed on April 13, 2016
Merger Agreement	Agreement and Plan of Merger, dated as of October 17, 2014, by and among Cleco Partners, Merger Sub, and Cleco Corporation
Merger Commitments	Cleco Partners', Cleco Group's, Cleco Holdings', and Cleco Power's 77 commitments to the LPSC as defined in Docket No. U-33434 of which a performance report must be filed annually by October 31 for the 12 months ending June 30
Merger Sub	Cleco MergerSub Inc., previously an indirect wholly owned subsidiary of Cleco Partners that was merged with and into Cleco Corporation, with Cleco Corporation surviving the Merger, and Cleco Corporation converting to a limited liability company and changing its name to Cleco Holdings
Midstream	Cleco Midstream Resources LLC, a wholly owned subsidiary of Cleco Holdings
MIRA	Macquarie Infrastructure and Real Assets Inc.
MISO	Midcontinent Independent System Operator, Inc.
Moody's	Moody's Investors Service, a credit rating agency
MW	Megawatt(s)
MWh	Megawatt-hour(s)
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
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 Holdings
Predecessor	Pre-merger activity of Cleco. Cleco has accounted for the merger transaction by applying the acquisition method of accounting. The predecessor period is not comparable to the successor period.
Registrant(s)	Cleco Holdings and/or Cleco Power
Rodemacher Unit 2	A 523-MW 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.
ROE	Return on Equity
RTO	Regional Transmission Organization
S&P	Standard & Poor's Ratings Services, a credit rating agency
SEC	U.S. Securities and Exchange Commission
SERP	Supplemental Executive Retirement Plan
SPP	Southwest Power Pool
SSR	System Support Resource
Successor	Post-merger activity of Cleco. Cleco has accounted for the merger transaction by applying the acquisition method of accounting. The successor period is not comparable to the predecessor period.
Support Group	Cleco Support Group LLC, a wholly owned subsidiary of Cleco Holdings
SWEPCO	Southwestern Electric Power Company, an electric utility subsidiary of American Electric Power Company, Inc.
Teche Unit 3	A 359-MW generating unit at Cleco Power's plant site in Baldwin, Louisiana.
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; 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:

- the effects of the Merger on Cleco Holdings' and Cleco Power's business relationships, operating results, and business generally,
- regulatory factors such as changes in rate-setting practices or policies; the unpredictability in political actions of governmental regulatory bodies; adverse regulatory ratemaking actions; recovery of investments made under traditional regulation; recovery of storm restoration costs; the frequency, timing, and amount of rate increases or decreases; the impact that rate cases or requests for FRP extensions may have on operating decisions of Cleco Power; the results of periodic NERC, LPSC, and FERC audits; participation in MISO and the related operating challenges and uncertainties, including increased wholesale competition relative to additional suppliers; and compliance with the ERO reliability standards for bulk power systems by Cleco Power,
- the ability to recover fuel costs through the FAC,
- factors affecting utility operations, such as unusual weather conditions or other natural phenomena; catastrophic weather-related damage caused by hurricanes and other storms or severe drought conditions; unscheduled generation outages; unanticipated maintenance or repairs; unanticipated changes to fuel costs or fuel supply costs, shortages, transportation problems, or other developments; fuel mix of Cleco's generating facilities; decreased customer load; environmental incidents and compliance costs; and power transmission system constraints,
- 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,
- global and domestic economic conditions, including the ability of customers to continue paying their 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 ability of the lignite reserves at Dolet Hills to provide sufficient fuel to the Dolet Hills Power Station until at least 2036,
- Cleco Power's ability to maintain its right to sell wholesale power 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,
- reliability of Cleco Power's generating facilities,
- the imposition of energy efficiency requirements or increased conservation efforts of customers,
- the impact of current or future environmental laws and regulations, including those related to CCRs, greenhouse gases, and energy efficiency that could limit or terminate the operation of certain generating units, increase costs, or reduce customer demand for electricity,

- the ability to recover costs of compliance with environmental laws and regulations, including those through the EAC,
- financial or regulatory accounting principles or policies imposed by FASB, the SEC, FERC, the LPSC, or similar entities with regulatory or accounting oversight,
- 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,
- legal, environmental, and regulatory delays and other obstacles associated with acquisitions, reorganizations, investments in joint ventures, or other capital projects,
- costs and other effects of legal and administrative proceedings, settlements, investigations, claims, and other matters,
- the availability and use of alternative sources of energy and technologies, such as wind, solar, battery storage, and distributed generation,
- changes in federal, state, or local laws (including tax laws), changes in tax rates, disallowances of tax positions, or changes in other regulating policies that may result in a change to tax benefits or expenses,
- the restriction on the ability of Cleco Power to make distributions to Cleco Holdings in certain instances, as a result of the Merger Commitments,
- Cleco Holdings’ dependence on the earnings, dividends, or distributions from its subsidiaries to meet its debt obligations,

- 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,
- nonperformance by and creditworthiness of the guarantor counterparty of the NMTC Fund,
- credit ratings of Cleco Holdings and Cleco Power,
- the ability to remain in compliance with debt covenants,
- the availability or cost of capital resulting from changes in global markets, Cleco's business or financial condition, interest rates, or market perceptions of the electric utility industry and energy-related industries, and
- employee workforce factors, including aging workforce, changes in management, and inadequate resources.

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 see Part I, Item 1A, "Risk Factors" in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2016.
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.
Any forward-looking statement is considered only as of the date of this Combined Quarterly Report on Form 10-Q and, except as required by law, 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.

PART I — FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Cleco
These unaudited Condensed Consolidated Financial Statements should be read in conjunction with Cleco's Consolidated Financial Statements and Notes included in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2016. 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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Condensed Consolidated Statements of Income (Unaudited)

(THOUSANDS)	SUCCESSOR FOR THE THREE MONTHS ENDED JUNE 30, 2017	SUCCESSOR APR. 13, 2016 - JUNE 30, 2016	PREDECESSOR APR. 1, 2016 - APR. 12, 2016
Operating revenue			
Electric operations	$287,435	$229,927	$ 30,997
Other operations	21,465	14,133	1,949
Gross operating revenue	308,900	244,060	32,946
Electric customer credits	(239)	(558)	(43)
Operating revenue, net	308,661	243,502	32,903
Operating expenses			
Fuel used for electric generation	87,974	66,251	8,934
Power purchased for utility customers	43,356	24,382	4,144
Other operations	29,256	24,270	4,244
Maintenance	24,400	22,905	5,182
Depreciation and amortization	41,552	34,160	5,137
Taxes other than income taxes	11,874	10,379	1,704
Merger transaction and commitment costs	—	171,303	33,390
Total operating expenses	238,412	353,650	62,735
Operating income (loss)	70,249	(110,148)	(29,832)
Interest income	381	197	41
Allowance for equity funds used during construction	1,440	749	72
Other income	475	1,738	364
Other expense	(260)	(187)	(73)
Interest charges			
Interest charges, including amortization of debt issuance costs, premiums, and discounts, net	31,022	26,693	2,592
Allowance for borrowed funds used during construction	(401)	(228)	(23)
Total interest charges	30,621	26,465	2,569
Income (loss) before income taxes	41,664	(134,116)	(31,997)
Federal and state income tax expense (benefit)	16,220	(52,202)	(8,669)
Net income (loss)	$25,444	$(81,914)	$ (23,328)

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

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Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	SUCCESSOR		PREDECESSOR
(THOUSANDS)	FOR THE THREE MONTHS ENDED JUNE 30, 2017	APR. 13, 2016 - JUNE 30, 2016	APR. 1, 2016 - APR. 12, 2016
Net income (loss)	$25,444	$(81,914)	$ (23,328)
Other comprehensive income, net of tax			
Postretirement benefits gain (net of tax expense of $37, $0, and $37, respectively)	60	—	59
Amortization of interest rate derivatives to earnings (net of tax expense of $0, $0, and $4, respectively)	—	—	7
Total other comprehensive income, net of tax	60	—	66
Comprehensive income (loss), net of tax	$25,504	$(81,914)	$ (23,262)

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

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Condensed Consolidated Statements of Income (Unaudited)

(THOUSANDS)	SUCCESSOR FOR THE SIX MONTHS ENDED JUNE 30, 2017	APR. 13, 2016 - JUNE 30, 2016	PREDECESSOR JAN. 1, 2016 - APR. 12, 2016
Operating revenue			
Electric operations	$521,491	$229,927	$ 281,154
Other operations	38,345	14,133	19,080
Gross operating revenue	559,836	244,060	300,234
Electric customer credits	(674)	(558)	(364)
Operating revenue, net	559,162	243,502	299,870
Operating expenses			
Fuel used for electric generation	157,846	66,251	96,378
Power purchased for utility customers	75,320	24,382	27,249
Other operations	61,244	24,270	33,563
Maintenance	48,924	22,905	29,813
Depreciation and amortization	82,402	34,160	44,076
Taxes other than income taxes	24,376	10,379	14,611
Merger transaction and commitment costs	2	171,303	34,912
Gain on sale of asset	—	—	(1,095)
Total operating expenses	450,114	353,650	279,507
Operating income (loss)	109,048	(110,148)	20,363
Interest income	693	197	265
Allowance for equity funds used during construction	2,350	749	723
Other income	1,845	1,738	870
Other expense	(534)	(187)	(590)
Interest charges			
Interest charges, including amortization of debt issuance costs, premiums, and discounts, net	62,967	26,693	22,330
Allowance for borrowed funds used during construction	(628)	(228)	(207)
Total interest charges	62,339	26,465	22,123
Income (loss) before income taxes	51,063	(134,116)	(492)
Federal and state income tax expense (benefit)	19,327	(52,202)	3,468
Net income (loss)	$31,736	$(81,914)	$ (3,960)

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

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Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(THOUSANDS)	SUCCESSOR FOR THE SIX MONTHS ENDED JUNE 30, 2017	APR. 13, 2016 - JUNE 30, 2016	PREDECESSOR JAN. 1, 2016 - APR. 12, 2016
Net income (loss)	$31,736	$(81,914)	$ (3,960)
Other comprehensive (loss) income, net of tax			
Postretirement benefits (loss) gain (net of tax benefit of $1,333 and tax expense of $0 and $367, respectively)	(2,131)	—	587
Amortization of interest rate derivatives to earnings (net of tax expense of $0, $0, and $37, respectively)	—	—	60
Total other comprehensive (loss) income, net of tax	(2,131)	—	647
Comprehensive income (loss), net of tax	$29,605	$(81,914)	$ (3,313)

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

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Condensed Consolidated Balance Sheets (Unaudited)

(THOUSANDS)	AT JUNE 30, 2017	AT DEC. 31, 2016
Assets		
Current assets		
Cash and cash equivalents	$10,512	$23,077
Restricted cash and cash equivalents	16,991	23,084
Customer accounts receivable (less allowance for doubtful accounts of $2,278 in 2017 and $7,199 in 2016)	70,347	56,780
Other accounts receivable	36,872	19,778
Unbilled revenue	39,945	34,268
Fuel inventory, at average cost	55,994	46,410
Materials and supplies, at average cost	81,757	81,818
Energy risk management assets	18,245	7,884
Accumulated deferred fuel	26,922	20,787
Cash surrender value of company-/trust-owned life insurance policies	79,618	77,225
Prepayments	8,572	7,813
Regulatory assets	30,409	26,803
Other current assets	408	1,315
Total current assets	476,592	427,042
Property, plant, and equipment		
Property, plant, and equipment	3,534,966	3,476,581
Accumulated depreciation	(129,954)	(75,816)
Net property, plant, and equipment	3,405,012	3,400,765
Construction work in progress	130,531	78,577
Total property, plant, and equipment, net	3,535,543	3,479,342
Equity investment in investee	18,172	18,672
Goodwill	1,490,797	1,490,797
Prepayments	2,040	4,731
Restricted cash and cash equivalents	23,500	23,410
Regulatory assets - deferred taxes, net	240,319	237,449
Regulatory assets	437,534	454,644
Net investment in direct financing lease	13,394	13,420
Intangible assets	128,395	142,634
Tax credit fund investment, net	10,742	11,888
Other deferred charges	34,238	39,115
Total assets	$6,411,266	$6,343,144

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

(Continued on next page)

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Condensed Consolidated Balance Sheets (Unaudited)

(THOUSANDS)	AT JUNE 30, 2017	AT DEC. 31, 2016
Liabilities and member's equity		
Liabilities		
Current liabilities		
Short-term debt	$85,800	$—
Long-term debt due within one year	19,007	19,715
Accounts payable	103,180	112,087
Customer deposits	57,351	56,599
Provision for rate refund	3,693	3,974
Provision for merger commitments	8,321	14,371
Taxes payable	19,422	3,942
Interest accrued	15,835	14,783
Energy risk management liabilities	302	201
Deferred compensation	11,158	11,654
Other current liabilities	16,453	14,850
Total current liabilities	340,522	252,176
Long-term liabilities and deferred credits		
Accumulated deferred federal and state income taxes, net	1,051,473	1,033,055
Accumulated deferred investment tax credits	2,420	2,751
Postretirement benefit obligations	229,040	223,003
Restricted storm reserve	17,911	17,385
Other deferred credits	24,294	29,440
Total long-term liabilities and deferred credits	1,325,138	1,305,634
Long-term debt, net	2,724,893	2,738,571
Total liabilities	4,390,553	4,296,381
Commitments and contingencies (Note 12)		
Member's equity		
Membership interest	2,013,721	2,069,376
Retained earnings/(Accumulated deficit)	7,623	(24,113)
Accumulated other comprehensive (loss) income	(631)	1,500
Total member's equity	2,020,713	2,046,763
Total liabilities and member's equity	$6,411,266	$6,343,144

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)	SUCCESSOR FOR THE SIX MONTHS ENDED JUNE 30, 2017	APR. 13 2016 - JUNE 30, 2016	PREDECESSOR JAN. 1, 2016 - APR. 12, 2016
Operating activities			
Net income (loss)	$31,736	$(81,914)	$ (3,960)
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	93,943	57,718	45,869
Gain on sale of asset	—	—	(1,095)
Provision for doubtful accounts	2,587	926	1,212
Unearned compensation expense	1,909	361	3,276
Allowance for equity funds used during construction	(2,350)	(748)	(724)
Deferred income taxes	16,881	(47,264)	2,219
Deferred fuel costs	(305)	(7,717)	977
Cash surrender value of company-/trust-owned life insurance	(2,393)	(1,761)	(840)
Changes in assets and liabilities			
Accounts receivable	(30,205)	(5,360)	(1,865)
Accounts and notes receivable, affiliate	12	(3,786)	—
Unbilled revenue	(5,677)	(12,988)	563
Fuel inventory and materials and supplies	(9,652)	12,765	19,312
Prepayments	(896)	(2,425)	2,395
Accounts payable	(23,828)	(19,143)	8,348
Customer deposits	5,646	2,787	3,342
Provision for merger commitments	(6,761)	150,840	—
Postretirement benefit obligations	2,696	936	9,746
Regulatory assets and liabilities, net	4,896	4,104	5,178
Other deferred accounts	(8,631)	(7,109)	6,878
Taxes accrued	15,000	(8,161)	10,820
Interest accrued	965	(11,760)	17,909
Deferred compensation	(581)	(1,436)	(793)
Other operating	2,073	1,925	1,012
Net cash provided by operating activities	87,065	20,790	129,779
Investing activities			
Additions to property, plant, and equipment	(128,693)	(43,623)	(42,392)
Allowance for equity funds used during construction	2,350	748	724
Proceeds from sale of property	458	159	1,932
Contributions to equity investment in investee	—	—	(2,450)
Transfer of cash from (to) restricted accounts, net	6,003	(147,830)	4,847

Other investing	816	579	529
Net cash used in investing activities	(119,066)	(189,967)	(36,810)

CLECO
CLECO POWER 2017 2ND QUARTER FORM 10-Q

CLECO

Condensed Consolidated Statements of Cash Flows (Unaudited)

(THOUSANDS)	SUCCESSOR FOR THE SIX MONTHS ENDED JUNE 30, 2017	APR. 13 2016 - JUNE 30, 2016	PREDECESSOR JAN. 1, 2016 - APR. 12, 2016
Financing activities			
Draws on credit facilities	114,000	15,000	3,000
Payments on credit facilities	(29,000)	(15,000)	(10,000)
Issuance of long-term debt	—	1,350,000	—
Repayment of long-term debt	(9,060)	(1,350,000)	(8,546)
Payment of financing costs	(301)	(5,830)	(43)
Dividends paid on common stock	—	(572)	(24,579)
Contribution from member	—	100,720	—
Distributions to member	(55,655)	(28,000)	—
Other financing	(548)	(559)	(717)
Net cash provided by (used in) financing activities	19,436	65,759	(40,885)
Net (decrease) increase in cash and cash equivalents	(12,565)	(103,418)	52,084
Cash and cash equivalents at beginning of period	23,077	120,330	68,246
Cash and cash equivalents at end of period	$ 10,512	$ 16,912	$ 120,330
Supplementary cash flow information			
Interest paid, net of amount capitalized	$ 57,937	$ 37,466	$ 2,478
Income taxes paid (refunded), net	$ 1	$ 256	$ (481)
Supplementary non-cash investing and financing activities			
Accrued additions to property, plant, and equipment	$ 13,125	$ 19,668	$ 10,619
Non-cash additions to property, plant, and equipment	$ 3,009	$ —	$ —

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

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CLECO

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

(THOUSANDS)	MEMBERSHIP INTEREST	(ACCUMULATED DEFICIT) /RETAINED EARNINGS	AOCI	TOTAL MEMBER'S EQUITY
Balances, Dec. 31, 2016	$ 2,069,376	$ (24,113)	$ 1,500	$ 2,046,763
Distributions to member	(55,655)	—	—	(55,655)
Net income	—	31,736	—	31,736
Other comprehensive loss, net of tax	—	—	(2,131)	(2,131)
Balances, June 30, 2017	$ 2,013,721	$ 7,623	$ (631)	$ 2,020,713

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

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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, 2016. For more information on the basis of presentation, see "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 1 — Summary of Significant Accounting Policies — Basis of Presentation."

CLECO
CLECO POWER 2017 2ND QUARTER FORM 10-Q

CLECO POWER

Condensed Consolidated Statements of Income (Unaudited)

(THOUSANDS)	FOR THE THREE MONTHS ENDED JUNE 30, 2017	2016
Operating revenue		
Electric operations	$289,855	$263,155
Other operations	20,950	15,564
Affiliate revenue	221	225
Gross operating revenue	311,026	278,944
Electric customer credits	(239)	(601)
Operating revenue, net	310,787	278,343
Operating expenses		
Fuel used for electric generation	87,974	75,185
Power purchased for utility customers	43,356	28,526
Other operations	29,782	29,287
Maintenance	24,264	27,954
Depreciation and amortization	39,473	36,240
Taxes other than income taxes	11,404	11,491
Merger commitment costs	—	151,501
Total operating expenses	236,253	360,184
Operating income (loss)	74,534	(81,841)
Interest income	328	146
Allowance for equity funds used during construction	1,440	821
Other income	165	204
Other expense	(260)	(272)
Interest charges		
Interest charges, including amortization of debt issuance costs, premiums, and discounts, net	17,812	19,564
Allowance for borrowed funds used during construction	(401)	(251)
Total interest charges	17,411	19,313
Income (loss) before income taxes	58,796	(100,255)
Federal and state income tax expense (benefit)	23,063	(39,026)
Net income (loss)	$35,733	$(61,229)

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

CLECO POWER

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	FOR THE THREE MONTHS ENDED JUNE 30,	
(THOUSANDS)	2017	2016
Net income (loss)	$35,733	$(61,229)
Other comprehensive income, net of tax		
Postretirement benefits gain (net of tax expense of $120 in 2017 and $113 in 2016)	193	181
Amortization of interest rate derivatives to earnings (net of tax expense of $33 in 2017 and 2016)	53	53
Total other comprehensive income, net of tax	246	234
Comprehensive income (loss), net of tax	$35,979	$(60,995)

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

CLECO POWER

Condensed Consolidated Statements of Income (Unaudited)

	FOR THE SIX MONTHS ENDED JUNE 30,	
(THOUSANDS)	2017	2016
Operating revenue		
Electric operations	$527,408	$513,312
Other operations	37,315	32,178
Affiliate revenue	440	457
Gross operating revenue	565,163	545,947
Electric customer credits	(674)	(922)
Operating revenue, net	564,489	545,025
Operating expenses		
Fuel used for electric generation	157,846	162,629
Power purchased for utility customers	75,320	51,631
Other operations	61,770	58,681
Maintenance	48,684	52,492
Depreciation and amortization	78,230	74,843
Taxes other than income taxes	23,404	23,916
Merger commitment costs	—	151,501
Gain on sale of asset	—	(1,095)
Total operating expenses	445,254	574,598
Operating income (loss)	119,235	(29,573)
Interest income	594	325
Allowance for equity funds used during construction	2,350	1,472
Other income	375	351
Other expense	(534)	(789)
Interest charges		
Interest charges, including amortization of debt issuance costs, premiums, and discounts, net	36,143	39,034
Allowance for borrowed funds used during construction	(628)	(435)
Total interest charges	35,515	38,599
Income (loss) before income taxes	86,505	(66,813)
Federal and state income tax expense (benefit)	32,918	(26,463)
Net income (loss)	$53,587	$(40,350)

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

CLECO POWER

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	FOR THE SIX MONTHS ENDED JUNE 30,	
(THOUSANDS)	2017	2016
Net income (loss)	$53,587	$(40,350)
Other comprehensive (loss) income, net of tax		
Postretirement benefits (loss) gain (net of tax benefit of $142 in 2017 and tax expense of $239 in 2016)	(227)	381
Amortization of interest rate derivatives to earnings (net of tax expense of $66 in 2017 and 2016)	106	106
Total other comprehensive (loss) income, net of tax	(121)	487
Comprehensive income (loss), net of tax	$53,466	$(39,863)

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

CLECO
CLECO POWER 2017 2ND QUARTER FORM 10-Q

CLECO POWER

Condensed Consolidated Balance Sheets (Unaudited)

(THOUSANDS)	AT JUNE 30, 2017	AT DEC. 31, 2016
Assets		
Utility plant and equipment		
Property, plant, and equipment	$4,843,139	$4,790,565
Accumulated depreciation	(1,662,791)	(1,618,241)
Net property, plant, and equipment	3,180,348	3,172,324
Construction work in progress	128,919	77,306
Total utility plant and equipment, net	3,309,267	3,249,630
Current assets		
Cash and cash equivalents	3,469	21,482
Restricted cash and cash equivalents	16,991	23,084
Customer accounts receivable (less allowance for doubtful accounts of $2,278 in 2017 and $7,199 in 2016)	70,347	56,780
Accounts receivable - affiliate	753	1,406
Other accounts receivable	36,682	19,457
Taxes receivable, net	—	12,490
Unbilled revenue	39,945	34,268
Fuel inventory, at average cost	55,994	46,410
Materials and supplies, at average cost	81,757	81,818
Energy risk management assets	18,245	7,884
Accumulated deferred fuel	26,922	20,787
Cash surrender value of company-owned life insurance policies	20,154	20,018
Prepayments	7,193	5,892
Regulatory assets	21,552	17,721
Other current assets	—	577
Total current assets	400,004	370,074
Equity investment in investee	18,172	18,672
Prepayments	2,040	4,731
Restricted cash and cash equivalents	23,479	23,389
Regulatory assets - deferred taxes, net	240,319	237,449
Regulatory assets	256,989	268,016
Intangible asset	50,279	58,473
Other deferred charges	32,294	37,014
Total assets	$4,332,843	$4,267,448

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

(Continued on next page)

CLECO POWER

Condensed Consolidated Balance Sheets (Unaudited)

(THOUSANDS)	AT JUNE 30, 2017	AT DEC. 31, 2016
Liabilities and member's equity		
Member's equity	$1,528,668	$1,535,202
Long-term debt, net	1,226,305	1,235,056
Total capitalization	2,754,973	2,770,258
Current liabilities		
Short-term debt	75,800	—
Long-term debt due within one year	19,007	19,715
Accounts payable	96,235	101,874
Accounts payable - affiliate	7,119	7,190
Customer deposits	57,351	56,599
Provision for rate refund	3,693	3,974
Provision for merger commitments	8,321	14,371
Taxes payable	9,742	—
Interest accrued	8,178	7,141
Energy risk management liabilities	302	201
Other current liabilities	11,329	9,951
Total current liabilities	297,077	221,016
Commitments and contingencies (Note 12)		
Long-term liabilities and deferred credits		
Accumulated deferred federal and state income taxes, net	1,075,303	1,068,592
Accumulated deferred investment tax credits	2,420	2,751
Postretirement benefit obligations	162,800	159,107
Restricted storm reserve	17,911	17,385
Other deferred credits	22,359	28,339
Total long-term liabilities and deferred credits	1,280,793	1,276,174
Total liabilities and member's equity	$4,332,843	$4,267,448

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

CLECO
CLECO POWER 2017 2ND QUARTER FORM 10-Q

CLECO POWER

Condensed Consolidated Statements of Cash Flows (Unaudited)

	FOR THE SIX MONTHS ENDED JUNE 30,	
(THOUSANDS)	2017	2016
Operating activities		
Net income (loss)	$53,587	$(40,350)
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	82,292	79,059
Gain on sale of asset	—	(1,095)
Provision for doubtful accounts	2,500	2,051
Unearned compensation expense	1,023	1,186
Allowance for equity funds used during construction	(2,350)	(1,472)
Deferred income taxes	3,916	(22,438)
Deferred fuel costs	(305)	(6,740)
Changes in assets and liabilities		
Accounts receivable	(30,240)	(6,914)
Accounts and notes receivable, affiliate	1,560	(680)
Unbilled revenue	(5,677)	(12,425)
Fuel inventory and materials and supplies	(9,652)	32,077
Prepayments	(1,438)	(512)
Accounts payable	(21,455)	(13,238)
Accounts and notes payable, affiliate	(58)	(4,129)
Customer deposits	5,646	6,129
Provision for merger commitments	(6,761)	150,840
Postretirement benefit obligations	2,472	2,426
Regulatory assets and liabilities, net	3,902	8,854
Other deferred accounts	(8,665)	(231)
Taxes accrued	21,753	(11,129)
Interest accrued	1,037	1,102
Other operating	1,436	1,819
Net cash provided by operating activities	94,523	164,190
Investing activities		
Additions to property, plant, and equipment	(127,297)	(85,936)
Allowance for equity funds used during construction	2,350	1,472
Proceeds from sale of property	458	2,091
Contributions to equity investment in investee	—	(2,450)
Transfer of cash from (to) restricted accounts, net	6,003	(142,983)
Other investing	605	157
Net cash used in investing activities	(117,881)	(227,649)
Financing activities		
Draws on credit facility	90,000	15,000
Payments on credit facility	(15,000)	(15,000)
Repayment of long-term debt	(9,060)	(8,546)
Contributions from parent	—	50,000

Distributions to parent	(60,000)	(35,000)
Other financing	(595)	(1,390)
Net cash provided by financing activities	5,345	5,064
Net decrease in cash and cash equivalents	(18,013)	(58,395)
Cash and cash equivalents at beginning of period	21,482	65,705
Cash and cash equivalents at end of period	$3,469	$7,310
Supplementary cash flow information		
Interest paid, net of amount capitalized	$31,907	$35,746
Income taxes refunded, net	$—	$(485)
Supplementary non-cash investing and financing activities		
Accrued additions to property, plant, and equipment	$13,081	$19,571
Non-cash additions to property, plant, and equipment	$3,009	$—

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

CLECO POWER

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

(THOUSANDS)	MEMBER'S EQUITY	AOCI	TOTAL MEMBER'S EQUITY
Balances, Dec. 31, 2016	$1,548,624	$(13,422)	$1,535,202
Distributions to parent	(60,000)	—	(60,000)
Net income	53,587	—	53,587
Other comprehensive loss, net of tax	—	(121)	(121)
Balances, June 30, 2017	$1,542,211	$(13,543)	$1,528,668

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

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

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 Holdings and its majority-owned subsidiaries after elimination of intercompany accounts and transactions.

Basis of Presentation

The Condensed Consolidated Financial Statements of Cleco and Cleco Power have been prepared in accordance with GAAP for interim financial information and with the instructions to the 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, 2016.

These Condensed Consolidated Financial Statements, in the opinion of management, reflect all normal recurring adjustments that are necessary to fairly state 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, discrete income tax items, 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 information on recent authoritative guidance and its effect on financial results, see Note 3 — "Recent Authoritative Guidance."

On April 13, 2016, Cleco Holdings completed its merger with Merger Sub whereby Merger Sub merged with and into Cleco Corporation, with Cleco Corporation surviving the Merger, and Cleco Corporation converting to a limited liability company and changing its name to Cleco Holdings, as a direct, wholly owned subsidiary of Cleco Group and an indirect, wholly owned subsidiary of Cleco Partners. At the effective time of the Merger, each outstanding share of Cleco Corporation common stock, par value $1.00 per share (other than shares that were owned by Cleco Corporation, Cleco Partners, Merger Sub, or any other direct or indirect wholly owned subsidiary of Cleco Partners or Cleco Corporation), were cancelled and were converted into the right to receive $55.37 per share in cash, without interest, with all dividends payable before the effective time of the Merger.

Cleco Holdings accounted for the merger transaction by applying the acquisition method of accounting. The objective of the acquisition method is to establish a new accounting basis for the acquiree, Cleco Holdings and its subsidiaries, and requires the acquirer, Cleco Group, to recognize and measure the acquiree’s assets and liabilities at fair value as of the acquisition date. Cleco Power’s assets and liabilities were recorded at historical cost since Cleco did not elect pushdown accounting at the Cleco Power level. The financial statements and accompanying footnotes for Cleco have been segregated to present pre-merger activity as the “Predecessor” and post-merger activity as the “Successor.” The predecessor period is not comparable to the successor period.

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 and Cleco Power's restricted cash and cash equivalents consisted of:

Cleco

(THOUSANDS)	AT JUNE 30, 2017	AT DEC. 31, 2016
Current		
Cleco Katrina/Rita's storm recovery bonds	$8,794	$9,213
Cleco Power's charitable contributions	1,200	1,200
Cleco Power's rate credit escrow	6,997	12,671
Total current	16,991	23,084
Non-current		
Diversified Lands' mitigation escrow	21	21
Cleco Power's future storm restoration costs	17,782	17,379
Cleco Power's charitable contributions	3,835	4,179
Cleco Power's rate credit escrow	1,862	1,831
Total non-current	23,500	23,410
Total restricted cash and cash equivalents	$40,491	$46,494

Cleco Power

(THOUSANDS)	AT JUNE 30, 2017	AT DEC. 31, 2016
Current		
Cleco Katrina/Rita's storm recovery bonds	$8,794	$9,213
Charitable contributions	1,200	1,200
Rate credit escrow	6,997	12,671
Total current	16,991	23,084
Non-current		
Future storm restoration costs	17,782	17,379
Charitable contributions	3,835	4,179
Rate credit escrow	1,862	1,831
Total non-current	23,479	23,389
Total restricted cash and cash equivalents	$40,470	$46,473

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. The change from December 31, 2016, to June 30, 2017, was due to Cleco Katrina/Rita using $9.1 million for a scheduled storm recovery bond principal payment and $1.9 million for a related interest payment, partially offset by collections of $10.6 million net of administration fees.

Included in the Merger Commitments were $6.0 million of charitable contributions to be disbursed over five years and $136.0 million of rate credits to eligible customers. In April 2016, in accordance with the Merger Commitments, Cleco Power established the charitable contribution fund and also deposited the rate credit funds into an escrow account. In April 2016, the LPSC voted to issue the rate credits equally to customers with service as of June 30, 2016, beginning in July 2016. As of June 30, 2017, $1.0 million of the charitable contributions and $127.2 million of the rate credits had been released from restricted cash.

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 disclose the fair value of certain assets and liabilities by one of three levels when

required for recognition purposes. For more information about fair value levels, see Note 5 — "Fair Value Accounting."

Risk Management

Market risk inherent in Cleco's market risk-sensitive instruments and positions includes potential changes in value 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 evaluates derivatives and hedging activities to determine whether the market risk-sensitive instruments and positions are required to be marked-to-market.

Cleco Power may also enter into risk 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 would be marked-to-market with the resulting gain or loss recorded on Cleco and Cleco Power's Condensed Consolidated Balance Sheets as a component of energy risk management assets or liabilities. Such gain or loss would be deferred as a component of deferred fuel assets or liabilities in accordance with regulatory policy. When these positions close, actual gains or losses would be included in the FAC and reflected on customers' bills as a component of the fuel charge. In June 2015, the LPSC approved a long-term natural gas hedging pilot program that requires Cleco Power to establish a proposal for a program that will be designed to provide gas price stability for a minimum of five years. This proposal was submitted to the LPSC on July 28, 2017. There were no open natural gas positions at June 30, 2017, or December 31, 2016.

Cleco Power purchases FTRs in auctions facilitated by MISO. The majority of its FTRs are purchased in annual auctions during the second quarter, but Cleco Power may purchase additional FTRs in monthly auctions. FTRs are derivative instruments which represent economic hedges of future congestion charges that will be incurred in serving Cleco Power's customer load. FTRs are not designated as hedging instruments for accounting purposes. Cleco Power records FTRs at their estimated fair value when purchased. Each accounting period, Cleco Power adjusts the carrying value of FTRs to their estimated fair value based on the most recent MISO FTR auction prices. Unrealized gains or losses on FTRs held by Cleco Power are included in Accumulated deferred fuel on Cleco Power's Condensed Consolidated Balance Sheets. Realized gains or losses on settled FTRs are recorded in Fuel used for electric generation on Cleco Power's Condensed Consolidated Statements of Income. At June 30, 2017, Cleco Power's Condensed Consolidated Balance Sheets reflected the fair value of open FTR positions of $18.2 million in Energy risk management assets and $0.3 million in Energy risk management liabilities, compared to $7.9 million in Energy risk management assets and $0.2 million in Energy risk management liabilities at December 31, 2016. For more information on FTRs, see Note 5 — "Fair Value Accounting — Commodity Contracts."

Cleco and Cleco Power maintain a master netting agreement policy and monitor credit risk exposure through review of counterparty credit quality, aggregate counterparty credit exposure, and aggregate counterparty concentration

levels. Cleco manages these risks by establishing appropriate credit and concentration limits on transactions with counterparties and requiring contractual guarantees, cash deposits, or letters of credit from counterparties or their affiliates, as deemed necessary. Cleco Power has agreements in place with various counterparties that authorize the netting of financial buys and sells and contract payments to mitigate credit risk for transactions entered into for risk management purposes.
Cleco and Cleco Power may enter into 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 each reporting period presented, the Registrants did not enter into any contracts to mitigate the volatility in interest rate risk.

Stock-Based Compensation
Prior to the completion of the Merger, Cleco had two stock-based compensation plans: the ESPP and the LTIP. As a result of the completion of the Merger, the ESPP and the LTIP were terminated.
Pursuant to the terms of the LTIP, certain officers, key employees, and directors of Cleco were eligible to be granted stock options, restricted stock, also known as non-vested stock, common stock equivalents, and stock appreciation rights. During the predecessor period January 1, 2016, through April 12, 2016, Cleco granted no shares of non-vested stock pursuant to the LTIP. As a result of the Merger on April 13, 2016, all unvested shares outstanding under the LTIP that were granted prior to January 1, 2015, vested at target and were paid out in cash to plan participants. Unvested shares that were granted during 2015 were prorated to the target amount and paid out in cash to plan participants in accordance with the terms of the Merger Agreement.
During the predecessor periods April 1, 2016, through April 12, 2016, and January 1, 2016, through April 12, 2016, Cleco reported pretax compensation expense of $2.3 million and $3.2 million, respectively, on non-vested stock with a related tax benefit of $0.9 million and $1.2 million, respectively. In April 2016, Cleco incurred $2.3 million of merger expense due to the accelerated vesting of the LTIP shares for the predecessor period. For more information about the Merger, see Note 2 — “Business Combinations.”
During the three and six months ended June 30, 2016, Cleco Power reported pretax compensation expense of $0.6 million and $1.0 million, respectively, on non-vested stock with a related tax benefit of $0.2 million and $0.4 million, respectively.

Note 2 — Business Combinations

Regulatory Matters
On March 28, 2016, the LPSC approved the Merger. The LPSC’s written order approving the Merger was issued on April 7, 2016. Approval of the Merger was conditioned upon certain commitments, including $136.0 million of customer rate credits, a $7.0 million one-time contribution for economic development in Cleco Power’s service territory to be administered by the LED, $6.0 million of charitable contributions to be disbursed over five years, and $2.5 million of contributions for economic development for Louisiana state and local organizations to be disbursed over five years. These commitment costs were accrued on April 13, 2016. In addition, the Merger Commitments also included $1.2 million of annual

refunds to customers representing cost savings due to the Merger. For more information, see Note 10 — “Regulation and Rates.”

Accounting for the Merger Transaction
The total purchase price consideration was approximately $3.36 billion, which consisted of cash paid to Cleco Corporation shareholders of $3.35 billion and cash paid for Cleco LTIP equity awards of $9.5 million. There were no remaining LTIP equity awards as of the close of the Merger.

Pushdown accounting was applied to Cleco, and accordingly, the Cleco consolidated assets acquired and liabilities assumed were recorded on April 13, 2016, at their fair values as follows:

Purchase Price Allocation

(THOUSANDS)	AT APR. 13, 2016
Current assets	$455,016
Property, plant, and equipment, net	3,432,144
Goodwill	1,490,797
Other long-term assets	1,023,487
Less	
Current liabilities	228,515
Net deferred income tax liabilities	1,059,939
Other deferred credits	279,379
Long-term debt, net	1,470,126
Total purchase price	$3,363,485

Cleco Power's assets and liabilities were recorded at historical cost since Cleco did not elect pushdown accounting at the Cleco Power level.

The following table presents the fair value adjustments to Cleco's balance sheet and recognition of goodwill:

(THOUSANDS)	AT APR. 13, 2016
Property, plant, and equipment	$(1,334,932)
Accumulated depreciation	$(1,565,776)
Goodwill	$1,490,797
Intangible assets	$91,826
Regulatory assets	$250,409
Deferred income tax liabilities	$126,853
Other deferred credits	$21,175
Long-term debt	$198,599

Most of the carrying values of Cleco's assets and liabilities were determined to be stated at fair value at the Merger date, considering that most of these assets are subject to regulation by the LPSC and FERC. Under such regulation, rates charged to customers are established by a regulator to provide for recovery of costs and a fair return on rate base and are generally measured at historical cost. As such, a market participant would not expect to recover any more or less than the carrying value of the assets. Prior to the Merger, the Coughlin step-up value was not recorded on Cleco's Condensed Consolidated Balance Sheet due to the accounting treatment for the transfer of that asset in March 2014. However, the recovery of the step-up value of the Coughlin asset was approved by the LPSC for recovery in base rates, including a return on rate base. On the date of the Merger, the step-up value for the Coughlin asset was recognized on Cleco's Condensed Consolidated Balance Sheet since Cleco Power is able to earn a return on and recover these costs from its customers. The beginning balance

of fixed depreciable assets was shown net at the date of the Merger, as no accumulated depreciation existed on the date of the Merger.
The excess of the purchase price over the estimated fair value of assets acquired and the liabilities assumed was $1.49 billion, which was recognized as goodwill by Cleco Holdings at the Merger date. The goodwill represents the potential long-term return of Cleco to its member. Management has assigned goodwill to Cleco’s reportable segment, Cleco Power.
A fair value adjustment was recorded on Cleco’s Condensed Consolidated Balance Sheet to reflect the valuation of the Cleco trade name. This adjustment is included in Intangible assets on Cleco’s Condensed Consolidated Balance Sheet. The valuation of the trade name was estimated by applying the relief-from-royalty method under the income approach. This valuation method is based on the premise that, in lieu of ownership of the asset, a company would be willing to pay a royalty to a third-party for the use of that asset. The owner of the asset is spared this cost, and the value of the asset is estimated by the cost savings. The projected revenue attributed to the trade name was based on projections of the value of Cleco’s wholesale contracts. The trade name is being amortized over 20 years. The amortization of the Cleco trade name is included in Depreciation and amortization on Cleco’s Condensed Consolidated Statement of Income.
On the date of the Merger, fair value adjustments were recorded on Cleco’s Condensed Consolidated Balance Sheet for the difference between the contract price and the market price of long-term wholesale power supply agreements. These adjustments are classified as Intangible assets on Cleco’s Condensed Consolidated Balance Sheet. The valuation of the power supply agreements was estimated using the income approach. The income approach is based upon discounted projected future cash flows associated with the underlying contracts. The intangible assets for the power supply agreements are being amortized over the remaining term of each applicable contract. The amortization of the power supply agreements is included in Electric operations on Cleco’s Condensed Consolidated Statement of Income.
The net increase in deferred tax liabilities on Cleco’s Condensed Consolidated Balance Sheet represents the differences between the assigned fair values of assets acquired and their related income tax basis, net of a deferred tax asset representing the net operating loss carryforward that will be utilized in future periods. As the underlying asset assigned fair values are amortized, the related deferred tax liabilities will be included in income tax expense. Goodwill is not deductible for income tax purposes; therefore, no deferred income tax assets or liabilities were recognized for goodwill.
Other fair value adjustments were recorded for long-term debt, postretirement benefit remeasurements and deferred losses, and interest rate derivative settlement gains and losses. These fair value adjustments are subject to rate regulation, but do not earn a return. In these instances, a corresponding regulatory asset was established, as the underlying utility asset or liability amounts are recoverable from or refundable to customers at historical cost through the rate setting process. These regulatory assets established to offset fair value adjustments are amortized in amounts and over time frames consistent with the realization or settlement of the fair value adjustments.
The valuations performed in the second quarter of 2016 to estimate the fair value of assets acquired and liabilities assumed were considered preliminary as a result of the short

time period between the closing of the Merger and the end of the second quarter of 2016. During the third quarter of 2016, valuations were performed for the valuation and assessment of the postretirement benefit plans as of April 13, 2016, and the economic useful life of the Cleco trade name. Cleco completed its evaluation and determination of the fair value of certain assets and liabilities acquired as of December 31, 2016. There were no adjustments to those amounts during the six months ended June 30, 2017. While management believes the positions reflected on the income tax returns are reasonable, the returns have not been audited by the applicable taxing authorities.

Note 3 — Recent Authoritative Guidance

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

In May 2014, FASB amended the accounting guidance for revenue recognition. The amended guidance affects entities that enter into contracts for the transfer of non-financial assets unless those contracts are within the scope of other standards. The core principle of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under the new guidance, an entity must identify the performance obligations in a contract and the transaction price, and allocate the price to specific performance obligations to recognize the revenue when the obligation is completed. The amendments in this update also require extensive disclosure of sufficient information to allow users to understand the nature, amount, timing, and uncertainty of revenue and cash flow arising from contracts. Additional disclosure requirements include disaggregated revenue, reconciliation of contract balances, the entity’s performance obligations, significant judgments used, costs to obtain or fulfill a contract and the use of practical expedients. The standard will be effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Reporting entities have the option of using either a full retrospective or a modified retrospective approach. Under the full retrospective approach, companies will apply rules to contracts in all reporting periods presented, subject to certain allowable exceptions. Under the modified retrospective approach, companies will apply the rules to all contracts existing as of January 1, 2018, recognizing in beginning retained earnings an adjustment for the cumulative effect of the change and providing additional disclosures comparing results to previous rules. Cleco intends to implement the amended guidance in January 2018 using the modified retrospective approach.

Upon initial evaluation, key changes in the standard that management is assessing for potential areas of impact include accounting for contract modifications, contracts with pricing provisions that may require it to recognize revenue at prices other than the contract price (e.g., straight-line or estimated future market prices), and accounting for alternative revenue programs. Management has not identified any impacts that would have a material impact on the results of operations, financial condition, or cash flows of the Registrants. Management expects most of Cleco’s revenue to be in scope of the new guidance. The majority of sales, including energy provided to residential customers, are from tariff offerings that provide electricity supplied and billed in that period. As such, management does not expect that there will be a significant shift in the timing or pattern of revenue recognition for such sales. Management is evaluating other revenue streams, including long-term contracts with industrial and wholesale customers. Management will continue to evaluate the impact of this guidance, including any additional clarifying amendments issued during implementation.

In February 2016, FASB amended the guidance to account for leases. This guidance is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The adoption of this guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those years. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes practical expedients that may be elected by entities. Management will continue to evaluate the impact of this guidance. The amended guidance could have a material impact on the results of operations, financial condition, or cash flows of the Registrants.

In August 2016, FASB amended the guidance for certain cash flow issues with the objective of reducing existing diversity in practice. This guidance affects the cash flow classification related to certain types of transactions including debt, contingent consideration, proceeds from the settlement of insurance claims, and distributions from equity method investees. The adoption of this guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those years. Early adoption is permitted. Management is evaluating the impact that the adoption of this guidance will have on the results of operations, financial condition, or cash flows of the Registrants.

In October 2016, FASB amended the income tax guidance related to intra-entity transfers of assets other than inventory. Current GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. This new guidance states that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The adoption of this guidance is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those years. Management does not expect this guidance to have a significant impact on the results of operations, financial condition, or cash flows of the Registrants.

In November 2016, FASB amended guidance for certain cash flow issues. The amended guidance requires that a statement of cash flow explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash. Therefore, amounts generally described as restricted cash and cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The adoption of this guidance is effective for fiscal years beginning after December 15, 2017, including interim reporting periods within those fiscal years. This amendment should be applied using a retrospective transition method to each period presented. This guidance will impact the presentation of the cash flow statement, but will not have an impact on the results of operations or financial condition of the Registrants.

In January 2017, FASB issued amendments to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The adoption of this guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those years. Early adoption is permitted. Management is evaluating the impact that the adoption of this guidance will have on the results of operations, financial condition, or cash flows of the Registrants.

In January 2017, FASB amended the accounting guidance to simplify the measurement of a goodwill impairment loss. The amended guidance eliminates step two of the goodwill impairment test, which requires a hypothetical purchase price allocation to measure goodwill impairment. Under the new guidance, a goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The adoption of this guidance is effective for annual reporting periods beginning after December 15, 2019,

including interim periods within those years. Early adoption is permitted. Management is evaluating the impact that the adoption of this guidance will have on the results of operations, financial condition, or cash flows of the Registrants.
In March 2017, FASB amended guidance related to defined benefit pension and other postretirement benefit plans. The new amendment requires an entity to present service cost in the same line item as other current employee compensation costs and to present the remaining components of net benefit cost in a separate line item outside of operating items. The amendment also allows only the service cost component of net benefit cost to be eligible for capitalization. The adoption of this guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those years. This amendment should be applied retrospectively for the presentation of the service cost in the income statement while the capitalization of the service cost should be applied prospectively. Management is currently evaluating the impact of this standard, including coordinating with its industry group. The adoption of this guidance could have a material impact on the results of operations, financial condition, or cash flows of the Registrants.
In May 2017, FASB amended guidance related to service concession arrangements. The amendment clarifies that the grantor, rather than the third-party users, is the customer of the operation services in all cases for service concession arrangements. The adoption of this guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those years. Management does not expect this guidance to have a significant impact on the results of operations, financial condition, or cash flows of the Registrants.
Note 4 — Regulatory Assets and Liabilities
Cleco capitalizes or defers certain costs for recovery from customers and recognizes a liability for amounts expected to be returned to customers based on regulatory approval and management’s ongoing assessment that it is probable these items will be recovered or refunded through the ratemaking process.
Under the current regulatory environment, Cleco believes these regulatory assets will be fully recoverable; however, if in the future, as a result of regulatory changes or competition, Cleco’s ability to recover these regulatory assets would no

longer be probable, then to the extent that such regulatory assets were determined not to be recoverable, Cleco would be required to write-down such assets. In addition, potential deregulation of the industry or possible future changes in the method of rate regulation of Cleco could require discontinuance of the application of the authoritative guidance on regulated operations.

The following table summarizes Cleco Power's regulatory assets and liabilities:

(THOUSANDS)	AT JUNE 30, 2017	AT DEC. 31, 2016
Regulatory assets – deferred taxes, net	$240,319	$237,449
Mining costs	5,098	6,372
Interest costs	4,680	4,860
AROs	2,420	2,096
Postretirement costs	140,300	145,268
Tree trimming costs	6,280	5,549
Training costs	6,630	6,708
Surcredits, net	4,161	5,876
AMI deferred revenue requirement	4,499	4,772
Late/reconnect fees	3,154	—
Production operations and maintenance expenses	11,055	13,999
AFUDC equity gross-up	69,958	70,423
Acadia Unit 1 acquisition costs	2,389	2,442
Financing costs	8,478	8,663
Biomass costs	3	18
MISO integration costs	936	1,404
Coughlin transaction costs	984	999
Corporate franchise tax	1,290	1,308
MATS costs	5,128	4,270
Other	1,098	710
Total regulatory assets	278,541	285,737
Fuel and purchased power	26,922	20,787
Total regulatory assets, net	$545,782	$543,973

The following table summarizes Cleco's net regulatory assets and liabilities:

(THOUSANDS)	AT JUNE 30, 2017	AT DEC. 31, 2016
Total Cleco Power regulatory assets, net	$545,782	$543,973
Cleco Holdings' Merger adjustments[(1)]		
Fair value of long-term debt	151,368	155,776
Postretirement costs	22,368	23,362
Financing costs	8,794	8,966
Debt issuance costs	6,872	7,606
Total Cleco regulatory assets, net	$735,184	$739,683

(1) Cleco Holdings' regulatory assets include acquisition accounting adjustments as a result of the Merger.

Late/Reconnect Fees

In August 2016, the LPSC issued executive orders following flooding events in south Louisiana which prohibited public utilities from disconnecting or charging late fees to customers for non-payment in affected parishes. In January 2017, the LPSC issued an order terminating those executive orders effective March 1, 2017. The January 2017 order also provided that public utilities were entitled to formally petition the LPSC to recover lost revenues as a result of the executive orders issued in August 2016. Beginning July 2017, Cleco Power's lost revenues related to reconnect and late fees of $3.2 million are being recovered and amortized over a three-year period.

Cleco Holdings' Merger Adjustments

As a result of the Merger, Cleco implemented acquisition accounting, which eliminated AOCI at the Cleco consolidated level on the date of the Merger. Cleco will continue to recover expenses related to certain postretirement costs; therefore, Cleco recognized a regulatory asset based on its determination that these costs can continue to be collected from customers. These costs will be amortized to Other operations expense over the average remaining service period of participating employees. Cleco will also continue to recover financing costs associated with the settlement of two treasury rate locks and a forward starting swap contract that were previously recognized in AOCI. Additionally, as a result of the Merger, a regulatory asset was recorded for debt issuance costs that were eliminated at Cleco and a regulatory asset was recorded for the difference between the carrying value and the fair value of long-term debt. These regulatory assets will be amortized over the terms of the related debt issuances. On March 1, 2017, Cleco completed the repayment of the first of two tranches of its Cleco Katrina/Rita storm recovery bonds issued in March 2008. As a result, the fair value adjustments for the redeemed long-term debt and the related unamortized debt issuance cost of $0.7 million on Cleco's Condensed Consolidated Balance Sheet were derecognized. The offset was to the respective regulatory assets.

Note 5 — Fair Value Accounting

The amounts reflected on Cleco and Cleco Power's Condensed Consolidated Balance Sheets at June 30, 2017, and December 31, 2016, for cash equivalents, restricted cash equivalents, accounts receivable, other accounts receivable, short-term debt, and accounts payable approximate fair value because of their short-term nature. Cleco applies the provisions of the fair value measurement standard to its non-recurring, non-financial measurements including business combinations as well as impairment related to goodwill and other long-lived assets.

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

Cleco

	AT JUNE 30, 2017		AT DEC. 31, 2016	
(THOUSANDS)	CARRYING VALUE*	FAIR VALUE	CARRYING VALUE*	FAIR VALUE
Long-term debt	$2,754,856	$2,825,484	$2,768,149	$2,754,518

* The carrying value of long-term debt does not include deferred issuance costs of $11.4 million at June 30, 2017, and $11.7 million at December 31, 2016.

Cleco Power

	AT JUNE 30, 2017		AT DEC. 31, 2016	
(THOUSANDS)	CARRYING VALUE*	FAIR VALUE	CARRYING VALUE*	FAIR VALUE
Long-term debt	$1,253,488	$1,431,576	$1,262,373	$1,418,693

* The carrying value of long-term debt does not include deferred issuance costs of $8.6 million at June 30, 2017, and $9.4 million at December 31, 2016.

Fair Value Measurements and Disclosures

Cleco classifies assets and liabilities that are measured 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 on a recurring basis:

Cleco

	CLECO CONSOLIDATED FAIR VALUE MEASUREMENTS AT REPORTING DATE USING:							
(THOUSANDS)	AT JUNE 30, 2017	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	AT DEC. 31, 2016	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Asset description								
Institutional money market funds	$47,209	$ —	$ 47,209	$ —	$66,410	$ —	$ 66,410	$ —
FTRs	18,245	—	—	18,245	7,884	—	—	7,884
Total assets	$65,454	$ —	$ 47,209	$ 18,245	$74,294	$ —	$ 66,410	$ 7,884
Liability description								
FTRs	302	—	—	302	201	—	—	201
Total liabilities	$302	$ —	$ —	$ 302	$201	$ —	$ —	$ 201

Cleco Power

	CLECO POWER FAIR VALUE MEASUREMENTS AT REPORTING DATE USING:							
(THOUSANDS)	AT JUNE 30, 2017	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	AT DEC. 31, 2016	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Asset description								
Institutional money market funds	$40,788	$ —	$ 40,788	$ —	$65,089	$ —	$ 65,089	$ —
FTRs	18,245	—	—	18,245	7,884	—	—	7,884
Total assets	$59,033	$ —	$ 40,788	$ 18,245	$72,973	$ —	$ 65,089	$ 7,884
Liability description								
FTRs	302	—	—	302	201	—	—	201
Total liabilities	$302	$ —	$ —	$ 302	$201	$ —	$ —	$ 201

The following tables summarize the net changes in the net fair value of FTR assets and liabilities classified as Level 3 in the fair value hierarchy for Cleco and Cleco Power:

Cleco

(THOUSANDS)	SUCCESSOR FOR THE THREE MONTHS ENDED JUNE 30, 2017	APR. 13, 2016 - JUNE 30, 2016	PREDECESSOR APR. 1, 2016 - APR. 12, 2016	SUCCESSOR FOR THE SIX MONTHS ENDED JUNE 30, 2017	APR. 13, 2016 - JUNE 30, 2016	PREDECESSOR JAN. 1, 2016 - APR. 12, 2016
Beginning balance	$4,418	$3,458	$ 1,866	$7,683	$3,458	$ 7,398
Unrealized (losses) gains*	(2,460)	1,234	(199)	(2,460)	1,234	(1,031)
Purchases	22,843	12,608	2,024	23,118	12,608	2,070
Settlements	(6,858)	(3,682)	(233)	(10,398)	(3,682)	(4,979)
Ending balance	$17,943	$13,618	$ 3,458	$17,943	$13,618	$ 3,458

* Unrealized gains and losses are reported through Accumulated deferred fuel on Cleco's Condensed Consolidated Balance Sheet.

Cleco Power

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
(THOUSANDS)	2017	2016	2017	2016
Beginning balance	$4,418	$1,866	$7,683	$7,398
Unrealized (losses) gains*	(2,460)	1,035	(2,460)	203
Purchases	22,843	14,632	23,118	14,678
Settlements	(6,858)	(3,915)	(10,398)	(8,661)
Ending balance	$17,943	$13,618	$17,943	$13,618

* Unrealized gains and losses are reported through Accumulated deferred fuel on Cleco Power's Condensed Consolidated Balance Sheet.

The following table quantifies the significant unobservable inputs used in developing the fair value of Level 3 positions as of June 30, 2017, and December 31, 2016:

	FAIR VALUE		VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUTS	FORWARD PRICE RANGE	
(THOUSANDS, EXCEPT FORWARD PRICE RANGE)	ASSETS	LIABILITIES			LOW	HIGH
FTRs at June 30, 2017	$18,245	$ 302	RTO auction pricing	FTR price - per MWh	$(3.28)	$6.30
FTRs at Dec. 31, 2016	$7,884	$ 201	RTO auction pricing	FTR price - per MWh	$(3.61)	$6.04

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 discounting the price 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 occur in situations in which there is little, if any, market activity for the asset or liability at the measurement date and therefore RTO auction prices are used. Significant increases or decreases in any of those inputs in isolation would result in a significantly different fair value measurement.
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 June 30, 2017, 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 Cleco's Condensed Consolidated Balance Sheets in cash and cash equivalents, current restricted cash and cash equivalents, and non-current restricted cash and cash equivalents of $6.8 million, $17.0 million, and $23.4 million, respectively, at June 30, 2017, and $20.0 million, $23.1 million, and $23.3 million, respectively, at December 31, 2016. At Cleco Power, the institutional money market funds were reported on Cleco Power's Condensed Consolidated Balance Sheets in cash and cash equivalents, current restricted cash and cash equivalents, and non-current restricted cash and cash equivalents of $0.4 million, $17.0 million, and $23.4 million, respectively, at June 30, 2017, and $18.7 million, $23.1 million, and $23.3 million, respectively, at December 31, 2016. 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 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 issued by the U.S. Treasury 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.
Cleco Power's FTRs were priced using MISO's monthly auction prices. Forward seasonal periods are not included in every monthly auction; therefore, the average of the most recent seasonal auction prices are used for monthly valuation. 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.
During the six months ended June 30, 2017, and the year ended December 31, 2016, Cleco did not experience any transfers between levels within the fair value hierarchy.

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 June 30, 2017, and December 31, 2016:

	DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS		
(THOUSANDS)	BALANCE SHEET LINE ITEM	AT JUNE 30, 2017	AT DEC. 31, 2016
Commodity-related contracts			
FTRs			
Current	Energy risk management assets	$18,245	$7,884
Current	Energy risk management liabilities	302	201
Commodity-related contracts, net		$17,943	$7,683

The following tables present the effect of derivatives not designated as hedging instruments on Cleco and Cleco Power's Condensed Consolidated Statements of Income for the six months ended June 30, 2017, and 2016:

Cleco

		AMOUNT OF GAIN/(LOSS) RECOGNIZED IN INCOME ON DERIVATIVES					
		SUCCESSOR		PREDECESSOR	SUCCESSOR		PREDECESSOR
(THOUSANDS)	DERIVATIVES LINE ITEM	FOR THE THREE MONTHS ENDED JUNE 30, 2017	APR. 13, 2016 - JUNE 30, 2016	APR. 1, 2016 - APR. 12, 2016	FOR THE SIX MONTHS ENDED JUNE 30, 2017	APR. 13, 2016 - JUNE 30, 2016	JAN. 1, 2016 - APR. 12, 2016
Commodity contracts							
FTRs(1)	Electric operations	$11,947	$6,879	$ 43	$21,110	$6,879	$ 8,563
FTRs(1)	Power purchased for utility customers	(6,327)	(303)	(38)	(10,992)	(303)	(5,761)
Total		$5,620	$6,576	$ 5	$10,118	$6,576	$ 2,802

(1) For the three and six months ended June 30, 2017, unrealized losses associated with FTRs not recognized in income on derivatives of $2.5 million were reported through Accumulated deferred fuel on the balance sheet. For the periods April 1, 2016 - April 12, 2016, January 1, 2016 - April 12, 2016, and April 13, 2016 - June 30, 2016, unrealized (losses) gains associated with FTRs not recognized in income on derivatives of $(0.2) million, $(1.0) million, and 1.2 million, respectively, were reported through Accumulated deferred fuel on the balance sheet.

Cleco Power

		AMOUNT OF GAIN/(LOSS) RECOGNIZED IN INCOME ON DERIVATIVES			
		FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
(THOUSANDS)	DERIVATIVES LINE ITEM	2017	2016	2017	2016
Commodity contracts					
FTRs[1]	Electric operations	$11,947	$6,922	$21,110	$15,442
FTRs[1]	Power purchased for utility customers	(6,327)	(341)	(10,992)	(6,064)
Total		$5,620	$6,581	$10,118	$9,378

[1] For the three and six months ended June 30, 2017, unrealized losses associated with FTRs not recognized in income on derivatives of $2.5 million were reported through Accumulated deferred fuel on the balance sheet. For the three and six months ended June 30, 2016, unrealized gains associated with FTRs not recognized in income on derivatives of $1.0 million and $0.2 million, respectively, were reported through Accumulated deferred fuel on the balance sheet.

At June 30, 2017, and December 31, 2016, Cleco Power had no open positions hedged for natural gas. In June 2015, the LPSC approved a long-term natural gas hedging pilot program that requires Cleco Power to establish a proposal for a program that will be designed to provide gas price stability for a minimum of five years. This proposal was submitted to the LPSC on July 28, 2017.

Cleco Power purchases FTRs in auctions facilitated by MISO. The majority of its FTRs are purchased in annual auctions during the second quarter, but Cleco Power may purchase additional FTRs in monthly auctions. FTRs are derivative instruments which represent economic hedges of future congestion charges that will be incurred in serving Cleco Power's customer load. FTRs represent rights to congestion credits or charges along a path during a given time frame for a certain MW quantity. FTRs are not designated as hedging instruments for accounting purposes. The total volume of FTRs that Cleco Power had outstanding at June 30, 2017, and December 31, 2016, was 20.0 million MWh and 9.0 million MWh, respectively.

Note 6 — Debt

In May 2016, Cleco Holdings completed the private sale of $535.0 million aggregate principal amount of its 3.743% senior notes due May 1, 2026, and $350.0 million aggregate principal amount of its 4.973% senior notes due May 1, 2046. Cleco Holdings used the proceeds from the issuance and sale of these notes to repay a portion of the $1.35 billion Acquisition Loan Facility entered into in connection with the completion of the Merger. On April 28, 2017, Cleco Holdings completed an exchange offer for all of its then outstanding 3.743% and 4.973% senior notes, which were not registered under the Securities Act of 1933, as amended, for an equal principal amount of newly issued 3.743% senior notes due May 1, 2026, and 4.973% senior notes due May 1, 2046, that were so registered. Cleco Holdings did not receive any proceeds from the exchange offer.

On March 1, 2017, Cleco completed the repayment of the first of two tranches of its Cleco Katrina/Rita storm recovery bonds issued in March 2008. The total principal amount for both tranches was $180.6 million. The first tranche had an initial principal amount of $113.0 million at an interest rate of 4.41% and a final maturity date of March 1, 2020. As part of the early redemption on March 1, 2017, Cleco paid $1.1 million in principal and less than $0.1 million in accrued interest.

At June 30, 2017, Cleco Holdings had $10.0 million of short-term debt outstanding under its $100.0 million credit facility, at an all-in interest rate of 2.98%. The borrowing costs under Cleco Holdings' credit facility are equal to LIBOR plus 1.75% or ABR plus 0.75%, plus commitment fees of 0.275%.

At June 30, 2017, Cleco Power had $75.0 million of short-term debt outstanding under its $300.0 million credit facility, at

an average all-in interest rate of 2.32%. The borrowing costs under Cleco Power's credit facility are equal to LIBOR plus 1.125% or ABR plus 0.125%, plus commitment fees of 0.125%.

Note 7 — Pension Plan and Employee Benefits

Pension Plan and Other Benefits Plan

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 did not make any required or discretionary contributions to the pension plan in 2016 and does not expect to make any in 2017. 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 (other benefits). Cleco recognizes the expected cost of these other benefits during the periods in which the benefits are earned.

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The components of net periodic pension and other benefit cost for the three and six months ended June 30, 2017, and 2016 are as follows:

(THOUSANDS)	PENSION BENEFITS SUCCESSOR FOR THE THREE MONTHS ENDED JUNE 30, 2017	PENSION BENEFITS SUCCESSOR APR. 13, 2016 - JUNE 30, 2016	PENSION BENEFITS PREDECESSOR APR. 1, 2016 - APR. 12, 2016	OTHER BENEFITS SUCCESSOR FOR THE THREE MONTHS ENDED JUNE 30, 2017	OTHER BENEFITS SUCCESSOR APR. 13, 2016 - JUNE 30, 2016	OTHER BENEFITS PREDECESSOR APR. 1, 2016 - APR. 12, 2016
Components of periodic benefit costs						
Service cost	$2,295	$1,893	$ 301	$385	$ 329	$ 51
Interest cost	5,467	4,669	734	402	364	56
Expected return on plan assets	(5,895)	(5,193)	(801)	—	—	—
Amortizations						
Prior period service (credit) cost	(18)	(15)	(2)	—	—	4
Net loss (gain)	2,591	1,845	329	(2)	—	21
Net periodic benefit cost	$4,440	$3,199	$ 561	$785	$ 693	$ 132

(THOUSANDS)	PENSION BENEFITS SUCCESSOR FOR THE SIX MONTHS ENDED JUNE 30, 2017	PENSION BENEFITS SUCCESSOR APR. 13, 2016 - JUNE 30, 2016	PENSION BENEFITS PREDECESSOR JAN. 1, 2016 - APR. 12, 2016	OTHER BENEFITS SUCCESSOR FOR THE SIX MONTHS ENDED JUNE 30, 2017	OTHER BENEFITS SUCCESSOR APR. 13, 2016 - JUNE 30, 2016	OTHER BENEFITS PREDECESSOR JAN. 1, 2016 - APR. 12, 2016
Components of periodic benefit costs						
Service cost	$4,520	$1,893	$ 2,563	$770	$ 329	$ 431
Interest cost	10,824	4,669	6,242	805	364	476
Expected return on plan assets	(12,032)	(5,193)	(6,812)	—	—	—
Amortizations						
Prior period service (credit) cost	(36)	(15)	(20)	—	—	34
Net loss (gain)	5,004	1,845	2,798	(5)	—	181
Net periodic benefit cost	$8,280	$3,199	$ 4,771	$1,570	$ 693	$ 1,122

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 successor periods for the three and six months ended June 30, 2017, was $0.5 million and $0.9 million, respectively. The amount for the predecessor periods April 1, 2016, through April 12, 2016, and January 1, 2016, through April 12, 2016, was $0.1 million and $0.5 million, respectively. The expense of the pension plan related to Cleco's other subsidiaries for the successor period April 13, 2016, through June 30, 2016, was $0.4 million.

Cleco Holdings is the plan sponsor for the other benefit plans. There are no assets set aside in a trust and the liabilities are reported on the individual subsidiaries' financial statements. The expense related to other benefits reflected in Cleco Power's Condensed Consolidated Statements of Income for the three and six months ended June 30, 2017, was $0.9 million and $1.7 million, respectively. The amounts for the three and six months ended June 30, 2016, were $0.8 million and $1.7 million, respectively. The current and non-current portions of the other benefits liability for Cleco and Cleco Power at June 30, 2017, and December 31, 2016, are as follows:

Cleco

(THOUSANDS)	AT JUNE 30, 2017	AT DEC. 31, 2016
Current	$3,854	$3,854
Non-current	$39,631	$40,196

Cleco Power

(THOUSANDS)	AT JUNE 30, 2017	AT DEC. 31, 2016
Current	$3,345	$3,345
Non-current	$34,407	$34,892

SERP

Certain Cleco officers are covered by SERP. In 2014, SERP was closed to new participants; however, with regard to current SERP participants, including former employees or their beneficiaries, all terms of SERP will continue, other than as described below. SERP is a non-qualified, non-contributory, defined benefit pension plan. Generally, benefits under the plan reflect an employee's years of service, age at retirement and the sum of (a) the highest base salary paid out over the last five calendar years and (b) the average of the three highest cash bonuses paid during the 60 months prior to retirement. SERP benefits are reduced by retirement benefits received from any other defined benefit pension plan, supplemental executive retirement plan, or Cleco contributions under the enhanced 401(k) Plan to the extent such contributions exceed the limits of the 401(k) Plan. In accordance with the SERP plan document and the Merger Agreement, four executive officers received enhanced benefits, and upon termination of employment, two of these executive officers received accelerated vesting. Another executive officer received enhanced SERP benefits, net of other postretirement benefits, as part of a separation agreement. Two current executive officers' SERP benefits will be capped as of December 31, 2017, with regard to final compensation; however, adjustments will continue with regard to age and tenure with Cleco. Additionally, these executive officers had their annual bonuses set at target rather than

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actual awards for the year 2016 and will have their annual bonuses set at target rather than actual awards for the year 2017 for the average incentive award portion of their SERP benefit calculation. A third executive officer's SERP calculation will use a fixed salary amount for 2017 and will exclude any compensation exceeding this amount. Management will review current market trends as it evaluates Cleco's future compensation strategy. 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. The life insurance policies issued on SERP participants designate the rabbi trust as the beneficiary. Market conditions could have a significant impact on the cash surrender value of the life insurance policies. 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 that employed the officer. Cleco Power is considered the plan sponsor and Support Group is considered the plan administrator.
The components of net periodic benefit cost related to SERP for the three and six months ended June 30, 2017, and 2016, are as follows:

(THOUSANDS)	SUCCESSOR FOR THE THREE MONTHS ENDED JUNE 30, 2017	SUCCESSOR APR. 13, 2016 - JUNE 30, 2016	PREDECESSOR APR. 1, 2016 - APR. 12, 2016
Components of periodic benefit costs			
Service cost	$102	$589	$ 119
Interest cost	820	755	169
Amortizations			
Prior period service (credit) cost	(29)	—	3
Net loss (gain)	624	—	(81)
Net periodic benefit cost	1,517	1,344	210
Curtailments	—	—	3,602
Special/contractual termination benefits	—	—	3,222
Total benefit cost	$1,517	$1,344	$ 7,034

(THOUSANDS)	SUCCESSOR FOR THE SIX MONTHS ENDED JUNE 30, 2017	SUCCESSOR APR. 13, 2016 - JUNE 30, 2016	PREDECESSOR JAN. 1, 2016 - APR. 12, 2016
Components of periodic benefit costs			
Service cost	$247	$589	$ 702
Interest cost	1,620	755	900
Amortizations			
Prior period service (credit) cost	(68)	—	17

Net loss	1,025	—	574
Net periodic benefit cost	2,824	1,344	2,193
Curtailment charge	—	—	3,602
Special/contractual termination benefits	315	—	3,222
Total benefit cost	$3,139	$1,344	$ 9,017

There was a remeasurement of SERP on March 30, 2017, to reflect a special termination benefit resulting from an executive officer's separation agreement. On the date of the remeasurement, the discount rate decreased from 4.22% to 4.08%. This remeasurement resulted in special termination benefits of $0.3 million.

The total expense related to SERP reflected on Cleco Power's Condensed Consolidated Statements of Income was $0.3 million and $0.6 million for the three and six months ended June 30, 2017, respectively, compared to $0.3 million and $0.8 million for the three and six months ended June 30, 2016, respectively.

Liabilities relating to SERP are reported on the individual subsidiaries' financial statements. The current and non-current portions of the SERP liability for Cleco and Cleco Power at June 30, 2017, and December 31, 2016, are as follows:

Cleco

(THOUSANDS)	AT JUNE 30, 2017	AT DEC. 31, 2016
Current	$4,431	$4,308
Non-current	$77,029	$73,738

Cleco Power

(THOUSANDS)	AT JUNE 30, 2017	AT DEC. 31, 2016
Current	$939	$885
Non-current	$16,013	$15,145

401(k) Plan

Cleco's 401(k) Plan is intended to provide active, eligible employees with voluntary, long-term savings and investment opportunities. The 401(k) 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 401(k) Plan, employer contributions can be made in the form of cash. Cash contributions are invested in proportion to the participant's voluntary contribution investment choices. Participation in the 401(k) Plan is voluntary, and all active Cleco employees are eligible to participate. Cleco's 401(k) Plan expense for the three and six months ended June 30, 2017, and 2016, is as follows:

	SUCCESSOR		PREDECESSOR
(THOUSANDS)	FOR THE THREE MONTHS ENDED JUNE 30, 2017	APR. 13, 2016 - JUNE 30, 2016	APR. 1, 2016 - APR. 12, 2016
401(k) Plan expense	$1,204	$1,110	$ 219

	SUCCESSOR		PREDECESSOR
(THOUSANDS)	FOR THE	APR. 13,	JAN. 1, 2016 - APR. 12, 2016

	SIX MONTHS ENDED JUNE 30, 2017	2016 - JUNE 30, 2016	
401(k) Plan expense	$2,872	$1,110	$ 1,593

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 and six months ended June 30, 2017, and 2016, is as follows:

	SUCCESSOR		PREDECESSOR
(THOUSANDS)	FOR THE THREE MONTHS ENDED JUNE 30, 2017	APR. 13, 2016 - JUNE 30, 2016	APR. 1, 2016 - APR. 12, 2016
401(k) Plan expense	$ 198	$ 173	$ 37

	SUCCESSOR		PREDECESSOR
(THOUSANDS)	FOR THE SIX MONTHS ENDED JUNE 30, 2017	APR. 13, 2016 - JUNE 30, 2016	JAN. 1, 2016 - APR. 12, 2016
401(k) Plan expense	$ 477	$ 173	$ 319

Note 8 — Income Taxes

Effective Tax Rates
The following tables summarize the effective income tax rates for Cleco and Cleco Power for the three and six months ended June 30, 2017, and 2016:

Cleco

	SUCCESSOR		PREDECESSOR	SUCCESSOR		PREDECESSOR
	FOR THE THREE MONTHS ENDED JUNE 30, 2017	APR. 13, 2016 - JUNE 30, 2016	APR. 1, 2016 - APR. 12, 2016	FOR THE SIX MONTHS ENDED JUNE 30, 2017	APR. 13, 2016 - JUNE 30, 2016	JAN. 1, 2016 - APR. 12, 2016
Effective tax rate	38.9 %	38.9 %	27.1 %	37.8 %	38.9 %	(704.9)%

Cleco Power

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2017	2016	2017	2016
Effective tax rate	39.2 %	38.9 %	38.1 %	39.6 %

For the successor periods, the effective income tax rates for Cleco were different than the federal statutory rate primarily due to permanent tax differences, the flowthrough of state tax benefits, including AFUDC equity, benefits delivered from Cleco’s investment in the NMTC Fund, and state tax expense.
For the predecessor periods, the effective income tax rates for Cleco were different than the federal statutory rate primarily due to a significant portion of the merger costs not being deductible, the flowthrough of state tax benefits, including AFUDC equity, benefits delivered from Cleco’s investment in the NMTC Fund, and state tax expense.
For the three and six months ended June 30, 2017, and 2016, the effective income tax rate for Cleco Power was different than the federal statutory rate primarily due to the flowthrough of state tax benefits, including 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 June 30, 2017, and December 31, 2016, Cleco had a deferred tax asset resulting from NMTC carryforwards of $97.5 million. 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 June 30, 2017, Cleco has a federal net operating loss carryforward of $32.0 million and a state net operating loss carryforward of $168.4 million. The federal and state net operating loss carryforwards will begin to expire in 2031. Cleco considers it more likely than not that these income tax losses will be utilized to reduce future income tax

payments 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. At June 30, 2017, and December 31, 2016, Cleco and Cleco Power had no interest payable related to uncertain tax positions. For the six months ended June 30, 2017, and 2016,

Cleco and Cleco Power had no interest expense related to uncertain tax positions.
At June 30, 2017, Cleco had no liability for uncertain tax positions. Cleco estimates that it is reasonably possible that the balance of unrecognized tax benefits as of June 30, 2017, for Cleco and Cleco Power would be unchanged in the next 12 months. The settlement of open tax years could involve the payment of additional taxes, and/or the recognition of tax benefits, which may have an effect on Cleco's effective tax rate.
The federal income tax years that remain subject to examination by the IRS are 2013, 2014, and 2015.
Beginning with the 2013 tax year, Cleco entered into the IRS's Compliance Assurance Process which allows taxpayers to work collaboratively with an IRS team to identify and resolve potential tax issues before the federal tax return is filed each year. Cleco must apply for admission to the program each year. Cleco has been approved for the Compliance Assurance Process through the 2017 tax year.
The state income tax years that remain subject to examination by the Louisiana Department of Revenue are 2014 and 2015.
Cleco classifies income tax penalties as a component of other expense. For the six months ended June 30, 2017, and 2016, no penalties were recognized.
Note 9 — Disclosures about Segments
Cleco's reportable segment is based on its method of internal reporting, which disaggregates business units by its first-tier subsidiary.
Cleco Power, the reportable segment, engages in business activities from which it earns revenue and incurs expenses. Segment managers report periodically to Cleco's CEO with discrete financial information and, at least quarterly, present discrete financial information to Cleco and Cleco Power's Boards of Managers. The reportable segment prepares budgets that are presented to and approved by Cleco and Cleco Power's Boards of Managers. The column shown as Other in the chart below includes the holding company, a shared services subsidiary, two transmission interconnection facility subsidiaries, and an investment subsidiary.
The financial results of Cleco's segment are presented on an accrual basis. Management evaluates the performance of

its segment and allocates resources to it based on segment profit and the requirements to implement new strategic initiatives and projects to meet current business objectives. Material intercompany transactions occur on a regular basis.

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

SEGMENT INFORMATION FOR THE THREE MONTHS ENDED JUNE 30,

	SUCCESSOR			
2017 (THOUSANDS)	CLECO POWER	OTHER	ELIMINATIONS	CONSOLIDATED
Revenue				
Electric operations	$289,855	$(2,420)	$ —	$ 287,435
Other operations	20,950	515	—	21,465
Electric customer credits	(239)	—	—	(239)
Affiliate revenue	221	13,631	(13,852)	—
Operating revenue, net	$310,787	$11,726	$ (13,852)	$ 308,661
Depreciation and amortization	$39,473	$2,079	$ —	$ 41,552
Interest charges	$17,411	$13,285	$ (75)	$ 30,621
Interest income	$328	$127	$ (74)	$ 381
Federal and state income tax expense (benefit)	$23,063	$(6,843)	$ —	$ 16,220
Net income (loss)	$35,733	$(10,289)	$ —	$ 25,444

	SUCCESSOR APR. 13, 2016 - JUNE 30, 2016				PREDECESSOR APR. 1, 2016 - APR. 12, 2016			
2016 (THOUSANDS)	CLECO POWER	OTHER	ELIMINATIONS	CONSOLIDATED	CLECO POWER	OTHER	ELIMINATIONS	CONSOLIDATED
Revenue								
Electric operations	$232,158	$(2,231)	$ —	$ 229,927	$30,997	$—	$ —	$ 30,997
Other operations	13,685	448	—	14,133	1,879	70	—	1,949
Electric customer credits	(558)	—	—	(558)	(43)	—	—	(43)
Affiliate revenue	194	10,763	(10,957)	—	31	2,000	(2,031)	—
Operating revenue, net	$245,479	$8,980	$ (10,957)	$ 243,502	$32,864	$2,070	$ (2,031)	$ 32,903
Depreciation and amortization	$31,145	$3,016	$ (1)	$ 34,160	$5,095	$42	$ —	$ 5,137
Merger transaction and commitment costs	$151,501	$19,802	$ —	$ 171,303	$—	$33,390	$ —	$ 33,390
Interest charges	$16,759	$9,721	$ (15)	$ 26,465	$2,554	$17	$ (2)	$ 2,569
Interest income	$117	$95	$ (15)	$ 197	$29	$14	$ (2)	$ 41
Federal and state income tax (benefit) expense	$(39,456)	$(12,746)	$ —	$ (52,202)	$430	$(9,099)	$ —	$ (8,669)
Net (loss) income	$(61,898)	$(20,016)	$ —	$ (81,914)	$669	$(23,997)	$ —	$ (23,328)

SEGMENT INFORMATION FOR THE SIX MONTHS ENDED JUNE 30,

	SUCCESSOR			
2017 (THOUSANDS)		OTHER	ELIMINATIONS	CONSOLIDATED

	CLECO POWER			
Revenue				
Electric operations	$527,408	$(5,917)	$ —	$ 521,491
Other operations	37,315	1,030	—	38,345
Electric customer credits	(674)	—	—	(674)
Affiliate revenue	440	28,365	(28,805)	—
Operating revenue, net	$564,489	$23,478	$ (28,805)	$ 559,162
Depreciation and amortization	$78,230	$4,172	$ —	$ 82,402
Merger transaction and commitment costs	$—	$2	$ —	$ 2
Interest charges	$35,515	$26,966	$ (142)	$ 62,339
Interest income	$594	$240	$ (141)	$ 693
Federal and state income tax expense (benefit)	$32,918	$(13,591)	$ —	$ 19,327
Net income (loss)	$53,587	$(21,851)	$ —	$ 31,736
Additions to property, plant, and equipment	$127,297	$1,396	$ —	$ 128,693
Equity investment in investees [1]	$18,172	$—	$ —	$ 18,172
Goodwill [1]	$1,490,797	$—	$ —	$ 1,490,797
Total segment assets [1]	$5,823,640	$601,977	$ (14,351)	$ 6,411,266

[1] Balances as of June 30, 2017

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	SUCCESSOR				PREDECESSOR			
	APR. 13, 2016 -JUNE 30, 2016				JAN. 1, 2016 - APR. 12, 2016			
2016 (THOUSANDS)	CLECO POWER	OTHER	ELIMINATIONS	CONSOLIDATED	CLECO POWER	OTHER	ELIMINATIONS	CONSOLIDATED
Revenue								
Electric operations	$232,158	$(2,231)	$—	$229,927	$281,154	$—	$—	$281,154
Other operations	13,685	448	—	14,133	18,493	587	—	19,080
Electric customer credits	(558)	—	—	(558)	(364)	—	—	(364)
Affiliate revenue	194	10,763	(10,957)	—	263	15,024	(15,287)	—
Operating revenue, net	$245,479	$8,980	$(10,957)	$243,502	$299,546	$15,611	$(15,287)	$299,870
Depreciation and amortization	$31,145	$3,016	$(1)	$34,160	$43,698	$377	$1	$44,076
Merger transaction and commitment costs	$151,501	$19,802	$—	$171,303	$—	$34,928	$(16)	$34,912
Interest charges	$16,759	$9,721	$(15)	$26,465	$21,840	$295	$(12)	$22,123
Interest income	$117	$95	$(15)	$197	$208	$69	$(12)	$265
Federal and state income tax (benefit) expense	$(39,456)	$(12,746)	$—	$(52,202)	$12,993	$(9,525)	$—	$3,468
Net (loss) income	$(61,898)	$(20,016)	$—	$(81,914)	$21,548	$(25,508)	$—	$(3,960)
Additions to property, plant, and equipment	$43,583	$40	$—	$43,623	$42,353	$39	$—	$42,392
Equity investment in investees [1]	$18,672	$—	$—	$18,672				
Goodwill [1]	$1,490,797	$—	$—	$1,490,797				
Total segment assets [1]	$5,758,245	$614,959	$(30,060)	$6,343,144				

[1] Balances as of December 31, 2016

Note 10 — Regulation and Rates

Transmission ROE

Two complaints were filed with FERC seeking to reduce the ROE component of the transmission rates that MISO transmission owners, including Cleco, may collect under the MISO tariff. The first complaint, filed in November 2013, was for the period November 2013 through February 2015. In September 2016, FERC issued a Final Order in response to the first complaint establishing a 10.32% ROE.

The second complaint, filed in February 2015, was for the period February 2015 through May 2016. In June 2016, an ALJ issued an initial decision in the second rate case docket recommending a 9.70% base ROE. Cleco Power is unable to determine when a binding FERC order will be issued on the second ROE complaint.

On February 13, 2017, $1.2 million of refunds relating to the first complaint were submitted to MISO. As of June 30, 2017, Cleco Power had $2.0 million accrued for ROE reductions, including accrued interest.
For more information on the ROE complaints, see Note 12 — "Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Litigation — Transmission ROE."

FRP

Cleco Power's annual retail earnings are subject to an FRP that was approved by the LPSC in June 2014. Under the terms of the FRP, Cleco Power is allowed to earn a target ROE of 10.0%, while providing the opportunity to earn up to 10.9%. Additionally, 60.0% of retail earnings between 10.9% and 11.75% and all retail earnings over 11.75% are required to be refunded to customers. The amount of credits due to customers, if any, is determined by Cleco Power and the LPSC annually. Credits are typically included on customers' bills the following summer, but the amount and timing of the refunds is ultimately subject to LPSC approval. Cleco Power must file annual monitoring reports no later than October 31 for the 12-month period ended June 30. Cleco Power will file an

application with the LPSC for a new FRP by June 30, 2019, with anticipated new rates being effective July 1, 2020.
On October 31, 2016, Cleco Power filed its monitoring report for the 12-month period ended June 30, 2016, which indicated that no refund was due as a result of the FRP and $0.3 million was due as a result of the cost of service savings from the Merger Commitments. On May 1, 2017, the LPSC filed the report of its review of the 2016 FRP monitoring report which confirmed no earnings-related refunds, and the report was approved on June 28, 2017. For more information on Merger Commitments, see "— Merger Commitments."

Merger Commitments

On March 28, 2016, the LPSC approved the Merger. The LPSC's written order approving the Merger was issued on April 7, 2016. Approval of the Merger was conditioned upon certain commitments, including $136.0 million of customer rate credits. On April 28, 2016, the LPSC voted to issue credits equally to eligible customers with service as of June 30, 2016, beginning in July 2016. As of June 30, 2017, Cleco Power had issued $127.6 million of customer rate credits. Also included in the Merger Commitments were $2.5 million of contributions for economic development for Louisiana state and local organizations to be disbursed over five years, an additional $7.0 million one-time contribution for economic development in Cleco Power's service territory to be administered by the LED and $6.0 million of charitable contributions to be disbursed over five years. In December 2016, the $7.0 million one-time contribution was paid to the LED.
In addition, the Merger Commitments included $1.2 million of annual estimated cost of service savings expected as a result of the Merger. The cost savings are not subject to the target ROE or any sharing mechanism in the current FRP and will continue until Cleco Power's anticipated new rates begin on July 1, 2020. The cost savings will be refunded to customers annually beginning in September 2017. As of June 30, 2017, Cleco Power had $1.5 million accrued for the cost savings refund. A report on the status of the Merger Commitments must be filed annually by October 31 for the 12-month period ended June 30. On October 31, 2016, Cleco

Power filed the annual Merger Commitment status report for the period ended June 30, 2016.

SSR

In September 2016, Cleco Power filed an Attachment Y with MISO requesting retirement of Teche Unit 3 effective April 1, 2017. MISO conducted a study which determined the proposed retirement of Teche Unit 3 would result in violations of specific applicable reliability standards for which no mitigation is available. As a result, MISO designated Teche Unit 3 as an SSR unit until such time that an appropriate alternative solution can be implemented to mitigate reliability issues. One mitigating factor that has been identified is Cleco Power's Terrebonne to Bayou Vista Transmission project, which is expected to be complete by the third quarter of 2018. Cleco Power has a 12-month SSR Agreement for the period April 1, 2017, to March 31, 2018. During this time, Cleco Power will continue to operate Teche Unit 3. Cleco Power has filed with FERC for its approval to collect $20.3 million annually in SSR payments from MISO which includes recovering operations and maintenance expenses, administrative and general expenses, taxes, depreciation, capital expenditures, and carrying charges, all of which are related to Teche Unit 3 for the period of the SSR Agreement. In the second quarter of 2017, Cleco Power began receiving the monthly SSR payments from MISO, subject to refund pending review and approval by FERC. On July 20, 2017, Cleco Power, FERC staff, and intervenors met at the first settlement conference and set a procedural schedule for data requests between parties. On July 27, 2017, Cleco Power received five sets of informal data requests from FERC staff and intervenors. Cleco Power anticipates the completion of this discovery phase by September 30, 2017. The next settlement conference is scheduled for September 19, 2017. Cleco Power is unable to determine when a binding FERC order will be issued. Also in the second quarter of 2017, MISO began allocating SSR costs to the load serving entities that require the operation of the SSR unit for reliability purposes, including Cleco Power. In the first quarter of 2018, another study is expected to be performed by MISO to determine if an SSR Agreement will be needed after March 31, 2018. At the end of the SSR Agreement, Cleco Power will have the option to rescind the Attachment Y requesting retirement of Teche Unit 3, and if this option is exercised, Cleco Power would be required to refund recoverable capital expenditures plus interest. Management does not expect to be required to refund any portion of these costs.

Other

In April 2016, the LPSC issued Docket No. R-34026 to investigate double leveraging issues for all LPSC-jurisdictional utilities whereby double leveraging is utilized to fund a utility's capital structure, and to consider whether any costs associated with such double leveraging should be included in the rates paid by the utility's retail customers. Cleco Power filed a motion to intervene in this proceeding along with other Louisiana utilities. In April 2016, the LPSC also issued Docket No. R-34029 to investigate tax structure issues for all LPSC-jurisdictional utilities to consider whether only the state and federal taxes included in a utility's retail rate will be those that do not exceed the utility's share of the actual taxes paid to those federal and state taxing authorities. Cleco Power filed a motion to intervene in this proceeding along with other Louisiana utilities. In October 2016, Cleco received the first set

of data requests from the LPSC Staff for each of the above mentioned dockets. Cleco has filed responses to the non-confidential requests and is waiting on the completion of a confidentiality agreement to respond to the confidential requests. Cleco is unable to determine if or when the completion of this confidentiality agreement will occur.

Note 11 — Variable Interest Entities

Cleco and Cleco Power apply the equity method of accounting to report the investment in Oxbow in the consolidated financial statements. Under the equity method, the assets and liabilities of this entity are reported as Equity investment in investee on Cleco and Cleco Power's Condensed Consolidated Balance Sheets. The revenue and expenses (excluding income taxes) of this entity are netted and reported as equity income or loss from investees on Cleco and Cleco Power's Condensed Consolidated Statements of Income.

Oxbow is owned 50% by Cleco Power and 50% by SWEPCO. Cleco Power is not the primary beneficiary because it shares the power to control Oxbow's significant activities with SWEPCO. Cleco Power's current assessment of its maximum exposure to loss related to Oxbow at June 30, 2017, consisted of its equity investment of $18.2 million. In June 2017, Cleco Power received $0.5 million from Oxbow as a return of investment.

During the first quarter of 2017, the transition from the Dolet Hills mine to the Oxbow mine commenced. This transition was completed in July 2017.

The following table presents the components of Cleco Power's equity investment in Oxbow:

INCEPTION TO DATE (THOUSANDS)	AT JUNE 30, 2017	AT DEC. 31, 2016
Purchase price	$12,873	$12,873
Cash contributions	6,399	6,399
Dividends	(1,100)	(600)
Total equity investment in investee	$18,172	$18,672

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

(THOUSANDS)	AT JUNE 30, 2017	AT DEC. 31, 2016
Oxbow's net assets/liabilities	$36,344	$37,345
Cleco Power's 50% equity	$18,172	$18,672
Cleco Power's maximum exposure to loss	$18,172	$18,672

The following table contains summarized financial information for Oxbow:

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
(THOUSANDS)	2017	2016	2017	2016
Operating revenue	$532	$1,526	$1,605	$3,627
Operating expenses	532	1,526	1,605	3,627
Income before taxes	$—	$—	$—	$—

DHLC mines lignite reserves at Oxbow through the Amended Lignite Mining Agreement. The lignite reserves are intended to be used to provide fuel to the Dolet Hills Power Station.

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

Note 12 — 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 the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (also known as the Superfund statute) for a facility known as the Devil's Swamp Lake site located just northwest of Baton Rouge, Louisiana. The special notice requested that Cleco and Cleco Power, along with many other listed potentially responsible parties (PRP), enter into negotiations with the EPA for the performance of an RI/FS at the Devil's Swamp Lake site. The EPA identified Cleco as one of many companies that sent polychlorinated biphenyl (PCB) wastes for disposal to the site. The EPA proposed to add the Devil's Swamp Lake site to the National Priorities List on March 8, 2004, based on the release of PCBs to fisheries and wetlands located on the site, but no final listing decision has yet been made. The PRPs began discussing a potential proposal to the EPA in February 2008. The EPA issued a Unilateral Administrative Order to two PRPs, Clean Harbors, Inc. and Baton Rouge Disposal, to conduct an RI/FS in December 2009. The Tier 1 part of the study was completed in June 2012. Field activities for the Tier 2 investigation were completed in July 2012. The draft Tier 2 remedial investigation report was submitted in December 2014. In 2015, remedial investigation activities included the collection and analysis of sediment, crawfish, and fish tissue samples. After reviewing the sample analysis, in August 2015, the Louisiana Department of Health and Hospitals updated the advisory for the area to advise that fish and crawfish from the area should not be eaten. The final Tier 2 remedial investigation report was made public in December 2015. 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 site, if any, and whether this will have a material impact on the results of operations, financial condition, or cash flows of the Registrants.

Merger
In connection with the Merger, four actions were filed in the Ninth Judicial District Court for Rapides Parish, Louisiana and three actions were filed in the Civil District Court for Orleans Parish, Louisiana. The petitions in each action generally alleged, among other things, that the members of Cleco Corporation's Board of Directors breached their fiduciary duties by, among other things, conducting an allegedly inadequate sale process, agreeing to the Merger at a price that allegedly undervalued Cleco, and failing to disclose material information about the Merger. The petitions also alleged that Cleco Partners, Cleco Corporation, Merger Sub, and in some cases, certain of the investors in Cleco Partners, either aided and abetted or entered into a civil conspiracy to advance those supposed breaches of duty. The petitions seek various remedies, including monetary damages, which includes attorneys' fees and expenses.

The four actions filed in the Ninth Judicial District Court for Rapides Parish are captioned as follows:

- Braunstein v. Cleco Corporation, No. 251,383B (filed October 27, 2014),
- Moore v. Macquarie Infrastructure and Real Assets, No. 251,417C (filed October 30, 2014),
- Trahan v. Williamson, No. 251,456C (filed November 5, 2014), and
- L'Herisson v. Macquarie Infrastructure and Real Assets, No. 251,515F (filed November 14, 2014).

On November 14, 2014, the plaintiff in the Braunstein action moved for a dismissal of the action without prejudice, and that motion was granted on November 19, 2014. On December 3, 2014, the Court consolidated the remaining three actions and appointed interim co-lead counsel. On December 18, 2014, the plaintiffs in the consolidated action filed a Consolidated Amended Verified Derivative and Class Action Petition for Damages and Preliminary and Permanent Injunction (the Consolidated Amended Petition). The consolidated action named Cleco Corporation, its

directors, Cleco Partners, and Merger Sub as defendants. The Consolidated Amended Petition alleged, among other things, that Cleco Corporation's directors breached their fiduciary duties to Cleco's shareholders and grossly mismanaged Cleco by approving the Merger Agreement because it allegedly did not value Cleco adequately, failing to structure a process through which shareholder value would be maximized, engaging in self-dealing by ignoring conflicts of interest, and failing to disclose material information about the Merger. The Consolidated Amended Petition further alleged that all defendants conspired to commit the breaches of fiduciary duty. Cleco believes that the allegations of the Consolidated Amended Petition are without merit and that it has substantial meritorious defenses to the claims set forth in the Consolidated Amended Petition.
The three actions filed in the Civil District Court for Orleans Parish are captioned as follows:

- Butler v. Cleco Corporation, No. 2014-10776 (filed November 7, 2014),
- Creative Life Services, Inc. v. Cleco Corporation, No. 2014-11098 (filed November 19, 2014), and
- Cashen v. Cleco Corporation, No. 2014-11236 (filed November 21, 2014).

Both the Butler and Cashen actions name Cleco Corporation, its directors, Cleco Partners, Merger Sub, MIRA, bcIMC, and John Hancock Financial as defendants. The Creative Life Services action names Cleco Corporation, its directors, Cleco Partners, Merger Sub, MIRA, and Macquarie Infrastructure Partners III, L.P., as defendants. On December 11, 2014, the plaintiff in the Butler action filed an Amended Class Action Petition for Damages. Each petition alleged, among other things, that the members of Cleco Corporation's Board of Directors breached their fiduciary duties to Cleco's shareholders by approving the Merger Agreement because it allegedly does not value Cleco adequately, failing to structure a process through which shareholder value would be maximized and engaging in self-dealing by ignoring conflicts of interest. The Butler and Creative Life Services petitions also allege that the directors breached their fiduciary duties by failing to disclose material information about the Merger. Each

petition further alleged that Cleco, Cleco Partners, Merger Sub, and certain of the investors in Cleco Partners aided and abetted the directors' breaches of fiduciary duty. On December 23, 2014, the directors and Cleco filed declinatory exceptions in each action on the basis that each action was improperly brought in Orleans Parish and should either be transferred to the Ninth Judicial District Court for Rapides Parish or dismissed. On December 30, 2014, the plaintiffs in each action jointly filed a motion to consolidate the three actions pending in Orleans Parish and to appoint interim co-lead plaintiffs and co-lead counsel. On January 23, 2015, the Court in the Creative Life Services case sustained the defendants' declinatory exceptions and dismissed the case so that it could be transferred to the Ninth Judicial District Court for Rapides Parish. On February 5, 2015, the plaintiffs in Butler and Cashen also consented to the dismissal of their cases from Orleans Parish so they could be transferred to the Ninth Judicial District Court for Rapides Parish.
On February 25, 2015, the Ninth Judicial District Court for Rapides Parish held a hearing on a motion for preliminary injunction filed by plaintiffs Moore, L'Herisson, and Trahan seeking to enjoin the shareholder vote at the Special Meeting of Shareholders held on February 26, 2015, for approval of the Merger Agreement. Following the hearing, the Court denied the plaintiffs' motion. On June 19, 2015, three of the plaintiffs filed their Second Consolidated Amended Verified Derivative and Class Action Petition. This will be considered according to a schedule established by the Ninth Judicial District Court for Rapides Parish. Cleco filed exceptions seeking dismissal of the amended petition on July 24, 2015.
On March 21, 2016, the plaintiffs filed their Third Consolidated Amended Verified Derivative Petition for Damages and Preliminary and Permanent Injunction. On May 13, 2016, the plaintiffs filed their Fourth Verified Consolidated Amended Class Action Petition. This petition eliminated the request for preliminary and permanent injunction and also named an additional executive officer as a defendant. Cleco filed exceptions seeking dismissal of the amended Petition. A hearing was held on September 15, 2016. On September 26, 2016, the District Court granted the exceptions filed by Cleco and dismissed all claims asserted by the former shareholders. The plaintiffs appealed the District Court's ruling to the Louisiana Third Circuit Court of Appeal on November 9, 2016. The plaintiffs filed their brief on May 18, 2017, and Cleco filed its brief on July 7, 2017. Cleco anticipates that the Third Circuit Court of Appeal will hear the oral arguments in the case by December 31, 2017. Cleco believes that the allegations of the petitions in each action are without merit and that it has substantial meritorious defenses to the claims set forth in each of the petitions.

Gulf Coast Spinning
In September 2015, a potential customer sued Cleco for failure to fully perform an alleged verbal agreement to lend or otherwise fund its startup costs to the extent of $6.5 million. Gulf Coast Spinning Company, LLC (Gulf Coast), the primary plaintiff, alleges that Cleco promised to assist it in raising approximately $60.0 million, which Gulf Coast needed to construct a cotton spinning facility near Bunkie, Louisiana. According to the petition filed by Gulf Coast in the 12th Judicial District Court for Avoyelles Parish, Louisiana (the "District Court"), Cleco made such promises of funding assistance in order to cultivate a new industrial electric customer which would increase its revenues under a power supply agreement

that it executed with Gulf Coast. Gulf Coast seeks unspecified damages arising from its inability to raise sufficient funds to complete the project, including lost profits.
Cleco filed an Exception of No Cause of Action arguing that the case should be dismissed. The District Court denied Cleco's exception in December 2015, after considering briefs and arguments. In January 2016, Cleco appealed the District Court's denial of its exception by filing with the Third Circuit Court of Appeal for the State of Louisiana. In June 2016, the Third Circuit Court of Appeal for the State of Louisiana denied the request to have the case dismissed. In July 2016, Cleco filed a writ to the Louisiana Supreme Court seeking a review of the District Court's denial of Cleco's exception. In November 2016, the Louisiana Supreme Court denied Cleco's writ application.
In February 2016, the parties agreed to a stay of all proceedings pending discussions concerning settlement. In May 2016, the District Court lifted the stay at the request of Gulf Coast. The parties are currently participating in discovery.

Cleco believes the allegations of the petition are contradicted by the written documents executed by Gulf Coast, are otherwise without merit, and that it has substantial meritorious defenses to the claims alleged by Gulf Coast.

Sabine River Flood

On March 17, 2017, Cleco was served with a summons in Perry Bonin, Ace Chandler, and Michael Manuel, et al v. Sabine River Authority of Texas and Sabine River Authority of Louisiana, No. B-160173-C. The action was filed in the 163rd Judicial District Court for Orange County, Texas, and relates to flooding that occurred in Texas and Louisiana in March 2016. The plaintiffs have alleged that the flooding was the result of the release of water from the Toledo Bend spillway gates into the Sabine River. While the plaintiffs have made numerous allegations, they have specifically alleged that Cleco Power, included as one of several companies and governmental bodies, failed to repair one of the two hydroelectric generators at the Toledo Bend Dam, which in turn contributed to the flooding. Cleco Power does not operate the hydroelectric generator. Management believes that the case, as it relates to Cleco Power, has no merit.

The suit has been removed to federal court in Texas. Unless and until the federal court remands the case, it will stay in federal court.

LPSC Audits

Fuel Audit

Generally, the cost of fuel used for electric generation and the cost of power purchased for utility customers are recovered through the LPSC-established FAC that enables Cleco Power to pass on to its customers substantially all such charges. Recovery of FAC costs is subject to periodic fuel audits by the LPSC. The LPSC FAC General Order issued in November 1997, in Docket No. U-21497 provides that an audit of FAC filings will be performed at least every other year. In February 2016, the LPSC initiated an audit of Cleco Power’s fuel and purchased power expenses for the period January 2014 through December 2015. The total amount of fuel expense included in the audit was $582.6 million. On January 19, 2017, the LPSC Staff issued its audit report which recommended no disallowance of fuel costs. The report was approved by the LPSC on April 19, 2017. Cleco Power has FAC filings for January 2016 and thereafter that remain subject to audit.

Management is unable to predict or give a reasonable estimate of the possible range of the disallowance, if any, related to these filings.

Environmental Audit

In July 2009, the LPSC issued Docket No. U-29380 Subdocket A, which provides for an EAC to recover from customers certain costs of environmental compliance. The costs eligible for recovery are prudently incurred air emissions credits associated with complying with federal, state, and local air emission regulations that apply to the generation of electricity reduced by the sale of such allowances. Also eligible for recovery are variable emission mitigation costs, which are the costs of reagents such as ammonia and limestone that are a part of the fuel mix used to reduce air emissions, among other things. In February 2016, the LPSC initiated an audit of Cleco Power's environmental costs for the period November 2010 through December 2015. The total amount of environmental costs included in the audit was $81.2 million. In December 2016, the LPSC Staff issued its audit report which recommended a disallowance of environmental costs of less than $0.1 million. The report was approved by the LPSC on February 17, 2017. Cleco Power has EAC filings for January 2016 and thereafter that remain subject to audit. Management is unable to predict or give a reasonable estimate of the possible range of the disallowance, if any, related to these filings.

In the second quarter of 2015, Cleco Power began incurring additional environmental compliance expenses for reagents associated with compliance with MATS. In June 2015, the U.S. Supreme Court remanded the MATS rule to the D.C. Circuit Court of Appeals. In December 2015, the D.C. Circuit Court of Appeals remanded the rule to the EPA; however, the D.C. Circuit Court of Appeals did not vacate this rule. In April 2016, the EPA released a final supplemental finding that, even considering costs, it is appropriate and necessary to regulate hazardous air pollutants. By the June 24, 2016, deadline, six petitions were filed with the U.S. Court of Appeals for the D.C. Circuit Court of Appeals for review of the EPA's findings. At the request of the EPA, on April 27, 2017, the court issued an order holding the cases in abeyance pending the EPA's review of its supplemental finding. These expenses are also eligible for recovery through Cleco Power's EAC and are subject to periodic review by the LPSC.

Transmission ROE

Two complaints were filed with FERC seeking to reduce the ROE component of the transmission rates that MISO transmission owners, including Cleco, may collect under the MISO tariff. The complaints sought to reduce the 12.38% ROE used in MISO's transmission rates to a proposed 6.68%. The first complaint, filed in November 2013, was for the period November 2013 through February 2015. In September 2016, FERC issued a Final Order in response to the first complaint establishing a 10.32% ROE.

The second complaint, filed in February 2015, was for the period February 2015 through May 2016. In June 2016, an ALJ issued an initial decision in the second rate case docket recommending a 9.70% base ROE. Cleco Power is unable to determine when a binding FERC order will be issued on the second ROE complaint.

In November 2014, the MISO transmission owners committee, of which Cleco is a member, filed a request with FERC for an incentive to increase the new ROE by 50 basis

points for RTO participation as allowed by the MISO tariff. In January 2015, FERC granted the request. The collection of the adder is delayed until the resolution of the ROE complaint proceedings.

On February 13, 2017, $1.2 million of refunds relating to the first complaint were submitted to MISO. As of June 30, 2017, Cleco Power had $2.0 million accrued for a reduction to the ROE, including accrued interest. Management believes a reduction in the ROE, as well as any additional refund, will not have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

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 June 30, 2017, believes the probable and reasonably estimable liabilities based on the eventual disposition of these matters is $4.7 million and has accrued this amount.

Off-Balance Sheet Commitments and Guarantees

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

Cleco Holdings 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 Holdings 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 and Cleco Power's Condensed Consolidated Balance Sheets because management has determined that Cleco and Cleco Power's affiliates are able to perform the obligations under their contracts and that it is not probable that payments by Cleco or Cleco Power will be required.

Cleco Holdings provided guarantees and indemnities to Entergy Louisiana and Entergy Gulf States as a result of the sale of the Perryville facility in 2005. The remaining indemnifications relate to environmental matters that may have been present prior to closing. These remaining indemnifications have no limitations to time. 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 these guarantees.

On behalf of Acadia, Cleco Holdings provided guarantees and indemnifications as a result of the sales of Acadia Unit 1 to Cleco Power and Acadia Unit 2 to Entergy Louisiana in 2010 and 2011, respectively. The remaining indemnifications relate

to the fundamental organizational structure of Acadia. These remaining indemnifications have no limitations as to time or maximum potential future payments. Currently, management does not expect to be required to pay Cleco Power or Entergy Louisiana under these guarantees.
Cleco Holdings provided indemnifications to Cleco Power as a result of the transfer of Coughlin to Cleco Power in March 2014. Cleco Power also provided indemnifications to Cleco Holdings and Evangeline as a result of the transfer of Coughlin to Cleco Power. The maximum amount of the potential payment to Cleco Power, Cleco Holdings, and Evangeline for their respective indemnifications is $40.0 million, except for indemnifications relating to the fundamental organizational structure of each respective entity, of which the maximum amount is $400.0 million. Currently, management does not expect to be required to make any payments under these indemnifications.
As part of the Amended Lignite Mining Agreement, Cleco Power and SWEPCO, joint owners of Dolet Hills Power Station, have agreed to pay the loan and lease principal obligations of the lignite miner, DHLC, when due if DHLC does not have sufficient funds or credit to pay. Any amounts paid on behalf of the miner would be credited by the lignite miner against future invoices for lignite delivered. The maximum projected payment by Cleco Power under this guarantee is estimated to be $106.5 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 DHLC, 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 this guarantee.
Generally, neither Cleco Holdings nor Cleco Power has recourse that would enable them to recover amounts paid under their guarantee or indemnification obligations. There are no assets held as collateral for third parties that either Cleco Holdings or Cleco Power could obtain and liquidate to recover amounts paid pursuant to the guarantees or indemnification obligations.

Other Commitments

NMTC Fund
In 2008, Cleco Holdings and US Bancorp Community Development (USBCDC) formed the NMTC Fund. Cleco Holdings has a 99.9% membership interest in the NMTC Fund and USBCDC has a 0.1% interest. The purpose of the NMTC Fund is to invest in projects located in qualified active low-income communities that are underserved by typical debt capital markets. These investments are designed to generate NMTCs and Historical Rehabilitation tax credits. The NMTC Fund was later amended to include renewable energy investments. The majority of the energy investments qualify for grants under Section 1603 of the ARRA. The tax benefits received from the NMTC Fund reduce the federal income tax obligations of Cleco Holdings. In total, Cleco Holdings contributed $285.5 million of equity contributions to the NMTC Fund and will receive at least $303.8 million in the form of tax credits, tax losses, capital gains/losses, earnings, and cash

over the life of the investment, which ends in 2018. The $18.3 million difference between equity contributions and total benefits received will be recognized over the life of the NMTC Fund as net tax benefits are delivered.
Due to the right of offset, the investment and associated debt are presented in Tax credit fund investment, net, on Cleco’s Condensed Consolidated Balance Sheet. At December 31, 2016, the amount of the liability component contained in the net asset was $0.6 million, and it was paid on March 30, 2017. The amount of tax benefits delivered in excess of capital contributions as of June 30, 2017, was $11.1 million.
By using the cost method for investments, the gross investment amortization expense will be recognized over a ten-year period, which is projected to end in 2018. The basis of the investment is reduced by the grants received under Section 1603 of the ARRA, which allow certain projects to receive a federal grant in lieu of tax credits, and other cash. Periodic amortization of the investment and the deferred taxes generated by the basis reduction temporary

difference are included as components of income tax expense.

Other
Cleco has accrued for liabilities related to third parties, employee medical benefits, and AROs.

Risks and Uncertainties
Cleco could be subject to possible adverse consequences if Cleco’s counterparties fail to perform their obligations or if Cleco or its affiliates are not in compliance with loan agreements or bond indentures.
Access to capital markets is a significant source of funding for both short- and long-term capital requirements not satisfied by operating cash flows. On April 7, 2017, Moody’s updated its credit ratings by maintaining Cleco Holdings at Baa3 (stable) and Cleco Power at A3 (stable). On May 30, 2017, S&P affirmed Cleco Holdings’ and Cleco Power’s credit ratings at BBB- (stable) and BBB+ (stable), respectively.
Changes in the regulatory environment or market forces could cause Cleco to determine its assets have suffered an other-than-temporary decline in value, whereby an impairment would be required and Cleco’s financial condition could be materially adversely affected.
Cleco Power is a participant in the MISO market. Energy prices in the MISO market are based on Locational Marginal Price (LMP), which includes a component directly related to congestion on the transmission system. Pricing zones with greater transmission congestion may have a higher LMP. Physical transmission constraints present in the MISO market could increase energy costs within Cleco Power’s pricing zones. Cleco Power uses FTRs to mitigate transmission congestion risk. Changes to anticipated transmission paths may result in an unexpected increase in energy costs to Cleco Power.

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Note 13 — Affiliate Transactions

Cleco Power has balances that are payable to or due from its affiliates. The following table is a summary of those balances:

(THOUSANDS)	AT JUNE 30, 2017 ACCOUNTS RECEIVABLE	AT JUNE 30, 2017 ACCOUNTS PAYABLE	AT DEC. 31, 2016 ACCOUNTS RECEIVABLE	AT DEC. 31, 2016 ACCOUNTS PAYABLE
Cleco Holdings	$ 48	$ 82	$ 3	$ 119
Support Group	671	7,037	1,402	7,071
Other [1]	34	—	1	—
Total	$ 753	$ 7,119	$ 1,406	$ 7,190

[1] Represents Attala and Perryville.

Note 14 — Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss are summarized in the following tables for Cleco and Cleco Power. All amounts are reported net of income taxes. Amounts in parentheses indicate losses.

Cleco

(THOUSANDS)	FOR THE THREE MONTHS ENDED JUNE 30, 2017 POSTRETIREMENT BENEFIT NET LOSS	NET LOSS ON CASH FLOW HEDGES	TOTAL AOCI	FOR THE SIX MONTHS ENDED JUNE 30, 2017 POSTRETIREMENT BENFIT NET GAIN (LOSS)	NET LOSS ON CASH FLOW HEDGES	TOTAL AOCI
SUCCESSOR						
Balances, beginning of period	$ (691)	$ —	$ (691)	$ 1,500	$ —	$ 1,500
Other comprehensive loss before reclassifications						
Postretirement benefit adjustments during the period	—	—	—	(2,065)	—	(2,065)
Amounts reclassified from accumulated other comprehensive loss						
Amortization of postretirement benefit net loss (gain)	60	—	60	(66)	—	(66)
Net current-period other comprehensive income (loss)	60	—	60	(2,131)	—	(2,131)
Balances, June 30, 2017	$ (631)	$ —	$ (631)	$ (631)	$ —	$ (631)

(THOUSANDS)	FOR THE THREE MONTHS ENDED JUNE 30, 2016 POSTRETIREMENT BENEFIT NET LOSS	NET LOSS ON CASH FLOW HEDGES	TOTAL AOCI	FOR THE SIX MONTHS ENDED JUNE 30, 2016 POSTRETIREMENT BENEFIT NET LOSS	NET LOSS ON CASH FLOW HEDGES	TOTAL AOCI
PREDECESSOR						

Balances, beginning of period	$(20,329)	$(5,675)	$(26,004)	$(20,857)	$(5,728)	$(26,585)
Amounts reclassified from accumulated other comprehensive income						
Amortization of postretirement benefit net loss	59	—	59	587	—	587
Reclassification of net loss to interest charges	—	7	7	—	60	60
Net current-period other comprehensive income	59	7	66	587	60	647
Balances, Apr. 12, 2016	$(20,270)	$(5,668)	$(25,938)	$(20,270)	$(5,668)	$(25,938)
SUCCESSOR[(1)]						
Balances, Apr. 13, 2016	$—	$—	$—	$—	$—	$—
Balances, June 30, 2016	$—	$—	$—	$—	$—	$—

[(1)] As a result of the Merger, accumulated other comprehensive income was reduced to zero on April 13, 2016, as required by acquisition accounting.

Cleco Power

(THOUSANDS)	FOR THE THREE MONTHS ENDED JUNE 30, 2017			FOR THE SIX MONTHS ENDED JUNE 30, 2017		
	POSTRETIREMENT BENEFIT NET LOSS	NET LOSS ON CASH FLOW HEDGES	TOTAL AOCI	POSTRETIREMENT BENEFIT NET LOSS	NET LOSS ON CASH FLOW HEDGES	TOTAL AOCI
Balances, beginning of period	$(8,325)	$(5,464)	$(13,789)	$(7,905)	$(5,517)	$(13,422)
Other comprehensive loss before reclassifications						
Postretirement benefit adjustments during the period	—	—	—	(584)	—	(584)
Amounts reclassified from accumulated other comprehensive income						
Amortization of postretirement benefit net loss	193	—	193	357	—	357
Reclassification of net loss to interest charges	—	53	53	—	106	106
Net current-period other comprehensive income (loss)	193	53	246	(227)	106	(121)
Balances, June 30, 2017	$(8,132)	$(5,411)	$(13,543)	$(8,132)	$(5,411)	$(13,543)

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(THOUSANDS)	FOR THE THREE MONTHS ENDED JUNE 30, 2016			FOR THE SIX MONTHS ENDED JUNE 30, 2016		
	POSTRETIREMENT BENEFIT NET LOSS	NET LOSS ON CASH FLOW HEDGES	TOTAL AOCI	POSTRETIREMENT BENEFIT NET LOSS	NET LOSS ON CASH FLOW HEDGES	TOTAL AOCI
Balances, beginning of period	$(11,164)	$(5,675)	$(16,839)	$(11,364)	$(5,728)	$(17,092)
Amounts reclassified from accumulated other comprehensive income						
Amortization of postretirement benefit net loss	181	—	181	381	—	381
Reclassification of net loss to interest charges	—	53	53	—	106	106
Net current-period other comprehensive income	181	53	234	381	106	487
Balances, June 30, 2016	$(10,983)	$(5,622)	$(16,605)	$(10,983)	$(5,622)	$(16,605)

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

Cleco uses its website, https://www.cleco.com, as a routine channel for distribution of important information, including news releases and financial information. Cleco’s website is the primary source of publicly disclosed news about Cleco. Cleco is providing the address to its website solely for informational purposes and does not intend for the address to be an active link. The contents of the website are not incorporated into this Combined Quarterly Report on Form 10-Q.

The following discussion and analysis should be read in combination with the Registrants’ Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2016, and Cleco and Cleco Power’s Condensed Consolidated Financial Statements contained in this Combined Quarterly Report on Form 10-Q. The information included therein is essential to understanding the following discussion and analysis. Below is information concerning the consolidated results of operations of Cleco for the three and six months ended June 30, 2017, and June 30, 2016.

OVERVIEW

Cleco is a regional energy company that conducts substantially all of its business operations through its primary subsidiary, Cleco Power. Cleco Power is a regulated electric utility company that owns nine generating units with a total nameplate capacity of 3,310 MW and serves approximately 288,000 customers in Louisiana through its retail business and supplies wholesale power in Louisiana and Mississippi.

Merger

On April 13, 2016, Cleco Holdings completed its merger with Merger Sub whereby Merger Sub merged with and into Cleco Corporation, with Cleco Corporation surviving the Merger, and Cleco Corporation converting to a limited liability company and changing its name to Cleco Holdings, as a direct, wholly owned subsidiary of Cleco Group and an indirect, wholly owned subsidiary of Cleco Partners. For more information on the Merger, see Item 1, “Notes to the Unaudited Condensed Consolidated Financial Statements — Note 2 — Business Combinations.”

Enterprise Business Applications Project

Cleco is initiating a project that will replace and is expected to improve its enterprise business applications. The project’s objectives are to gain efficiencies through consistent, industry leading work processes; enable better decision making through data transparency across business functions; mitigate risk through knowledge transfer and better process documentation; provide a modernized, flexible platform to support future growth and changing business models; and

provide customer-centric focus through technology and flexibility. Cleco selected a software enterprise platform solution, acquired licenses for the associated software, selected the system integrator and executed a master services agreement with the system integrator. The integration process will use a phased approach, and management expects all phases to be complete by the third quarter of 2019. The total estimated project cost is $130.0 million. As of June 30, 2017, Cleco had spent $11.0 million on the project.

Cleco Power

Many factors affect Cleco Power's primary business of generating, delivering, and selling electricity. These factors include weather and the presence of a stable regulatory environment, which impacts cost recovery and the ROE, as well as the recovery of costs related to growing energy demand and rising fuel prices; the ability to increase energy sales while containing costs; the ability to reliably deliver power to its jurisdictional customers; the ability to meet increasingly stringent regulatory and environmental standards; and the ability to successfully perform in MISO and the related operating challenges and uncertainties, including increased wholesale competition relative to more suppliers. Key initiatives on which Cleco Power is currently working include continuing construction on the Cenla Transmission Expansion project and the St. Mary Clean Energy Center project; initiating construction of the Terrebonne to Bayou Vista Transmission project and Coughlin Pipeline project; and maintaining and growing its wholesale and retail business. These initiatives are discussed below.

Cenla Transmission Expansion Project

The Cenla Transmission Expansion project includes the construction of transmission lines and a transmission substation within the central Louisiana area. The project is expected to improve reliability to customers by relieving forecasted overloads and mitigating potential load shedding events while providing flexibility to allow routine maintenance outages and serve future growth in the central Louisiana area. The substation construction is complete and has been placed in service. New line construction is complete and the re-conductor portion of the project is in progress. The project is expected to be complete by the end of 2017 with an estimated cost of $32.3 million. As of June 30, 2017, Cleco Power had spent $26.4 million on the project.

St. Mary Clean Energy Center Project

The St. Mary Clean Energy Center project includes Cleco Power constructing, owning, and operating a 50-MW generating unit to be fueled by waste heat from Cabot Corporation's carbon black manufacturing plant in Franklin, Louisiana. Construction began in October 2016 and the unit is expected to be commercially operational by the second quarter of 2018 at an estimated cost of $99.8 million. The project is expected to generate more than 300,000 MWh of zero additional carbon emitting energy each year. As of June 30, 2017, Cleco Power had spent $53.9 million on the project.

Terrebonne to Bayou Vista Transmission Project

The Terrebonne to Bayou Vista Transmission project includes the construction of additional transmission interconnection facilities south of Teche Power Station. The project is expected to increase reliability, reduce congestion, and provide hurricane hardening for customers in southeast Louisiana. The project team continues to investigate wetland mitigation options, and the right-of-way and land acquisition team continues signing land owner agreements. Cleco Power's portion of the joint project with Entergy Louisiana is expected to cost $48.0 million. Construction is expected to be complete by the third quarter of 2018. As of June 30, 2017, Cleco Power had spent $4.3 million on the project.

Coughlin Pipeline Project

The Coughlin Pipeline project includes construction of a pipeline directly connecting the Pine Prairie Energy Center to Cleco's Coughlin Power Station. The project is expected to increase reliability for fuel delivery and mitigate exposure to price increases. On June 28, 2017, the LPSC approved the establishment of a regulatory asset for the revenue requirement associated with the Coughlin Pipeline project until Cleco Power seeks recovery in its next rate case. The project is expected to be complete in the second quarter of 2019 with an estimated cost of $29.4 million. As of June 30, 2017, Cleco Power had spent $0.2 million on the project.

Other

Cleco Power is working on securing load growth opportunities that include renewing existing franchises and wholesale contracts, pursuing new wholesale contracts and franchises, and adding new retail load opportunities with large industrial, commercial, and residential load. The retail opportunities include sectors such as agriculture, oil and gas, chemicals, metals, national accounts, government and military, wood and paper, health care, information technology, transportation, and other manufacturing.

RESULTS OF OPERATIONS

All of the financial information for Cleco below is presented such that pre-merger activity is shown as "Predecessor" and post-merger activity is shown as "Successor." The purchase price of the Merger was allocated to the related assets and liabilities based on their respective estimated fair values on the Merger date, with the remaining consideration recorded as goodwill. The fair values of assets are being amortized over their estimated useful lives in a manner that best reflects the economic benefits derived from such assets. Goodwill is not amortized, but is subject to impairment testing, annually, during the third quarter. Such adjustments to fair value and the allocation of purchase price between identifiable intangibles and goodwill will have an impact on Cleco's expenses and profitability.

Comparison of the Three Months Ended June 30, 2017, and 2016

Cleco

	SUCCESSOR		PREDECESSOR
(THOUSANDS)	FOR THE THREE MONTHS ENDED JUNE	APR. 13, 2016 - JUNE 30, 2016	APR. 1, 2016 - APR. 12, 2016

	30, 2017		
Operating revenue, net	$308,661	$243,502	$ 32,903
Operating expenses	238,412	353,650	62,735
Operating income (loss)	$70,249	$(110,148)	$ (29,832)
Interest charges	$30,621	$26,465	$ 2,569
Federal and state income tax expense (benefit)	$16,220	$(52,202)	$ (8,669)
Net income (loss)	$25,444	$(81,914)	$ (23,328)

Cleco’s net income attributable to the successor period for the three months ended June 30, 2017, was $25.4 million. There were no significant changes in the underlying trends impacting net income. The effective income tax rate for the period was 38.9%.

Cleco’s net loss attributable to the successor period April 13, 2016, through June 30, 2016, was $81.9 million. There were no significant changes in the underlying trends impacting net loss with the exception of the change in pretax income primarily related to $171.3 million of merger transaction and commitment costs and interest costs of $9.5 million related to debt obtained as a result of the Merger. The effective income tax rate for the period was 38.9%.

Cleco’s net loss attributable to the predecessor period April 1, 2016, through April 12, 2016, was $23.3 million. There were no significant changes in the underlying trends impacting net loss with the exception of the change in pretax income primarily related to $33.4 million of merger transaction costs. The effective income tax rate for the period was 27.1%.

The estimated annual effective income tax rate used in the second quarter of 2017 for Cleco might not be indicative of the full-year income tax rate.

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

	FOR THE THREE MONTHS ENDED JUNE 30,			
			FAVORABLE/(UNFAVORABLE)	
(THOUSANDS)	2017	2016	VARIANCE	CHANGE
Operating revenue				
Base	$168,150	$168,026	$ 124	0.1 %
Fuel cost recovery	121,705	95,129	26,576	27.9 %
Electric customer credits	(239)	(601)	362	60.2 %
Other operations	20,950	15,564	5,386	34.6 %
Affiliate revenue	221	225	(4)	(1.8)%
Operating revenue, net	310,787	278,343	32,444	11.7 %
Operating expenses				
Recoverable fuel and power purchased	121,707	95,132	(26,575)	(27.9)%
Non-recoverable fuel and power purchased	9,623	8,579	(1,044)	(12.2)%
Other operations	29,782	29,287	(495)	(1.7)%
Maintenance	24,264	27,954	3,690	13.2 %
Depreciation and amortization	39,473	36,240	(3,233)	(8.9)%
Taxes other than income taxes	11,404	11,491	87	0.8 %
Merger commitment costs	—	151,501	151,501	100.0 %
Total operating expenses	236,253	360,184	123,931	34.4 %
Operating income (loss)	$74,534	$(81,841)	$ 156,375	191.1 %
Interest charges	$17,411	$19,313	$ 1,902	9.8 %
Federal and state income tax expense (benefit)	$23,063	$(39,026)	$ (62,089)	(159.1)%
Net income (loss)	$35,733	$(61,229)	$ 96,962	158.4 %

Cleco Power's net income in the second quarter of 2017 increased $97.0 million compared to the second quarter of 2016 largely as a result of the following factors:

- the absence of merger commitment costs,
- higher other operations revenue,
- lower maintenance expense, and
- lower interest charges.

These factors were partially offset by:

- higher income taxes,
- higher depreciation and amortization, and
- higher non-recoverable fuel and power purchased.

The following tables show the components of Cleco Power's base revenue:

	FOR THE THREE MONTHS ENDED JUNE 30,		
(MILLION kWh)	2017	2016	FAVORABLE/ (UNFAVORABLE)
Electric sales			

Residential	868	899	(3.4)%
Commercial	671	726	(7.6)%
Industrial	506	518	(2.3)%
Other retail	33	36	(8.3)%
Total retail	2,078	2,179	(4.6)%
Sales for resale	702	712	(1.4)%
Total base revenue	2,780	2,891	(3.8)%

	FOR THE THREE MONTHS ENDED JUNE 30,		
(THOUSANDS)	2017	2016	FAVORABLE/ (UNFAVORABLE)
Electric sales			
Residential	$73,880	$71,550	3.3 %
Commercial	48,234	50,518	(4.5)%
Industrial	22,369	22,082	1.3 %
Other retail	2,687	2,813	(4.5)%
Surcharge	5,651	5,570	1.5 %
Total retail	152,821	152,533	0.2 %
Sales for resale	15,329	15,493	(1.1)%
Total base revenue	$168,150	$168,026	0.1 %

Cleco Power's residential customers' demand for electricity is affected largely by weather. Weather generally is measured in cooling degree-days and heating degree-days. A cooling degree-day is an indication of the likelihood that a consumer will use air conditioning, while a heating degree-day is an indication of the likelihood that a consumer will use heating. An increase in heating degree-days does not produce the same increase in revenue as an increase in cooling degree-days because alternative heating sources are more readily available, and winter energy is typically priced below the rate charged for energy used in the summer. Normal heating degree-days and cooling degree-days are calculated for a month by separately calculating the average actual heating and cooling degree-days for that month over a period of 30 years.

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

	FOR THE THREE MONTHS ENDED JUNE 30,				
				2017 CHANGE	
	2017	2016	NORMAL	PRIOR YEAR	NORMAL
Cooling degree-days	924	1,022	942	(9.6)%	(1.9)%

Base

For information on the effects of future energy sales on the results of operations, financial condition, or cash flows of Cleco Power, see Part I, Item 1A, "Risk Factors — Future Electricity Sales" in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Fuel Cost Recovery/Recoverable Fuel and Power Purchased

Changes in fuel costs historically have not significantly affected Cleco Power's net income. Generally, fuel and purchased power expenses are recovered through the LPSC-established FAC, which enables Cleco Power to pass on to its customers substantially all such charges. Approximately 78% of Cleco Power's total fuel cost during the second quarter of 2017 was regulated by the LPSC. Recovery of FAC costs is subject to periodic fuel audits by the LPSC which may result in a refund to customers. Generally, fuel and purchased power expenses are impacted by customer usage, the per unit cost of fuel used for electric generation, and the dispatch of Cleco Power's generating facilities by MISO. For more information on fuel audits, see Item 1, "Notes to the Unaudited Condensed Consolidated Financial

Statements — Note 12 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Litigation — LPSC Audits — Fuel Audit.”

Other Operations Revenue
Other operations revenue increased $5.4 million during the second quarter of 2017 compared to the second quarter of 2016 primarily due to $5.1 million of generation revenue from SSR payments and $0.5 million of higher net transmission and distribution revenue. These increases were partially offset by $0.2 million of lower reconnect fees. For more information on the SSR, see "Financial Condition — Regulatory and Other Matters — Retail Rates of Cleco Power — SSR."

Non-recoverable Fuel and Power Purchased
Non-recoverable fuel and power purchased increased $1.0 million during the second quarter of 2017 compared to the second quarter of 2016 primarily due to $2.1 million of MISO SSR transmission expenses and $0.3 million of higher net MISO transmission expenses due to higher usage and rates. These increases were partially offset by the absence of $1.3 million of expenses related to fuel accounting software and $0.1 million of lower miscellaneous expenses. For more information on the SSR, see "Financial Condition — Regulatory and Other Matters — Retail Rates of Cleco Power — SSR."

Maintenance
Maintenance expense decreased $3.7 million during the second quarter of 2017 compared to the second quarter of 2016 primarily due to lower net generating station outage and routine maintenance expenses.

Depreciation and Amortization
Depreciation and amortization expense increased $3.2 million during the second quarter of 2017 compared to the second quarter of 2016 primarily due to $1.7 million of lower deferrals of corporate franchise taxes to regulatory assets, $1.3 million of normal recurring additions to fixed assets, and $0.2 million of higher miscellaneous amortization.

Merger Commitment Costs
Merger commitment costs decreased $151.5 million during the second quarter of 2017 compared to the second quarter of 2016 due to the close of the Merger in April 2016.

Interest Charges
Interest charges decreased $1.9 million during the second quarter of 2017 compared to the second quarter of 2016 due to long-term debt redeemed and replaced with lower interest rate debt in the fourth quarter of 2016.

Income Taxes
Federal and state income tax expense increased $62.1 million during the second quarter of 2017 compared to the second quarter of 2016 primarily due to $61.2 million for the change in pretax income, excluding AFUDC, and $5.7 million to record tax expense at the projected annual effective tax rate. These increases were partially offset by $4.8 million for the flowthrough of state tax benefits.
The effective income tax rate for the second quarter of 2017 and 2016 was 39.2% and 38.9%, respectively. The estimated annual effective income tax rate used during the second quarter of 2017 and 2016 for Cleco Power might not be indicative of the full-year income tax rate.

Comparison of the Six Months Ended June 30, 2017, and 2016
Cleco

	SUCCESSOR	PREDECESSOR
(THOUSANDS)		

	FOR THE SIX MONTHS ENDED JUNE 30, 2017	APR. 13, 2016 - JUNE 30, 2016	JAN. 1, 2016 - APR. 12, 2016
Operating revenue, net	$559,162	$243,502	$ 299,870
Operating expenses	450,114	353,650	279,507
Operating income (loss)	$109,048	$(110,148)	$ 20,363
Interest charges	$62,339	$26,465	$ 22,123
Federal and state income tax expense (benefit)	$19,327	$(52,202)	$ 3,468
Net income (loss)	$31,736	$(81,914)	$ (3,960)

Cleco's net income attributable to the successor period for the six months ended June 30, 2017, was $31.7 million. There were no significant changes in the underlying trends impacting net income. The effective income tax rate for the period was 37.8%.
Cleco's net loss attributable to the successor period April 13, 2016, through June 30, 2016, was $81.9 million. There were no significant changes in the underlying trends impacting net loss with the exception of the change in pretax income primarily related to $171.3 million of merger transaction and commitment costs and interest costs of $9.5 million related to debt obtained as a result of the Merger. The effective income tax rate for the period was 38.9%.
Cleco's net loss attributable to the predecessor period January 1, 2016, through April 12, 2016, was $4.0 million. There were no significant changes in the underlying trends impacting net loss with the exception of the change in pretax loss primarily related to $34.9 million of merger transaction costs. The effective income tax rate for the period was (704.9)%.
The estimated annual effective income tax rate used during the six months ended June 30, 2017, for Cleco might not be indicative of the full-year income tax rate.

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

Cleco Power

	FOR THE SIX MONTHS ENDED JUNE 30,			
			FAVORABLE/(UNFAVORABLE)	
(THOUSANDS)	2017	2016	VARIANCE	CHANGE
Operating revenue				
Base	$311,268	$316,846	$ (5,578)	(1.8)%
Fuel cost recovery	216,140	196,466	19,674	10.0 %
Electric customer credits	(674)	(922)	248	26.9 %
Other operations	37,315	32,178	5,137	16.0 %
Affiliate revenue	440	457	(17)	(3.7)%
Operating revenue, net	564,489	545,025	19,464	3.6 %
Operating expenses				
Recoverable fuel and power purchased	215,987	196,471	(19,516)	(9.9)%
Non-recoverable fuel and power purchased	17,179	17,789	610	3.4 %
Other operations	61,770	58,681	(3,089)	(5.3)%
Maintenance	48,684	52,492	3,808	7.3 %
Depreciation and amortization	78,230	74,843	(3,387)	(4.5)%
Taxes other than income taxes	23,404	23,916	512	2.1 %
Merger commitment costs	—	151,501	151,501	100.0 %
Gain on sale of asset	—	(1,095)	(1,095)	(100.0)%
Total operating expenses	445,254	574,598	129,344	22.5 %
Operating income (loss)	$119,235	$(29,573)	$ 148,808	503.2 %
Interest charges	$35,515	$38,599	$ 3,084	8.0 %
Federal and state income tax expense (benefit)	$32,918	$(26,463)	$ (59,381)	(224.4)%
Net income (loss)	$53,587	$(40,350)	$ 93,937	232.8 %

Cleco Power's net income in the first six months of 2017 increased $93.9 million compared to the first six months of 2016 largely as a result of the following factors:

- the absence of merger commitment costs,
- higher other operations revenue,
- lower maintenance expense, and
- lower interest charges.

These factors were partially offset by:

- higher income taxes,
- lower base revenue,
- higher depreciation and amortization,
- higher other operations expense, and
- the absence of a gain on sale of asset.

The following tables show the components of Cleco Power's base revenue:

	FOR THE SIX MONTHS ENDED JUNE 30,		
(Million kWh)	2017	2016	FAVORABLE/

			(UNFAVORABLE)
Electric sales			
Residential	1,578	1,696	(7.0)%
Commercial	1,256	1,297	(3.2)%
Industrial	995	967	2.9 %
Other retail	64	68	(5.9)%
Total retail	3,893	4,028	(3.4)%
Sales for resale	1,331	1,436	(7.3)%
Total base revenue	5,224	5,464	(4.4)%

	FOR THE SIX MONTHS ENDED JUNE 30,		
(THOUSANDS)	2017	2016	FAVORABLE/ (UNFAVORABLE)
Electric sales			
Residential	$128,907	$131,655	(2.1)%
Commercial	93,701	95,755	(2.1)%
Industrial	43,088	43,180	(0.2)%
Other retail	5,248	5,378	(2.4)%
Surcharge	10,734	10,691	0.4 %
Total retail	281,678	286,659	(1.7)%
Sales for resale	29,590	30,187	(2.0)%
Total base revenue	$311,268	$316,846	(1.8)%

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

	FOR THE SIX MONTHS ENDED JUNE 30,				
				2017 CHANGE	
	2017	2016	NORMAL	PRIOR YEAR	NORMAL
Heating degree-days	440	755	940	(41.7)%	(53.2)%
Cooling degree-days	1,156	1,141	1,020	1.3 %	13.3 %

Base

Base revenue decreased $5.6 million during the first six months of 2017 compared to the first six months of 2016 primarily due to $4.7 million of lower usage as a result of milder winter weather and lower sales to wholesale customers and $1.7 million driven by lower rates to a site specific industrial customer. These decreases were partially offset by $0.8 million of higher revenue related to MATS.

Cleco Power expects increased base revenue of $8.4 million in 2018 and an additional $9.1 million in 2019 through an FRP rider associated with the recovery of expenditures for capital projects. For information on the effects of future energy sales on the results of operations, financial condition, or cash flows of Cleco Power, see Part I, Item 1A, “Risk Factors — Future Electricity Sales” in the Registrants’ Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Fuel Cost Recovery/Recoverable Fuel and Power Purchased

Changes in fuel costs historically have not significantly affected Cleco Power’s net income. Generally, fuel and purchased power expenses are recovered through the LPSC-established FAC, which enables Cleco Power to pass on to its customers substantially all such charges. Approximately 77% of Cleco Power’s total fuel cost during the first six months of 2017 was regulated by the LPSC. Recovery of FAC costs is subject to periodic fuel audits by the LPSC which may result in a refund to customers. Generally, fuel and purchased power expenses are impacted by customer usage, the per unit cost of fuel used for electric generation, and the dispatch of Cleco Power's generating facilities by MISO. For more information on fuel audits, see Item 1, "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 12 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Litigation — LPSC Audits — Fuel Audit."

Other Operations Revenue

Other operations revenue increased $5.1 million during the first six months of 2017 compared to the first six months of 2016 primarily related to $5.1 million of generation revenue from SSR payments, $2.5 million of higher net transmission and distribution revenue, and $0.1 million of higher miscellaneous revenue. These increases were partially offset by $2.3 million of lower transmission revenue from wholesale customers as a result of issuing customer credits relating to the MISO ROE complaints and $0.3 million of lower reconnect fees. For more information on the SSR, see “Financial Condition — Regulatory and Other Matters — Retail Rates of Cleco Power — SSR.”

Non-recoverable Fuel and Power Purchased
Non-recoverable fuel and power purchased decreased $0.6 million during the first six months of 2017 compared to the first six months of 2016 primarily due to a $2.3 million refund from MISO for wholesale customers relating to the MISO ROE complaints, the absence of $1.3 million of expenses related to fuel accounting software, and the absence of a reserve for uncollectible expenses of $1.3 million. These decreases were partially offset by $2.1 million of MISO SSR transmission expenses, $2.1 million of higher net MISO transmission expenses due to higher usage and rates, and $0.1 million of higher miscellaneous expenses. For more information on the SSR, see “Financial Condition — Regulatory and Other Matters — Retail Rates of Cleco Power — SSR.”

Other Operations Expense
Other operations expense increased $3.1 million during the first six months of 2017 compared to the first six months of 2016 primarily due to $2.3 million of higher fees for outside services, $1.3 million of higher customer service expenses, and $0.9 million of higher salaries and compensation expenses. These increases were partially offset by $0.6 million of lower director fees, $0.6 million of lower generation operations expenses, and $0.2 million of lower miscellaneous expenses.

Maintenance Expense
Maintenance expense decreased $3.8 million during the first six months of 2017 compared to the first six months of 2016 primarily due to $3.5 million of lower net generating station outage and routine maintenance expenses and $0.8 million of lower transmission and distribution expenses. These decreases were partially offset by $0.5 million of higher administrative and general maintenance expenses.

Depreciation and Amortization
Depreciation and amortization expense increased $3.4 million during the first six months of 2017 compared to the first six months of 2016 primarily due to $2.3 million of normal recurring additions to fixed assets, $1.8 million of lower deferrals of corporate franchise taxes to regulatory assets, $0.4 million of higher amortization of the state corporate franchise tax regulatory asset, and $0.1 million of higher miscellaneous amortization. These increases were partially offset by the absence of amortization related to transition assets of $1.2 million.

Merger Commitment Costs
Merger commitment costs decreased $151.5 million during the first six months of 2017 compared to the first six months of 2016 due to the close of the Merger in April 2016.

Interest Charges
Interest charges decreased $3.1 million during the first six months of 2017 compared to the first six months of 2016 primarily due to long-term debt redeemed and replaced with lower interest rate debt in the fourth quarter of 2016.

Income Taxes
Federal and state income tax expense increased $59.4 million during the first six months of 2017 compared to the first six months of 2016 primarily due to $59.2 million for the change in pretax income, excluding AFUDC, and $5.4

million to record tax expense at the projected annual effective tax rate. These increases were partially offset by $5.2 million for the flowthrough of state tax benefits.
The effective income tax rate for the six months ended June 30, 2017, and 2016 was 38.1% and 39.6%, respectively. The estimated annual effective income tax rate used during the first six months of 2017 and 2016 for Cleco Power might not be indicative of the full-year income tax rate.
FINANCIAL CONDITION

Liquidity and Capital Resources

General Considerations and Credit-Related Risks

Credit Ratings and Counterparties
Financing for operational needs and capital expenditure requirements not satisfied by operating cash flows depends upon the cost and availability of external funds through both short- and long-term financing. The inability to raise capital on favorable terms could negatively affect Cleco's ability to maintain or expand its businesses. Access to funds is dependent upon factors such as general economic and capital market conditions, regulatory authorizations and policies, Cleco Holdings' and Cleco Power's credit ratings, cash flows from routine operations, and credit ratings of project counterparties. After assessing the current operating performance, liquidity, and credit ratings of Cleco Holdings and Cleco Power, management believes that Cleco will have access to the capital markets at prevailing market rates for companies with comparable credit ratings. The following table presents the credit ratings of Cleco Holdings and Cleco Power at June 30, 2017:

	SENIOR UNSECURED DEBT		CORPORATE CREDIT
	MOODY'S	S&P	S&P
Cleco Holdings	Baa3	BBB-	BBB-
Cleco Power	A3	BBB+	BBB+

On April 7, 2017, Moody's updated its credit ratings by maintaining Cleco Holdings at Baa3 (stable) and Cleco Power at A3 (stable). On May 30, 2017, S&P affirmed Cleco Holdings' and Cleco Power's credit ratings at BBB- (stable) and BBB+ (stable), respectively.
Cleco notes that credit ratings are not recommendations to buy, sell, or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. Each rating should be evaluated independently of any other rating.
Cleco Holdings and Cleco Power pay fees and interest under their bank credit agreements based on the highest rating held. Savings are dependent upon the level of borrowings. If Cleco Holdings or Cleco Power's credit ratings were to be downgraded by S&P or Moody's, Cleco Holdings

and/or Cleco Power would be required to pay additional fees and incur higher interest rates for borrowings under their respective credit facilities.
With respect to any open power or natural gas trading positions that Cleco Power may initiate in the future, Cleco Power may be required to provide credit support or pay liquidated damages. The amount of credit support that Cleco Power may be required to provide at any point in the future is dependent on the amount of the initial transaction, changes in the market price of power and natural gas, changes in open power and gas positions, and changes in the amount counterparties owe Cleco Power. Changes in any of these factors could cause the amount of requested credit support to increase or decrease.
Cleco Power participates in the MISO market, which operates a fully functioning RTO market with two major market processes: the Day-Ahead Energy and Operating Reserves Market and the Real-Time Energy and Operating Reserves Market. Both use market-based mechanisms to manage transmission congestion across the MISO market area. MISO required Cleco Power to provide credit support which may increase or decrease due to the timing of the settlement schedules. At June 30, 2017, Cleco Power had a $2.0 million letter of credit to MISO pursuant to the credit requirements of FTRs. The letter of credit automatically renews each year. For information about MISO, see Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Regulatory and Other Matters — Transmission Rates of Cleco Power” in the Registrants’ Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Global and U.S. Economic Environment

Global and domestic economic conditions may have an impact on Cleco’s business and financial condition. Access to capital markets is a significant source of funding for both short- and long-term capital requirements not satisfied by operating cash flows. During periods of capital market volatility, the availability of capital could be limited and the costs of capital may increase for many companies. Although the Registrants have not experienced restrictions in the financial markets, their ability to access the capital markets may be restricted at a time when the Registrants would like, or need, to do so. Any restrictions could have a material impact on the Registrants’ ability to fund capital expenditures or debt service, or on their flexibility to react to changing economic and business conditions. Credit constraints could have a material negative impact on the Registrants’ lenders or customers, causing them to fail to meet their obligations to the Registrants or to delay payment of such obligations. The lower interest rates to which the Registrants have been exposed have been beneficial to debt issuances; however, these rates have negatively affected interest income for the Registrants’ short-term investments.

Fair Value Measurements

Various accounting pronouncements require certain assets and liabilities to be measured at their fair values. Some assets and liabilities are required to be measured at their fair value each reporting period, while others are required to be measured only one time, generally the date of acquisition or debt issuance. Cleco and Cleco Power are required to disclose the fair value of certain assets and liabilities by one of three levels. Other financial assets and liabilities are reported at their carrying values on the consolidated balance sheets

with their fair values as of the balance sheet date disclosed within the three levels. For more information about fair value levels, see Item 1, “Notes to the Unaudited Condensed Consolidated Financial Statements — Note 5 — Fair Value Accounting.”

Cash Generation and Cash Requirements

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 and Cleco Power’s restricted cash and cash equivalents consisted of:
Cleco

(THOUSANDS)	AT JUNE 30, 2017	AT DEC. 31, 2016
Current		
Cleco Katrina/Rita’s storm recovery bonds	$8,794	$9,213
Cleco Power’s charitable contributions	1,200	1,200
Cleco Power’s rate credit escrow	6,997	12,671
Total current	16,991	23,084
Non-current		
Diversified Lands’ mitigation escrow	21	21
Cleco Power’s future storm restoration costs	17,782	17,379
Cleco Power’s charitable contributions	3,835	4,179
Cleco Power’s rate credit escrow	1,862	1,831
Total non-current	23,500	23,410
Total restricted cash and cash equivalents	$40,491	$46,494

Cleco Power

(THOUSANDS)	AT JUNE 30, 2017	AT DEC. 31, 2016
Current		
Cleco Katrina/Rita’s storm recovery bonds	$8,794	$9,213
Charitable contributions	1,200	1,200
Rate credit escrow	6,997	12,671
Total current	16,991	23,084
Non-current		
Future storm restoration costs	17,782	17,379
Charitable contributions	3,835	4,179
Rate credit escrow	1,862	1,831
Total non-current	23,479	23,389
Total restricted cash and cash equivalents	$40,470	$46,473

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. The change from December 31, 2016, to June 30, 2017, was due to Cleco Katrina/Rita using $9.1 million for a scheduled storm recovery bond principal payment and $1.9 million for a related interest payment, partially offset by collections of $10.6 million net of administration fees.
Included in the Merger Commitments were $6.0 million of charitable contributions to be disbursed over five years and $136.0 million of rate credits to eligible customers. In April 2016, in accordance with the Merger Commitments, Cleco Power established the charitable contribution fund and deposited the rate credit funds into an escrow account. In April 2016, the LPSC voted to issue the rate credits equally to

customers with service as of June 30, 2016, beginning in July 2016. As of June 30, 2017, $1.0 million of the charitable contributions and $127.2 million of the rate credits had been released from restricted cash.

Debt

Cleco Consolidated
At June 30, 2017, Cleco had $85.0 million of short-term debt outstanding under its $400.0 million credit facilities, at an average all-in interest rate of 2.39%. Additionally, at June 30, 2017, Cleco had $0.8 million of short-term debt outstanding on an uncommitted line of credit at an all-in interest rate of 2.98%. Cleco had no short-term debt outstanding at December 31, 2016. Cleco Holdings and Cleco Power have uncommitted lines of credit with a bank that allow up to $10.0 million each in short-term borrowings, but no more than $10.0 million in aggregate, to support their working capital needs.
At June 30, 2017, Cleco's long-term debt outstanding was $2.74 billion, of which $19.0 million was due within one year. The long-term debt due within one year at June 30, 2017, represents $18.5 million of principal payments for the Cleco Katrina/Rita storm recovery bonds and $0.5 million of capital lease payments. For Cleco, long-term debt decreased $14.4 million from December 31, 2016, primarily due to a $9.1 million scheduled bond principal payment made in March 2017, $4.4 million for amortizations of long-term debt fair value adjustments related to the Merger, and a $1.3 million decrease in capital lease obligations. These decreases were partially offset by $0.4 million of debt issuance cost and debt discount amortizations.
In May 2016, Cleco Holdings completed the private sale of $535.0 million aggregate principal amount of its 3.743% senior notes due May 1, 2026, and $350.0 million aggregate principal amount of its 4.973% senior notes due May 1, 2046. Cleco Holdings used the proceeds from the issuance and sale of these notes to repay a portion of the $1.35 billion Acquisition Loan Facility entered into in connection with the completion of the Merger. On April 28, 2017, Cleco Holdings completed an exchange offer for all of its then outstanding 3.743% and 4.973% senior notes, which were not registered under the Securities Act of 1933, as amended, for an equal principal amount of newly issued 3.743% senior notes due May 1, 2026, and 4.973% senior notes due May 1, 2046, that were so registered. Cleco Holdings did not receive any proceeds from the exchange offer.
On March 1, 2017, Cleco completed the repayment of the first of two tranches of its Cleco Katrina/Rita storm recovery bonds issued in March 2008. For more information, see "—- Cleco Power" below.
Cash and cash equivalents available at June 30, 2017, were $10.5 million combined with $315.0 million credit facility capacity ($90.0 million from Cleco Holdings and $225.0 million from Cleco Power) for total liquidity of $325.5 million.
At June 30, 2017, Cleco and Cleco Power were exposed to concentrations of credit risk through their short-term investments classified as cash equivalents. In order to mitigate potential credit risk, Cleco and Cleco Power have established guidelines for short-term investments. For more information on the concentration of credit risk through short-term investments classified as cash equivalents, see Item 1, "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 5 — Fair Value Accounting."

At June 30, 2017, and December 31, 2016, Cleco had a working capital surplus of $136.1 million and $174.9 million, respectively. The $38.8 million decrease in working capital is primarily due to:

- an $85.8 million increase in short-term debt primarily due to outstanding borrowings on credit facilities,
- a $15.5 million increase in taxes payable primarily due to higher accruals for property taxes, and
- a $12.6 million decrease in cash and cash equivalents.

These decreases in working capital were partially offset by:

- a $23.7 million decrease in accounts payable primarily due to the timing of property taxes and vendor payments,
- a $19.2 million increase in customer accounts receivable and unbilled revenue, primarily due to the normal seasonal fluctuations in retail revenue,
- a $17.1 million increase in other accounts receivable primarily due to higher receivables from joint owners for maintenance expenses and higher receivables for a lignite fuel credit, an insurance reimbursement, and SSR payments, and
- a $9.6 million increase in fuel inventory primarily due to higher petcoke and coal purchases.

Cleco Holdings (Holding Company Level)

At June 30, 2017, Cleco Holdings had $10.0 million of short-term debt outstanding under its $100.0 million credit facility. This facility provides for working capital and other financing needs. The credit facility borrowings had an all-in interest rate of 2.98%. Cleco Holdings had no short-term debt outstanding at December 31, 2016. Cleco Holdings and Cleco Power have uncommitted lines of credit with a bank that allow up to $10.0 million each in short-term borrowings, but no more than $10.0 million in aggregate, to support their working capital needs.

Cash and cash equivalents available at June 30, 2017, were $6.6 million, combined with the $90.0 million credit facility capacity for total liquidity of $96.6 million.

Cleco Power

At June 30, 2017, Cleco Power had $75.0 million of short-term debt outstanding under its $300.0 million credit facility, at an average all-in interest rate of 2.32%. This facility provides for working capital and other financing needs. Additionally, at June 30, 2017, Cleco Power had $0.8 million of short-term debt outstanding on an uncommitted line of credit at an all-in interest rate of 2.98%. Cleco Power had no short-term debt outstanding at December 31, 2016. Cleco Holdings and Cleco Power have uncommitted lines of credit with a bank that allow up to $10.0 million each in short-term borrowings, but no more than $10.0 million in aggregate, to support their working capital needs.

At June 30, 2017, Cleco Power's long-term debt outstanding was $1.25 billion, of which $19.0 million was due within one year. The long-term debt due within one year at June 30, 2017, represents $18.5 million of principal payments for the Cleco Katrina/Rita storm recovery bonds and $0.5 million of capital lease payments. For Cleco Power, long-term debt decreased $9.5 million from December 31, 2016, primarily due to a $9.1 million scheduled bond principal payment made in March 2017 and a $1.3 million decrease in capital lease obligations. These decreases were partially offset

by $0.9 million of debt issuance cost and debt discount amortizations.
On March 1, 2017, Cleco Power completed the repayment of the first of two tranches of its Cleco Katrina/Rita storm recovery bonds issued in March 2008. The total principal amount for both tranches was $180.6 million. The first tranche had an initial principal amount of $113.0 million at an interest rate of 4.41%, and a final maturity date of March 1, 2020. As part of the early redemption on March 1, 2017, Cleco Power paid $1.1 million in principal and less than $0.1 million in accrued interest.
Cash and cash equivalents available at June 30, 2017, were $3.5 million, combined with $225.0 million credit facility capacity for total liquidity of $228.5 million.
At June 30, 2017, and December 31, 2016, Cleco Power had a working capital surplus of $102.9 million and $149.1 million, respectively. The $46.2 million decrease in working capital is primarily due to:

- a $75.8 million increase in short-term debt primarily due to outstanding borrowings on credit facilities,
- a $22.2 million increase in taxes payable primarily due to higher property taxes and higher income taxes, and
- an $18.0 million decrease in cash and cash equivalents.

These decreases in working capital were partially offset by:

- a $20.4 million decrease in accounts payable primarily due to the timing of property tax and vendor payments,
- a $19.2 million increase in customer accounts receivable and unbilled revenue, primarily due to the normal seasonal fluctuations in retail revenue,
- a $17.2 million increase in other accounts receivable primarily due to higher receivables from joint owners for maintenance expenses and higher receivables for a lignite fuel credit, an insurance reimbursement, and SSR payments, and
- a $9.6 million increase in fuel inventory primarily due to higher petcoke and coal purchases.

Credit Facilities
At June 30, 2017, Cleco Holdings had $10.0 million of short-term debt outstanding under its $100.0 million credit facility at an all in interest rate of 2.98%, leaving an available capacity of $90.0 million. The credit facility includes restricted financial covenants and expires in 2021. At June 30, 2017, Cleco Holdings was in compliance with the covenants of its credit facility. The borrowing costs under Cleco Holdings' credit facility are equal to LIBOR plus 1.75% or ABR plus 0.75%, plus commitment fees of 0.275%. If Cleco Holdings' credit ratings were to be downgraded one level by either agency, Cleco Holdings would be required to pay higher fees and additional interest of 0.075% and 0.50%, respectively, under the pricing levels of its credit facility.
At June 30, 2017, Cleco Power had $75.0 million of short-term debt outstanding under its $300.0 million credit facility, at an average all-in interest rate of 2.32%, leaving an available capacity of $225.0 million. The credit facility includes restricted financial covenants and expires in 2021. At June 30, 2017, Cleco Power was in compliance with the covenants of its credit facility. The borrowing costs under Cleco Power's credit facility are equal to LIBOR plus 1.125% or ABR plus 0.125%, plus commitment fees of 0.125%. If Cleco Power's credit ratings

were to be downgraded one level by either agency, Cleco Power would be required to pay higher fees and additional interest of 0.05% and 0.125%, respectively, under the pricing levels of its credit facility.
If Cleco Holdings or Cleco Power were to default under the covenants in their respective credit facilities or other debt agreements, they would be unable to borrow additional funds under the facilities and the lenders could accelerate all principal and interest outstanding. Further, if Cleco Power were to default under its credit facility or other debt agreements, Cleco Holdings would be considered in default under its credit facility.

Debt Limitations

The Merger Commitments include provisions limiting the amount of distributions that can be made from Cleco Holdings to Cleco Group or Cleco Partners, depending on Cleco Holdings' debt to EBITDA ratio and its corporate credit ratings. Additionally, in accordance with the Merger Commitments, Cleco Power is subject to certain provisions limiting the amount of distributions that may be paid to Cleco Holdings, depending on Cleco Power's common equity ratio and its corporate credit ratings. The Merger Commitments also prohibit Cleco from incurring additional long-term debt, excluding non-recourse debt, unless certain financial ratios are achieved. At June 30, 2017, and December 31, 2016, Cleco Holdings and Cleco Power were in compliance with the provisions of the Merger Commitments that could restrict the amount of distributions available. For more information on the Merger Commitments, see Part I, Item 1A, "Risk Factors — Regulatory Compliance" and "— Holding Company" in the Registrants' Combined Quarterly Report on Form 10-K for the year ended December 31, 2016.

Cleco Consolidated Cash Flows

Net Operating Cash Flow
Cleco's net cash provided by operating activities for the successor period January 1, 2017, through June 30, 2017, was $87.1 million. There were no significant changes in the underlying trends impacting cash provided by operating activities.
Cleco's net cash provided by operating activities for the successor period April 13, 2016, through June 30, 2016, was $20.8 million. There were no significant changes in the underlying trends impacting cash provided by operating activities with the exception of $21.3 million related to payments for merger transaction costs during the successor period.
Cleco's net cash provided by operating activities for the predecessor period January 1, 2016, through April 12, 2016, was $129.8 million. There were no significant changes in the underlying trends impacting cash provided by operating activities.

Net Investing Cash Flow
Cleco's net cash used in investing activities for the successor period January 1, 2017, through June 30, 2017, was $119.1 million. There were no significant changes in the underlying trends impacting cash used in investing activities.
Cleco's net cash used in investing activities for the successor period April 13, 2016, through June 30, 2016, was $190.0 million. There were no significant changes in the underlying trends impacting cash used in investing activities

with the exception of $147.8 million transferred into restricted cash and cash equivalents due to the funding of customer rate credits as a result of the Merger Commitments.
Cleco's net cash used in investing activities for the predecessor period January 1, 2016, through April 12, 2016, was $36.8 million. There were no significant changes in the underlying trends impacting cash used in investing activities.

Net Financing Cash Flow
Cleco's net cash provided by financing activities for the successor period January 1, 2017, through June 30, 2017, was $19.4 million. There were no significant changes in the underlying trends impacting cash provided by financing activities with the exception of Cleco Holdings no longer having dividends to stockholders after the Merger.
Cleco's net cash provided by financing activities for the successor period April 13, 2016, through June 30, 2016, was $65.8 million. There were no significant changes in the underlying trends impacting cash provided by financing activities with the exception of $101.0 million in contributions from Cleco Group.
Cleco's net cash used in financing activities for the predecessor period January 1, 2016, through April 12, 2016, was $40.9 million. There were no significant changes in the underlying trends impacting cash used in financing activities.

Cleco Power Cash Flows

Net Operating Cash Flow
Net cash provided by operating activities was $94.5 million and $164.2 million during the six months ended June 30, 2017, and 2016, respectively. Net cash provided by operating activities decreased $69.7 million primarily due to:

- higher payments for fuel inventory of $35.8 million primarily due to higher lignite deliveries and petroleum coke and coal purchases,
- lower receipts of $11.7 million from joint owners' portions of generating station expenditures,
- lower collections from customers of $10.3 million due to mandates from 2016 flooding,
- higher payments to vendors of $9.4 million primarily related to the timing of property taxes,
- lower collections from customers of $6.1 million due to Merger credits issued in 2016, and
- higher payments of $2.1 million related to storm restoration efforts.

These decreases were partially offset by:

- higher net fuel and power purchase collections of $6.4 million primarily due to timing of recovery and
- lower payments for materials and supplies of $2.7 million.

Net Investing Cash Flow
Net cash used in investing activities was $117.9 million and $227.6 million during the six months ended June 30, 2017, and 2016, respectively. Net cash used in investing activities decreased $109.7 million primarily due to lower transfers of cash to restricted accounts of $149.0 million due to funding the Merger Commitments in 2016. This decrease was partially offset by higher additions to property, plant, and equipment of $41.4 million.

Net Financing Cash Flow
Net cash provided by financing activities was $5.3 million and $5.1 million during the six months ended June 30, 2017, and 2016, respectively. Net cash provided by financing activities increased $0.2 million. Included in this net increase were higher draws on Cleco Power's credit facility of $75.0 million for general company purposes, partially offset by the absence of contributions from Cleco Holdings of $50.0 million to help fund the Merger Commitments, and higher distributions to Cleco Holdings of $25.0 million due to an additional quarterly distribution in 2017.

Contractual Obligations

Cleco, in the normal course of business activities, enters into a variety of contractual obligations. Some of these result in direct obligations that are reflected in Cleco's Condensed Consolidated Balance Sheets while others are commitments, some firm and some based on uncertainties, that are not reflected in the Condensed Consolidated Financial Statements.

For more information regarding Cleco's Contractual Obligations, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Contractual Obligations" in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Off-Balance Sheet Commitments and Guarantees

Cleco Holdings and Cleco Power have entered into various off-balance sheet commitments, in the form of guarantees and standing letters of credit, in order to facilitate their activities and the activities of Cleco Holdings' subsidiaries and equity investees (affiliates). Cleco Holdings 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. For more information about off-balance sheet commitments and guarantees, see Item 1, "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 12 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Off-Balance Sheet Commitments and Guarantees."

Regulatory and Other Matters

Environmental Matters

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

On March 28, 2017, the President signed a broad executive order. Among other measures, the order directed the EPA to review the CPP, the proposed Federal Implementation Plan for the CPP, and the greenhouse gas new source performance standards (GHG NSPS). It also gave the U.S. Department of Justice discretion to request that the U.S. Court of Appeals of the D.C. Circuit stay or otherwise delay the litigation challenging the CPP and the GHG NSPS while the administrative review is underway. Until the directions of the executive order are carried out, management cannot predict what the final standards will entail or what controls the EPA and the state of Louisiana may require of Cleco in a final state implementation plan.

In the second quarter of 2015, Cleco Power began incurring additional environmental compliance expenses for reagents associated with compliance with MATS. For a discussion about MATS, see Item 1, “Notes to the Unaudited Condensed Consolidated Financial Statements — Note 12 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Litigation — LPSC Audits — Environmental Audit.”

For a discussion of other Cleco environmental matters, see Part I, Item 1, “Business — Environmental Matters” in the Registrants’ Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Retail Rates of Cleco Power

Generally, the cost of fuel used for electric generation and the cost of power purchased for utility customers are recovered through the LPSC-established FAC, that enables Cleco Power to pass on to its customers substantially all such charges. Recovery of FAC costs is subject to periodic fuel audits by the LPSC. The LPSC FAC General Order issued in November 1997, in Docket No. U-21497 provides that an audit of FAC filings will be performed at least every other year. In February 2016, the LPSC initiated an audit of Cleco Power’s fuel and purchased power expenses for the period January 2014 through December 2015. The total amount of fuel expense included in the audit was $582.6 million. On January 19, 2017, the LPSC Staff issued its audit report which recommended no disallowance of fuel costs. The report was approved by the LPSC on April 19, 2017. Cleco Power has FAC filings for January 2016 and thereafter that remain subject to audit. Management is unable to predict or give a reasonable estimate of the possible range of the disallowance, if any, related to these filings.

For information concerning Cleco Power’s current FRP and amounts accrued and refunded by Cleco Power as a result of the FRP, and information on the LPSC Staff’s FRP reviews, see Item 1, “Notes to the Unaudited Condensed Consolidated Financial Statements — Note 10 — Regulation and Rates.”

In July 2009, the LPSC issued Docket No. U-29380 Subdocket A, which provides for an EAC to recover from customers certain costs of environmental compliance. The costs eligible for recovery are prudently incurred air emissions credits associated with complying with federal, state, and local air emission regulations that apply to the generation of electricity reduced by the sale of such allowances. Also eligible for recovery are variable emission mitigation costs, which are the costs of reagents such as ammonia and limestone that are a part of the fuel mix used to reduce air emissions, among other things. In February 2016, the LPSC initiated an audit of Cleco Power’s environmental costs for the period November 2010 through December 2015. The total amount of environmental costs included in the audit was $81.2 million. In December 2016, the LPSC Staff issued its audit report which recommended a disallowance of environmental costs of less than $0.1 million. The report was approved by the LPSC on February 17, 2017. Cleco Power has EAC filings for January 2016 and thereafter that remain subject to audit. Management is unable to predict or give a reasonable estimate of the possible range of the disallowance, if any, related to these filings. In the second quarter of 2015, Cleco Power began incurring additional environmental compliance expenses for reagents associated with compliance with MATS. These expenses are eligible for recovery through Cleco Power’s EAC and are subject to periodic review by the LPSC. For more information on MATS, see Item 1, “Notes to the Unaudited Condensed Consolidated Financial Statements — Note 12 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Litigation — LPSC Audits — Environmental Audit.”

In April 2016, the LPSC issued Docket No. R-34026 to investigate double leveraging issues for all LPSC-jurisdictional utilities whereby double leveraging is utilized to fund a utility’s capital structure, and to consider whether any costs associated with such double leveraging should be included in the rates paid by the utility's retail customers. Cleco Power filed a motion to intervene in this proceeding along with other Louisiana utilities. In April 2016, the LPSC also issued Docket No. R-34029 to investigate tax structure issues for all LPSC-jurisdictional utilities to consider whether only the state and federal taxes included in a utility's retail rate will be those that do not exceed the utility's share of the actual taxes paid to those federal and state taxing authorities. Cleco Power filed a motion to intervene in this proceeding along with other Louisiana utilities. In October 2016, Cleco received the first set of data requests from the LPSC Staff for each of the above mentioned dockets. Cleco has filed responses to the non-confidential requests and is waiting on the completion of a confidentiality agreement to respond to the confidential requests. Cleco is unable to determine if or when the completion of this confidentiality agreement will occur. If the LPSC were to disallow such costs incurred by the utility to be included in retail rates, such disallowance could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants. For information on certain other regulatory aspects of retail rates concerning Cleco Power, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Regulatory and Other Matters — Retail Rates of Cleco Power" in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

SSR

In September 2016, Cleco Power filed an Attachment Y with MISO requesting retirement of Teche Unit 3 effective April 1, 2017. MISO conducted a study which determined the proposed retirement of Teche Unit 3 would result in violations of specific applicable reliability standards for which no mitigation is available. As a result, MISO designated Teche Unit 3 as an SSR unit until such time that an appropriate alternative solution can be implemented to mitigate reliability issues. One mitigating factor that has been identified is Cleco Power's Terrebonne to Bayou Vista Transmission project, which is expected to be complete by the third quarter of 2018. Cleco Power has a 12-month SSR Agreement for the period April 1, 2017 to March 31, 2018. During this time, Cleco Power will continue to operate Teche Unit 3. Cleco Power has filed with FERC for its approval to collect $20.3 million annually in SSR payments from MISO which includes recovering operations and maintenance expenses, administrative and general expenses, taxes, depreciation, capital expenditures, and carrying charges, all of which are related to Teche Unit 3 for the period of the SSR Agreement. In the second quarter of 2017, Cleco Power began receiving the monthly SSR payments from MISO, subject to refund pending review and approval by FERC. On July 20, 2017, Cleco Power, FERC staff, and intervenors met at the first settlement conference and set a procedural schedule for data requests between parties. On July 27, 2017, Cleco Power received five sets of informal data request from FERC staff and intervenors. Cleco Power anticipates the completion of this discovery phase by September 30, 2017. The next settlement conference is scheduled for September 19, 2017. Cleco Power is unable to determine when a binding FERC order will be issued. Also in the second quarter of 2017, MISO began allocating SSR costs to the load serving entities that require the operation of the SSR unit for reliability purposes, including Cleco Power. In the first quarter of 2018, another study is expected to be performed by MISO to determine if an SSR Agreement will be needed after March 31, 2018. At the end of the SSR Agreement, Cleco Power will have the option to rescind the Attachment Y requesting retirement of Teche Unit 3, and if this option is exercised, Cleco Power would be required to refund recoverable capital expenditures plus interest. Management does not expect to be required to refund any portion of these costs.

Energy Efficiency

In August 2009, the LPSC opened a docket to study the promotion of energy efficiency by jurisdictional electric and natural gas utilities. In September 2013, the LPSC issued a General Order adopting rules promoting energy efficiency programs. Cleco Power subsequently filed its formal intent with the LPSC to participate in the Phase I - Quick Start portion of the LPSC’s energy efficiency initiative, which began in November 2014, and has been extended through the start of Phase II, which is anticipated to be in 2019 or later. During Phase I, Cleco Power designed several energy efficiency programs and began offering these programs to customers in November 2014. In November 2014, Cleco Power began recovering approximately $3.3 million annually of estimated costs for the program though an approved rate tariff.

Wholesale Rates of Cleco Power

The rates Cleco Power charges its wholesale customers are subject to FERC’s triennial market power analysis. FERC requires a utility to pass a screening test as a condition for securing and/or retaining approval to sell electricity in wholesale markets at market-based rates. An updated market power analysis is to be filed with FERC every three years or upon the occurrence of a change in status as defined by FERC regulation. In February 2014, FERC issued an order to accept Cleco’s substitute market power analysis and grant the power marketing entities the authority to continue to charge market-based rates for wholesale power. Cleco filed its triennial market power analysis with FERC in January 2015. In March 2016, FERC issued an order finding Cleco’s submittal satisfies its requirements for market-based rate authority regarding both

horizontal and vertical market power. Cleco’s next triennial market power analysis will be filed by December 31, 2017.

Transmission Rates of Cleco Power

Two complaints were filed with FERC seeking to reduce the ROE component of the transmission rates that MISO transmission owners, including Cleco, may collect under the MISO tariff. For more information about the ROE complaints, see Item 1, “Notes to the Unaudited Condensed Consolidated Financial Statements — Note 12 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Litigation — Transmission ROE”.

On May 1, 2017, Cleco Power filed a MISO Schedule 2 rate increase request with FERC. MISO Schedule 2 provides for compensation to Cleco Power for providing reactive power to MISO customers. On July 1, 2017, Cleco Power began collecting revenue at the requested rate, subject to refund. Cleco Power is unable to determine when FERC will

approve the rate increase and if any refund will be required.
For information about the risks associated with Cleco Power's participation in MISO, see Part I, Item 1A, "Risk Factors — MISO" in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2016.
For information on transmission rates of Cleco Power, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Regulatory and Other Matters — Transmission Rates of Cleco Power" in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Transmission and Generation Projects

Cleco Power is involved in several transmission projects, including the Cenla Transmission Expansion project and the Terrebonne to Bayou Vista Transmission project. Cleco Power is also currently involved in the St. Mary Clean Energy Center project, which is a waste heat generating unit, and the Coughlin Pipeline project. For information on these projects, see "— Overview — Cleco Power."

Market Restructuring

Wholesale Electric Markets

RTO

For information on Cleco Power's operations within MISO and for information on regulatory aspects of wholesale electric markets affecting Cleco, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Regulatory and Other Matters — Market Restructuring — Wholesale Electric Markets" in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

ERO

The Energy Policy Act of 2005 added Section 215 to the Federal Power Act, which provides for a uniform system of mandatory, enforceable reliability standards. In 2006, FERC named NERC as the ERO that will be required to develop and enforce the mandatory reliability standards.
The SPP Regional Entity (RE) conducts a NERC Reliability Standard audit every three years. Cleco Power's next audit is scheduled to begin in April 2019. Management is unable to predict the outcome of this audit, or any future audits, or

whether any findings will have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

The SPP RE also conducts a NERC Critical Infrastructure Protection audit every three years. A NERC Critical Infrastructure Protection audit was conducted in February 2017. Based on the evidence provided, the SPP RE determined there were three instances of potential noncompliance. These findings are not expected to have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

On July 23, 2017, the SPP RTO's board of directors and members committee voted to authorize the SPP's President and CEO to terminate the delegation agreement between the SPP and NERC, which will effectively dissolve the SPP RE. FERC must approve the termination of the SPP RE. If FERC approves, Cleco Power has until the end of 2018 to find a new RE. Management does not expect this termination to have a significant impact on the results of operations, financial condition, or cash flows of the Registrants.

For a discussion of risks associated with FERC's regulation of Cleco Power's transmission system, see Part I, Item 1A, "Risk Factors — Reliability and Infrastructure Protection Standards Compliance" in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Retail Electric Markets

For information on the regulatory aspects of retail electric markets affecting Cleco Power, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Regulatory and Other Matters — Market Restructuring — Retail Electric Markets" in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Lignite Deferral

At June 30, 2017, and December 31, 2016, Cleco Power had $5.1 million and $6.4 million, respectively, in uncollected deferred lignite mining costs.

For more information on Cleco Power's deferred lignite mining expenditures, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Regulatory and Other Matters — Lignite Deferral" in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Service Quality Program (SQP)

In October 2015, the LPSC proposed an SQP containing 21 requirements for Cleco Power. The SQP has provisions relating to employee headcount, customer service, reliability, vegetation management, and reporting. In April 2016, the SQP was approved by the LPSC. The SQP will remain in effect until 2021. Prior to the expiration of the SQP, a new five-year program must be negotiated and submitted to the LPSC for approval. Cleco Power filed its annual monitoring report on April 1, 2017.

Franchises

Cleco Power operates under nonexclusive franchise rights granted by governmental units, such as municipalities and parishes (counties), and enforced by state law. Cleco Power's next municipal franchise expires in July 2021.

On April 11, 2017, the City of Slidell voted to approve a new franchise agreement with Cleco Power with an effective date of April 11, 2017. The franchise agreement is for 35 years until April 2052. Approximately 13,823 Cleco Power customers are located in the City of Slidell.

On July 13, 2017, the Town of Rosepine and the Town of Cheneyville voted to approve new franchise agreements with Cleco Power with an effective date of July 13, 2017. Both franchise agreements are for 33 years until July 2050. Approximately 916 Cleco Power customers are located in the Town of Rosepine, and approximately 356 Cleco Power customers are located in the Town of Cheneyville.

For more information on franchises, see Part I, Item 1, “Business Regulatory Matters, Industry Developments, and Franchises — Franchises” in the Registrants’ Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Recent Authoritative Guidance

For a discussion of recent authoritative guidance, see Item 1, “Notes to the Unaudited Condensed Consolidated Financial Statements — Note 3 — Recent Authoritative Guidance.”

CRITICAL ACCOUNTING POLICIES

Cleco’s critical accounting policies include accounting policies that are important to Cleco’s financial condition and results of operations and that require management to make difficult, subjective, or complex judgments about future events, which could result in a material impact to the financial statements of Cleco. The preparation of financial statements contained in this report requires management to make estimates and assumptions. Estimates and assumptions about future events and their effects cannot be made with certainty. These estimates involve judgments regarding many factors that in and of themselves could materially affect the financial statements and disclosures. On an ongoing basis, these estimates and assumptions are evaluated and, if necessary, adjustments are made when warranted by new or updated information or by a change in circumstances or environment. Actual results may differ significantly from these estimates under different assumptions or conditions.

For more information on Cleco’s critical accounting policies, see Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies” in the Registrant’s Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Business Combinations

On April 13, 2016, Cleco Holdings completed its merger with Merger Sub whereby Merger Sub merged with and into Cleco Corporation, with Cleco Corporation surviving the Merger, and Cleco Corporation converting to a limited liability company and changing its name to Cleco Holdings, as a direct, wholly owned subsidiary of Cleco Group and an indirect, wholly owned subsidiary of Cleco Partners. The merger transaction required the use of the acquisition method to account for business combinations. The objective of this method is to establish a new accounting basis for the acquiree. Cleco Holdings’ assets and liabilities were measured and recorded at fair value as of the acquisition date. Cleco Power’s assets and liabilities were recorded at historical cost since Cleco did not elect pushdown accounting at the Cleco Power level. The financial statements and accompanying footnotes for Cleco have been segregated to present pre-merger activity as the "Predecessor" and post-merger activity as the "Successor." The predecessor period is not comparable to the successor period. For more information, see Item 1, "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 2 — Business Combinations."

CLECO POWER — NARRATIVE ANALYSIS OF RESULTS OF OPERATIONS

Cleco Power meets the conditions specified in General Instructions H(1)(a) and (b) to Form 10-Q and is therefore permitted to use the reduced disclosure format for wholly owned subsidiaries of reporting companies. Accordingly, Cleco Power has omitted from this report the information called for by Item 2 (Management's Discussion and Analysis of Financial Condition and Results of Operations) and Item 3 (Quantitative and Qualitative Disclosures about Market Risk) of Part I of Form 10-Q and the following Part II items of Form 10-Q: Item 2 (Unregistered Sales of Equity Securities and Use of Proceeds) and Item 3 (Defaults upon Senior Securities).

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk Overview

Market risk inherent in Cleco's market risk-sensitive instruments and positions includes potential changes in value 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 evaluates derivatives and hedging activities to determine whether market risk-sensitive instruments and positions are required to be marked-to-market. When positions close, actual gains or losses are included in the FAC and reflected on customers' bills as a component of the FAC.

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

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

Access to capital markets is a significant source of funding for both short- and long-term capital requirements not satisfied by operating cash flows. Future actions or inactions of the federal government, including a failure to increase the government debt limit, could increase the actual or perceived risk that the U.S. may not pay its obligations when due and may disrupt financial markets, including capital markets, potentially limiting availability and increasing costs of capital. The inability to raise capital on favorable terms could negatively affect Cleco's ability to maintain and expand its businesses. After assessing the current operating performance, liquidity, and credit ratings of Cleco Holdings and Cleco Power, management believes that Cleco will have access to the capital markets at prevailing market rates for companies with comparable credit ratings. Cleco Holdings and Cleco Power pay fees and interest under their respective credit facilities based on the highest rating held. On April 7, 2017, Moody's updated its credit ratings by maintaining Cleco Holdings at Baa3 (stable) and Cleco Power at A3 (stable). On May 30, 2017, S&P affirmed Cleco Holdings' and Cleco Power's credit ratings at BBB- (stable) and BBB+ (stable), respectively. If Cleco Holdings or Cleco Power's credit ratings were to be downgraded by S&P or Moody's, Cleco Holdings and/or Cleco Power would be required to pay additional fees and incur higher interest rates for borrowings under their respective credit facilities.

Interest Rate Risks

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

Sensitivity to changes in interest rates for variable-rate obligations is computed by assuming a 1% change in the current interest rate applicable to such debt.

At June 30, 2017, Cleco Holdings had $10.0 million of short-term variable-rate debt outstanding under its $100.0 million credit facility. The borrowing costs under Cleco Holdings' credit facility are equal to LIBOR plus 1.75% or ABR plus 0.75%, plus commitment fees of 0.275%. At June 30, 2017, the all-in rate was 2.98%. Each 1% increase in the interest rate applicable to such debt would result in a decrease in Cleco Holdings' pretax earnings of $0.1 million.

At June 30, 2017, Cleco Holdings had a $300.0 million long-term variable rate bank term loan outstanding. Amounts outstanding under the bank term loan bear interest at LIBOR plus 1.625%. At June 30, 2017, the all-in rate was 2.32%. Each 1% increase in the interest rate applicable to such debt would result in a decrease in Cleco Holdings' pretax earnings of $3.0 million.

For a discussion on the short- and long-term variable-rate debt related to Cleco Power, please refer to "— Cleco Power."

Commodity Price Risks

Management believes Cleco has controls in place to minimize the risks involved in its financial and energy commodity activities. Independent controls over energy commodity functions consist of a middle office (risk management), a back office (accounting), and regulatory compliance staff. All forward commodity positions have established risk limits and are monitored through a daily market report that identifies the VaR, current market conditions, and concentration of energy market positions.

Cleco Power provides fuel for generation and purchases power to meet the power demands of customers. Cleco Power may enter into positions to mitigate the volatility in customer fuel costs, as encouraged by various LPSC orders. These positions would be marked-to-market with the resulting gain or loss recorded on the balance sheet as a component of the accumulated deferred fuel asset or liability and a component of the energy risk management assets or liabilities. When these positions close, actual gains or losses would be included in the FAC and reflected in customers' bills as a component of the fuel charge. There were no open natural gas positions at June 30, 2017. In June 2015, the LPSC approved a long-term natural gas hedging pilot program that requires Cleco Power to establish a proposal for a program that will be designed to provide gas price stability for a minimum of five years. This proposal was submitted to the LPSC on July 28, 2017.

Cleco Power purchases FTRs in auctions facilitated by MISO. The majority of its FTRs are purchased in annual auctions during the second quarter, but Cleco Power may purchase additional FTRs in monthly auctions. FTRs are derivative instruments which represent economic hedges of future congestion charges that will be incurred in serving Cleco Power's customer load. FTRs are not designated as hedging instruments for accounting purposes. Cleco Power records FTRs at their estimated fair value when purchased. Each accounting period, Cleco Power adjusts the carrying value of FTRs to their estimated fair value based on the most recent MISO FTR auction prices. Unrealized gains or losses on FTRs held by Cleco Power are included in Accumulated deferred fuel on Cleco Power's Condensed Consolidated Balance Sheets. Realized gains or losses on settled FTRs are recorded in Fuel used for electric generation on Cleco Power's Condensed Consolidated Statements of Income. At June 30, 2017, Cleco Power's Condensed Consolidated Balance Sheets

reflected open FTR positions of $18.2 million in Energy risk management assets and $0.3 million in Energy risk management liabilities. For more information on FTRs, see Item 1, "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 5 — Fair Value Accounting — Commodity Contracts."

Cleco Power

Please refer to "— Risk Overview" for a discussion of market risk inherent in Cleco Power's market risk-sensitive instruments.

Cleco Power may enter into various fixed- and variable-rate debt obligations. Please refer to "— Interest Rate Risks" for a discussion of how Cleco Power monitors its mix of fixed- and variable-rate debt obligations and the manner of calculating changes in fair market value and interest expense of its debt obligations.

At June 30, 2017, Cleco Power had $0.8 million of short-term variable-rate debt outstanding on an uncommitted line of credit at an all-in rate of 2.98%. The borrowing costs on the uncommitted line of credit are equal to LIBOR plus 1.75%. Additionally, at June 30, 2017, Cleco Power had $75.0 million of short-term variable-rate debt outstanding under its $300.0 million credit facility, at an average all-in interest rate of 2.32%. The borrowing costs under the Cleco Power credit facility are equal to LIBOR plus 1.125% or ABR plus 0.125%, plus commitment fees of 0.125%. Each 1% increase in the interest rate applicable to such debt would result in a decrease in Cleco Power's pretax earnings of $0.8 million.

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of June 30, 2017, evaluations were performed under the supervision and with the participation of Cleco Holdings and Cleco Power (individually, "Registrant" and collectively, the "Registrants") management, including the Interim CEOs and CFO. The evaluations assessed the effectiveness of the Registrants' disclosure controls and procedures. Based on the evaluations, the Interim CEOs and CFO have concluded that the Registrants' disclosure controls and procedures are effective to ensure that information required to be disclosed by each Registrant in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in

SEC rules and forms; and that the Registrants' disclosure controls and procedures are also effective in ensuring that such information is accumulated and communicated to the Registrants' management, including the Interim CEOs and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in the Registrants' internal control over financial reporting that occurred during the quarter ended June 30, 2017, that have materially affected, or are reasonably likely to materially affect, the Registrants' internal control over financial reporting.

PART II — OTHER INFORMATION
ITEM 1. LEGAL PROCEEDINGS
CLECO
For information on legal proceedings affecting Cleco, see Part I, Item 1, "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 12 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Litigation."

CLECO POWER
For information on legal proceedings affecting Cleco Power, see Part I, Item 1, "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 12 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Litigation."
ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in Part I, Item 1A, "Risk Factors" in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2016 (the "2016 Annual Report on Form 10-K"). For risks that could affect actual results and cause

results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Registrants, see the risk factors disclosed under Part I, Item 1A, "Risk Factors" of the 2016 Annual Report on Form 10-K.
ITEM 4. MINE SAFETY DISCLOSURES

The information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

and Item 104 of Regulation S-K is included in Exhibit 95 to this Combined Quarterly Report on Form 10-Q.

ITEM 6. EXHIBITS

CLECO

12(a)	Computation of Ratios of Earnings to Fixed Charges
31.1	CEO Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002
31.2	CFO Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002
32.1	CEO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002
32.2	CFO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002
95	Mine Safety Disclosures
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

CLECO POWER

12(b)	Computation of Ratios of Earnings to Fixed Charges
31.3	CEO Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002
31.4	CFO Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002

32.3	CEO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002
32.4	CFO Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002
95	Mine Safety Disclosures
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

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

CLECO CORPORATE HOLDINGS LLC
(Registrant)

By: /s/ F. Tonita Laprarie
F. Tonita Laprarie
Controller and Chief Accounting Officer

Date: August 10, 2017

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

CLECO POWER LLC
(Registrant)

By: /s/ F. Tonita Laprarie
F. Tonita Laprarie
Controller and Chief Accounting Officer

Date: August 10, 2017