Cleco Corporate Holdings LLC
Form 10-K
February 22, 2017

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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016
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
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: None

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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
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:

Title of each class
Membership Interests

Cleco Power LLC, a wholly owned subsidiary of Cleco Corporate Holdings LLC, meets the conditions set forth in General Instruction (I)(1)(a) and (b) of Form 10-K and is therefore filing this Form 10-K with the reduced disclosure format.

Indicate by check mark if Cleco Corporate Holdings LLC is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if Cleco Power LLC is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the Registrants are not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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 o

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of each of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

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

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

As of February 22, 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
CLECO POWER 2016 FORM 10-K

This combined Form 10-K 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 Financial Statements for the Registrants and certain other sections of this report are combined.

TABLE OF CONTENTS

GLOSSARY OF TERMS

References in Part III, Items 10, 11, and 14 in this filing to "we," "our," and "the Company" mean Cleco Corporate Holdings LLC, unless the context clearly indicates otherwise. Additional abbreviations or acronyms used in this filing, including all items in Parts I, II, III, and IV 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
Brame Energy Center	A facility consisting of Nesbitt Unit 1, Rodemacher Unit 2, and Madison Unit 3
CAA	Clean Air Act
CCR	Coal combustion by-products or residual
CEO	Chief Executive Officer
Cleco	Cleco Holdings and its subsidiaries
Cleco Group	Cleco Group LLC, a wholly owned subsidiary of Cleco Partners
Cleco Holdings	Cleco Corporate Holdings LLC
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
CO_2	Carbon dioxide
Coughlin	Cleco Power's 775-MW, combined-cycle power plant located in St. Landry, Louisiana
CPP	Clean Power Plan
CSAPR	Cross-State Air Pollution Rule
DHLC	Dolet Hills Lignite Company, LLC, a wholly owned subsidiary of SWEPCO

Diversified Lands	Diversified Lands LLC, a wholly owned subsidiary of Cleco Holdings
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DOE	U.S. Department of Energy
Dolet Hills	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 (losses) before Interest, Taxes, Depreciation, and Amortization
EGU	Electric Generating Unit
Entergy Gulf States	Entergy Gulf States Louisiana, L.L.C.
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.
GO Zone	Gulf Opportunity Zone Act of 2005 (Public Law 109-135)
IRP	Integrated Resource Plan
IRS	Internal Revenue Service
ISO	Independent System Operator

ABBREVIATION OR ACRONYM	DEFINITION
kWh	Kilowatt-hour(s)
LDEQ	Louisiana Department of Environmental Quality
LED	Louisiana Economic Development
LIBOR	London Interbank Offered Rate
LMP	Locational Marginal Price
LPSC	Louisiana Public Service Commission
LTIP	Long-Term Incentive Compensation Plan
Madison Unit 3	A 641-MW generating unit at Cleco Power's plant site in Boyce, Louisiana
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 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
MIP	Macquarie Infrastructure Partners Inc.
MIRA	Macquarie Infrastructure and Real Assets Inc.
MISO	Midcontinent Independent System Operator, Inc.
MMBtu	Million British thermal units
Moody's	Moody's Investors Service, a credit rating agency
MSCI EAFE Index	Morgan Stanley Capital International Europe, Australia, Far East Index
MW	Megawatt(s)
MWh	Megawatt-hour(s)
NAAQS	National Ambient Air Quality Standards
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
NOAA	National Oceanic and Atmospheric Administration
Not Meaningful	A percentage comparison of these items is not statistically meaningful because the percentage difference is greater than 1,000%
NO_2	Nitrogen dioxide
NO_x	Nitrogen oxides
NYSE	New York Stock Exchange
Oxbow	Oxbow Lignite Company, LLC, 50% owned by Cleco Power and 50% owned by SWEPCO
PCB	Polychlorinated biphenyl
Perryville	Perryville Energy Partners, L.L.C., a wholly owned subsidiary of Cleco Holdings
PPA	Power Purchase Agreement

PPACA	Patient Protection and Affordable Care Act, as amended
ppb	Parts per billion
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
RFP	Request for Proposal
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
SO_2	Sulfur dioxide
SPP	Southwest Power Pool
SPP RE	Southwest Power Pool Regional Entity
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.
VaR	Value-at-Risk

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Combined Annual Report on Form 10-K includes "forward-looking statements" about future events, circumstances, and results. All statements other than statements of historical fact included in this Annual 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 more 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 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 work force factors, including aging workforce and changes in management.

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,

see Part I, Item 1A, "Risk Factors" and Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Comparison of the Years Ended December 31, 2016, and 2015 — Cleco Power — Significant Factors Affecting Cleco Power" in this Annual Report.
All subsequent written and oral forward-looking statements attributable to the Registrants, or persons acting on their behalf, are expressly qualified in their entirety by the factors identified above.
The Registrants undertake no obligation to update any forward-looking statements, whether as a result of changes in actual results, changes in assumptions, or other factors affecting such statements.

PART I

ITEM 1. BUSINESS

GENERAL

Cleco Holdings' predecessor was incorporated on October 30, 1998, under the laws of the state of Louisiana. Cleco Holdings is a public utility holding company which holds investments in several subsidiaries, including Cleco Power. Substantially all of its operations are conducted through Cleco Power. Cleco Holdings, subject to certain limited exceptions, is exempt from regulation as a public utility holding company pursuant to provisions of the Public Utility Holding Company Act of 2005.

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 Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 3 — Business Combinations."

Cleco Power's predecessor was incorporated on January 2, 1935, under the laws of the state of Louisiana. Cleco Power was organized on December 12, 2000. Cleco Power is an electric utility engaged principally in the generation, transmission, distribution, and sale of electricity within Louisiana. In December 2013, Cleco Power integrated its generation dispatch and transmission operations with MISO. Cleco Power is regulated by the LPSC and FERC, along with other governmental authorities. The rates Cleco Power can charge its retail customers are determined by the LPSC, and its transmission tariffs are regulated by FERC. The rates Cleco Power charges its wholesale customers are subject to FERC's triennial market power analysis. Cleco Power serves approximately 288,000 customers in Louisiana through its retail business and supplies wholesale power in Louisiana and Mississippi. Cleco Power's operations are described below. For more information on 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."

Midstream, which was organized on September 1, 1998, under the laws of the state of Louisiana, is a merchant energy subsidiary that prior to March 15, 2014, owned and operated a merchant power plant (Coughlin). Prior to April 29, 2011, Midstream also owned an indirect interest in a merchant power plant (Acadia). During 2009, Cleco Power and Entergy Louisiana executed definitive agreements whereby Cleco Power and Entergy Louisiana would each acquire one 580-MW unit of the Acadia Power Station. The transaction with Cleco Power was completed in February 2010, and the transaction with Entergy Louisiana was completed in April 2011. Midstream owns Evangeline (which owned and operated Coughlin). In December 2012, Cleco Power and Evangeline executed definitive agreements to transfer ownership and control of Coughlin from Evangeline to Cleco Power. The transfer was completed on March 15, 2014. Coughlin consists of two generating units with a total nameplate capacity of 775 MW. For more information on the transfer of Coughlin to Cleco Power, see Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 18 — Coughlin Transfer."

At December 31, 2016, Cleco had 1,203 employees.

Cleco's mailing address is P.O. Box 5000, Pineville, Louisiana 71361-5000, and its telephone number is (318) 484-7400.

Cleco's website is located at https://www.cleco.com. Cleco and Cleco Power's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and other filings with the SEC are available, free of charge, through Cleco's website after those reports or filings are filed electronically with or furnished to the SEC. Cleco's filings also can be obtained at the SEC's Office of Investor Advocacy at 100 F Street, NE, Washington, DC

20549. Information on the operation of the Office of Investor Advocacy may be obtained by calling the SEC at 1-800-SEC-0330. Cleco's electronically filed reports also can be obtained on the SEC's website located at https://www.sec.gov. Cleco's governance guidelines, code of conduct for financial managers, ethics and business standards, and the charters of its boards of managers' audit, leadership development and compensation, business planning and budget review, governance and public affairs, and asset committees are available on its website and available in print upon request. Information on Cleco's website or any other website is not incorporated by reference into this Report and does not constitute a part of this Report.

At December 31, 2016, Cleco Power had 1,022 employees. Cleco Power's mailing address is P.O. Box 5000, Pineville, Louisiana, 71361-5000, and its telephone number is (318) 484-7400.

Cleco Power meets the conditions specified in General Instructions I(1)(a) and (b) to Form 10-K and therefore is 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 the following Part II items of Form 10-K: Item 6 (Selected Financial Data) and Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations); and the following Part III items of Form 10-K: Item 10 (Directors, Executive Officers, and Corporate Governance of the Registrants), Item 11 (Executive Compensation), Item 12 (Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters), and Item 13 (Certain Relationships and Related Transactions, and Director Independence).

OPERATIONS

Cleco Power

Segment Financial Information
Summary financial results of the Cleco Power segment for years 2016, 2015, and 2014 are presented in the following table:

(THOUSANDS)	2016	2015	2014
Revenue			
Electric operations	$1,091,229	$1,142,389	$1,225,960
Other operations	68,573	67,109	64,893
Electric customer credits	(1,513)	(2,173)	(23,530)
Affiliate revenue	884	1,142	1,326
Operating revenue, net	$1,159,173	$1,208,467	$1,268,649
Depreciation and amortization	$146,142	$147,839	$144,026
Interest charges	$76,446	$76,560	$74,673
Interest income	$860	$725	$1,707
Federal and state income tax expense	$18,369	$79,294	$76,974
Net income	$39,128	$141,350	$154,316
Additions to property, plant, and equipment	$186,143	$156,357	$206,607
Equity investment in investee	$18,672	$16,822	$14,532
Goodwill	$1,490,797	$—	$—
Segment assets	$5,758,245	$4,233,337	$4,232,942

For more information on Cleco Power's results of operations, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Comparison of the Years Ended December 31, 2016, and 2015 — Cleco Power."

Certain Factors Affecting Cleco Power
As an electric utility, Cleco Power is affected, to varying degrees, by a number of factors influencing the electric utility industry in general. For more information on these factors, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Comparison of the Years Ended December 31, 2016, and 2015 — Cleco Power — Significant Factors Affecting Cleco Power."

Power Generation
As of December 31, 2016, Cleco Power's aggregate net electric generating capacity was 3,168 MW. This amount reflects the maximum production capacity these units can sustain over a specified period of time. In September 2016, Teche Unit 1, a 23-MW natural gas generating unit, was retired. The following table sets forth certain information with respect to Cleco Power's generating facilities:

GENERATING STATION	YEAR OF INITIAL OPERATION	NAMEPLATE CAPACITY (MW) [1]	NET CAPACITY (MW) [2]	PRIMARY FUEL USED FOR GENERATION	GENERATION TYPE
Brame Energy Center					

Nesbitt Unit 1	1975	440	421	natural gas	steam
Rodemacher Unit 2	1982	157 [3]	148 [3]	coal	steam
Madison Unit 3	2010	641	628	petroleum coke/coal	steam
Acadia Unit 1	2002	580	556	natural gas	combined cycle
Coughlin Unit 6	2000	264	246	natural gas	combined cycle
Coughlin Unit 7	2000	511	481	natural gas	combined cycle
Teche Unit 3	1971	359	333	natural gas	steam
Teche Unit 4	2011	33	35	natural gas	combustion
Dolet Hills Power Station	1986	325 [4]	320 [4]	lignite	steam
Total generating capability		3,310	3,168		

[1] Nameplate capacity is the capacity at the start of commercial operations.
[2] Based on capacity testing of the generating units and operational tests performed during May, June, July, and August 2016. These amounts do not represent generating unit capacity for MISO planning reserve margins.
[3] Represents Cleco Power's 30% ownership interest in the capacity of Rodemacher Unit 2, a 523-MW generating unit.
[4] Represents Cleco Power's 50% ownership interest in the capacity of Dolet Hills, a 650-MW generating unit.

The following table sets forth the amounts of power generated by Cleco Power for the years indicated:

YEAR	THOUSAND MWh	PERCENT OF TOTAL ENERGY REQUIREMENTS
2016	12,759	103.6
2015	12,564	100.2
2014	9,858	74.9
2013	9,736	83.8
2012	9,143	81.3

In December 2013, Cleco Power integrated its generation dispatch and transmission operations with MISO. The amount of power generated by Cleco Power is dictated by the availability of Cleco Power's generating fleet and the manner in which MISO dispatches each generating unit. Depending on how generating units are dispatched by MISO, the amount of power generated may be greater than or less than total energy requirements. Generating units are dispatched by referencing

each unit's economic efficiency as it relates to the overall MISO market. For more information on 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."

Fuel and Purchased Power

Changes in fuel expenses reflect fluctuations in the amount, type, and pricing of fuel used for electric generation; fuel transportation and delivery costs; and deferral of expenses for recovery from customers through the FAC in subsequent months. Changes in purchased power expenses are a result of the quantity and price of economic power purchased from the MISO market. These quantity changes can be affected by Cleco plant outages and plant performance. For a discussion of certain risks associated with changes in fuel costs and their impact on utility customers, see Item 1A, "Risk Factors — LPSC Audits" and "— Transmission Constraints."

The following table sets forth the percentages of power generated from various fuels at Cleco Power's electric generating plants, the cost of fuel used per MWh attributable

to each such fuel, and the weighted average fuel cost per MWh:

	LIGNITE		COAL		NATURAL GAS		BIOMASS		PETROLEUM C
YEAR	COST PER MWh	PERCENT OF GENERATION	COST PER MWh	PERCENT OF GENERATION	COST PER MWh	PERCENT OF GENERATION	COST PER MWh	PERCENT OF GENERATION	COST PER MWh	PERCE GENER
2016	$50.39	13.0	$28.13	9.3	$20.84	52.9	$—	—	$18.77	24.8
2015	$46.87	16.9	$28.68	9.7	$21.37	50.6	$—	—	$19.80	22.8
2014	$44.79	14.6	$27.34	15.6	$37.00	35.0	$—	—	$21.52	34.8
2013	$42.44	15.6	$29.42	18.2	$34.60	34.4	$—	—	$21.54	31.8
2012	$36.36	25.2	$33.03	17.0	$27.81	45.8	$17.74	*	$23.54	12.0

* Not meaningful

Power Purchases
In December 2013, Cleco Power integrated its generation dispatch and transmission operations with MISO. Consequently, MISO now makes economic and routine dispatch decisions regarding Cleco Power's generating units. Since joining MISO, power purchases have been made at prevailing market prices, also referred to as LMP, which are highly correlated to natural gas prices. LMP includes a component directly related to congestion on the transmission system. Pricing zones with greater transmission congestion will have a higher LMP. Physical transmission constraints present in the MISO market could increase energy costs within Cleco Power's pricing zone. For information on Cleco Power's ability to pass on to its customers substantially all of its fuel and purchased power expenses, see "— Regulatory Matters, Industry Developments, and Franchises — Rates."

Coal, Petroleum Coke, and Lignite Supply
Cleco Power uses coal for generation at Rodemacher Unit 2. During 2016, Cleco Power contracted with Peabody Coal Sales LLC and Arch Coal Sales to provide Cleco Power's coal needs at Rodemacher Unit 2. A portion of Rodemacher Unit 2's coal supply was provided from two Peabody Coal Sales LLC agreements that expired in December 2016, and the remaining supply was provided from an Arch Coal Sales agreement that expires in June 2017. The coal supply agreements were fixed-price contracts. The remainder of Cleco Power's coal needs for 2017 will be met with spot purchases. With respect to transportation of coal, Cleco Power's agreement with Union Pacific Railroad Company for transportation of coal from Wyoming's Powder River Basin to Rodemacher Unit 2 expired on December 31, 2016. A new transportation agreement with Union Pacific Railroad began on January 1, 2017, for a term of 3 years. Cleco Power leases 231 railcars to transport its coal under two long-term leases, one expiring in March 2017, under which management is evaluating future options, and the other expiring in March 2021.
The continuous supply of coal may be subject to interruption due to adverse weather conditions or other factors that may disrupt transportation to the plant site. At December 31, 2016, Cleco Power's coal inventory at Rodemacher Unit 2 was approximately 76,000 tons (approximately a 32-day supply).
Cleco Power uses a combination of petroleum coke and Illinois Basin coal for generation at Madison Unit 3. Petroleum coke is a by-product of the oil refinery process and is not considered a fuel specifically produced for a market; however, ample petroleum coke supplies are produced from refineries each year throughout the world, particularly in the Gulf Coast region. During 2016, Cleco received its petroleum coke supply

from refineries located along the lower Mississippi River with some spot cargo purchases being delivered from upper Mississippi refineries. Cleco purchased slightly more than one million tons of petroleum coke during 2016, all of which were either an evergreen extension of a previous agreement or a newly negotiated agreement for one year ending December 31, 2016. All existing contracts have been extended and newly negotiated contracts have been completed for petroleum coke supply in 2017. Petroleum coke spot purchases are typically short-term in nature, ranging from one- to six-month terms. Each of the agreements is either a fixed price spot purchase or priced per the Jacobs Consultancy Petroleum Coke Quarterly Monthly Price Index or the “PACE” Monthly Index.

During 2016, Cleco purchased approximately 268,000 tons of Illinois Basin coal. Cleco Power uses Louisiana waterways, such as the Mississippi River and the Red River, to deliver both petroleum coke and Illinois Basin coal to the plant site. The continuous supply of petroleum coke and Illinois Basin coal may be subject to interruption due to adverse weather conditions or other factors that may disrupt transportation to the plant site. Savage Services is Cleco Power’s exclusive transportation coordinator and provider. The amended and restated logistics agreement dated December 28, 2012, with Savage Services continues through August 31, 2017. The term of this agreement will automatically renew for successive periods of two years each unless written notice is provided by either party at least four months prior to the expiration of the term in effect. The amended agreement contains a provision for early termination with a three-month prior written notice upon the occurrence of specified cancellation events. Cleco is evaluating future options related to its fuel transportation agreement with Savage Services. At December 31, 2016, Cleco Power’s petroleum coke inventory at Madison Unit 3 was approximately 257,000 tons and Cleco Power’s Illinois Basin coal inventory at Madison Unit 3 was approximately 95,000 tons. The total fuel inventory was 352,000 tons (approximately a 70-day supply).

Cleco Power uses lignite for generation at the Dolet Hills Power Station. Cleco Power and SWEPCO each own an undivided 50% interest in the other’s leased and owned lignite reserves within the Dolet Hills mine in northwestern Louisiana. Additionally, through Oxbow, which is owned 50% by Cleco Power and 50% by SWEPCO, Cleco Power and SWEPCO control 74 million tons of estimated recoverable lignite reserves also located in northwestern Louisiana. Cleco Power and SWEPCO have entered into a long-term agreement with DHLC for the mining and delivery of lignite reserves at both mines, the operations of which are conducted by SWEPCO. The Amended Lignite Mining Agreement requires Cleco Power and SWEPCO to purchase the lignite mined and delivered by DHLC at cost plus a specified management fee. The term of

this contract runs until all economically mineable lignite has been mined. The reserves from these mines are expected to be sufficient to fuel the Dolet Hills Power Station until at least 2036. At December 31, 2016, Cleco Power's investment in Oxbow was $18.7 million. For information regarding deferred mining costs and obligations associated with this mining agreement see, Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 4 — Regulatory Assets and Liabilities — Mining Costs," Note 15 — "Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Off-Balance Sheet Commitments and Guarantees," and "— Long-Term Purchase Obligations." For more information on Oxbow, see Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 13 — Variable Interest Entities."
The continuous supply of lignite may be subject to interruption due to adverse weather conditions or other factors that may disrupt mining operations or transportation to the plant site. At December 31, 2016, Cleco Power's lignite inventory at Dolet Hills was approximately 251,000 tons (approximately a 40-day supply).

Natural Gas Supply
During 2016, Cleco Power purchased 30.3 million MMBtu of natural gas for the generation of electricity. The annual and average per-day quantities of gas purchased by Cleco Power from each supplier are shown in the following table:

NATURAL GAS SUPPLIER	2016 PURCHASES (MMBtu)	AVERAGE AMOUNT PURCHASED PER DAY (MMBtu)	PERCENT OF TOTAL NATURAL GAS USED	
Tenaska Marketing Ventures	6,758,498	18,516	22.3	%
Shell Energy North America	5,746,061	15,743	19.0	%
Range Resources-Appalachia, LLC	4,207,939	11,529	13.9	%
Enstor Energy Services	2,979,468	8,163	9.8	%
Iberdrola Renewables	2,864,000	7,847	9.5	%
South Jersey Resources Group	2,689,871	7,370	8.9	%
Anadarko Energy Service Company	1,164,700	3,191	3.8	%
Others	3,860,298	10,576	12.8	%
Total	30,270,835	82,935	100.0	%

Cleco Power owns natural gas pipelines and interconnections at all of its generating facilities which allow it to access various natural gas supply markets and maintain a more economical fuel supply for Cleco Power's customers.
Natural gas was available without interruption throughout 2016. Cleco Power expects to continue to meet its natural gas requirements with purchases on the spot market through daily, monthly, and seasonal contracts with various natural gas suppliers. However, future supplies to Cleco Power remain vulnerable to disruptions due to weather events and transportation issues. Large industrial users of natural gas, including electric utilities, generally have low priority among gas users in the event pipeline suppliers are forced to curtail deliveries due to inadequate supplies. As a result, prices may increase rapidly in response to temporary supply interruptions. During 2016, in order to partially address potential natural gas fuel curtailments and interruptions, Cleco contracted for natural gas firm transportation with several interstate pipelines for a period of one year ending in late 2017. In order to supply gas to Cleco Power's generating facilities in the event of an

interruption of supply due to events of force majeure and to operationally balance gas supply to the units, gas storage will continue to be used. The storage volume is contracted by paying a capacity reservation charge at a fixed rate. There are also variable charges incurred to withdraw and inject gas from storage. At December 31, 2016, Cleco Power had 1.7 million MMBtu of gas in storage. Currently, Cleco Power anticipates that its diverse supply options, gas storage, and alternative fuel capability, combined with its solid-fuel generation resources, are adequate to meet its generation needs during any temporary interruption of natural gas supplies.

Sales

Cleco Power's 2016 and 2015 system peak demands, which occurred on August 2, 2016, and August 10, 2015, were 2,490 MW and 2,700 MW, respectively. Sales and system peak demand are affected by weather and are typically highest during the summer air-conditioning season; however, peaks may occur during the winter season as well. In 2016, Cleco Power experienced warmer than normal summer weather conditions and warmer than normal winter weather conditions. In 2015, Cleco Power experienced warmer than normal summer weather conditions and warmer than normal winter weather conditions. For information on the effects of future energy sales on Cleco Power's results of operations, financial position, and cash flows, see Item 1A, "Risk Factors — Future Electricity Sales" and "— Weather Sensitivity." For information on the financial effects of seasonal demand on Cleco Power's quarterly operating results, see Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 20 — Miscellaneous Financial Information (Unaudited)."

Reserve margin is the net capacity resources (either owned or purchased) less native load demand, divided by native load demand. Members of MISO submit their forecasted native load demand to MISO each year. During 2016, Cleco Power's reserve margin was 23.8%, which was above MISO's unforced planning reserve margin benchmark of 7.6.%. During 2015, Cleco Power's reserve margin was 21.3%, which was above MISO's unforced planning reserve margin benchmark of 7.1%. Cleco Power expects to meet or exceed MISO's unforced planning reserve margin benchmark of 7.8% in 2017.

Capital Investment Projects

For a discussion of certain Cleco Power major capital investment projects, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview — Cleco Power — Layfield/Messick Project," "— Cenla Transmission Expansion Project," "— St. Mary Clean Energy Project," "— Terrebonne to Bayou Vista Transmission Project," and "— Coughlin Pipeline Project."

Customers

No single customer accounted for 10% or more of Cleco or Cleco Power's consolidated revenue in 2016, 2015, or 2014. In 2014, Cleco Power added a significant wholesale customer that accounted for 9% of Cleco and Cleco Power's consolidated revenue in 2016, 2015, and the months that it was a customer in 2014. For more information regarding Cleco's sales and revenue, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations."

Capital Expenditures and Financing

For information on Cleco's capital expenditures, financing, and related matters, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Liquidity and Capital Resources — Cash Generation and Cash Requirements — Capital Expenditures."

REGULATORY MATTERS, INDUSTRY DEVELOPMENTS, AND FRANCHISES

Rates

Cleco Power's electric operations are subject to the jurisdiction of the LPSC with respect to retail rates, standards of service, accounting, and other matters. Also, Cleco Power is subject to the jurisdiction of FERC with respect to transmission tariffs, accounting, interconnections with other utilities, reliability, and the transmission of power. Periodically, Cleco Power has sought and received from both the LPSC and FERC increases in retail rates and transmission tariffs, respectively, to cover increases in operating costs and costs associated with additions to generation, transmission, and distribution facilities. The rates Cleco Power charges its wholesale customers are subject to FERC's triennial market power analysis.

Cleco Power's annual retail earnings are subject to the terms of an FRP established by the LPSC. Prior to July 1, 2014, Cleco Power's FRP allowed a target ROE of 10.7%, while providing the opportunity to earn up to 11.3%. Additionally, 60.0% of retail earnings between 11.3% and 12.3% and all retail earnings over 12.3% were required to be refunded to customers. In April 2013, Cleco Power filed an application with the LPSC to extend its current FRP and to seek rate recovery of the Coughlin transfer. In June 2014, the LPSC approved Cleco Power's FRP extension, finalized the rate treatment of Coughlin, and issued the implementing order. Effective July 1, 2014, under the terms of the FRP extension, Cleco Power's retail rates were adjusted based on a target ROE of 10.0%, while providing the opportunity to earn up to 10.9%. Additionally, 60% 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. The capital structure assumes an equity ratio of 51%. The FRP extension includes a mechanism that allows for recovery in base rates, the revenue requirements related to excess amounts of surcredits refunded for storm costs and uncertain tax positions, MISO transition and administration charges, Louisiana state corporate franchise taxes, incremental production operations and maintenance costs, LPSC renewable project costs, and certain capacity costs. It also includes recovery of deferred costs for the previous LPSC fuel audit, biomass pilot project costs, and costs related to filing the FRP extension. The FRP extension also includes a mechanism allowing for recovery of incremental capacity costs above the level included in base rates and allows Cleco Power to request recovery of additional capital project costs during its four-year term. Cleco Power was scheduled to file an application with the LPSC for a new FRP by June 30, 2017. However, as part of the merger approval process, Cleco Power agreed not to file an application for a new FRP or request an increase in base rates until June 30, 2019, with anticipated new rates being effective on July 1, 2020.

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 will be performed at least every other year. On February 3, 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 this audit was $582.6 million. On January 19, 2017, the LPSC Staff issued its audit report which recommended no disallowance of fuel costs. Management expects the report to be approved by the LPSC in the second quarter of 2017. Cleco Power currently has FAC filings for 2016 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 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. Cleco Power began incurring additional environmental compliance expenses in the second quarter of 2015 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 “Environmental Matters — Air Quality.”

On February 3, 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 this audit was $81.2 million. On December 1, 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 currently has EAC filings for 2016 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.

On April 8, 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. On April 8, 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. On October 4, 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 anticipates the completion of this agreement in the second quarter of 2017. 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 more information on Cleco Power's retail and wholesale rates, including Cleco Power's FRP, see Item 1A, "Risk Factors — LPSC Audits," "— Cleco Power's Rates," "— Retail Electric Service," and "— Wholesale Electric Service" and Pa 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Regulatory and Other Matters — Retail Rates of Cleco Power," and — "Wholesale Rates of Cleco Power."

Franchises

Cleco Power operates under nonexclusive franchise rights granted by governmental units, such as municipalities and parishes (counties), and enforced by state law. These franchises are for fixed terms, which vary from 10 years to more than 50 years. Historically, Cleco Power has been substantially successful in the timely renewal of franchises as each neared the end of its term. Cleco Power's next municipal franchise expires in August 2020.

Franchise Renewals

Cleco Power renewed the following franchise agreements during 2015 and 2016:

DATE	CITY/TOWN/VILLAGE	TERM	NUMBER OF CUSTOMERS
March 2015	Zwolle	30 years	914
May 2015	Merryville	30 years	454
June 2015	Eunice	33 years	5,190
July 2015	Converse	30 years	233
July 2015	Madisonville	34 years	598
August 2015	Pleasant Hill	30 years	382
September 2015	Noble	30 years	108
September 2015	Plaucheville	30 years	147
May 2016	Elizabeth	10 years*	219
July 2016	McNary	30 years	89

* Effective date May 2018, expiring May 2028

Industry Developments

For information on industry developments, 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 Competition

For a discussion of wholesale electric competition, 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."

Retail Electric Competition

For a discussion of retail electric competition, 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."

Legislative and Regulatory Changes and Matters

Various federal and state legislative and regulatory bodies are considering a number of issues that could shape the future of the electric utility industry. Such issues include, among others:

- the ability of electric utilities to recover stranded costs,
- the role of electric utilities, independent power producers, and competitive bidding in the purchase, construction, and operation of new generating capacity,
- the pricing of transmission service on an electric utility's transmission system, or the cost of transmission services provided by an RTO/ISO,
- FERC's assessment of market power and a utility's ability to buy generation assets,
- mandatory transmission reliability standards,
- FERC rulemakings encouraging migration of utility operations to RTOs,
- NERC's imposition of additional reliability and cybersecurity standards,
- the authority of FERC to grant utilities the power of eminent domain,
- increasing requirements for renewable energy sources,
- demand response and energy efficiency standards,
- comprehensive multi-emissions environmental regulation in the areas of air, water, and waste,
- regulation of greenhouse gas emissions,
- regulation of the disposal and management of CCRs from coal-fired power plants,
- FERC's increased ability to impose financial penalties, and
- the Dodd-Frank Act.

Management is unable, at this time, to predict the outcome of such issues or the effects thereof on the results of operations, financial condition, or cash flows of the Registrants.

For information on certain regulatory matters and regulatory accounting 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."

ENVIRONMENTAL
MATTERS

Environmental Quality

Cleco is subject to federal, state, and local laws and regulations governing the protection of the environment. Violations of these laws and regulations may result in substantial fines and penalties. Cleco has obtained the environmental permits necessary for its operations, and management believes Cleco is in compliance in all material respects with these permits, as well as all applicable environmental laws and regulations. Environmental requirements affecting electric power generating facilities are complex, change frequently, and have become more stringent over time as a result of new legislation, administrative actions, and judicial interpretations. Therefore, the capital costs and other expenditures necessary to comply with existing and new environmental requirements are difficult to determine. Cleco Power may request recovery of the costs to comply with certain environmental laws and regulations from its retail customers. If revenue relief were to be approved by the LPSC, then Cleco Power's retail rates could increase. If the LPSC were to deny Cleco Power's request to recover all or part of its environmental compliance costs, then Cleco Power would bear those costs directly. Such a decision could negatively impact, perhaps significantly, the results of operations, financial condition, or cash flows of the Registrants. Cleco Power's capital expenditures, including AFUDC, related to environmental compliance were $6.4 million during 2016 and are estimated to be $4.5 million in 2017.

Air Quality

Air emissions from each of Cleco's generating units are strictly regulated by the EPA and the LDEQ. The LDEQ has authority over and implements certain air quality programs established by the EPA under the federal CAA, as well as its own air quality regulations. The LDEQ establishes standards of performance and requires permits for EGUs in Louisiana. All of Cleco's generating units are subject to these requirements.

The EPA has proposed and adopted rules under the authority of the CAA relevant to the emissions of SO_2 and NO_x from Cleco's generating units. The CAA contains a regional haze program with the goal of returning certain areas of the nation to natural visibility by 2064. States are required to develop regional haze State Implementation Plans (SIP) and revise them every ten years. SIP must include several components, including requirements for the installation of Best Available Retrofit Technology (BART) for eligible EGUs in Louisiana. The LDEQ now must determine what the BART requirements will be for BART-eligible EGUs for the control of SO_2 and NO_x. Until the LDEQ determines what BART requirements are for Cleco units and completes its update of SIP, Cleco is unable to predict if the adopted rules will have a material impact on the results of operations, financial condition, or cash flows of the Registrants. The CAA also established the Acid Rain Program to address the effects of acid rain and imposed restrictions on acid rain-causing SO_2 emissions from certain generating units. The CAA requires these EGUs to possess a regulatory "allowance" for each ton of SO_2 emitted beginning in the year 2000. The EPA allocates a set number of allowances to each affected unit based on its historic emissions. As of December 31, 2016, Cleco had sufficient allowances for operations in 2016 and expects to have sufficient allowances for 2017 operations under the Acid Rain Program.

The Acid Rain Program also established emission rate limits on NO_x emissions for certain generating units. Cleco Power is able to achieve compliance with the acid rain permit limits for NO_x at all of its affected facilities.

In July 2011, the EPA finalized a rule titled "Federal Implementation Plans to Reduce Interstate Transport of Fine Particulate Matter and Ozone" known as CSAPR that would require significant reductions in SO_2 and NO_x emissions from EGUs in 28 states, including Louisiana. Under CSAPR, the EPA set total emissions limits for each state, allowing limited interstate trading (and unlimited intrastate trading) of emission allowances among power plants to comply with these limits beginning May 1, 2012. Specifically for Louisiana, CSAPR limited NO_x emissions for the ozone season, which consisted of the months of May through September. After several years of litigation over the rule, in October 2014, the D.C. Circuit Court of Appeals granted the EPA's request that the court lift the stay on CSAPR. On January 1, 2015, the EPA implemented CSAPR on an interim basis. In May 2015, Cleco began complying with

the rule's requirements for limiting NO_x emissions during annual ozone seasons.

In December 2015, the EPA published the proposed CSAPR update for the 2008 ozone NAAQS in the Federal Register. The EPA finalized the rule on October 26, 2016, with publication in the Federal Register. The EPA proposed Federal Implementation Plans (FIP) that update the existing EGU CSAPR NO_x ozone season emission budgets and implement the budgets through the existing CSAPR NO_x ozone-season allowance trading program. The FIP requires implementation beginning with the 2017 ozone season. Management does not believe the final rule will have a material impact on the results of operations, financial condition, or cash flows of the Registrants.

In February 2012, the EPA finalized the MATS ruling that requires affected EGUs to meet strict emission limits on new and existing coal- and liquid oil-fired EGUs for mercury, acid gases, and non-mercury metallic pollutants. Cleco Power units impacted by the rule included Rodemacher Unit 2, Madison Unit 3, and Dolet Hills. MATS controls equipment was installed and Cleco Power's three EGUs affected by the MATS rule were compliant by the April 16, 2015, deadline. In February 2016, the LPSC approved Cleco Power's request for authorization to recover the revenue requirements associated with the MATS equipment. As of December 31, 2016, Cleco Power had spent $106.2 million on the project. Cleco Power's final project cost is expected to be $108.0 million, with the remaining costs being related to post-construction refinements. On March 31, 2016, the Sierra Club filed a petition for judicial review in the 19th Judicial District Court, State of Louisiana, requesting that the LPSC's approval of MATS be vacated. Deadlines have not been set by the 19th Judicial District Court. Cleco believes the LPSC's approval was neither arbitrary nor capricious and, as such, believes the Sierra Club's request to be without merit. In June 2015, the U.S. Supreme Court remanded the MATS rule to the D.C. Circuit Court of Appeals. The Supreme Court held that the EPA had not demonstrated that the promulgation of the MATS rule was "appropriate and necessary" due to the EPA's failure to consider costs. 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 the rule. On April 15, 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.

Greenhouse gases (GHG) and their role in climate change have been the focus of extensive study and legal action. Fossil fuel-fired EGUs emit a significant amount of GHG in the combustion process. Congress has attempted to craft specific legislation that would reduce emissions of GHG by utilities, industrial facilities, and other manufacturing sectors of the economy. While congressional attempts have not been successful, it is possible that federal GHG legislation may be enacted within the next several years.

In the absence of federal legislation, the EPA adopted a series of rules under the CAA that, taken together, regulate GHG emissions from both mobile and stationary sources. As a result, since July 2011, new major stationary sources of GHG emissions and major modifications of existing stationary sources have been required to obtain a permit for their GHG emissions. In its May 2010, Prevention of Significant Deterioration (PSD) and Title V GHG "Tailoring Rule," the EPA set the threshold for new major sources and major modifications of existing sources of GHG emissions and CO_2 equivalents at 100,000 tons per year and 75,000 tons per year, respectively. The U.S. Supreme Court partially invalidated the Tailoring Rule in June 2014, holding that the EPA does not have the authority to regulate GHG emissions from all sources, but only from sources that would otherwise be subject to PSD permitting based on exceeding the emissions limits for other pollutants. Cleco does not anticipate a modification at any of its existing sources that would trigger PSD and an associated Best Available Control Technology demonstration for GHG.

In August 2015, the EPA released the final guidelines referred to as the CPP. These guidelines provide each state with standards for CO_2 emissions from the state's utility industry. The EPA derived the limits for each state through a strategy involving a combination of unit efficiency improvements, dispatching away from boilers to combined cycle units, and applying renewable energy. The CPP requires significant reductions of CO_2 emissions. The CPP sets interim and final CO_2 emission goals for each state. The interim emission goals begin in 2022, with final emission goals required by 2030. The rule is currently under review by electric utilities and state regulators. On February 9, 2016, the U.S. Supreme Court issued a stay of the CPP, which will stay in place until the D.C. Circuit Court of Appeals rules on the merits, followed by a U.S. Supreme Court ruling. Oral arguments were heard by the D.C. Circuit Court of Appeals on September 27, 2016, with a final decision expected by mid-year 2017. If the U.S. Supreme Court grants a writ application, a decision is not expected until early 2018. Until the U.S. Supreme Court issues a ruling and the State of Louisiana releases an implementation plan, management cannot predict what the final standards will entail for Cleco or what controls the EPA and the state of Louisiana may require in a final state implementation plan. However, any new rules that require significant reductions of CO_2 emissions could require significant capital expenditures or curtailment of operations of certain EGUs to achieve compliance.

In August 2015, the EPA released the New Source Performance Standards (NSPS) rules for CO_2 emissions from new, modified, or reconstructed units. The rules set requirements and conditions with respect to CO_2 emission standards for new units and those that are modified or reconstructed. Cleco does not anticipate a modification or reconstruction of its existing sources that would trigger the application of the proposed CO_2 emission limits.

The enactment of federal or state renewable portfolio standards (RPS) mandating the use of renewable and alternative fuel sources such as wind, solar, biomass, and geothermal could result in certain changes in Cleco's business or its competitive position. These changes could include additional costs for renewable energy credits, alternate compliance payments, or capital expenditures for renewable generation resources. RPS legislation has been enacted in many states and Congress is considering various bills that would create a national RPS. Cleco continues to evaluate the impacts of potential RPS legislation on its business based on the RPS programs in other states.

As part of its periodic re-evaluation of the protectiveness of the NAAQS, the EPA has adopted rules that strengthen the NAAQS for specific criteria pollutants including ozone, NO_2, and SO_2. In 2008, the EPA issued a NAAQS for ozone of 75 ppb. The EPA designated the five-parish area around Baton Rouge as a non-attainment area for ozone under the 2008 NAAQS, which required that Louisiana establish a state implementation plan to bring those areas back into attainment by 2015. The state plan for implementing the 2008 NAAQS did not impact Cleco's generating units.

In October 2015, the EPA released a final rule to strengthen the 2008 eight-hour ozone standard by decreasing the current value of 75 ppb to a value of 70 ppb. However, since the state of Louisiana has not released an implementation plan, Cleco cannot predict what the compliance requirements may be or if the new rule will have a material impact on the results of operations, financial condition, or cash flows of the Registrants.

A revised primary NAAQS for NO_2 promulgated by the EPA took effect in April 2010. The EPA established a new one-hour standard at a level of 100 ppb to supplement the existing annual standard. In January 2012, the EPA determined that no area in the country was violating the standard. However, the LDEQ expects to operate new monitors at two portions of highways in the Baton Rouge and New Orleans areas. The EPA may redesignate areas based on new data it receives from states. Due to the fact that fossil fuel-fired EGUs are a significant source of NO_2

emissions in the country, a non-attainment designation could result in utilities such as Cleco being required to substantially reduce its NO_2 emissions. However, because the EPA has not yet completed any new designations, Cleco cannot predict the likelihood or potential impacts of such a rule on its generating units at this time.

The EPA revised the NAAQS for SO_2 in June 2010. The new standard is now a one-hour health standard of 75 ppb, designed to reduce short-term exposures to SO_2 ranging from five minutes to 24 hours. An important aspect of the new SO_2 standard is a revised emission monitoring network combined with a new ambient air modeling approach to determine compliance with the new standard. The EPA designated St. Bernard Parish as a non-attainment area. The EPA expects to use monitoring or modeling data developed in the future to confirm the status of areas that currently have no monitoring data. Classification of those areas currently without adequate data will be deferred until adequate data has been developed. In November 2015, the LDEQ notified the EPA that DeSoto Parish was in compliance with the NAAQS SO_2 requirement and recommended a designation of attainment. In February 2016, the EPA responded indicating that it intends to classify a portion of DeSoto Parish as non-attainment. The EPA accepted information and comments from the LDEQ. The public was also provided an opportunity to submit comments. Cleco provided comments to the EPA on March 30, 2016. The EPA’s final designation published in the Federal Register on July 12, 2016, designated DeSoto Parish to be nonclassifiable/attainment. As a result, there is no impact to Cleco’s generating units.

In the past, Cleco Power received notices from the EPA requesting information relating to the Brame Energy Center and the Dolet Hills Power Station. The purpose of the data requests was to determine whether Cleco Power complied with the New Source Review permitting program and NSPS requirements under the CAA in connection with capital expenditures, modifications, or operational changes made at these facilities. Cleco Power has completed its responses to the initial data requests. Cleco Power is unable to predict whether the EPA will take further action as a result of the information provided.

Water Quality
Cleco's facilities also are subject to federal and state laws and regulations regarding wastewater discharges. Cleco has received from the EPA and the LDEQ permits required under the federal Clean Water Act (CWA) for wastewater discharges from its generating stations. Wastewater discharge permits have fixed dates of expiration and Cleco applies for renewal of these permits within the applicable time periods.
In March 2011, the EPA proposed regulations which would establish standards for cooling water intake structures at existing power plants and other facilities pursuant to Section 316(b) of the CWA. The EPA published its final rule in August 2014. The standards are intended to protect fish and other aquatic wildlife by minimizing capture both in screens attached to intake structures (impingement mortality), and in the actual intake structures themselves (entrainment mortality). The proposed standards would (1) set a performance standard, dealing with fish impingement mortality, or reduce the flow velocity at cooling water intakes to less than 0.5 feet per second, and (2) require entrainment standards to be determined on a case-by-case basis by state-delegated permitting authorities. Facilities subject to the proposed standards are required to complete a number of studies within a 45-month period and then comply with the rule as soon as possible after the next discharge permit renewal by a date determined by the permitting authorities. Portions of the final rule could apply to a number of Cleco's fossil fuel steam electric generating stations. Until the required studies are conducted, including technical and economic evaluations of the control options available, and regulatory agency officials have reviewed the studies and made determinations, Cleco remains uncertain which technology options or retrofits will be required to be installed on its affected facilities. The costs of required technology options and retrofits may be significant, particularly if closed cycle cooling is required.
The CWA requires the EPA to periodically review and, if appropriate, revise technology-based effluent limitations guidelines for categories of industrial facilities, including power generating facilities. In September 2015, the EPA released the revised steam electric effluent limitation guidelines. The rule is focused on reducing the discharge of metals in wastewater from generating facilities to surface waters. The rule may require costly technological upgrades at Cleco's facilities, particularly if additional wastewater treatment systems are required to be installed or if waste streams must be eliminated. Management is currently evaluating the effect of the final rule and is not able to predict if the new rule will have a material impact on the results of operations, financial condition, or cash flows of the Registrants.

Solid Waste Disposal
In the course of operations, Cleco's facilities generate solid and hazardous waste materials requiring eventual disposal. The Solid Waste Division of the LDEQ has adopted a permitting system for the management and disposal of solid waste generated by power stations. Cleco has received all required permits from the LDEQ for the on-site disposal of solid waste from its generating stations.
In April 2015, the EPA published a final rule in the
Federal Register for regulating the disposal and management of CCRs from coal-fired power plants. The federal regulation classifies CCRs as nonhazardous waste under Subtitle D of the Resource Conservation and Recovery Act and allows beneficial use of CCRs with some restrictions.

The rule establishes extensive requirements for existing and new CCR landfills and surface impoundments and all lateral expansions consisting of location restrictions, design and operating criteria, groundwater monitoring and corrective action, closure requirements and post closure care, and recordkeeping, notification, and Internet posting requirements. Management is currently evaluating the effect of the final rule requirements and is not able to predict if the rule will have a material impact on the results of operations, financial condition, or cash flows of the Registrants. Cleco Power continues to be subject to state regulations pertaining to the disposal of coal ash. As a result, Cleco Power has an ARO for the retirement of certain ash disposal facilities. All costs of the CCR rule are expected to be recovered from customers in future rates. The actual asset retirement costs related to the CCR rule requirements may vary substantially from the estimates used to record the increased obligation due to the uncertainty about the compliance strategies that will be used and the preliminary nature of available data used to estimate costs. Cleco Power will continue to gather additional data in future periods and will make decisions about compliance strategies and the timing of closure activities. As additional information becomes available and management makes decisions about compliance strategies and the timing of closure activities, Cleco Power will update the ARO balance to reflect these changes in estimates. However, management does not expect any required adjustment to the ARO to have a material effect on the results of operations, financial condition, or cash flows of the Registrants. At December 31, 2016, management’s analysis confirmed that no additional adjustments were needed to update Cleco Power’s ARO balance.

On December 16, 2016, the Water Infrastructure Improvements for the Nation Act (WIIN Act), including the WIIN Act’s provisions regarding CCRs was signed into law. The Act’s CCR provisions allow for implementation of the federal CCR rule through a state-based permit program. However, until the state of Louisiana has evaluated the Act and made a decision on implementing a state-based option, Cleco cannot determine the effects of the Act on the Registrants.

Cleco produces certain wastes that are classified as hazardous at its electric generating stations and at other locations. Cleco does not treat, store long-term, or dispose of these wastes on-site; therefore, no permits are required. Hazardous wastes produced by Cleco are properly disposed of at permitted hazardous waste disposal sites.

Toxic Substances Control Act (TSCA)

The TSCA directs the EPA to regulate the marketing, disposing, manufacturing, processing, distributing in commerce, and usage of various toxic substances, including PCBs. Cleco operates and may continue to operate equipment containing PCBs under the TSCA. Once the equipment reaches the end of its useful life, the EPA regulates handling and disposing of the equipment and fluids containing PCBs. Within these regulations, handling and disposing is allowed only through facilities approved and permitted by the EPA. Cleco properly disposes of its PCB waste material at TSCA-permitted disposal facilities.

Emergency Planning and Community Right-to-Know Act (EPCRA)
Section 313 of the EPCRA requires certain facilities that manufacture, process, or otherwise use minimum quantities of listed toxic chemicals to file an annual report with the EPA called a Toxic Release Inventory (TRI) report. The TRI report requires industrial facilities to report on approximately 650 substances that the facilities release into the air, water, and land. The TRI report ranks companies based on the amount of a particular substance they release on a state and parish (county) level. Annual reports are due to the EPA on July 1 following the reporting year-end. Cleco has submitted required TRI reports on its activities and the TRI rankings are available

to the public. The rankings do not result in any federal or state penalties.

Electric and Magnetic Fields (EMFs)
The possibility that exposure to EMFs emanating from electric power lines, household appliances, and other electric devices may result in adverse health effects, and damage to the environment has been a subject of some public attention. Lawsuits alleging that the presence of electric power transmission and distribution lines has an adverse effect on health and/or property values have arisen in several states. Cleco Power is not a party in any lawsuits related to EMFs.

ITEM 1A. RISK FACTORS

The following risk factors could have a material adverse effect on results and cause results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Registrants.

Holding Company

Cleco Holdings is a holding company and its ability to meet its debt obligations is dependent on the cash generated by its subsidiaries.
Cleco Holdings is a holding company and conducts its operations primarily through its subsidiaries. Accordingly, Cleco Holdings' ability to meet its debt obligations is largely dependent upon the cash generated by these subsidiaries. Cleco Holdings' subsidiaries are separate and distinct entities and have no obligations to pay any amounts due on Cleco Holdings' debt or to make any funds available for such payment. In addition, Cleco Holdings' subsidiaries' ability to make dividend payments or other distributions to Cleco Holdings may be restricted by their obligations to holders of their outstanding securities and to other general business creditors. Substantially all of Cleco's consolidated assets are held by Cleco Power. Cleco Holdings' right to receive any assets of any subsidiary, and therefore the right of its creditors to participate in those assets, will be effectively subordinated to the claims of that subsidiary's creditors, including trade creditors. In addition, even if Cleco Holdings were a creditor of any subsidiary, its rights as a creditor would be subordinated to any security interest in the assets of that subsidiary and any indebtedness of the subsidiary senior to that held by Cleco Holdings. Moreover, Cleco Power, Cleco Holdings' principal subsidiary, is subject to regulation by the LPSC, which may impose limits on the amount of dividends that Cleco Power may pay Cleco Holdings. The Merger Commitments provide for limitations on the amount of distributions that may be paid from Cleco Power to Cleco Holdings, depending on Cleco Power's common equity ratio and its corporate credit/issuer ratings. As a result, Cleco Power may be prohibited from making distributions to Cleco Holdings.

Hedging and Risk Management Activities

Cleco Power is subject to market risk associated with fuel cost hedges and FTRs.
Annually, Cleco Power receives Auction Revenue Rights, which can be converted to FTRs. FTRs provide a financial hedge to manage the risk of congestion cost in the Day-Ahead Energy Market. FTRs represent rights to congestion credits or charges along a path during a given timeframe for a certain MW

quantity. Cleco Power may purchase additional FTRs to further hedge its congestion cost risk.
Cleco Power may enter into fuel cost hedge positions to mitigate the volatility in fuel costs passed through to its retail customers. When these positions close, actual gains or losses are deferred and included in the FAC in the month the physical contract settles. Recovery of any of these FAC costs is subject to, and may be disallowed as part of, a prudency review or a periodic fuel audit conducted by the LPSC. In June 2015, the LPSC approved a long-term natural gas hedging pilot program requiring Cleco Power to establish a proposal for a long-term natural gas procurement program that will be designed to provide gas price stability for a minimum of five years. The proposal is currently scheduled to be submitted to the LPSC in the second half of 2017.
Cleco Power manages its exposure to energy commodity activities by maintaining risk management policies and establishing and enforcing risk limits and risk management procedures. However, these risk limits and risk management procedures cannot eliminate all risk associated with these activities.

Financial derivatives reforms could increase the liquidity needs and costs of Cleco Power's commercial trading operations.
In July 2010, Congress enacted the Dodd-Frank Act to reform financial markets. This legislation significantly altered the regulation of over-the-counter (OTC) derivatives, including commodity swaps that could be used by Cleco Power to hedge and mitigate commodities risk. The Dodd-Frank Act increases regulatory oversight of OTC energy derivatives, including (1) requiring standardized OTC derivatives to be traded on registered exchanges regulated by the Commodity Futures Trading Commission (CFTC), (2) imposing new and potentially higher capital and margin requirements, and (3) authorizing the establishment of overall volume and position limits. These requirements could cause Cleco Power's future OTC transactions to be more costly and have an adverse effect on its liquidity due to additional capital requirements. In addition, by standardizing OTC products, these reforms could limit the effectiveness of Cleco Power's hedging programs because Cleco Power would have less ability to tailor OTC derivatives to match the precise risk it is seeking to protect. The law gives the CFTC authority to exempt end users of energy commodities. Cleco Power would qualify for the end-user exemption which reduces but does not eliminate the applicability of these measures. Management continues to monitor this law and its possible impacts on the Registrants.

Regulatory Compliance

Cleco operates in a highly regulated environment and adverse regulatory decisions or changes in applicable regulations could have a material adverse effect on the Registrants' business or result in significant additional costs. Cleco's business is subject to extensive federal, state, and local energy, environmental, and other laws and regulations. The LPSC regulates Cleco's retail operations and FERC regulates Cleco's wholesale operations. The construction, planning, and siting of Cleco's power plants and transmission lines also are subject to the jurisdiction of the LPSC and FERC. Additional regulatory authorities have jurisdiction over some of Cleco's operations and construction projects including the EPA, the U.S. Bureau of Land Management, the U.S. Fish and Wildlife Services, the DOE, the U.S. Army Corps of Engineers, the U.S. Department of Homeland Security, the Occupational Safety and Health Administration, the U.S. Department of Transportation, the U.S. Department of Agriculture, the U.S. Bureau of Economic Analysis, the Federal Communications Commission, the LDEQ, the Louisiana Department of Health and Hospitals, the Louisiana Department of Natural Resources, the Louisiana Department of Public Safety, the Louisiana Department of Agriculture, the Louisiana Bureau of Economic Analysis, regional water quality boards, and various local regulatory districts.

Cleco must periodically apply for licenses and permits from these various regulatory authorities and abide by their respective orders. Should Cleco be unsuccessful in obtaining necessary licenses or permits or should these regulatory authorities initiate any investigations or enforcement actions or impose penalties or disallowances on Cleco, Cleco's business could be adversely affected. Existing regulations may be revised or reinterpreted and new laws and regulations may be adopted or become applicable to Cleco or Cleco's facilities in a manner that may have a material adverse effect on the Registrants' business or result in significant additional costs due to Cleco's need to comply with those requirements.

As a result of the Merger, Cleco Holdings and Cleco Power made Merger Commitments to the LPSC including but not limited to the extension of Cleco Power's current FRP for an additional two years, maintaining employee headcount, salaries, and benefits for ten years, and a limitation from incurring additional long-term debt, excluding non-recourse debt, unless certain financial ratios are achieved. 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 April 8, 2016, the LPSC issued Docket No. R-34026 to investigate the 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 ratepayers. Cleco Power has intervened in this proceeding, along with other Louisiana utilities. On April 8, 2016, the LPSC also issued Docket No. R-34029 to investigate the 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. On October 4, 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 anticipates the completion of this agreement in the second quarter of 2017. 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.

Transmission Constraints

Transmission constraints could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

Energy prices in the MISO market are based on LMP, which includes a component directly related to power flow congestion on the transmission system. Pricing zones with congested power delivery will typically incur a higher LMP. Physical transmission constraints present in the MISO market could increase energy costs within Cleco Power's pricing zones. Cleco Power purchases FTRs to mitigate the transmission congestion price risks. However, insufficient FTR allocations or increased FTR costs due to negative congestion flows may result in an unexpected increase in energy costs to Cleco Power's customers. If a disallowance of additional fuel costs associated with congestion is ordered resulting in a refund, any such refund could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

LPSC Audits

The LPSC conducts fuel audits that could result in Cleco Power making substantial refunds of previously recorded revenue.
Generally, fuel and purchased power expenses 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 will be performed at least every other year.
Cleco Power currently has FAC filings for 2016 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. If a disallowance of fuel costs is ordered, resulting in a refund, any such refund could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

The LPSC conducts audits of environmental costs that could result in Cleco Power making substantial refunds of previously recorded revenue.
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. Cleco Power began incurring additional environmental compliance expenses beginning in the second quarter of 2015

for reagents associated with compliance with MATS. These expenses are eligible for recovery through Cleco Power's EAC and subject to periodic review by the LPSC.
Cleco Power currently has EAC filings for 2016 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. If a disallowance of environmental costs is ordered resulting in a refund, any such refund could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

Commodity Prices

Cleco Power is subject to the fluctuation in the market prices of fuel or reagent commodities which may increase the cost of producing power.
Cleco Power purchases natural gas, petroleum coke, lignite, coal, and limestone under fuel supply contracts and on the spot market. Historically, the markets for natural gas and petroleum coke have been volatile and are likely to remain volatile in the future. Cleco Power's retail and wholesale rates include an FAC that enables it to adjust rates for monthly fluctuations in the cost of fuel and purchased power. However, recovery of any of these LPSC FAC costs is subject to, and may be disallowed as part of, a prudency review or a periodic fuel audit conducted by the LPSC.

Global Economic Environment and Uncertainty; Access to Capital

Adverse capital market performance could result in reductions in the fair value of benefit plan assets and increase the Registrant's liabilities related to such plans. Sustained declines in the fair value of the plan's assets or sustained increases in plan liabilities could result in significant increases in funding requirements, which could adversely affect the Registrant's liquidity and results of operations.
Performance of the capital markets affects the value of assets that are held in trust to satisfy future obligations under Cleco's defined benefit pension plan. Sustained adverse market performance could result in lower rates of return for these assets than projected by Cleco and could increase Cleco's funding requirements related to the pension plan. Additionally, changes in interest rates affect the present value of Cleco's liabilities under the pension plan. As interest rates decrease, Cleco's liabilities increase, potentially requiring additional funding. Adverse changes in assumptions or adverse actual events could cause additional minimum contributions.

Inflation
Annual inflation rates, as measured by the U.S. Consumer Price Index, have averaged 1% during the three years ended December 31, 2016. Cleco believes inflation at this level does not materially affect its results of operations or financial condition. However, under established regulatory practice, historical costs have traditionally formed the basis for recovery from customers. As a result, Cleco Power's future cash flows designed to provide recovery of historical plant costs may not be adequate to replace property, plant, and equipment in future years.

Disruptions in the capital and credit markets may adversely affect the Registrants' cost of capital and ability to meet liquidity needs or access capital to operate and grow the business.
The Registrants' business is capital intensive and dependent upon its respective ability to access capital at reasonable rates

and other terms. The Registrants' liquidity needs could significantly increase in the event of a hurricane or other weather-related or unforeseen disaster or when there are spikes in the price for natural gas and other commodities. The occurrence of one or more contingencies, including a delay in regulatory recovery of fuel, purchased power, or storm restoration costs; higher than expected required pension contributions; an acceleration of payments or decreased credit

lines; less cash flow from operations than expected; or other unexpected events, could cause the financing needs of the Registrants to increase.
Events beyond the Registrants’ control, such as volatility and disruption in global capital and credit markets, may create uncertainty that could increase their cost of capital or impair their ability to access the capital markets, including the ability to draw on their respective bank credit facilities. The Registrants are unable to predict the degree of success they will have in renewing or replacing their respective credit facilities as they come up for renewal. Moreover, the size, terms, and covenants of any new credit facilities may not be comparable to, and may be more restrictive than, existing facilities. If the Registrants are unable to access the credit and capital markets on terms that are reasonable, they may have to delay raising capital, issue shorter-term securities, and/or bear an unfavorable cost of capital, which, in turn, could have a material adverse effect on the Registrants’ ability to fund capital expenditures or to service debt, or on the Registrants’ flexibility to react to changing economic and business conditions.

Future Electricity Sales

Cleco Power’s future electricity sales and corresponding base revenue and cash flows could be adversely affected by general economic conditions.
General economic conditions can negatively impact the businesses of Cleco Power’s residential, industrial, and commercial customers resulting in decreased power consumption, which causes a corresponding decrease in base revenue. Reduced production or the shutdown of any of these customers’ facilities could substantially reduce Cleco Power’s base revenue.

Energy conservation, energy efficiency efforts, and other factors that reduce energy demand could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.
Regulatory and legislative bodies have proposed or introduced requirements and incentives to reduce peak energy consumption. Conservation and energy efficiency programs are designed to reduce energy demand. Future electricity sales could be impacted by customers switching to alternative sources of energy, such as solar and wind, on-site power generation, and retail customers purchasing less electricity due to increased conservation efforts or expanded energy efficiency measures. Declining usage could result in an under-recovery of fixed costs at Cleco Power’s rate regulated business. Macroeconomic factors resulting in low economic growth or contraction within Cleco’s service territories could also reduce energy demand. An increase in energy conservation, energy efficiency efforts, and other efforts that reduce energy demand could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

Cleco Power's Generation, Transmission, and Distribution Facilities

Cleco Power's generation facilities are susceptible to unplanned outages, significant maintenance requirements, and interruption of fuel deliveries.
The operation of power generation facilities involves many risks, including breakdown or failure of equipment, fuel supply interruption, and performance below expected levels of output or efficiency. Approximately 25% of Cleco Power's net capacity was constructed before 1980. Aging equipment, even if maintained in accordance with good engineering practices, may require significant expenditures to operate at peak efficiency, or to comply with environmental permits. Newer equipment can also be subject to unexpected failures. Accordingly, in the event of such failures, Cleco Power may incur more frequent unplanned outages, higher than anticipated operating and maintenance expenditures, higher replacement costs of purchased power, increased fuel costs, MISO related costs, and the loss of potential revenue related to competitive opportunities. The costs of such repairs, maintenance, and purchased power may not be fully recoverable and could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.
Cleco Power's generating facilities are fueled primarily by coal, natural gas, petroleum coke, and lignite. The deliverability of these fuel sources may be constrained due to such factors as higher demand, decreased regional supply, production shortages, weather-related disturbances, railroad constraints, waterway levels, labor strikes, or lack of transportation capacity. If the suppliers are unable to deliver the contracted volume of fuel and associated inventories are depleted, Cleco Power may be unable to operate generating units which may cause Cleco Power to operate at higher overall energy costs, which would increase the cost to customers. Fuel and MISO procured/settled energy expenses, which are recovered from customers through the FAC, are subject to refund until either a prudency review or a periodic fuel audit is conducted by the LPSC.
Competition for access to other natural resources, particularly oil and natural gas, could negatively impact Cleco Power's ability to access its lignite reserves. Placement of drilling rigs and pipelines for developing oil and gas reserves can preclude access to lignite in the same areas, making the right of first access critical with respect to extracting lignite. Additionally, Cleco Power could be indirectly liable for the impacts of other companies' activities on lands that have been mined and reclaimed by Cleco Power. Access to lignite reserves or the liability for impacts on reclaimed lands may not be recoverable and could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

The construction of, and capital improvements to, power generation and transmission and distribution facilities involve substantial risks. Should construction or capital improvement efforts be significantly more expensive than planned, the financial condition, results of operations, or liquidity of Cleco Power could be materially affected.
Cleco Power's ability to complete construction of capital improvements to power generation and transmission and distribution facilities in a timely manner and within budget is contingent upon many variables and subject to substantial risks. These variables include, but are not limited to,

engineering and project execution risk and escalating costs for materials, labor, and environmental compliance. Delays in obtaining permits, shortages in materials and qualified labor, suppliers and contractors not performing as set forth under their contracts, changes in the scope and timing of projects, inaccurate cost estimates, the inability to raise capital on favorable terms, changes in commodity prices affecting revenue, fuel or material costs, changes in the economy, changes in laws or regulations, including environmental compliance requirements, and other events beyond the control of Cleco Power may materially affect the schedule and cost of these projects. If these projects are significantly delayed or become subject to cost overruns or cancellation, Cleco Power could incur additional costs including termination payments, face increased risk of potential write-off of the investment in the project, or may not be able to recover such costs. Furthermore, failure to maintain various levels of generating unit availability or transmission and distribution reliability may result in various disallowances of Cleco Power's investments.

MISO

MISO market operations could have a material adverse effect on
the results of operations, generation revenues, energy supply costs, financial condition, or cash flows of the Registrants.
Cleco Power is a member of the MISO market region referred to as "MISO South," which encompasses parts of Arkansas, Louisiana, Mississippi, and Texas. Dispatch of generation resources and generation volumes to the market is determined by MISO. Costs in the MISO South region are heavily influenced by commodity fuel prices, transmission congestion, dispatch of the generating assets owned not only by Cleco Power, but by all market participants in the MISO South region, and the overall demand and generation availability in the region.
MISO evaluates forced outage rates to assess generating unit capacity for planning reserve margins. If Cleco Power is subject to a significant amount of forced outages, Cleco Power may not possess sufficient planning reserves to serve its needs and could be forced to purchase capacity from the MISO resource adequacy auction. The costs of such capacity may not be recoverable and could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants. Using MISO's unforced capacity method for determining generating unit capacity, Cleco Power's fleet provided for 590 MW of capacity in excess of its peak, coincident to MISO's peak, in 2016.

Reliability and Infrastructure Protection Standards Compliance

Cleco is subject to mandatory reliability and critical infrastructure protection standards. Fines and civil penalties are imposed on those who fail to comply with these standards.
NERC serves as the ERO with authority to establish and enforce mandatory reliability and infrastructure protection standards, subject to FERC approval, for users of the nation's transmission system. FERC enforces compliance with these standards. New standards are being developed and existing standards are continuously being modified.
As these standards continue to be adopted and modified, they may impose additional compliance requirements on Cleco Power, which may result in an increase in capital expenditures and operating expenses. Failure to comply with these standards can result in the imposition of material fines and civil

penalties. Furthermore, failure to maintain various levels of generating unit availability or transmission and distribution reliability may result in various disallowances of Cleco Power's investments.
The SPP RE conducts a NERC Reliability Standards 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. Cleco Power's NERC Critical Infrastructure Protection audit began February 13, 2017. 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.

Environmental Compliance

Cleco's costs of compliance with environmental laws and regulations are significant. The costs of compliance with new environmental laws and regulations, as well as the incurrence of incremental environmental liabilities, could be significant to the Registrants.
Cleco is subject to extensive environmental oversight by federal, state, and local authorities and is required to comply with numerous environmental laws and regulations related to air quality, water quality, waste management, natural resources, and health and safety. Cleco also is required to obtain and comply with numerous governmental permits in operating its facilities. Existing environmental laws, regulations, and permits could be revised or reinterpreted, and new laws and regulations could be adopted or become applicable to Cleco. For example, the EPA has issued the CPP to reduce CO_2 emissions from existing EGUs by 32% from 2005 levels of CO_2 emissions, however, on February 9, 2016, the U.S. Supreme Court issued orders staying implementation of the CPP pending resolution of challenges to the rule. As a result, the rule is not currently in force and its future is uncertain. These changes under the stayed plan would have environmental regulations governing power plant emissions effective beginning 2022, with final emission goals required by 2030, and, if implemented, could render some of Cleco's EGUs uneconomical to maintain or operate and could prompt early retirement of certain generation units. Any legal obligation that would require Cleco to substantially reduce its emissions beyond present levels could require extensive mitigation efforts and could raise uncertainty about the future viability of some fossil fuels as fuel for new and existing electric generating facilities. Cleco will evaluate potential solutions to comply with such regulations and monitor rulemaking and any legal matters impacting the proposed regulations. Cleco may incur significant capital expenditures or additional operating costs to comply with such revisions, reinterpretations, and new requirements. If Cleco were to fail to comply, it could be subject to civil or criminal liabilities and fines or may be forced to shut down or reduce production from its facilities. Cleco cannot predict the timing or the outcome of pending or future legislative and rulemaking proposals.
Cleco Power may request from its customers recovery of its costs to comply with new environmental laws and regulations. If the LPSC were to deny Cleco Power's request to

recover all or part of its environmental compliance costs, there could be a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

Cleco Power's Rates

The LPSC and FERC regulate the retail rates and transmission tariffs, respectively, that Cleco Power can charge its customers.
Cleco Power's ongoing financial viability depends on its ability to recover its costs in a timely manner from its LPSC-jurisdictional customers through LPSC-approved rates and its ability to recover its FERC-authorized revenue

requirements from its FERC-jurisdictional transmission customers. Cleco Power's financial viability also depends on its ability to recover in rates an adequate return on capital, including long-term debt and equity. If Cleco Power is unable to recover any material amount of its costs in rates in a timely manner or recover an adequate return on capital, the results of operations, financial condition, or cash flows of the Registrants could be materially adversely affected.
Cleco Power's revenues and earnings are substantially affected by regulatory proceedings known as rate cases or, in some cases, a request for extension of an FRP. During those cases, the LPSC determines Cleco Power's rate base, depreciation rates, operation and maintenance costs, and administrative and general costs that Cleco Power may recover from its retail customers through its rates. In some instances, the outcome of a rate case or request for extension of an FRP may impact wholesale decisions of Cleco Power. These proceedings may examine, among other things, the prudence of Cleco Power's operation and maintenance practices, level of subject expenditures, allowed rates of return, and previously incurred capital expenditures. The LPSC has the authority to disallow costs found not to have been prudently incurred. Rate cases generally have timelines of approximately one year, and decisions are typically subject to appeal, potentially leading to additional uncertainty. The transmission tariffs of Cleco Power are regulated by FERC with its own regulatory proceedings. Both the LPSC and FERC regulatory proceedings can involve multiple parties, including governmental bodies and officials, consumer advocacy groups, and various consumers of energy, all of whom have differing concerns but who have the common objective of limiting rate increases or reducing rates.
Transmission rates that MISO transmission owners may collect are regulated by FERC. 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. As of December 31, 2016, Cleco Power had $3.3 million accrued for ROE reductions, including accrued interest. On February 13, 2017, $1.2 million of refunds relating to the first complaint were submitted to MISO. Any reduction to the ROE component of the transmission rates, could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

Retail Electric Service

Cleco Power's retail electric rates and business practices are regulated by the LPSC and reviews may result in refunds to customers.
Cleco Power's retail rates for residential, commercial, and industrial customers and other retail sales are regulated by the

LPSC, which conducts an annual review of Cleco Power's earnings and regulatory ROE. Cleco Power could be required to make a substantial refund of previously recorded revenue as a result of the LPSC review and such refund could result in a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

Wholesale Electric Service

Cleco Power's business practices are regulated by FERC, and its wholesale rates are subject to FERC's triennial market power analysis. Cleco could lose the right to sell wholesale generation at market-based rates.
FERC conducts a review of Cleco Power's generation market power every three years in addition to each time generation capacity changes. Cleco's next triennial market power analysis is expected to be filed in 2018. In the future, if FERC determines Cleco Power possesses generation market power in excess of certain thresholds, Cleco Power could lose the right to sell wholesale generation at market-based rates, which could result in a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

Weather Sensitivity

The operating results of Cleco Power are affected by weather conditions and may fluctuate on a seasonal basis.
Weather conditions directly influence the demand for electricity, particularly kWh sales to residential customers. In Cleco Power's service territory, demand for power typically peaks during the hot summer months. As a result, Cleco Power's financial results may fluctuate on a seasonal basis. In addition, Cleco Power has sold less power and, consequently, earned less income when weather conditions were milder. Unusually mild weather in the future could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.
Severe weather, including hurricanes and winter storms, can affect transportation of fuel to plant sites and can be destructive, causing outages and property damage that can potentially result in additional expenses, lower revenue, and additional capital restoration costs. Extreme drought conditions can impact the availability of cooling water to support the operations of generating plants, which can also result in additional expenses and lower revenue.

The physical risks associated with global climate change could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.
The Registrants recognize that certain groups associate severe weather with the concept of global climate change and forecast the possibility that these weather events could have a material impact on future results of operations should they occur more frequently and with greater severity. If there is an actual occurrence of such global climate change, it could result in one or more physical risks, such as an increase in sea level, wind and storm surge damages, wetland and barrier island erosion, risks of flooding, and changes in weather conditions, such as changes in temperature and precipitation patterns, and potential increased impacts of extreme weather conditions or storms, or could affect the Registrants' operations. The Registrants' assets are in and serve communities that are at risk from sea level rise, changes in weather conditions, storms, and loss of the protection offered by coastal wetlands. A significant portion of the nation's oil and gas infrastructure is located in these areas and is susceptible to storm damage that could be aggravated by wetland and barrier island erosion, which could give rise to fuel supply interruptions and price spikes.
These and other physical changes could result in changes in customer demand, increased costs associated with repairing and maintaining generating facilities and transmission and distribution systems, resulting in increased maintenance and capital costs (and potential increased financing needs), limits on Cleco Power's ability to meet peak customer demand, increased regulatory oversight, and lower customer satisfaction. Also, to the extent that climate

change would adversely impact the economic health of a region or result in energy conservation or demand side management programs, it may adversely impact customer demand and revenues. Such physical or operational risks could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

Litigation

Cleco is subject to litigation related to the 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. One of the actions filed in Rapides Parish has been dismissed. The remaining three actions in Rapides Parish have been consolidated. The three actions in Orleans Parish have been transferred to Rapides Parish and consolidated with the other litigation in Rapides Parish. The actions were filed against Cleco Corporation and, among others, Cleco Partners, Merger Sub, and members of the Board of Directors of Cleco Corporation. The petitions generally allege, 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 undervalues Cleco, and failing to disclose material information about the Merger. The petitions also allege that Cleco Partners, Cleco, and 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. 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 Third Circuit Court of Appeal on November 9, 2016. A briefing schedule has not yet been set.
It is possible that additional claims beyond those that have already been filed will be brought by the current plaintiffs or by others in an effort to seek monetary relief from Cleco. Cleco is not able to predict the outcome of these actions, or others, nor can Cleco predict the amount of time and expense that will be required to resolve the actions. In addition, the cost to Cleco of defending the actions, even if resolved in Cleco's favor, could be substantial. Such actions could also divert the attention of Cleco's management and resources from day-to-day operations.

The outcome of legal proceedings cannot be predicted. An adverse finding could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.
The Registrants are party to various litigation matters arising out of the ordinary operations of their business. The ultimate outcome of these matters cannot presently be determined, nor, in many cases, can the liability that could potentially result from a negative outcome in each case presently be reasonably estimated. The liability that the Registrants may ultimately incur with respect to any of these cases in the event of a negative outcome may be in excess of amounts currently reserved and insured against with respect to such matters and, as a result, these matters may have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

Alternative Generation Technology

Changes in technology may have a material adverse effect on the value of Cleco Power's generating facilities.
A basic premise of Cleco's business is that generating electricity at central power plants achieves economies of scale and produces electricity at a relatively low price. There are alternative technologies to produce electricity, most notably wind turbines, photovoltaic cells, and other solar generated power. Many companies and organizations conduct research and development activities to seek improvements in alternative technologies. Technological advances may reduce the cost of alternative methods of electricity production to a level that is equal to or below that of most central station production. In addition, as new technologies are developed and become available, the quantity and pattern of electricity purchased by customers could decline, with a corresponding decline in revenues derived by generating assets. As a result, the value of Cleco Power's generating facilities could be reduced.

Taxes

Changes in taxation as well as the inherent difficulty in quantifying potential tax effects of business decisions could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.
The Registrants make judgments regarding the utilization of existing income tax credits and the potential tax effects of various financial transactions and results of operations to estimate their obligations to taxing authorities. Tax obligations include income, franchise, real estate, sales and use, and employment-related taxes. These judgments include reserves for potential adverse outcomes regarding tax positions that have been taken. Changes in federal, state, or local tax laws, adverse tax audit results, or adverse tax rulings on positions taken by the Registrants could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

Cleco Credit Ratings

A downgrade in Cleco Holdings' or Cleco Power's credit ratings could result in an increase in their respective borrowing costs and a reduced pool of potential investors and funding sources.
Neither Cleco Holdings nor Cleco Power can assure that its current debt ratings will remain in effect for any given period of time or that one or more of its debt ratings will not be lowered or withdrawn entirely by a rating agency. If S&P or Moody's

were to downgrade Cleco Holdings' or Cleco Power's long-term ratings, particularly below investment grade, the value of their debt securities would likely be adversely affected. Downgrades of either Cleco Holdings' or Cleco Power's credit ratings would result in additional fees and higher interest rates for borrowings under their respective credit facilities. In addition, Cleco Holdings or Cleco Power, as the case may be, would likely be required to pay higher interest rates in future debt financings, may be subject to more onerous debt covenants, and their pool of potential investors and funding sources could decrease.

Technology and Terrorism Threats

The operational and information technology systems on which Cleco relies to conduct its business and serve customers could fail to function properly due to technological problems, cyber attacks, physical attacks on Cleco's assets, acts of terrorism, severe weather, solar events, electromagnetic events, natural disasters, the age and condition of information technology assets, human error, or other reasons that could disrupt Cleco's operations and cause Cleco to incur unanticipated losses and expense.

The operation of Cleco's extensive electrical systems relies on evolving operational and information technology systems and network infrastructures that are becoming extremely complex as new technologies and systems are implemented to more safely and reliably deliver electric services. Cleco's business is highly dependent on its ability to process and monitor, on a real-time daily basis, a large number of tasks and transactions, many of which are highly complex. The failure of Cleco's operational and information technology systems and networks due to a physical or cyber attack, or other event would significantly disrupt operations; cause harm to the public or employees; result in outages or reduced generating output; result in damage to Cleco's assets or operations, or those of third parties; and subject Cleco to claims by customers or third parties, any of which could have a material adverse effect on the, results of operations, financial condition or cash flows of the Registrants.

Cleco's systems, including its financial information, operational systems, advanced metering, and billing systems, require constant maintenance, monitoring, security patches, modification or configuration of systems, and update and upgrade of systems, which can be costly and increase the risk of errors and malfunction. Any disruptions or deficiencies in existing systems, or disruptions, delays, or deficiencies in the modification or implementation of new systems, could result in increased costs, the inability to track or collect revenues, the diversion of management's and employees' attention and resources, and could adversely affect the effectiveness of Cleco's control environment, and/or its ability to accurately or timely file required regulatory reports.

Despite implementation of security and mitigation measures, all of Cleco's technology systems are vulnerable to inoperability and/or impaired operations or failures due to cyber and/or physical attacks on the facilities and equipment needed to operate the technology systems, viruses, human errors, acts of war or terrorism, and other events. If Cleco's information technology systems or network infrastructure were to fail, Cleco might be unable to fulfill critical business functions and serve its customers, which could have a material adverse effect on the financial conditions, results of operations, or cash flows of the Registrants.

In addition, in the ordinary course of its business, Cleco collects and retains sensitive information including personal identification information about customers and employees, customer energy usage, and other confidential information. The theft, damage, or improper disclosure of sensitive electronic data could subject Cleco to both penalties for violation of applicable privacy laws and claims from third parties, and/or harm Cleco's reputation.

Insurance

Cleco's insurance coverage may not be sufficient.
Cleco currently has property, casualty, cyber security and liability insurance policies in place to protect its employees, directors, and assets in amounts that it considers appropriate. Such policies are subject to certain limits and deductibles and do not include business interruption coverage. Insurance coverage may not be available in the future at current costs or on commercially reasonable terms, and the insurance proceeds received for any loss of, or any damage to, any of Cleco's facilities may not be sufficient to restore the loss or damage without a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.
Like other utilities that serve coastal regions, Cleco does not have insurance covering its transmission and distribution system, other than substations, because it believes such insurance to be cost prohibitive. In the future, Cleco may not be able to recover the costs incurred in restoring transmission and distribution properties following hurricanes or other natural disasters through issuance of storm recovery bonds or a change in Cleco Power's regulated rates or otherwise, or any such recovery may not be timely granted. Therefore, Cleco may not be able to restore any loss of, or damage to, any of its transmission and distribution properties without a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

Cleco Power LLC's Unsecured and Unsubordinated Obligations

Cleco Power LLC's unsecured and unsubordinated obligations, including, without limitation, its senior notes, will be effectively subordinated to any secured debt of Cleco Power LLC, certain unsecured debt of Cleco Power LLC, and any preferred equity of any of Cleco Power LLC's subsidiaries.
Some of Cleco Power LLC's senior notes and its obligations under various loan agreements and refunding agreements with the Rapides Finance Authority, the Louisiana Public Facilities Authority, and other issuers of tax-exempt bonds for the benefit of Cleco Power LLC are unsecured and rank equally with all of Cleco Power LLC's existing and future unsecured and unsubordinated indebtedness. As of December 31, 2016, Cleco Power LLC had an aggregate of $1.19 billion of unsecured and unsubordinated indebtedness. The unsecured and unsubordinated indebtedness of Cleco Power LLC will be effectively subordinated to, and thus have a junior position to, any secured debt that Cleco Power LLC may have outstanding from time to time (including any mortgage bonds) with respect to the assets securing such debt. Certain agreements entered into by Cleco Power LLC with other lenders that are unsecured provide that if Cleco Power LLC issues secured debt, Cleco Power is obligated to grant these lenders the same security interest in certain assets of Cleco Power LLC. If such a security

interest were to arise, it would further subordinate Cleco Power LLC's unsecured and unsubordinated obligations.
As of December 31, 2016, Cleco Power LLC had no secured indebtedness outstanding. Cleco Power LLC may issue mortgage bonds in the future under any future Indenture of Mortgage, and holders of mortgage bonds would have a prior claim on certain Cleco Power LLC material assets upon dissolution, winding up, liquidation, or reorganization. Additionally, Cleco Power LLC's ability (and the ability of Cleco Power LLC's creditors, including holders of its senior notes) to participate in the assets of Cleco Power LLC's subsidiary, Cleco Katrina/Rita, is subject to the prior claims of the subsidiary's creditors. As of December 31, 2016, Cleco Katrina/Rita had $67.6 million of indebtedness outstanding, net of debt discount.

Health Care Reform

Cleco may experience increased costs arising from health care reform.

The PPACA, enacted in 2010, has had a significant impact on health care providers, insurers, and others associated with the health care industry. Cleco continues to evaluate the impact of this comprehensive law on its business and has made the required changes to its health plan. The current President has signed an Executive Order aimed at scaling back or repealing the PPACA. He has also stated that he will ask Congress to replace the current legislation with new legislation. Congress and state governments may propose other health care initiatives and revisions to the health care and health insurance systems. It is uncertain what legislative programs, if any, will be adopted in the future, or what action Congress or state legislatures may take regarding other health care reform proposals or legislation. Management is unable to estimate the comprehensive effects of the PPACA or any future health care reform and their impact on the Registrants' business, results of operations, financial condition, or cash flows.

Workforce

Failure to attract and retain an appropriately qualified workforce could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

Certain events, such as an aging workforce without appropriate replacements, matching of skill set or complement to future needs, or unavailability of contract resources may lead to operating challenges and increased costs. The challenges include lack of resources, loss of knowledge, and a lengthy time period associated with skill development. In this case, costs, including costs for contractors to replace employees, productivity costs, and safety costs, may rise. Failure to hire and adequately train replacement employees, including the transfer of significant internal historical knowledge and expertise to new employees, or the future availability and cost of contract labor may adversely affect the ability to manage and operate the Registrants' businesses. If the Registrants are unable to successfully attract and retain an appropriately qualified workforce, the results of operations, financial condition, or cash flows of the Registrants could be materially adversely affected.

The new Presidential Administration may make substantial changes to environmental, fiscal, and tax policies that could have a material adverse affect on the Registrants' business.
The new Presidential Administration has called for substantial changes to environmental, fiscal, and tax policies, which may include comprehensive tax reform. It is possible that these changes could adversely affect Cleco's business. Until the

changes are enacted, management is unable to determine the impact of the changes on the Registrants' business, results of operations, financial condition, or cash flows.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

CLECO HOLDINGS

Electric Transmission Substations
As of December 31, 2016, Cleco Holdings, through two wholly owned subsidiaries, owned one transmission substation in Louisiana and one transmission substation in Mississippi.

CLECO POWER

All of Cleco Power's electric generating stations and all other electric operating properties are located in Louisiana. Cleco Power considers all of its properties to be well maintained, in good operating condition, and suitable for their intended purposes. For information on Cleco Power's generating facilities, see Item 1, "Business — Operations — Cleco Power — Power Generation."

Electric Generating Stations
As of December 31, 2016, Cleco Power either owned or had an ownership interest in five steam electric generating stations, three combined cycle units, and one gas turbine with a combined nameplate capacity of 3,310 MW, and a combined electric net generating capacity of 3,168 MW. The nameplate capacity is the capacity at the start of commercial operations, and the net generating capacity is the result of capacity tests and operational tests performed during 2016, as required by MISO. This amount reflects the maximum production capacity these units can sustain over a specified period of time. For more information on Cleco Power's generating facilities, see Item 1, "Business — Operations — Cleco Power — Power Generation."

Electric Substations
As of December 31, 2016, Cleco Power owned 84 active transmission substations and 219 active distribution substations.

Electric Lines

As of December 31, 2016, Cleco Power's transmission system consisted of 67 circuit miles of 500-kiloVolt (kV) lines; 549 circuit miles of 230-kV lines; 672 circuit miles of 138 kV lines; and 29 circuit miles of 69-kV lines. Cleco Power's distribution system consisted of 3,623 circuit miles of 34.5-kV lines and 8,312 circuit miles of other lines.

General Properties

Cleco Power owns various properties throughout Louisiana, which include a headquarters office building, regional offices, service centers, telecommunications equipment, and other general-purpose facilities.

Title

Cleco Power's electric generating plants and certain other principal properties are owned in fee simple. Electric transmission and distribution lines are located either on private rights-of-way or along streets or highways by public consent.

Substantially all of Cleco Power's property, plant, and equipment are subject to a lien of Cleco Power's Indenture of Mortgage, which does not impair the use of such properties in the operation of its business. As of December 31, 2016, no mortgage bonds were outstanding under the Indenture of Mortgage. Some of the unsecured and unsubordinated indebtedness of Cleco Power will be effectively subordinated to, and thus have a junior position to, any mortgage bonds that Cleco Power may have outstanding from time to time with respect to the assets subject to the lien of the Indenture of Mortgage. Cleco Power may issue mortgage bonds in the future under its Indenture of Mortgage, and holders of mortgage bonds would have a prior claim on certain Cleco Power material assets upon dissolution, winding up, liquidation, or reorganization.

ITEM 3. LEGAL PROCEEDINGS

CLECO

For information on legal proceedings affecting Cleco, see Item I, "Business — Environmental Matters — Air Quality," Item 1A, "Risk Factors — Litigation," and Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 15 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Litigation."

CLECO POWER

For information on legal proceedings affecting Cleco Power, see Item I, "Business — Environmental Matters — Air Quality" and Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 15 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Litigation."

ITEM 4. MINE SAFETY DISCLOSURES

The information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Act and Item 104 of Regulation S-K is included in Exhibit 95 of this Annual Report on Form 10-K.

PART II

ITEM 5. MARKET FOR REGISTRANTS' COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

CLECO HOLDINGS

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 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. Consequently, Cleco Corporation's common stock was delisted from trading on the NYSE. For the predecessor period January 1, 2016, through April 12, 2016, and for the year ended December 31, 2015, Cleco Corporation did not repurchase any shares of common stock. During the year ended December 31, 2014, 250,000 shares of common stock were repurchased. For information on Cleco Corporation's common stock repurchase program, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 8 — Common Stock — Common Stock Repurchase Program."

Prior to the Merger, dividends, as determined by the Board of Directors of Cleco Corporation, were declared and paid on the common stock from time to time out of funds legally available, subject to prior rights to dividends on any outstanding series of preferred stock. The provisions of Cleco Corporation's amended and restated articles of incorporation applicable to preferred stock, and certain provisions contained in the debt instruments of Cleco, under certain circumstances restricted the amount of retained earnings available for the payment of dividends by Cleco Corporation. The most restrictive covenant, which was in Cleco Corporation's credit facility, required Cleco Corporation's total indebtedness to be less than or equal to 65% of total capitalization. The declaration of dividend payments was at the Board of Directors' sole discretion. Upon completion of the Merger, Cleco Holdings replaced its credit facility and is still required to have total indebtedness of less than 65% of total capitalization in order to declare dividend payments. Additionally, in accordance with the Merger Commitments, Cleco Holdings is subjected to certain provisions limiting the amount of distributions that may be paid from Cleco Holdings to Cleco Group or Cleco Partners, depending on Cleco Holdings' debt to EBITDA ratio and its corporate credit ratings. For more information about the Merger, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 3 — Business Combinations."

CLECO
POWER

There is no market for Cleco Power's membership interests. All of Cleco Power's outstanding membership interests are owned by Cleco Holdings. Distributions on Cleco Power's membership interests are paid when and if declared by Cleco Power's Board of Managers. Any future distributions also may be restricted by any credit or loan agreements into which Cleco Power may enter.

Some provisions in Cleco Power's debt instruments restrict the amount of equity available for distribution to Cleco Holdings by Cleco Power by requiring Cleco Power's total indebtedness to be less than or equal to 65% of total capitalization. In addition, the Merger Commitments provide for limitations on the amount of distributions that may be paid from Cleco Power to Cleco Holdings, depending on Cleco Power's common equity ratio and its corporate credit ratings.

During 2016, 2015, and 2014, Cleco Power made $110.0 million, $135.0 million, and $115.0 million of distribution payments to Cleco Holdings, respectively.

Cleco Power received $50.0 million of equity contributions from Cleco Holdings in 2016, and none in 2015. In 2014, Cleco Power received a $138.1 million non-cash contribution relating to the transfer of Coughlin from Cleco Holdings.

ITEM
6. SELECTED
FINANCIAL
DATA

CLECO

The information set forth in the following table should be read in conjunction with the Consolidated Financial Statements and the related Notes in Item 8, "Financial Statements and Supplementary Data."

Five-Year Selected Financial Data

(THOUSANDS, EXCEPT PER SHARE AND PERCENTAGES)	SUCCESSOR APR. 13, 2016 - DEC. 31, 2016	PREDECESSOR JAN. 1, 2016 - APR. 12, 2016	FOR THE YEAR ENDED DEC. 31, 2015	FOR THE YEAR ENDED DEC. 31, 2014	FOR THE YEAR ENDED DEC. 31, 2013	FOR THE YEAR ENDED DEC. 31, 2012
Operating revenue, net (excluding intercompany revenue)						
Cleco Power	$859,006	$299,283	$1,207,325	$1,267,323	$1,094,621	$991,695
Midstream [1]	—	—	—	5,467	31,672	25,562
Other	(6,001)	587	2,077	(3,305)	(29,579)	(23,560)
Total	$853,005	$299,870	$1,209,402	$1,269,485	$1,096,714	$993,697
(Loss) income before income taxes	$(46,935)	$(492)	$211,373	$221,855	$240,260	$228,975
Net (loss) income	$(24,113)	$(3,960)	$133,669	$154,739	$160,685	$163,648
Capitalization						
Member's equity/Common shareholders' equity	42.77 %		56.92 %	54.86 %	54.89 %	54.67 %
Long-term debt [2]	57.23 %		43.08 %	45.14 %	45.11 %	45.33 %
Member's equity/Common shareholders' equity	$2,046,763		$1,674,841	$1,627,270	$1,586,197	$1,499,213
Long-term debt, net [2]	$2,738,571		$1,267,703	$1,338,998	$1,303,786	$1,243,266
Total assets	$6,343,144		$4,323,354	$4,368,418	$4,203,548	$4,133,357
Cash dividends declared per common share	N/A	$0.40	$1.60	$1.5625	$1.425	$1.30

[1] Effective March 15, 2014, upon the transfer of Coughlin to Cleco Power, Midstream had minimal operations.
[2] Long-term debt includes obligations for capital leases and excludes debt due within one year.

CLECO POWER

The information called for by Item 6 with respect to Cleco Power is omitted pursuant to General Instruction I(2)(a) to Form 10-K (Omission of Information by Certain Wholly Owned Subsidiaries).

ITEM 7. 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 Annual Report on Form 10-K.

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. Prior to March 15, 2014, Cleco also conducted wholesale business operations through its Midstream subsidiary. Midstream owns Evangeline (which owned and operated Coughlin). On March 15, 2014, the Coughlin generating assets were transferred to Cleco Power. Coughlin consists of two generating units with a total nameplate capacity of 775 MW. For more information on the transfer of Coughlin to Cleco Power, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 18 — Coughlin Transfer."

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 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 3 — Business Combinations."

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 working include continuing construction on the Cenla Transmission Expansion project and the St. Mary Clean Energy Center project; beginning construction on the Terrebonne to Bayou Vista Transmission project and the Coughlin Pipeline project; and maintaining and growing its wholesale and retail business. These initiatives are discussed below.

Layfield/Messick Project

The Layfield/Messick project, or Northwest Louisiana Transmission Expansion project, includes the construction of the new Layfield transmission substation and the construction of additional transmission interconnection facilities near the

Dolet Hills Power Station. The project reduces congestion and increases reliability for customers in northwest Louisiana. Construction was completed in December 2016. Cleco Power's portion of the joint project with SWEPCO cost $29.0 million.

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. Line construction 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 December 31, 2016, Cleco Power had spent $25.7 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 with the project expected to be commercially operational by the first quarter of 2018. The project was expected to cost $81.9 million; however, an increase in waste heat output has been confirmed, which will increase the capacity of the unit and the total cost of the project. Cleco has not yet established the total increase in the project's cost. Upon achieving commercial operations, the project is expected to generate more than 300,000 MWh of zero additional carbon emitting energy each year. As of December 31, 2016, Cleco Power had spent $20.5 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. A line routing study began in March 2016, and permitting and right-of-way acquisition began in May 2016. 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 December 31, 2016, Cleco Power had spent $1.4 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 fuel delivery reliability and mitigate exposure to price increases. Cleco has filed a letter with the LPSC seeking guidance on the appropriate treatment and timing of recovering revenue associated with the project. The project is expected to be operational by the third quarter of 2018 with an estimated cost of $29.4 million.

Other
Cleco Power is working to secure load growth opportunities that include renewal of existing load through 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

Use of Estimates
The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ materially from those estimates.

Comparison of the Years Ended December 31, 2016, and 2015

Cleco Consolidated

Cleco Consolidated Results of Operations

	SUCCESSOR	PREDECESSOR	
(THOUSANDS)	APR. 13, 2016 - DEC. 31, 2016	JAN. 1, 2016 - APR. 12, 2016	FOR THE YEAR ENDED DEC. 31, 2015
Operating revenue, net	$ 853,005	$299,870	$1,209,402
Operating expenses	816,714	279,507	922,063
Operating income	$ 36,291	$20,363	$287,339
Allowance for equity funds used during construction	$ 3,735	$723	$3,063
Other income	$ 3,350	$870	$1,443
Other expense	$ 1,385	$590	$3,376
Interest charges	$ 89,766	$22,123	$77,991
Federal and state income tax (benefit) expense	$ (22,822)	$3,468	$77,704
Net (loss) income	$ (24,113)	$(3,960)	$133,669

Cleco’s net loss attributable to the successor period April 13, 2016, through December 31, 2016, was $24.1 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:

- $174.7 million of merger transaction and commitment costs,
- $34.0 million of interest costs related to debt obtained as a result of the Merger,
- $7.5 million of an offset to operating revenue related to the amortization of the intangible asset recorded for the fair value adjustment of wholesale power supply agreements as a result of the Merger, and
- $6.4 million of amortization of the fair value adjustment made as a result of the Merger to record the stepped-up basis for the Coughlin assets.

The effective income tax rate for the period was 48.6%.
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%).
Cleco's net income attributable to the predecessor period for the year ended December 31, 2015, was $133.7 million. There were no significant changes in the underlying trends impacting net income. The effective income tax rate for the period was 36.8%.
Results of operations for Cleco Power are more fully described below.

Cleco Power

Significant Factors Affecting Cleco Power

Revenue is primarily affected by the following factors:
As an electric utility, Cleco Power is affected, to varying degrees, by a number of factors influencing the electric utility industry. These factors include, among others, an increasingly competitive business environment; the ability to recover costs through rate-setting proceedings; the ability to successfully perform in MISO and the related operating challenges; the cost of compliance with environmental and reliability regulations; conditions in the credit markets and global economy; changes in the federal and state regulation of generation, transmission, and the sale of electricity; and the increasing uncertainty of future federal and state regulatory and environmental policies. For a discussion of various regulatory changes and competitive forces affecting Cleco Power and other electric utilities, see "Cautionary Note Regarding Forward-Looking Statements," Part I, Item 1, "Business — Regulatory Matters, Industry Developments, and Franchises," and "— Financial Condition — Regulatory and Other Matters — Market Restructuring." For a discussion of risk factors affecting Cleco Power's business, see Item 1A, "Risk Factors— Hedging and Risk Management Activities," "— Regulatory Compliance," "—Transmission Constraints," "— LPSC Audits," "— Commodity Prices," "— Global Economic Environment and Uncertainty; Access to Capital," "— Future Electricity Sales," "— Cleco Power's Generation, Transmission, and Distribution Facilities," "— MISO," "— Reliability and Infrastructure Protection Standards Compliance," "— Environmer Compliance," "— Cleco Power's Rates," "— Retail Electric Service," "— Wholesale Electric Service," "— Weather Sensitivit Litigation," "— Alternative Generation Technology," "— Taxes," "— Cleco Credit Ratings," "— Technology and Terrorism T Insurance," "— Cleco Power LLC's Unsecured and Unsubordinated Obligations," "— Health Care Reform," and "— Workfor
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 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.

Over the last five years, Cleco Power has experienced moderate growth in retail non-industrial sales and anticipates the same over the next five years. For the retail industrial class, Cleco Power expects new industrial load to be added in 2017, principally driven by developments in the oil and gas industry. In addition, Cleco Power expects to begin providing service to expansions of current customers' operations, as well as service to new retail customers. Cleco Power's expectations and projections regarding retail sales are dependent upon factors such as weather conditions, natural gas prices, customer conservation efforts, retail marketing and business development programs, and the economy of Cleco Power's service area. Cleco Power is pursuing load growth opportunities that include renewal of existing franchises and wholesale contracts as well as adding new wholesale customers and franchises. For more information on other expectations of future energy sales on Cleco Power, see "— Base," "Cautionary Note Regarding Forward-Looking Statements," and Part I, Item 1A, "Risk Factors — Future Electricity Sales."

Other issues facing the electric utility industry that could affect sales include:

- imposition of federal and/or state renewable portfolio standards,
- imposition of energy efficiency mandates,
- legislative and regulatory changes,
- increases in environmental regulations and compliance costs,
- cost of power impacted by the price movement of fuels and the addition of new generation capacity,
- transmission congestion costs,
- increase in capital and operations and maintenance costs due to higher construction and labor costs,
- changes in electric rates compared to customers' ability to pay, and
- changes in the credit markets and local and global economies.

For more information on energy legislation in regulatory matters that could affect Cleco, see Part I, Item 1, "Business — Regulatory Matters, Industry Developments, and Franchises — Legislative and Regulatory Changes and Matters."
Cleco Power's revenues and earnings are substantially affected by regulatory proceedings known as rate cases, or in some cases, a request for extension of an FRP. During those cases, the LPSC determines Cleco Power's rate base, depreciation rates, operation and maintenance costs, and administrative and general costs that Cleco Power may recover from its retail customers through its rates. In some instances, the outcome of a rate case or request for extension of an FRP may impact wholesale decisions of Cleco Power. These proceedings may examine, among other things, the prudence of Cleco Power's operation and maintenance practices, level of subject expenditures, allowed rates of return, and previously incurred capital expenditures. The LPSC has the authority to disallow costs found not to have been prudently incurred. Rate cases generally have timelines of approximately one year, and decisions are typically subject to appeal, potentially leading to additional uncertainty. The transmission tariffs of Cleco Power are regulated by FERC with its own regulatory proceedings. Both the LPSC and FERC regulatory proceedings can involve multiple parties, including governmental bodies and officials, consumer advocacy

groups, and various consumers of energy, all of whom have differing concerns but who have the common objective of limiting rate increases or reducing rates.

Other expenses are primarily affected by the following factors:
The majority of Cleco Power's non-fuel cost recovery expenses consist of other operations, maintenance, depreciation and amortization, and taxes other than income taxes. Other operations expenses are affected by, among other things, the cost of employee benefits, insurance expense, and the costs associated with energy delivery and customer service. Annual maintenance expenses associated with Cleco Power's plants generally depend upon their physical characteristics, maintenance practices, and the effectiveness of their preventive maintenance programs. Transmission and distribution maintenance expenses are generally affected by the level of repair and rehabilitation of lines to maintain reliability. Depreciation and amortization expense primarily is affected by the cost of the facilities in service, the time the facilities were placed in service, and the estimated useful life of the facilities. Taxes other than income taxes generally include payroll taxes, franchise taxes, and property taxes. Cleco Power anticipates certain non-fuel cost recovery expenses to be lower in 2017 compared to 2016. These expenses include lower merger expense, lower interest expense, lower generation maintenance expense, and lower distribution operations expense. These decreases are partially offset by higher income tax expense, higher depreciation and amortization expense, higher generation operations expense, higher taxes other than income taxes, higher distribution maintenance expense, and higher amortization of debt issuance costs.

Cleco Power Results of Operations

	FOR THE YEAR ENDED DEC. 31,			
			FAVORABLE/(UNFAVORABLE)	
(THOUSANDS)	2016	2015	VARIANCE	CHANGE
Operating revenue				
Base	$660,974	$670,530	$ (9,556)	(1.4)%
Fuel cost recovery	430,255	471,859	(41,604)	(8.8)%
Electric customer credits	(1,513)	(2,173)	660	30.4%
Other operations	68,573	67,109	1,464	2.2%
Affiliate revenue	884	1,142	(258)	(22.6)%
Operating revenue, net	$1,159,173	$1,208,467	$ (49,294)	(4.1)%
Operating expenses				
Recoverable fuel and power purchased	430,422	471,864	41,442	8.8%
Non-recoverable fuel and power purchased	35,684	31,348	(4,336)	(13.8)%
Other operations	125,892	128,697	2,805	2.2%
Maintenance	93,340	87,416	(5,924)	(6.8)%
Depreciation and amortization	146,142	147,839	1,697	1.1%
Taxes other than income taxes	48,287	47,102	(1,185)	(2.5)%
Merger commitment costs	151,501	—	(151,501)	—%
Gain on sale of asset	(1,095)	—	1,095	—%
Total operating expenses	1,030,173	914,266	(115,907)	(12.7)%
Operating income	$129,000	$294,201	$ (165,201)	(56.2)%
Allowance for equity funds used during construction	$4,458	$3,063	$ 1,395	45.5%
Federal and state income tax expense	$18,369	$79,294	$ 60,925	76.8%
Net income	$39,128	$141,350	$ (102,222)	(72.3)%

Cleco Power's net income for 2016 decreased $102.2 million compared to 2015. Contributing factors include:

- higher merger commitment costs,
- lower base revenue,
- higher maintenance expense,
- higher non-recoverable fuel and power purchased, and
- higher taxes other than income taxes.

These factors were partially offset by:

- lower income taxes,
- lower other operations expense,
- lower depreciation and amortization,
- higher other operations revenue,
- higher allowance for equity funds used during construction, and
- higher gain on the sale of an asset.

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

	FOR THE YEAR ENDED DEC. 31,		
(MILLION kWh)	2016	2015	FAVORABLE/ (UNFAVORABLE)
Electric sales			
Residential	3,646	3,789	(3.8)%
Commercial	2,708	2,763	(2.0)%
Industrial	1,978	1,927	2.6%
Other retail	132	134	(1.5)%
Total retail	8,464	8,613	(1.7)%
Sales for resale	3,140	3,353	(6.4)%
Unbilled	55	(95)	157.9%
Total retail and wholesale customer sales	11,659	11,871	(1.8)%

	FOR THE YEAR ENDED DEC. 31,		
(THOUSANDS)	2016	2015	FAVORABLE/ (UNFAVORABLE)
Electric sales			
Residential	$293,461	$296,846	(1.1)%
Commercial	192,332	191,202	0.6%
Industrial	86,668	84,988	2.0%
Other retail	10,630	10,558	0.7%
Surcharge	21,418	21,597	(0.8)%
Total retail	$604,509	$605,191	(0.1)%
Sales for resale	59,103	62,768	(5.8)%
Unbilled	(2,638)	2,571	(202.6)%
Total retail and wholesale customer sales	$660,974	$670,530	(1.4)%

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 NOAA to determine cooling and heating degree-days.

	FOR THE YEAR ENDED DEC. 31,				
				2016 CHANGE	
	2016	2015	NORMAL	PRIOR YEAR	NORMAL
Cooling degree-days	3,309	3,272	2,779	1.1%	19.1%
Heating degree-days	1,145	1,271	1,546	(9.9)%	(25.9)%

Base

Base revenue decreased $9.6 million in 2016 compared to 2015 primarily due to $6.4 million of lower sales due to usage, including warmer winter weather and lower sales to wholesale customers and $3.2 million driven by lower revenue related to the absence of additional MATS revenue recognized in 2015.

Cleco Power expects to begin providing service to expansions of current customers' operations, as well as service to new retail customers. These expansions of current customers' operations and service to new retail customers are expected to contribute additional base revenue of $1.9 million in 2017, an additional $1.8 million in 2018, and an additional $0.1 million in 2019. Cleco Power expects wholesale revenue to decrease by $0.7 million in 2017 primarily due to the restructuring of contracts. Cleco Power expects $0.3 million of additional wholesale revenue in 2018 and an additional $1.5 million of wholesale revenue in 2019. For information on other expectations of future energy sales on Cleco Power, see "— Significant Factors Affecting Cleco Power," "Cautionary Note Regarding Forward-Looking

Statements,” and Part I, Item 1A, “Risk Factors — Future Electricity Sales.”

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 75% of Cleco Power’s total fuel costs during 2016 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 the accounting for MISO transactions, see Item 8, “Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 2 — Summary of Significant Accounting Policies — Accounting for MISO Transactions.” For more information on Cleco Power’s fuel audit, see Item 8, “Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 15 — Litigation, Other Commitments and Contingencies, and Disclosure about Guarantees — Litigation — LPSC Audits — Fuel Audit.”

Other Operations Revenue

Other operations revenue increased $1.5 million in 2016 compared to 2015 primarily due to $2.8 million of higher transmission revenue from a wholesale customer and $0.6 million of higher pole attachment rentals. These increases were partially offset by $1.7 million of lower forfeited discounts mostly due to customer rate credits in the third quarter of 2016 as a result of the Merger and $0.2 million of lower miscellaneous revenue.

Non-recoverable Fuel and Power Purchased

Non-recoverable fuel and power purchased increased $4.3 million in 2016 compared to 2015 primarily related to $3.1 million of higher expenses related to MISO transmission costs and $1.3 million of expenses related to fuel accounting software, partially offset by $0.1 million of lower miscellaneous expenses.

Other Operations Expense

Other operations expense decreased $2.8 million in 2016 compared to 2015 primarily due to $5.4 million of lower administrative and general expenses driven by lower salaries and benefits expense and $0.1 million of lower miscellaneous expense. These decreases were partially offset by $1.6 million of higher generation expense and $1.1 million of higher customer service expense primarily related to an increase in the provision for uncollectible accounts.

Maintenance

Maintenance expense increased $5.9 million in 2016 compared to 2015 primarily due to higher generating station outage expenses.

Depreciation and Amortization

Depreciation and amortization expense decreased $1.7 million in 2016 compared to 2015 primarily due to $5.5 million of higher deferrals of production operations and maintenance expenses to a regulatory asset, $1.3 million of higher deferrals of corporate franchise taxes to a regulatory asset, and $0.5 million of lower amortization of the corporate franchise taxes regulatory asset. These decreases were partially offset by $3.1

million of normal recurring additions to fixed assets, $1.6 million of higher amortization of the production operations and maintenance regulatory asset, $0.8 million of higher amortization of storm damages which is based on collections from customers, and $0.1 million of miscellaneous amortizations.

Taxes Other than Income Taxes
Taxes other than income taxes increased $1.2 million in 2016 compared to 2015 primarily due to higher property taxes.

Merger Commitment Costs
Merger commitment costs increased $151.5 million in 2016 compared to 2015 due to $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, a $6.0 million accrual 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.

Gain on Sale of Asset
Gain on sale of asset increased $1.1 million in 2016 compared to 2015 due to a gain on the sale of property.

Allowance for Equity Funds Used During Construction
Allowance for equity funds used during construction increased $1.4 million in 2016 compared to 2015 primarily due to higher construction costs related to various projects.

Income Taxes
Federal and state income taxes decreased $60.9 million in 2016 compared to 2015. Tax expense decreased primarily due to $64.5 million for the change in pretax income, excluding AFUDC equity and $2.3 million for adjustments for tax returns filed. These decreases were partially offset by $4.5 million for the flowthrough of state tax benefits, $0.9 million for tax credits, $0.3 million for miscellaneous tax items, and $0.2 million for adjustments for permanent tax differences. The effective income tax rate is 32.0%, which is lower than the federal statutory rate primarily due to permanent tax differences, the flowthrough of benefits associated with AFUDC equity, adjustments for tax returns as filed, tax credits, and state tax expense.

Comparison of the Years Ended December 31, 2015, and 2014

Cleco Consolidated

Cleco Consolidated Results of Operations

	FOR THE YEAR ENDED DEC. 31,					
			FAVORABLE/(UNFAVORABLE)			
(THOUSANDS)	2015	2014	VARIANCE		CHANGE	
Operating revenue, net	$1,209,402	$1,269,485	$ (60,083	)	(4.7	)%
Operating expenses	922,063	983,453	61,390		6.2	%
Operating income	$287,339	$286,032	$ 1,307		0.5	%
Allowance for other funds used during construction	$3,063	$5,380	$ (2,317	)	(43.1	)%
Other income	$1,443	$4,790	$ (3,347	)	(69.9	)%
Other expense	$3,376	$2,509	$ (867	)	(34.6	)%

Interest charges	$77,991	$73,606	$ (4,385)	(6.0)%
Federal and state income tax expense	$77,704	$67,116	$ (10,588)	(15.8)%
Net income	$133,669	$154,739	$ (21,070)	(13.6)%

Operating revenue, net of electric customer credits decreased $60.1 million in 2015 compared to 2014 largely as a result of lower fuel cost recovery and lower base revenue, partially offset by lower electric customer credits and higher other operations revenue at Cleco Power.

Operating expenses decreased $61.4 million in 2015 compared to 2014 primarily due to lower recoverable fuel and power purchased at Cleco Power, lower merger transaction costs incurred at Cleco Holdings, and lower generation maintenance expense at Cleco Power. Partially offsetting these decreases were higher non-recoverable fuel and power purchased due to the expiration of a PPA when Coughlin was transferred to Cleco Power in March 2014, higher other operations expense at Cleco Power, the absence of the gain on the sale of property at Cleco Holdings, higher taxes other than income taxes at Cleco Power, and higher depreciation and amortization expense at Cleco Power.

Allowance for equity funds used during construction decreased $2.3 million in 2015 compared to 2014 primarily due to lower construction costs related to the completion of the MATS project at Cleco Power.

Other income decreased $3.3 million in 2015 compared to 2014 primarily due to the absence of an increase in the cash surrender value of life insurance policies and the absence of the contractual expiration of underlying indemnifications resulting from the disposition of Acadia Unit 2.

Other expense increased $0.9 million in 2015 compared to 2014 primarily due to a decrease in the cash surrender value of life insurance policies due to unfavorable market conditions.

Interest charges increased $4.4 million in 2015 compared to 2014 primarily due to the absence of favorable settlements with taxing authorities and lower allowance for borrowed funds used during construction primarily related to the MATS project. These increases were partially offset by the absence of the customer surcredit and the retirement of long-term debt.

Federal and state income taxes increased $10.6 million in 2015 compared to 2014. Tax expense increased primarily due to $9.3 million for the absence of favorable settlements with taxing authorities, $2.5 million for the flowthrough of state tax benefits, $1.1 million for miscellaneous tax items, and $0.8 million for adjustments for tax returns filed. These increases were partially offset by $3.1 million for the change in pretax income, excluding AFUDC equity. The effective income tax

rate was 36.8%, which is higher than the federal statutory rate primarily due to permanent tax differences, the flowthrough of benefits associated with AFUDC equity, adjustments for tax returns as filed, tax credits, and state tax expense.
The effective tax rate of 36.8% for 2015 was higher than the effective tax rate of 30.3% for 2014 due to the absence of favorable settlements with taxing authorities, tax returns as filed, and the flowthrough of state tax benefits, partially offset by the change in pretax income, excluding AFUDC equity.
Results of operations for Cleco Power are more fully described below.

Cleco Power

Cleco Power Results of Operations

	FOR THE YEAR ENDED DEC. 31,			
			FAVORABLE/(UNFAVORABLE)	
(THOUSANDS)	2015	2014	VARIANCE	CHANGE
Operating revenue				
Base	$670,530	$683,565	$ (13,035)	(1.9)%
Fuel cost recovery	471,859	542,395	(70,536)	(13.0)%
Electric customer credits	(2,173)	(23,530)	21,357	90.8%
Other operations	67,109	64,893	2,216	3.4%
Affiliate revenue	1,142	1,326	(184)	(13.9)%
Operating revenue, net	$1,208,467	$1,268,649	$ (60,182)	(4.7)%
Operating expenses				
Recoverable fuel and power purchased	471,864	542,397	70,533	13.0%
Non-recoverable fuel and power purchased	31,348	27,985	(3,363)	(12.0)%
Other operations	128,697	116,664	(12,033)	(10.3)%
Maintenance	87,416	96,054	8,638	9.0%
Depreciation and amortization	147,839	144,026	(3,813)	(2.6)%
Taxes other than income taxes	47,102	41,812	(5,290)	(12.7)%
Gain on sales of assets	—	(4)	(4)	(100.0)%
Total operating expenses	914,266	968,934	54,668	5.6%
Operating income	$294,201	$299,715	$ (5,514)	(1.8)%
Allowance for equity funds used during construction	$3,063	$5,380	$ (2,317)	(43.1)%
Interest charges	$76,560	$74,673	$ (1,887)	(2.5)%
Federal and state income tax expense	$79,294	$76,974	$ (2,320)	(3.0)%
Net income	$141,350	$154,316	$ (12,966)	(8.4)%

Cleco Power's net income for 2015 decreased $13.0 million compared to 2014. Contributing factors include:

- lower base revenue,
- higher other operations expense,
- higher taxes other than income taxes,
- higher depreciation and amortization,
- higher non-recoverable fuel and power purchased,
- higher income taxes,
- lower allowance for equity funds used during construction, and
- higher interest charges.

These were partially offset by lower electric customer credits, lower maintenance expense, and higher other operations revenue.

	FOR THE YEAR ENDED DEC. 31,		
(MILLION kWh)	2015	2014	FAVORABLE/ (UNFAVORABLE)
Electric sales			
Residential	3,789	3,783	0.2 %
Commercial	2,763	2,689	2.8 %
Industrial	1,927	2,212	(12.9)%
Other retail	134	130	3.1 %
Total retail	8,613	8,814	(2.3)%
Sales for resale	3,353	3,412	(1.7)%
Unbilled	(95)	171	(155.6)%
Total retail and wholesale customer sales	11,871	12,397	(4.2)%

	FOR THE YEAR ENDED DEC. 31,		
(THOUSANDS)	2015	2014	FAVORABLE/ (UNFAVORABLE)
Electric sales			
Residential	$296,846	$293,871	1.0 %
Commercial	191,202	188,012	1.7 %
Industrial	84,988	86,823	(2.1)%
Other retail	10,558	10,215	3.4 %
Storm surcharge	21,597	15,833	36.4 %
Total retail	$605,191	$594,754	1.8 %
Sales for resale	62,768	81,371	(22.9)%
Unbilled	2,571	7,440	(65.4)%
Total retail and wholesale customer sales	$670,530	$683,565	(1.9)%

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 NOAA to determine cooling and heating degree-days.

	FOR THE YEAR ENDED DEC. 31,				
				2015 CHANGE	
	2015	2014	NORMAL	PRIOR YEAR	NORMAL
Cooling degree-days	3,272	2,780	2,780	17.7 %	17.7 %
Heating degree-days	1,271	1,833	1,546	(30.7)%	(17.8)%

Base

Base revenue decreased $13.0 million in 2015 compared to 2014 primarily due to lower net sales to wholesale customers, including the expiration of a wholesale contract in December 2014, and lower rates that began July 1, 2014, related to the FRP extension. These decreases were partially offset by higher revenue related to MATS and higher retail revenue related to usage.

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 74% of Cleco Power’s total fuel cost during 2015 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 the accounting for MISO transactions, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 2 — Summary of Significant Accounting Policies — Accounting for MISO Transactions." For more information on Cleco Power's fuel audit, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 15 — Litigation, Other Commitments and Contingencies, and Disclosure about Guarantees — Litigation — LPSC Audits — Fuel Audit."

Electric Customer Credits

Electric customer credits decreased $21.4 million in 2015 compared to 2014 primarily due to the absence of $22.3 million of provisions for refunds included in the June 2014 FRP extension and $1.6 million related to lower accruals for site-specific customers. These amounts were partially offset by $2.5 million related to accruals for anticipated refunds related to the transmission ROE dispute. For more information on the FRP extension and the accrual of electric customer credits, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 12 — Regulation and Rates." For more information on the transmission ROE dispute, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 15 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Litigation — Transmission ROE."

Other Operations Revenue

Other operations revenue increased $2.2 million in 2015 compared to 2014 primarily due to $3.5 million of higher transmission and distribution revenue, partially offset by $0.4 million of lower forfeited discounts, $0.3 million of lower reconnection fees, $0.3 million due to the absence of a gain associated with the extinguishment of the asbestos ARO, and $0.3 million of lower miscellaneous revenue.

Non-Recoverable Fuel and Power Purchased

Non-recoverable fuel and power purchased increased $3.4 million in 2015 compared to 2014 primarily related to $4.5 million of higher MISO transmission expenses and administrative fees and $0.1 million of higher miscellaneous expenses, partially offset by $0.6 million of lower capacity charges and $0.6 million for a one-time facility credit.

Other Operations Expense

Other operations expense increased $12.0 million in 2015 compared to 2014 primarily due to higher customer service expense, higher administrative and general expenses, driven by higher pension expense, and higher generation expense.

Maintenance

Maintenance expense decreased $8.6 million in 2015 compared to 2014 primarily due to lower generating station outage expenses.

Depreciation and Amortization

Depreciation and amortization expense increased $3.8 million in 2015 compared to 2014 primarily due to $6.0 million of lower deferrals of production operations and maintenance expenses to a regulatory asset, $3.9 million of normal recurring additions to fixed assets, and $3.2 million for the amortization of

regulatory assets related to the FRP extension. The increase was also due to $1.9 million of amortization related to a regulatory asset for state corporate franchise taxes, $1.2 million for the absence of the deferral of AMI revenue requirements to a regulatory asset, and $1.1 million of higher miscellaneous amortization. These amounts were partially offset by $13.5 million for the absence of amortization of the Evangeline PPA capacity costs.

Taxes Other Than Income Taxes
Taxes other than income taxes increased $5.3 million in 2015 compared to 2014 primarily due to the absence of favorable settlements with taxing authorities.

Allowance for Equity Funds Used During Construction
Allowance for equity funds used during construction decreased $2.3 million in 2015 compared to 2014 primarily due to lower construction costs related to the completion of the MATS project.

Interest Charges
Interest charges increased $1.9 million in 2015 compared to 2014 primarily due to $5.0 million related to the absence of favorable settlements with taxing authorities and $0.7 million related to lower allowance for borrowed funds used during construction primarily related to the completion of the MATS project. These increases were partially offset by $2.1 million related to the absence of the customer surcredit, $1.6 million due to the retirement of long-term debt, and $0.1 million of lower miscellaneous interest charges.

Income Taxes
Federal and state income taxes increased $2.3 million in 2015 compared to 2014. Tax expense increased primarily due to $2.5 million for the flowthrough of state tax benefits, $2.2 million for the absence of favorable settlements with taxing authorities, and $0.8 million for miscellaneous tax items. These increases were partially offset by $3.2 for the change in pretax income, excluding AFUDC equity. The effective income tax rate was 35.9%, which is higher than the federal statutory rate primarily due to permanent tax differences, the flowthrough of benefits associated with AFUDC equity, adjustments for tax returns as filed, tax credits, and state tax expense.

CLECO POWER — NARRATIVE ANALYSIS OF RESULTS OF OPERATIONS

For a narrative analysis of the results of operations explaining the reasons for material changes in the amount of revenue and expense items of Cleco Power between the year ended December 31, 2016, and the year ended December 31, 2015, see "— Results of Operations — Comparison of the Years Ended December 31, 2016, and 2015 — Cleco Power."
For a narrative analysis of the results of operations explaining the reasons for material changes in the amount of revenue and expense items of Cleco Power between the year ended December 31, 2015, and the year ended December 31, 2014, see "— Results of Operations — Comparison of the Years Ended December 31, 2015, and 2014 — Cleco Power."
The narrative analysis referenced above should be read in combination with Cleco Power's Financial Statements and the Notes contained in this Form 10-K.

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 accounting policies, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 2 — Summary of Significant Accounting Policies."

Cleco believes that the following are the most significant critical accounting policies:

- To determine assets, liabilities, and expenses relating to pension and other postretirement benefits, management must make assumptions about future trends. Assumptions and estimates include, but are not limited to, discount rates, expected return on plan assets, mortality rates, future rate of compensation increases, and medical inflation trend rates. These assumptions are reviewed and updated on an annual basis. Changes in the rates from year-to-year and newly-enacted laws could have a material effect on Cleco's financial condition and results of operations by changing the recorded assets, liabilities, expense, or required funding of the pension plan obligation. One component of pension expense is the expected return on plan assets. It is an assumed percentage return on the market-related value of plan assets. The market-related value of plan assets differs from the fair value of plan assets by the amount of deferred asset gains or losses. Actual asset returns that differ from the expected return on plan assets are deferred and recognized in the market-related value of assets on a straight-line basis over a five-year period. The 2016 return on plan assets was 10.90% compared to an expected long-term return of 6.21%. For 2015, the return on plan assets was (2.90)% compared to an expected long-term return of 6.15%. For the calculation of the 2017 periodic expense, Cleco decreased the expected long-term return on plan assets to 6.08%.

Management uses a theoretical bond portfolio in order to calculate the discount rate for the measurement of liabilities. Due to the Merger, the pension plan was remeasured at the Merger date, resulting in a decrease to the discount rate from 4.62% to 4.21%. After the annual review of assumptions, the pension plan discount rate increased from 4.21% to 4.27% for the December 31, 2016, measurement of liabilities.

A change in the assumed discount rate creates a deferred actuarial gain or loss. Generally, when the assumed discount rate decreases compared to the prior measurement date, a deferred actuarial loss is created. When the assumed discount rate increases compared to the prior measurement date, a deferred actuarial gain is created. Actuarial gains and losses also are created when actual results, such as compensation increases, differ from assumptions. Historically, Cleco Power has been allowed to recover pension plan expenses; therefore, deferred actuarial gains and losses are recorded as a regulatory asset or liability. The net of the deferred gains and losses is amortized to pension expense over the average service life of the remaining plan participants (approximately 10 years as of December 31, 2016, for Cleco's plan) when it exceeds certain thresholds. This approach of amortizing gains and losses has the effect of reducing the volatility of pension expense. Over time, it is not expected to reduce or increase the pension expense relative to an approach that immediately recognizes losses and gains.

In October 2014, the Society of Actuaries released a new set of mortality tables and a new mortality improvement scale which indicated significant increases to life expectancies. As a result, in December 2014, Cleco updated its mortality assumptions using the new base table and an adjusted mortality improvement scale. The updates resulted in an increase of $28.1 million in the pension plan obligation at December 31, 2014. Also, these updated mortality assumptions increased pension expense by approximately $5.3 million in 2015 compared to 2014.

In October 2015, the Society of Actuaries released another updated mortality improvement scale which indicated lower mortality improvements than previously indicated in the 2014 mortality improvement scale. As a result, in December 2015, Cleco updated its mortality assumptions using the new data released by the Society of Actuaries. The update resulted in a decrease of $7.2 million in the pension plan obligation at December 31, 2015.

In October 2016, the Society of Actuaries released another updated mortality improvement scale which indicated lower mortality improvements than previously indicated in the 2015 mortality improvement scale. As a result, in December 2016, Cleco updated its mortality assumptions using the new data released by the Society of Actuaries. The update resulted in a decrease of $6.8 million in the pension plan obligation at December 31, 2016.

The following table shows the impact of a 0.5% change in Cleco's pension plan discount rate, salary scale, and rate of return on plan assets:

ACTUARIAL ASSUMPTION (THOUSANDS)	CHANGE IN ASSUMPTION	CHANGE IN PROJECTED BENEFIT OBLIGATION	CHANGE IN ESTIMATED BENEFIT COST
Discount rate	0.5% increase	$ (34,749)	$ (3,270)
	0.5% decrease	$ 38,969	$ 3,604
Salary scale	0.5% increase	$ 8,146	$ 1,546
	0.5% decrease	$ (7,384)	$ (1,397)
Expected return on assets	0.5% increase	$ —	$ (1,980)
	0.5% decrease	$ —	$ 1,980

Cleco Power did not make any required or discretionary contributions to the pension plan in 2016, 2015, or 2014. Based on current funding assumptions, management estimates that $44.0 million in pension contributions will be required through 2021. Future discretionary contributions may be made depending on changes in assumptions, the ability to utilize the contribution as a tax deduction, and requirements concerning recognizing a minimum pension

liability. Future required contributions are driven by liability funding target percentages set by law which could cause the required contributions to change from year to year. The ultimate amount and timing of the contributions will be affected by changes in the discount rate, changes in the funding regulations, and actual returns on fund assets. Adverse changes in assumptions or adverse actual events could cause additional minimum contributions.
For more information on pension and other postretirement benefits, see Item 8, “Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 9 — Pension Plan and Employee Benefits.”

- Cleco has concluded it is probable that regulatory assets can be recovered from ratepayers in future rates. At December 31, 2016, Cleco Power had $544.0 million in regulatory assets. As a result of the Merger, Cleco Holdings recognized regulatory assets. At December 31, 2016, Cleco Holdings had $195.7 million of regulatory assets. Actions by the LPSC could limit the recovery of Cleco’s regulatory assets, causing Cleco to record a loss on some or all of the regulatory assets. If future recovery of costs ceases to be probable, Cleco Holdings could be required to record a loss of its regulatory assets associated with acquisition adjustments. For more information on the LPSC and regulatory assets, see Item 8, “Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 2 — Summary of Significant Accounting Policies — Regulation,” and “Note 4 — Regulatory Assets and Liabilities.”

- Income tax expense and related balance sheet amounts are comprised of a “current” portion and a “deferred” portion. The current portion represents Cleco’s estimate of the income taxes payable or receivable for the current year. The deferred portion represents Cleco’s estimate of the future income tax effects of events that have been recognized in the financial statements or income tax returns in the current or prior years. Cleco makes assumptions and estimates when it records income taxes, such as its ability to deduct items on its tax returns, the timing of the deduction, and the effect of regulation by the LPSC on income taxes. Cleco’s income tax expense and related assets and liabilities could be affected by changes in its assumptions and estimates and by ultimate resolution of assumptions and estimates with taxing authorities. The actual results may differ from the estimated results based on these assumptions and may have a material effect on Cleco’s results of operations.

For more information on income taxes, see Item 8, “Financial Statements and Supplemental Data — Notes to the Financial Statements — Note 10 — Income Taxes.”

- Cleco is currently involved in certain legal proceedings and management has estimated the probable costs for the resolution of these claims. These estimates are based on an analysis of potential results, assuming a combination of litigation and settlement assumptions. For more information on legal proceedings affecting Cleco, see Part I, Item 1, “Business — Environmental Matters — Air Quality,” Item 1A, “Risk Factors — Litigation,” and Item 8, “Financial Statements and Supplemental Data — Notes to the Financial Statements — Note 15 — Litigation, Other Commitments and

Contingencies, and Disclosures about Guarantees — Litigation.”

- Assets acquired and liabilities assumed in an acquired business are recorded at their estimated fair values on the date of acquisition. The difference between the purchase price amount and the net fair value of assets acquired and liabilities assumed is recognized as goodwill on the balance sheet if it exceeds the estimated fair value. Additionally, on the date of the Merger, intangible assets were recognized for fair value adjustments of the Cleco trade name and long-term wholesale power supply contracts. Determining the fair value of assets acquired and liabilities assumed requires management’s judgment, often utilizing independent valuation experts, and involves the use of significant estimates and assumptions. Management’s judgments and estimates can materially impact the financial statements in periods after acquisition, such as through depreciation, amortization, and goodwill impairment. For more information on intangible assets and goodwill recorded in connection with the Merger, see Item 8, “Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 17 — Intangible Assets and Goodwill.”

Cleco Power

Cleco Power's retail rates are regulated by the LPSC. Future rate changes could have a material impact on the results of operations, financial condition, or cash flows of Cleco Power. Areas that could be materially impacted by future actions of regulators are described below:

- The LPSC determines the ability of Cleco Power to recover prudent costs incurred in developing long-lived assets. If the LPSC were to rule that the cost of current or future long-lived assets was imprudent and not recoverable, Cleco Power could be required to write down the imprudent cost and incur a corresponding impairment loss. At December 31, 2016, the carrying value of Cleco Power's long-lived assets was $3.17 billion. Currently, Cleco Power has concluded that none of its long-lived assets are impaired.

- The LPSC determines the amount and type of fuel and purchased power expenses that Cleco Power can charge customers through the FAC. Changes in the determination of allowable costs already incurred by Cleco Power could cause material changes in fuel revenue. Cleco Power currently has FAC filings for 2016 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 more information on LPSC fuel audits, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 15 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees —Litigation — LPSC Audits." For information on fuel revenue, see "— Results of Operations — Comparison of t Years Ended December 31, 2016, and 2015 — Cleco Power — Cleco Power's Results of Operations — Fuel Cost Recovery/Recoverable Fuel and Power Purchased."

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 December 31, 2016:

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

On April 8, 2016, S&P and Moody's updated the credit ratings for Cleco Holdings and Cleco Power, taking into consideration the anticipated completion of the Merger. S&P credit ratings were maintained at Cleco Power at BBB+ (stable) and downgraded at Cleco Holdings from BBB+ (stable) to BBB- (stable). Moody's credit ratings were maintained at Cleco Power at A3 (stable) and downgraded at Cleco Holdings from Baa1 (stable) to Baa3 (stable). 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 Moody's or S&P, 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 requires Cleco Power to provide credit support which may increase or decrease due to the timing of the settlement schedules. At December 31, 2016, 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 more information about MISO, see "— Regulatory and Other Matters — Transmission Rates of Cleco Power."

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, such as long-term debt, are reported at their carrying values at their date of issuance 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 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 6 — 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 company purposes. Cleco and Cleco Power's restricted cash and cash equivalents consisted of:

Cleco

(THOUSANDS)	SUCCESSOR AT DEC. 31, 2016	PREDECESSOR AT DEC. 31, 2015
Current		
Cleco Katrina/Rita's storm recovery bonds	$ 9,213	$ 9,263
Cleco Power's charitable contributions	1,200	—
Cleco Power's rate credit escrow	12,671	—
Total current	23,084	9,263
Non-current		
Diversified Lands' mitigation escrow	21	21
Cleco Power's future storm restoration costs	17,379	16,174
Cleco Power's charitable contributions	4,179	—
Cleco Power's rate credit escrow	1,831	—
Total non-current	23,410	16,195
Total restricted cash and cash equivalents	$ 46,494	$ 25,458

Cleco Power

(THOUSANDS)	AT DEC. 31, 2016	AT DEC. 31, 2015
Current		
Cleco Katrina/Rita's storm recovery bonds	$9,213	$9,263
Charitable contributions	1,200	—
Rate credit escrow	12,671	—
Total current	23,084	9,263
Non-current		
Future storm restoration costs	17,379	16,174
Charitable contributions	4,179	—
Rate credit escrow	1,831	—
Total non-current	23,389	16,174
Total restricted cash and cash equivalents	$46,473	$25,437

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, 2015, to 2016 was due to Cleco Katrina/Rita collecting $21.2 million net of administration fees, partially offset by bond and interest payments. In March and September 2016, Cleco Katrina/Rita used $8.5 million and $8.3 million, respectively, for scheduled storm recovery bond principal payments and $2.3 million and $2.1 million, respectively, for related interest payments.

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. On April 25, 2016, in accordance with the Merger Commitments, Cleco Power established the charitable contribution fund and deposited the rate credit funds into an escrow account. On April 28, 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 December 31, 2016, $0.6 million of the charitable contributions and $121.5 million of the rate credits had been remitted from restricted cash.

Debt

Cleco Consolidated

Cleco had no short-term debt outstanding at December 31, 2016, or 2015.

At December 31, 2016, Cleco's long-term debt outstanding was $2.76 billion, of which $19.7 million was due within one year. The long-term debt due within one year at December 31, 2016, represents $17.9 million of principal payments for the Cleco Katrina/Rita storm recovery bonds and $1.8 million of capital lease payments.

In connection with the completion of the Merger, on April 13, 2016, Cleco Holdings entered into a $1.35 billion Acquisition Loan Facility. The Acquisition Loan Facility had a three-year term and a rate of LIBOR plus 1.75% or ABR plus 0.75%. In May and June 2016, Cleco Holdings refinanced the Acquisition Loan Facility with a series of other long-term financings described below.

On May 17, 2016, Cleco Holdings completed the private sale of $535.0 million of 3.743% senior notes due May 1, 2026, and $350.0 million of 4.973% senior notes due May 1, 2046. On May 24, 2016, Cleco Holdings completed the private sale of $165.0 million of 3.250% senior notes due May 1, 2023. On June 28, 2016, Cleco Holdings entered into a $300.0 million variable rate bank term loan due June 28, 2021. Amounts outstanding under the bank term loan bear interest, at Cleco's option, at a base rate plus 0.625% or LIBOR plus 1.625%. At December 31, 2016, the all-in rate was 2.265%, which was based on the LIBOR rate. The proceeds from the issuance and sale of these notes and term loan were used to repay the $1.35 billion Acquisition Loan Facility. Debt issuance costs of $17.7 million were expensed to merger costs in connection with the repayment of the Acquisition Loan Facility.

Cash and cash equivalents available at December 31, 2016, were $23.1 million combined with $400.0 million available credit facility capacity ($100.0 million from Cleco Holdings and $300.0 million from Cleco Power) for total liquidity of $423.1 million.

At December 31, 2016, 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 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 6 — Fair Value Accounting."

For the successor period December 31, 2016, Cleco had a working capital surplus of $174.9 million. There were no significant changes in the underlying trends impacting working capital for the successor period with the exceptions of a $14.4 million increase in provisions for the Merger Commitments, a $13.9 million increase in restricted cash and cash equivalents primarily due to the funding of customer rate credits as a result of the Merger Commitments, and a $8.5 million regulatory asset related to fair value adjustments of long-term debt as a result of the Merger.

For the predecessor period December 31, 2015, Cleco had a working capital surplus of $242.3 million. There were no significant changes in the underlying trends impacting working capital for the predecessor period.

For the successor period December 31, 2016, Cleco's Consolidated Balance Sheets reflected $4.30 billion of total liabilities. There were no significant changes in the underlying trends impacting total liabilities for the successor period with the exception of the $1.35 billion of long-term debt previously discussed, $155.8 million for the difference between the carrying value and the fair value of long-term debt recorded as a result of the Merger, and a $14.4 million increase in provisions for the Merger Commitments.

For the predecessor period December 31, 2015, Cleco's Consolidated Balance Sheets reflected $2.65 billion of total liabilities. There were no significant changes in the underlying trends impacting total liabilities for the predecessor period.

Cleco Holdings (Holding Company Level)

Cleco Holdings had no short-term debt outstanding at December 31, 2016, or 2015.

At December 31, 2016, Cleco Holding's long-term debt outstanding was $1.34 billion, of which none was due within one year.

In connection with the completion of the Merger, on April 13, 2016, Cleco Holdings entered into a $1.35 billion Acquisition Loan Facility. In May and June 2016, Cleco Holdings refinanced the Acquisition Loan Facility with a series of other long-term financings described below.

On May 17, 2016, Cleco Holdings completed the private sale of $535.0 million of 3.743% senior notes due May 1, 2026, and $350.0 million of 4.973% senior notes due May 1, 2046. On May 24, 2016, Cleco Holdings completed the private sale of $165.0 million of 3.250% senior notes due May 1, 2023. On June 28, 2016, Cleco Holdings entered into a $300.0 million variable rate bank term loan due June 28, 2021. The proceeds from the issuance and sale of these notes and term loan were used to repay the $1.35 billion Acquisition Loan Facility. Debt issuance costs of $17.7 million were expensed to merger costs in connection with the repayment of the Acquisition Loan Facility.

On April 13, 2016, in connection with the completion of the Merger, Cleco Holdings replaced its existing $250.0 million credit facility with a $100.0 million credit facility. The new credit facility has similar terms as the previous facility, including restricted financial covenants, and expires in 2021. This facility provides for working capital and other needs. At December 31, 2016, Cleco Holdings had no draws outstanding under its $100.0 million credit facility.

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 Cleco Holdings at December 31, 2016, were $1.4 million, combined with $100.0 million credit facility capacity for a total liquidity of $101.4 million.

Cleco Power

There was no short-term debt outstanding at Cleco Power at December 31, 2016, or 2015.

At December 31, 2016, Cleco Power's long-term debt outstanding was $1.25 billion, of which $19.7 million was due within one year. The long-term debt due within one year at December 31, 2016, represents $17.9 million of principal payments for the Cleco Katrina/Rita storm recovery bonds and $1.8 million of capital lease payments. For Cleco Power, long-term debt increased $1.3 million from December 31, 2015, primarily due to the issuance of $330.0 million senior notes in December 2016, debt discount amortizations of $0.5 million, and $0.2 million in debt expense amortization. These increases were partially offset by a $250.0 million repayment of senior notes in December 2016, a $60.0 million repayment of Solid Waste Disposal Facility Bonds in November 2016, $16.8 million of scheduled Cleco Katrina/Rita storm recovery bond principal payments made in March and September 2016, and a $2.6 million decrease in capital lease obligations.

On April 13, 2016, in connection with the completion of the Merger, Cleco Power replaced its existing $300.0 million credit facility with a new $300.0 million credit facility. This facility provides for working capital and other financing needs. The new credit facility has similar terms as the previous facility, including restricted financial covenants, and expires in 2021.

On November 1, 2016, Cleco Power redeemed at par $60.0 million of 4.70% Solid Waste Disposal Facility bonds due November 2036. As part of the redemption, Cleco Power paid $1.4 million of accrued interest on the redeemed bonds.

On December 20, 2016, Cleco Power completed the private sale of $130.0 million of 3.47% senior notes due December 16, 2026, and $200.0 million of 3.57% senior notes due December 16, 2028. The proceeds from the issuance and sale of these notes were used to replace cash used to redeem the above mentioned Solid Waste Disposal Facility bonds, to redeem $250.0 million of 6.65% senior notes due 2018 prior to maturity and pay make-whole payments of approximately $19.0 million in connection with such redemption, and for general company purposes.

At December 31, 2016, and 2015, Cleco Power had no borrowings outstanding under its $300.0 million credit facility. At December 31, 2016, Cleco Power had a $2.0 million letter of credit to MISO pursuant to the credit requirements of FTRs. This credit facility is covered under a standing letter of credit outside of Cleco Power's credit facility; therefore, it does not reduce the borrowing capacity of Cleco Power's new credit facility.

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 December 31, 2016, were $21.5 million combined with $300.0 million credit facility capacity for total liquidity of $321.5 million.

At December 31, 2016, and 2015, Cleco Power had a working capital surplus of $149.1 million and $184.9 million, respectively. The $35.8 million decrease in working capital is primarily due to:

- a $44.2 million decrease in unrestricted cash and cash equivalents,
- a $26.4 million decrease in fuel inventory primarily due to decreases in solid fuels inventory due to higher than normal levels in 2015, an adjustment related to a fuel survey, and lower lignite deliveries,
- a $16.9 million increase in accounts payable (excluding FTR purchases) primarily related to the timing of property taxes and vendor payments, and
- a $14.4 million increase in the provision for the Merger Commitments.

These decreases in working capital were partially offset by:

- a $29.5 million net increase in net current tax assets and related interest charges primarily due to the creation of the net operating loss carryforward
- a $13.8 million increase in restricted cash and cash equivalents,
- a $13.5 million increase in customer accounts receivable due to timing of receipts from wholesale customers and an increase in retail customer receivables, and
- an $11.4 million increase in accumulated deferred fuel primarily due to a fuel surcharge.

At December 31, 2016, Cleco Power's Consolidated Balance Sheets reflected $2.73 billion of total liabilities compared to $2.68 billion at December 31, 2015. The $51.3 million increase in total liabilities during 2016 was primarily due to increases in provision for the Merger Commitments, accounts payable, accumulated deferred federal and state income taxes, postretirement benefit obligations, offset by a decrease in taxes payable. During 2016, the provision for the Merger Commitments increased $14.4 million. Accounts payable increased $13.6 million as a result of the timing of property tax payments and vendor payments. Net accumulated deferred federal and state income taxes increased $25.1 million as a result of the creation of the net operating loss carryforward in 2016 versus the utilization of a net operating loss carryforward in 2015. Postretirement benefit obligations also increased $7.0 million primarily due to lower discount rates, partially offset by greater than expected return on plan assets and updated mortality tables. These increases were partially offset by a decrease in taxes payable of $17.0 million due to a decrease in pretax income.

Credit Facilities

At December 31, 2016, Cleco had two separate revolving credit facilities, one for Cleco Holdings and one for Cleco Power, with a maximum aggregate capacity of $400.0 million.

At December 31, 2015, Cleco Holdings had a $250.0 million credit facility. On April 13, 2016, in connection with the completion of the Merger, Cleco Holdings replaced the existing credit facility with a $100.0 million credit facility. The new credit facility has similar terms as the previous facility, including restricted financial covenants, and expires in 2021. At December 31, 2016, Cleco Holdings was in compliance with the covenants of its credit facility. The borrowing costs under the facility are equal to LIBOR plus 1.75% or ABR plus 0.75%, plus commitment fees of 0.275%. At December 31, 2016, Cleco Holdings had no borrowings outstanding under its $100.0 million credit facility. 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 for its credit facility.

At December 31, 2015, Cleco Power had a $300.0 million credit facility. On April 13, 2016, in connection with the completion of the Merger, Cleco Power replaced its existing credit facility. The new credit facility has similar terms as the previous facility, including restricted financial covenants, and expires in 2021. At December 31, 2016, Cleco Power was in compliance with the covenants of its credit facility. The borrowing costs under the facility are equal to LIBOR plus 1.125% or ABR plus 0.125%, plus commitment fees of 0.125%. At December 31, 2016, Cleco Power had no borrowings outstanding under its $300.0 million credit facility. 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. A $2.0 million letter of credit issued to MISO is covered under a standing letter of credit outside of Cleco Power's credit facility; therefore, it does not reduce the borrowing capacity of Cleco Power's new credit facility. The letter of credit issued to MISO is pursuant to the credit requirements of FTRs. The letter of credit automatically renews each year.

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 provide for limitations on the amount of distributions that may be paid 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 subjected 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 December 31, 2016 Cleco Holdings and Cleco Power exceeded the limitations that would limit the amount of distributions available. For more information on additional merger commitments, see Part II, Item 1A, "Risk Factors — Holding Company."

Cleco Cash Flows

Net Operating Cash Flow

Net cash provided by operating activities for the successor period April 13, 2016, through December 31, 2016, was $51.3 million. There were no significant changes in the underlying trends impacting cash provided by operating activities with the exception of the following:

- lower collections from customers of $121.5 million due to Merger credits issued in 2016 and
- $23.7 million related to payments for merger transaction costs.

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 cash provided by operating activities for the predecessor period January 1, 2015, through December 31, 2015, increased $25.8 million from the predecessor period January 1, 2014, through December 31, 2014, due to the following items:

- lower net fuel and power purchases of $21.5 million primarily due to the absence of a plant outage, the loss of a wholesale customer, timing of collections, and lower per unit gas prices,
- lower payments to gas vendors of $18.4 million primarily due to lower per unit prices,
- lower payments for generating station outage expenses of $15.9 million, and
- lower income tax payments of $13.9 million.

These increases in net operating cash were partially offset by higher payments to vendors of $49.9 million primarily related to the timing of property tax payments and other vendor payments.

For information on Cleco's investing and financing activities for the predecessor and successor periods, see Item 8, "Financial Statements and Supplementary Data — Cleco — Consolidated Statements of Cash Flows."

Cleco Power Cash Flows

Net Operating Cash Flow

Net cash provided by operating activities was $215.8 million during 2016, $366.5 million during 2015, and $347.1 million during 2014. Net cash provided by operating activities during 2016 decreased $150.7 million from 2015 primarily due to the following items:

- lower collections from customers of $121.5 million due to Merger credits issued in 2016,
- higher payments for affiliate settlements of $34.0 million, and
- lower net fuel and power purchase collections of $17.1 million primarily due to timing of recovery.

These decreases in net operating cash were partially offset by:

- lower payments to vendors of $28.9 million primarily related to the timing of property tax payments and other vendor payments and
- lower payments for fuel inventory of $26.8 million primarily due to lower lignite deliveries and lower petroleum coke purchases.

Net cash provided by operating activities during 2015 increased $19.4 million from 2014 primarily due to the following items:

- lower net fuel and power purchases of $21.5 million primarily due to the absence of a plant outage, the loss of a wholesale customer, timing of collections, and lower per unit gas prices,
- lower payments to gas vendors of $18.4 million primarily due to lower per unit prices, and
- lower payments for generating station outage expenses of $15.9 million.

These increases in net operating cash were partially offset by higher payments to vendors of $46.2 million primarily related to the timing of property tax payments and other vendor payments.

For information on Cleco Power's investing and financing activities, see Item 8, "Financial Statements and Supplementary Data — Cleco Power — Consolidated Statements of Cash Flows."

Capital Expenditures

Cleco's capital expenditures are primarily incurred in its major first-tier subsidiary, Cleco Power. Cleco Power's capital expenditures relate primarily to assets that may be included in Cleco Power's rate base and, if considered prudent by the LPSC, can be recovered from its customers. Those assets also earn a rate of return authorized by the LPSC and are subject to the FRP. Such assets primarily consist of improvements to Cleco Power's distribution system, transmission system, and generating stations.

During the years ended December 31, 2016, 2015, and 2014, Cleco Power had capital expenditures, excluding

AFUDC, of $181.7 million, $153.3 million, and $201.2 million, respectively. In 2016, 2015, and 2014, 100% of Cleco Power's capital expenditure requirements were funded internally.

For the successor period April 13, 2016, through December 31, 2016, other subsidiaries had capital expenditures, excluding AFUDC, of $0.7 million. Other subsidiaries had capital expenditures, excluding AFUDC, of less than $0.1

million, $0.5 million, and $1.0 million during the predecessor periods January 1, 2016, through April 12, 2016, January 1, 2015, through December 31, 2015, and January 1, 2014, through December 31, 2014, respectively.
In 2017 and for the five-year period ending 2021, Cleco Power expects to internally fund 100% of its capital expenditure requirements. However, Cleco Power may choose to issue debt in order to achieve a capital structure with a debt ratio of 49%. All computations of internally funded capital expenditures exclude AFUDC.
Cleco and Cleco Power's estimated capital expenditures and debt maturities for 2017 and for the five-year period ending 2021 are presented in the following tables. All amounts exclude AFUDC.
Cleco

PROJECT (THOUSANDS)	2017	%	2017-2021	%
Environmental	$4,000	1 %	$33,000	3 %
New business	27,000	10 %	138,000	11 %
Transmission reliability	26,000	10 %	170,000	14 %
Fuel optimization	75,000	28 %	172,000	14 %
General [1]	136,000	51 %	706,000	58 %
Total capital expenditures	$268,000	100%	$1,219,000	100%
Debt payments	18,000		369,000	
Total capital expenditures and debt payments	$286,000		$1,588,000	

[1] Primarily consists of rehabilitation projects of older transmission, distribution, and generation assets and hardware and software upgrades at Cleco Power.
Cleco Power

PROJECT (THOUSANDS)	2017	%	2017-2021	%
Environmental	$4,000	2 %	$33,000	3 %
New business	27,000	10 %	138,000	11 %
Transmission reliability	26,000	10 %	170,000	14 %
Fuel optimization	75,000	28 %	172,000	14 %
General [1]	134,000	50 %	698,000	58 %
Total capital expenditures	$266,000	100%	$1,211,000	100%
Debt payments	18,000		69,000	
Total capital expenditures and debt payments	$284,000		$1,280,000	

[1] Primarily consists of rehabilitation projects of older transmission, distribution, and generation assets and hardware and software upgrades.

Capital expenditures for other subsidiaries in 2017 are estimated to total $2.0 million. For the five-year period ending 2021, capital expenditures for other subsidiaries are estimated to total $8.0 million. Cleco expects cash and cash equivalents on hand in addition to cash generated from operations, borrowings from credit facilities, and the net proceeds of any issuances of debt securities to be adequate to fund normal ongoing capital expenditures, working capital, and debt service requirements for the foreseeable future.

Other Cash Requirements
Cleco Power's regulated operations are Cleco's primary source of internally generated funds. These funds, along with the issuance of additional debt in future years, will be used for

general company purposes, capital expenditures, and debt service.

Common Stock Repurchase Program
Prior to the completion of the Merger, Cleco Corporation had a common stock repurchase program that authorized management to repurchase shares of common stock. Upon completion of the Merger on April 13, 2016, the common stock repurchase program was terminated. For more information, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 8 — Common Stock — Common Stock Repurchase Program." For more information about the Merger, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 3 — Business Combinations."

Contractual Obligations
Cleco, in the course of normal business activities, enters into a variety of contractual obligations. Some of these result in direct obligations that are reflected in Cleco's Consolidated Balance Sheets while others are commitments, some firm and some based on uncertainties, that are not reflected in the consolidated financial statements. The obligations listed in the following table do not include amounts for ongoing needs for which no contractual obligation existed as of December 31, 2016, and represent only the projected future payments that Cleco was contractually obligated to make as of December 31, 2016.

		PAYMENTS DUE BY PERIOD			
CONTRACTUAL OBLIGATIONS (THOUSANDS)	TOTAL	LESS THAN ONE YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Cleco Holdings					
Long-term debt obligations [1]	$1,811,854	$43,173	$86,346	$86,347	$1,595,988
Operating lease obligations [3]	628	315	313	—	—
Purchase obligations [4]	32,540	13,177	12,113	6,146	1,104
Other long-term liabilities [5]	11,985	3,199	2,336	2,696	3,754
Pension and other benefits obligations [6]	206,651	8,323	16,841	16,971	164,516
Total Cleco Holdings	$2,063,658	$68,187	$117,949	$112,160	$1,765,362
Cleco Power					
Long-term debt obligations [1]	$2,289,693	$87,000	$396,809	$107,426	$1,698,458
Capital lease obligations [2]	2,483	2,483	—	—	—
Operating lease obligations [3]	20,765	6,505	5,762	5,197	3,301
Purchase obligations [4]	281,353	174,718	103,883	2,165	587
Other long-term liabilities [5]	97,320	16,348	33,348	32,265	15,359
Total Cleco Power	$2,691,614	$287,054	$539,802	$147,053	$1,717,705
Total long-term debt obligations [1]	$4,101,547	$130,173	$483,155	$193,773	$3,294,446
Total capital lease obligations [2]	$2,483	$2,483	$—	$—	$—
Total operating lease obligations [3]	$21,393	$6,820	$6,075	$5,197	$3,301
Total purchase obligations [4]	$313,893	$187,895	$115,996	$8,311	$1,691
Total other long-term liabilities [5]	$109,305	$19,547	$35,684	$34,961	$19,113
Total pension and other benefits obligations [6]	$206,651	$8,323	$16,841	$16,971	$164,516
Total	$4,755,272	$355,241	$657,751	$259,213	$3,483,067

(1) Long-term debt existing as of December 31, 2016, is debt that has a final maturity of January 1, 2018, or later (current maturities of long-term debt are due within one-year). Cleco's anticipated interest payments related to long-term debt also are included in this category. Scheduled maturities of debt total $17.9 million for 2017 and $2.60 billion for the years thereafter. For more information regarding Cleco's long-term debt, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 7 — Debt" and "— Debt" above.

(2) Capital leases are maintained in the ordinary course of Cleco's business activities, including leases for barges. For more information regarding these leases, see Item 8, "Financial Statement and Supplementary Data — Notes to the Financial Statements — Note 15 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Other Commitments — Fuel Transportation Agreement."

(3) Operating leases are maintained in the ordinary course of Cleco's business activities. These leases include utility systems, railcars, towboats, office space, operating facilities, office equipment, tower rentals, and vehicles and have various terms and expiration dates from 1 to 27 years. For more information regarding Cleco's operating leases, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 14 — Operating Leases."

(4) Significant purchase obligations for Cleco are:

Fuel Contracts: To supply a portion of the fuel requirements for Cleco Power's generating plants, Cleco has entered into various commitments to obtain and deliver coal, lignite, petroleum coke, and natural gas. Some of these contracts contain provisions for price escalation and minimum purchase commitments. Generally, fuel and purchased power expenses are recovered through the LPSC-established FAC, which enables Cleco Power to pass on to customers substantially all such charges. For more information regarding fuel contracts, see Part I, Item 1, "Business — Operations — Cleco Power — Fuel and Purchased Power."

PPAs: Cleco Power has entered into agreements with energy suppliers for purchased power to meet system load and energy requirements, replace generation from Cleco Power owned units under maintenance and during outages, and meet operating reserve obligations.

Purchase orders: Cleco has entered into purchase orders in the course of normal business activities.

(5) Other long-term liabilities primarily consist of obligations for franchise payments, deferred compensation, facilities use, and various operating and maintenance agreements.

(6) Pension and other benefits obligations consist of obligations for SERP and other postretirement obligations. For more information regarding Cleco's pension plan, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 9 — Pension Plan and Employee Benefits."

For purposes of this table, it is assumed that all terms and rates related to the above obligations will remain the same and all franchises will be renewed according to the rates used in the table.

Off-Balance Sheet Commitments and On-Balance Sheet Guarantees

Cleco Holdings and Cleco Power have entered into various off-balance sheet commitments in the form of guarantees and standby letters of credit in order to facilitate their activities and the activities of Cleco 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 on-balance sheet guarantees, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 15 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — "Off-Balance Sheet Commitments and Guarantees."

Regulatory and Other Matters

Inflation

Annual inflation rates, as measured by the U.S. Consumer Price Index, have averaged 1% during the three years ended December 31, 2016. Cleco believes inflation at this level does not materially affect its results of operations or financial condition. However, under established regulatory practice, historical costs have traditionally formed the basis for recovery from customers. As a result, Cleco Power's cash flows designed to provide recovery of historical plant costs may not be adequate to replace property, plant, and equipment in future years.

Environmental Matters

For information on environmental matters, see Part I, Item 1, "Business — Environmental Matters."

Retail Rates of Cleco Power

Retail rates (comprised of base revenue, the FAC revenue, and the EAC revenue) regulated by the LPSC accounted for approximately 85% of Cleco Power's 2016 and 2015 revenue.

Fuel Rates

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 will be performed at least every other year. On February 3, 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 this audit was $582.6 million. On January 19, 2017, the LPSC Staff issued its audit report which recommended no disallowance of fuel costs. Management expects the report to be approved by the LPSC in the second quarter of 2017. Cleco Power currently has FAC filings for 2016 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 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. Cleco Power began incurring additional environmental compliance expenses in the second quarter of 2015 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 Part I, Item 1, "Business — Environmental Matters — Air Quality."
On February 3, 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 this audit was $81.2 million. On December 1, 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 currently has EAC filings for 2016 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.

Base Rates

Cleco Power's annual retail earnings are subject to the terms of an FRP established by the LPSC. Prior to July 1, 2014, Cleco Power's FRP allowed a target ROE of 10.7%, while providing the opportunity to earn up to 11.3%. Additionally, 60.0% of retail earnings between 11.3% and 12.3% and all retail earnings over 12.3% were required to be refunded to customers. In April 2013, Cleco Power filed an application with the LPSC to extend its current FRP and to seek rate recovery of the Coughlin transfer. In June 2014, the LPSC approved Cleco Power's FRP extension, finalized the rate treatment of Coughlin, and issued the implementing order. Effective July 1, 2014, under the terms of the FRP extension, Cleco Power's retail rates were adjusted based on a target ROE of 10.0%, while providing the opportunity to earn up to 10.9%. Additionally, 60% 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. The capital structure assumes an equity ratio of 51%. The FRP extension includes a mechanism that allows for recovery in base rates, the revenue requirements related to excess amounts of surcredits refunded for storm costs and uncertain tax positions, MISO transition and administration charges, Louisiana state corporate franchise taxes, incremental production operations and maintenance costs, LPSC renewable project costs, and certain capacity costs. It also includes recovery of deferred costs for the previous LPSC fuel audit, biomass pilot project costs, and costs related to filing the FRP extension. The FRP extension also includes a mechanism allowing for recovery of incremental capacity costs above the level included in base rates and allows Cleco Power to request recovery of additional capital project costs during its four-year term. Cleco Power was scheduled to file an application with the LPSC for a new FRP by June 30, 2017. However, as part of the merger approval process, Cleco Power agreed not to file an application for a new FRP or request an increase in base rates until June 30, 2019, with anticipated new rates being effective on July 1, 2020.

On April 8, 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. On April 8, 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. On October 4, 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 anticipates the completion of this agreement in the second quarter of 2017. 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 concerning amounts accrued and refunded by Cleco Power as a result of the FRP and information on the LPSC Staff's FRP reviews, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 12 — Regulation and Rates."

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 runs November 1, 2014, through July 31, 2017. During Phase I, Cleco Power designed several energy efficiency programs and began offering these programs to customers on November 1, 2014. In November 2014, Cleco Power began recovering approximately $3.3 million annually of estimated costs for the program through 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. On March 1, 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 is expected to be filed in 2018.

Transmission Rates of Cleco Power
In July 2011, FERC issued Order No. 1000 that reforms the electric transmission planning and cost allocation requirements for public utility transmission providers. The rule builds on the reforms of Order No. 890 and corrects remaining deficiencies with respect to transmission planning processes and cost allocation methods. In 2015, MISO and the SPP made separate filings containing different metrics to meet specific requirements. A compliance determination for both filings has not been made and no timetable is available for when a determination will be made. Until a determination is made, Cleco is unable to determine if this order will have a material

adverse effect on the results of operations, financial condition, or cash flows of the Registrants.
In June 2013, the LPSC unanimously approved Cleco Power's MISO change of control request to transfer functional control of certain transmission assets to MISO. MISO 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. These markets use market-based mechanisms to manage transmission congestion across the MISO market area. In December 2013, Cleco Power integrated its generation dispatch and transmission operations with MISO. The LPSC authorized Cleco Power to defer and collect the retail portion of its MISO integration costs from LPSC

jurisdictional customers through the FRP. Cleco Power deferred $3.7 million of integration costs and began recovering these costs over a four-year period beginning July 1, 2014.

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 current 12.38% ROE used in MISO's transmission rates to a proposed 6.68%. The first complaint is for the period November 2013 through February 2015. In December 2015, an ALJ issued an initial decision recommending a 10.32% ROE. On September 29, 2016, FERC issued a Final Order confirming the ALJ's recommendation of a 10.32% ROE.

In February 2015, the second ROE complaint was filed 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. A binding FERC order on the second ROE complaint is expected in the second quarter of 2017.

In November 2014, the MISO transmission owners committee, in 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.

As of December 31, 2016, Cleco Power had $3.3 million accrued for a reduction to the ROE, including accrued interest. On February 13, 2017, $1.2 million of refunds relating to the first complaint were submitted to MISO. 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.

For more information about the risks associated with Cleco Power's participation in MISO, see Part I, Item 1A, "Risk Factors — MISO."

Transmission and Generation Projects

Cleco Power is involved in several transmission projects, including the Layfield/Messick project, the Cenla Transmission Expansion project, and the Terrebonne to Bayou Vista Transmission project. Cleco Power is also currently involved in the St. Mary's Clean Energy Center project, which is a proposed waste heat generating unit. For information on these projects, please read "— Overview — Cleco Power."

Market Restructuring

Wholesale Electric Markets

RTO
In 1999, FERC issued Order No. 2000, which established a general framework for all transmission-owning entities in the nation to voluntarily place their transmission facilities under the control of an appropriate RTO. Cleco Power integrated its generation dispatch and transmission operations with MISO in December 2013. For more information about Cleco Power's integration into MISO, see "— Transmission Rates of Cleco Power."

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 would oversee and regulate the mandatory reliability standards.

The SPP RE conducts a NERC Reliability Standard audit every three years. A NERC Reliability Standard audit was conducted in April 2016. There were three possible violations associated with the April audit. The SPP RE dismissed one possible violation. Cleco Power completed the mitigation plans for the other two possible violations and submitted the information to the SPP RE. The SPP RE and NERC have approved the mitigation plans, and the information has been submitted to FERC. The SPP RE did not pursue any enforcement action in connection with the issues of noncompliance found during the 2016 audit. Furthermore, the SPP RE determined the issues posed a minimal risk to the reliability of the bulk power system; therefore, the issues were eligible for disposition as compliance exceptions. NERC and FERC did not object to the handling of the noncompliance issues as compliance exceptions. No fines will be levied against Cleco Power. 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. Cleco Power's NERC Critical Infrastructure Protection audit began on February 13, 2017. 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.

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."

Retail Electric Markets
Currently, the LPSC does not provide exclusive service territories for electric utilities under its jurisdiction. Instead, retail service is obtained through a long-term nonexclusive franchise. The LPSC uses a "300-foot rule" for determining the supplier for new customers. The "300-foot rule" requires a customer to take service from the electric utility that is within 300 feet of the respective customer. If the customer is beyond 300 feet from any existing utility service, they may choose their electric supplier. The "300-foot rule" is currently under review by the LPSC in Docket No. R-32763. Management is unable to predict the time of completion and cannot determine the impact any potential rulemaking may have on the results of operations, financial condition, or cash flows of Cleco Power. The application of the current rule has led to competition with neighboring utilities for retail customers at the borders of Cleco Power's service areas. Cleco Power also competes in its service area with suppliers of alternative forms of energy, some of which may be less costly than electricity for certain applications. Cleco Power could experience some competition for electric sales to industrial customers in the form of cogeneration or from independent power producers.

Lignite Deferral

Cleco Power operates a generating unit jointly owned with SWEPCO that uses lignite as its primary fuel source. Cleco Power, along with SWEPCO, maintains a lignite mining agreement with DHLC, the operator of the Dolet Hills Mine. As ordered by the LPSC, Cleco Power's retail customers began receiving fuel cost savings through the year 2011 while actual mining costs incurred above a certain percentage of the benchmark price were deferred, and can be recovered from retail customers through the FAC only when the actual mining costs are below a certain percentage of the benchmark price.

In 2006, Cleco Power recognized that there was a possibility it may not recover all or part of the lignite mining costs it had deferred and sought relief from the LPSC. In December 2007, the LPSC approved a settlement agreement between Cleco Power, SWEPCO, and the LPSC Staff authorizing Cleco Power to recover the existing deferred mining cost balance, including interest, over 11.5 years. In connection with its approval of the Oxbow Lignite Mine acquisition, in 2009, the LPSC agreed to discontinue benchmarking and the corresponding potential to defer future lignite mining costs while preserving the recovery of the legacy deferred fuel balance previously authorized. At December 31, 2016, and 2015, Cleco Power had $6.4 million and $8.9 million, respectively, in deferred costs remaining uncollected.

IRP

In accordance with the General Order in LPSC Docket No. R-30021, Cleco Power filed a request with the LPSC to initiate an IRP process in October 2013. The IRP process included the conduct of stakeholder meetings and consideration of feedback provided by stakeholders. Cleco Power filed its IRP with the LPSC in September 2015. Stakeholders filed comments in November 2015. The LPSC Staff filed its comments in December 2015, which included a recommendation that the LPSC accept Cleco Power's IRP as filed. In April 2016, the LPSC approved Cleco Power's IRP report, which fostered a collaborative working process for the development of Cleco Power's long-term resource plan covering the planning period of 2015 through 2034. Cleco Power anticipates filing the next IRP with the LPSC in 2019.

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. On February 1, 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 is required to file a monitoring report annually, beginning in April 2017.

Franchises
For information on franchises, see Part I, Item 1, "Business — Regulatory Matters, Industry Developments, and Franchises — Franchises."

Recent Authoritative Guidance
For a discussion of recent authoritative guidance, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 2 — Summary of Significant Accounting Policies — Recent Authoritative Guidance."

ITEM 7A. 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 8, 2016, S&P and Moody's updated the credit ratings for Cleco Holdings and Cleco Power, taking into consideration the anticipated completion of the Merger. S&P credit ratings were maintained at Cleco Power at BBB+ (stable) and downgraded

at Cleco Holdings to BBB- (stable). Moody's credit ratings were maintained at Cleco Power at A3 (stable) and downgraded at Cleco Holdings to Baa3 (stable). If Cleco Holdings or Cleco Power's credit ratings were to be downgraded by S&P and 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. For details, see Item 1, "Notes to the Unaudited Consolidated Financial Statements — Note 7 — 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 December 31, 2016, Cleco had no short-term variable-rate debt outstanding. Cleco Holdings had no borrowings outstanding under its $100.0 million credit facility. The borrowing costs under Cleco Holdings' new credit facility are equal to LIBOR plus 1.75% or ABR plus 0.75%, plus commitment fees of 0.275%.

At December 31, 2016, Cleco 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 December 31, 2016, the all-in rate was 2.265%. Each 1% increase in the all-in interest rate applicable to such debt would result in a decrease in Cleco's pretax earnings of $3.0 million.

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 December 31, 2016. 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 is currently scheduled to be submitted to the LPSC during the second half of 2017.

Cleco Power purchases the majority of its FTRs in annual auctions facilitated by MISO during the second quarter of each year and may also purchase additional FTRs in monthly auctions facilitated by MISO. 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 initially records FTRs at their estimated fair value and subsequently adjusts the carrying value to their estimated fair value at the end of each accounting period 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 and Cleco Power's Consolidated Balance Sheets. Realized gains or losses on settled FTRs are recorded in Fuel used for electric generation on Cleco Power's Consolidated Statements of Income. At December 31, 2016, Cleco and Cleco Power's Consolidated Balance Sheets reflected open FTR positions of $7.9 million in Energy risk management assets and $0.2 million in Energy risk management liabilities. For more information on FTRs, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 6 — Fair Value Accounting — Commodity Contracts."

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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. For details, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 7 — Debt." 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 December 31, 2016, Cleco Power had no short- or long-term variable-rate debt.

At December 31, 2016, Cleco Power had no borrowings outstanding under its $300.0 million credit facility. 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%.

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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Board of Managers of
Cleco Corporate Holdings LLC
Pineville, Louisiana

In our opinion, the accompanying consolidated statements listed in the index appearing under item 15(a)(1) present fairly, in all material respects, the financial position of Cleco Corporate Holdings, LLC and its subsidiaries (the "Company") as of December 31, 2016 and the results of their operations and their cash flows for the period April 13, 2016 to December 31, 2016 (Successor) in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15(a)(2) as of December 31, 2016 and for the period of April 13, 2016 to December 31, 2016 presents fairly, in all material respects, the information set forth therein when read in conjunction with the consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audit. We conducted our audit of these financial statements in accordance with the standards of

the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
New Orleans, Louisiana
February 22, 2017

Report of Independent Registered Public Accounting Firm

To the Board of Managers of
Cleco Corporate Holdings LLC
Pineville, Louisiana

In our opinion, the accompanying consolidated statement of income, comprehensive income, changes in equity and cash flows present fairly, in all material respects, the results of operations and their cash flows for the period January 1, 2016 to April 12, 2016 (Predecessor) for Cleco Corporation and its subsidiaries (the “Company”) in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15(a)(2) for the period January 1, 2016 to April 12, 2016 presents fairly, in all material respects, the information set forth therein when read in conjunction with the consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our

audit. We conducted our audit of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
New Orleans, Louisiana
February 22, 2017

Report of Independent Registered Public Accounting Firm

To the Board of Managers of
Cleco Corporate Holdings LLC
Pineville, Louisiana

We have audited the accompanying consolidated balance sheet of Cleco Corporate Holdings LLC (formerly Cleco Corporation) and subsidiaries (the "Company") as of December 31, 2015, and the related consolidated statements of income, comprehensive income, cash flows and changes in equity for the years ended December 31, 2015 and 2014. Our audits also included the financial statement schedules as of December 31, 2015 and for the years ended December 31, 2015 and 2014 listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the

financial statements. An audit also includes assessing the
accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Cleco Corporate Holdings LLC and subsidiaries as of December 31, 2015, and the results of their operations and their cash flows for the years ended December 31, 2015 and 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules as of December 31, 2015 and for the years ended December 31, 2015 and 2014, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ Deloitte & Touche LLP
New Orleans, Louisiana
February 26,2016

CLECO

Consolidated Statements of Income

(THOUSANDS)	SUCCESSOR APR. 13, 2016 - DEC. 31, 2016	PREDECESSOR JAN. 1, 2016 - APR. 12, 2016	FOR THE YEAR ENDED DEC. 31, 2015	FOR THE YEAR ENDED DEC. 31, 2014
Operating revenue				
Electric operations	$ 802,592	$281,154	$1,142,389	$1,225,960
Other operations	51,562	19,080	69,186	67,055
Gross operating revenue	854,154	300,234	1,211,575	1,293,015
Electric customer credits	(1,149)	(364)	(2,173)	(23,530)
Operating revenue, net	853,005	299,870	1,209,402	1,269,485
Operating expenses				
Fuel used for electric generation	250,142	96,378	373,117	322,696
Power purchased for utility customers	92,337	27,249	130,095	242,219
Other operations	90,313	33,563	127,410	117,369
Maintenance	63,944	29,813	88,137	98,999
Depreciation and amortization	109,739	44,076	149,579	146,505
Taxes other than income taxes	35,543	14,611	49,134	43,924
Merger transaction and commitment costs	174,696	34,912	4,591	17,848
Gain on sales of assets	—	(1,095)	—	(6,107)
Total operating expenses	816,714	279,507	922,063	983,453
Operating income	36,291	20,363	287,339	286,032
Interest income	840	265	895	1,768
Allowance for equity funds used during construction	3,735	723	3,063	5,380
Other income	3,350	870	1,443	4,790
Other expense	(1,385)	(590)	(3,376)	(2,509)
Interest charges				
Interest charges, including amortization of debt issuance costs, premiums, and discounts, net	90,852	22,330	78,877	75,186
Allowance for borrowed funds used during construction	(1,086)	(207)	(886)	(1,580)
Total interest charges	89,766	22,123	77,991	73,606
(Loss) income before income taxes	(46,935)	(492)	211,373	221,855
Federal and state income tax (benefit) expense	(22,822)	3,468	77,704	67,116
Net (loss) income	$ (24,113)	$(3,960)	$133,669	$154,739

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

CLECO

Consolidated Statements of Comprehensive Income

(THOUSANDS)	SUCCESSOR APR. 13, 2016 - DEC. 31, 2016	PREDECESSOR JAN. 1, 2016 - APR. 12, 2016	FOR THE YEAR ENDED DEC. 31, 2015	FOR THE YEAR ENDED DEC. 31, 2014
Net (loss) income	$ (24,113)	$(3,960)	$133,669	$154,739
Other comprehensive income (loss), net of tax				
Postretirement benefits gain (loss) (net of tax expense of $938, $367, and $3,670 and tax benefit of $4,378, respectively)	1,500	587	5,869	(7,001)
Net gain on cash flow hedges (net of tax expense of $0, $37, $132, and $132, respectively)	—	60	211	212
Total other comprehensive income (loss), net of tax	1,500	647	6,080	(6,789)
Comprehensive (Ioss) income, net of tax	$ (22,613)	$(3,313)	$139,749	$147,950

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

CLECO

Consolidated Balance Sheets

(THOUSANDS)	SUCCESSOR AT DEC. 31, 2016	PREDECESSOR AT DEC. 31, 2015
Assets		
Current assets		
Cash and cash equivalents	$ 23,077	$ 68,246
Restricted cash and cash equivalents	23,084	9,263
Customer accounts receivable (less allowance for doubtful accounts of $7,199 in 2016 and $2,674 in 2015)	56,780	43,255
Other accounts receivable	19,778	27,677
Unbilled revenue	34,268	33,995
Fuel inventory, at average cost	46,410	72,838
Materials and supplies, at average cost	81,818	76,731
Energy risk management assets	7,884	7,673
Accumulated deferred fuel	20,787	12,910
Cash surrender value of company-/trust-owned life insurance policies	77,225	73,823
Prepayments	7,813	7,883
Regulatory assets	26,803	14,117
Other current assets	1,315	448
Total current assets	427,042	448,859
Property, plant, and equipment		
Property, plant, and equipment	3,476,581	4,661,212
Accumulated depreciation	(75,816)	(1,536,158)
Net property, plant, and equipment	3,400,765	3,125,054
Construction work in progress	78,577	66,509
Total property, plant, and equipment, net	3,479,342	3,191,563
Equity investment in investee	18,672	16,822
Goodwill	1,490,797	—
Prepayments	4,731	4,542
Restricted cash and cash equivalents	23,410	16,195
Regulatory assets - deferred taxes, net	237,449	236,941
Regulatory assets	454,644	284,689
Net investment in direct financing lease	13,420	13,464
Intangible assets	142,634	74,963
Tax credit fund investment, net	11,888	13,741
Other deferred charges	39,115	21,575
Total assets	$ 6,343,144	$ 4,323,354

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

(Continued on next page)

CLECO

Consolidated Balance Sheets

(THOUSANDS)	SUCCESSOR AT DEC. 31, 2016	PREDECESSOR AT DEC. 31, 2015
Liabilities and member's equity/shareholders' equity		
Liabilities		
Current liabilities		
Long-term debt due within one year	$ 19,715	$ 19,421
Accounts payable	112,087	93,822
Customer deposits	56,599	55,233
Provision for rate refund	3,974	2,696
Provision for merger commitments	14,371	—
Taxes payable	3,942	2,573
Interest accrued	14,783	7,814
Energy risk management liabilities	201	275
Regulatory liabilities - other	—	312
Deferred compensation	11,654	10,156
Other current liabilities	14,850	14,277
Total current liabilities	252,176	206,579
Long-term liabilities and deferred credits		
Accumulated deferred federal and state income taxes, net	1,033,055	925,103
Accumulated deferred investment tax credits	2,751	3,245
Postretirement benefit obligations	223,003	205,036
Restricted storm reserve	17,385	16,177
Other deferred credits	29,440	24,670
Total long-term liabilities and deferred credits	1,305,634	1,174,231
Long-term debt, net	2,738,571	1,267,703
Total liabilities	4,296,381	2,648,513
Commitments and contingencies (Note 15)		
Member's equity/Shareholders' equity		
Member's equity/Common shareholders' equity		
Membership interest/Common stock[1]	2,069,376	456,412
(Accumulated deficit)/Retained earnings	(24,113)	1,245,014
Accumulated other comprehensive income (loss)	1,500	(26,585)
Total member's equity/common shareholders' equity	2,046,763	1,674,841
Total liabilities and member's equity/shareholders' equity	$ 6,343,144	$ 4,323,354

[1]At December 31, 2015, shareholders' equity included $418.5 million of premium on common stock, $61.1 million of common stock, and $23.2 million of treasury stock. At December 31, 2015, Cleco had 100,000,000 shares of common stock authorized, 61,058,918 shares of common stock issued, and 60,482,468 shares of common stock outstanding, par value $1 per share. At December 31, 2015, Cleco had 576,450 shares of treasury stock.

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

CLECO

Consolidated Statements of Cash Flows

	SUCCESSOR	PREDECESSOR		
(THOUSANDS)	APR. 13, 2016 - DEC. 31, 2016	JAN. 1, 2016 - APR. 12, 2016	FOR THE YEAR ENDED DEC. 31, 2015	FOR THE YEAR ENDED DEC. 31, 2014
Operating activities				
Net (loss) income	$ (24,113)	$ (3,960)	$ 133,669	$ 154,739
Adjustments to reconcile net (loss) income to net cash provided by operating activities				
Depreciation and amortization	141,544	45,869	156,211	156,590
Gain on sales of assets	—	(1,095)	—	(6,224)
Provision for doubtful accounts	4,473	1,212	3,464	2,994
Unearned compensation expense	1,147	3,276	6,344	6,545
Allowance for equity funds used during construction	(3,735)	(723)	(3,063)	(5,380)
Net deferred income taxes	(21,053)	2,219	74,103	63,597
Deferred fuel costs	(8,192)	977	9,899	(11,558)
Cash surrender value of company-/trust-owned life insurance	(2,561)	(840)	950	(3,616)
Provision for merger commitments	21,964	—	—	—
Changes in assets and liabilities				
Accounts receivable	(21,537)	(1,865)	(13,656)	11,556
Unbilled revenue	(837)	563	4,481	(7,310)
Fuel inventory and materials and supplies	2,880	19,312	(13,698)	(12,147)
Prepayments	(2,514)	2,395	2,750	27
Accounts payable	5,183	8,348	(25,294)	4,481
Customer deposits	7,333	3,342	12,162	14,960
Postretirement benefit obligations	3,750	9,746	14,173	8,864
Regulatory assets and liabilities, net	13,750	5,178	18,793	(777)
Other deferred accounts	(28,010)	6,878	(17,454)	(14,691)
Taxes accrued	(24,210)	10,820	(831)	(22,685)
Interest accrued	(11,104)	17,909	(1,024)	(3,519)
Deferred compensation	(799)	(793)	(1,166)	332
Other operating	(2,037)	1,012	209	(1,609)
Net cash provided by operating activities	51,322	129,780	361,022	335,169
Investing activities				
Additions to property, plant, and equipment	(144,444)	(42,392)	(156,819)	(207,636)
Allowance for equity funds used during construction	3,735	723	3,063	5,380
Proceeds from sale of property	766	1,932	—	9,316
Reimbursement for property loss	3,159	53	—	191
Contributions to equity investment in investee	—	(2,450)	(2,290)	—
Premiums paid on trust-owned life insurance	—	—	(3,607)	(2,831)
Return of equity investment in tax credit fund	901	476	2,128	2,579

Contributions to tax credit fund	—	—	(9,966)	(55,315)
Transfer of cash (to) from restricted accounts, net	(25,884)	4,847	(1,341)	(10,097)
Sale of restricted investments	—	—	—	11,138
Maturity of restricted investments	—	—	—	1,458
Other investing	622	—	881	(697)
Net cash used in investing activities	(161,145)	(36,811)	(167,951)	(246,514)

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

(Continued on next page)

CLECO

Consolidated Statements of Cash Flows

	SUCCESSOR	PREDECESSOR		
(THOUSANDS)	APR. 13, 2016 - DEC. 31, 2016	JAN. 1, 2016 - APR. 12, 2016	FOR THE YEAR ENDED DEC. 31, 2015	FOR THE YEAR ENDED DEC. 31, 2014
Financing activities				
Draws on credit facility	15,000	3,000	120,000	254,000
Payments on credit facility	(15,000)	(10,000)	(163,000)	(202,000)
Issuances of long-term debt	1,680,000	—	75,000	—
Repayments of long-term debt	(1,668,268)	(8,546)	(100,824)	(14,876)
Repurchase of common stock	—	—	—	(12,449)
Payment of financing costs	(8,655)	(43)	(693)	(71)
Dividends paid on common stock	(572)	(24,579)	(97,283)	(95,044)
Contribution from member	100,720	—	—	—
Distributions to member	(88,765)	—	—	—
Other financing	(1,890)	(717)	(2,448)	(2,448)
Net cash provided by (used in) financing activities	12,570	(40,885)	(169,248)	(72,888)
Net (decrease) increase in cash and cash equivalents	(97,253)	52,084	23,823	15,767
Cash and cash equivalents at beginning of period	120,330	68,246	44,423	28,656
Cash and cash equivalents at end of period	$ 23,077	$ 120,330	$ 68,246	$ 44,423
Supplementary cash flow information				
Interest paid, net of amount capitalized	$ 116,496	$ 2,478	$ 74,349	$ 74,515
Income taxes paid (refunded), net	$ 4,263	$ (481)	$ 1,434	$ 15,286
Supplementary non-cash investing and financing activities				
Accrued additions to property, plant, and equipment	$ 17,599	$ 10,619	$ 7,313	$ 12,325
Non-cash additions to property, plant, and equipment - ARO	$ —	$ —	$ 184	$ 4,400

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

CLECO

Consolidated Statements of Changes in Equity

(THOUSANDS)	COMMON STOCK/[1] MEMBERSHIP INTEREST	RETAINED EARNINGS/ (ACCUMULATED DEFICIT)	AOCI	TOTAL SHAREHOLDERS'/ MEMBER'S EQUITY
PREDECESSOR				
Balances, Dec. 31, 2013	$ 463,070	$ 1,149,003	$ (25,876)	$ 1,586,197
Common stock issued for compensatory plans	602	—	—	602
Repurchase of common stock	(12,449)	—	—	(12,449)
Dividends on common stock, $1.5625 per share	—	(95,030)	—	(95,030)
Net income	—	154,739	—	154,739
Other comprehensive loss, net of tax	—	—	(6,789)	(6,789)
Balances, Dec. 31, 2014	$ 451,223	$ 1,208,712	$ (32,665)	$ 1,627,270
Common stock issued for compensatory plans	5,189	—	—	5,189
Dividends on common stock, $1.60 per share	—	(97,367)	—	(97,367)
Net income	—	133,669	—	133,669
Other comprehensive income, net of tax	—	—	6,080	6,080
Balances, Dec. 31, 2015	$ 456,412	$ 1,245,014	$ (26,585)	$ 1,674,841
Common stock issued for compensatory plans	(1,277)	—	—	(1,277)
Dividends on common stock, $0.40 per share	—	(24,190)	—	(24,190)
Net loss	—	(3,960)	—	(3,960)
Other comprehensive income, net of tax	—	—	647	647
Balances, Apr. 12, 2016	$ 455,135	$ 1,216,864	$ (25,938)	$ 1,646,061
SUCCESSOR				
Balances, Apr. 13, 2016[2]	$ 2,158,141	$ —	$—	$ 2,158,141
Distributions to member	(88,765)	—	—	(88,765)
Net loss	—	(24,113)	—	(24,113)
Other comprehensive income, net of tax	—	—	1,500	1,500
Balances, Dec. 31, 2016	$ 2,069,376	$ (24,113)	$ 1,500	$ 2,046,763

[1]At April 12, 2016, December 31, 2015, and December 31, 2014, shareholders' equity of the predecessor company included $61.1 million of common stock. At December 31, 2013, shareholders' equity of the predecessor company included $61.0 million of common stock. At April 12, 2016, December 31, 2015, December 31, 2014, and December 31, 2013, shareholders' equity of the predecessor company included premium on common stock of $414.6 million, $418.5 million, $415.5 million, and $422.6 million, respectively. At April 12, 2016, December 31, 2015, December 31, 2014, and December 31, 2013, shareholders' equity of the predecessor company included treasury stock of $20.5 million, $23.2 million, $25.3 million, and $20.6 million, respectively.
[2]The April 13, 2016, beginning balance of the successor company differs from the April 12, 2016, ending balances of the predecessor company due to acquisition accounting adjustments related to the Merger.
The accompanying notes are an integral part of the
Consolidated Financial Statements.

Report of
Independent
Registered
Public
Accounting
Firm

To the Member and Board of Managers of
Cleco Power LLC
Pineville, Louisiana

In our opinion, the accompanying consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Cleco Power, LLC and its subsidiaries (the “Company”) as of December 31, 2016 and, and the results of their operations and their cash flows for the period January 1, 2016 to December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the consolidated financial statements. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the

standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
New Orleans, Louisiana
February 22, 2017

Report of
Independent
Registered
Public
Accounting
Firm

To the Member and Board of Managers of
Cleco Power LLC
Pineville, Louisiana

We have audited the accompanying consolidated balance sheet of Cleco Power LLC and subsidiaries (the “Company”) as of December 31, 2015, and the related consolidated statements of income, comprehensive income, changes in member’s equity, and cash flows for the years ended December 31, 2015 and 2014. Our audits also included the financial statement schedule for the years ended December 31, 2015 and 2014 listed in the Index at Item 15. These financial statements and the financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the

financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Cleco Power LLC and subsidiaries as of December 31, 2015, and the results of their operations and their cash flows for the years ended December 31, 2015 and 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule for the years ended December 31, 2015 and 2014, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Deloitte & Touche LLP
New Orleans, Louisiana
February 26, 2016

CLECO POWER

Consolidated Statements of Income

	FOR THE YEAR ENDED DEC. 31,		
(THOUSANDS)	2016	2015	2014
Operating revenue			
Electric operations	$1,091,229	$1,142,389	$1,225,960
Other operations	68,573	67,109	64,893
Affiliate revenue	884	1,142	1,326
Gross operating revenue	1,160,686	1,210,640	1,292,179
Electric customer credits	(1,513)	(2,173)	(23,530)
Operating revenue, net	1,159,173	1,208,467	1,268,649
Operating expenses			
Fuel used for electric generation	346,520	373,117	322,696
Power purchased for utility customers	119,586	130,095	247,686
Other operations	125,892	128,697	116,664
Maintenance	93,340	87,416	96,054
Depreciation and amortization	146,142	147,839	144,026
Taxes other than income taxes	48,287	47,102	41,812
Merger commitment costs	151,501	—	—
Gain on sales of assets	(1,095)	—	(4)
Total operating expenses	1,030,173	914,266	968,934
Operating income	129,000	294,201	299,715
Interest income	860	725	1,707
Allowance for equity funds used during construction	4,458	3,063	5,380
Other income	1,601	1,764	1,483
Other expense	(1,976)	(2,549)	(2,322)
Interest charges			
Interest charges, including amortization of debt issuance costs, premiums, and discounts, net	77,739	77,446	76,253
Allowance for borrowed funds used during construction	(1,293)	(886)	(1,580)
Total interest charges	76,446	76,560	74,673
Income before income taxes	57,497	220,644	231,290
Federal and state income tax expense	18,369	79,294	76,974
Net income	$39,128	$141,350	$154,316

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

CLECO POWER

Consolidated Statements of Comprehensive Income

	FOR THE YEAR ENDED DEC. 31,		
(THOUSANDS)	2016	2015	2014
Net income	$39,128	$141,350	$154,316
Other comprehensive income (loss), net of tax:			
Postretirement benefits gain (loss) (net of tax expense of $2,163 and tax benefit of $9 and $1,453, respectively)	3,459	(15)	(2,323)
Net gain on cash flow hedges (net of tax expense of $132 in each year)	211	211	212
Total other comprehensive income (loss), net of tax	3,670	196	(2,111)
Comprehensive income, net of tax	$42,798	$141,546	$152,205

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

CLECO POWER

Consolidated Balance Sheets

(THOUSANDS)	AT DEC. 31, 2016	AT DEC. 31, 2015
Assets		
Utility plant and equipment		
Property, plant, and equipment	$4,790,565	$4,645,698
Accumulated depreciation	(1,618,241)	(1,525,298)
Net property, plant, and equipment	3,172,324	3,120,400
Construction work in progress	77,306	66,069
Total utility plant and equipment, net	3,249,630	3,186,469
Current assets		
Cash and cash equivalents	21,482	65,705
Restricted cash and cash equivalents	23,084	9,263
Customer accounts receivable (less allowance for doubtful accounts of $7,199 in 2016 and $2,674 in 2015)	56,780	43,255
Accounts receivable - affiliate	1,406	1,908
Other accounts receivable	19,457	27,553
Taxes receivable, net	12,490	—
Unbilled revenue	34,268	33,995
Fuel inventory, at average cost	46,410	72,838
Materials and supplies, at average cost	81,818	76,731
Energy risk management assets	7,884	7,673
Accumulated deferred fuel	20,787	12,910
Cash surrender value of company-owned life insurance policies	20,018	20,003
Prepayments	5,892	6,309
Regulatory assets	17,721	14,117
Other current assets	577	337
Total current assets	370,074	392,597
Equity investment in investee	18,672	16,822
Prepayments	4,731	4,542
Restricted cash and cash equivalents	23,389	16,174
Regulatory assets - deferred taxes, net	237,449	236,941
Regulatory assets	268,016	284,689
Intangible asset	58,473	74,963
Other deferred charges	37,014	20,140
Total assets	$4,267,448	$4,233,337

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

(Continued on next page)

CLECO POWER

Consolidated Balance Sheets

(THOUSANDS)	AT DEC. 31, 2016	AT DEC. 31, 2015
Liabilities and member's equity		
Member's equity	$1,535,202	$1,552,404
Long-term debt, net	1,235,056	1,234,039
Total capitalization	2,770,258	2,786,443
Current liabilities		
Long-term debt due within one year	19,715	19,421
Accounts payable	101,874	88,235
Accounts payable - affiliate	7,190	6,598
Customer deposits	56,599	55,233
Provision for rate refund	3,974	2,696
Provision for merger commitments	14,371	—
Taxes payable	—	17,045
Interest accrued	7,141	7,813
Energy risk management liabilities	201	275
Regulatory liabilities - other	—	312
Other current liabilities	9,951	10,078
Total current liabilities	221,016	207,706
Commitments and contingencies (Note 15)		
Long-term liabilities and deferred credits		
Accumulated deferred federal and state income taxes, net	1,068,592	1,043,531
Accumulated deferred investment tax credits	2,751	3,245
Postretirement benefit obligations	159,107	152,152
Restricted storm reserve	17,385	16,177
Other deferred credits	28,339	24,083
Total long-term liabilities and deferred credits	1,276,174	1,239,188
Total liabilities and member's equity	$4,267,448	$4,233,337

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

CLECO POWER

Consolidated Statements of Cash Flows

	FOR THE YEAR ENDED DEC. 31,		
(THOUSANDS)	2016	2015	2014
Operating activities			
Net income	$39,128	$141,350	$154,316
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	152,978	152,833	151,252
Gain on sales of assets	(1,095)	—	(346)
Provision for doubtful accounts	5,512	2,986	1,994
Unearned compensation expense	1,572	2,000	2,004
Allowance for equity funds used during construction	(4,458)	(3,063)	(5,380)
Net deferred income taxes	20,492	43,675	82,315
Deferred fuel costs	(7,215)	9,899	(11,558)
Provision for merger commitments	21,964	—	—
Changes in assets and liabilities			
Accounts receivable	(23,306)	(13,681)	11,689
Accounts and notes receivable, affiliate	2,612	6,195	709
Unbilled revenue	(274)	4,481	(7,310)
Fuel inventory and materials and supplies	22,192	(13,698)	(12,114)
Accounts payable	9,140	(20,575)	5,459
Accounts and notes payable, affiliate	(3,639)	(3,990)	(2,749)
Customer deposits	10,675	12,162	14,960
Postretirement benefit obligations	5,076	7,405	4,963
Regulatory assets and liabilities, net	17,506	18,793	(777)
Other deferred accounts	(21,818)	(15,991)	(10,798)
Taxes accrued	(29,535)	36,287	(26,373)
Interest accrued	(671)	(1,412)	(4,364)
Other operating	(1,079)	882	(820)
Net cash provided by operating activities	215,757	366,538	347,072
Investing activities			
Additions to property, plant, and equipment	(186,143)	(156,357)	(206,607)
Allowance for equity funds used during construction	4,458	3,063	5,380
Proceeds from sale of property	2,698	—	—
Reimbursement for property loss	3,212	—	—
Contributions to equity investment in investee	(2,450)	(2,290)	—
Transfer of cash to restricted accounts, net	(21,037)	(1,341)	(10,097)
Sale of restricted investments	—	—	11,138
Maturity of restricted investments	—	—	1,458
Other investing	622	881	2,153
Net cash used in investing activities	(198,640)	(156,044)	(196,575)

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

(Continued on next page)

CLECO POWER

Consolidated Statements of Cash Flows

	FOR THE YEAR ENDED DEC. 31,		
(THOUSANDS)	2016	2015	2014
Financing activities			
Draws on credit facility	15,000	63,000	157,000
Payments on credit facility	(15,000)	(83,000)	(157,000)
Issuances of long-term debt	330,000	75,000	—
Repayments of long-term debt	(326,814)	(100,824)	(14,876)
Contribution from parent	50,000	—	—
Distributions to parent	(110,000)	(135,000)	(115,000)
Other financing	(4,526)	(3,127)	(2,514)
Net cash used in financing activities	(61,340)	(183,951)	(132,390)
Net (decrease) increase in cash and cash equivalents	(44,223)	26,543	18,107
Cash and cash equivalents at beginning of period	65,705	39,162	21,055
Cash and cash equivalents at end of period	$21,482	$65,705	$39,162
Supplementary cash flow information			
Interest paid, net of amount capitalized	$92,585	$74,219	$74,326
Income taxes (refunded) paid, net	$(485)	$(27)	$257
Supplementary non-cash investing and financing activities			
Accrued additions to property, plant, and equipment	$16,755	$7,249	$12,225
Non-cash additions to property, plant, and equipment - ARO	$—	$184	$4,400
Non-cash additions to property, plant, and equipment - Coughlin	$—	$—	$176,244

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

CLECO POWER

Consolidated Statements of Changes in Member's Equity

(THOUSANDS)	MEMBER'S EQUITY	AOCI	TOTAL MEMBER'S EQUITY
Balances, Dec. 31, 2013	$1,385,750	$(15,177)	$1,370,573
Other comprehensive loss, net of tax	—	(2,111)	(2,111)
Non-cash contributions from parent	138,080	—	138,080
Distributions to parent	(115,000)	—	(115,000)
Net income	154,316	—	154,316
Balances, Dec. 31, 2014	$1,563,146	$(17,288)	$1,545,858
Other comprehensive income, net of tax	—	196	196
Distributions to parent	(135,000)	—	(135,000)
Net income	141,350	—	141,350
Balances, Dec. 31, 2015	$1,569,496	$(17,092)	$1,552,404
Other comprehensive income, net of tax	—	3,670	3,670
Contribution from parent	50,000	—	50,000
Distributions to parent	(110,000)	—	(110,000)
Net income	39,128	—	39,128
Balances, Dec. 31, 2016	$1,548,624	$(13,422)	$1,535,202

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

Index to Applicable Notes to the Financial Statements of Registrants

Notes to the Financial Statements

Note 1 — The Company

General

Cleco Holdings is a holding company composed of the following:

- Cleco Power, a regulated electric utility subsidiary, which 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. Cleco Power also owns a 50% interest in an entity that owns lignite reserves. Cleco Power owns all of the outstanding membership interests in Cleco Katrina/Rita, a special purpose entity that is consolidated with Cleco Power in its financial statements.
- Midstream is a wholesale energy subsidiary, regulated by FERC, which owns Evangeline. Prior to March 15, 2014, Evangeline owned Coughlin and its two generating units with a total nameplate capacity of 775 MW. On March 15, 2014, Coughlin was transferred from Evangeline to Cleco Power.

- Cleco's other operations consist of a holding company, two transmission interconnection facility subsidiaries, a shared services subsidiary, and an investment subsidiary.

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. As a result, Cleco Corporation is presented as the predecessor entity and Cleco Holdings is presented as the successor entity. For more information on the Merger, see Note 3 — "Business Combinations."

Note 2 — Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation

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

Goodwill

Goodwill is the excess of the purchase price (consideration transferred and liabilities assumed) over the estimated fair value of net assets of the acquired business and is not subject to amortization. Goodwill will be assessed annually or more often if an event occurs or circumstances change that would indicate the carrying amount may be impaired. If the fair value of Cleco is less than the carrying value, a full valuation of Cleco's assets and liabilities, conducted as though Cleco were a newly acquired business, would occur. For more information on goodwill, see Note 17 — "Intangible Assets and Goodwill."

Intangible Assets

Intangible assets include Cleco Katrina/Rita's right to bill and collect storm recovery charges, fair value adjustments for long-term wholesale power supply agreements, and a fair value adjustment for the valuation of the Cleco trade name. The intangible assets are being amortized over their estimated useful lives in a manner that best reflects the economic benefits derived from such assets. Impairment will be tested if there are events or circumstances that indicate that an impairment analysis should be performed. If such an event or circumstance occurs, intangible impairment testing will be performed prior to goodwill impairment testing. Impairment is calculated as the excess of the asset's carrying amount over its fair value. For more information on intangible assets, see Note 17 — "Intangible Assets and Goodwill."

Statements of Cash Flows
Cleco and Cleco Power's Consolidated Statements of Cash Flows are prepared using the indirect method. This method requires adjusting net income to remove the effects of all deferrals and accruals of operating cash receipts and payments and to remove items whose cash effects are related to investing and financing cash flows. Derivatives meeting the definition of an accounting hedge are classified in the same category as the item being hedged.

Regulation
Cleco Power is subject to regulation by FERC and the LPSC. Cleco Power complies with the accounting policies and practices prescribed by its regulatory commissions. Cleco Power's retail rates are regulated by the LPSC and its tariffs for transmission services are regulated by FERC. Rates for wholesale power sales are based on market-based rates, pending FERC review of Cleco Power's generation market power analysis. Cleco Power 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 through the ratemaking process. Regulatory assets and liabilities are amortized consistent with the treatment of the related cost in the ratemaking process. Pursuant to this regulatory approval, Cleco has recorded regulatory assets and liabilities. Any future plan adopted by the LPSC for purposes of transitioning utilities from LPSC regulation to retail competition may affect the regulatory assets and liabilities recorded by Cleco if the criteria for the application of the authoritative guidelines for industry regulated operations cannot continue to be met. At this time, Cleco cannot predict whether any legislation or regulation affecting Cleco will be enacted or adopted and, if enacted, what form such legislation or regulation may take.
For more information regarding the regulatory assets and liabilities recorded by Cleco Power, see Note 4 — "Regulatory Assets and Liabilities."

AROs
Cleco Power recognizes an ARO when there is a legal obligation under existing or enacted law, statute, written or oral contract, or by legal construction under the doctrine of promissory estoppel to incur costs to remove an asset when the asset is retired. These guidelines also require an ARO which is conditional on a future event to be recorded even if the event has not yet occurred.
Cleco Power recognizes AROs at the present value of the projected liability in the period in which it is incurred, if a reasonable estimate of fair value can be made. The liability is then accreted to its present value each accounting period. Cleco Power defers this accretion as a regulatory asset based on its determination that these costs can be collected from customers. Concurrent with the recognition of the liability, these costs are capitalized to the related property, plant, and

equipment asset. These capitalized costs are depreciated over the same period as the related property asset. Cleco Power also defers the current depreciation of the asset retirement cost as a regulatory asset.
In April 2015, the EPA published the final rule in the Federal Register for regulating the disposal and management of CCRs from coal-fired power plants under Subtitle D of the Resource Conservation and Recovery Act. The Subtitle D option will regulate CCRs in a manner similar to industrial solid waste. The final rule does not require expensive synthetic lining of existing impoundments. At December 31, 2015, based on management's best estimate of the retirement costs related to this ruling, Cleco Power recorded a $1.0 million increase to its ARO for the retirement of

certain ash disposal facilities. All costs of the CCR rule are expected to be recovered from customers in future rates. The actual asset retirement costs related to the CCR rule requirements may vary substantially from the estimates used to record the increased obligation due to the uncertainty about the compliance strategies that will be used and the preliminary nature of available data used to estimate costs. Cleco Power will continue to gather additional data in future periods and will make decisions about compliance strategies and the timing of closure activities. As this additional information becomes available, Cleco Power will update the ARO balance for these changes in estimates. At December 31, 2016, management's analysis confirmed that no additional adjustments were needed to update Cleco Power's ARO balance.

For more information on Cleco Power's current AROs, see Note 4 — "Regulatory Assets and Liabilities — AROs."

Property, Plant, and Equipment

Property, plant, and equipment consists primarily of regulated utility generation and energy transmission and distribution assets. Regulated assets, utilized primarily for retail operations and electric transmission and distribution, are stated at the cost of construction, which includes certain materials, labor, payroll taxes and benefits, administrative and general costs, and the estimated cost of funds used during construction. Jointly owned assets are reflected in property, plant, and equipment at Cleco Power's share of the cost to construct or purchase the assets. For information on jointly owned assets, see Note 5 — "Jointly Owned Generation Units."

Most of the carrying values of Cleco's assets 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. A fair value adjustment was made to record the stepped-up basis for the Coughlin assets, since Cleco Power is able to earn a return on and recover these costs from customers. At the date of the Merger, the gross balance of fixed depreciable assets at Cleco was adjusted to be net of accumulated depreciation, as no accumulated depreciation existed on the date of the Merger. Since pushdown accounting was not elected at the Cleco Power level, Cleco Power retained its accumulated depreciation. For more information about merger related adjustments to property, plant, and equipment, see Note 3 — "Business Combinations."

Cleco's cost of improvements to property, plant, and equipment is capitalized. Costs associated with repairs and major maintenance projects are expensed as incurred. Cleco capitalizes the cost to purchase or develop software for internal use. The amounts of unamortized computer software costs at December 31, 2016, and 2015 were $10.0 million and

$12.5 million, respectively. Amortization of capitalized computer software costs charged to expense in Cleco and Cleco Power's Statements of Income for the years ending December 31, 2016, 2015, and 2014 is shown in the following tables:

Cleco

	SUCCESSOR	PREDECESSOR		
(THOUSANDS)	APR. 13, 2016 - DEC. 31, 2016	JAN. 1, 2016 - APR. 12, 2016	FOR THE YEAR ENDED DEC. 31, 2015	FOR THE YEAR ENDED DEC. 31, 2014
Amortization	$ 2,351	$921	$ 2,194	$ 1,397

Cleco Power

	FOR THE YEAR ENDED DEC. 31,		
(THOUSANDS)	2016	2015	2014
Amortization	$2,405	$1,718	$1,096

Upon retirement or disposition, the cost of Cleco Power's depreciable plant and the cost of removal, net of salvage value, are charged to accumulated depreciation. For Cleco's other depreciable assets, upon disposition or retirement, the difference between the net book value of the property and any proceeds received for the property is recorded as a gain or loss on asset disposition on Cleco's Consolidated Statements of Income. Any cost incurred to remove the asset is charged to expense. Annual depreciation provisions expressed as a percentage of average depreciable property for Cleco Power for both 2016 and 2015 was 2.68%. Annual depreciation provisions expressed as a percentage of average depreciable property for Cleco Power for 2014 was 2.66%.

Depreciation on property, plant, and equipment is calculated primarily on a straight-line basis over the useful lives of the assets, as follows:

CATEGORY	YEARS	
Utility Plants		
Production	10	–95
Distribution	15	–50
Transmission	5	–55
Other utility plant	5	–45
Other property, plant, and equipment	5	–45

At December 31, 2016, and 2015, Cleco and Cleco Power's property, plant, and equipment consisted of the following:

Cleco

	SUCCESSOR	PREDECESSOR
(THOUSANDS)	AT DEC. 31, 2016	AT DEC. 31, 2015
Utility plants		
Production	$ 1,866,601	$ 2,385,345
Distribution	955,126	1,350,475
Transmission	503,996	665,338
Other utility plant	146,976	244,540

Other property, plant, and equipment	3,882	15,514
Total property, plant, and equipment	3,476,581	4,661,212
Accumulated depreciation	(75,816)	(1,536,158)
Net property, plant, and equipment	$ 3,400,765	$ 3,125,054

Cleco Power

(THOUSANDS)	AT DEC. 31, 2016	AT DEC. 31, 2015
Regulated utility plants		
Production	$2,406,572	2,385,345
Distribution	1,405,703	1,350,475
Transmission	719,052	665,338
Other utility plant	259,238	244,540
Total property, plant, and equipment	4,790,565	4,645,698
Accumulated depreciation	(1,618,241)	(1,525,298)
Net property, plant, and equipment	$3,172,324	$3,120,400

During 2016, Cleco Power's regulated utility property, plant, and equipment increased primarily due to the Cenla Transmission Expansion project, the Layfield/Messick project, and general rehabilitation of transmission, distribution, and generation assets.

Cleco Power's property, plant, and equipment includes plant acquisition adjustments related primarily to the acquisition of Acadia Unit 1 in 2010 and Teche in 1997. Accumulated amortization associated with the plant acquisition adjustments are reported in accumulated depreciation on Cleco Power's Consolidated Balance Sheets. The plant acquisition adjustments and accumulated amortization reported in property, plant, and equipment and accumulated depreciation on Cleco and Cleco Power's Consolidated Balance Sheets at December 31, 2016, and 2015 are shown in the following tables:

Cleco

(THOUSANDS)	SUCCESSOR AT DEC. 31, 2016	PREDECESSOR AT DEC. 31, 2015
Acadia Unit 1		
Plant acquisition adjustment	$ 76,116	$ 95,578
Accumulated amortization	(2,287)	(18,567)
Net plant acquisition adjustment	$ 73,829	$ 77,011
Teche and other		
Plant acquisition adjustment	$ 544	$ 5,271
Accumulated amortization	(183)	(4,655)
Net plant acquisition adjustment	$ 361	$ 616

Cleco Power

(THOUSANDS)	AT DEC. 31, 2016	AT DEC. 31, 2015
Acadia Unit 1		
Plant acquisition adjustment	$95,578	$95,578
Accumulated amortization	(21,749)	(18,567)
Net plant acquisition adjustment	$73,829	$77,011
Teche and other		
Plant acquisition adjustment	$5,271	$5,271
Accumulated amortization	(4,910)	(4,655)
Net plant acquisition adjustment	$361	$616

Deferred Project Costs

Cleco Power defers costs related to the initial stage of a construction project during which time the feasibility of the construction of property, plant, and equipment is being investigated. At December 31, 2016, and 2015, Cleco Power had deferred $5.0 million and $4.6 million, respectively, for projects that are in the initial stages of development. These amounts are classified as Other deferred charges on Cleco Power’s Consolidated Balance Sheets.

Fuel Inventory and Materials and Supplies
Fuel inventory consists primarily of petroleum coke, coal, limestone, lignite, and natural gas used to generate electricity.
Materials and supplies consists of transmission and distribution line construction and repair materials. It also consists of generating station and transmission and distribution substation repair materials.
Both fuel inventory and materials and supplies are stated at average cost and are issued from stock using the average cost of existing stock. Materials and supplies are recorded when purchased and subsequently charged to expense or capitalized to property, plant, and equipment when installed.

Accounts Receivable
Accounts receivable are recorded at the invoiced amount and do not bear interest. It is the policy of management to review the outstanding accounts receivable monthly, as well as the bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts. Account balances are charged off against the allowance when management determines it is probable the receivable will not be recovered. At December 31, 2016, and 2015, the balance of the allowance for doubtful accounts was $7.2 million and $2.7 million, respectively. The increase in allowance for doubtful accounts is primarily due to a reserve related to a potential industrial customer. There was no off-balance sheet credit exposure related to Cleco's customers.

Financing Receivables
At December 31, 2016, Cleco, through Perryville and Attala, had a combined net investment in direct financing lease long-term assets of $13.5 million. The net investment at December 31, 2015, was also $13.5 million. Each subsidiary leases its respective transmission assets to a single counterparty. Both counterparties are considered credit worthy and are expected to pay their obligations when due, thus, no allowance for credit loss has been recognized. Management bases this assessment on the following common factors of each counterparty:

- both counterparties use the respective transmission facilities to move electricity from its power plants to the regional transmission grid,
- neither counterparty has another avenue to move electricity from its respective power plants to the regional transmission grid,
- the stream of payments was approved by FERC through respective rate orders, and
- both counterparties serve retail and wholesale customers in their respective service territories under LPSC oversight that allows recovery of prudent costs, of which, the stream of payments under the direct financing leases appear to be prudent.

Management monitors both entities for indication of adverse actions by their respective public service commissions and market conditions which would indicate an inability to pay their obligations under the direct financing leases when due. Since the inception of the agreements, each counterparty has paid their respective obligations when due, and at December 31, 2016, and 2015, no amounts were past due.

Reserves
Cleco maintains property insurance on generating stations, buildings and contents, and substations. Cleco is self-insured for any damage to transmission and distribution lines. To mitigate the exposure to potential financial loss for damage to lines, Cleco maintains an LPSC-approved funded storm reserve.
Cleco Power also maintains liability and workers' compensation insurance to mitigate financial losses due to injuries and damages to the property of others. Cleco's insurance covers claims that exceed certain self-insured limits. For

claims that do not meet the limits to be covered by insurance, Cleco Power maintains reserves. At December 31, 2016, and 2015, the general liability and workers compensation reserves together were $4.6 million and $5.5 million, respectively.

Additionally, Cleco maintains directors and officers insurance to protect managers from claims which may arise from their decisions and actions taken within the scope of their regular duties.

Cash Equivalents

Cleco considers highly liquid, marketable securities, and other similar instruments with original maturity dates of three months or less to be cash equivalents.

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 company purposes.

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

Cleco

(THOUSANDS)	SUCCESSOR AT DEC. 31, 2016	PREDECESSOR AT DEC. 31, 2015
Current		
Cleco Katrina/Rita's storm recovery bonds	$ 9,213	$ 9,263
Cleco Power's charitable contributions	1,200	—
Cleco Power's rate credit escrow	12,671	—
Total current	23,084	9,263
Non-current		
Diversified Lands' mitigation escrow	21	21
Cleco Power's future storm restoration costs	17,379	16,174
Cleco Power's charitable contributions	4,179	—
Cleco Power's rate credit escrow	1,831	—
Total non-current	23,410	16,195
Total restricted cash and cash equivalents	$ 46,494	$ 25,458

Cleco Power

(THOUSANDS)	AT DEC. 31, 2016	AT DEC. 31, 2015
Current		
Cleco Katrina/Rita's storm recovery bonds	$9,213	$9,263
Charitable contributions	1,200	—
Rate credit escrow	12,671	—
Total current	23,084	9,263
Non-current		
Future storm restoration costs	17,379	16,174
Charitable contributions	4,179	—
Rate credit escrow	1,831	—
Total non-current	23,389	16,174
Total restricted cash and cash equivalents	$46,473	$25,437

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, 2015, to 2016 was due to Cleco Katrina/Rita collecting $21.2 million net of administration fees, partially offset by bond and interest payments. In March and September 2016, Cleco Katrina/Rita used $8.5 million and $8.3 million, respectively, for scheduled storm recovery bond principal payments and $2.3 million and $2.1 million, respectively, for related interest payments.

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. On April 25, 2016, in accordance with the Merger Commitments, Cleco Power established the charitable contribution fund and deposited the rate credit funds into an escrow account. On April 28, 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 December 31, 2016, $0.6 million of the charitable contributions and $121.5 million of the rate credits had been remitted from restricted cash.

Equity Investments

Cleco and Cleco Power account for investments in unconsolidated affiliated companies using the equity method of accounting. The amounts reported on Cleco and Cleco Power's Consolidated Balance Sheets represent assets contributed by Cleco or Cleco Power, plus their share of the net income of the affiliate, less any distributions of earnings (dividends) received from the affiliate. The revenues and expenses (excluding income taxes) of these affiliates are netted and reported on one line item as equity income from investees on Cleco and Cleco Power's Consolidated Statements of Income.

Cleco evaluates for impairments of equity method investments at each balance sheet date to determine if events and circumstances have occurred that indicate a possible other-than-temporary decline in the fair value of the investment and the possible inability to recover the carrying value through operations. Cleco uses estimates of the future cash flows from the investee and observable market transactions in order to calculate fair value and recoverability. An impairment is recognized when an other-than-temporary decline in market value occurs and recovery of the carrying value is not probable. There were no impairments recorded for 2016, 2015, or 2014. For more information on Cleco's equity investments, see Note 13 — "Variable Interest Entities."

Income Taxes

Cleco accounts for income taxes under the asset and liability method. Cleco provides for federal and state income taxes currently payable, as well as for those deferred due to timing differences between reporting income and expenses for financial statement purposes versus tax purposes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted income tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets and liabilities are classified as non-current on Cleco and Cleco Power's Consolidated Balance Sheets. Cleco's income tax expense and related regulatory assets and liabilities could be affected by changes in its assumptions and estimates and by ultimate resolution of assumptions and estimates with taxing authorities. Cleco files a federal income tax return for all wholly owned subsidiaries. Cleco Power computes its federal and state income taxes as if it were a stand-alone taxpayer. The LPSC generally requires Cleco Power to flow the effects of state income taxes to customers immediately. The LPSC specifically requires that the state tax benefits associated with the deductions related to certain storm damages be normalized. For more information on income taxes, see Note 10 — "Income Taxes."

Investment Tax Credits

Investment tax credits, which were deferred for financial statement purposes, are amortized as a reduction to income tax expense over the estimated service lives of the properties that gave rise to the credits.

NMTC Fund

In 2008, Cleco Holdings and US Bancorp Community Development Corporation (USBCDC) formed the NMTC Fund. 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 gross investment amortization expense of the NMTC Fund will be recognized over a over a ten-year period, with two years remaining under the new amendment, using the cost method. The grants received under Section 1603, which allow certain projects to receive a federal grant in lieu of tax credits, and other cash reduce the basis of the investment. Periodic amortization of the investment and the deferred taxes generated by the basis reduction temporary difference are included as components of income tax expense.

For more information, see Note 15 — "Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Other Commitments — NMTC Fund."

Accounting for Renewable Energy Tax Credits and Grants Under the ARRA

Cleco and the NMTC Fund have elected to receive cash grants under the ARRA for investments in various projects. Cleco has elected to reduce the carrying value of the qualifying assets as cash grants are received, which will reduce the amount of depreciation expense recognized after the underlying assets are placed in service. Certain cash grants also reduce the tax basis of the underlying assets. Grants received via the NMTC Fund reduce the carrying value of the investment for GAAP, but do not reduce the income tax basis of the investment.

Debt Issuance Costs, Premiums, and Discounts
Issuance costs, premiums, and discounts applicable to debt securities are amortized to interest expense ratably over the lives of the related issuances. Expenses and call premiums related to refinanced Cleco Power debt are deferred and amortized over the life of the new issuance. Debt issuance costs, premiums, and discounts are presented as a direct deduction from the carrying value of the related debt liability.

Revenue and Fuel Costs

Utility Revenue
Revenue from sales of electricity is recognized when the service is provided. The costs of fuel and purchased power used for retail customers currently are recovered from customers through the FAC. These costs are subject to audit and final determination by regulators. Excise taxes and pass-through fees collected on the sale of electricity are not recorded in utility revenue.

Unbilled Revenue
Cleco Power accrues estimated revenue monthly for energy used by customers but not yet billed. The monthly estimated unbilled revenue amounts are recorded as unbilled revenue and a receivable. During the third quarter of 2014, Cleco Power began using actual customer energy consumption data available from AMI to calculate unbilled revenues.

Other Operations Revenue
Other operations revenue is recognized at the time products or services are provided to and accepted by customers, and collectability is reasonably assured.

Sales/Excise Taxes
Cleco Power collects a sales and use tax on the sale of electricity that subsequently is remitted to the state in accordance with state law. These amounts are not recorded as income or expense on Cleco's Consolidated Statements of Income but are reflected at gross amounts on Cleco's Consolidated Balance Sheets as a receivable until the tax is collected and as a payable until the liability is paid. Cleco currently does not have any excise taxes reflected on its income statement.

Franchise Fees
Cleco Power collects a consumer fee for one of its franchise agreements. This fee is not recorded on Cleco's Consolidated Statements of Income as revenue and expense, but is reflected at gross amounts on Cleco's Consolidated Balance Sheets as a receivable until it is collected and as a payable until the liability is paid.

AFUDC
The capitalization of AFUDC by Cleco Power is a utility accounting practice prescribed by FERC and the LPSC. AFUDC represents the estimated debt and equity costs of capital funds that are necessary to finance construction of new and existing facilities. While cash is not realized currently from

such allowance, AFUDC increases the revenue requirement over the same life of the plant through a higher rate base and higher depreciation. Under regulatory practices, a return on and recovery of AFUDC is permitted in setting rates charged for utility services. The composite AFUDC rate, including borrowed and other funds, was 11.94% on a pretax basis (7.39% net of tax) for 2016, 11.46% on a pretax basis (7.09% net of tax) for 2015, and 10.46% on a pretax basis (6.47% net of tax) for 2014.

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 6 — “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 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 is currently scheduled to be submitted to the LPSC in the second half of 2017. There were no open natural gas positions at December 31, 2016, or 2015.

Cleco Power purchases the majority of its FTRs in annual auctions facilitated by MISO during the second quarter of each year and may also purchase additional FTRs in monthly auctions facilitated by MISO. 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 initially records FTRs at their estimated fair value and subsequently adjusts the carrying value to their estimated fair value at the end of each accounting period 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 Consolidated Balance Sheets. Realized gains or losses on settled FTRs are recorded in Fuel used for electric generation on Cleco Power's Consolidated Statements of Income. At December 31, 2016, Cleco Power's Consolidated Balance Sheets reflected the fair value of open FTR positions of $7.9 million in Energy risk management assets and $0.2 million in Energy risk management liabilities, compared to $7.7 million in Energy risk management assets and $0.3 million in Energy risk management liabilities at December 31, 2015. For more information on FTRs, see Note 6 — "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 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 the years ended December 31, 2016, and 2015, Cleco did not enter into any contracts to mitigate the volatility in interest rate risk.

Stock-Based Compensation

For information on Cleco's stock-based compensation, see Note 8 — "Common Stock — Stock-Based Compensation."

Accounting for MISO Transactions

Cleco Power participates in MISO's Energy and Operating Reserve market where sales and purchases are netted hourly. If the hourly activity nets to sales, the result is reported in Electric operations on Cleco and Cleco Power's Consolidated Statements of Income. If the hourly activity nets to purchases, the result is reported in Power purchased for utility customers on Cleco and Cleco Power's Consolidated Statements of Income.

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. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Cleco

does not plan to early adopt the amended guidance. 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 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), accounting for contributions in aid of construction, and the ability to recognize revenue in situations where collectability is in question. Management will continue to evaluate the impact of this guidance, including additional clarifying amendments issued following the date of initial issuance. The amended guidance could have a material impact on the results of operations, financial condition, or cash flows of the Registrants.
In August 2014, FASB amended the guidance for the presentation and disclosure of uncertainties about an entity's ability to continue as a going concern. The amended guidance requires management to evaluate whether there is substantial doubt about its ability to continue as a going concern. The guidance provides that management should consider relevant conditions or events that are known or reasonably known on the date the financial statements are issued. If substantial doubt exists, then the principle events giving rise to the substantial doubt and management's plans to alleviate those doubts should be disclosed. The adoption of this guidance is effective for annual reporting periods ending after December 15, 2016, and for interim periods thereafter. Management's evaluation of Cleco's ability to continue as a going concern concluded that substantial doubt does not exist. The adoption of this guidance will not have an impact on the results of operations, financial condition, or cash flows of the Registrants.
In September 2015, FASB amended the business combinations guidance to simplify the accounting for measurement-period adjustments. This guidance eliminates the requirement to retrospectively account for these adjustments. The adoption of this guidance is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. This amendment should be applied prospectively to adjustments to provisional amounts that occur after the effective date with earlier

application permitted. Cleco was subject to this guidance starting January 1, 2016. As a result of the Merger on April 13, 2016, Cleco adopted this guidance and does not expect it to have a material impact on the results of operations, financial condition, or cash flows of the Registrants as a result of provisional merger adjustments in future periods.

In January 2016, FASB amended the guidance for recognition and measurement of financial assets and liabilities. These amendments address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The adoption of this guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those years. Early adoption of certain provisions of this guidance is permitted as of the beginning of the fiscal year of adoption. Entities should apply these amendments by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair value should be applied prospectively to equity investments that exist as of the date of adoption. 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 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. Early adoption is permitted. 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 March 2016, FASB amended the derivatives and hedging accounting guidance to address the effect of derivative contract novations on existing hedge accounting relationships. The amended guidance clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require dedesignation of the hedging relationship provided that all other hedge accounting criteria continue to be met. The adoption of this guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those years. Entities have the option to apply these amendments on either a prospective basis or a modified retrospective basis. This guidance will not have an impact on the results of operations, financial condition, or cash flows of the Registrants.

In March 2016, FASB amended the derivatives and hedging accounting guidance related to contingent put and call options in debt instruments. This guidance clarifies the requirements for assessing whether contingent put and call options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. Entities performing the assessment will be required to assess the embedded put and call options solely in accordance with the four-step decision sequence clarified in the amended guidance. The adoption of this guidance is effective for fiscal

years beginning after December 15, 2016, including interim periods within those years. Entities should apply these amendments on a modified retrospective basis to existing debt instruments as of the beginning of the fiscal year for which the amendments are effective. 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 2016, FASB amended the accounting guidance to simplify the transition to the equity method of accounting. This guidance impacts entities that have an investment that becomes qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. This amended guidance eliminates the requirement to retroactively adopt the equity method of accounting. The adoption of this guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those years. Early adoption is permitted. These amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that results in the adoption of the equity method. Management does not expect this guidance to have any impact on the results of operations, financial condition, or cash flows of the Registrants.

In June 2016, FASB amended the guidance for the measurement of credit losses on financial instruments. The guidance affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The guidance affects loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The adoption of this guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those years. Early adoption is permitted. Management does not expect this guidance to have any 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 annual reporting periods. Early adoption is permitted for all entities as of the beginning of an annual reporting period for which financial statements have not been issued or made available for issuance. Management is evaluating the impact that the adoption of this guidance will have on the result of operations, financial condition, or cash flows of the Registrants.

In October 2016, FASB amended the consolidations guidance as it relates to interest held through related parties that are under common control. This amended guidance changes the evaluation of whether a reporting entity is the primary beneficiary of a variable interest entity (VIE) by changing how a reporting entity that is a single decision maker of a VIE treats indirect interests in the entity held through related parties that are under common control with the reporting entity. The adoption of this guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. The adoption of this guidance is not expected to have an effect 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, 2016, including interim reporting periods within those fiscal years. Early adoption is permitted. Management is currently 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 loss will instead be measured at the amount by which a reporting unit's carrying amount exceeds its fair value. 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.

Note 3 — 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. 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 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.

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, and are included in Merger transaction and commitment costs and Merger commitment costs on Cleco and Cleco Power's Consolidated Statements of Income, respectively. 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 12 — "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 tables present 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 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 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 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 Consolidated Balance Sheet to reflect the valuation of the Cleco trade name. This adjustment is included in Intangible assets on Cleco's 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 Consolidated Statement of Income.

On the date of the Merger, fair value adjustments were recorded on Cleco's 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 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 will be amortized over the remaining term of the applicable contract. The amortization of the power supply agreements is included in Electric operations on Cleco's Consolidated Statement of Income.

The net increase in deferred tax liabilities on Cleco's 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/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. In November and December 2016, Cleco Power redeemed $60.0 million and $250.0 million in long-term debt, respectively. As a result, the fair value adjustments for the redeemed long-term debt and the related unamortized debt issuance cost of $19.8 million on Cleco's Consolidated Balance Sheet were derecognized. The offset was to the respective regulatory assets. For more information, see Note 4 — "Regulatory Assets and Liabilities."

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. Accounting guidance provides that the allocation of the purchase price may be modified up to one year from the date of the Merger, as more information is obtained about the fair value of assets acquired and liabilities assumed. The preliminary amounts recognized are subject to revision until the valuations are completed and to the extent that additional information is obtained about the facts and circumstances that existed as of the date of the Merger. Except for the effects of the positions related to the Merger reflected on income tax returns, Cleco completed its evaluation and determination of the fair value of certain assets and liabilities acquired as of December 31, 2016. 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 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 of regulated operations.

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

(THOUSANDS)	AT DEC. 31, 2016	AT DEC. 31, 2015	REMAINING RECOVERY PERIOD
Total federal regulatory (liability) asset — income taxes	$(635)	$5,614	
Total state regulatory asset — income taxes	112,751	105,868	
AFUDC	126,335	127,092	
Total investment tax credit	(1,002)	(1,633)	
Total regulatory assets — deferred taxes, net	237,449	236,941	*
Mining costs	6,372	8,921	2.5 yrs.
Interest costs	4,860	5,221	*
AROs [(1)]	2,096	2,462	*
Postretirement costs [(1)]	145,268	150,274	*
Tree trimming costs	5,549	6,318	*
Training costs	6,708	6,863	43 yrs.
Surcredits, net [(2)]	5,876	9,661	*
Amended lignite mining agreement contingency [(1)]	—	3,781	—
AMI deferred revenue requirement	4,772	5,318	9 yrs.
Production operations and maintenance expenses	13,999	12,436	*
AFUDC equity gross-up [(2)]	70,423	71,444	*
Acadia Unit 1 acquisition costs	2,442	2,548	23 yrs.
Financing costs	8,663	9,032	*
Biomass costs	18	50	0.5 yrs.
MISO integration costs	1,404	2,340	1.5 yrs.
Coughlin transaction costs	999	1,030	32.5 yrs.
Corporate franchise tax	1,308	373	*
Acadia FRP true-up	—	377	—
MATS Costs	4,270	—	1.5 yrs
Other	710	357	*
Total regulatory assets	285,737	298,806	
PPA true-up	—	(312)	—
Fuel and purchased power	20,787	12,910	*
Total regulatory assets, net	$543,973	$548,345	

[(1)]Represents regulatory assets in which cash has not yet been expended and the assets are offset by liabilities that do not incur a carrying cost.
[(2)]Represents regulatory assets for past expenditures that were not earning a return on investment at December 31, 2016. All other assets are earning a return on investment.
* For information related to the remaining recovery periods, refer to the following disclosures for each specific regulatory asset.

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

	SUCCESSOR [(1)]	PREDECESSOR
(THOUSANDS)	AT DEC. 31, 2016	AT DEC. 31, 2015

Total Cleco Power regulatory assets, net	$ 543,973	$ 548,345
Cleco Holdings' Merger adjustments		
Fair value of long-term debt	155,776	—
Postretirement costs	23,362	—
Financing costs	8,966	—
Debt issuance costs	7,606	—
Total Cleco regulatory assets, net	$ 739,683	$ 548,345

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

Income Taxes

The regulatory asset recorded for deferred income taxes represents the effect of tax benefits or detriments that must be flowed through to customers as they are received or paid. The amounts deferred are attributable to differences between book and tax recovery periods.

Mining Costs

Cleco Power operates a generating unit jointly owned with SWEPCO that uses lignite as its primary fuel source. Cleco Power, along with SWEPCO, maintains a lignite mining agreement with DHLC, the operator of the Dolet Hills Mine. As ordered by the LPSC, Cleco Power's retail customers began receiving fuel cost savings through the year 2011 while actual mining costs incurred above a certain percentage of the benchmark price were deferred, and could be recovered from retail customers through the FAC only when the actual mining costs are below a certain percentage of the benchmark price.

In 2006, Cleco Power recognized that there was a possibility it may not recover all or part of the lignite mining costs it had deferred and sought relief from the LPSC. In December 2007, the LPSC approved a settlement agreement between Cleco Power, SWEPCO, and the LPSC Staff authorizing Cleco Power to recover the existing deferred mining cost balance, including interest, over 11.5 years. In connection with its approval of the Oxbow Lignite Mine acquisition, in 2009, the LPSC agreed to discontinue benchmarking and the corresponding potential to defer future lignite mining costs while preserving the recovery of the legacy deferred fuel balance previously authorized.

Interest Costs

Cleco Power's deferred interest costs include additional deferred capital construction financing costs authorized by the LPSC. These costs are being amortized over the estimated lives of the respective assets constructed.

AROs

Cleco Power has recorded an ARO liability for the retirement of certain ash disposal facilities. The ARO regulatory asset represents the accretion of the ARO liability and the depreciation of the related assets. For more information on the accounting treatment of Cleco Power's AROs, see Note 2 — "Summary of Significant Accounting Policies — AROs."

Postretirement Costs

Cleco Power recognizes the funded status of its postretirement benefit plans as a net liability or asset. The net liability or asset is defined as the difference between the benefit obligation and the fair market value of plan assets. For defined benefit pension plans, the benefit obligation is the projected benefit obligation. Historically, the LPSC has allowed Cleco Power to recover pension plan expense. Cleco Power, therefore, recognizes a regulatory asset based on its determination that these costs can be collected from customers. These costs are amortized to pension expense over the average service life of the remaining plan participants (approximately 10 years as of December 31, 2016, for Cleco's plan) when it exceeds certain thresholds. The amount and timing of the recovery will be based on the changing funded status of the pension plan in future periods. For more information on Cleco's pension plan and adoption of these authoritative guidelines, see Note 9 — "Pension Plan and Employee Benefits."

Tree Trimming Costs

In 2008, the LPSC approved Cleco Power's request to establish a regulatory asset for costs incurred to trim, cut, or

remove trees that were damaged by Hurricanes Katrina and Rita, but were not addressed as part of the restoration efforts. Cleco Power was allowed to recover these expenditures and the regulatory asset for the initial tree trimming project was completely amortized in January 2015.

In April 2013, the LPSC approved Cleco Power's request to expend and defer up to $8.0 million in additional tree management costs. Cleco Power requested similar accounting treatment as authorized in the initial tree extraction request and requested authorization to defer actual expenditures as a regulatory asset through the completion date of the tree extraction effort. In February 2015, Cleco Power completed the tree extraction and began amortizing the additional charges over a 3.5-year period.

As a result of increased vegetation growth and to remain in compliance with regulatory requirements, Cleco Power anticipates the need to spend $20.8 million through December 2020 in tree and vegetation management costs. In September 2016, Cleco Power requested approval from the LPSC to defer a portion of these costs utilizing the same accounting treatment of similar costs approved in previous dockets. In October 2016, the LPSC approved Cleco Power to defer an additional amount up to $10.9 million. Of the remaining costs, $4.0 million will be expensed to Maintenance on Cleco Power's Consolidated Statements of Income, and $5.9 million will be deferred and recovered in current base rates through June 2020.

Training Costs

In February 2008, the LPSC approved Cleco Power's request to establish a regulatory asset for training costs associated with existing processes and technology for new employees at Madison Unit 3. Recovery of these expenditures was approved by the LPSC in October 2009. In February 2010, Cleco Power began amortizing the regulatory asset over a 50-year period.

Surcredits, Net

Cleco Power has recorded surcredits as the result of a settlement with the LPSC that addressed, among other things, the recovery of the storm damages related to hurricanes and uncertain tax positions. In the settlement, Cleco Power was required to implement surcredits to provide ratepayers with the economic benefit of the carrying charges of certain accumulated deferred income tax liabilities at a rate of return which was set by the LPSC. The settlement, through a true-up mechanism, allows the surcredits to be adjusted to reflect the actual tax deductions allowed by the IRS.

Cleco Power also was allowed to record a corresponding regulatory asset in an amount representing the flow back of the carrying charges to ratepayers. This amount is being amortized over various terms of the established surcredits.

In the third quarter of 2013 and the first quarter of 2014, Cleco Power recorded a true-up to the surcredits to reflect the actual tax deductions allowed by the IRS for storm damages and uncertain tax positions. As a result of the true-ups, Cleco Power has recorded a regulatory asset that represents excess surcredits refunded to customers that will be collected from ratepayers in future periods. These amounts are being collected and amortized over a four-year period.

As a result of a settlement with the LPSC, Cleco Power is required to implement a surcredit when funds are withdrawn from the restricted storm reserve. In March 2014, Cleco Power withdrew $4.0 million from the restricted storm reserve to pay for storm damages, resulting in the establishment of a new

surcredit. This surcredit will be utilized to partially replenish the storm reserve. These amounts are being collected and amortized over a four-year period.

In June 2014, the LPSC approved Cleco Power's FRP extension. A provision of the FRP extension was to reduce base rates by the amount of the surcredits beginning in July 2014. For more information on the FRP extension, see Note 12 — "Regulation and Rates."

Amended Lignite Mining Agreement Contingency

In April 2009, Cleco Power and SWEPCO entered into a series of transactions to acquire additional lignite reserves and mining equipment from the North American Coal Corporation (NAC), each agreeing to purchase a 50% ownership interest in Oxbow from NAC for a combined price of $25.7 million. Cleco Power, SWEPCO, and DHLC entered into the Amended Lignite Mining Agreement which requires DHLC to mine lignite at the existing Dolet Hills Mine along with the Oxbow Mine and deliver the lignite to the Dolet Hills Power Station at cost plus a specified management fee. The mining areas are expected to be sufficient to provide the Dolet Hills Power Station with lignite fuel until at least 2036.

Among the provisions of the Amended Lignite Mining Agreement is a requirement that if DHLC is unable to pay for loans and lease payments when due, Cleco Power will pay 50% of the amounts due. Any payments under this provision will be considered a prepayment of lignite to be delivered in the future and will be credited to future invoices from DHLC. This provision meets the recognition requirements as a guarantee to an unrelated third party. Previously, Cleco Power recorded a liability of $3.8 million with an offsetting regulatory asset due to Cleco Power's ability to recover prudent fuel costs from customers through the FAC. Management determined that it does not expect to be required to pay DHLC under this guarantee. As a result of this determination, the liability and the offsetting regulatory asset were remeasured to zero during the second quarter of 2016.

AMI Deferred Revenue Requirement

In February 2011, the LPSC approved Cleco Power's stipulated settlement in Docket No. U-31393 allowing Cleco Power to defer, as a regulatory asset, the estimated revenue requirements for the AMI project. The amount of the regulatory asset, including carrying charges, is capped by the LPSC at $20.0 million. In June 2014, the LPSC approved Cleco Power's FRP extension and the AMI regulatory asset and project capital costs were included in rate base. Cleco Power is recovering the AMI deferred revenue requirement over 11 years beginning July 2014.

Production Operations and Maintenance Expenses

In September 2009, the LPSC authorized Cleco Power to defer, as a regulatory asset, production operations and maintenance expenses, net of fuel and payroll, above the retail jurisdictional portion of $25.6 million annually (deferral threshold). On June 18, 2014, the LPSC approved Cleco Power's FRP extension, which increased the operations and maintenance deferral threshold to $45.0 million annually. The amount of the regulatory asset is capped at $23.0 million. Also, as part of the FRP extension, the LPSC allowed Cleco Power to recover the amount deferred in any calendar year over the following three year regulatory period, beginning on July 1, when the annual rates are set. In December 2013, 2014, 2015, and 2016, Cleco

Power deferred $8.5 million, $7.7 million, $1.8 million, and $7.3 million, respectively, as a regulatory asset.

AFUDC Equity Gross-Up
Cleco Power capitalizes equity AFUDC as a cost component of construction projects. Cleco Power has recorded a regulatory asset to recover the tax gross-up related to the equity component of AFUDC. These costs are being amortized over the estimated lives of the respective assets constructed.

Acadia Unit 1 Acquisition Costs
In October 2009, the LPSC approved Cleco Power's request to establish a regulatory asset for costs incurred as a result of the acquisition by Cleco Power of Acadia Unit 1 and half of Acadia Power Station's related common facilities. The Acadia Unit 1 acquisition costs are being recovered over a 30-year period beginning February 2010.

Financing Costs
In 2011, Cleco Power entered into and settled two treasury rate locks. Of the $26.8 million in settlements, $7.4 million was deferred as a regulatory asset relating to ineffectiveness of the hedge relationships. Also in 2011, Cleco Power entered into a forward starting swap contract. These derivatives were entered into in order to mitigate the interest rate exposure on coupon payments related to forecasted debt issuances. In May 2013, the forward starting interest rate swap was settled at a loss of $3.3 million. Cleco Power deferred $2.9 million of the losses as a regulatory asset, which is being amortized over the terms of the related debt issuances.

Biomass Costs
In November 2011, the LPSC approved Cleco Power's request to establish a regulatory asset for the non-fuel, non-capital portion of costs incurred to conduct a test burn of biomass fuel at Madison Unit 3. In August 2012, Cleco Power began amortizing these costs over a five-year period.

MISO Integration Costs
In June 2014, the LPSC approved Cleco Power's request to recover the non-capital integration costs associated with Cleco Power joining MISO. The MISO integration costs are being recovered over a four-year period beginning July 2014.

Coughlin Transaction Costs
In January 2014, the LPSC authorized Cleco Power to create a regulatory asset for the Coughlin transfer transaction costs. The Coughlin transaction costs are being recovered over a 35-year period beginning July 2014.

Corporate Franchise Tax
As part of the FRP extension approved by the LPSC in June 2014, Cleco Power was authorized to recover through a rider the retail portion of state corporate franchise taxes paid. In 2016 and 2015, Cleco Power's net retail portion of franchise taxes paid was $2.5 million and $1.7 million, respectively. The retail portion of state corporate franchise taxes paid each year will be recovered over 12 months beginning July 1 of the following year.

Acadia FRP True-up
For the FRP period July 1, 2013 through June 30, 2014, Cleco Power was authorized by the LPSC to recover the estimated revenue requirement of $58.3 million related to Acadia Unit 1.

In June 2014, Cleco Power determined that it had under-recovered $0.8 million in revenue from customers based on the actual revenue requirement for Acadia Unit 1. The amount representing the under-collection was deferred and was recovered from customers over 12 months beginning July 1, 2015.

MATS Costs
On February 1, 2016, the LPSC approved Cleco Power's request to recover the revenue requirements associated with the installation of MATS equipment. The MATS rule required affected EGUs to meet specific emission standards and work practice standards to address hazardous air pollutants by April 2015. The LPSC approval also allowed Cleco Power to record a regulatory asset of $7.1 million representing the unrecovered revenue requirements of MATS equipment placed in service in the years prior to the LPSC review and approval. This amount is being amortized over three years beginning January 1, 2016.

Other
In June 2014, the LPSC approved Cleco Power's FRP extension which authorized the recovery of previously deferred costs incurred as a result of Cleco Power's FRP extension filing, the 2003 through 2008 fuel audit, and a biomass study. These costs are being recovered over a three-year period beginning July 2014. In October 2015, the LPSC approved the recovery of costs incurred as a result of Cleco Power's 2009 through 2013 fuel audit. In April 2016, the LPSC approved the recovery of costs incurred as part of Cleco Power's IRP report filed under the IRP Order No. R-30021. Both the 2009 through 2013 fuel audit costs and the IRP costs are being recovered over a three-year period beginning July 2016.

PPA True-up
In preparing the FRP monitoring report for the year ended June 30, 2014, Cleco Power determined it had recovered $0.6 million above the actual PPA capacity costs. Cleco Power recorded the overcollection as a regulatory liability and returned this amount to the customers over 12 months beginning July 1, 2015.

Fuel and Purchased Power
The cost of fuel used for electric generation and power purchased for utility customers are recovered through the LPSC-established FAC or related wholesale contract provisions, which enable Cleco Power to pass on to its customers substantially all such charges. For 2016, approximately 75% of Cleco Power's total fuel cost was regulated by the LPSC.
Fuel and purchased power increased $7.9 million from December 31, 2015. Of this amount, $11.5 million was due to an increase caused by surcharge adjustments, increased environmental expenses, and timing of collections. This was partially offset by a $3.6 million decrease in the mark-to-market value on FTRs.

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. In November and December 2016, Cleco Power redeemed $60.0 million and $250.0 million in long-term debt, respectively. As a result, the fair value adjustments for the redeemed long-term debt and the related unamortized debt issuance cost of $19.8 million on Cleco's Consolidated Balance Sheets were derecognized. The offset was to the respective regulatory assets.

Note 5 — Jointly Owned Generation Units

Cleco Power operates electric generation units that are jointly owned with other utilities. The joint-owners are responsible for their own share of the capital and the operating and maintenance costs of the respective units. Cleco Power's share of the direct expenses of the jointly owned generation units is included in the operating expenses of the consolidated statements of income.

At the date of the Merger, the gross balance of jointly owned generation units at Cleco was adjusted to be net of accumulated depreciation, as no accumulated depreciation existed on the date of the Merger. Since pushdown accounting was not elected at the Cleco Power level, Cleco Power retained its accumulated depreciation. For more information about merger related adjustments, see Note 3 — "Business Combinations."

At December 31, 2016, the investment in and accumulated depreciation for each generating unit on Cleco and Cleco Power's Consolidated Balance Sheets were as follows:

Cleco

	SUCCESSOR AT DEC. 31, 2016		
(THOUSANDS, EXCEPT PERCENTAGES AND MW)	RODEMACHER UNIT 2	DOLET HILLS	TOTAL
Utility plant in service	$ 70,136	$177,201	$247,337
Accumulated depreciation	$ 1,530	$5,783	$7,313
Construction work in progress	$ 166	$3,193	$3,359
Ownership interest percentage	30 %	50 %	
Nameplate capacity (MW)	523	650	
Ownership interest (MW)	157	325	

Cleco Power

	AT DEC. 31, 2016		
(THOUSANDS, EXCEPT PERCENTAGES AND MW)	RODEMACHER UNIT 2	DOLET HILLS	TOTAL
Utility plant in service	$ 144,316	$394,698	$539,014
Accumulated depreciation	$ 75,710	$223,280	$298,990
Construction work in progress	$ 166	$3,193	$3,359
Ownership interest percentage	30 %	50 %	
Nameplate capacity (MW)	523	650	
Ownership interest (MW)	157	325	

Note 6 — Fair
Value
Accounting

The amounts reflected in Cleco and Cleco Power’s Consolidated Balance Sheets at December 31, 2016, and December 31, 2015, for cash equivalents, restricted cash equivalents, accounts receivable, other accounts receivable, and accounts payable approximate fair value because of their short-term nature.

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

Cleco

	SUCCESSOR		PREDECESSOR	
	AT DEC. 31, 2016		AT DEC. 31, 2015	
(THOUSANDS)	CARRYING VALUE*	ESTIMATED FAIR VALUE	CARRYING VALUE*	ESTIMATED FAIR VALUE
Long-term debt	$2,768,149	$2,754,518	$1,299,529	$1,463,989

* The carrying value of long-term debt does not include deferred issuance costs of $11.7 million in 2016 and $9.9 million in 2015.

Cleco Power

	AT DEC. 31, 2016		AT DEC. 31, 2015	
(THOUSANDS)	CARRYING VALUE*	ESTIMATED FAIR VALUE	CARRYING VALUE*	ESTIMATED FAIR VALUE
Long-term debt	$1,262,373	$1,418,693	$1,265,529	$1,429,989

* The carrying value of long-term debt does not include deferred issuance costs of $9.4 million in 2016 and $9.6 million in 2015.

Fair Value Measurements and Disclosures

Cleco classifies assets and liabilities that are either measured or disclosed at their fair value according to three different levels depending on the inputs used in determining fair value.

The following tables disclose for Cleco and Cleco Power the fair value of financial assets and liabilities measured or disclosed on a recurring basis:

Cleco

	CLECO CONSOLIDATED FAIR VALUE MEASUREMENTS AT REPORTING DATE USING:							
	SUCCESSOR				PREDECESSOR			
(THOUSANDS)	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)	AT DEC. 31, 2015	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	$66,410	$ —	$66,410	$ —	$89,584	$ —	$89,584	$ —
FTRs	7,884	—	—	7,884	7,673	—	—	7,673
Total assets	$74,294	$ —	$66,410	$ 7,884	$97,257	$ —	$89,584	$ 7,673
Liability Description								
Long-term debt	$2,754,518	$ —	$2,754,518	$ —	$1,463,989	$ —	$1,463,989	$ —
FTRs	201	—	—	201	275	—	—	275
Total liabilities	$2,754,719	$ —	$2,754,518	$ 201	$1,464,264	$ —	$1,463,989	$ 275

Cleco Power

	CLECO POWER FAIR VALUE MEASUREMENTS AT REPORTING DATE USING:							
(THOUSANDS)	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)	AT DEC. 31, 2015	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	$65,089	$ —	$65,089	$ —	$87,363	$ —	$87,363	$ —
FTRs	7,884	—	—	7,884	7,673	—	—	7,673

Total assets	$72,973	$	—$ 65,089	$ 7,884	$95,036	$	—$ 87,363	$ 7,673
Liability Description								
Long-term debt	$1,418,693	$	—$ 1,418,693	$ —	$1,429,989	$	—$ 1,429,989	$ —
FTRs	201	—	—	201	275	—	—	275
Total liabilities	$1,418,894	$	—$ 1,418,693	$ 201	$1,430,264	$	—$ 1,429,989	$ 275

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:

Cleco

	SUCCESSOR	PREDECESSOR	
(THOUSANDS)	APR. 13, 2016 - DEC. 31, 2016	JAN. 1, 2016 - APR. 12, 2016	FOR THE YEAR ENDED DEC. 31, 2015
Beginning balance	$ 3,458	$7,398	$9,949
Unrealized gains (losses)*	3,119	(1,031)	(1,476)
Purchases	12,896	2,070	20,319
Settlements	(11,790)	(4,979)	(21,394)
Ending balance	$ 7,683	$3,458	$7,398

* Unrealized gains (losses) are reported through Accumulated deferred fuel on Cleco and Cleco Power's Consolidated Balance Sheets.

Cleco Power

	FOR THE YEAR ENDED DEC. 31,	
(THOUSANDS)	2016	2015
Beginning balance	$7,398	$9,949
Unrealized gains (losses)*	2,088	(1,476)
Purchases	14,966	20,319
Settlements	(16,769)	(21,394)
Ending balance	$7,683	$7,398

* Unrealized gains (losses) are reported through Accumulated deferred fuel on Cleco and Cleco Power's Consolidated Balance Sheets.

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

Cleco

	FAIR VALUE		VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUTS	FORWARD PRICE RANGE	
(THOUSANDS, EXCEPT DOLLAR PER MWh)	Assets	Liabilities			Low	High
SUCCESSOR						

FTRs at December 31, 2016	$7,884	$ 201	RTO auction pricing	FTR price - per MWh	$(3.61)	$6.04
PREDECESSOR						
FTRs at December 31, 2015	$7,673	$ 275	RTO auction pricing	FTR price - per MWh	$(3.63)	$4.51

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Cleco Power

	FAIR VALUE		VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUTS	FORWARD PRICE RANGE	
(THOUSANDS, EXCEPT DOLLAR PER MWh)	Assets	Liabilities			Low	High
FTRs at December 31, 2016	$7,884	$ 201	RTO auction pricing	FTR price - per MWh	$(3.61)	$6.04
FTRs at December 31, 2015	$7,673	$ 275	RTO auction pricing	FTR price - per MWh	$(3.63)	$4.51

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 December 31, 2016, 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 Consolidated Balance Sheets in cash and cash equivalents, current restricted cash and cash equivalents, and non-current restricted cash and cash equivalents of $20.0 million, $23.1 million, and $23.3 million, respectively, at December 31, 2016, and $64.2 million, $9.3 million, and $16.1 million, respectively, at December 31, 2015. At Cleco Power, the institutional money market funds were reported on Cleco Power’s Consolidated Balance Sheets in cash and cash equivalents, current restricted cash and cash equivalents, and non-current restricted cash and cash equivalents of $18.7 million, $23.1 million, and $23.3 million, respectively, at December 31, 2016, and $62.0 million, $9.3 million, and $16.1 million, respectively, at December 31, 2015. If the money market funds failed to perform under the terms of the investments, Cleco and Cleco Power would be exposed to a loss of the invested amounts. Collateral on these types of investments is not required by either Cleco or Cleco Power. The Level 2 institutional money market funds asset consists of a single class. In order to capture interest income and minimize risk, cash is invested in money market funds that invest primarily in short-term securities 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 is 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.

The Level 2 long-term debt liability consists of a single class. In order to fund capital requirements, Cleco issues fixed and variable rate long-term debt with various tenors. The fair value of this class fluctuates as the market interest rates for fixed and variable rate debt with similar tenors and credit ratings change. The fair value of the debt could also change from period to period due to changes in the credit rating of the Cleco entity by which the debt was issued.

During the years ended December 31, 2016, and 2015, 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 Consolidated Balance Sheets at December 31, 2016, and 2015:

Cleco

	DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS		
(THOUSANDS)	BALANCE SHEET LINE ITEM	SUCCESSOR AT DEC. 31, 2016	PREDECESSOR AT DEC. 31, 2015
Commodity-related contracts			
FTRs:			
Current	Energy risk management assets	$ 7,884	$ 7,673
Current	Energy risk management liabilities	201	275
Commodity-related contracts, net		$ 7,683	$ 7,398

Cleco Power

	DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS		
(THOUSANDS)	BALANCE SHEET LINE ITEM	AT DEC. 31, 2016	AT DEC. 31, 2015
Commodity-related contracts			
FTRs:			
Current	Energy risk management assets	$7,884	$7,673
Current	Energy risk management liabilities	201	275
Commodity-related contracts, net		$7,683	$7,398

The following table presents the effect of derivatives not designated as hedging instruments on Cleco and Cleco Power's Consolidated Statements of Income for the years December 31, 2016, 2015, and 2014:

Cleco

		AMOUNT OF GAIN/(LOSS) RECOGNIZED IN INCOME ON DERIVATIVES			
		SUCCESSOR	PREDECESSOR		
(THOUSANDS)	DERIVATIVES LINE ITEM	APR. 13, 2016 - DEC. 31, 2016	JAN. 1, 2016 - APR. 12, 2016	FOR THE YEAR ENDED DEC. 31, 2015	FOR THE YEAR ENDED DEC. 31, 2014
Commodity contracts					
FTRs[1]	Electric operations	$30,915	$8,563	50,594	$74,454
FTRs[1]	Power purchased for utility customers	(14,941)	(5,761)	(27,509)	(46,386)
Total		$15,974	$2,802	$23,085	$28,068

[1] For the periods January 1, 2016 - April 12, 2016, and April 13, 2016 - December 31, 2016, unrealized (losses) gains associated with FTRs of $(1.0) million and $3.1 million, respectively, were reported through Accumulated deferred fuel on the balance sheet. For the years ended December 31, 2015, and 2014, unrealized losses associated with FTRs of $1.5 million and $2.7 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 YEAR ENDED DEC. 31,		
(THOUSANDS)	DERIVATIVES LINE ITEM	2016	2015	2014
Commodity contracts				
FTRs[1]	Electric operations	$39,478	$50,594	$74,454
FTRs[1]	Power purchased for utility customers	(20,702)	(27,509)	(46,386)
Total		$18,776	$23,085	$28,068

[1] For the years ended December 31, 2016, 2015, and 2014, unrealized gains (losses) associated with FTRs of $2.1 million, $(1.5) million, and $(2.7) million, respectively, were reported through Accumulated deferred fuel on the balance sheet.

At December 31, 2016, and 2015, 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 is currently scheduled to be submitted to the LPSC in the second half of 2017.

Cleco Power purchases the majority of its FTRs in annual auctions facilitated by MISO during the second quarter of each year and may also purchase additional FTRs in monthly auctions facilitated by MISO. 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. They are not designated as hedging instruments for accounting purposes. The total volume of FTRs that Cleco Power had outstanding at December 31, 2016, and 2015 was 9.0 million MWh and 8.4 million MWh, respectively.

Note
7 —
Debt

Cleco Power's total indebtedness as of December 31, 2016, and 2015 was as follows:

Cleco Power

	AT DEC. 31,	
(THOUSANDS)	2016	2015
Bonds		
Senior notes, 6.65%, due 2018	$—	$250,000
Senior notes, 3.68%, due 2025	75,000	75,000
Senior notes, 3.47%, due 2026	130,000	—
Senior notes, 4.33%, due 2027	50,000	50,000
Senior notes, 3.57%, due 2028	200,000	—
Senior notes, 6.50%, due 2035	295,000	295,000
Senior notes, 6.00%, due 2040	250,000	250,000
Senior notes, 5.12%, due 2041	100,000	100,000
Series A GO Zone bonds, 2.00%, due 2038, mandatory tender in 2020	50,000	50,000
Series B GO Zone bonds, 4.25%, due 2038	50,000	50,000
Solid waste disposal facility bonds, 4.70%, due 2036, callable November 1, 2016	—	60,000
Cleco Katrina/Rita's storm recovery bonds, 4.41%, due 2020	1,115	17,929
Cleco Katrina/Rita's storm recovery bonds, 5.61%, due 2023	67,600	67,600
Total bonds	1,268,715	1,265,529
Other long-term debt		
Barge lease obligations, ending 2017	1,819	4,425
Gross amount of long-term debt	1,270,534	1,269,954
Less: long-term debt due within one year	17,896	16,814
Less: lease obligations classified as long-term debt due within one year	1,819	2,607
Unamortized debt discount	(6,342)	(6,885)
Unamortized debt issuance costs	(9,421)	(9,609)
Total long-term debt, net	$1,235,056	$1,234,039

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Cleco’s total indebtedness as of December 31, 2016, and 2015 was as follows:
Cleco

(THOUSANDS)	SUCCESSOR AT DEC. 31, 2016	PREDECESSOR AT DEC. 31, 2015
Total Cleco Power long-term debt, net	$ 1,235,056	$ 1,234,039
Senior notes, 3.250%, due 2023	165,000	—
Senior notes, 3.743%, due 2026	535,000	—
Senior notes, 4.973%, due 2046	350,000	—
Bank term loan, variable rate, due 2021	300,000	—
Credit facility draws	—	34,000
Unamortized debt issuance costs	(2,261)	(336)
Fair value adjustment	155,776	—
Total long-term debt, net	$ 2,738,571	$ 1,267,703

The principal amounts payable under long-term debt agreements for each year through 2021 and thereafter are as follows:

(THOUSANDS)	CLECO	CLECO POWER
Amounts payable under long-term debt arrangements		
For the year ending Dec. 31,		
2017	$17,896	$17,896
2018	$19,193	$19,193
2019	$20,571	$20,571
2020	$11,055	$11,055
2021	$300,000	$—
Thereafter	$2,250,000	$1,200,000

At December 31, 2016, Cleco and Cleco Power had $1.8 million of principal amounts payable in 2017 for a capital lease agreement for barges. For more information about the barge lease, see Note 15— “Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Other Commitments — Fuel Transportation Agreement.”

Cleco Power Debt

Cleco Power had no short-term debt outstanding at December 31, 2016, and 2015.

At December 31, 2016, Cleco Power’s long-term debt outstanding was $1.25 billion, of which $19.7 million was due within one year. The long-term debt due within one year at December 31, 2016, represents $17.9 million of principal payments for the Cleco Katrina/Rita storm recovery bonds and $1.8 million of capital lease payments.

On November 1, 2016, Cleco Power redeemed at par $60.0 million of 4.70% Solid Waste Disposal Facility bonds due November 2036. As part of the redemption, Cleco Power paid $1.4 million of accrued interest on the redeemed bonds.

On December 20, 2016, Cleco Power completed the private sale of $130.0 million of 3.47% senior notes due December 16, 2026, and $200.0 million of 3.57% senior notes due December 16, 2028. The proceeds from the issuance and sale of these notes were used to replace cash used to redeem the above mentioned Solid Waste Disposal Facility bonds, to redeem $250.0 million of 6.65% senior notes due 2018 prior to maturity and pay make-whole payments of approximately $19.0 million in connection with such redemption, and for general company purposes.

Cleco Debt
Cleco had no short-term debt outstanding at December 31, 2016, and 2015.
At December 31, 2016, Cleco's long-term debt outstanding was $2.76 billion, of which $19.7 million was due within one year. The long-term debt due within one year at December 31, 2016, represents $17.9 million of principal payments for the Cleco Katrina/Rita storm recovery bonds and $1.8 million of capital lease payments.
In connection with the completion of the Merger, on April 13, 2016, Cleco Holdings entered into a $1.35 billion Acquisition Loan Facility. The Acquisition Loan Facility had a three-year term and a rate of LIBOR plus 1.75% or ABR plus 0.75%. In May and June 2016, Cleco Holdings refinanced the Acquisition Loan Facility with a series of other long-term financings described below.
On May 17, 2016, Cleco Holdings completed the private sale of $535.0 million of 3.743% senior notes due May 1, 2026, and $350.0 million of 4.973% senior notes due May 1, 2046. On May 24, 2016, Cleco Holdings completed the private sale of $165.0 million of 3.250% senior notes due May 1, 2023. On June 28, 2016, Cleco Holdings entered into a $300.0 million variable rate bank term loan due June 28, 2021. Amounts outstanding under the bank term loan bear interest, at Cleco's option, at a base rate plus 0.625% or LIBOR plus 1.625%. At December 31, 2016, the all-in rate was 2.265%, which was based on the LIBOR rate. The proceeds from the issuance and sale of these notes and term loan were used to repay the $1.35 billion Acquisition Loan Facility. Debt issuance costs of $17.7 million were expensed to merger costs in connection with the repayment of the Acquisition Loan Facility.

Credit Facilities
At December 31, 2016, Cleco had two separate revolving credit facilities, one for Cleco Holdings and one for Cleco Power, with a maximum aggregate capacity of $400.0 million.
At December 31, 2015, Cleco Power had a $300.0 million credit facility. On April 13, 2016, in connection with the completion of the Merger, Cleco Power replaced its existing credit facility. The new credit facility has similar terms as the previous facility, including restricted financial covenants, and expires in 2021.
At December 31, 2016, Cleco Power had no borrowings outstanding under its $300.0 million credit facility. The borrowing costs under Cleco Power's new credit facility are equal to LIBOR plus 1.125% or ABR plus 0.125%, plus commitment fees of 0.125%. Under covenants contained in Cleco Power's credit facility, Cleco Power is required to maintain total indebtedness equal to or less than 65% of total capitalization. At December 31, 2016, $853.4 million of Cleco Power's member's equity was unrestricted. If Cleco Power were to default under its credit facility or any other debt agreements, Cleco Holdings would be considered to be in default under its facility. At December 31, 2016, Cleco Power was in compliance with the covenants in its credit facility. A $2.0 million letter of credit issued to MISO is covered under a standing letter of credit outside of Cleco Power's credit facility; therefore, it does not reduce the borrowing capacity of Cleco Power's new credit facility.
At December 31, 2015, Cleco Holdings had a $250.0 million credit facility. On April 13, 2016, in connection with the completion of the Merger, Cleco Holdings replaced the existing credit facility with a $100.0 million credit facility. The

new credit facility has similar terms as the previous facility, including restricted financial covenants, and expires in 2021.

At December 31, 2016, Cleco Holdings had no borrowings outstanding under its $100.0 million credit facility. The borrowing costs under Cleco Holdings' new credit facility are equal to LIBOR plus 1.75% or ABR plus 0.75%, plus commitment fees of 0.275%. Under covenants contained in Cleco Holdings' credit facility, Cleco is required to maintain total indebtedness equal to or less than 65% of total capitalization. At December 31, 2016, $634.6 million of Cleco's member's equity was unrestricted. At December 31, 2016, Cleco Holdings was in compliance with the covenants of its credit facility.

Note 8 — Common Stock

Stock-Based Plan Descriptions and Share Information

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. For more information about the Merger, see Note 3 — "Business Combinations."

Employee Stock Purchase Plan

Prior to October 17, 2014, regular, full-time, and part-time employees of Cleco Corporation and its participating subsidiaries, except officers, general managers, and employees who owned 5% or more of Cleco Corporation's stock, were eligible to participate in the ESPP. No trust or other fiduciary account was established in connection with the ESPP. Shares of common stock were purchased at a 5% discount of the fair market value as of the last trading day of each calendar quarter. A participant could purchase a maximum of 125 shares per offering period. Dividends received on shares were automatically reinvested as required by the dividend reinvestment plan (DRIP) provisions of the ESPP. A maximum of 73,400 shares of common stock was available to be purchased under the ESPP, subject to adjustment for changes in the capitalization of Cleco Corporation. The Compensation Committee of Cleco Corporation's Board of Directors monitored the ESPP. The Compensation Committee and the Board of Directors possessed the authority to amend the ESPP, but shareholder approval was required for any amendment that increased the number of shares covered by the ESPP. As stated above, the ESPP plan was terminated upon completion of the Merger.

Long-Term Incentive Compensation Plan

Prior to the completion of the Merger, stock options, restricted stock, also known as non-vested stock, common stock equivalent units, and stock appreciation rights were available to be granted or awarded to certain officers, key employees, or directors of Cleco Corporation and its affiliates under the LTIP. On December 31, 2009, the 2000 LTIP expired and no further grants or awards were made under this plan. During 2015, all restrictions on non-vested shares previously awarded pursuant to the 2000 LTIP had lapsed.

With shareholder approval, the 2010 LTIP became effective January 1, 2010. Under this plan, a maximum of 2,250,000 shares of Cleco Corporation's common stock was available to be granted or awarded. During 2015, Cleco granted 9,611 shares of stock to directors of Cleco pursuant to the LTIP. All of these shares vested immediately upon award and were issued from shares previously purchased through Cleco's common stock repurchase program. As stated above, the LTIP plan was terminated upon completion of the Merger.

Non-Vested Stock and Common Stock Equivalent Units

Prior to the completion of the Merger, Cleco granted non-vested stock to certain officers, key employees, and directors. Because it was only to be settled in shares of Cleco Corporation common stock, non-vested stock was classified as equity. Recipients of non-vested stock had full voting rights of a stockholder. At the time restrictions lapsed, the accrued dividend equivalent units were paid to the recipient only to the extent that target shares vested.

In order to vest, the non-vested stock required the satisfaction of a service requirement and a market-based requirement. Recipients of non-vested stock were eligible to receive opportunity instruments if certain market-based measures were exceeded. Cleco also awarded non-vested stock with only a service period requirement to certain employees and directors. These awards required the satisfaction of a predetermined service period in order for the shares to vest.

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.

A summary of non-vested stock activity during 2016 is presented in the following table:

	PREDECESSOR	
	SHARES	WEIGHTED-AVERAGE GRANT-DATE FAIR VALUE
Non-vested at Jan. 1, 2016	269,988	$ 48.11
Vested	(217,588)	$ 46.53
Forfeited	(52,400)	$ 54.64
Non-vested at Apr. 12, 2016	—	$ —

The fair value of shares of non-vested stock that vested during the predecessor period January 1, 2016, through April 12, 2016, was $10.1 million. The fair value of shares of non-vested stock that vested during the predecessor years ended December 31, 2015, and 2014 was $3.3 million and $5.6 million, respectively.

The fair value of shares of non-vested stock granted during 2015 and 2014 under the LTIP was estimated on the date of grant and the expense was calculated using the Monte Carlo simulation model with the assumptions listed in the following table:

	PREDECESSOR	
	FOR THE YEAR ENDED DEC. 31, 2015	FOR THE YEAR ENDED DEC. 31, 2014
Expected term (in years) [1]	3.0	3.0
Volatility of Cleco stock [2]	15.8 %	17.3 %
Correlation between Cleco stock volatility and peer group	63.1 %	66.5 %
Expected dividend yield	2.9 %	3.0 %
Weighted average fair value (Monte Carlo model)	$45.60	$ 54.58

[1] The expected term was based on the service period of the award.
[2] The volatility rate is based on historical stock prices over an appropriate period, generally equal to the expected term.

Stock-Based Compensation
During 2016, 2015, and 2014, Cleco did not modify any of the terms of outstanding awards. Cleco recognized stock-based compensation expense for these provisions in accordance with the non-substantive vesting period approach.
Prior to the completion of the Merger, Cleco recorded compensation expense for all non-vested stock. Assuming achievement of vesting requirements was probable, stock-based compensation expense of non-vested stock was recorded during the service periods, which were generally three years. All stock-based compensation cost was measured at the grant date based on the fair value of the award and was recognized as an expense in the income statement over the requisite service period of the award. Awards that vest pro rata during the requisite service period that contain only a service condition were defined as having a graded vesting schedule and could have been treated as multiple awards with separate vesting schedules. However, Cleco elected to treat grants with graded vesting schedules as one award and recognized the related compensation expense on a straight-line basis over the requisite service period.
In April 2016, Cleco incurred $2.3 million of merger expense due to accelerated vesting of the LTIP shares.
The ESPP did not contain optionality features beyond those listed by the authoritative guidance on stock-based compensation. Therefore, Cleco was not required to recognize a fair-value expense related to the ESPP.
Cleco and Cleco Power reported pretax compensation expense for their share-based compensation plans as shown in the following tables:

Cleco

	SUCCESSOR	PREDECESSOR		
(THOUSANDS)	APR. 13, 2016 - DEC. 31, 2016	JAN. 1, 2016 - APR. 12, 2016	FOR THE YEAR ENDED DEC. 31, 2015	FOR THE YEAR ENDED DEC. 31, 2014
Equity classification				

Non-vested stock [1]	$ —	$3,241	$ 6,110	$ 6,308
Tax benefit	$ —	$1,247	$ 2,351	$ 2,427

[1] For each of the years ended December 31, 2015, and 2014, compensation expense included in Cleco's Consolidated Statements of Income related to non-forfeitable dividends paid on non-vested stock that was not expected to vest was $0.1 million. For the predecessor period January 1, 2016, through April 12, 2016, compensation expense included in Cleco's Consolidated Statements of Income related to non-forfeitable dividends paid on non-vested stock that was not expected to vest was less than $0.1 million.

Cleco Power

	FOR THE YEAR ENDED DEC. 31,		
(THOUSANDS)	2016	2015	2014
Equity classification			
Non-vested stock	$997	$2,000	$2,004
Tax benefit	$384	$770	$771

The amount of stock-based compensation capitalized in property, plant, and equipment on Cleco's Consolidated Balance Sheets for the predecessor periods January 1, 2016, through April 12, 2016, and January 1, 2015, through December 31, 2015, was $0.6 million and $0.8 million, respectively. The amount of stock-based compensation capitalized in property, plant, and equipment on Cleco Power's Consolidated Balance Sheets for the years ended December 31, 2016, and 2015 was $0.6 million and $0.7 million, respectively.

Common Stock Repurchase Program

Prior to the completion of the Merger, Cleco Corporation had a common stock repurchase program that authorized management to repurchase shares of common stock. During the predecessor periods January 1, 2016, through April 12, 2016, and January 1, 2015, through December 31, 2015, no shares of common stock were repurchased. During the predecessor year ended December 31, 2014, 250,000 shares of common stock were repurchased. Upon completion of the Merger on April 13, 2016, the common stock repurchase program was terminated. For more information about the Merger, see Note 3 — "Business Combinations."

Note 9 — 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 2015, nor does it 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.

The employee pension plan and other benefits obligation plan assets and funded status at December 31, 2016, and 2015 are presented in the following table:

(THOUSANDS)	PENSION BENEFITS			OTHER BENEFITS		
	SUCCESSOR	PREDECESSOR		SUCCESSOR	PREDECESSOR	
	APR. 13, 2016 - DEC. 31, 2016	JAN. 1, 2016 - APR. 12, 2016	FOR THE YEAR ENDED DEC. 31, 2015	APR. 13, 2016 - DEC. 31, 2016	JAN. 1, 2016 - APR. 12, 2016	FOR THE YEAR ENDED DEC. 31, 2015
Change in benefit obligation						
Benefit obligation at beginning of period	$499,724	$480,062	$498,372	$42,707	$43,070	$44,652
Service cost	6,909	2,563	10,419	1,112	431	1,635
Interest cost	15,088	6,242	20,795	1,237	476	1,607
Plan participants’ contributions	—	—	—	758	300	903
Actuarial loss (gain)	6,242	16,857	(30,483)	2,292	—	(1,039)
Expenses paid	(2,025)	(801)	(1,995)	—	—	—
Medicare D	—	—	—	—	—	48
Benefits paid	(13,153)	(5,199)	(17,046)	(3,970)	(1,570)	(4,736)
Benefit obligation at end of period	512,785	499,724	480,062	44,136	42,707	43,070
Change in plan assets						
Fair value of plan assets at beginning of period	398,515	383,532	412,803	—	—	—
Actual return on plan assets	20,378	20,983	(10,230)	—	—	—
Expenses paid	(2,025)	(801)	(1,995)	—	—	—
Benefits paid	(13,153)	(5,199)	(17,046)	—	—	—
Fair value of plan assets at end of period	403,715	398,515	383,532	—	—	—
Unfunded status	$(109,070)	$(101,209)	$(96,530)	$(44,136)	$(42,707)	$(43,070)

The employee pension plan accumulated benefit obligation at December 31, 2016, and 2015 is presented in the following table:

(THOUSANDS)	PENSION BENEFITS	
	SUCCESSOR	PREDECESSOR
	AT DEC. 31, 2016	AT DEC. 31, 2015
Accumulated benefit obligation	$473,197	$ 440,876

The following table presents the net actuarial gains/losses, transition obligations/assets, and prior service costs included in other comprehensive income for other benefits and in regulatory assets for pension related to current year gains and losses as a result of being included in net periodic benefit costs for the employee pension plan and other benefits plan at December 31, 2016, and 2015:

	PENSION BENEFITS			OTHER BENEFITS		
	SUCCESSOR	PREDECESSOR		SUCCESSOR	PREDECESSOR	
(THOUSANDS)	APR. 13, 2016 - DEC. 31, 2016	JAN. 1, 2016 - APR. 12, 2016	FOR THE YEAR ENDED DEC. 31, 2015	APR. 13, 2016 - DEC. 31, 2016	JAN. 1, 2016 - APR. 12, 2016	FOR THE YEAR ENDED DEC. 31, 2015
Net actuarial (gain) loss occurring during period	$ (10,198)	$ 16,056	$ 3,128	$ 2,292	$ —	$ (1,039)
Net actuarial loss amortized during period	$ 8,138	$ 2,798	$ 13,828	$ —	$ 181	$ 866
Prior service (credit) cost amortized during period	$ (51)	$ (20)	$ (71)	$ —	$ 34	$ 119

The following table presents net gains/losses and prior period service costs/credits in accumulated other comprehensive income for other benefits and in regulatory assets for pension that have not been recognized as

components of net periodic benefit costs and the amounts expected to be recognized in 2017 for the employee pension plan and other benefits plans for December 31, 2017, 2016, and 2015:

	PENSION BENEFITS			OTHER BENEFITS		
	SUCCESSOR		PREDECESSOR	SUCCESSOR		PREDECESSOR
(THOUSANDS)	AT DEC. 31, 2017	AT DEC. 31, 2016	AT DEC. 31, 2015	AT DEC. 31, 2017	AT DEC. 31, 2016	AT DEC. 31, 2015
Net actuarial loss	$ 9,647	$ 145,542	$ 150,620	$ —	$ 2,292	$ 8,805
Prior service (credit) cost	$ (71)	$ (274)	$ (345)	$ —	$ —	$ 363

The components of net periodic pension and other benefits costs for 2016, 2015, and 2014 are as follows:

	PENSION BENEFITS				OTHER BENEFITS			
	SUCCESSOR	PREDECESSOR			SUCCESSOR	PREDECESSOR		
(THOUSANDS)	APR. 13, 2016 - DEC. 31, 2016	JAN. 1, 2016 - APR. 12, 2016	FOR THE YEAR ENDED DEC. 31, 2015	FOR THE YEAR ENDED DEC. 31, 2014	APR. 13, 2016 - DEC. 31, 2016	JAN. 1, 2016 - APR. 12, 2016	FOR THE YEAR ENDED DEC. 31, 2015	FOR THE YEAR ENDED DEC. 31, 2014
Components of periodic benefit costs								
Service cost	$ 6,909	$2,563	$10,419	$8,050	$ 1,112	$431	$1,635	$1,542
Interest cost	15,088	6,242	20,795	19,851	1,237	476	1,607	1,809
Expected return on plan assets	(17,310)	(6,812)	(23,382)	(24,507)	—	—	—	—
Amortizations								
Transition obligation	—	—	—	—	—	—	—	16
Prior period service (credit) cost	(51)	(20)	(71)	(71)	—	34	119	119
Net loss	8,138	2,798	13,828	6,743	—	181	866	670
Net periodic benefit cost	$ 12,774	$4,771	$21,589	$10,066	$ 2,349	$1,122	$4,227	$4,156

During the third quarter of 2016, management finalized its remeasurement of the pension plan as of April 13, 2016, associated with the Merger. On the date of the remeasurement, the discount rate decreased from 4.62% to 4.21%. Prior to the remeasurement, Cleco's 2016 net periodic benefit cost for the pension plan was expected to be $15.9 million. Due to the remeasurement of the pension plan, Cleco's 2016 net periodic benefit cost increased to $17.5 million.
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 predecessor period January 1, 2016, through April 12, 2016, was $0.5 million. The expense of the pension plan related to Cleco's other subsidiaries for the successor period April 13, 2016, through December 31, 2016 was $1.3 million. The amounts for the predecessor periods for 2015, and 2014 were $2.1 million and $1.7 million, respectively.
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 Consolidated Statements of Income for the years ended December 31, 2016, 2015, and 2014 was $3.5 million, $3.6 million, and $3.6 million, respectively. The current

and non-current portions of the other benefits liability for Cleco and Cleco Power at December 31, 2016, and 2015 are as follows:
Cleco

	SUCCESSOR	PREDECESSOR
(THOUSANDS)	AT DEC. 31, 2016	AT DEC. 31, 2015
Current	$ 3,854	$ 3,613
Non-current	$ 40,196	$ 39,457

Cleco Power

(THOUSANDS)	AT DEC. 31, 2016	AT DEC. 31, 2015
Current	$3,345	$3,140
Non-current	$34,892	$34,300

In March 2010, the President signed the PPACA, a comprehensive health care law. While all provisions of the PPACA are not effective immediately and the law has been amended since original enactment, management does not expect the provisions to materially impact Cleco's retiree medical unfunded liability and related expenses. Management will continue to monitor this law and its possible impact.

The measurement date used to determine the pension and other postretirement benefits is December 31. The assumptions used to determine the benefit obligation and the periodic costs are as follows:

	PENSION BENEFITS		OTHER BENEFITS	
	SUCCESSOR	PREDECESSOR	SUCCESSOR	PREDECESSOR
	AT DEC. 31, 2016	AT DEC. 31, 2015	AT DEC. 31, 2016	AT DEC. 31, 2015
Weighted-average assumptions used to determine the benefit obligation				
Discount rate	4.27 %	4.62 %	3.81 %	4.08 %
Rate of compensation increase	3.03 %	3.08 %	N/A	N/A

	PENSION BENEFITS				OTHER BENEFITS			
	SUCCESSOR	PREDECESSOR			SUCCESSOR	PREDECESSOR		
	APR. 13, 2016 - DEC. 31, 2016	JAN. 1, 2016 - APR. 12, 2016	FOR THE YEAR ENDED DEC. 31, 2015	FOR THE YEAR ENDED DEC. 31, 2014	APR. 13, 2016 - DEC. 31, 2016	JAN. 1, 2016 - APR. 12, 2016	FOR THE YEAR ENDED DEC. 31, 2015	FOR THE YEAR ENDED DEC. 31, 2014
Weighted-average assumptions used to determine the net benefit cost								
Discount rate	4.21 %	4.62 %	4.21 %	5.14 %	4.08 %	4.08 %	3.76 %	4.46 %
Expected return on plan assets	6.21 %	6.21 %	6.15 %	6.76 %	N/A	N/A	N/A	N/A
Rate of compensation increase	3.03 %	3.03 %	3.08 %	3.17 %	N/A	N/A	N/A	N/A

The expected return on plan assets was determined by examining the risk profile of each target category as compared to the expected return on that risk, within the parameters determined by the retirement committee. The result was also compared to the expected rate of return of other comparable plans. In assessing the risk as compared to return profile, historical returns as compared to risk were considered. The historical risk compared to returns was adjusted for the expected future long-term relationship between risk and return. The adjustment for the future risk compared to returns was, in part, subjective and not based on any measurable or observable events. For the calculation of the 2017 periodic expense, Cleco decreased the expected long-term return on plan assets to 6.08%. Cleco expects pension expense to decrease in 2017 by approximately $2.2 million due to a higher than expected return on assets in 2016 and favorable mortality improvement scale updates, partially offset by a decrease in the discount rate.
Employee pension plan assets may be invested in publicly traded domestic common stocks; U.S. Government, federal agency, and corporate obligations; an international equity fund, commercial real estate funds; and pooled temporary investments. Investments in securities (obligations of U.S. Government, U.S. Government Agencies, and state and local governments, corporate debt, common/collective trust funds, mutual funds, common stocks, and preferred stock) traded on a national securities exchange are valued at the last reported sales price on the last business day of the year.

Real estate funds and the pooled separate accounts are stated at estimated market value based on appraisal reports prepared annually by independent real estate appraisers (members of the American Institute of Real Estate Appraisers). The estimated market value of recently acquired properties is assumed to approximate cost.

Fair Value Disclosures
Cleco classifies assets and liabilities measured at their fair value according to three different levels, depending on the inputs used in determining fair value.

- Level 1 – unadjusted quoted prices in active, liquid markets for the identical asset or liability,
- Level 2 – quoted prices for similar assets and liabilities in active markets or other inputs that are observable for the asset or liability, including inputs that can be corroborated by observable market data, observable interest rate yield curves and volatilities, and
- Level 3 – unobservable inputs based upon the entities' own assumptions.

There have been no changes in the methodologies for determining fair value at December 31, 2016, and December 31, 2015. The following tables disclose the pension plan's fair value of financial assets measured on a recurring basis:

	SUCCESSOR			
(THOUSANDS)	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				
Cash equivalents	$6,817	$ —	$ 6,817	$ —
Common stock	19,311	19,311	—	—
Obligations of U.S. Government, U.S. Government Agencies, and state and local governments	47,543	—	47,543	—

Mutual funds				
Domestic	52,663	52,663	—	—
International	31,191	31,191	—	—
Real estate funds	18,668	—	—	18,668
Corporate debt	185,659	—	185,659	—
Total	$361,852	$ 103,165	$ 240,019	$ 18,668

Investments measured at net asset value*	38,886
Interest accrual	2,977
Total net assets	$403,715

*Investments measured at net asset value consist of Common/collective trust.

(THOUSANDS)	PREDECESSOR AT DEC. 31, 2015	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Asset Description				
Cash equivalents	$4,568	$ —	$ 4,568	$ —
Common stock	13,816	13,816	—	—
Obligations of U.S. Government, U.S. Government Agencies, and state and local governments	48,792	—	48,792	—
Mutual funds				
Domestic	47,801	47,801	—	—
International	22,853	22,853	—	—
Real estate funds	17,890	—	—	17,890
Corporate debt	182,408	—	182,408	—
Total	$338,128	$ 84,470	$ 235,768	$ 17,890

Investments measured at net asset value*	42,362
Interest accrual	3,042
Total net assets	$383,532

*Investments measured at net asset value consist of Hedge fund-of-funds and Common/collective trust.

Level 3 valuations are derived from other valuation methodologies including pricing models, discounted cash flow models, and similar techniques. Level 3 valuations incorporate subjective judgments and consider assumptions including capitalization rates, discount rates, cash flows, and other factors that are not observable in the market. Significant increases or decreases in any of those inputs in isolation would result in a significantly different fair value measurement.

The following is a reconciliation of the beginning and ending balances of the pension plan's real estate funds measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended December 31, 2016, and 2015:

(THOUSANDS)	
PREDECESSOR	
Balance, Dec. 31, 2014	$18,792
Realized gains	9
Unrealized losses	(148)
Purchases	679
Sales	(1,442)
Balance, Dec. 31, 2015	$17,890
Realized gains	71
Unrealized gains	89

Purchases	26
Sales	(205)
Balance, Apr. 12, 2016	$17,871
SUCCESSOR	
Balance, Apr. 13, 2016	$17,871
Realized gains	151
Unrealized gains	226
Purchases	570
Sales	(151)
Balance, Dec. 31, 2016	$18,668

The market-related value of plan assets differs from the fair value of plan assets by the amount of deferred asset gains or losses. Actual asset returns that differ from the expected return on plan assets are deferred and recognized in the market-related value of assets on a straight-line basis over a

five-year period. For 2016, the return on plan assets was 10.90% compared to an expected long-term return of 6.21%. The 2015 return on pension plan assets was (2.90)% compared to an expected long-term return of 6.15%.
As of December 31, 2016, none of the pension plan participants' future annual benefits are covered by insurance contracts. In December 2008, Cleco became aware that, through its hedge fund-of-funds manager, a portion of its pension plan assets were invested in the Madoff feeder fund investment, Ascot Fund Limited. In January 2009, Cleco Power elected to liquidate the holdings of the hedge fund-of-funds manager. At December 31, 2016, all investments in the hedge fund-of-funds had been liquidated. Proceeds from the hedge fund-of-funds manager were reallocated to the plan's other investment managers. The hedge fund-of-funds investment was measured at fair value using the net asset value per share as a practical expedient (or its equivalent) and was not classified in the fair value hierarchy for 2016.

Pension Plan Investment Objectives
Cleco's retirement committee has established investment performance objectives of the pension plan assets. Over a three- to five-year period, the objectives are for the pension plan's annualized total return to:

- Exceed the assumed rate of return on plan assets, and
- Exceed the annualized total return of a customized index consisting of a mixture of S&P 500 Index, Russell 2500 Index, MSCI EAFE Index, Morgan Stanley Capital International Emerging Markets Index, Barclays Capital Long Credit Index, Barclays Capital Long Government/Credit Index, National Council of Real Estate Investment Fiduciaries Index, and U.S. Treasury Bills plus 5%.

In order to meet the objectives and to control risk, the retirement committee has established the following guidelines that the investment managers must follow:

Domestic Equity Portfolios
- Equity holdings of a single company must not exceed 10% of the manager's portfolio.
- A minimum of 25 stocks should be owned.

- Equity holdings in a single sector should not exceed the lesser of three times the sector's weighting in the S&P 500 Index or 35% of the portfolio.
- Equity holdings should represent at least 90% of the portfolio.
- Marketable common stocks, preferred stocks convertible into common stocks, and fixed income securities convertible into common stocks are the only permissible equity investments.
- Securities in foreign entities denominated in U.S. dollars are limited to 10%. Securities denominated in currencies other than U.S. dollars are not permitted.
- The purchase of securities on margin and short sales is prohibited.

International Equity Portfolios

Developed Markets
- Equity holdings of a single company should not exceed 5% of the manager's portfolio.
- A minimum of 30 stocks should be owned.
- Equity holdings in a single sector should not exceed 35%.
- A minimum of 50% of the countries within the MSCI EAFE Index should be represented within the portfolio. The allocation to an individual country should not exceed the lesser of 30% or 5 times the country's weighting within the MSCI EAFE Index.
- Currency hedging decisions are at the discretion of the investment manager.

Emerging Markets
- Equity holdings in any single company should not exceed 10% of the manager's portfolio.
- A minimum of 30 individual stocks should be owned.
- Equity holdings of a single industry should not exceed 25%.
- Equity investments must represent at least 75% of the manager's portfolio.
- A minimum of three countries should be represented within the manager's portfolio.
- Illiquid securities which are not readily marketable may represent no more than 10% of the manager's portfolio.
- Currency hedging decisions are at the discretion of the investment manager.

Fixed Income Portfolio - Long Government/Credit
- Only U.S. dollar denominated assets permitted, including U.S. government and agency securities, corporate securities, structured securities, other interest-bearing securities, and short-term investments.
- At least 85% of the debt securities should be investment grade securities (BBB- by S&P or Baa3 by Moody's) or higher.
- Debt holdings of a single issue or issuer must not exceed 5% of the manager's portfolio.
- Aggregate net notional exposure of futures, options, and swaps must not exceed 30% of the manager's portfolio. Manager will only execute swaps with counterparties whose credit rating is A2/A or better.
- Margin purchases or leverage is prohibited.
- The average weighted duration of portfolio security holdings, including derivative exposure, is expected to range within +/- 20% of the Barclays Long Gov/Credit Index duration.

Fixed Income Portfolio - Long Credit
- Permitted assets include U.S. government and agency securities, corporate securities, mortgage-backed securities, investment-grade private placements, surplus notes, trust preferred, e-caps and hybrids, money-market securities, and senior and subordinated debt.

- At least 90% of securities must be U.S. dollar denominated.
- At least 70% of the securities must be investment-grade credit.
- Securities must have a maximum position size of 5% for A rated securities and 3% for BBB rated securities.
- The duration of the portfolio must be within +/- 1 year of benchmark.

Real Estate Portfolios

- Real estate funds should be invested primarily in direct equity positions, with debt and other investments representing less than 25% of the fund.
- Leverage should be no more than 70% of the market value of the fund.
- Investments should be focused on existing income-producing properties, with land and development properties representing less than 40% of the fund.

The use of futures and options positions which leverage portfolio positions through borrowing, short sales, or other encumbrances of the Plan's assets is prohibited:

- Debt portfolios are exempt from the prohibition on derivative use.
- Execution of target allocation rebalancing may be implemented through short- to intermediate-term use of derivatives overlay strategies. The notional value of derivative positions shall not exceed 20% of the total pension fund's value at any given time.

The following chart shows the dynamic asset allocation based on the funded ratio at December 31, 2016:

	PERCENT OF TOTAL PLAN ASSETS			
	MINIMUM	TARGET		MAXIMUM
Return-seeking				
Domestic equity		18	%	
International equity		17	%	
Real estate		5		