CLECO CORP
Form 10-Q
July 30, 2014

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2014
Or
.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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

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

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

Commission file number 1-05663
CLECO POWER LLC
(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the Registrants: (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrants were required to file such reports) and (2) have been subject to such filing requirements for the past 90 days.
Yes x No o

Indicate by check mark whether the Registrants have submitted electronically and posted on their corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrants were required to submit and post such files). Yes x No o

Indicate by check mark whether Cleco Corporation is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer x Accelerated filer o Non-accelerated filer o (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

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

Registrant	Description of Class	Shares Outstanding at July 23, 2014
Cleco Corporation	Common Stock, $1.00 Par Value	60,375,032

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

This Combined Quarterly Report on Form 10-Q is separately filed by Cleco Corporation and Cleco Power. Information in this filing relating to Cleco Power is filed by Cleco Corporation and separately by Cleco Power on its own behalf. Cleco Power makes no representation as to information relating to Cleco Corporation (except as it may relate to Cleco Power) or any other affiliate or subsidiary of Cleco Corporation.
This report should be read in its entirety as it pertains to each respective Registrant. The Notes to the Unaudited Condensed Consolidated Financial Statements are combined.

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GLOSSARY OF TERMS

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

ABBREVIATION OR ACRONYM	DEFINITION
401(k) Plan	Cleco Power 401(k) Savings and Investment Plan
ABR	Alternate Base Rate which is the greater of the prime rate, the federal funds effective rate plus 0.50%, or the LIBOR plus 1.0%
Acadia	Acadia Power Partners, LLC, a wholly owned subsidiary of Acadia Power Holdings LLC, a wholly owned subsidiary of Midstream
Acadia Unit 1	Cleco Power's 580-MW, combined cycle, natural gas-fired power plant located at the Acadia Power Station in Eunice, Louisiana
Acadia Unit 2	Entergy Louisiana's 580-MW, combined cycle, natural gas-fired power plant located at the Acadia Power Station in Eunice, Louisiana
AFUDC	Allowance for Funds Used During Construction
Amended Lignite Mining Agreement	Amended and restated lignite mining agreement effective December 29, 2009
AMI	Advanced Metering Infrastructure
ARRA	American Recovery and Reinvestment Act of 2009, an economic stimulus package passed by Congress in February 2009
Attala	Attala Transmission LLC, a wholly owned subsidiary of Cleco Corporation
CERCLA	The Comprehensive Environmental Response, Compensation, and Liability Act of 1980
Cleco Katrina/Rita	Cleco Katrina/Rita Hurricane Recovery Funding LLC, a wholly owned subsidiary of Cleco Power
Coughlin	Coughlin Power Station, a 775-MW combined-cycle, natural gas-fired power plant located in St. Landry, Louisiana
DHLC	Dolet Hills Lignite Company, LLC, a wholly owned subsidiary of SWEPCO
Diversified Lands	Diversified Lands LLC, a wholly owned subsidiary of Cleco Corporation
Dodd-Frank Act	The Dodd-Frank Wall Street Reform and Consumer Protection Act, signed into law on July 21, 2010
Dolet Hills	A 650-MW lignite/natural gas generating unit at Cleco Power's plant site in Mansfield, Louisiana. Cleco Power has a 50% ownership interest in the capacity of Dolet Hills.
Entergy Gulf States	Entergy Gulf States Louisiana, L.L.C.
Entergy Louisiana	Entergy Louisiana, LLC
Entergy Mississippi	Entergy Mississippi, Inc.
EPA	United States Environmental Protection Agency
ESPP	Cleco Corporation Employee Stock Purchase Plan
Evangeline	Cleco Evangeline LLC, a wholly owned subsidiary of Midstream
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FTRs	Financial Transmission Rights
FRP	Formula Rate Plan
GAAP	Generally Accepted Accounting Principles in the United States
GO Zone	Gulf Opportunity Zone Act of 2005 (Public Law 109-135)

Interconnection Agreement	One of two Interconnection and Real Estate Agreements, one between Attala and Entergy Mississippi, and the other between Perryville and Entergy Louisiana
IRS	Internal Revenue Service
kWh	Kilowatt-hour(s) as applicable
LIBOR	London Inter-Bank Offer Rate
LMP	Locational Marginal Price
LPSC	Louisiana Public Service Commission
LTICP	Cleco Corporation Long-Term Incentive Compensation Plan
Madison Unit 3	A 600-MW solid-fuel generating unit at Cleco Power's plant site in Boyce, Louisiana
MATS	Mercury and Air Toxics Standards
Midstream	Cleco Midstream Resources LLC, a wholly owned subsidiary of Cleco Corporation
MISO	Midcontinent Independent System Operator, Inc.
Moody's	Moody's Investors Service, a credit rating agency
MW	Megawatt(s) as applicable
MWh	Megawatt-hour(s) as applicable
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
Not Meaningful	A percentage comparison of these items is not statistically meaningful because the percentage difference is greater than 1,000%
O&M	Operations and Maintenance
OCI	Other Comprehensive Income
Oxbow	Oxbow Lignite Company, LLC, 50% owned by Cleco Power and 50% owned by SWEPCO
Perryville	Perryville Energy Partners, L.L.C., a wholly owned subsidiary of Cleco Corporation

ABBREVIATION OR ACRONYM	DEFINITION
Power Purchase Agreement	Power Purchase Agreement, dated as of January 28, 2004, between Perryville and Entergy Services, Inc., as agent for Entergy Louisiana and Entergy Gulf States
Registrant(s)	Cleco Corporation and Cleco Power
RFP	Request for Proposal
Rodemacher Unit 2	A 523-MW coal/natural gas generating unit at Cleco Power's plant site in Boyce, Louisiana. Cleco Power has a 30% ownership interest in the capacity of Rodemacher Unit 2.
Sale Agreement	Purchase and Sale Agreement, dated as of January 28, 2004, between Perryville and Entergy Louisiana
S&P	Standard & Poor's Ratings Services, a credit rating agency
SEC	Securities and Exchange Commission
SERP	Cleco Corporation Supplemental Executive Retirement Plan
Support Group	Cleco Support Group LLC, a wholly owned subsidiary of Cleco Corporation
SWEPCO	Southwestern Electric Power Company, a wholly owned subsidiary of American Electric Power Company, Inc.
VaR	Value-at-Risk

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Combined Quarterly Report on Form 10-Q includes “forward-looking statements” about future events, circumstances, and results. All statements other than statements of historical fact included in this Combined Quarterly Report are forward-looking statements, including, without limitation, future capital expenditures; projections, including with respect to base revenue; business strategies; goals, beliefs, plans, and objectives; competitive strengths; market developments; development and operation of facilities; growth in sales volume; meeting capacity requirements; expansion of service to existing customers and service to new customers; future environmental regulations and remediation liabilities; electric customer credits; and the anticipated outcome of various regulatory and legal proceedings. Although the Registrants believe that the expectations reflected in such forward-looking statements are reasonable, such forward-looking statements are based on numerous assumptions (some of which may prove to be incorrect) and are subject to risks and uncertainties that could cause the actual results to differ materially from the Registrants’ expectations. In addition to any assumptions and other factors referred to specifically in connection with these forward-looking statements, the following list identifies some of the factors that could cause the Registrants’ actual results to differ materially from those contemplated in any of the Registrants’ forward-looking statements:

- factors affecting utility operations, such as unusual weather conditions or other natural phenomena; catastrophic weather-related damage (such as hurricanes and other storms or severe drought conditions); unscheduled generation outages; unanticipated maintenance or repairs; unanticipated changes to fuel costs, fuel supply costs or availability constraints due to higher demand, shortages, transportation problems, or other developments; fuel mix of Cleco’s generation facilities; decreased customer load; environmental incidents and compliance costs; and power transmission system constraints,
- Cleco Corporation’s holding company structure and its dependence on the earnings, dividends, or distributions from its subsidiaries to meet its debt obligations and pay dividends on its common stock,
- Cleco Power’s ability to maintain its right to sell wholesale generation at market-based rates within its control area,
- Cleco Power’s dependence on energy from sources other than its facilities and future sources of such additional energy,
- nonperformance by and creditworthiness of the guarantor counterparty of the NMTC Fund,
- regulatory factors such as changes in rate-setting 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 and timing of rate increases or decreases, the impact that rate cases or requests for extensions of an FRP may have on wholesale decisions of Cleco Power, the results of periodic North American Electric Reliability Corporation

and LPSC audits, participation in MISO and the related operating challenges and uncertainties, including increased wholesale competition relative to more suppliers, and the compliance with the Electric Reliability Organization reliability standards for bulk power systems by Cleco Power,
- reliance on third parties for determination of Cleco Power’s commitments and obligations to markets for generation resources and reliance on third party transmission services,
- financial or regulatory accounting principles or policies imposed by FASB, the SEC, FERC, the LPSC, or similar entities with regulatory or accounting oversight,
- economic conditions, including the ability of customers to continue paying utility bills, related growth and/or down-sizing of businesses in Cleco’s service area, monetary fluctuations, changes in commodity prices, and inflation rates,
- the current global and U.S. economic environment,
- credit ratings of Cleco Corporation and Cleco Power,
- ability to remain in compliance with debt covenants,

- changing market conditions and a variety of other factors associated with physical energy, financial transactions, and energy service activities, including, but not limited to, price, basis, credit, liquidity, volatility, capacity, transmission, interest rates, and warranty risks,
- the availability and use of alternative sources of energy and technologies, such as wind, solar, and distributed generation,
- the imposition of energy efficiency requirements or increased conservation efforts of customers,
- reliability of Cleco Power’s generating facilities,
- acts of terrorism, cyber attacks, data security breaches or other attempts to disrupt Cleco’s business or the business of third parties, or other man-made disasters,
- availability or cost of capital resulting from changes in Cleco’s business or financial condition, interest rates, or market perceptions of the electric utility industry and energy-related industries,
- changes in federal, state, or local laws (including tax laws), changes in tax rates, disallowances of uncertain tax positions, or changes in other regulating policies that may result in a change to tax benefits or expenses,
- employee work force factors, including work stoppages and changes in key executives,
- legal, environmental, and regulatory delays and other obstacles associated with mergers, acquisitions, reorganizations, investments in joint ventures, or other capital projects, including the MATS project,
- costs and other effects of legal and administrative proceedings, settlements, investigations, claims, and other matters,
- the impact of current or future environmental laws and regulations, including those related to greenhouse gases

and energy efficiency that could limit or terminate the operation of certain generating units, increase costs, or reduce customer demand for electricity,

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

For more discussion of these factors and other factors that could cause actual results to differ materially from those

contemplated in the Registrants' forward-looking statements,
please read "Risk Factors" in this report and in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2013. All subsequent written and oral forward-looking statements attributable to the Registrants or persons acting on their behalf are expressly qualified in their entirety by the factors identified above. The Registrants undertake no obligation to update any forward-looking statements, whether as a result of changes in actual results, changes in assumptions, or other factors affecting such statements.

PART I — FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Cleco Corporation
These unaudited Condensed Consolidated Financial Statements should be read in conjunction with Cleco Corporation's Consolidated Financial Statements and Notes included in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2013. For more information on the basis of presentation, see "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 1 — Summary of Significant Accounting Policies — Basis of Presentation."

CLECO CORPORATION

Condensed Consolidated Statements of Income (Unaudited)

(THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	FOR THE THREE MONTHS ENDED JUNE 30, 2014	2013
Operating revenue		
Electric operations	$316,997	$252,765
Other operations	14,568	11,531
Gross operating revenue	331,565	264,296
Electric customer credits	(22,495)	(402)
Operating revenue, net	309,070	263,894
Operating expenses		
Fuel used for electric generation	56,696	72,611
Power purchased for utility customers	81,393	13,940
Other operations	29,092	31,442
Maintenance	26,245	26,310
Depreciation	37,570	34,740
Taxes other than income taxes	11,567	10,285
Gain on sale of assets	(214)	(188)
Total operating expenses	242,349	189,140
Operating income	66,721	74,754
Interest income	350	257
Allowance for other funds used during construction	2,029	413
Other income	2,495	8,165
Other expense	(369)	(1,247)
Interest charges		
Interest charges, including amortization of debt expense, premium, and discount, net	20,635	21,017
Allowance for borrowed funds used during construction	(570)	(129)
Total interest charges	20,065	20,888
Income before income taxes	51,161	61,454
Federal and state income tax expense	14,528	19,422
Net income applicable to common stock	$36,633	$42,032
Average number of basic common shares outstanding	60,359,949	60,445,617
Average number of diluted common shares outstanding	60,626,135	60,713,374
Basic earnings per share		
Net income applicable to common stock	$0.61	$0.70
Diluted earnings per share		
Net income applicable to common stock	$0.60	$0.69
Dividends declared per share of common stock	$0.4000	$0.3625

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

CLECO CORPORATION

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	FOR THE THREE MONTHS ENDED JUNE 30,	
(THOUSANDS)	2014	2013
Net income	$36,633	$42,032
Other comprehensive income, net of tax:		
Amortization of postretirement benefits (net of tax expense of $274 in 2014 and $366 in 2013)	438	586
Net gain on cash flow hedges (net of tax expense of $33 in 2014 and $23 in 2013)	53	36
Total other comprehensive income, net of tax	491	622
Comprehensive income, net of tax	$37,124	$42,654

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

CLECO CORPORATION

Condensed Consolidated Statements of Income (Unaudited)

	FOR THE SIX MONTHS ENDED JUNE 30,	
(THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	2014	2013
Operating revenue		
Electric operations	$586,756	$482,191
Other operations	29,381	23,074
Gross operating revenue	616,137	505,265
Electric customer credits	(22,681)	(424)
Operating revenue, net	593,456	504,841
Operating expenses		
Fuel used for electric generation	115,743	157,976
Power purchased for utility customers	134,117	18,796
Other operations	56,081	58,363
Maintenance	58,615	43,944
Depreciation	79,311	68,773
Taxes other than income taxes	25,674	22,919
(Gain) loss on sale of assets	(145)	846
Total operating expenses	469,396	371,617
Operating income	124,060	133,224
Interest income	952	457
Allowance for other funds used during construction	3,660	1,577
Other income	3,466	10,438
Other expense	(1,041)	(1,683)
Interest charges		
Interest charges, including amortization of debt expense, premium, and discount, net	41,393	42,848
Allowance for borrowed funds used during construction	(1,059)	(504)
Total interest charges	40,334	42,344
Income before income taxes	90,763	101,669
Federal and state income tax expense	28,206	32,503
Net income applicable to common stock	$62,557	$69,166
Average number of basic common shares outstanding	60,424,591	60,419,588
Average number of diluted common shares outstanding	60,678,026	60,670,112
Basic earnings per share		
Net income applicable to common stock	$1.04	$1.15
Diluted earnings per share		
Net income applicable to common stock	$1.03	$1.14
Dividends declared per share of common stock	$0.7625	$0.7000

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

CLECO CORPORATION

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	FOR THE SIX MONTHS ENDED JUNE 30,	
(THOUSANDS)	2014	2013
Net income	$62,557	$69,166
Other comprehensive income, net of tax:		
Amortization of postretirement benefits (net of tax expense of $802 in 2014 and $702 in 2013)	1,282	1,122
Net gain on cash flow hedges (net of tax expense of $66 in 2014 and $859 in 2013)	106	1,373
Total other comprehensive income, net of tax	1,388	2,495
Comprehensive income, net of tax	$63,945	$71,661

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

CLECO CORPORATION

Condensed Consolidated Balance Sheets (Unaudited)

(THOUSANDS)	AT JUNE 30, 2014	AT DEC. 31, 2013
Assets		
Current assets		
Cash and cash equivalents	$23,237	$28,656
Restricted cash and cash equivalents	8,516	8,986
Customer accounts receivable (less allowance for doubtful accounts of $768 in 2014 and $849 in 2013)	64,716	50,567
Other accounts receivable	47,191	46,981
Unbilled revenue	47,361	31,166
Fuel inventory, at average cost	64,384	60,913
Material and supplies inventory, at average cost	66,125	62,811
Energy risk management assets	47,554	9,020
Accumulated deferred federal and state income taxes, net	48,762	94,179
Accumulated deferred fuel	35,447	—
Cash surrender value of company-/trust-owned life insurance policies	69,365	64,720
Prepayments	8,361	9,204
Regulatory assets	13,532	5,975
Other current assets	22	404
Total current assets	544,573	473,582
Property, plant, and equipment		
Property, plant, and equipment	4,422,729	4,326,522
Accumulated depreciation	(1,395,839)	(1,351,223)
Net property, plant, and equipment	3,026,890	2,975,299
Construction work in progress	112,634	107,841
Total property, plant, and equipment, net	3,139,524	3,083,140
Equity investment in investees	14,540	14,540
Prepayments	4,528	4,510
Restricted cash and cash equivalents	15,061	5,033
Restricted investments	—	12,829
Regulatory assets - deferred taxes, net	232,673	229,173
Regulatory assets	238,511	249,677
Net investment in direct financing lease	13,511	13,523
Intangible asset	98,433	106,007
Other deferred charges	17,265	23,248
Total assets	$4,318,619	$4,215,262

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

(Continued on next page)

CLECO CORPORATION

Condensed Consolidated Balance Sheets (Unaudited)

(THOUSANDS)	AT JUNE 30, 2014	AT DEC. 31, 2013
Liabilities and shareholders' equity		
Liabilities		
Current liabilities		
Long-term debt due within one year	$17,724	$17,182
Accounts payable	169,066	110,544
Customer deposits	51,745	48,456
Provision for rate refund	26,215	3,533
Taxes payable	24,244	18,680
Interest accrued	15,711	12,188
Accumulated deferred fuel	—	3,869
Energy risk management liabilities	4,582	382
Deferred compensation	11,314	11,081
Uncertain tax positions	686	4,610
Other current liabilities	13,700	12,948
Total current liabilities	334,987	243,473
Long-term liabilities and deferred credits		
Accumulated deferred federal and state income taxes, net	853,063	869,150
Accumulated deferred investment tax credits	4,657	5,144
Postretirement benefit obligations	105,820	103,483
Restricted storm reserve	14,365	17,646
Tax credit fund investment, net	22,515	41,840
Contingent sale obligations	180	900
Other deferred credits	20,316	31,929
Total long-term liabilities and deferred credits	1,020,916	1,070,092
Long-term debt, net	1,371,465	1,315,500
Total liabilities	2,727,368	2,629,065
Commitments and Contingencies (Note 11)		
Shareholders' equity		
Common shareholders' equity		
Common stock, $1 par value, authorized 100,000,000 shares, issued 61,051,286 and 61,047,006 shares and outstanding 60,361,194 and 60,454,520 shares at June 30, 2014 and December 31, 2013, respectively	61,051	61,047
Premium on common stock	417,295	422,624
Retained earnings	1,165,125	1,149,003
Treasury stock, at cost, 690,092 and 592,486 shares at June 30, 2014 and December 31, 2013, respectively	(27,732)	(20,601)
Accumulated other comprehensive loss	(24,488)	(25,876)
Total shareholders' equity	1,591,251	1,586,197
Total liabilities and shareholders' equity	$4,318,619	$4,215,262

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

CLECO CORPORATION

Condensed Consolidated Statements of Cash Flows (Unaudited)

	FOR THE SIX MONTHS ENDED JUNE 30,	
(THOUSANDS)	2014	2013
Operating activities		
Net income	$62,557	$69,166
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	85,264	72,675
Unearned compensation expense	3,569	3,055
Allowance for other funds used during construction	(3,660)	(1,577)
Net deferred income taxes	23,685	26,638
Deferred fuel costs	(25,971)	(478)
Cash surrender value of company-/trust-owned life insurance	(3,011)	(2,280)
Changes in assets and liabilities:		
Accounts receivable	(17,232)	(9,475)
Unbilled revenue	(16,195)	(7,350)
Fuel, materials and supplies inventory	(6,785)	(9,793)
Accounts payable	19,909	(21,026)
Customer deposits	8,017	6,316
Postretirement benefit obligations	4,486	(31,020)
Regulatory assets and liabilities, net	(4,491)	(11,842)
Other deferred accounts	(14,815)	(10,189)
Taxes accrued	1,777	64,389
Interest accrued	3,522	(842)
Other operating	4,526	(1,005)
Net cash provided by operating activities	125,152	135,362
Investing activities		
Additions to property, plant, and equipment	(113,175)	(85,369)
Allowance for other funds used during construction	3,660	1,577
Property, plant, and equipment grants	—	729
Return of investment in company-owned life insurance	1,303	—
Return of equity investment in tax credit fund	1,062	9
Contributions to tax credit fund	(22,364)	(24,162)
Transfer of cash (to) from restricted accounts	(9,557)	1,730
Purchase of restricted investments	—	(4,334)
Sale of restricted investments	11,138	—
Maturity of restricted investments	1,458	2,559
Other investing	(1,221)	139
Net cash used in investing activities	(127,696)	(107,122)

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

(Continued on next page)

CLECO CORPORATION

Condensed Consolidated Statements of Cash Flows (Unaudited)

	FOR THE SIX MONTHS ENDED JUNE 30,	
(THOUSANDS)	2014	2013
Financing activities		
Issuance of short-term debt	$—	$3,000
Draws on credit facility	139,000	173,000
Payments on credit facility	(74,000)	(173,000)
Issuance of long-term debt	—	160,000
Retirement of long-term debt	(7,581)	(107,129)
Repurchase of long-term debt	—	(60,000)
Repurchase of common stock	(12,449)	—
Settlement of interest rate swap	—	(3,269)
Dividends paid on common stock	(46,608)	(42,520)
Other financing	(1,237)	(1,775)
Net cash used in financing activities	(2,875)	(51,693)
Net decrease in cash and cash equivalents	(5,419)	(23,453)
Cash and cash equivalents at beginning of period	28,656	31,020
Cash and cash equivalents at end of period	$23,237	$7,567
Supplementary cash flow information		
Interest paid, net of amount capitalized	$36,343	$39,120
Income taxes paid (refunded), net	$14,219	$(45,789)
Supplementary non-cash investing and financing activities		
Accrued additions to property, plant, and equipment	$21,566	$13,096
Non-cash additions to property, plant, and equipment, net	$—	$1,280
Issuance of common stock – ESPP	$148	$160

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

CLECO CORPORATION

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

	COMMON STOCK		TREASURY STOCK					
(THOUSANDS, EXCEPT SHARE AMOUNTS)	SHARES	AMOUNT	SHARES	COST	PREMIUM ON COMMON STOCK	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TOTAL SHAREHOLDERS' EQUITY
Balances, Dec. 31, 2012	60,961,570	$60,962	(606,025)	$(21,072)	$416,619	$1,075,074	$ (32,370)	$ 1,499,213
Common stock issued for compensatory plans	85,436	85	8,233	286	2,703	—	—	3,074
Dividends on common stock, $0.70 per share	—	—	—	—	—	(42,614)	—	(42,614)
Net income	—	—	—	—	—	69,166	—	69,166
Other comprehensive income, net of tax	—	—	—	—	—	—	2,495	2,495
Balances, June 30, 2013	61,047,006	$61,047	(597,792)	$(20,786)	$419,322	$1,101,626	$ (29,875)	$ 1,531,334
Balances, Dec. 31, 2013	61,047,006	$61,047	(592,486)	$(20,601)	$422,624	$1,149,003	$ (25,876)	$ 1,586,197
Common stock issued for compensatory plans	4,280	4	152,394	5,318	(5,329)	—	—	(7)
Repurchase of common stock	—	—	(250,000)	(12,449)	—	—	—	(12,449)
Dividends on common stock, $0.7625 per share	—	—	—	—	—	(46,435)	—	(46,435)
Net income	—	—	—	—	—	62,557	—	62,557
Other comprehensive income, net of tax	—	—	—	—	—	—	1,388	1,388
Balances, June 30, 2014	61,051,286	$61,051	(690,092)	$(27,732)	$417,295	$1,165,125	$ (24,488)	$ 1,591,251

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

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Cleco Power

These unaudited Condensed Consolidated Financial Statements should be read in conjunction with Cleco Power's Consolidated Financial Statements and Notes included in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2013. For more information on the basis of presentation, see "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 1 — Summary of Significant Accounting Policies — Basis of Presentation."

CLECO POWER

Condensed Consolidated Statements of Income (Unaudited)

	FOR THE THREE MONTHS ENDED JUNE 30,	
(THOUSANDS)	2014	2013
Operating revenue		
Electric operations	$316,997	$252,765
Other operations	14,027	11,027
Affiliate revenue	330	335
Gross operating revenue	331,354	264,127
Electric customer credits	(22,495)	(402)
Operating revenue, net	308,859	263,725
Operating expenses		
Fuel used for electric generation	56,696	72,611
Power purchased for utility customers	81,393	23,247
Other operations	29,146	29,540
Maintenance	26,203	23,585
Depreciation	37,295	32,959
Taxes other than income taxes	11,094	9,204
Total operating expenses	241,827	191,146
Operating income	67,032	72,579
Interest income	350	255
Allowance for other funds used during construction	2,029	413
Other income	389	1,268
Other expense	(432)	(1,208)
Interest charges		
Interest charges, including amortization of debt expense, premium, and discount, net	21,209	21,007
Allowance for borrowed funds used during construction	(570)	(129)
Total interest charges	20,639	20,878
Income before income taxes	48,729	52,429
Federal and state income tax expense	16,071	17,965
Net income	$32,658	$34,464

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

CLECO POWER

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	FOR THE THREE MONTHS ENDED JUNE 30,	
(THOUSANDS)	2014	2013
Net income	$32,658	$34,464
Other comprehensive income, net of tax:		
Amortization of postretirement benefits (net of tax expense of $138 in 2014 and $168 in 2013)	222	269
Net gain on cash flow hedges (net of tax expense of $33 in 2014 and $23 in 2013)	53	36
Total other comprehensive income, net of tax	275	305
Comprehensive income, net of tax	$32,933	$34,769

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

CLECO POWER

Condensed Consolidated Statements of Income (Unaudited)

	FOR THE SIX MONTHS ENDED JUNE 30,	
(THOUSANDS)	2014	2013
Operating revenue		
Electric operations	$586,756	$482,191
Other operations	28,299	22,064
Affiliate revenue	665	670
Gross operating revenue	615,720	504,925
Electric customer credits	(22,681)	(424)
Operating revenue, net	593,039	504,501
Operating expenses		
Fuel used for electric generation	115,743	157,976
Power purchased for utility customers	139,584	32,940
Other operations	54,462	54,912
Maintenance	56,460	38,379
Depreciation	77,498	65,288
Taxes other than income taxes	24,069	20,662
Total operating expenses	467,816	370,157
Operating income	125,223	134,344
Interest income	951	453
Allowance for other funds used during construction	3,660	1,577
Other income	752	1,965
Other expense	(941)	(1,652)
Interest charges		
Interest charges, including amortization of debt expense, premium, and discount, net	41,458	42,731
Allowance for borrowed funds used during construction	(1,059)	(504)
Total interest charges	40,399	42,227
Income before income taxes	89,246	94,460
Federal and state income tax expense	30,281	32,203
Net income	$58,965	$62,257

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

CLECO POWER

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	FOR THE SIX MONTHS ENDED JUNE 30,	
(THOUSANDS)	2014	2013
Net income	$58,965	$62,257
Other comprehensive income, net of tax:		
Amortization of postretirement benefits (net of tax expense of $467 in 2014 and $325 in 2013)	747	520
Net gain on cash flow hedges (net of tax expense of $66 in 2014 and $859 in 2013)	106	1,373
Total other comprehensive income, net of tax	853	1,893
Comprehensive income, net of tax	$59,818	$64,150

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

CLECO POWER

Condensed Consolidated Balance Sheets (Unaudited)

(THOUSANDS)	AT JUNE 30, 2014	AT DEC. 31, 2013
Assets		
Utility plant and equipment		
Property, plant, and equipment	$4,407,672	$4,052,774
Accumulated depreciation	(1,386,300)	(1,260,843)
Net property, plant, and equipment	3,021,372	2,791,931
Construction work in progress	108,636	104,113
Total utility plant, net	3,130,008	2,896,044
Current assets		
Cash and cash equivalents	17,898	21,055
Restricted cash and cash equivalents	8,516	8,986
Customer accounts receivable (less allowance for doubtful accounts of $768 in 2014 and $849 in 2013)	64,716	50,567
Accounts receivable - affiliate	1,150	1,045
Other accounts receivable	46,994	46,939
Unbilled revenue	47,361	31,166
Fuel inventory, at average cost	64,384	60,913
Material and supplies inventory, at average cost	66,125	59,964
Energy risk management assets	47,554	9,020
Accumulated deferred federal and state income taxes, net	34,727	80,981
Accumulated deferred fuel	35,447	—
Cash surrender value of company-owned life insurance policies	19,506	19,326
Prepayments	6,374	7,074
Regulatory assets	13,532	5,975
Other current assets	—	388
Total current assets	474,284	403,399
Equity investment in investee	14,532	14,532
Prepayments	4,528	4,510
Restricted cash and cash equivalents	15,040	5,012
Restricted investments	—	12,829
Regulatory assets - deferred taxes, net	232,673	229,173
Regulatory assets	238,511	249,677
Intangible asset	98,433	106,007
Other deferred charges	16,560	22,529
Total assets	$4,224,569	$3,943,712

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

(Continued on next page)

CLECO POWER

Condensed Consolidated Balance Sheets (Unaudited)

(THOUSANDS)	AT JUNE 30, 2014	AT DEC. 31, 2013
Liabilities and member's equity		
Member's equity	$1,498,471	$1,370,573
Long-term debt, net	1,356,465	1,310,500
Total capitalization	2,854,936	2,681,073
Current liabilities		
Long-term debt due within one year	17,724	17,182
Accounts payable	163,492	98,785
Accounts payable - affiliate	6,799	8,386
Customer deposits	51,745	48,456
Provision for rate refund	26,215	3,533
Taxes payable	3,628	6,700
Interest accrued	14,799	13,589
Accumulated deferred fuel	—	3,869
Energy risk management liabilities	4,582	382
Other current liabilities	10,655	9,791
Total current liabilities	299,639	210,673
Commitments and Contingencies (Note 11)		
Long-term liabilities and deferred credits		
Accumulated deferred federal and state income taxes, net	977,394	945,559
Accumulated deferred investment tax credits	4,657	5,144
Postretirement benefit obligations	54,129	52,953
Restricted storm reserve	14,365	17,646
Other deferred credits	19,449	30,664
Total long-term liabilities and deferred credits	1,069,994	1,051,966
Total liabilities and member's equity	$4,224,569	$3,943,712

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

CLECO POWER

Condensed Consolidated Statements of Cash Flows (Unaudited)

	FOR THE SIX MONTHS ENDED JUNE 30,	
(THOUSANDS)	2014	2013
Operating activities		
Net income	$58,965	$62,257
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	82,139	70,893
Allowance for other funds used during construction	(3,660)	(1,577)
Net deferred income taxes	31,493	33,802
Deferred fuel costs	(25,971)	(478)
Changes in assets and liabilities:		
Accounts receivable	(17,048)	(9,147)
Accounts and notes receivable, affiliate	393	2,361
Unbilled revenue	(16,195)	(7,350)
Fuel, materials and supplies inventory	(6,752)	(9,758)
Accounts payable	25,861	(15,924)
Accounts and notes payable, affiliate	(2,626)	575
Customer deposits	8,017	6,316
Postretirement benefit obligations	2,548	(31,959)
Regulatory assets and liabilities, net	(4,491)	(11,842)
Other deferred accounts	(10,404)	(11,187)
Taxes accrued	(3,072)	15,442
Interest accrued	1,210	(309)
Other operating	4,462	93
Net cash provided by operating activities	124,869	92,208
Investing activities		
Additions to property, plant, and equipment	(112,627)	(81,436)
Allowance for other funds used during construction	3,660	1,577
Property, plant, and equipment grants	—	729
Return of investment in company-owned life insurance	1,303	—
Transfer of cash (to) from restricted accounts	(9,557)	1,730
Purchase of restricted investments	—	(4,334)
Sale of restricted investments	11,138	—
Maturity of restricted investments	1,458	2,559
Other investing	412	515
Net cash used in investing activities	(104,213)	(78,660)
Financing activities		
Issuance of short-term debt	—	3,000
Draws on credit facility	112,000	140,000
Payments on credit facility	(57,000)	(140,000)
Issuance of long-term debt	—	160,000
Retirement of long-term debt	(7,581)	(107,129)
Repurchase of long-term debt	—	(60,000)
Settlement of interest rate swap	—	(3,269)
Distribution to parent	(70,000)	(25,000)

Other financing	(1,232)	(1,775)
Net cash used in financing activities	(23,813)	(34,173)
Net decrease in cash and cash equivalents	(3,157)	(20,625)
Cash and cash equivalents at beginning of period	21,055	23,368
Cash and cash equivalents at end of period	$17,898	$2,743
Supplementary cash flow information		
Interest paid, net of amount capitalized	$36,337	$38,966
Income taxes paid (refunded), net	$255	$(456)
Supplementary non-cash investing and financing activities		
Accrued additions to property, plant, and equipment	$21,480	$13,026
Non-cash additions to property, plant, and equipment, net	$176,244	$1,280

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

CLECO POWER

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

(THOUSANDS)	MEMBER’S EQUITY	ACCUMULATED OTHER COMPREHENSIVE LOSS	TOTAL MEMBER’S EQUITY
Balances, Dec. 31, 2012	$1,340,340	$ (20,421)	$1,319,919
Other comprehensive income, net of tax	—	1,893	1,893
Distribution to parent	(25,000)	—	(25,000)
Net income	62,257	—	62,257
Balances, June 30, 2013	$1,377,597	$ (18,528)	$1,359,069
Balances, Dec. 31, 2013	$1,385,750	$ (15,177)	$1,370,573
Other comprehensive income, net of tax	—	853	853
Contributions	138,080	—	138,080
Distributions to parent	(70,000)	—	(70,000)
Net income	58,965	—	58,965
Balances, June 30, 2014	$1,512,795	$ (14,324)	$1,498,471

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

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

Note 1	Summary of Significant Accounting Policies	Cleco Corporation and Cleco Power
Note 2	Recent Authoritative Guidance	Cleco Corporation and Cleco Power
Note 3	Regulatory Assets and Liabilities	Cleco Corporation and Cleco Power
Note 4	Fair Value Accounting	Cleco Corporation and Cleco Power
Note 5	Debt	Cleco Corporation and Cleco Power
Note 6	Pension Plan and Employee Benefits	Cleco Corporation and Cleco Power
Note 7	Income Taxes	Cleco Corporation and Cleco Power
Note 8	Disclosures about Segments	Cleco Corporation
Note 9	Electric Customer Credits	Cleco Corporation and Cleco Power
Note 10	Variable Interest Entities	Cleco Corporation and Cleco Power
Note 11	Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees	Cleco Corporation and Cleco Power
Note 12	Affiliate Transactions	Cleco Corporation and Cleco Power
Note 13	Accumulated Other Comprehensive Loss	Cleco Corporation and Cleco Power
Note 14	Coughlin Transfer	Cleco Corporation and Cleco Power

Notes to the Unaudited Condensed Consolidated Financial Statements

Note 1 — Summary of Significant Accounting Policies

Principles of Consolidation
The accompanying Condensed Consolidated Financial Statements of Cleco include the accounts of Cleco and its majority-owned subsidiaries after elimination of intercompany accounts and transactions.

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

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

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

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

Property, Plant, and Equipment

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

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

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

(THOUSANDS)	AT JUNE 30, 2014	AT DEC. 31, 2013
Regulated utility plants	$4,407,672	$4,052,774
Other	15,057	273,748
Total property, plant, and equipment	4,422,729	4,326,522
Accumulated depreciation	(1,395,839)	(1,351,223)
Net property, plant, and equipment	$3,026,890	$2,975,299

Restricted Cash and Cash Equivalents

Various agreements to which Cleco is subject contain covenants that restrict its use of cash. As certain provisions under these agreements are met, cash is transferred out of related escrow accounts and becomes available for its intended purposes and/or general corporate purposes. Cleco's restricted cash and cash equivalents consisted of:

(THOUSANDS)	AT JUNE 30, 2014	AT DEC. 31, 2013
Diversified Lands' mitigation escrow	$21	$21
Cleco Katrina/Rita's storm recovery bonds	8,516	8,986
Cleco Power's future storm restoration costs	14,365	4,726
Cleco Power's building renovation escrow	675	286
Total restricted cash and cash equivalents	$23,577	$14,019

Cleco Katrina/Rita has the right to bill and collect storm restoration costs from Cleco Power's customers. As cash is collected, it is restricted for payment of administration fees, interest, and principal on storm recovery bonds. During the six months ended June 30, 2014, Cleco Katrina/Rita collected $10.1 million net of administration fees. In March 2014, Cleco Katrina/Rita used $7.6 million for scheduled storm recovery bond principal payments and $3.0 million for related interest.

Cleco Power's restricted cash and cash equivalents held for future storm restoration costs increased $9.6 million from December 31, 2013, primarily due to the transfer of $13.2 million of restricted investments that were held with an outside investment manager and liquidated during the first quarter of 2014. This increase was partially offset by the transfer of $4.0 million to cover the expenses associated with storm activity during the first quarter of 2014.

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

Fair Value Measurements and Disclosures

Various accounting pronouncements require certain assets and liabilities to be measured at their fair values. Some assets and liabilities are required to be measured at their fair value each reporting period, while others are required to be measured only one time, generally the date of acquisition or debt issuance. Cleco and Cleco Power are required to disclose the fair value of certain assets and liabilities by one of three levels when required for recognition purposes under GAAP. For more information about fair value levels, see Note 4 — "Fair Value Accounting."

Risk Management

Market risk inherent in Cleco's market risk-sensitive instruments and positions includes potential changes arising from changes in interest rates and the commodity market prices of power,

FTRs, and natural gas in the industry on different energy exchanges. Cleco's Energy Market Risk Management Policy authorizes the use of various derivative instruments, including exchange traded futures and option contracts, forward purchase and sales contracts, and swap transactions to reduce exposure to fluctuations in the price of power, FTRs, and natural gas. Cleco applies the authoritative guidance as it relates to derivatives and hedging to determine whether the market risk-sensitive instruments and positions are required to be marked-to-market. Generally, Cleco Power's market risk-sensitive instruments and positions qualify for the normal-purchase, normal-sale exception to mark-to-market accounting because Cleco Power takes physical delivery and the instruments and positions are used to satisfy customer requirements.

Cleco Power may also enter into mitigating positions that would not meet the requirements of a normal-purchase, normal-sale transaction in order to attempt to mitigate the volatility in customer fuel costs. These positions are marked-to-market with the resulting gain or loss recorded on the balance sheet as a component of energy risk management assets or liabilities. Such gain or loss is deferred as a component of deferred fuel assets or liabilities in accordance with regulatory policy. When these positions close, actual gains or losses are included in the FAC and reflected on customers' bills as a component of the fuel cost adjustment. There were no open natural gas positions at June 30, 2014 or December 31, 2013.

In connection with joining MISO, Cleco Power received a direct allocation of FTRs in November 2013. Cleco Power currently 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 throughout the year. FTRs are derivative instruments which represent economic hedges of future congestion charges that will be incurred in serving Cleco Power's customer load. They are not designated as hedging instruments. 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 prior to settlement. Unrealized gains or losses on FTRs held by Cleco Power are included in accumulated deferred fuel. Realized gains or losses on settled FTRs are recorded in Electric operations or Power purchased for utility customers on Cleco and Cleco Power's Condensed Consolidated Statements of Income. At June 30, 2014, Cleco and Cleco Power's Condensed Consolidated Balance Sheets reflected the fair value of open FTR positions of $47.6 million in Energy risk management assets and $4.6 million in Energy risk management liabilities, compared to $9.0 million in Energy risk management assets and $0.4 million in Energy risk management liabilities at December 31, 2013. For more information on FTRs, see Note 4 — "Fair Value Accounting — Derivatives and Hedging — Commodity Contracts."

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

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

Accounting for MISO Transactions
Cleco Power participates in MISO's Energy and Operating Reserve market. In each monthly reporting period, the hourly sale and purchase net amounts are aggregated and separately reported in Electric operations or Power purchased for utility customers on Cleco's Condensed Consolidated Statements of Income.

Earnings per Average Common Share
The following tables show the calculation of basic and diluted earnings per share:

	FOR THE THREE MONTHS ENDED JUNE 30,					
			2014			2013
(THOUSANDS, EXCEPT SHARES AND PER SHARE AMOUNTS)	INCOME	SHARES	PER SHARE AMOUNT	INCOME	SHARES	PER SHARE AMOUNT
Basic net income applicable to common stock	$36,633	60,359,949	$0.61	$42,032	60,445,617	$ 0.70
Effect of dilutive securities						
Add: restricted stock (LTICP)		266,186			267,757	
Diluted net income applicable to common stock	$36,633	60,626,135	$0.60	$42,032	60,713,374	$ 0.69

	FOR THE SIX MONTHS ENDED JUNE 30,					
			2014			2013
(THOUSANDS, EXCEPT SHARES AND PER SHARE AMOUNTS)	INCOME	SHARES	PER SHARE AMOUNT	INCOME	SHARES	PER SHARE AMOUNT
Basic net income applicable to common stock	$62,557	60,424,591	$ 1.04	$69,166	60,419,588	$ 1.15
Effect of dilutive securities						
Add: restricted stock (LTICP)		253,435			250,524	
Diluted net income applicable to common stock	$62,557	60,678,026	$ 1.03	$69,166	60,670,112	$ 1.14

Stock option grants are excluded from the computation of diluted earnings per share if the exercise price is higher than the average market price. There were no stock option grants awarded or outstanding during the six months ended June 30, 2014 and 2013.

Stock-Based Compensation
At June 30, 2014, Cleco had two stock-based compensation plans, the ESPP and the LTICP. Substantially all employees, excluding officers and general managers, may choose to participate in the ESPP and purchase a limited amount of common stock at a discount through a stock option agreement. Options or restricted shares of stock, known

as

non-vested stock as defined by the authoritative guidance on stock-based compensation, common stock equivalents, and stock appreciation rights may be granted to certain officers, key employees, or directors of Cleco Corporation and its subsidiaries pursuant to the LTICP.

During the six months ended June 30, 2014, Cleco granted 122,222 shares of non-vested stock to certain officers and key employees of Cleco Corporation and its subsidiaries pursuant to the LTICP.

Cleco and Cleco Power reported pre-tax compensation expense for their share-based compensation plans as shown in the following table:

	CLECO CORPORATION		CLECO POWER		CLECO CORPORATION		CLECO POWER	
	FOR THE THREE MONTHS ENDED JUNE 30,				FOR THE SIX MONTHS ENDED JUNE 30,			
(THOUSANDS)	2014	2013	2014	2013	2014	2013	2014	2013
Equity classification								
Non-vested stock	$1,533	$1,474	$507	$381	$3,454	$2,902	$934	$711
Total equity classification	$1,533	$1,474	$507	$381	$3,454	$2,902	$934	$711
Liability classification								
Common stock equivalent units	$—	$—	$—	$—	$—	$1	$—	$1
Total pre-tax compensation expense	$1,533	$1,474	$507	$381	$3,454	$2,903	$934	$712
Tax benefit	$590	$567	$195	$146	$1,329	$1,117	$359	$274

Common Stock Repurchase Program

In January 2011, Cleco Corporation's Board of Directors approved the implementation of a common stock repurchase program. This program authorizes management to repurchase, from time to time, shares of common stock so that Cleco's diluted average shares of common stock outstanding remain approximately equal to its diluted average shares of common stock outstanding for 2010. Under this program, purchases may be made on a discretionary basis at times and

in amounts as determined by management, subject to market conditions, legal requirements, and other factors. Purchases under the program will not be announced in advance and may be made in the open market or through privately negotiated transactions. During the first quarter 2014, Cleco Corporation repurchased 250,000 shares of common stock. During the three months ended June 30, 2014, and the six months ended June 30, 2013, Cleco Corporation repurchased no shares of common stock.

Note 2 — Recent Authoritative Guidance

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

In January 2014, FASB amended the accounting guidance for investments in qualified affordable housing projects. This guidance modifies the conditions that must be met to present the pre-tax effects and related tax benefits of such investments as a component of income taxes. The adoption of this guidance is effective for annual periods and interim reporting periods within those annual periods, beginning after December 31, 2014. The adoption of this guidance is not expected to have an effect on the financial condition, results of operations, or cash flows of the Registrants.

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

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

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. The adoption of this guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Management is currently evaluating the effect the adoption of this guidance will have on the financial condition, results of operations, or cash flows of the Registrants.

In June 2014, FASB amended the accounting guidance for transfers and servicing specifically related to repurchase-to-maturity transactions, repurchase financings and disclosures. Entities will be subject to new disclosure requirements for certain transactions that involve a transfer of a financial asset accounted for as a sale. All entities will also be subject to new disclosure requirements for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings.

The adoption of this guidance is effective for the first interim or annual period beginning after December 15, 2014. The adoption of this guidance is not expected to have an effect on the financial condition, results of operations, or cash flows of the Registrants.

In June 2014, FASB amended the accounting guidance for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The amendments in this guidance require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The adoption of this guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. The adoption of this guidance is not expected to have an effect on the financial condition, results of operations, or cash flows of the Registrants.

Note 3 — Regulatory Assets and Liabilities

Cleco Power follows the authoritative guidance on regulated operations, which allows utilities to capitalize or defer certain costs based on regulatory approval and management's ongoing assessment that it is probable these items will be recovered through the ratemaking process. The following table summarizes Cleco Power's regulatory assets and liabilities at June 30, 2014 and December 31, 2013:

(THOUSANDS)	AT JUNE 30, 2014	AT DEC. 31, 2013
Regulatory assets – deferred taxes, net	$232,673	$229,173
Mining costs	$12,745	$14,019
Interest costs	5,762	5,943
Asset removal costs	973	936
Postretirement plan costs	89,997	93,333
Tree trimming costs	6,292	4,840
Training costs	7,097	7,175
Surcredits, net	15,581	16,738
Amended lignite mining agreement contingency	3,781	3,781
Power purchase agreement capacity costs	—	9,749
AMI deferred revenue requirement	6,136	4,682
Production O&M expenses	8,459	8,459
AFUDC equity gross-up	73,509	73,306
Rate case costs	—	45
Acadia Unit 1 acquisition costs	2,707	2,760
Financing costs	9,587	9,772
Biomass costs	98	114
MISO integration costs	3,743	—
Coughlin transaction costs	1,076	—
Corporate franchise tax	3,032	—
Acadia FRP true-up	754	—
Other	714	—
Total regulatory assets	$252,043	$255,652
Fuel and purchased power	35,447	(3,869)
Total regulatory assets, net	$520,163	$480,956

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.
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.
In the third quarter of 2013 and the first quarter of 2014, Cleco Power recorded true-ups 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 the amounts that will be collected from ratepayers in future periods.
On June 18, 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 July 1, 2014. These amounts will be collected and amortized over a four-year period. For more information on the FRP extension, see Note 9 — "Electric Customer Credits."

Power Purchase Agreement Capacity Costs
In March 2012, Cleco Power received approval from the LPSC for a three-year power purchase agreement with Evangeline providing 730 MW of capacity and energy beginning May 1, 2012 and ending April 30, 2015. The LPSC order allowed Cleco Power to defer and recover a portion of capacity costs associated with the power purchase agreement. On March 15, 2014, Coughlin was transferred to Cleco Power and the power purchase agreement was terminated. At June 30, 2014, the regulatory asset was fully amortized.

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, was capped by the LPSC at $20.0 million. On June 18, 2014, the LPSC approved Cleco Power's FRP extension and the AMI regulatory asset and project capital costs were included in rate base. The AMI deferred revenue requirements are being amortized over the remaining economic life of the meters, or approximately 11 years, beginning July 1, 2014.

Production O&M Expenses
In September 2009, the LPSC authorized Cleco Power to defer, as a regulatory asset, production O&M 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 O&M deferral threshold to $45.0 million annually. The amount of the regulatory asset is capped at $25.6 million. Also, as part of the FRP extension, the LPSC allowed the collection of any amount deferred in the calendar year to be recovered over the following three-year regulatory period,

beginning July 1. In December 2013, Cleco Power deferred $8.5 million as a regulatory asset and began amortizing this amount on July 1, 2014.

MISO Integration Costs
On June 18, 2014, the LPSC approved Cleco Power's request to recover the integration costs associated with Cleco Power joining MISO. The MISO integration costs are being amortized over a four-year period, beginning July 1, 2014.

Coughlin Transaction Costs

On January 15, 2014, the LPSC authorized Cleco Power to create a regulatory asset for the Coughlin transfer transaction costs. The Coughlin transaction costs are being amortized over the 35-year life of the plant, beginning July 1, 2014.

Corporate Franchise Tax

On June 18, 2014, the LPSC approved Cleco Power's FRP extension. As part of the FRP extension, Cleco Power was authorized to recover the retail portion of state corporate franchise taxes paid, including $3.7 million remitted to the State of Louisiana on April 15, 2014. The deferred corporate franchise taxes are being amortized over 12 months, beginning July 1, 2014.

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 requirements related to Acadia Unit 1. In June 2014, Cleco Power determined that it had under-collected $0.8 million in revenue during the period from customers based on the actual revenue requirements for Acadia Unit 1. The amount representing the under-collection was deferred and is expected to be amortized and recovered from customers over 12 months, beginning July 1, 2015.

Other

On June 18, 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 amortized over a three-year period, beginning July 1, 2014.

Fuel and Purchased Power Costs

The cost of fuel used for electric generation and the cost of power purchased for utility customers are recovered through the LPSC-established FAC, which enables Cleco Power to pass on to its customers substantially all such charges. For the three months ended June 30, 2014, approximately 74% of Cleco Power's total fuel cost was regulated by the LPSC, while the remainder was regulated by FERC.

The $39.3 million increase in the under/over recovered costs was primarily due to $27.3 million of higher than normal fuel costs during plant outages, the addition of a new wholesale customer, and the timing of collections of fuel expenses. Also contributing was a $12.0 million increase due to the settlement of open FTR positions and a mark-to-market loss on remaining open FTR positions.

Note 4 — Fair Value Accounting

The amounts reflected in Cleco and Cleco Power's Condensed Consolidated Balance Sheets at June 30, 2014 and December 31, 2013, for cash equivalents, restricted cash

equivalents, accounts receivable, other accounts receivable, accounts payable, and short-term debt approximate fair value because of their short-term nature.
The following tables summarize the carrying value and estimated market value of Cleco and Cleco Power's financial instruments not measured at fair value in Cleco and Cleco Power's Condensed Consolidated Balance Sheets.

Cleco

	AT JUNE 30, 2014		AT DEC. 31, 2013	
(THOUSANDS)	CARRYING VALUE	ESTIMATED FAIR VALUE	CARRYING VALUE	ESTIMATED FAIR VALUE
Financial instruments not marked-to-market:				
Cash equivalents	$17,245	$ 17,245	$22,204	$ 22,204
Restricted cash equivalents	$23,512	$ 23,512	$14,019	$ 14,019
Long-term debt, excluding debt issuance costs	$1,388,649	$ 1,578,367	$1,331,230	$ 1,420,048

Cleco Power

	AT JUNE 30, 2014		AT DEC. 31, 2013	
(THOUSANDS)	CARRYING VALUE	ESTIMATED FAIR VALUE	CARRYING VALUE	ESTIMATED FAIR VALUE
Financial instruments not marked-to-market:				
Cash equivalents	$12,300	$ 12,300	$14,900	$ 14,900
Restricted cash equivalents	$23,491	$ 23,491	$13,998	$ 13,998
Long-term debt, excluding debt issuance costs	$1,373,649	$ 1,563,367	$1,326,230	$ 1,415,048

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

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

Cleco

	CLECO CONSOLIDATED FAIR VALUE MEASUREMENTS AT REPORTING DATE USING:							
(THOUSANDS)	AT JUNE 30, 2014	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	AT DEC. 31, 2013	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)

Asset Description								
Institutional money market funds	$40,757	$ —	$ 40,757	$ —	$36,100	$ —	$ 36,100	$ —
Commercial paper	—	—	—	—	1,483	—	1,483	—
Municipal bonds	—	—	—	—	9,831	—	9,831	—
Corporate bonds	—	—	—	—	515	—	515	—
Federal agency mortgage-backed securities	—	—	—	—	1,000	—	1,000	—
FTRs	47,554	—	—	47,554	9,020	—	—	9,020
Total assets	$88,311	$ —	$ 40,757	$ 47,554	$57,949	$ —	$ 48,929	$ 9,020
Liability Description								
Long-term debt	1,578,367	—	1,578,367	—	1,420,048	—	1,420,048	—
FTRs	4,582	—	—	4,582	382	—	—	382
Total liabilities	$1,582,949	$ —	$ 1,578,367	$ 4,582	$1,420,430	$ —	$ 1,420,048	$ 382

Cleco Power

	CLECO POWER FAIR VALUE MEASUREMENTS AT REPORTING DATE USING:							
(THOUSANDS)	AT JUNE 30, 2014	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	AT DEC. 31, 2013	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	$35,791	$ —	$ 35,791	$ —	$28,775	$ —	$ 28,775	$ —
Commercial paper	—	—	—	—	1,483	—	1,483	—
Municipal bonds	—	—	—	—	9,831	—	9,831	—
Corporate bonds	—	—	—	—	515	—	515	—
Federal agency mortgage-backed securities	—	$ —	—	—	1,000	—	1,000	—
FTRs	47,554	$ —	—	47,554	9,020	—	—	9,020
Total assets	$83,345	$ —	$ 35,791	$ 47,554	$50,624	$ —	$ 41,604	$ 9,020
Liability Description								
Long-term debt	1,563,367	—	1,563,367	—	1,415,048	—	1,415,048	—
FTRs	4,582	—	—	4,582	382	—	—	382
Total liabilities	$1,567,949	$ —	$ 1,563,367	$ 4,582	$1,415,430	$ —	$ 1,415,048	$ 382

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

(THOUSANDS)	
Beginning balance at April 1, 2014	$3,908
Unrealized losses*	(3,420)
Purchases and settlements	42,484
Ending balance at June 30, 2014	$42,972

* Unrealized gains and losses are reported in Accumulated deferred fuel on the balance sheet.

(THOUSANDS)	
Beginning balance at January 1, 2014	$8,638
Unrealized losses*	(3,420)
Purchases and settlements	37,754
Ending balance at June 30, 2014	$42,972

* Unrealized gains and losses are reported in Accumulated deferred fuel on the balance sheet.

The following table quantifies the significant unobservable inputs used in developing the fair value of Level 3 positions at June 30, 2014 and December 31, 2013:

(THOUSANDS, EXCEPT FORWARD PRICE RANGE)	FAIR VALUE		VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUTS	FORWARD PRICE RANGE	
	Assets	Liabilities			Low	High
FTRs at June 30, 2014	$47,554	$4,582	Discounted cash flow	Estimated auction price	$(9.59)	$11.58
FTRs at Dec. 31, 2013	$9,020	$382	Discounted cash flow	Estimated auction price	$(4.88)	$33.75

Cleco utilizes different valuation techniques for fair value calculations. In order to measure the fair value for Level 1 assets and liabilities, Cleco obtains the closing price from published indices in active markets for the various instruments and multiplies this price by the appropriate number of instruments held. Level 2 fair values are determined by obtaining the closing price of similar assets and liabilities from published indices in active markets and then discounted to the current period using a U.S. Treasury published interest rate as a proxy for a risk-free rate of return. Cleco has consistently applied the Level 2 fair value technique from fiscal period to fiscal period. Level 3 fair values occur in situations in which there is little, if any, market activity for the asset or liability at the measurement date and therefore estimated prices are used in the discounted cash flow approach.

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

At June 30, 2014, Cleco and Cleco Power were exposed to concentrations of credit risk through their short-term investments classified as cash equivalents and restricted cash equivalents. The institutional money market funds were reported on the Cleco Condensed Consolidated Balance Sheet in cash and cash equivalents, current restricted cash

and cash equivalents, and non-current restricted cash and cash equivalents of $17.2 million, $8.5 million, and $15.0 million, respectively, at June 30, 2014. At Cleco Power, the institutional money market funds were reported on the Condensed Consolidated Balance Sheet in cash and cash equivalents, current restricted cash and cash equivalents, and non-current restricted cash and cash equivalents of $12.3 million, $8.5 million, and $15.0 million, respectively, at June 30, 2014. If the money market funds failed to perform under the terms of the investments, Cleco and Cleco Power would be exposed to a loss of the invested amounts. Collateral on these types of investments is not required by either Cleco or Cleco Power. The Level 2 institutional money market funds asset consists of a single class. In order to capture interest income and minimize risk, cash is invested in money market funds that invest primarily in short-term securities in order to maintain liquidity and achieve the goal of a net asset value of a dollar. The risk associated with this class is price volatility associated with the underlying securities of the fund.

The commercial paper, municipal bonds, corporate bonds, and federal agency mortgage-backed securities were reported on Cleco and Cleco Power’s Condensed Consolidated Balance Sheets in restricted investments in the amount of $1.5 million, $9.8 million, $0.5 million and $1.0

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

In connection with joining MISO, Cleco Power received a direct allocation of FTRs in November 2013. Cleco Power currently purchases the majority of its FTRs in auctions facilitated by MISO during the second quarter of each year and may also purchase additional FTRs throughout the year. Cleco Power's FTRs were priced using MISO's monthly estimated auction prices. The monthly estimated auction prices are discounted to net present value to determine fair value. FTRs are categorized as Level 3 fair value measurements because the only relevant pricing available comes from MISO auctions, which occur monthly in the Multi-Period Monthly Auction. For more information about FTRs, see "— Derivatives and Hedging."

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

During the six months ended June 30, 2014, and the year ended December 31, 2013, Cleco did not experience any transfers between levels.

Restricted Investments

In 2007, the LPSC authorized the funding and securitization of a $50.0 million reserve for Cleco Power's future storm costs. In July 2012, Cleco Power transferred $13.0 million of the related restricted cash and cash equivalents to an outside investment manager. Investments made by the investment manager were restricted to the criteria established by management in Cleco Power's guidelines for short-term investments. At December 31, 2013, the investments included cash and cash equivalents and debt securities. During the first quarter of 2014, Cleco ended its relationship with this outside investment manager and liquidated all holdings in these restricted investments.

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

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

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

	AT DEC. 31, 2013		
(THOUSANDS)	AMORTIZED	TOTAL	TOTAL

	COST	UNREALIZED GAINS [1]	UNREALIZED LOSSES [1]	FAIR VALUE
Municipal bonds	$9,838	$ 8	$ (15)	$9,831
Corporate bonds	513	2	—	515
Federal agency mortgage-backed securities	1,000	—	—	1,000
Commercial paper	1,483	—	—	1,483
Total available-for-sale debt securities	$12,834	$ 10	$ (15)	$12,829

[1] Unrealized gains and losses were recorded to the restricted storm reserve.

For the six months ended June 30, 2014, Cleco Power recognized less than $0.1 million of realized gains as a result of the portfolio being liquidated during the first quarter of 2014. Realized gains and losses were determined on a specific identification basis.

Derivatives and Hedging

The authoritative guidance on derivatives and hedging requires entities to provide transparent disclosures about a company's derivative activities and how the related hedged items affect a company's financial position, financial performance, and cash flows. Cleco is required to provide qualitative and quantitative disclosures about derivative fair value, gains and losses, and credit-risk-related contingent features in derivative agreements.

Commodity Contracts

The following table presents the fair values of derivative instruments and their respective line items as recorded on Cleco and Cleco Power's Condensed Consolidated Balance Sheets at June 30, 2014 and December 31, 2013:

	DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS		
(THOUSANDS)	BALANCE SHEET LINE ITEM	AT JUNE 30, 2014	AT DEC. 31, 2013
Commodity contracts			
FTRs:			
Current	Energy risk management assets	$47,554	$9,020
Current	Energy risk management liabilities	4,582	382
Total		$42,972	$8,638

The following tables present the effect of derivatives not designated as hedging instruments on Cleco and Cleco Power's Condensed Consolidated Statements of Income for the three and six months ended June 30, 2014:

	FOR THE THREE MONTHS ENDED JUNE 30, 2014	
(THOUSANDS)	DERIVATIVES LINE ITEM	AMOUNT OF GAIN/(LOSS) RECOGNIZED IN INCOME ON DERIVATIVES
Commodity contracts		
FTRs	Electric operations	$14,358
FTRs	Power purchased for utility customers	(9,633)
Total		$4,725

	FOR THE SIX MONTHS ENDED JUNE 30, 2014	
(THOUSANDS)	DERIVATIVES LINE ITEM	AMOUNT OF GAIN/(LOSS) RECOGNIZED IN INCOME ON DERIVATIVES
Commodity contracts		
FTRs	Electric operations	$18,323
FTRs	Power purchased for utility customers	(10,749)
Total		$7,574

At June 30, 2014 and December 31, 2013, Cleco Power had no open positions hedged for natural gas.
In connection with joining MISO, Cleco Power received a direct allocation of FTRs in November 2013. Cleco Power currently 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 throughout the year. FTRs are derivative instruments which represent economic hedges of future congestion charges that will be incurred in serving Cleco Power's customer load. They are not designated as hedging instruments. At June 30, 2014 and December 31, 2013, Cleco Power had 23.8 million MWh and 6.8 million MWh, respectively, of FTRs outstanding.

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

During the first quarter of 2013, Cleco determined that the forward starting interest rate swap ceased to be highly

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

The following table presents the effect of derivatives designated as hedging instruments on Cleco and Cleco Power's Condensed Consolidated Statements of Income for the three and six months ended June 30, 2014 and 2013.

	FOR THE THREE MONTHS ENDED JUNE 30,			
	2014		2013	
(THOUSANDS)	AMOUNT OF GAIN RECOGNIZED IN OCI	AMOUNT OF LOSS RECLASSIFIED FROM ACCUMULATED OCI INTO INCOME (EFFECTIVE PORTION)	AMOUNT OF GAIN RECOGNIZED IN OCI	AMOUNT OF LOSS RECLASSIFIED FROM ACCUMULATED OCI INTO INCOME (EFFECTIVE PORTION)
Interest rate derivatives [1]	$—	$(86)*	$—	$(59)*

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

[1] During the three months ended June 30, 2013, Cleco recorded ineffectiveness and losses related to the interest rate derivatives as a regulatory asset of $2.8 million.

	FOR THE SIX MONTHS ENDED JUNE 30,			
	2014		2013	
(THOUSANDS)	AMOUNT OF GAIN RECOGNIZED IN OCI	AMOUNT OF LOSS RECLASSIFIED FROM ACCUMULATED OCI INTO INCOME (EFFECTIVE PORTION)	AMOUNT OF GAIN RECOGNIZED IN OCI	AMOUNT OF LOSS RECLASSIFIED FROM ACCUMULATED OCI INTO INCOME (EFFECTIVE PORTION)
Interest rate derivatives [1]	$—	$(172)*	$1,762	$(79)*

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

[1] During the six months ended June 30, 2013, Cleco recorded ineffectiveness and losses related to the interest rate derivatives as a regulatory asset of $3.3 million.

At June 30, 2014, Cleco Power expected $0.3 million of the effective portion of deferred net losses related to interest rate derivatives to be reclassed from accumulated OCI to interest charges over the next 12 months.

Note 5 — Debt

Short-term Debt

At June 30, 2014 and December 31, 2013, Cleco and Cleco Power had no short-term debt outstanding.

Long-term Debt

At June 30, 2014, Cleco's long-term debt outstanding was $1.39 billion, of which $17.7 million was due within one year. The long-term debt due within one year at June 30, 2014, represents $15.3 million principal payments for the Cleco Katrina/Rita storm recovery bonds and $2.4 million of capital lease payments.

For Cleco, long-term debt increased $56.5 million from December 31, 2013, primarily due to a $65.0 million net increase in credit facility draws and debt discount amortizations of $0.2 million. These increases were partially offset by a $7.6 million scheduled Cleco Katrina/Rita storm recovery bond principal payment made in March 2014, and a $1.1 million decrease in capital lease obligations.

At June 30, 2014, Cleco Power's long-term debt outstanding was $1.37 billion of which $17.7 million was due within one year. The long-term debt due within one year at June 30, 2014, represents $15.3 million principal payments for the Cleco Katrina/Rita storm recovery bonds and $2.4 million of capital lease payments.

For Cleco Power, long-term debt increased $46.5 million from December 31, 2013, primarily due to a $55.0 million net increase in credit facility draws and debt discount amortizations of $0.2 million. These increases were partially offset by a $7.6 million scheduled Cleco Katrina/Rita storm recovery bond principal payment made in March 2014, and a $1.1 million decrease in capital lease obligations.

Credit Facilities

At June 30, 2014, Cleco Corporation had $15.0 million of borrowings outstanding under its $250.0 million credit facility at an interest rate of 1.205%. The borrowings under the credit facility are considered to be long-term because the credit facility expires in 2018. The borrowing costs under the facility are equal to LIBOR plus 1.075% or ABR plus 0.075%, plus facility fees of 0.175%.

At June 30, 2014, Cleco Power had $75.0 million of borrowings outstanding under its $300.0 million credit facility at an interest rate of 1.03%. The borrowings under the credit facility are considered to be long-term because the credit facility expires in 2018. The borrowing costs under the facility are equal to LIBOR plus 0.9% or ABR, plus facility fees of 0.1%. In December 2013, Cleco Power provided a $1.0 million letter of credit to MISO pursuant to the credit requirements of FTRs. This letter of credit automatically renews each year and reduces Cleco Power's credit facility capacity. On April 8, 2014, Cleco Power increased the letter of credit to $2.0 million.

Note 6 — Pension Plan and Employee Benefits

Pension Plan and Other Benefits Plan

Most employees hired before August 1, 2007, are covered by a non-contributory, defined benefit pension plan. Benefits under the plan reflect an employee's years of service, age at retirement, and highest total average compensation for any consecutive five calendar years during the last ten years of employment with Cleco. Cleco's policy is to base its contributions to the employee pension plan upon actuarial computations utilizing the projected unit credit method, subject to the IRS's full funding limitation. Cleco does not expect to make any required or discretionary contributions to the pension plan in 2014. In January 2013, Cleco Power made $34.0 million in discretionary contributions to the pension plan designated for the 2012 plan year. The required contributions are driven by liability funding target percentages set by law which could cause the required contributions to be uneven among the years. The ultimate amount and timing of the contributions may be affected by changes in the discount rate, changes in the funding regulations, and actual returns on fund assets. Cleco Power is considered the plan sponsor and Support Group is considered the plan administrator.

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

The components of net periodic pension and other benefit cost for the three and six months ended June 30, 2014 and 2013, are as follows:

	PENSION BENEFITS		OTHER BENEFITS	
	FOR THE THREE MONTHS ENDED JUNE 30,			
(THOUSANDS)	2014	2013	2014	2013
Components of periodic benefit cost:				
Service cost	$2,020	$2,460	$405	$314
Interest cost	4,996	4,533	462	481
Expected return on plan assets	(6,170)	(5,958)	—	—
Amortizations:				
Transition obligation	—	—	5	4

Prior period service cost (credit)	(18)	(18)	30	—
Net loss	1,658	3,236	178	319
Net periodic benefit cost	$2,486	$4,253	$1,080	$1,118

	PENSION BENEFITS		OTHER BENEFITS	
	FOR THE SIX MONTHS ENDED JUNE 30,			
(THOUSANDS)	2014	2013	2014	2013
Components of periodic benefit cost:				
Service cost	$4,025	$4,945	$810	$628
Interest cost	9,926	8,970	925	962
Expected return on plan assets	(12,253)	(11,723)	—	—
Amortizations:				
Transition obligation	—	—	10	8
Prior period service cost (credit)	(36)	(36)	60	—
Net loss	3,371	6,609	355	637
Net periodic benefit cost	$5,033	$8,765	$2,160	$2,235

Because Cleco Power is the pension plan sponsor and the related trust holds the assets, the net unfunded status of the pension plan is reflected at Cleco Power. The liability of Cleco's other subsidiaries is transferred with a like amount of assets to Cleco Power monthly. The expense of the pension plan related to Cleco's other subsidiaries for the three and six months ended June 30, 2014 was $0.4 million and $0.9 million, respectively. The amounts for the same periods in 2013 were $0.6 million and $1.2 million, respectively.

Cleco Corporation is the plan sponsor for the other benefit plans. There are no assets set aside in a trust and the liabilities are reported on the individual subsidiaries' financial statements. The current portion of the other benefits liability for Cleco at June 30, 2014 and December 31, 2013 was $3.5 million. The current portion of the other benefits liability for Cleco Power at June 30, 2014 and December 31, 2013 was $3.2 million. The expense related to other benefits reflected in Cleco Power's Condensed Consolidated Statements of Income for the three and six months ended June 30, 2014 was $0.9 million and $1.9 million, respectively. The amounts for the same periods in 2013 were $1.0 million and $1.9 million, respectively.

SERP

Certain Cleco officers are covered by SERP. SERP is a non-qualified, non-contributory, defined benefit pension plan. Benefits under the plan reflect an employee's years of service, age at retirement, and the sum of the highest base salary paid out of the last five calendar years plus the average of the three highest cash bonuses paid during the 60 months prior to retirement, reduced by benefits received from any other defined benefit pension plan, supplemental executive retirement plan, or Cleco contributions under the enhanced

401(k) Plan to the extent such contributions exceed the limits of the 401(k) Plan. Cleco does not fund the SERP liability but instead pays for current benefits out of the general funds available. Cleco Power has formed a Rabbi Trust designated as the beneficiary for life insurance policies issued on SERP participants. Proceeds from the life insurance policies are expected to be used to pay the SERP participants' death benefits, as well as future SERP payments. However, because SERP is a non-qualified plan, the assets of the trust could be used to satisfy general creditors of Cleco Power in the event of insolvency. All SERP benefits are paid out of the general cash available of the respective companies from which the officer retired. Cleco Power is considered the plan sponsor and Support Group is considered the plan administrator. The components of net periodic SERP benefit cost for the three and six months ended June 30, 2014 and 2013, are as follows:

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
(THOUSANDS)	2014	2013	2014	2013
Components of periodic benefit cost:				
Service cost	$671	$521	$1,139	$1,028
Interest cost	789	612	1,514	1,289
Amortizations:				
Prior period service cost	15	13	27	27
Net loss	552	616	937	