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Cleco Corporate Holdings LLC
Form 10-Q
May 11, 2017

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

FORM 10-Q

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

For the quarterly period ended March 31, 2017

Or

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

Commission file number 1-15759

CLECO CORPORATE HOLDINGS LLC

(Exact name of registrant as specified in its charter)

Louisiana

(State or other jurisdiction of incorporation or organization) 72-1445282 (I.R.S. Employer Identification No.)

2030 Donahue Ferry Road, Pineville, Louisiana

(Address of principal executive offices)

71360-5226

(Zip Code)

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

Commission file number 1-05663

CLECO POWER LLC

(Exact name of registrant as specified in its charter)

Louisiana

(State or other jurisdiction of incorporation or organization) 72-0244480 (I.R.S. Employer Identification No.)

2030 Donahue Ferry Road, Pineville, Louisiana

(Address of principal executive offices)

71360-5226

(Zip Code)

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

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

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

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pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrants were required to submit and post such files). Yes x
No "

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

Emerging growth company "

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

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

" Accelerated filer " Non-accelerated filer x (Do not check if a smaller reporting company)

Smaller reporting company "

Emerging growth company "

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

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

As of May 11, 2017, Cleco Corporate Holdings LLC has no common stock outstanding. All of the outstanding interest of Cleco Corporate Holdings LLC is held by Cleco Group LLC, a wholly owned subsidiary of Cleco Partners L.P.

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

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

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

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GLOSSARY OF TERMS

Abbreviations or acronyms used in this filing, including all items in Parts I and II, are defined below.

ABBREVIATION OR

ACRONYM

DEFINITION

401(k) Plan	Cleco Power 401(k) Savings and Investment Plan
ABR	Alternate Base Rate which is the greater of the prime rate, the federal funds effective rate plus 0.50%, or LIBOR plus 1.0%
Acadia	Acadia Power Partners, LLC, previously a wholly owned subsidiary of Midstream. Acadia Power Partners, LLC was dissolved effective August 29, 2014.
Acadia Unit 1	Cleco Power's 580-MW, combined cycle power plant located at the Acadia Power Station in Eunice, Louisiana
Acadia Unit 2	Entergy Louisiana's 580-MW, combined cycle power plant located at the Acadia Power Station in Eunice, Louisiana, which is operated by Cleco Power
AFUDC	Allowance for Funds Used During Construction
ALJ	Administrative Law Judge
Amended Lignite Mining Agreement	Amended and restated lignite mining agreement effective December 29, 2009
AMI	Advanced Metering Infrastructure
AOCI	Accumulated Other Comprehensive Income (Loss)
ARO	Asset Retirement Obligation
ARRA	American Recovery and Reinvestment Act of 2009
Attala	Attala Transmission LLC, a wholly owned subsidiary of Cleco Holdings
bcIMC	British Columbia Investment Management Corporation
CCR	Coal combustion by-products or residual
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Cleco	Cleco Holdings and its subsidiaries
Cleco Corporation	Pre-Merger entity that was converted to a limited liability company and changed its name to Cleco Corporate Holdings LLC on April 13, 2016
Cleco Group	Cleco Group LLC, a wholly owned subsidiary of Cleco Partners
Cleco Holdings	Cleco Corporate Holdings LLC, a wholly owned subsidiary of Cleco Group
Cleco Katrina/Rita	Cleco Katrina/Rita Hurricane Recovery Funding LLC, a wholly owned subsidiary of Cleco Power
Cleco Partners	Cleco Partners L.P., a Delaware limited partnership that is owned by a consortium of investors, including funds or investment vehicles managed by MIRA, bcIMC, John Hancock Financial, and other infrastructure investors.
Cleco Power	Cleco Power LLC and its subsidiaries, a wholly owned subsidiary of Cleco Holdings
CO ₂	Carbon dioxide
Coughlin	Cleco Power's 775-MW, combined-cycle power plant located in St. Landry, Louisiana
CPP	Clean Power Plan
DHLC	Dolet Hills Lignite Company, LLC, a wholly owned subsidiary of SWEPCO
Diversified Lands	Diversified Lands LLC, a wholly owned subsidiary of Cleco Holdings
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
Dolet Hills	A facility consisting of Dolet Hills Power Station, the Dolet Hills mine, and the Oxbow mine
Dolet Hills Power Station	A 650-MW generating unit at Cleco Power's plant site in Mansfield, Louisiana. Cleco Power has a 50% ownership interest in the capacity of Dolet Hills.
EAC	Environmental Adjustment Clause

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EBITDA	Earnings before interest, taxes, depreciation, and amortization
EGU	Electric Generating Unit
Entergy Gulf States	Entergy Gulf States Louisiana, LLC
Entergy Louisiana	Entergy Louisiana, LLC
EPA	U.S. Environmental Protection Agency
ERO	Electric Reliability Organization
ESPP	Employee Stock Purchase Plan
Evangeline	Cleco Evangeline LLC, a wholly owned subsidiary of Midstream
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FTR	Financial Transmission Right
FRP	Formula Rate Plan
GAAP	Generally Accepted Accounting Principles in the U.S.
IRP	Integrated Resource Plan
IRS	Internal Revenue Service
kWh	Kilowatt-hour(s)
LED	Louisiana Economic Development
LIBOR	London Interbank Offered Rate
LPSC	Louisiana Public Service Commission
LTIP	Long-Term Incentive Compensation Plan

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ABBREVIATION OR ACRONYM	DEFINITION
MATS	Mercury and Air Toxics Standards
Merger	Merger of Merger Sub with and into Cleco Corporation pursuant to the terms of the Merger Agreement which was completed on April 13, 2016
Merger Agreement	Agreement and Plan of Merger, dated as of October 17, 2014, by and among Cleco Partners, Merger Sub, and Cleco Corporation
Merger Commitments	Cleco Partners', Cleco Group's, Cleco Holdings', and Cleco Power's 77 commitments to the LPSC as defined in Docket No. U-33434 of which a performance report must be filed annually by October 31 for the 12 months ending June 30
Merger Sub	Cleco MergerSub Inc., previously an indirect wholly owned subsidiary of Cleco Partners that was merged with and into Cleco Corporation, with Cleco Corporation surviving the Merger, and Cleco Corporation converting to a limited liability company and changing its name to Cleco Holdings
Midstream	Cleco Midstream Resources LLC, a wholly owned subsidiary of Cleco Holdings
MIRA	Macquarie Infrastructure and Real Assets Inc.
MISO	Midcontinent Independent System Operator, Inc.
Moody's	Moody's Investors Service, a credit rating agency
MW	Megawatt(s)
MWh	Megawatt-hour(s)
NAAQS	National Ambient Air Quality Standards
NERC	North American Electric Reliability Corporation
NMTC	New Markets Tax Credit
NMTC Fund	USB NMTC Fund 2008-1 LLC was formed to invest in projects qualifying for New Markets Tax Credits and Solar Projects
NO _x	Nitrogen oxides
Oxbow	Oxbow Lignite Company, LLC, 50% owned by Cleco Power and 50% owned by SWEPCO
Perryville	Perryville Energy Partners, L.L.C., a wholly owned subsidiary of Cleco Holdings
Predecessor	Pre-merger activity of Cleco. Cleco has accounted for the merger transaction by applying the acquisition method of accounting. The predecessor period is not comparable to the successor period.
Registrant(s)	Cleco Holdings and/or Cleco Power
Rodemacher Unit 2	A 523-MW generating unit at Cleco Power's plant site in Boyce, Louisiana. Cleco Power has a 30% ownership interest in the capacity of Rodemacher Unit 2.
ROE	Return on Equity
RTO	Regional Transmission Organization
S&P	Standard & Poor's Ratings Services, a credit rating agency
SEC	U.S. Securities and Exchange Commission
SERP	Supplemental Executive Retirement Plan
SO ₂	Sulfur dioxide
STIP	Short-Term Incentive Plan
Successor	Post-merger activity of Cleco. Cleco has accounted for the merger transaction by applying the acquisition method of accounting. The successor period is not comparable to the predecessor period.
Support Group	Cleco Support Group LLC, a wholly owned subsidiary of Cleco Holdings
SWEPCO	Southwestern Electric Power Company, an electric utility subsidiary of American Electric Power Company, Inc.

Teche Unit 3
VaR

A 359-MW generating unit at Cleco Power's plant site in Baldwin, Louisiana.
Value-at-Risk

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

the effects of the Merger on Cleco Holdings’ and Cleco Power’s business relationships, operating results, and business generally,

regulatory factors such as changes in rate-setting practices or policies; the unpredictability in political actions of governmental regulatory bodies; adverse regulatory ratemaking actions; recovery of investments made under traditional regulation; recovery of storm restoration costs; the frequency, timing, and amount of rate increases or decreases; the impact that rate cases or requests for FRP extensions may have on operating decisions of Cleco Power; the results of periodic NERC, LPSC, and FERC audits; participation in MISO and the related operating challenges and uncertainties, including increased wholesale competition relative to additional suppliers; and compliance with the ERO reliability standards for bulk power systems by Cleco Power,

the ability to recover fuel costs through the FAC,

factors affecting utility operations, such as unusual weather conditions or other natural phenomena; catastrophic weather-related damage caused by hurricanes and other storms or severe drought conditions; unscheduled generation outages; unanticipated maintenance or repairs; unanticipated changes to fuel costs or fuel supply costs, shortages, transportation problems, or other developments; fuel mix of Cleco’s generating facilities; decreased customer load; environmental incidents and compliance costs; and power transmission system constraints,

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

global and domestic economic conditions, including the ability of customers to continue paying their utility bills, related growth and/or down-sizing of businesses in Cleco’s service area, monetary fluctuations, changes in commodity prices, and inflation rates,

the ability of the lignite reserves at Dolet Hills to provide sufficient fuel to the Dolet Hills Power Station until at least 2036,

Cleco Power’s ability to maintain its right to sell wholesale power at market-based rates within its control area,

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

reliability of Cleco Power’s generating facilities,

the imposition of energy efficiency requirements or increased conservation efforts of customers,

the impact of current or future environmental laws and regulations, including those related to CCRs, greenhouse gases, and energy efficiency that could limit or terminate the operation of certain generating units, increase costs, or reduce customer demand for electricity,

the ability to recover costs of compliance with environmental laws and regulations, including those through the EAC, financial or regulatory accounting principles or policies imposed by FASB, the SEC, FERC, the LPSC, or similar entities with regulatory or accounting oversight, changing market conditions and a variety of other factors associated with physical energy, financial transactions, and energy service activities, including, but not limited to, price, basis, credit, liquidity, volatility, capacity, transmission, interest rates, and warranty risks, legal, environmental, and regulatory delays and other obstacles associated with acquisitions, reorganizations, investments in joint ventures, or other capital projects, costs and other effects of legal and administrative proceedings, settlements, investigations, claims, and other matters, the availability and use of alternative sources of energy and technologies, such as wind, solar, battery storage, and distributed generation, changes in federal, state, or local laws (including tax laws), changes in tax rates, disallowances of tax positions, or changes in other regulating policies that may result in a change to tax benefits or expenses, the restriction on the ability of Cleco Power to make distributions to Cleco Holdings in certain instances, as a result of the Merger Commitments, Cleco Holdings' dependence on the earnings, dividends, or distributions from its subsidiaries to meet its debt obligations,

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acts of terrorism, cyber attacks, data security breaches or other attempts to disrupt Cleco's business or the business of third parties, or other man-made disasters,
nonperformance by and creditworthiness of the guarantor counterparty of the NMTC Fund,
credit ratings of Cleco Holdings and Cleco Power,
the ability to remain in compliance with debt covenants,
the availability or cost of capital resulting from changes in global markets, Cleco's business or financial condition, interest rates, or market perceptions of the electric utility industry and energy-related industries, and
employee workforce factors, including aging workforce, changes in management, and inadequate resources.

For more discussion of these factors and other factors that could cause actual results to differ materially from those contemplated in the Registrants' forward-looking statements, please see "Risk Factors" in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

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

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

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PART I — FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Cleco Holdings

These unaudited Condensed Consolidated Financial Statements should be read in conjunction with Cleco Holdings' Consolidated Financial Statements and Notes included in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2016. For more information on the basis of presentation, see "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 1 — Summary of Significant Accounting Policies — Basis of Presentation."

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Condensed Consolidated Statements of Income (Unaudited)

(THOUSANDS)	SUCCESSOR FOR THE THREE MONTHS ENDED MAR. 31, 2017	PREDECESSOR FOR THE THREE MONTHS ENDED MAR. 31, 2016
Operating revenue		
Electric operations	\$ 234,056	\$ 250,157
Other operations	16,880	17,132
Gross operating revenue	250,936	267,289
Electric customer credits	(435	) (321
Operating revenue, net	250,501	266,968
Operating expenses		
Fuel used for electric generation	69,873	87,443
Power purchased for utility customers	31,963	23,105
Other operations	31,892	29,325
Maintenance	24,523	24,631
Depreciation and amortization	40,851	38,938
Taxes other than income taxes	12,502	12,907
Merger transaction and commitment costs	99	1,522
Gain on sale of asset	—	(1,095
Total operating expenses	211,703	216,776
Operating income	38,798	50,192
Interest income	312	224
Allowance for equity funds used during construction	911	652
Other income	1,370	506
Other expense	(274	) (516
Interest charges		
Interest charges, including amortization of debt issuance costs, premiums, and discounts, net	31,945	19,738
Allowance for borrowed funds used during construction	(227	) (185
Total interest charges	31,718	19,553
Income before income taxes	9,399	31,505
Federal and state income tax expense	3,107	12,137
Net income	\$ 6,292	\$ 19,368

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

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Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(THOUSANDS)	SUCCESSOR FOR THE THREE MONTHS ENDED MAR. 31, 2017	PREDECESSOR FOR THE THREE MONTHS ENDED MAR. 31, 2016
Net income	\$ 6,292	\$ 19,368
Other comprehensive (loss) income, net of tax		
Postretirement benefits (loss) gain (net of tax benefit of \$1,370 in 2017 and tax expense of \$330 in 2016)	(2,191	) 528
Net gain on cash flow hedges (net of tax expense of \$33 in 2016)	—	53
Total other comprehensive (loss) income, net of tax	(2,191	) 581
Comprehensive income, net of tax	\$ 4,101	\$ 19,949

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

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Condensed Consolidated Balance Sheets (Unaudited)

(THOUSANDS)	AT MAR. 31, 2017	AT DEC. 31, 2016
Assets		
Current assets		
Cash and cash equivalents	\$21,519	\$23,077
Restricted cash and cash equivalents	14,150	23,084
Customer accounts receivable (less allowance for doubtful accounts of \$8,056 in 2017 and \$7,199 in 2016)	45,342	56,780
Other accounts receivable	21,191	19,778
Unbilled revenue	29,504	34,268
Fuel inventory, at average cost	52,658	46,410
Materials and supplies, at average cost	83,301	81,818
Energy risk management assets	4,957	7,884
Accumulated deferred fuel	24,212	20,787
Cash surrender value of company-/trust-owned life insurance policies	78,927	77,225
Prepayments	7,497	7,813
Regulatory assets	26,476	26,803
Other current assets	423	1,315
Total current assets	410,157	427,042
Property, plant, and equipment		
Property, plant, and equipment	3,506,239	3,476,581
Accumulated depreciation	(98,969)	(75,816)
Net property, plant, and equipment	3,407,270	3,400,765
Construction work in progress	99,113	78,577
Total property, plant, and equipment, net	3,506,383	3,479,342
Equity investment in investee	18,672	18,672
Goodwill	1,490,797	1,490,797
Prepayments	4,874	4,731
Restricted cash and cash equivalents	23,554	23,410
Regulatory assets - deferred taxes, net	238,378	237,449
Regulatory assets	445,200	454,644
Net investment in direct financing lease	13,407	13,420
Intangible assets	135,591	142,634
Tax credit fund investment, net	12,138	11,888
Other deferred charges	36,830	39,115
Total assets	\$6,335,981	\$6,343,144

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

(Continued on next page)

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Condensed Consolidated Balance Sheets (Unaudited)

(THOUSANDS)	AT MAR. 31, 2017	AT DEC. 31, 2016
Liabilities and member's equity		
Liabilities		
Current liabilities		
Short-term debt	\$541	\$—
Long-term debt due within one year	19,689	19,715
Accounts payable	95,307	112,087
Customer deposits	56,972	56,599
Provision for rate refund	3,262	3,974
Provision for merger commitments	10,999	14,371
Taxes payable	16,510	3,942
Interest accrued	40,447	14,783
Energy risk management liabilities	539	201
Deferred compensation	10,787	11,654
Other current liabilities	14,922	14,850
Total current liabilities	269,975	252,176
Long-term liabilities and deferred credits		
Accumulated deferred federal and state income taxes, net	1,035,656	1,033,055
Accumulated deferred investment tax credits	2,585	2,751
Postretirement benefit obligations	227,777	223,003
Restricted storm reserve	17,643	17,385
Other deferred credits	33,740	29,440
Total long-term liabilities and deferred credits	1,317,401	1,305,634
Long-term debt, net	2,726,696	2,738,571
Total liabilities	4,314,072	4,296,381
Commitments and contingencies (Note 12)		
Member's equity		
Membership interest	2,040,421	2,069,376
Accumulated deficit	(17,821)	(24,113)
Accumulated other comprehensive (loss) income	(691)	1,500
Total member's equity	2,021,909	2,046,763
Total liabilities and member's equity	\$6,335,981	\$6,343,144

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

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Condensed Consolidated Statements of Cash Flows (Unaudited)

(THOUSANDS)	SUCCESSOR FOR THE THREE MONTHS ENDED MAR. 31, 2017	PREDECESSOR FOR THE THREE MONTHS ENDED MAR. 31, 2016	
Operating activities			
Net income	\$ 6,292	\$ 19,368	
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	46,727	40,285	
Gain on sale of asset	—	(1,095)
Allowance for equity funds used during construction	(911	) (652)
Deferred income taxes	3,041	8,770	
Deferred fuel costs	(2,982	) 719	
Cash surrender value of company-/trust-owned life insurance	(1,702	) (484)
Changes in assets and liabilities			
Accounts receivable	8,346	3,129	
Unbilled revenue	4,765	1,207	
Fuel inventory and materials and supplies	(7,733	) 17,725	
Prepayments	1,318	2,076	
Accounts payable	(27,148	) (21,379)
Customer deposits	2,622	2,877	
Provision for merger commitments	(3,866) —	
Postretirement benefit obligations	1,213	2,630	
Regulatory assets and liabilities, net	2,599	4,582	
Other deferred accounts	1,920	5,529	
Taxes accrued	12,568	12,651	
Interest accrued	25,620	16,037	
Other operating	2,093	2,257	
Net cash provided by operating activities	74,782	116,232	
Investing activities			
Additions to property, plant, and equipment	(47,890	) (35,476)
Allowance for equity funds used during construction	911	652	
Proceeds from sale of property	242	1,909	
Contributions to equity investment in investee	—	(2,450)
Transfer of cash from restricted accounts, net	8,790	4,088	
Other investing	(165	) 43	
Net cash used in investing activities	(38,112	) (31,234)
Financing activities			
Draws on credit facilities	—	3,000	
Payments on credit facilities	—	(10,000)
Repayment of long-term debt	(9,060) (8,546)
Dividends paid on common stock	—	(24,579)

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Distributions to member	(28,955) —	
Other financing	(213) (673)
Net cash used in financing activities	(38,228) (40,798)
Net (decrease) increase in cash and cash equivalents	(1,558	) 44,200	
Cash and cash equivalents at beginning of period	23,077	68,246	
Cash and cash equivalents at end of period	\$ 21,519	\$ 112,446	

Supplementary cash flow information

Interest paid, net of amount capitalized	\$ 4,011	\$ 2,460	
Income taxes paid (refunded), net	\$ 1	\$ (481)
Supplementary non-cash investing and financing activities			
Accrued additions to property, plant, and equipment	\$ 27,617	\$ 11,874	

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

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

(THOUSANDS)	MEMBERSHIP INTEREST	ACCUMULATED DEFICIT	AOCI	TOTAL MEMBER'S EQUITY
Balances, Dec. 31, 2016	\$ 2,069,376	\$ (24,113	) \$1,500	\$2,046,763
Distributions to member	(28,955	) —	—	(28,955)
Net income	—	6,292	—	6,292
Other comprehensive loss, net of tax	—	—	(2,191)	(2,191)
Balances, Mar. 31, 2017	\$ 2,040,421	\$ (17,821	) \$(691)	\$2,021,909

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

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ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Cleco Power

These unaudited Condensed Consolidated Financial Statements should be read in conjunction with Cleco Power's Consolidated Financial Statements and Notes included in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2016. For more information on the basis of presentation, see "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 1 — Summary of Significant Accounting Policies — Basis of Presentation."

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CLECO POWER

Condensed Consolidated Statements of Income (Unaudited)

(THOUSANDS)	FOR THE THREE MONTHS ENDED MAR. 31,	
	2017	2016
Operating revenue		
Electric operations	\$237,553	\$250,157
Other operations	16,365	16,614
Affiliate revenue	219	232
Gross operating revenue	254,137	267,003
Electric customer credits	(435)	(321)
Operating revenue, net	253,702	266,682
Operating expenses		
Fuel used for electric generation	69,873	87,443
Power purchased for utility customers	31,963	23,105
Other operations	31,988	29,399
Maintenance	24,420	24,538
Depreciation and amortization	38,758	38,603
Taxes other than income taxes	12,000	12,424
Gain on sale of asset	—	(1,095)
Total operating expenses	209,002	214,417
Operating income	44,700	52,265
Interest income	266	179
Allowance for equity funds used during construction	911	652
Other income	210	148
Other expense	(274)	(517)
Interest charges		
Interest charges, including amortization of debt issuance costs, premiums, and discounts, net	18,331	19,470
Allowance for borrowed funds used during construction	(227)	(185)
Total interest charges	18,104	19,285
Income before income taxes	27,709	33,442
Federal and state income tax expense	9,855	12,563
Net income	\$17,854	\$20,879

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

CLECO
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CLECO POWER

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	FOR THE THREE MONTHS ENDED MAR.	
(THOUSANDS)	31, 2017	2016
Net income	\$17,854	\$20,879
Other comprehensive (loss) income, net of tax		
Postretirement benefits (loss) gain (net of tax benefit of \$262 in 2017 and tax expense of \$125 in 2016)	(420	) 200
Net gain on cash flow hedges (net of tax expense of \$33 in 2017 and 2016)	53	53
Total other comprehensive (loss) income, net of tax	(367	) 253
Comprehensive income, net of tax	\$17,487	\$21,132

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

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CLECO POWER

Condensed Consolidated Balance Sheets (Unaudited)

(THOUSANDS)	AT MAR. 31, 2017	AT DEC. 31, 2016
Assets		
Utility plant and equipment		
Property, plant, and equipment	\$4,815,466	\$4,790,565
Accumulated depreciation	(1,634,875)	(1,618,241)
Net property, plant, and equipment	3,180,591	3,172,324
Construction work in progress	97,776	77,306
Total utility plant and equipment, net	3,278,367	3,249,630
Current assets		
Cash and cash equivalents	21,164	21,482
Restricted cash and cash equivalents	14,150	23,084
Customer accounts receivable (less allowance for doubtful accounts of \$8,056 in 2017 and \$7,199 in 2016)	45,342	56,780
Accounts receivable - affiliate	1,378	1,406
Other accounts receivable	21,161	19,457
Taxes receivable, net	721	12,490
Unbilled revenue	29,504	34,268
Fuel inventory, at average cost	52,658	46,410
Materials and supplies, at average cost	83,301	81,818
Energy risk management assets	4,957	7,884
Accumulated deferred fuel	24,212	20,787
Cash surrender value of company-owned life insurance policies	20,090	20,018
Prepayments	5,969	5,892
Regulatory assets	17,618	17,721
Other current assets	—	577
Total current assets	342,225	370,074
Equity investment in investee	18,672	18,672
Prepayments	4,874	4,731
Restricted cash and cash equivalents	23,533	23,389
Regulatory assets - deferred taxes, net	238,378	237,449
Regulatory assets	261,858	268,016
Intangible asset	54,991	58,473
Other deferred charges	34,808	37,014
Total assets	\$4,257,706	\$4,267,448

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

(Continued on next page)

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CLECO POWER

Condensed Consolidated Balance Sheets (Unaudited)

(THOUSANDS)	AT MAR. 31, 2017	AT DEC. 31, 2016
Liabilities and member's equity		
Member's equity	\$1,517,689	\$1,535,202
Long-term debt, net	1,226,095	1,235,056
Total capitalization	2,743,784	2,770,258
Current liabilities		
Long-term debt due within one year	19,689	19,715
Accounts payable	88,994	101,874
Accounts payable - affiliate	9,367	7,190
Customer deposits	56,972	56,599
Provision for rate refund	3,262	3,974
Provision for merger commitments	10,999	14,371
Interest accrued	21,371	7,141
Energy risk management liabilities	539	201
Other current liabilities	10,004	9,951
Total current liabilities	221,197	221,016
Commitments and contingencies (Note 12)		
Long-term liabilities and deferred credits		
Accumulated deferred federal and state income taxes, net	1,079,427	1,068,592
Accumulated deferred investment tax credits	2,585	2,751
Postretirement benefit obligations	161,257	159,107
Restricted storm reserve	17,643	17,385
Other deferred credits	31,813	28,339
Total long-term liabilities and deferred credits	1,292,725	1,276,174
Total liabilities and member's equity	\$4,257,706	\$4,267,448

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

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CLECO POWER

Condensed Consolidated Statements of Cash Flows (Unaudited)

	FOR THE THREE MONTHS ENDED MAR. 31,	
(THOUSANDS)	2017	2016
Operating activities		
Net income	\$17,854	\$20,879
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	40,871	39,774
Gain on sale of asset	—	(1,095)
Allowance for equity funds used during construction	(911)	(652)
Deferred income taxes	10,135	1,854
Deferred fuel costs	(2,982)	719
Changes in assets and liabilities		
Accounts receivable	8,064	3,130
Accounts and notes receivable, affiliate	471	1,716
Unbilled revenue	4,765	1,207
Fuel inventory and materials and supplies	(7,733)	17,725
Prepayments	925	1,560
Accounts payable	(23,836)	(20,581)
Accounts and notes payable, affiliate	2,083	731
Customer deposits	2,622	2,877
Provision for merger commitments	(3,866)	—
Postretirement benefit obligations	1,026	1,189
Regulatory assets and liabilities, net	2,103	4,582
Other deferred accounts	1,494	5,529
Taxes accrued	11,769	10,859
Interest accrued	14,230	16,078
Other operating	2,095	2,176
Net cash provided by operating activities	81,179	110,257
Investing activities		
Additions to property, plant, and equipment	(46,744)	(35,453)
Allowance for equity funds used during construction	911	652
Proceeds from sale of property	242	1,909
Contributions to equity investment in investee	—	(2,450)
Transfer of cash from restricted accounts, net	8,790	4,088
Other investing	39	43
Net cash used in investing activities	(36,762)	(31,211)
Financing activities		
Repayment of long-term debt	(9,060)	(8,546)
Distributions to parent	(35,000)	(25,000)
Other financing	(675)	(657)
Net cash used in financing activities	(44,735)	(34,203)
Net (decrease) increase in cash and cash equivalents	(318)	44,843
Cash and cash equivalents at beginning of period	21,482	65,705

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Cash and cash equivalents at end of period	\$21,164	\$110,548
Supplementary cash flow information		
Interest paid, net of amount capitalized	\$2,212	\$2,334
Income taxes refunded, net	\$—	\$(485)
Supplementary non-cash investing and financing activities		
Accrued additions to property, plant, and equipment	\$27,493	\$11,849

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

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

(THOUSANDS)	MEMBER'S EQUITY	AOCI	TOTAL MEMBER'S EQUITY
Balances, Dec. 31, 2016	\$ 1,548,624	\$(13,422)	\$ 1,535,202
Distributions to parent	(35,000)	—	(35,000)
Net income	17,854	—	17,854
Other comprehensive loss, net of tax	—	(367)	(367)
Balances, Mar. 31, 2017	\$ 1,531,478	\$(13,789)	\$ 1,517,689

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

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

Note 1	Summary of Significant Accounting Policies	Cleco and Cleco Power
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Note 3	Recent Authoritative Guidance	Cleco and Cleco Power
Note 4	Regulatory Assets and Liabilities	Cleco and Cleco Power
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Note 13	Affiliate Transactions	Cleco and Cleco Power
Note 14	Accumulated Other Comprehensive Loss	Cleco 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 Holdings and Cleco Power have been prepared in accordance with GAAP for interim financial information and with the instructions to the Form 10-Q and Regulation S-X. Accordingly, these Condensed Consolidated Financial Statements do not include all of the information and notes required by GAAP for annual financial statements. The year-end Condensed Consolidated Balance Sheet data was derived from audited financial statements. Because the interim Condensed Consolidated Financial Statements and the accompanying notes do not include all of the information and notes required by GAAP for annual financial statements, the Condensed Consolidated Financial Statements and other information included in this quarterly report should be read in conjunction with the Consolidated Financial Statements and accompanying notes in the Registrants' Combined Annual Report on Form 10-K for the year ended December 31, 2016.

These Condensed Consolidated Financial Statements, in the opinion of management, reflect all normal recurring adjustments that are necessary to fairly 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, discrete income tax items, and other factors.

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

reported amounts of revenues and expenses, and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. For information on recent authoritative guidance and its effect on financial results, see Note 3 — "Recent Authoritative Guidance."

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

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

Restricted Cash and Cash Equivalents

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

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

Cleco

(THOUSANDS)	AT MAR. 31, 2017	AT DEC. 31, 2016
Current		
Cleco Katrina/Rita's storm recovery bonds	\$3,432	\$9,213
Cleco Power's charitable contributions	1,200	1,200
Cleco Power's rate credit escrow	9,518	12,671
Total current	14,150	23,084
Non-current		
Diversified Lands' mitigation escrow	21	21
Cleco Power's future storm restoration costs	17,576	17,379
Cleco Power's charitable contributions	4,126	4,179
Cleco Power's rate credit escrow	1,831	1,831
Total non-current	23,554	23,410
Total restricted cash and cash equivalents	\$37,704	\$46,494

Cleco Power

(THOUSANDS)	AT MAR. 31, 2017	AT DEC. 31, 2016
Current		
Cleco Katrina/Rita's storm recovery bonds	\$3,432	\$9,213
Charitable contributions	1,200	1,200
Rate credit escrow	9,518	12,671
Total current	14,150	23,084
Non-current		
Future storm restoration costs	17,576	17,379
Charitable contributions	4,126	4,179
Rate credit escrow	1,831	1,831
Total non-current	23,533	23,389
Total restricted cash and cash equivalents	\$37,683	\$46,473

Cleco Katrina/Rita has the right to bill and collect storm restoration costs from Cleco Power's customers. As cash is collected, it is restricted for payment of administration fees, interest, and principal on storm recovery bonds. The change from December 31, 2016, to March 31, 2017, was due to Cleco Katrina/Rita using \$9.1 million for scheduled storm recovery bond principal payments and \$1.9 million for related interest payments, partially offset by collections of \$5.2 million net of administration fees.

Included in the Merger Commitments were \$6.0 million of charitable contributions to be disbursed over five years and \$136.0 million of rate credits to eligible customers. On April 25, 2016, in accordance with the Merger Commitments, Cleco Power established the charitable contribution fund and also deposited the rate credit funds into an escrow account. On April 28, 2016, the LPSC voted to issue the rate credits equally to customers with service as of June 30, 2016, beginning in July 2016. As of March 31, 2017, \$0.7 million of the charitable contributions and \$124.7 million of the rate credits had been remitted from restricted cash.

Fair Value Measurements and Disclosures

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

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

Risk Management

Market risk inherent in Cleco’s market risk-sensitive instruments and positions includes potential changes in value arising from changes in interest rates and the commodity market prices of power, FTRs, and natural gas in the industry on different energy exchanges. Cleco’s Energy Market Risk Management Policy authorizes the use of various derivative instruments, including exchange traded futures and option contracts, forward purchase and sales contracts, and swap transactions to reduce exposure to fluctuations in the price of power, FTRs, and natural gas. Cleco evaluates derivatives and hedging activities to determine whether the market risk-sensitive instruments and positions are required to be marked-to-market.

Cleco Power may also enter into risk mitigating positions that would not meet the requirements of a normal-purchase, normal-sale transaction in order to attempt to mitigate the volatility in customer fuel costs. These positions would be marked-to-market with the resulting gain or loss recorded on Cleco and Cleco Power’s Condensed Consolidated Balance Sheets as a component of energy risk management assets or liabilities. Such gain or loss would be deferred as a component of deferred fuel assets or liabilities in accordance with regulatory policy. When these positions close, actual gains or losses would be included in the FAC and reflected on customers’ bills as a component of the fuel charge. In June 2015, the LPSC approved a long-term natural gas hedging pilot program that requires Cleco Power to establish a proposal for a program that will be designed to provide gas price stability for a minimum of five years. This proposal is currently scheduled to be submitted to the LPSC by June 30, 2017. There were no open natural gas positions at March 31, 2017, or December 31, 2016.

Cleco Power purchases the majority of its FTRs in annual auctions facilitated by MISO during the second quarter of each year and may also purchase additional FTRs in monthly auctions facilitated by MISO. FTRs are derivative instruments which represent economic hedges of future congestion charges that will be incurred in serving Cleco Power’s customer load. FTRs are not designated as hedging instruments for accounting purposes. Cleco Power initially records FTRs at their estimated fair value and subsequently adjusts the carrying value to their estimated fair value at the end of each accounting period based on the most recent MISO FTR auction prices. Unrealized gains or losses on FTRs held by Cleco Power are included in Accumulated deferred fuel on Cleco Power’s Condensed Consolidated Balance Sheets. Realized gains or losses on settled FTRs are recorded in Fuel used for electric generation on Cleco Power’s Condensed Consolidated Statements of Income. At March 31, 2017, Cleco Power’s Condensed Consolidated Balance Sheets reflected the fair value of open FTR positions of \$5.0 million in Energy risk management assets and \$0.5 million in Energy risk management liabilities, compared to \$7.9 million in Energy risk management assets and \$0.2 million in Energy risk management liabilities at December 31, 2016. For more information on FTRs, see Note 5 — “Fair Value Accounting — Commodity Contracts.”

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

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

Cleco and Cleco Power may enter into contracts to mitigate the volatility in interest rate risk. These contracts include, but are not limited to, interest rate swaps and treasury rate locks. For the successor period for the three months ended March 31, 2017, and for the predecessor period for the three months ended March 31, 2016, Cleco did not enter into any contracts to mitigate the volatility in interest rate risk. For the three months ended March 31, 2017, and 2016, Cleco Power did not enter into any contracts to mitigate the volatility in interest rate risk.

Stock-Based Compensation

Prior to the completion of the Merger, Cleco had two stock-based compensation plans: the ESPP and the LTIP. As a result of the completion of the Merger, the ESPP and the LTIP were terminated.

Pursuant to the terms of the LTIP, certain officers, key employees, and directors of Cleco were eligible to be granted stock options, restricted stock, also known as non-vested stock, common stock equivalents, and stock appreciation rights. During the predecessor period January 1, 2016, through March 31, 2016, Cleco granted no shares of non-vested stock pursuant to the LTIP. As a result of the Merger on April 13, 2016, all unvested shares outstanding under the LTIP that were granted prior to January 1, 2015, vested at target and were paid out in cash to plan participants.

Unvested shares that were granted during 2015 were prorated to the target amount and paid out in cash to plan participants in accordance with the terms of the Merger Agreement.

During the predecessor period January 1, 2016, through March 31, 2016, Cleco reported pretax compensation expense of \$1.0 million on non-vested stock with a related tax benefit of \$0.4 million. In April 2016, Cleco incurred \$2.3 million of merger expense due to the accelerated vesting of the LTIP shares for the predecessor period. For more information about the Merger, see Note 2 — “Business Combinations.”

During the three months ended March 31, 2016, Cleco Power reported pretax compensation expense of \$0.4 million on non-vested stock with a related tax benefit of \$0.1 million.

Note 2 —

Business

Combinations

Regulatory Matters

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

the Merger Commitments also included \$1.2 million of annual refunds to customers representing cost savings due to the Merger. For more information, see Note 10 — “Regulation and Rates.”

Accounting for the Merger Transaction

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

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

Purchase Price Allocation

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

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

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

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

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

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recover these costs from its customers. The beginning balance of fixed depreciable assets was shown net at the date of the Merger, as no accumulated depreciation existed on the date of the Merger.

The excess of the purchase price over the estimated fair value of assets acquired and the liabilities assumed was \$1.49 billion, which was recognized as goodwill by Cleco Holdings at the Merger date. The goodwill represents the potential long-term return of Cleco to its member. Management has assigned goodwill to Cleco's reportable segment, Cleco Power.

A fair value adjustment was recorded on Cleco's Condensed Consolidated Balance Sheet to reflect the valuation of the Cleco trade name. This adjustment is included in Intangible assets on Cleco's Condensed Consolidated Balance Sheet. The valuation of the trade name was estimated by applying the relief-from-royalty method under the income approach. This valuation method is based on the premise that, in lieu of ownership of the asset, a company would be willing to pay a royalty to a third-party for the use of that asset. The owner of the asset is spared this cost, and the value of the asset is estimated by the cost savings. The projected revenue attributed to the trade name was based on projections of the value of Cleco's wholesale contracts. The trade name is being amortized over 20 years. The amortization of the Cleco trade name is included in Depreciation and amortization on Cleco's Condensed Consolidated Statement of Income.

On the date of the Merger, fair value adjustments were recorded on Cleco's Condensed Consolidated Balance Sheet for the difference between the contract price and the market price of long-term wholesale power supply agreements. These adjustments are classified as Intangible assets on Cleco's Condensed Consolidated Balance Sheet. The valuation of the power supply agreements was estimated using the income approach. The income approach is based upon discounted projected future cash flows associated with the underlying contracts. The intangible assets for the power supply agreements are being amortized over the remaining term of each applicable contract. The amortization of the power supply agreements is included in Electric operations on Cleco's Condensed Consolidated Statement of Income. The net increase in deferred tax liabilities on Cleco's Condensed Consolidated Balance Sheet represents the differences between the assigned fair values of assets acquired and their related income tax basis, net of a deferred tax asset representing the net operating loss carryforward that will be utilized in future periods. As the underlying asset assigned fair values are amortized, the related deferred tax liabilities will be included in income tax expense. Goodwill is not deductible for income tax purposes; therefore, no deferred income tax assets or liabilities were recognized for goodwill.

Other fair value adjustments were recorded for long-term debt, postretirement benefit remeasurements and deferred losses, and interest rate derivative settlement gains/losses. These fair value adjustments are subject to rate regulation, but do not earn a return. In these instances, a corresponding regulatory asset was established, as the underlying utility asset or liability amounts are recoverable from or refundable to customers at historical cost through the rate setting process. These regulatory assets established to offset fair value adjustments are amortized in amounts and over time frames consistent with the realization or settlement of the fair value adjustments. In November and December 2016, Cleco Power redeemed \$60.0 million and \$250.0 million in long-term debt, respectively. As a result, the fair value adjustments for the

redeemed long-term debt and the related unamortized debt issuance cost of \$19.8 million on Cleco's Consolidated Balance Sheet were derecognized. The offset was to the respective regulatory assets.

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

Note 3 — Recent Authoritative Guidance

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

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

Upon initial evaluation, key changes in the standard that management is assessing for potential areas of impact include accounting for contract modifications, contracts with pricing provisions that may require it to recognize revenue at prices other than the contract price (e.g., straight-line or estimated future market prices), and the ability to recognize revenue in situations where collectability is in question. Management will

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continue to evaluate the impact of this guidance, including additional clarifying amendments issued following the date of initial issuance. The amended guidance could have a material impact on the results of operations, financial condition, or cash flows of the Registrants.

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

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

In January 2017, FASB amended the accounting guidance to simplify the measurement of a goodwill impairment loss. The amended guidance eliminates step two of the goodwill impairment test, which requires a hypothetical purchase price allocation to measure goodwill impairment. Under the new guidance, a goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The adoption of this guidance is effective for annual reporting periods beginning after December 15, 2019, including interim periods within those years. Early adoption is permitted. Management is evaluating the impact that the adoption of this guidance will have on the results of operations, financial condition, or cash flows of the Registrants.

In March 2017, FASB amended guidance related to defined benefit pension and other postretirement benefit plans. The new amendment requires an entity to present service cost in the same line item as other current employee compensation costs and to present the remaining components of net benefit cost in a separate line item outside of operating items. The amendment also allows only the service cost component of net benefit cost to be eligible for capitalization. The adoption of this guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those years. This amendment should be applied retrospectively for the presentation of the service cost in the income statement while the capitalization of the service cost should be applied

prospectively. Management is currently evaluating the impact of this standard, including coordinating with its industry group as well as its advisors. The adoption of this guidance could have a material impact on the results of operations, financial condition, or cash flows of the Registrants.

Note 4 — Regulatory Assets and Liabilities

Cleco capitalizes or defers certain costs for recovery from customers and recognizes a liability for amounts expected to be returned to customers based on regulatory approval and management's ongoing assessment that it is probable these items will be recovered or refunded through the ratemaking process.

Under the current regulatory environment, Cleco believes these regulatory assets will be fully recoverable; however, if in the future, as a result of regulatory changes or competition, Cleco's ability to recover these regulatory assets would no longer be probable, then to the extent that such regulatory assets were determined not to be recoverable, Cleco

would be required to write-down such assets. In addition, potential deregulation of the industry or possible future changes in the method of rate regulation of Cleco could require discontinuance of the application of the authoritative guidance on regulated operations.

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

(THOUSANDS)	AT MAR. 31, 2017	AT DEC. 31, 2016
Regulatory assets – deferred taxes, net	\$238,378	\$237,449
Mining costs	5,735	6,372
Interest costs	4,770	4,860
AROs	2,252	2,096
Postretirement costs	142,873	145,268
Tree trimming costs	5,874	5,549
Training costs	6,669	6,708
Surcredits, net	5,028	5,876
AMI deferred revenue requirement	4,636	4,772
Production operations and maintenance expenses	12,551	13,999
AFUDC equity gross-up	70,185	70,423
Acadia Unit 1 acquisition costs	2,415	2,442
Financing costs	8,570	8,663
Biomass costs	11	18
MISO integration costs	1,170	1,404
Coughlin transaction costs	991	999
Corporate franchise tax	654	1,308
MATS costs	4,501	4,270
Other	591	710
Total regulatory assets	279,476	285,737
Fuel and purchased power	24,212	20,787
Total regulatory assets, net	\$542,066	\$543,973

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

(THOUSANDS)	AT MAR. 31, 2017	AT DEC. 31, 2016
Total Cleco Power regulatory assets, net ⁽¹⁾	\$542,066	\$543,973
Cleco Holdings' Merger adjustments		
Fair value of long-term debt	153,479	155,776
Postretirement costs	22,866	23,362
Financing costs	8,880	8,966
Debt issuance costs	6,975	7,606
Total Cleco regulatory assets, net	\$734,266	\$739,683

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

Cleco Holdings' Merger Adjustments

As a result of the Merger, Cleco implemented acquisition accounting, which eliminated AOCI at the Cleco consolidated level on the date of the Merger. Cleco will continue to recover expenses related to certain postretirement costs; therefore, Cleco recognized a regulatory asset based on its determination that these costs can continue to be collected from customers. These costs will be amortized to Other operations expense over the average remaining service period of participating employees. Cleco will also continue to recover financing costs associated with the settlement of two treasury rate locks and a forward starting swap contract that were

previously recognized in AOCI. Additionally, as a result of the Merger, a regulatory asset was recorded for debt issuance costs that were eliminated at Cleco and a regulatory asset was recorded for the difference between the carrying value and the fair value of long-term debt. These regulatory assets will be amortized over the terms of the related debt issuances. In November and December 2016, Cleco Power redeemed \$60.0 million and \$250.0 million in long-term debt, respectively. As a result, the fair value adjustments for the redeemed long-term debt and the related unamortized debt issuance cost of \$19.8 million on Cleco's Consolidated Balance Sheets were derecognized. The offset was to the respective regulatory assets.

Note 5 — Fair Value Accounting

The amounts reflected on Cleco and Cleco Power's Condensed Consolidated Balance Sheets at March 31, 2017, and December 31, 2016, for cash equivalents, restricted cash equivalents, accounts receivable, other accounts receivable, and accounts payable approximate fair value because of their short-term nature.

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

Cleco

(THOUSANDS)	AT MAR. 31, 2017		AT DEC. 31, 2016	
	CARRYING VALUE*	FAIR VALUE	CARRYING VALUE*	FAIR VALUE
Long-term debt	\$2,756,889	\$2,766,056	\$2,768,149	\$2,754,518

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

Cleco Power

(THOUSANDS)	AT MAR. 31, 2017		AT DEC. 31, 2016	
	CARRYING VALUE*	FAIR VALUE	CARRYING VALUE*	FAIR VALUE
Long-term debt	\$1,253,410	\$1,418,027	\$1,262,373	\$1,418,693

* The carrying value of long-term debt does not include deferred issuance costs of \$8.8 million at March 31, 2017, and \$9.4 million at December 31, 2016.

Fair Value Measurements and Disclosures

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

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

Cleco

CLECO CONSOLIDATED FAIR VALUE MEASUREMENTS AT REPORTING DATE USING:

(THOUSANDS)	AT MAR. 31, 2017	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)			AT DEC. 31, 2016	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)		
		SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)		SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	
Asset description								
Institutional money market funds	\$56,624	\$	—\$ 56,624	\$ —	\$66,410	\$	—\$ 66,410	\$ —
FTRs	4,957	—	—	4,957	7,884	—	—	7,884
Total assets	\$61,581	\$	—\$ 56,624	\$ 4,957	\$74,294	\$	—\$ 66,410	\$ 7,884
Liability description								
FTRs	539	—	—	539	201	—	—	201
Total liabilities	\$539	\$	—\$ —	\$ 539	\$201	\$	—\$ —	\$ 201

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Cleco Power

CLECO POWER FAIR VALUE MEASUREMENTS AT REPORTING DATE USING:

(THOUSANDS)	AT MAR. 31, 2017				AT DEC. 31, 2016			
	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	ADJ.	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	ADJ.
Asset description								
Institutional money market funds	\$56,598	\$ —	—\$ 56,598	\$ —	\$65,089	\$ —	—\$ 65,089	\$ —
FTRs	4,957	—	—	4,957	7,884	—	—	7,884
Total assets	\$61,555	\$ —	—\$ 56,598	\$ 4,957	\$72,973	\$ —	—\$ 65,089	\$ 7,884
Liability description								
FTRs	539	—	—	539	201	—	—	201
Total liabilities	\$539	\$ —	—\$ —	\$ 539	\$201	\$ —	—\$ —	\$ 201

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

Cleco

(THOUSANDS)	SUCCESSOR		PREDECESSOR	
	FOR THE THREE MONTHS ENDED MAR. 31, 2017	FOR THE THREE MONTHS ENDED MAR. 31, 2016	FOR THE THREE MONTHS ENDED MAR. 31, 2017	FOR THE THREE MONTHS ENDED MAR. 31, 2016
Beginning balance	\$ 7,683	\$ 7,398		
Unrealized gains (losses)*	2,104	(832))	
Purchases	275	46		
Settlements	(5,644)	(4,746))	
Ending balance	\$ 4,418	\$ 1,866		

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

Cleco Power

(THOUSANDS)	FOR THE THREE MONTHS ENDED MAR. 31,	
	2017	2016

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Beginning balance	\$7,683	\$7,398
Unrealized gains (losses)*	2,104	(832)
Purchases	275	46
Settlements	(5,644)	(4,746)
Ending balance	\$4,418	\$1,866

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

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

(THOUSANDS, EXCEPT FORWARD PRICE RANGE)	FAIR VALUE		VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUTS	FORWARD PRICE RANGE	
	ASSETS	LIABILITIES			LOW	HIGH
FTRs at Mar. 31, 2017	\$4,957	\$ 539	RTO auction pricing	FTR price - per MWh	\$(3.25)	\$6.63
FTRs at Dec. 31, 2016	\$7,884	\$ 201	RTO auction pricing	FTR price - per MWh	\$(3.61)	\$6.04

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

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

At March 31, 2017, Cleco and Cleco Power were exposed to concentrations of credit risk through their short-term investments classified as cash equivalents and restricted cash equivalents. The institutional money market funds were reported on Cleco's Condensed Consolidated Balance Sheets in cash and cash equivalents, current restricted cash and cash equivalents, and non-current restricted cash and cash

equivalents of \$19.0 million, \$14.1 million, and \$23.5 million, respectively, at March 31, 2017, and \$20.0 million, \$23.1 million, and \$23.3 million, respectively, at December 31, 2016. At Cleco Power, the institutional money market funds were reported on Cleco Power's Condensed Consolidated Balance Sheets in cash and cash equivalents, current restricted cash and cash equivalents, and non-current restricted cash and cash equivalents of \$19.0 million, \$14.1 million, and \$23.5 million, respectively, at March 31, 2017, and \$18.7 million, \$23.1 million, and \$23.3 million, respectively, at December 31, 2016. If the money market funds failed to perform under the terms of the investments, Cleco and Cleco Power would be exposed to a loss of the invested amounts. Collateral on these types of investments is not required by Cleco or Cleco Power. The Level 2 institutional money market funds asset consists of a single class. In order to capture interest income and minimize risk, cash is invested in money market funds that invest primarily in short-term securities issued by the U.S. Treasury to maintain liquidity and achieve the goal of a net asset value of a dollar. The risks associated with this class are counterparty risk of the fund manager and risk of price volatility associated with the underlying securities of the fund.

Cleco Power's FTRs were priced using MISO's monthly auction prices. Forward seasonal periods are not included in every monthly auction; therefore, the average of the most recent seasonal auction prices are used for monthly valuation.

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FTRs are categorized as Level 3 fair value measurements because the only relevant pricing available comes from MISO auctions, which occur monthly in the Multi-Period Monthly Auction.

During the three months ended March 31, 2017, and the year ended December 31, 2016, Cleco did not experience any transfers between levels within the fair value hierarchy.

Commodity Contracts

The following table presents the fair values of derivative instruments and their respective line items as recorded on Cleco and Cleco Power's Condensed Consolidated Balance Sheets at March 31, 2017, and December 31, 2016:

DERIVATIVES NOT DESIGNATED AS
HEDGING INSTRUMENTS

(THOUSANDS) BALANCE SHEET LINE ITEM	AT MAR. 31, 2017	AT DEC. 31, 2016
Commodity-related contracts		
FTRs		
Current Energy risk management assets	\$4,957	\$7,884
Current Energy risk management liabilities	539	201
Commodity-related contracts, net	\$4,418	\$7,683

The following tables present the effect of derivatives not designated as hedging instruments on Cleco and Cleco Power's Condensed Consolidated Statements of Income for the three months ended March 31, 2017, and 2016:
Cleco

AMOUNT OF GAIN/(LOSS) RECOGNIZED IN INCOME ON
DERIVATIVES

(THOUSANDS) DERIVATIVES LINE ITEM	SUCCESSOR FOR THE THREE MONTHS ENDED MAR. 31, 2017	PREDECESSOR FOR THE THREE MONTHS ENDED MAR. 31, 2016
Commodity contracts		
FTRs ⁽¹⁾ Electric operations	\$ 9,163	\$ 8,520
FTRs ⁽¹⁾ Power purchased for utility customers	(4,665)	(5,723)
Total	\$ 4,498	\$ 2,797

⁽¹⁾ For the period January 1, 2017 - March 31, 2017, unrealized gains associated with FTRs not recognized in income on derivatives of \$2.1 million were reported through Accumulated deferred fuel on the balance sheet. For the period January 1, 2016 - March 31, 2016, unrealized losses associated with FTRs not recognized in income on derivatives of \$0.8 million were reported through Accumulated deferred fuel on the balance sheet.

Cleco Power

AMOUNT OF GAIN/(LOSS) RECOGNIZED IN
INCOME ON DERIVATIVES

FOR THE
THREE
MONTHS

(THOUSANDS)	DERIVATIVES LINE ITEM	ENDED MAR.	
		2017	2016
	Commodity contracts		
FTRs ⁽¹⁾	Electric operations	\$9,163	\$8,520
FTRs ⁽¹⁾	Power purchased for utility customers	(4,665)	(5,723)
Total		\$4,498	\$2,797

⁽¹⁾ For the three months ended March 31, 2017, and 2016, unrealized gains (losses) associated with FTRs not recognized in income on derivatives of \$2.1 million and (\$0.8) million, respectively, were reported through Accumulated deferred fuel on the balance sheet.

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

Cleco Power purchases the majority of its FTRs in annual auctions facilitated by MISO during the second quarter of each year and may also purchase additional FTRs in monthly auctions facilitated by MISO. FTRs are derivative instruments which represent economic hedges of future congestion charges that will be incurred in serving Cleco Power's customer load. FTRs represent rights to congestion credits or charges along a path during a given time frame for a certain MW quantity. FTRs are not designated as hedging instruments for accounting purposes. The total volume of FTRs that Cleco Power had outstanding at March 31, 2017, and December 31, 2016, was 3.6 million MWh and 9.0 million MWh, respectively.

Note 6 — Debt

On May 17, 2016, Cleco Holdings completed the private sale of \$535.0 million aggregate principal amount of its 3.743% senior notes due May 1, 2026, and \$350.0 million aggregate principal amount of its 4.973% senior notes due May 1, 2046. Cleco Holdings used the proceeds from the issuance and sale of these notes to repay a portion of the \$1.35 billion Acquisition Loan Facility entered into in connection with the completion of the Merger. On April 28, 2017, Cleco Holdings completed an exchange offer for all of its then outstanding 3.743% senior notes due May 1, 2026, and 4.973% senior notes due May 1, 2046, which were not registered under the Securities Act of 1933, as amended, for an equal principal amount of newly issued 3.743% senior notes due May 1, 2026, and 4.973% senior notes due May 1, 2046, that were so registered. Cleco Holdings did not receive any proceeds from the exchange offer. On March 1, 2017, Cleco completed the repayment of the first of two tranches of its Cleco Katrina/Rita storm recovery bonds issued in March 2008. The total principal amount for both tranches was \$180.6 million. The first tranche had an initial principal amount of \$113.0 million at an interest rate of 4.41%, and a final maturity date of March 1, 2020. As part of the early redemption on March 1, 2017, Cleco paid \$1.1 million in principal and less than \$0.1 million in accrued interest.

Note 7 — Pension Plan and Employee Benefits

Pension Plan and Other Benefits Plan

Employees hired before August 1, 2007, are covered by a non-contributory, defined benefit pension plan. Benefits under the plan reflect an employee's years of service, age at retirement, and highest total average compensation for any consecutive five calendar years during the last ten years of employment with Cleco. Cleco's policy is to base its contributions to the employee pension plan upon actuarial computations utilizing the projected unit credit method, subject to the IRS's full funding limitation. Cleco did not make any required or discretionary contributions to the pension plan in 2016 and does not expect to make any in 2017. The required contributions are driven by liability funding target percentages set by law which could cause the required contributions to be uneven among the years. The ultimate amount and timing of the contributions may be affected by changes in the discount rate, changes in the funding regulations, and actual returns on fund assets. Cleco Power is considered the plan sponsor and Support Group is considered the plan administrator.

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

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other benefits during the periods in which the benefits are earned.

The components of net periodic pension and other benefit cost for the three months ended March 31, 2017, and 2016 are as follows:

(THOUSANDS)	PENSION BENEFITS SUCCESSOR		OTHER BENEFITS PREDECESSOR	
	FOR THE THREE MONTHS ENDED MAR. 31, 2017	FOR THE THREE MONTHS ENDED MAR. 31, 2016	FOR THE THREE MONTHS ENDED MAR. 31, 2017	FOR THE THREE MONTHS ENDED MAR. 31, 2016
Components of periodic benefit costs				
Service cost	\$2,225	\$ 2,262	\$ 385	\$ 380
Interest cost	5,358	5,507	403	420
Expected return on plan assets	(6,138)	(6,010)	—	—
Amortizations				
Prior period service (credit) cost	(18)	(18)	—	30
Net loss (gain)	2,413	2,469	(3)	160
Net periodic benefit cost	\$3,840	\$ 4,210	\$ 785	\$ 990

Because Cleco Power is the pension plan sponsor and the related trust holds the assets, the net unfunded status of the pension plan is reflected at Cleco Power. The liability of Cleco's other subsidiaries is transferred with a like amount of assets to Cleco Power monthly. The expense of the pension plan related to Cleco's other subsidiaries for the successor period January 1, 2017, through March 31, 2017, was \$0.4 million. The amount for the predecessor period for the three months ended March 31, 2016, was \$0.4 million.

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

Cleco

(THOUSANDS)	AT MAR. 31, 2017	AT DEC. 31, 2016
Current	\$3,854	\$3,854
Non-current	\$39,934	\$40,196

(THOUSANDS)	AT MAR. 31, 2017	AT DEC. 31, 2016
Current	\$3,345	\$3,345
Non-current	\$34,668	\$34,892

SERP

Certain Cleco officers are covered by SERP. SERP is a non-qualified, non-contributory, defined benefit pension plan. Generally, benefits under the plan reflect an employee's years of service, age at retirement and the sum of (a) the highest base salary paid out over the last five calendar years and (b) the average of the three highest cash bonuses paid during the 60 months prior to retirement. SERP benefits are reduced by retirement benefits received from any other defined benefit pension plan, supplemental executive retirement plan, or Cleco contributions under the enhanced 401(k) Plan to the extent such contributions exceed the limits of the 401(k) Plan. Two executive officers' SERP benefits will be capped as of December 31, 2017, with regard to final compensation;

however, adjustments will continue with regard to age and tenure with Cleco. Additionally, these executive officers had their annual bonuses set at target rather than actual awards for the year 2016 and will have their annual bonuses set at target rather than actual awards for the year 2017 for the average incentive award portion of their SERP benefit calculation. A third executive officer's SERP calculation will use a fixed salary amount for 2017 and will exclude any compensation exceeding this amount. In 2014, SERP was closed to new participants; however, with regard to current SERP participants, including former employees or their beneficiaries, all terms of SERP will continue, other than as described above. In accordance with the SERP plan document and the Merger Agreement, four executive officers received enhanced benefits, and upon termination of employment, two of these executive officers received accelerated vesting. Another executive officer received enhanced SERP benefits, net of other postretirement benefits, as part of a separation agreement. Management will review current market trends as it evaluates Cleco's future compensation strategy. Cleco does not fund the SERP liability, but instead pays for current benefits out of the general funds available. Cleco Power has formed a rabbi trust designated as the beneficiary for life insurance policies issued on SERP participants. Market conditions could have a significant impact on the cash surrender value of the life insurance policies. Proceeds from the life insurance policies are expected to be used to pay the SERP participants' death benefits, as well as future SERP payments. However, because SERP is a non-qualified plan, the assets of the trust could be used to satisfy general creditors of Cleco Power in the event of insolvency. All SERP benefits are paid out of the general cash available of the respective companies that employed the officer. Cleco Power is considered the plan sponsor and Support Group is considered the plan administrator.

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The components of net periodic benefit cost related to SERP for the three months ended March 31, 2017, and 2016 are as follows:

(THOUSANDS)	SUCCESSOR PREDECESSOR	
	FOR THE THREE MONTHS ENDED MAR. 31, 2017	FOR THE THREE MONTHS ENDED MAR. 31, 2016
Components of periodic benefit costs		
Service cost	\$ 145	\$ 583
Interest cost	800	731
Amortizations		
Prior period service (credit) cost	(57	) 13
Net loss	419	655
Net periodic benefit cost	1,307	1,982
Special/contractual termination benefits	315	—
Total benefit cost	\$ 1,622	\$ 1,982

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

The total expense related to SERP reflected on Cleco Power's Condensed Consolidated Statements of Income was \$0.3 million for the three months ended March 31, 2017, compared to \$0.4 million for the same period in 2016.

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

Cleco

(THOUSANDS)	AT	AT
	MAR. 31, 2017	DEC. 31, 2016
Current	\$4,308	\$4,308
Non-current	\$77,329	\$73,738

Cleco Power

(THOUSANDS)	AT	AT
	MAR. 31, 2017	DEC. 31, 2016
Current	\$885	\$885
Non-current	\$16,075	\$15,145

401(k) Plan

Cleco's 401(k) Plan is intended to provide active, eligible employees with voluntary, long-term savings and investment opportunities. The 401(k) Plan is a defined contribution plan and is subject to the applicable provisions of the Employee Retirement Income Security Act of 1974. In accordance with the 401(k) Plan, employer contributions can be made in the form of cash. Cash contributions are invested in proportion to the participant's voluntary contribution

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investment choices. Prior to the close of the Merger on April 13, 2016, employer contributions could also be in the form of Cleco Corporation common stock. Participation in the 401(k) Plan is voluntary, and all active Cleco employees are eligible to participate. Cleco's 401(k) Plan expense for the three months ended March 31, 2017, and 2016 is as follows:

	SUCCESSOR FOR THE THREE MONTHS ENDED MAR. 31, 2017	PREDECESSOR FOR THE THREE MONTHS ENDED MAR. 31, 2016
(THOUSANDS)		
401(k) Plan expense	\$ 1,668	\$ 1,374

Cleco Power is the plan sponsor for the 401(k) Plan. The expense of the 401(k) Plan related to Cleco's other subsidiaries for the three months ended March 31, 2017, and 2016 is as follows:

	SUCCESSOR FOR THE THREE MONTHS ENDED MAR. 31, 2017	PREDECESSOR FOR THE THREE MONTHS ENDED MAR. 31, 2016
(THOUSANDS)		
401(k) Plan expense	\$ 279	\$ 282

Note 8 — Income Taxes

Effective Tax Rates

The following tables summarize the effective income tax rates for Cleco and Cleco Power for the three months ended March 31, 2017, and 2016:

Cleco

	SUCCESSOR FOR THE THREE MONTHS ENDED MAR. 31, 2017	PREDECESSOR FOR THE THREE MONTHS ENDED MAR. 31, 2016
Effective tax rate	33.1	% 38.5 %

Cleco Power

	FOR THE THREE MONTHS ENDED MAR. 31, 2017	2016
Effective tax rate	35.6 %	37.6 %

For the successor period, the effective income tax rate for Cleco was different than the federal statutory rate primarily due to permanent tax differences, the flowthrough of state tax benefits, including AFUDC equity, benefits delivered from Cleco's investment in the NMTC Fund, and state tax expense.

For the predecessor period, the effective income tax rate for Cleco was different than the federal statutory rate primarily due to a significant portion of the merger costs not being deductible, the flowthrough of state tax benefits, including AFUDC equity, benefits delivered from Cleco's investment in the NMTC Fund, and state tax expense.

For the three months ended March 31, 2017, and 2016, the effective income tax rate for Cleco Power was different than the federal statutory rate primarily due to the flowthrough of state tax benefits, including AFUDC equity, and state tax expense.

Valuation Allowance

Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. As of March 31, 2017, and December 31, 2016, Cleco had a deferred tax asset resulting from NMTC carryforwards of \$97.5 million. If the NMTC carryforwards are not utilized, they will begin to expire in 2029. Management considers it more likely than not that all deferred tax assets related to NMTC carryforwards will be realized; therefore, no valuation allowance has been recorded.

Net Operating Losses

As of March 31, 2017, Cleco has a federal net operating loss carryforward of \$82.1 million and a state net operating loss carryforward of \$193.1 million. The federal and state net operating loss carryforwards will begin to expire in 2031. Cleco considers it more likely than not that these income tax losses

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will be utilized to reduce future income tax payments and Cleco expects to utilize the entire net operating loss carryforward within the statutory deadlines.

Uncertain Tax Positions

Cleco classifies all interest related to uncertain tax positions as a component of interest payable and interest expense. At March 31, 2017, and December 31, 2016, Cleco and Cleco Power had no interest payable related to uncertain tax positions. For the three months ended March 31, 2017, and 2016, Cleco and Cleco Power had no interest expense related to uncertain tax positions.

At March 31, 2017, Cleco had no liability for uncertain tax positions. Cleco estimates that it is reasonably possible that the balance of unrecognized tax benefits as of March 31, 2017, for Cleco and Cleco Power would be unchanged in the next 12 months. The settlement of open tax years could involve the payment of additional taxes, and/or the recognition of tax benefits, which may have an effect on Cleco's effective tax rate.

The federal income tax years that remain subject to examination by the IRS are 2013, 2014, and 2015. The IRS has concluded its audit for the years 2010 through 2014.

Beginning with the 2013 tax year, Cleco entered into the IRS's Compliance Assurance Process which allows taxpayers to work collaboratively with an IRS team to identify and resolve potential tax issues before the federal tax return is filed each year. Cleco must apply for admission to the program each year. Cleco has been approved for the Compliance Assurance Process through the 2017 tax year.

The state income tax years that remain subject to examination by the Louisiana Department of Revenue are 2014 and 2015.

Cleco classifies income tax penalties as a component of other expense. For the three months ended March 31, 2017, and 2016, no penalties were recognized.

Note 9 — Disclosures about Segments

Cleco's reportable segment is based on its method of internal reporting, which disaggregates business units by its first-tier subsidiary.

Cleco Power, the reportable segment, engages in business activities from which it earns revenue and incurs expenses. Segment managers report periodically to Cleco's CEO with discrete financial information and, at least quarterly, present discrete financial information to Cleco and Cleco Power's Boards of Managers. The reportable segment prepares budgets that are presented to and approved by Cleco and Cleco Power's Boards of Managers. The column shown as Other in the chart below includes the holding company, a shared services subsidiary, two transmission interconnection facility subsidiaries, and an investment subsidiary.

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

SEGMENT INFORMATION FOR THE THREE MONTHS ENDED MAR. 31,

2017 (THOUSANDS)	SUCCESSOR			CONSOLIDATED
	CLECO POWER	OTHER	ELIMINATIONS	
Revenue				
Electric operations	\$237,553	\$(3,497)	\$ —	\$ 234,056
Other operations	16,365	515	—	16,880
Electric customer credits	(435)	—	—	(435)
Affiliate revenue	219	14,734	(14,953)	—

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Operating revenue, net	\$253,702	\$11,752	\$ (14,953) \$ 250,501
Depreciation and amortization	\$38,758	\$2,093	\$ —	\$ 40,851
Merger transaction and commitment costs	\$—	\$99	\$ —	\$ 99
Interest charges	\$18,104	\$13,681	\$ (67	) \$ 31,718
Interest income	\$266	\$113	\$ (67	) \$ 312
Federal and state income tax expense (benefit)	\$9,855	\$(6,748	) \$ —	\$ 3,107
Net income (loss)	\$17,854	\$(11,562	) \$ —	\$ 6,292
Additions to property, plant, and equipment	\$46,744	\$1,146	\$ —	\$ 47,890
Equity investment in investees	\$18,672	\$—	\$ —	\$ 18,672
Goodwill	\$1,490,797	\$—	\$ —	\$ 1,490,797
Total segment assets	\$5,748,503	\$621,406	\$ (33,928) \$ 6,335,981

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2016 (THOUSANDS)	PREDECESSOR			CONSOLIDATED
	CLECO POWER	OTHER	ELIMINATIONS	
Revenue				
Electric operations	\$250,157	\$—	\$ —	\$ 250,157
Other operations	16,614	518	—	17,132
Electric customer credits	(321	) —	—	(321)
Affiliate revenue	232	13,024	(13,256) —
Operating revenue, net	\$266,682	\$13,542	\$ (13,256	) \$ 266,968
Depreciation and amortization	\$38,603	\$335	\$ —	\$ 38,938
Merger transaction costs	\$—	\$1,539	\$ (17	) \$ 1,522
Interest charges	\$19,285	\$278	\$ (10	) \$ 19,553
Interest income	\$179	\$55	\$ (10	) \$ 224
Federal and state income tax expense (benefit)	\$12,563	\$(426	) \$ —	\$ 12,137
Net income (loss)	\$20,879	\$(1,511	) \$ —	\$ 19,368
Additions to property, plant, and equipment	\$35,453	\$23	\$ —	\$ 35,476
Equity investment in investees ⁽¹⁾	\$18,672	\$—	\$ —	\$ 18,672
Goodwill ⁽¹⁾	\$1,490,797	\$—	\$ —	\$ 1,490,797
Total segment assets ⁽¹⁾	\$5,758,245	\$614,959	\$ (30,060	) \$ 6,343,144

⁽¹⁾ Balances as of December 31, 2016 (Successor)

Note 10 — Regulation and Rates

Transmission ROE

Two complaints were filed with FERC seeking to reduce the ROE component of the transmission rates that MISO transmission owners, including Cleco, may collect under the MISO tariff. The first complaint, filed in November 2013, is for the period November 2013 through February 2015. On September 29, 2016, FERC issued a Final Order in response to the first complaint establishing a 10.32% ROE.

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

On February 13, 2017, \$1.2 million of refunds relating to the first complaint were submitted to MISO. As of March 31, 2017, Cleco Power had \$1.9 million accrued for ROE reductions, including accrued interest.

For more information on the ROE complaints, see Note 12 — “Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Litigation — Transmission ROE.”

FRP

Cleco Power’s annual retail earnings are subject to an FRP that was approved by the LPSC in June 2014. Under the terms of the FRP, Cleco Power is allowed to earn a target ROE of 10.0%, while providing the opportunity to earn up to 10.9%. Additionally, 60.0% of retail earnings between 10.9% and 11.75% and all retail earnings over 11.75% are required to be refunded to customers. The amount of credits due to customers, if any, is determined by Cleco Power and the LPSC annually. Credits are typically included on customers’ bills the following summer, but the amount and timing of the refunds is ultimately subject to LPSC approval. Cleco Power must file annual monitoring reports no later than October 31 for the 12-month period ended June 30. Cleco Power was scheduled to file an application with the LPSC for a new FRP by June 30, 2017. However, as part of the merger approval process Cleco Power agreed not to

file an application for a new FRP or

request an increase in base rates until June 30, 2019, with anticipated new rates being effective July 1, 2020.

On October 31, 2016, Cleco Power filed its monitoring report for the 12-month period ended June 30, 2016, which indicated that no refund was due as a result of the FRP, and \$0.3 million was due as a result of the cost of service savings from the Merger Commitments. On May 1, 2017, the LPSC filed the report of its review of the 2016 FRP monitoring report which confirmed no earnings-related refunds. The report is expected to be approved in June 2017. For more information on Merger Commitments, see “— Merger Commitments.”

Merger Commitments

On March 28, 2016, the LPSC approved the Merger. The LPSC’s written order approving the Merger was issued on April 7, 2016. Approval of the Merger was conditioned upon certain commitments, including \$136.0 million of customer rate credits. On April 28, 2016, the LPSC voted to issue credits equally to eligible customers with service as of June 30, 2016, beginning in July 2016. As of March 31, 2017, Cleco Power had issued \$125.0 million of customer rate credits. Also included in the Merger Commitments were \$2.5 million of contributions for economic development for Louisiana state and local organizations to be disbursed over five years, an additional \$7.0 million one-time contribution for economic development in Cleco Power’s service territory to be administered by the LED or another state agency, and \$6.0 million of charitable contributions to be disbursed over five years. In December 2016, the \$7.0 million one-time contribution was paid to the LED.

In addition, the Merger Commitments included \$1.2 million of annual estimated cost of service savings expected as a result of the Merger. The cost savings are not subject to the target ROE or any sharing mechanism in the current FRP and will continue until Cleco Power files for a new FRP in 2019. The cost savings will be refunded to customers annually beginning in September 2017. As of March 31, 2017, Cleco Power had \$1.2 million accrued for the cost savings refund. A report on the status of the Merger Commitments must be filed annually by October 31 for the 12-month period ended June 30. On October 31, 2016, Cleco Power filed the annual Merger Commitment status report for the period ended June 30, 2016.

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Other

On April 8, 2016, the LPSC issued Docket No. R-34026 to investigate double leveraging issues for all LPSC-jurisdictional utilities whereby double leveraging is utilized to fund a utility's capital structure, and to consider whether any costs associated with such double leveraging should be included in the rates paid by the utility's retail customers. Cleco Power filed a motion to intervene in this proceeding along with other Louisiana utilities. On April 8, 2016, the LPSC also issued Docket No. R-34029 to investigate tax structure issues for all LPSC-jurisdictional utilities to consider whether only the state and federal taxes included in a utility's retail rate will be those that do not exceed the utility's share of the actual taxes paid to those federal and state taxing authorities. Cleco Power filed a motion to intervene in this proceeding along with other Louisiana utilities. On October 4, 2016, Cleco received the first set of data requests from the LPSC Staff for each of the above mentioned dockets. Cleco has filed responses to the non-confidential requests and is waiting on the completion of a confidentiality agreement to respond to the confidential requests. Cleco anticipates the completion of this agreement in the second half of 2017.

Note 11 — Variable Interest Entities

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

Oxbow is owned 50% by Cleco Power and 50% by SWEPCO. Cleco Power is not the primary beneficiary because it shares the power to control Oxbow's significant activities with SWEPCO. Cleco Power's current assessment of its maximum exposure to loss related to Oxbow at March 31, 2017, consisted of its equity investment of \$18.7 million. During the first quarter of 2017, the transition from the Dolet Hills mine to the Oxbow mine commenced. This transition is expected to be completed in the third quarter of 2017.

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

	AT MAR. 31, 2017	AT DEC. 31, 2016
INCEPTION TO DATE (THOUSANDS)		
Purchase price	\$12,873	\$12,873
Cash contributions	6,399	6,399
Dividend received	(600)	(600)
Total equity investment in investee	\$18,672	\$18,672

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

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

The following table contains summarized financial information for Oxbow:

FOR THE
THREE

	MONTHS ENDED MAR. 31,	
(THOUSANDS)	2017	2016
Operating revenue	\$1,073	\$2,101
Operating expenses	1,073	2,101
Income before taxes	\$—	\$—

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

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

Note 12 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees

Litigation

Devil's Swamp

In October 2007, Cleco received a Special Notice for Remedial Investigation and Feasibility Study (RI/FS) from the EPA pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (also known as the Superfund statute) for a facility known as the Devil's Swamp Lake site located just northwest of Baton Rouge, Louisiana. The special notice requested that Cleco and Cleco Power, along with many other listed potentially responsible parties (PRP), enter into negotiations with the EPA for the performance of an RI/FS at the Devil's Swamp Lake site. The EPA identified Cleco as one of many companies that sent polychlorinated biphenyl (PCB) wastes for disposal to the site. The EPA proposed to add the Devil's Swamp Lake site to the National Priorities List on March 8, 2004, based on the release of PCBs to fisheries and wetlands located on the site, but no final listing decision has yet been made. The PRPs began discussing a potential proposal to the EPA in February 2008. The EPA issued a Unilateral Administrative Order to two PRPs, Clean Harbors, Inc. and Baton Rouge Disposal, to conduct an RI/FS in December 2009. The Tier 1 part of the study was completed in June 2012. Field activities for the Tier 2 investigation were completed in July 2012. The draft Tier 2 remedial investigation report was submitted in December 2014. In 2015, remedial investigation activities included the collection and analysis of sediment, crawfish, and fish tissue samples. After reviewing the sample analysis, in August 2015, the Louisiana Department of Health and Hospitals updated the advisory for the area to advise that fish and crawfish from the area should not be eaten. The final Tier 2 remedial investigation report was made public in December 2015. Currently, the study/remedy selection task continues, and there is no record of a decision. Therefore, management is unable to determine how significant Cleco's share of the costs associated with the RI/FS and possible response action at the site, if any, and whether this will have a material impact on the results of operations, financial condition, or cash flows of the Registrants.

Merger

In connection with the Merger, four actions were filed in the Ninth Judicial District Court for Rapides Parish, Louisiana and three actions were filed in the Civil District Court for Orleans

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

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

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

On November 14, 2014, the plaintiff in the Braunstein action moved for a dismissal of the action without prejudice, and that motion was granted on November 19, 2014. On December 3, 2014, the Court consolidated the remaining three actions and appointed interim co-lead counsel. On December 18, 2014, the plaintiffs in the consolidated action filed a Consolidated Amended Verified Derivative and Class Action Petition for Damages and Preliminary and Permanent Injunction (the Consolidated Amended Petition). The consolidated action named Cleco Corporation, its directors, Cleco Partners, and Merger Sub as defendants. The Consolidated Amended Petition alleged, among other things, that Cleco Corporation's directors breached their fiduciary duties to Cleco's shareholders and grossly mismanaged Cleco by approving the Merger Agreement because it allegedly did not value Cleco adequately, failing to structure a process through which shareholder value would be maximized, engaging in self-dealing by ignoring conflicts of interest, and failing to disclose material information about the Merger. The Consolidated Amended Petition further alleged that all defendants conspired to commit the breaches of fiduciary duty. Cleco believes that the allegations of the Consolidated Amended Petition are without merit and that it has substantial meritorious defenses to the claims set forth in the Consolidated Amended Petition.

The three actions filed in the Civil District Court for Orleans Parish are captioned as follows:

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

Both the Butler and Cashen actions name Cleco Corporation, its directors, Cleco Partners, Merger Sub, MIRA, bcIMC, and John Hancock Financial as defendants. The Creative Life Services action names Cleco Corporation, its

directors, Cleco Partners, Merger Sub, MIRA, and Macquarie Infrastructure Partners III, L.P., as defendants. On December 11, 2014, the plaintiff in the Butler action filed an Amended Class Action Petition for Damages. Each petition alleged, among other things, that the members of Cleco Corporation's Board of Directors breached their fiduciary duties to Cleco's shareholders by approving the Merger Agreement because it allegedly does not value Cleco adequately, failing to structure a process through which shareholder value would be maximized and engaging in self-dealing by ignoring conflicts of interest. The Butler and Creative Life Services petitions also allege that the directors breached their fiduciary duties by failing to disclose material information about the Merger. Each petition further alleged that Cleco, Cleco Partners, Merger Sub, and certain of the investors in Cleco Partners aided and abetted the directors' breaches of fiduciary duty. On December 23, 2014, the directors and Cleco filed declinatory exceptions in each action on the basis that each action was improperly brought in Orleans Parish and should either be transferred to the Ninth Judicial District Court for Rapides Parish or dismissed. On December 30, 2014, the plaintiffs in each

action jointly filed a motion to consolidate the three actions pending in Orleans Parish and to appoint interim co-lead plaintiffs and co-lead counsel. On January 23, 2015, the Court in the Creative Life Services case sustained the defendants' declinatory exceptions and dismissed the case so that it could be transferred to the Ninth Judicial District Court for Rapides Parish. On February 5, 2015, the plaintiffs in Butler and Cashen also consented to the dismissal of their cases from Orleans Parish so they could be transferred to the Ninth Judicial District Court for Rapides Parish. On February 25, 2015, the Ninth Judicial District Court for Rapides Parish held a hearing on a motion for preliminary injunction filed by plaintiffs Moore, L'Herisson, and Trahan seeking to enjoin the shareholder vote at the Special Meeting of Shareholders held on February 26, 2015, for approval of the Merger Agreement. Following the hearing, the Court denied the plaintiffs' motion. On June 19, 2015, three of the plaintiffs filed their Second Consolidated Amended Verified Derivative and Class Action Petition. This will be considered according to a schedule established by the Ninth Judicial District Court for Rapides Parish. Cleco filed exceptions seeking dismissal of the amended petition on July 24, 2015. Cleco believes that the allegations of the petitions in each action are without merit and that it has substantial meritorious defenses to the claims set forth in each of the petitions.

On March 21, 2016, the plaintiffs filed their Third Consolidated Amended Verified Derivative Petition for Damages and Preliminary and Permanent Injunction. On May 13, 2016, the plaintiffs filed their Fourth Verified Consolidated Amended Class Action Petition. This petition eliminated the request for preliminary and permanent injunction and also named an additional executive officer as a defendant. Cleco filed exceptions seeking dismissal of the amended Petition. A hearing was held on September 15, 2016. On September 26, 2016, the District Court granted the exceptions filed by Cleco and dismissed all claims asserted by the former shareholders. The plaintiffs appealed the District Court's ruling to the Louisiana Third Circuit Court of Appeal on November 9, 2016. The Third Circuit Court of Appeal issued a schedule requiring plaintiffs to file their brief on April 18, 2017, with Cleco's brief due on May 4, 2017. The plaintiffs have requested an extension of the briefing schedule. Cleco anticipates the plaintiffs' brief will be due on May 18, 2017, with Cleco's brief

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being due on June 7, 2017, pending any requests for extension.

Gulf Coast Spinning

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

Cleco filed an Exception of No Cause of Action arguing that the case should be dismissed. The District Court denied Cleco’s exception in December 2015, after considering briefs and arguments. On January 21, 2016, Cleco appealed the District Court’s denial of its exception by filing with the Third Circuit Court of Appeal for the State of Louisiana. On June 30, 2016, the Third Circuit Court of Appeal for the State of Louisiana denied the request to have the case dismissed. On July 29, 2016, Cleco filed a writ to the Louisiana Supreme Court seeking a review of the District Court’s denial of Cleco’s exception. On November 15, 2016, the Louisiana Supreme Court denied Cleco’s writ application. In February 2016, the parties agreed to a stay of all proceedings pending discussions concerning settlement. On May 16, 2016, the District Court lifted the stay at the request of Gulf Coast. Cleco believes the allegations of the petition are contradicted by the written documents executed by Gulf Coast, are otherwise without merit, and that it has substantial meritorious defenses to the claims alleged by Gulf Coast.

Sabine River Flood

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

The suit has been removed to federal court in Texas. Unless and until the federal court remands the case, it will stay in federal court. Management believes that the case, as it relates to Cleco Power, has no merit.

LPSC Audits

Fuel Audit

Generally, the cost of fuel used for electric generation and the cost of power purchased for utility customers are recovered through the LPSC-established FAC that enables Cleco Power to pass on to its customers substantially all such charges. Recovery of FAC costs is subject to periodic fuel audits by the LPSC. The LPSC FAC General Order issued in November 1997, in Docket No. U-21497 provides that an audit of FAC filings will be performed at least every other year. On February 3, 2016, the LPSC initiated an audit of Cleco Power’s fuel and purchased power expenses for the period January 2014 through December 2015. The total amount of fuel expense included in the audit was \$582.6 million. On January 19, 2017, the LPSC Staff issued its audit report which recommended no disallowance of fuel costs. The report was approved by the LPSC on April 19, 2017. Cleco Power has FAC filings for January 2016 and thereafter that remain subject to audit. Management is unable to predict or give a reasonable estimate of the

possible range of the disallowance, if any, related to these filings.

Environmental Audit

In July 2009, the LPSC issued Docket No. U-29380 Subdocket A, which provides for an EAC to recover from customers certain costs of environmental compliance. The costs eligible for recovery are prudently incurred air emissions credits associated with complying with federal, state, and local air emission regulations that apply to the generation of electricity reduced by the sale of such allowances. Also eligible for recovery are variable emission mitigation costs, which are the costs of reagents such as ammonia and limestone that are a part of the fuel mix used to reduce air emissions, among other things. On February 3, 2016, the LPSC initiated an audit of Cleco Power's environmental costs for the period November 2010 through December 2015. The total amount of environmental costs included in this audit was \$81.2 million. On December 1, 2016, the LPSC Staff issued its audit report which recommended a disallowance of environmental costs of less than \$0.1 million. The report was approved by the LPSC on February 17, 2017. Cleco Power has EAC filings for January 2016 and thereafter that remain subject to audit. Management is unable to predict or give a reasonable estimate of the possible range of the disallowance, if any, related to these filings.

Cleco Power began incurring additional environmental compliance expenses in the second quarter of 2015 for reagents associated with compliance with MATS. In June 2015, the U.S. Supreme Court remanded the MATS rule to the D.C. Circuit Court of Appeals. In December 2015, the D.C. Circuit Court of Appeals remanded the rule to the EPA; however, the D.C. Circuit Court of Appeals did not vacate this rule. On April 15, 2016, the EPA released a final supplemental finding that, even considering costs, it is appropriate and necessary to regulate hazardous air pollutants. By the June 24, 2016, deadline, six petitions were filed with the U.S. Court of Appeals for the D.C. Circuit Court of Appeals for review of the EPA's findings. These expenses are also eligible for recovery through Cleco Power's EAC and are subject to periodic review by the LPSC.

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Transmission ROE

Two complaints were filed with FERC seeking to reduce the ROE component of the transmission rates that MISO transmission owners, including Cleco, may collect under the MISO tariff. The complaints sought to reduce the 12.38% ROE used in MISO's transmission rates to a proposed 6.68%. The first complaint, filed in November 2013, is for the period November 2013 through February 2015. On September 29, 2016, FERC issued a Final Order in response to the first complaint establishing a 10.32% ROE.

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

In November 2014, the MISO transmission owners committee, of which Cleco is a member, filed a request with FERC for an incentive to increase the new ROE by 50 basis points for RTO participation as allowed by the MISO tariff. In January 2015, FERC granted the request. The collection of the adder is delayed until the resolution of the ROE complaint proceedings.

On February 13, 2017, \$1.2 million of refunds relating to the first complaint were submitted to MISO. As of March 31, 2017, Cleco Power had \$1.9 million accrued for a reduction to the ROE, including accrued interest. Management believes a reduction in the ROE, as well as any additional refund, will not have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

Other

Cleco is involved in various litigation matters, including regulatory, environmental, and administrative proceedings before various courts, regulatory commissions, arbitrators, and governmental agencies regarding matters arising in the ordinary course of business. The liability Cleco may ultimately incur with respect to any one of these matters in the event of a negative outcome may be in excess of amounts currently accrued. Management regularly analyzes current information and, as of March 31, 2017, believes the probable and reasonably estimable liabilities based on the eventual disposition of these matters is \$4.8 million and has accrued this amount.

Off-Balance Sheet Commitments and Guarantees

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

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

The off-balance sheet commitments are not recognized on Cleco and Cleco Power's Condensed Consolidated Balance Sheets because management has determined that Cleco and Cleco Power's affiliates are able to perform these obligations under their contracts and that it is not probable that payments by Cleco or Cleco Power will be required. Cleco Holdings provided guarantees and indemnities to Entergy Louisiana and Entergy Gulf States as a result of the sale of the Perryville facility in 2005. At March 31, 2017, the remaining indemnifications relate to environmental matters that may have been present prior to closing. These remaining indemnifications have no limitations to time. The maximum amount of the potential payment to Entergy Louisiana and Entergy Gulf States is \$42.4 million. Currently, management does not expect to be required to pay Entergy Louisiana and Entergy Gulf States under these guarantees.

On behalf of Acadia, Cleco Holdings provided guarantees and indemnifications as a result of the sales of Acadia Unit 1 to Cleco Power and Acadia Unit 2 to Entergy Louisiana in 2010 and 2011, respectively. At March 31, 2017, the remaining indemnifications relate to the fundamental organizational structure of Acadia. These remaining indemnifications have no limitations as to time or maximum potential future payments. Currently, management does not expect to be required to pay Cleco Power or Entergy Louisiana under these guarantees.

Cleco Holdings provided indemnifications to Cleco Power as a result of the transfer of Coughlin to Cleco Power in March 2014. Cleco Power also provided indemnifications to Cleco Holdings and Evangeline as a result of the transfer of Coughlin to Cleco Power. The maximum amount of the potential payment to Cleco Power, Cleco Holdings, and Evangeline for their respective indemnifications is \$40.0 million, except for indemnifications relating to the fundamental organizational structure of each respective entity, of which the maximum amount is \$400.0 million. Currently, management does not expect to be required to make any payments under these indemnifications.

As part of the Amended Lignite Mining Agreement, Cleco Power and SWEPCO, joint owners of Dolet Hills Power Station, have agreed to pay the loan and lease principal obligations of the lignite miner, DHLC, when due if DHLC does not have sufficient funds or credit to pay. Any amounts paid on behalf of the miner would be credited by the lignite miner against future invoices for lignite delivered. The maximum projected payment by Cleco Power under this guarantee is estimated to be \$106.5 million; however, the Amended Lignite Mining Agreement does not contain a cap. The projection is based on the forecasted loan and lease obligations to be incurred by DHLC, primarily for purchases of equipment. Cleco Power has the right to dispute the incurrence of loan and lease obligations through the review of the mining plan before the incurrence of such loan and lease obligations. The Amended Lignite Mining Agreement is not expected to terminate pursuant to its terms until 2036 and does not affect the amount the Registrants can borrow under their credit facilities. Currently, management does not expect to be required to pay DHLC under this guarantee. Generally, neither Cleco Holdings nor Cleco Power has recourse that would enable them to recover amounts paid under their guarantee or indemnification obligations. There are no assets held as collateral for third parties that either Cleco Holdings or Cleco Power could obtain and liquidate to recover amounts paid pursuant to the guarantees or indemnification obligations.

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Other Commitments

NMTC Fund

In 2008, Cleco Holdings and US Bancorp Community Development (USBCDC) formed the NMTC Fund. Cleco Holdings has a 99.9% membership interest in the NMTC Fund and USBCDC has a 0.1% interest. The purpose of the NMTC Fund is to invest in projects located in qualified active low-income communities that are underserved by typical debt capital markets. These investments are designed to generate NMTCs and Historical Rehabilitation tax credits. The NMTC Fund was later amended to include renewable energy investments. The majority of the energy investments qualify for grants under Section 1603 of the ARRA. The tax benefits received from the NMTC Fund reduce the federal income tax obligations of Cleco Holdings. In total, Cleco Holdings contributed \$285.5 million of equity contributions to the NMTC Fund and will receive at least \$303.8 million in the form of tax credits, tax losses, capital gains/losses, earnings, and cash over the life of the investment, which ends in 2018. The \$18.3 million difference between equity contributions and total benefits received will be recognized over the life of the NMTC Fund as net tax benefits are delivered.

Due to the right of offset, the investment and associated debt are presented on Cleco's Condensed Consolidated Balance Sheet in the line item Tax credit fund investment, net. At December 31, 2016, the amount of the liability component contained in the net asset was \$0.6 million, and it was paid on March 30, 2017. The amount of tax benefits delivered in excess of capital contributions as of March 31, 2017, was \$18.1 million.

By using the cost method for investments, the gross investment amortization expense will be recognized over a ten-year period, which is projected to end in 2018. The basis of the investment is reduced by the grants received under Section 1603 of the ARRA, which allow certain projects to receive a federal grant in lieu of tax credits, and other cash. Periodic amortization of the investment and the deferred taxes generated by the basis reduction temporary difference are included as components of income tax expense.

Other

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

Risks and Uncertainties

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

Access to capital markets is a significant source of funding for both short- and long-term capital requirements not satisfied by operating cash flows. On April 8, 2016, taking into consideration the anticipated completion of the Merger, S&P and Moody's downgraded Cleco Holdings' credit ratings to BBB- (stable) and Baa3 (stable), respectively. On April 8, 2016, taking into consideration the anticipated completion of the Merger, S&P and Moody's credit ratings were maintained at Cleco Power at BBB+ (stable) and A3 (stable), respectively. On April 7, 2017, Moody's updated its credit ratings by maintaining Cleco Holdings at Baa3 (stable) and Cleco Power at A3 (stable).

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

Cleco Power is a participant in the MISO market. Energy prices in the MISO market are based on Locational Marginal Price (LMP), which includes a component directly related to congestion on the transmission system. Pricing zones with greater transmission congestion may have a higher LMP. Physical transmission constraints present in the MISO market could increase energy costs within Cleco Power's pricing zones. Cleco Power uses FTRs to mitigate transmission congestion risk. Changes to anticipated transmission paths may result in an unexpected increase in energy costs to Cleco Power.

Note 13 — Affiliate Transactions

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

(THOUSANDS)	AT MAR. 31, 2017		AT DEC. 31, 2016	
	ACCOUNTS		ACCOUNTS	
	RECEIVABLE	PAYABLE	RECEIVABLE	PAYABLE
Cleco Holdings	\$1	\$ 176	\$3	\$ 119
Support Group	1,377	9,191	1,402	7,071
Other ⁽¹⁾	—	—	1	—
Total	\$1,378	\$ 9,367	\$1,406	\$ 7,190

⁽¹⁾ Represents Attala and Perryville.

Note 14 —

Accumulated
Other
Comprehensive
Loss

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

Cleco

(THOUSANDS)	FOR THE THREE MONTHS ENDED MAR. 31, 2017		
	NET POSTRETIREMENT BENEFIT ON TOTAL		
	NET LOSS	CASH FLOW HEDGES	AOCI
SUCCESSOR			
Balances, beginning of period	\$ 1,500	\$	—\$ 1,500
Other comprehensive loss before reclassifications			
Postretirement benefit adjustments during the period	(2,065)	—	(2,065)
Amounts reclassified from accumulated other comprehensive loss			
Amortization of postretirement benefit net loss	(126)	—	(126)
Net current-period other comprehensive loss	(2,191)	—	(2,191)
Balances, Mar. 31, 2017	\$ (691)	\$	—\$ (691)

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