CLECO CORP
Form 10-K
February 28, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2007

Or

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

Commission file number 1-15759

CLECO CORPORATION
(Exact name of registrant as specified in its charter)

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, $1.00 par value, and associated rights to purchase Preferred Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Title of each class
4.50% Cumulative Preferred Stock, $100 Par Value

Commission file number 1-05663

CLECO POWER LLC
(Exact name of registrant as specified in its charter)

Louisiana	**72-0244480**

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
6.52% Medium-Term Notes due 2009	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Title of each class
Membership Interests

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

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

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

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

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

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

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

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

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

The aggregate market value of the Cleco Corporation voting stock held by non-affiliates was $1,436,173,169 as of the last business day of Cleco Corporation’s most recently completed second fiscal quarter, based on a price of $24.50 per common share, the closing price of Cleco Corporation’s common stock as reported on the New York Stock Exchange on such date. Cleco Corporation’s Cumulative Preferred Stock is not listed on any national securities exchange, nor are prices for the Cumulative Preferred Stock quoted on any national automated quotation system; therefore, its market value is not readily determinable and is not included in the foregoing amount.

CLECO CORPORATION
CLECO POWER 2007 FORM 10-K

(Continuation of cover page)

As of February 1, 2008, there were 60,174,284 outstanding shares of Cleco Corporation's Common Stock, par value $1.00 per share. As of February 1, 2008, all of Cleco Power's Membership Interests were owned by Cleco Corporation.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Cleco Corporation's definitive Proxy Statement relating to its Annual Meeting of Shareholders to be held on April 25, 2008, are incorporated by reference into Part III herein.

This combined Form 10-K is separately filed by Cleco Corporation and Cleco Power. Information in this filing relating to Cleco Power is filed by Cleco Corporation and separately by Cleco Power on its own behalf. Cleco Power makes no representation as to information relating to Cleco Corporation (except as it may relate to Cleco Power) or any other affiliate or subsidiary of Cleco Corporation.

This report should be read in its entirety as it pertains to each respective Registrant. The Notes to the Financial Statements for the Registrants and certain other sections of this report are combined.

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

ABBREVIATION OR ACRONYM	DEFINITION
401(k) Plan	Cleco Power 401(k) Savings and Investment Plan
Acadia	Acadia Power Partners, LLC and its combined-cycle, natural gas-fired power plant near Eunice, Louisiana, 50% owned by APH and 50% owned by Cajun. Prior to September 13, 2007, Acadia was 50% owned by APH and 50% owned by CAH
AFUDC	Allowance for Funds Used During Construction
Amended EPC Contract	Amended and Restated EPC Contract between Cleco Power and Shaw, executed on May 12, 2006, to engineer, design, and construct Rodemacher Unit 3
APB	Accounting Principles Board
APB Opinion No. 10	Consolidated Financial Statements, Poolings of Interest, Convertible Debt and Debt Issued with Stock Warrants Installment Method of Accounting
APB Opinion No. 18	The Equity Method of Accounting for Investments in Common Stock
APB Opinion No. 25	Accounting for Stock Issued to Employees
APH	Acadia Power Holdings LLC, a wholly owned subsidiary of Midstream
ARB	Accounting Research Bulletin
ARB No. 51	Consolidated Financial Statements
ARO	Asset Retirement Obligation
Attala	Attala Transmission LLC, a wholly owned subsidiary of Cleco Corporation. Prior to February 1, 2007, Attala was a wholly owned subsidiary of Midstream
Bear Energy LP	A wholly owned subsidiary of Bear Stearns Companies Inc.
Bear Stearns Companies Inc.	The parent company of Bear, Stearns & Co. Inc.
Bidding Procedures Order	Bidding Procedures Order, in connection with the sale of CAH's interest in Acadia, approved by the Calpine Debtors Bankruptcy Court by order dated May 9, 2007
CAH	Calpine Acadia Holdings, LLC
CAH Assets	CAH's interest in Acadia and certain related assets
Cajun	Cajun Gas Energy L.L.C., an affiliate of pooled investment funds managed by King Street Capital Management, L.L.C.
Calpine	Calpine Corporation
Calpine Debtors	Calpine, CES, and certain other Calpine subsidiaries
Calpine Debtors Bankruptcy Court	U.S. Bankruptcy Court for the Southern District of New York
Calpine Tolling Agreements	Capacity Sale and Tolling Agreements between Acadia and CES which were suspended in March 2006
CCN	Certificate of Public Convenience and Necessity

CES	Calpine Energy Services, L.P.
Claims Settlement Agreement	Claims Settlement Agreement, dated April 23, 2007, by and among Calpine, CAH, CES, Acadia, and APH
CLE Intrastate	CLE Intrastate Pipeline Company LLC, a wholly owned subsidiary of Midstream
Cleco Energy	Cleco Energy LLC, a wholly owned subsidiary of Midstream
Cleco Innovations LLC	A wholly owned subsidiary of Cleco Corporation
Cleco Katrina/Rita	Cleco Katrina/Rita Hurricane Recovery Funding LLC, a wholly owned subsidiary of Cleco Power
CO_2	Carbon dioxide
Compliance Plan	The one-year plan included in the Stipulation and Consent Agreement (Docket No. IN07-28-00), effective June 12, 2007
Consent Agreement	Stipulation and Consent Agreement, dated as of July 25, 2003, between Cleco and the FERC Staff
DHLC	Dolet Hills Lignite Company, LLC, a wholly owned subsidiary of SWEPCO
Diversified Lands	Diversified Lands LLC, a wholly owned subsidiary of Cleco Innovations LLC, a wholly owned subsidiary of Cleco Corporation
EITF	Emerging Issues Task Force of the FASB
EITF No. 06-11	Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards
EITF No. 07-1	Accounting for Collaborative Arrangements Related to the Development and Commercialization of Intellectual Property
EITF No. 07-3	Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities
Entergy	Entergy Corporation
Entergy Gulf States	Entergy Gulf States, Inc.
Entergy Louisiana	Entergy Louisiana, Inc.
Entergy Mississippi	Entergy Mississippi, Inc.
Entergy Services	Entergy Services, Inc., as agent for Entergy Louisiana and Entergy Gulf States
EPA	United States Environmental Protection Agency
EPC	Engineering, Procurement, and Construction

ABBREVIATION OR ACRONYM	DEFINITION
ERO	Electric Reliability Organization
ESOP	Cleco Corporation Employee Stock Ownership Plan
ESPP	Cleco Corporation Employee Stock Purchase Plan
Evangeline	Cleco Evangeline LLC, a wholly owned subsidiary of Midstream, and its combined-cycle, natural gas-fired power plant located in Evangeline Parish, Louisiana
Evangeline Tolling Agreement	Capacity Sale and Tolling Agreement between Evangeline and Bear Energy LP which expires in 2020.
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIN	FASB Interpretation No.
FIN 39	Offsetting of Amounts Related to Certain Contracts – an interpretation of APB Opinion No. 10 and FASB Statement No. 105
FIN 45	Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others
FIN 46R	Consolidation of Variable Interest Entities – an Interpretation of Accounting Research Bulletin No. 51 (revised December 2003)
FIN 47	Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143
FIN 48	Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109
FSP	FASB Staff Position
FSP FIN 48-1	Definition of *Settlement* in FASB Interpretation No. 48
FSP No. FAS 157-1	Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13
FSP No. FAS 157-2	Effective date of FASB Statement No. 157
FSP No. FIN 39-1	Amendment of FASB Interpretation No. 39
FSP SFAS No. 106-2	Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003
GDP-IPD	Gross Domestic Product – Implicit Price Deflator
Generation Services	Cleco Generation Services LLC, a wholly owned subsidiary of Midstream
ICT	Independent Coordinator of Transmission
Interconnection Agreement	One of two Interconnection Agreement and Real Estate Agreements, one between Attala and Entergy Mississippi, and the other between Perryville and Entergy Louisiana
IRP	Integrated Resource Planning
IRS	Internal Revenue Service
kWh	Kilowatt-hour(s) as applicable
LDEQ	Louisiana Department of Environmental Quality
LIBOR	London Inter-Bank Offer Rate
Lignite Mining Agreement	Dolet Hills Mine Lignite Mining Agreement, dated as of May 31, 2001
LPSC	Louisiana Public Service Commission
LTICP	Cleco Corporation Long-Term Incentive Compensation Plan
MAEM	Mirant Americas Energy Marketing, LP

MAI	Mirant Americas, Inc., a wholly owned subsidiary of Mirant
Marketing & Trading	Cleco Marketing & Trading LLC, a wholly owned subsidiary of Midstream
Midstream	Cleco Midstream Resources LLC, a wholly owned subsidiary of Cleco Corporation
Mirant	Mirant Corporation
Mirant Debtors	Mirant, MAEM, MAI, and certain other Mirant subsidiaries
Mirant Debtors Bankruptcy Court	U.S. Bankruptcy Court for the Northern District of Texas, Ft. Worth Division
MMBtu	Million British thermal units
Moody's	Moody's Investors Service
MW	Megawatt(s) as applicable
MWh	Megawatt-hour(s) as applicable
NERC	North American Electric Reliability Council
Not meaningful	A percentage comparison of these items is not statistically meaningful because the percentage difference is greater than 1,000%.
NO_x	Nitrogen oxides
PCB	Polychlorinated biphenyls
PEH	Perryville Energy Holdings LLC, a wholly owned subsidiary of Midstream.
Perryville	Perryville Energy Partners, L.L.C., a wholly owned subsidiary of Cleco Corporation. Prior to February 1, 2007, Perryville was a wholly owned subsidiary of Perryville Energy Holdings LLC, a wholly owned subsidiary of Midstream.
Perryville and PEH Bankruptcy Court	U.S. Bankruptcy Court for the Western District of Louisiana, Alexandria Division
Perryville Tolling Agreement	Capacity Sale and Tolling Agreement between Perryville and MAEM
Power Purchase Agreement	Power Purchase Agreement, dated as of January 28, 2004, between Perryville and Entergy Services
PRP	Potentially responsible party
Registrant(s)	Cleco Corporation and Cleco Power
RFP	Request for Proposal
Rodemacher Unit 3	A 600-MW solid fuel generating unit under construction by Cleco Power at its existing Rodemacher plant site in Boyce, Louisiana

ABBREVIATION OR ACRONYM	DEFINITION
RSP	Rate Stabilization Plan
RTO	Regional Transmission Organization
SAB	Staff Accounting Bulletin
SAB No. 110	Certain Assumptions Used In Valuation Methods – Expected Term
Sale Agreement	Purchase and Sale Agreement, dated as of January 28, 2004, between Perryville and Entergy Louisiana
SEC	Securities and Exchange Commission
Senior Loan Agreement	Construction and Term Loan Agreement, dated as of June 7, 2001, between Perryville and KBC Bank N.V., as Agent Bank
SERP	Cleco Corporation Supplemental Executive Retirement Plan
SFAS	Statement of Financial Accounting Standards
SFAS No. 13	Accounting for Leases
SFAS No. 29	Determining Contingent Rentals
SFAS No. 71	Accounting for the Effects of Certain Types of Regulation
SFAS No. 87	Employers' Accounting for Pensions
SFAS No. 94	Consolidation of All Majority Owned Subsidiaries
SFAS No. 95	Statement of Cash Flows
SFAS No. 106	Employers' Accounting for Postretirement Benefits Other Than Pensions
SFAS No. 109	Accounting for Income Taxes
SFAS No. 123	Accounting for Stock-Based Compensation
SFAS No. 123(R)	Share-Based Payment
SFAS No. 131	Disclosures about Segments of an Enterprise and Related Information
SFAS No. 133	Accounting for Derivative Instruments and Hedging Activities
SFAS No. 140	Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities
SFAS No. 141(R)	Business Combinations
SFAS No. 143	Accounting for Asset Retirement Obligations
SFAS No. 149	Amendment of Statement 133 on Derivative Instruments and Hedging Activities
SFAS No. 155	Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140
SFAS No. 156	Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140
SFAS No. 157	Fair Value Measurements
SFAS No. 158	Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)
SFAS No. 159	The Fair Value Option For Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115
SFAS No. 160	Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51
Shaw	Shaw Contractors, Inc., a subsidiary of The Shaw Group Inc.
SO_2	Sulfur dioxide
SPP	Southwest Power Pool
Subordinated Loan Agreement	Subordinated Loan Agreement, dated as of August 23, 2002, between Perryville and MAI
Support Group	Cleco Support Group LLC, a wholly owned subsidiary of Cleco Corporation

SWEPCO	Southwestern Electric Power Company, a wholly owned subsidiary of American Electric Power Company, Inc.
Teche	Teche Electric Cooperative, Inc.
VaR	Value-at-risk
Tenaska	Tenaska Power Services Company
Williams	Williams Power Company, Inc.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes "forward-looking statements" about future events, circumstances, and results. All statements other than statements of historical fact included in this Annual Report are forward-looking statements, including, without limitation, statements regarding the construction, timing and cost of Rodemacher Unit 3; future capital expenditures; and future environmental regulations. Although the Registrants believe that the expectations reflected in such forward-looking statements are reasonable, such forward-looking statements are based on numerous assumptions (some of which may prove to be incorrect) and are subject to risks and uncertainties that could cause the actual results to differ materially from the Registrants' expectations. In addition to any assumptions and other factors referred to specifically in connection with these forward-looking statements, the following list identifies some of the factors that could cause the Registrants' actual results to differ materially from those contemplated in any of the Registrants' forward-looking statements:

§ Factors affecting utility operations, such as unusual weather conditions or other natural phenomena; catastrophic weather-related damage (such as hurricanes and other storms); unscheduled generation outages; unanticipated maintenance or repairs; unanticipated changes to fuel costs, cost of and reliance on natural gas as a component of Cleco's generation fuel mix and their impact on competition and franchises, fuel supply costs or availability constraints due to higher demand, shortages, transportation problems or other developments; environmental incidents; environmental compliance costs; power transmission system constraints; or outcome of Cleco Power's rate case to be filed with the LPSC in 2008;

§ Cleco Corporation's holding company structure and its dependence on the earnings, dividends, or distributions from its subsidiaries to meet its debt obligations and pay dividends on its common stock;

§ Cleco Power's ability to construct, operate, and maintain, within its projected costs (including financing) and timeframe, Rodemacher Unit 3, in addition to any other self-build projects identified in future IRP and RFP processes;

§ Dependence of Cleco Power for energy from sources other than its facilities and the uncertainty of future long-term sources of such additional energy;

§ Nonperformance by and creditworthiness of counterparties under tolling, power purchase, and energy service agreements, or the restructuring of those agreements, including possible termination;

§ Regulatory factors such as changes in rate-setting policies, recovery of investments made under traditional regulation, the frequency and timing of rate increases or decreases, the results of periodic fuel audits, the results of IRP and RFP processes, the formation of RTOs and ICTs, and the compliance with ERO reliability standards for bulk power systems by Cleco Power, Acadia, Attala, Evangeline, and Perryville;

§ Financial or regulatory accounting principles or policies imposed by the FASB, the SEC, the Public Company Accounting Oversight Board, the FERC, the LPSC or similar entities with regulatory or accounting oversight;

§ Economic conditions, including the ability of customers to continue paying for high energy costs, related growth and/or down-sizing of businesses in Cleco's service area, monetary fluctuations, changes in commodity prices, and inflation rates;

§ Credit ratings of Cleco Corporation, Cleco Power, and Evangeline;

- § 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;
- § Acts of terrorism;
- § Availability or cost of capital resulting from changes in Cleco's business or financial condition, interest rates or market perceptions of the electric utility industry and energy-related industries;
- § Employee work force factors, including work stoppages and changes in key executives;
- § Legal, environmental, and regulatory delays and other obstacles associated with acquisitions, investments in joint ventures, or other capital projects;
- § Costs and other effects of legal and administrative proceedings, settlements, investigations, claims and other matters;
- § Changes in federal, state, or local laws, and changes in tax laws or rates, regulating policies or environmental laws and regulations; and
- § Ability of Cleco Power to recover, from its retail customers, the costs of compliance with environmental laws and regulations.

For additional discussion of these factors and other factors that could cause actual results to differ materially from those contemplated in the Registrants' forward-looking statements, please read Item 1A, "Risk Factors" and Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Cleco Power — Significant Factors Affecting Cleco Power" and "— Midstream — Significant Factors Affecting Midstream," in this Annual Report. All subsequent written and oral forward-looking statements attributable to the Registrants or persons acting on their behalf are expressly qualified in their entirety by the factors identified above.
The Registrants undertake no obligation to update any forward-looking statements, whether as a result of changes in actual results, changes in assumptions, or other factors affecting such statements.

PART I

ITEM 1.BUSINESS

GENERAL

Cleco Corporation was incorporated on October 30, 1998, under the laws of the State of Louisiana. Cleco Corporation is a public utility holding company which holds investments in several subsidiaries, including Cleco Power and Midstream, which are its operating business segments. Cleco Corporation, subject to certain limited exceptions, is exempt from regulation as a public utility holding company pursuant to provisions of the Public Utility Holding Company Act of 2005, which became effective in early 2006.

Cleco Power's predecessor was incorporated on January 2, 1935, under the laws of the State of Louisiana. Cleco Power was organized on December 12, 2000. Cleco Power is an electric utility engaged principally in the generation, transmission, distribution and sale of electricity within Louisiana. Cleco Power is regulated by the LPSC and the FERC, among other regulators, which determine the rates Cleco Power can charge its customers. Cleco Power serves approximately 273,000 customers in 106 communities in central and southeastern Louisiana. Cleco Power's operations are described below in the consolidated description of Cleco's business segments.

Midstream, organized effective September 1, 1998, under the laws of the State of Louisiana, is a merchant energy subsidiary that owns and operates a merchant generation station and invests in a joint venture that owns and operates a merchant generation station. Effective February 1, 2007, the ownership interests of Midstream's transmission interconnection facilities were transferred to Cleco Corporation.

At December 31, 2007, Cleco employed 1,216 people. Cleco's mailing address is P.O. Box 5000, Pineville, Louisiana 71361-5000, and its telephone number is (318) 484-7400. Cleco's homepage on the Internet is located at http://www.cleco.com. Cleco Corporation's and Cleco Power's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other filings with the SEC are available, free of charge, through Cleco's website after those reports or filings are filed electronically with or furnished to the SEC. Cleco's filings also can be obtained at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. Cleco's electronically filed reports also can be obtained on the SEC's Internet site located at http://www.sec.gov. Cleco's corporate governance guidelines, code of business conduct, ethics and business standards, and the charters of its board of directors' audit, compensation, executive, finance, nominating/governance and qualified legal compliance committees are available on its website and available in print to any shareholder upon request. Information on Cleco's website or any other website is not incorporated by reference into this Report and does not constitute a part of this Report.

At December 31, 2007, Cleco Power employed 934 people. Cleco Power's mailing address is P.O. Box 5000, Pineville, Louisiana, 71361-5000, and its telephone number is (318) 484-7400.

Cleco Power meets the conditions specified in General Instructions I(1)(a) and (b) to Form 10-K and therefore is permitted to use the reduced disclosure format for wholly owned subsidiaries of reporting companies. Accordingly, Cleco Power has omitted from this Report the information called for by Item 4 (Submission of Matters to a Vote of Security Holders) of Part I of Form 10-K; the following Part II items of Form 10-K: Item 6 (Selected Financial Data) and Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations); and the following Part III items of Form 10-K: Item 10 (Directors, Executive Officers, and Corporate Governance of the Registrants), Item 11 (Executive Compensation), Item 12 (Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters), and Item 13 (Certain Relationships and Related Transactions, and Director Independence).

OPERATIONS

Cleco Power

Segment Financial Information

Financial results of the Cleco Power segment for years 2007, 2006, and 2005 are presented below.

(THOUSANDS)	**2007**	2006	2005
Revenue			
Electric operations	**$ 988,193**	$ 959,393	$ 874,557
Other operations	**35,176**	30,056	38,357
Electric customer credits	**-**	4,693	(992)
Affiliate revenue	**42**	49	49
Intercompany revenue	**2,008**	2,000	2,002
Operating revenue, net	**$ 1,025,419**	$ 996,191	$ 913,973
Depreciation expense	**$ 78,522**	$ 73,360	$ 58,696
Interest charges	**$ 29,565**	$ 36,250	$ 27,593
Interest income	**$ 5,422**	$ 7,425	$ 4,355
Federal and state income taxes	**$ 29,613**	$ 33,059	$ 37,495
Segment profit	**$ 84,673**	$ 64,828	$ 59,081
Additions to long-lived assets	**$ 492,445**	$ 293,050	$ 186,441
Segment assets	**$ 2,310,594**	$ 2,023,852	$ 1,765,934

For additional information on Cleco Power’s results of operations, see Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Cleco Power’s Results of Operations.”

Certain Factors Affecting Cleco Power

As an electric utility, Cleco Power is affected, to varying degrees, by a number of factors influencing the electric utility industry in general. These factors include, among others, fluctuations in the price of natural gas, an increasingly competitive business environment, the cost of compliance with environmental and reliability regulations, and changes in the federal and state regulation of generation, transmission, and the sale of electricity. For a discussion of various regulatory changes and competitive forces affecting Cleco Power and other electric utilities, see "— Regulatory Matters, Industry Developments, and Franchises" and Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Market Restructuring." For a discussion of risk factors affecting Cleco Power's business, see Item 1A, "Risk Factors — Rodemacher Unit 3 Construction Costs," "— Rodemacher Unit 3 Technical Specifications," "— Cleco Power's Rates and Upcoming Rate Case," " Fuel Cost Audits," "— Hedging and Risk Management Activities," "— Future Electricity Sales," "— Purchased Power," "— V Sensitivity," "— Commodity Prices," "— Cleco Power Generation Facilities," "— ERO," "— Environmental Compliance," "– Compliance," "— Termination of the Rodemacher Unit 3 Project or the Amended EPC Contract," "— Retail Electric Service," and "— Cleco Credit Ratings."

Power Generation

Cleco Power operates and either owns or has an ownership interest in three steam electric generating stations and one gas turbine. As of December 31, 2007, Cleco Power's aggregate net electric generating capacity was 1,318 MW. This amount reflects the maximum production capacity these units can sustain over a specified period of time. The following table sets forth certain information with respect to Cleco Power's generating facilities:

GENERATING STATION	GENERATING UNIT #	YEAR OF INITIAL OPERATION	NAME PLATE CAPACITY (MW)	NET CAPACITY (MW)[1]	TYPE OF FUEL USED FOR GENERATION [2]
Franklin Gas Turbine		1973	7	8	natural gas
Teche Power Station	1	1953	23	19	natural gas
	2	1956	48	34	natural gas
	3	1971	359	331	natural gas/oil
Rodemacher Power Station	1	1975	440	435	natural gas/oil
	2	1982	157[3]	155	coal/natural gas
Dolet Hills Power Station		1986	325[4]	336	lignite/natural gas
Total generating capability			1,359	1,318	

[1] Based on capacity testing of the generating units performed between June and September 2007.
[2] When oil is used on a standby basis, capacity may be reduced.
[3] Represents Cleco Power's 30% ownership interest in the capacity of Rodemacher Unit 2, a 523-MW generating unit.
[4] Represents Cleco Power's 50% ownership interest in the capacity of Dolet Hills, a 650-MW generating unit.

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

PERIOD	THOUSAND MWh	PERCENT OF TOTAL ENERGY REQUIREMENTS
2007	**4,504**	**42.0**
2006	4,691	44.0

2005	5,284	51.2
2004	4,820	46.3
2003	5,044	49.6

In May 2006, Cleco Power began construction of Rodemacher Unit 3, a 600-MW solid-fuel power plant at its Rodemacher facility, which will provide a portion of the utility's future power supply needs. Rodemacher Unit 3 will be capable of burning various solid fuels, but primarily is expected to burn petroleum coke produced by several refineries throughout the Gulf Coast region. All environmental permits for the unit have been received. The total capital cost of the project, including AFUDC, Amended EPC Contract costs, and other development expenses, is estimated at $1.0 billion. The construction of the project remains on schedule for commercial operation to begin no later than the fourth quarter of 2009. For additional information on Rodemacher Unit 3, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Liquidity and Capital Resources — Regulatory Matters — Rodemacher Unit 3."

Fuel and Purchased Power

Changes in fuel and purchased power expenses reflect fluctuations in types and pricing of fuel used for electric generation, fuel handling costs, availability of economical power for purchase, and deferral of expenses for recovery from customers through the fuel adjustment clause in subsequent months. For a discussion of certain risks associated with changes in fuel costs and their impact on utility customers, see Item 1A, "Risk Factors — Fuel Cost Audits" and "— Purchased Power."

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

YEAR	LIGNITE COST PER MWh	LIGNITE PERCENT OF GENERATION	COAL COST PER MWh	COAL PERCENT OF GENERATION	NATURAL GAS COST PER MWh	NATURAL GAS PERCENT OF GENERATION	FUEL OIL COST PER MWh	FUEL OIL PERCENT OF GENERATION	WEIGHTED AVERAGE COST PER MWh
2007	**$ 19.80**	**42.2**	**$ 26.07**	**24.8**	**$ 129.80**	**33.0**	**$ -**	**-**	**$ 57.65**
2006	$ 18.20	50.0	$ 22.81	20.8	$ 125.07	29.1	$ 107.65	0.1	$ 50.32
2005	$ 17.44	45.7	$ 19.44	20.6	$ 85.72	27.3	$ 83.08	6.4	$ 40.79
2004	$ 17.19	48.5	$ 17.45	19.8	$ 72.33	30.3	$ 72.13	1.4	$ 34.76
2003	$ 16.72	47.1	$ 16.25	17.3	$ 60.79	34.8	$ 71.78	0.8	$ 32.42

Power Purchases

When the market price of power is more economical than self-generation of power or when Cleco Power needs power to supplement its own electric generation, and when transmission capacity is available, Cleco Power purchases power from energy marketing companies or neighboring utilities. These purchases are made from the wholesale power market in the form of generation capacity and/or energy. During 2007, portions of Cleco Power's capacity and power purchases were made at contract prices, and the remainder were made at prevailing market prices.

The following table sets forth the average cost and amounts of power purchased by Cleco Power on the wholesale market.

PERIOD	COST PER MWh	THOUSAND MWh	PERCENT OF TOTAL ENERGY REQUIREMENTS
2007	**$ 58.08**	**6,221**	**58.0**
2006	$ 59.50	5,968	56.0
2005	$ 69.84	5,028	48.8
2004	$ 42.36	5,592	53.7
2003	$ 37.81	5,134	50.4

During 2007, 58.0% of Cleco Power's energy requirements were met with purchased power, up from 56.0% in 2006. The primary factor causing the increase was the decreased generation of power from Cleco Power's own facilities due to scheduled major maintenance. For information on Cleco Power's ability to pass on to its customers substantially all of its fuel and purchased power expenses, see "— Regulatory Matters, Industry Developments, and Franchises — Rates."

During 2007, Cleco Power obtained approximately 37.3% of its annual capacity from short- and long-term power purchase agreements. One agreement was with Bear Energy LP for 500 MW of annual capacity through 2009. In November 2007, Williams completed the assignment of its interest in this agreement to Bear Energy LP. The terms of the agreement were unchanged. The second agreement was with NRG Power Marketing, Inc. (NRG). The term of this agreement was one year during which Cleco Power purchased 100 MW during the full year and an additional 100 MW during the months of May through October 2007. A third agreement with ConocoPhillips Company was a 50 MW call option for capacity and energy in 2007. The term for this contract was June 2007 through September 2007. Cleco Power has a long-term contract allowing for the purchase of 20 MW of power from the Sabine River Authority, which operates a hydroelectric generating plant. In addition, Cleco Power has a wholesale power contract with the city of Natchitoches for 42 MW of which 37 MW of capacity was provided in 2007. The current contract expires in December 2009.

As a result of its 2007 short-term RFP for 2008 resources, Cleco Power successfully negotiated two separate power purchase agreements that total 333 MW of capacity and energy for 2008 with two selected bidders, Union Power Partners, L.P. (UPP) and NRG. UPP's agreement is for 218 MW, and NRG's agreement is for 115 MW. The LPSC

approved these power purchase agreements in November 2007. In January 2008, Cleco Power was notified by UPP that the firm transmission path associated with delivering the contract capacity and energy from the UPP facility for the month of August had been curtailed. UPP has informed Cleco that it anticipates acquiring additional firm transmission to supply the August contract quantity as required under the power purchase agreement. However, if UPP is unsuccessful in acquiring adequate firm transmission to deliver the contract quantity, Cleco Power anticipates filling any deficiency through economy energy purchases.

Management expects to meet its native load demand in 2008 with Cleco Power’s own generation capacity, economy energy purchases, and power purchase agreements with Bear Energy LP, UPP, and NRG. For additional information on Cleco Power’s risks associated with purchased power contracts, see Item 1A, “Risk Factors — Purchased Power.”

Cleco Power has an IRP team to evaluate its long-term capacity requirements. IRP is a process to evaluate resources in order to provide reliable and flexible power supplies to electric customers at the lowest reasonable cost. A full range of options are being analyzed, including:

§ new plant construction;
§ fuel conversion projects;
§ repowering projects;
§ renewable resource projects; and
§ demand-side management.

The process considers both operational and economic features, such as construction, operating and fuel costs, fuel diversity, reliability, deliverability, ease of dispatch, environmental impact, and other risk factors. The IRP team has developed a framework for evaluating proposed options to optimize service for Cleco Power’s customers’ needs and to reduce and stabilize their fuel cost without sacrificing reliability. Any viable generation alternative must then be validated through an LPSC-sanctioned RFP process. The resource planning effort employs sophisticated software to model complex factors including the need for energy, market conditions, commodity pricing, new legislation and requirements, plant output, weather and other factors expected to impact the electric industry in future years. Cleco Power released an RFP in October 2007 seeking long-term resources to fill the needs

identified by the latest IRP. Cleco Power is seeking up to approximately 600 MW of intermediate and/or peaking resources to meet projected load growth over a 10-year period beginning in 2010. To meet the foregoing needs, Cleco Power is looking for products for a term of 2 to 30 years. Out of the approximate 600 MW total, up to approximately 350 MW may be sourced from a peaking resource. Bids for this RFP were received in December 2007, and final selections are anticipated by the third quarter of 2008. For additional information on Cleco Power's power supply, see Item 1A, "Risk Factors — Rodemacher Unit 3 Construction Costs" and "— Purchased Power."

Because of its location on the transmission grid, Cleco Power relies on two main suppliers of electric transmission when accessing external power markets. At times, constraints limit the amount of purchased power these transmission providers can deliver into Cleco Power's service territory. Cleco Power's power contracts, as well as spot market power purchases, may be affected by these transmission constraints.

Coal and Lignite Supply

Cleco Power uses coal for generation at Rodemacher Unit 2. The majority of this coal is purchased from mines in Wyoming's Powder River Basin from Rio Tinto Energy America, (Rio Tinto) formerly known as Kennecott Energy Company. In May 2006, Cleco Power entered into a new two-year agreement with Rio Tinto that established fixed pricing through December 31, 2008, for the majority of Cleco Power's coal needs. In 2007, Cleco Power entered into agreements with Rio Tinto and Peabody Energy which provide the majority of coal needs through 2014. The coal supply agreements are fixed price (without reopeners) and together provide for the full requirements to support Cleco Power's minimum case planned dispatch of Rodemacher Unit 2 (4 million tons total over the 7-year period). To the extent that the actual dispatch of the unit exceeds the minimum case model, Cleco Power expects to make additional spot purchases to maintain inventory within targeted levels. The volume commitment was designed to reasonably assure that excess inventory will not accumulate during the term of the agreement. With respect to transportation of coal, Cleco Power has a three-year agreement with Union Pacific Railroad Company (UP) for transportation of coal from the Powder River Basin to Rodemacher Unit 2 through 2008. Cleco Power is currently engaged in discussions with UP regarding renewal of the rail transportation agreement for Rodemacher Unit 2 and expects to see UP's published offers during the first quarter of 2008. Cleco Power leases approximately 225 railcars to transport its coal under two long-term leases. One of the railcar leases expires in March 2017, and the other expires in March 2021.

Cleco Power uses lignite for generation at the Dolet Hills power station. Substantially all of the lignite used to fuel Dolet Hills is obtained under two long-term agreements. One of the agreements expires on December 31, 2010. The other agreement has no specific expiration date. Factors that could cause the agreement to expire are the depletion of all economically surface mineable lignite reserves or the closing of the mine and the completion of reclamation work. Cleco Power and SWEPCO, each a 50% owner of Dolet Hills, have acquired an undivided 50% interest in the other's leased and owned lignite reserves in northwestern Louisiana. In May 2001, Cleco Power and SWEPCO entered into a long-term agreement with DHLC for the mining and delivery of such lignite reserves. These reserves are expected to provide a substantial portion of the Dolet Hills' unit's fuel requirements throughout the life of the contract with DHLC. Additionally, Cleco Power and SWEPCO have entered into an agreement which expires in 2010 with Red River Mining Company to purchase lignite. Cleco Power's minimum annual purchase requirement of lignite under this agreement is 550,000 tons. The lignite price under the contract is a base price per MMBtu, subject to escalation, plus certain "pass-through" costs. DHLC provides all of the lignite in excess of the 550,000 tons base commitment. For information regarding deferred mining costs and obligations associated with the DHLC mining agreement see, Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 3 — Regulatory Assets and Liabilities — Deferred Mining Costs" and Note 15 — "Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Off-Balance Sheet Commitments and Disclosures about Guarantees."

The continuous supply of coal and lignite may be subject to interruption due to adverse weather conditions or other factors that may disrupt mining operations or transportation to the plant site. At December 31, 2007, Cleco Power's coal inventory at Rodemacher Unit 2 was approximately 114,000 tons (about a 52-day supply), and Cleco Power's lignite inventory at Dolet Hills was approximately 255,000 tons (about a 44-day supply).

Natural Gas Supply

During 2007, Cleco Power purchased a total of 17,596,000 MMBtu of natural gas for the generation of electricity. The annual and average per-day quantities of gas purchased by Cleco Power from each supplier are shown in the table below.

NATURAL GAS SUPPLIER	2007 PURCHASES (MMBtu)	AVERAGE AMOUNT PURCHASED PER DAY (MMBtu)	PERCENT OF TOTAL NATURAL GAS USED
Crosstex Gulf Coast Marketing	**5,297,000**	14,500	30.1%
Sequent Energy	**2,868,000**	7,900	16.3%
Noble Gas	**2,640,000**	7,200	15.0%
Enjet, Inc.	**1,938,000**	5,300	11.0%
Occidental Energy Marketing	**1,025,000**	2,800	5.8%
Others	**3,828,000**	10,500	21.8%
Total	**17,596,000**	48,200	100.0%

Cleco Power owns the natural gas pipelines and interconnections at its Rodemacher and Teche power stations. This allows it to access various natural gas supply markets, which helps to maintain a more economical fuel supply for Cleco Power's customers.

Natural gas was available without interruption throughout 2007. Cleco Power expects to continue to meet its natural gas requirements with purchases on the spot market through daily,

monthly, and seasonal contracts with various natural gas suppliers. However, future supplies to Cleco Power remain vulnerable to disruptions due to weather events and transportation delays. Large industrial users of natural gas, including electric utilities, generally have low priority among gas users in the event pipeline suppliers are forced to curtail deliveries due to inadequate supplies. As a result, prices may increase rapidly in response to temporary supply interruptions. Although prices may increase rapidly, Cleco Power enters into economic hedge positions to mitigate the volatility in fuel costs as encouraged by an LPSC order. For additional information on these economic hedge positions, see Item 1A, "Risk Factors — Hedging and Risk Management Activities" and Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk — Commodity Price Risks." Currently, Cleco Power anticipates that its diverse supply options and alternative fuel capability, combined with its solid-fuel generation resources, are adequate to meet its fuel needs during any temporary interruption of natural gas supplies.

Fuel Oil Supply

Cleco Power stores fuel oil as an alternative fuel source at its Rodemacher and Teche power stations. The Rodemacher power station has storage capacity for an approximate 95-day supply, and the Teche power station has storage capacity for an approximate 28-day supply. However, in accordance with Cleco Power's current fuel oil inventory practices, Cleco Power had approximately a 90-day supply of fuel oil stored at its Rodemacher facility and a 16-day supply at its Teche facility at December 31, 2007. During 2007, no fuel oil was purchased or burned.

Sales

Cleco Power's 2007 and 2006 system peak demands both occurred in August and were 2,216 MW and 2,137 MW, respectively. Sales and system peak demand are affected by weather and are highest during the summer air-conditioning and winter heating seasons. In 2007, Cleco Power experienced above-normal summer weather and a mild winter. For information on the effects of future energy sales on Cleco Power's financial condition, results of operations, and cash flows, see Item 1A, "Risk Factors — Weather Sensitivity" and "— Future Electricity Sales." For information on the financial effects of seasonal demand on Cleco Power's quarterly operating results, see Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 21 — Miscellaneous Financial Information (Unaudited)."

Capacity margin is the net capacity resources (either owned or purchased) less native load demand divided by net capacity resources. Each year, members of the SPP submit forecasted native load demand and the forecasted mix of net capacity resources to meet this demand. Cleco Power's actual capacity margin of 6.2% in 2007 was below the SPP's capacity benchmark of 12%, primarily due to higher than expected native load demand. During 2006, Cleco Power's capacity margin was 7.8%. Cleco Power anticipates a 15.7% capacity margin for 2008 which includes power purchase agreements with UPP, NRG, and Bear Energy LP. For additional information on Cleco Power's power contracts and its evaluation of other supply options, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Regulatory Matters — Generation RFP."

Midstream

Financial results of the Midstream segment for 2007, 2006, and 2005 are presented below.

(THOUSANDS)		**2007**		2006		2005
Revenue						
Other operations	**$**	**16**	$	42	$	113
Affiliate revenue		**5,050**		4,358		4,871
Intercompany revenue		**-**		-		42
Operating revenue, net	**$**	**5,066**	$	4,400	$	5,026
Depreciation expense	**$**	**306**	$	307	$	316
Interest charges	**$**	**19,053**	$	18,918	$	15,302
Interest income	**$**	**1,047**	$	-	$	-

Equity income from investees	**$**	**91,581**	$	21,346	$	42,871
Federal and state income tax expense	**$**	**36,585**	$	3,220	$	10,413
Segment profit (loss) from continuing operations, net	**$**	**59,317**	$	(3,748)	$	14,301
Loss from discontinued operations, including gain on disposal, net of tax	**$**	**-**	$	(79)	$	(334)
Segment profit (loss)	**$**	**59,317**	$	(3,827)	$	13,967
Additions to long-lived assets	**$**	**10**	$	13	$	13
Equity investment in investees	**$**	**249,758**	$	302,167	$	304,844
Total segment assets	**$**	**265,918**	$	325,157	$	325,924

As of December 31, 2007, Midstream wholly and directly owned four active limited liability companies that operated mainly in Louisiana.

§ Evangeline, which owns and operates a combined-cycle natural gas-fired power plant.

§ APH, which owns 50% of Acadia, a combined-cycle natural gas-fired power plant.

§ Generation Services, which offers power station operations and maintenance services. Its customers are Evangeline and Acadia.

§ CLE Intrastate, which owns a natural gas interconnection that allows Evangeline to access the natural gas supply market.

Effective February 1, 2007, the ownership interests of Midstream's transmission interconnection facilities, Perryville and Attala, were transferred to Cleco Corporation. Perryville and Attala are no longer included in the financial results of the Midstream segment effective February 1, 2007. In accordance with SFAS No. 131, the net operating results for Midstream for periods prior to February 1, 2007, have been adjusted to reflect this organizational change.
The following table sets forth certain information with respect to Midstream's operating generating facilities.

GENERATING STATION	GENERATING UNIT #	COMMENCEMENT OF COMMERCIAL OPERATION	NAME PLATE CAPACITY (MW)	NET CAPACITY(MW)	TYPE OF FUEL USED FOR GENERATION
Evangeline	6	2000	264	262(1)	natural gas
	7	2000	511	491(1)	natural gas
Acadia	1	2002	290(2)	293(3)	natural gas
	2	2002	290(2)	293(3)	natural gas
Total generating capability			1,355	1,339	

(1) Based on capacity testing of generating units performed in June 2007.
(2) Represents APH's 50% ownership interest in the capacity of Acadia.
(3) Based on SPP rated condition factors in November 2007.

Midstream competes against regional and national companies that own and operate merchant power stations.
Prior to November 2007, Evangeline's capacity was dedicated to one customer, Williams, which was the counterparty to the Evangeline Tolling Agreement. In November 2007, Williams completed the assignment of its interest in the Evangeline Tolling Agreement to Bear Energy LP. The terms of the Evangeline Tolling Agreement, set to expire in 2020, were unchanged. Tolling agreements give the tolling counterparty the right to own, dispatch, and market all of the electric generation capacity of the respective facility. Under a tolling agreement, the tolling counterparty is responsible for providing its own natural gas to the facility and pays a fixed fee and a variable fee for operating and maintaining the respective facility.
Prior to March 2006, Acadia's capacity was also dedicated to one customer, CES, which was the counterparty to the Calpine Tolling Agreements. In December 2005, the Calpine Debtors filed for protection under Chapter 11 of the Bankruptcy Code and subsequently filed a motion with the Calpine Debtors Bankruptcy Court to reject the Calpine Tolling Agreements. In March 2006, Acadia and CES executed amendments to the Calpine Tolling Agreements, which were approved by the Calpine Debtors Bankruptcy Court, permitting Acadia to suspend its obligations under the agreements. Currently, Acadia's output is sold through an energy management services agreement with a third party marketer. For additional information on the above tolling agreements and related transactions, risks and uncertainties, see Item 1A, "Risk Factors — Evangeline Plant Performance" and "— Bear Energy LP," and Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Midstream — Significant Factors Affecting Midstream — Earnings are primarily affected by the following factors." For additional information on the Calpine bankruptcy and the suspension of the Calpine Tolling Agreements, see Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 19 — Calpine Bankruptcy Settlement."
CLE Intrastate's revenue is generated primarily from a monthly reservation fee paid by Evangeline for access to the Columbia Gulf interconnect and from a transportation fee that varies depending on the amount of gas transported through the interconnect for use by Evangeline.
At December 31, 2007, Midstream and its subsidiaries employed 61 people: 58 within Generation Services and 3 at Midstream.
For additional information on Midstream's operations, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Midstream," and "— Financial Condition — Cash Generation and Cash Requirements — Midstream Construction."

Customers
No single customer accounted for 10% or more of Cleco's consolidated revenue or Cleco Power's revenue in 2007, 2006, or 2005. For additional information regarding Cleco's sales and revenue, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations."

Construction and Financing

For information on Cleco's construction program, financing and related matters, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Cash Generation and Cash Requirements."

REGULATORY MATTERS, INDUSTRY DEVELOPMENTS, AND FRANCHISES

Rates

Cleco Power's electric operations are subject to the jurisdiction of the LPSC with respect to retail rates, standards of service, accounting and other matters. Cleco Power also is subject to the jurisdiction of the FERC with respect to rates for wholesale service, accounting, interconnections with other utilities, and the transmission of power and reliability. Periodically, Cleco Power has sought and received from both the LPSC and the FERC increases in base rates to cover increases in operating costs and costs associated with additions to generation, transmission, and distribution facilities.

Cleco Power's electric rates include a fuel and purchased power cost adjustment clause that enables it to adjust rates for monthly fluctuations in the cost of fuel and purchased power. Revenue from certain off-system sales to other utilities and energy marketing companies is passed on to customers through a reduction in fuel cost adjustment billing factors. Fuel costs and fuel adjustment billing factors are approved by the LPSC and the FERC. The LPSC has reviewed Cleco Power's fuel and purchased power costs through the year 2002 and, in July 2006, began an audit of Cleco Power's fuel adjustment clause filings for the period January 2003 through December 2004. This review is ongoing and Cleco Power anticipates completion in 2008.

In July 2006, Cleco Power's current RSP with the LPSC, which governs its retail regulatory return on equity, was extended with modifications to certain terms until the in-service date of Rodemacher Unit 3, which is expected to be operational no later than the fourth quarter of 2009. During 2006, the LPSC approved the recovery of a portion of the carrying costs of capital associated with the construction of Rodemacher Unit 3. Also during 2006, the LPSC approved an interim rate increase to recover storm restoration costs incurred by Cleco Power relating to Hurricanes Katrina and Rita. In March 2007, after completing a review of the restoration costs, Cleco Power and the LPSC Staff filed a settlement agreement allowing recovery of $158.0 million, essentially all of Cleco Power's Hurricanes Katrina and Rita storm costs. The agreement also authorized the issuance of securitized bonds to finance the restoration costs. The collection of a special storm recovery charge from Cleco Power's customers will securitize the bonds. The LPSC approved the settlement agreement and issued a securitization financing order in September 2007. For additional information about the recovery of storm restoration costs, see Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 3 — Regulatory Assets and Liabilities — Deferred Storm Restoration Costs Katrina/Rita."
For additional information on Cleco Power's retail and wholesale rates, including Cleco Power's RSP, see Item 1A, "Risk Factors — Retail Electric Service" and — "Fuel Cost Audits" and Part II, Item 7, "Management's Discussion and Analy of Financial Condition and Results of Operations — Financial Condition — Regulatory Matters — Retail Rates of Cleco Power," and — "Wholesale Rates of Cleco."

Franchises
Cleco Power operates under nonexclusive franchise rights granted by governmental units, such as municipalities and parishes (counties), and enforced by state regulation. These franchises are for fixed terms, which may vary from 10 years to 50 years or more. In the past, Cleco Power has been substantially successful in the timely renewal of franchises as each reached the end of its term. Cleco Power's next municipal franchise expires in 2010.

Renewed Franchises
Cleco Power renewed the following franchise agreements during 2006 and 2007.

DATE	CITY	TERM	NUMBER OF CUSTOMERS
March 2006	Covington	22 years	5,200
May 2007	Mamou	30 years	1,785
May 2007	Ville Platte	30 years	1,690
May 2007	DeQuincy	30 years	4,150
September 2007	Glenmora	25 years	850
November 2007	Kinder	25 years	1,300

Other Franchise Matters
On February 13, 2007, the City Council of Eunice voted to accept a city-wide franchise proposal with South Louisiana Electric Membership Cooperative (SLEMCO) a local electric cooperative. The cooperative will now have the opportunity to serve customers city-wide. However, both utilities are required to follow the LPSC 300-foot rule regulation to determine which utility can provide electricity to the customer. In general, if a utility's distribution system is within 300 feet of the new customer's meter point, that utility automatically serves the customer. Otherwise, the customer may choose the electricity provider. This decision does not have a material impact on Cleco Power's results of operations or financial condition, but could reduce future customer and load growth as both utilities compete for new customers.
In June 2007, SLEMCO entered into a limited franchise agreement with the City of Crowley. Cleco Power also provides electric service to Crowley under an existing franchise agreement. The new agreement allows SLEMCO to compete for new customers in areas of the city that have been annexed by Crowley since 2003. This decision does not

have a material impact on Cleco Power's results of operations or financial condition, but could reduce customer and load growth as both utilities compete for new customers.

Historically, Cleco Power has been allowed to recover municipal franchise fees as part of the base rates it charges retail customers. Consequently, franchise fees are recovered from customers both inside and outside a franchised area. In October 2007, the LPSC ordered the billing of franchise fees as a separate line item on customer bills. The decision provided that 50% of the franchise fee would continue to be included in base rates charged to retail customers and 50% of the franchise fee would be included on customer bills as a separate line item, billed only to customers within the franchised area.

A number of parishes have attempted in recent years to impose franchise fees on retail revenue earned within the unincorporated areas Cleco Power serves. If the parishes are ultimately successful, Cleco Power believes the new franchise tax paid to the parishes will be passed on to the affected customers and will not reduce Cleco Power's earnings.

Industry Developments

For information on industry developments, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Market Restructuring."

Wholesale Electric Competition

For a discussion of wholesale electric competition, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Market Restructuring — Wholesale Electric Markets."

Retail Electric Competition

For a discussion of retail electric competition, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Market Restructuring — Retail Electric Markets."

Legislative and Regulatory Changes and Matters

Various federal and state legislative and regulatory bodies are considering a number of issues that could shape the future of

the electric utility industry. Such issues include, among others:

- § implementation of the Energy Policy Act of 2005;
- § passage of the Energy Independence and Security Act of 2007;
- § regulation of previously deregulated retail electric markets;
- § the ability of electric utilities to recover stranded costs;
- § the role of electric utilities, independent power producers and competitive bidding in the purchase, construction and operation of new generating capacity;
- § the pricing of transmission service on an electric utility's transmission system;
- § FERC's assessment of market power and utilities' ability to buy generation assets;
- § mandatory transmission reliability standards;
- § the authority of the FERC to grant utilities the power of eminent domain;
- § increasing requirements for renewable energy sources;
- § comprehensive multi-emissions environmental legislation; and
- § FERC's increased ability to impose financial penalties.

The Registrants are unable, at this time, to predict the outcome of such issues or effects on their financial position, results of operations, or cash flows.
For information on certain regulatory matters and regulatory accounting affecting Cleco, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Regulatory Matters."

ENVIRONMENTAL MATTERS

Environmental Quality
Cleco is subject to federal, state, and local laws and regulations governing the protection of the environment. Violations of these laws and regulations may result in substantial fines and penalties. Cleco has obtained the environmental permits necessary for its operations, and management believes Cleco is in compliance in all material respects with these permits, as well as all applicable environmental laws and regulations. Environmental requirements continue to increase as a result of new legislation, administrative actions, and judicial interpretations. Therefore, the future effects of existing and potential requirements are difficult to determine. Cleco Power may request recovery from its retail customers of its costs to comply with environmental laws and regulations. If revenue relief were to be approved by the LPSC, then Cleco Power's retail rates could increase. If the LPSC were to deny Cleco Power's request to recover all or part of its environmental compliance costs, such a decision could have a material adverse effect on the Registrants' results of operations, financial condition, and cash flows. Cleco's capital expenditures related to environmental compliance were $4.5 million during 2007 and are estimated to total $7.1 million in 2008. The following table lists capital expenditures for environmental matters by subsidiary.

SUBSIDIARY (THOUSANDS)	**ENVIRONMENTAL CAPITAL EXPENDITURES FOR 2007**	PROJECTED ENVIRONMENTAL CAPITAL EXPENDITURES FOR 2008
Cleco Power	**$ 4,450**	$ 5,902
Evangeline	**19**	988

Acadia		-		197(1)
Total	**$**	**4,469**	$	7,087

(1) Represents APH's 50% portion of Acadia

The increase in projected environmental capital expenditures at Cleco Power from 2007 to 2008 primarily relates to the installation of new low NO_x burners at the Rodemacher Unit 2 Power Station and enhancements to the SO_2 scrubber at the Dolet Hills Power Station. The installation of the low NO_x burners at Rodemacher Unit 2 is expected to be completed during 2008, while the enhancements to the SO_2 scrubber at Dolet Hills are expected to be completed in 2012. The increase in projected capital expenditures at Evangeline from 2007 to 2008 primarily relates to the installation of a system to remove aquatic vegetation in the lake which cools the circulating water from the generating units at the plant. The installation of this system is expected to be completed during 2008.

Air Quality

The state of Louisiana regulates air emissions from each of Cleco's generating units through the Air Quality regulations of the LDEQ. In addition, the LDEQ has been delegated authority over and implements certain programs established by the EPA. The LDEQ establishes standards of performance and requires permits for certain generating units in Louisiana. All of Cleco's generating units are subject to these requirements.

The federal Clean Air Act established a regulatory program to address the effects of acid rain and imposed restrictions on SO_2 emissions from certain generating units. The federal Clean Air Act requires these generating stations to possess a regulatory "allowance" for each ton of SO_2 emitted beginning in the year 2000. The EPA allocates a set number of allowances to each affected unit based on its historic emissions. As of December 31, 2007, Cleco Power and Midstream had sufficient allowances for 2007 operations and expect to have sufficient allowances for 2008 operations.

The federal Clean Air Act required the EPA to revise NO_x emission limits for existing coal-fired boilers. In November 1996, the EPA finalized rules lowering the NO_x emission rate for certain boilers, which apply to Rodemacher Unit 2 and Dolet Hills. The rules also allowed an "early elect" option to achieve compliance with a less restrictive NO_x limit beginning no later than January 1, 1997. Cleco Power exercised this option in December 1996. Early election protects Cleco Power from any further reductions in the NO_x permitted emission rate until 2008 when the limit is lowered by 8%. Rodemacher Unit 2 and Dolet Hills have been in compliance with the NO_x early election limits since their inception and are expected to continue to be in compliance with the reduced limit in 2008. Cleco Power's Phase I low NO_x burner project was permitted by the LDEQ and installed in 2006 to achieve compliance with the reduced 2008 acid rain permit limits for NO_x at Dolet Hills. Rodemacher Unit 2 is anticipated to achieve compliance with

these reduced acid rain NO_x limits in its current configuration. With its low NO_x burner project completed, Rodemacher Unit 2 is expected to achieve compliance by an even greater margin. The additional NO_x reductions achieved by the low NO_x burner projects may qualify for early reduction credits under the federal Clean Air Interstate Rule (CAIR). Significant future reductions in NO_x emissions limits may require other capital improvements at one or both of the units.

NO_x emissions from the Evangeline and Acadia generating units are within the units' respective permitted limits, as these units use modern turbine and selective catalytic reduction technology that reduces NO_x emissions to minimal levels.

On March 10, 2005, CAIR was finalized by the EPA. CAIR covers the District of Columbia and 28 eastern states, including Louisiana, and provides a federal framework requiring states to reduce emissions of SO_2 and NO_x. CAIR calls for NO_x reductions to begin in the year 2009 and SO_2 reductions in 2010. The EPA anticipates that the states will achieve this primarily by reducing emissions from the power generation sector. Louisiana promulgated state regulations to incorporate these requirements. The LDEQ has chosen to remain under the Federal Implementation Plan (FIP) for compliance with CAIR SO_2 provisions. It has also proposed to follow the FIP for the Annual NO_x and Ozone Season NO_x trading programs with the exception of the NO_x allowance allocation methodology. Cleco is evaluating potential compliance strategies to meet the emission reductions contemplated by these regulations. The installation of new low NO_x burners and enhancements to the SO_2 scrubber at Dolet Hills are expected to be an integral part of meeting the CAIR NOx and SO_2 reduction provisions. Likewise, the installation of new low NO_x burners planned for Rodemacher Unit 2 in 2008 at a projected cost of $3.2 million should also help meet CAIR requirements. Cleco's compliance strategy to meet the CAIR requirements may also include additional emission controls, purchase of allowances, or fuel changes.

On March 15, 2005, the EPA issued final rules regarding mercury emissions from electric utility boilers. The federal Clean Air Mercury Rule (CAMR) established "standards of performance" limiting mercury emissions from new and existing coal-fired power plants and created a market-based cap-and-trade program. CAMR emissions reductions were to take effect in January 2010. Louisiana adopted EPA's federal CAMR regulations by reference and incorporated these requirements in Louisiana's state regulations. Cleco owns units that would have been subject to CAMR, namely Dolet Hills and Rodemacher Unit 2. However, on February 8, 2008, the U.S. Court of Appeals for the D.C. Circuit in New Jersey v. EPA, vacated both the EPA's rule delisting coal- and oil-fired electric generating units (EGU's) from regulation under section 112 of the Clean Air Act (CAA) and the entire CAMR rule. As a result of the court's action, EGUs are subject to regulation under section 112, which will require the EPA to promulgate maximum achievable control technology (MACT) standards for hazardous air pollutants for coal- and oil-fired EGUs. The New Jersey decision will not go into effect until the court issues its mandate, which is unlikely to happen before March 24, 2008. The EPA has a 45-day window from the day a decision is handed down to petition the court for rehearing. If the EPA petitions for rehearing in the D.C. Circuit or asks the Supreme Court to hear the case, the effectiveness of the D.C. Circuit's decision could be delayed even further.

Once New Jersey becomes effective (assuming there is not a reversal of the decision by the Supreme Court or the D.C. Circuit itself), the EPA will have to move forward to set MACT standards for coal- and oil-fired EGUs under section 112 of the CAA which requires that: 1) new sources must adopt at minimum "the emission control that is achieved in practice by the best controlled similar source, as determined by the Administrator" and 2) existing sources must adopt emission controls equal to the "average emission limitation achieved by the best performing 12 percent of the existing source." At this time, Cleco anticipates that the EPA would take at least two to three years to gather new data and promulgate an updated MACT standard for EGU's and another three years for the regulations to become effective. This court decision could have an impact on state administered mercury programs as well. State programs such as Louisiana that incorporated the federal CAMR by reference, are likely to claim that their state rules are voided by this decision and take action to vacate the state's version of the rule.

Congress continues to consider several bills related to climate change, which may include substantial, mandatory cuts in carbon dioxide and other greenhouse gas emissions. The majority of the bills would require reductions in carbon dioxide from electric generating units. On April 2, 2007, the Supreme Court ruled that carbon dioxide and other

greenhouse gases are air pollutants under the federal Clean Air Act. As air pollutants, the Supreme Court's decision would require the EPA to regulate greenhouse gas emissions from new motor vehicles if, in the EPA's judgment, such greenhouse gas emissions may reasonably be anticipated to endanger public health or welfare. Based on the Supreme Court's decision that greenhouse gases are "air pollutants," the EPA could decide to use its authority under the Clean Air Act to regulate greenhouse gases, such as carbon dioxide, from stationary sources such as power plants. Thus, the Supreme Court ruling could possibly lead to the federal regulation of carbon dioxide and other greenhouse gas emissions in the upcoming years independent of any climate change bill being considered by Congress. Cleco will continue to also monitor the development of other new legislative and regulatory requirements relating to climate change and their potential impacts.

As mandated by law, the LDEQ developed and promulgated the Comprehensive Toxic Air Pollutant Emission Control regulation under Title 33, Chapter 51 of the Louisiana Administrative Code. This rule requires that any major source of toxic air emissions, as defined by the LDEQ, shall control emissions of toxic air pollutants to a degree that constitutes Maximum Achievable Control Technology (MACT). MACT is determined by the permitting authority, in this case the LDEQ. In addition to incorporating the control technology standards, the state rule establishes emission reporting requirements for all major sources of toxic air pollutants and sets an ambient air

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standard for each pollutant. Steam electric generating units traditionally have been exempt from this rule. On December 20, 2006, the LDEQ proposed rules removing the exemption from such units. However, on December 20, 2007, the LDEQ reinstated the exemption to utilities in a final action on the air toxics rule.

On June 20, 2007, the EPA proposed to strengthen the national ambient air quality standards (NAAQS) for ground-level ozone, the primary component of smog. The EPA also requested comments on alternative levels of the primary ozone standard. Depending on the final level the EPA chooses, a significant number of additional parishes of Louisiana could be designated as "non-attainment," meaning they do not meet the national ambient air quality standards for that area. Since NO_x emissions are a precursor to ozone formation, existing fossil fuel fired units located in or near these ozone non-attainment areas that do not currently utilize best available control technology could be targeted for installation of additional NO_x emission controls.

In February 2005, Cleco Power received notices from the EPA requesting information relating to the Rodemacher and Dolet Hills Power Stations. The apparent purpose of the investigation is to determine whether Cleco Power has complied with New Source Review and New Source Performance Standards requirements under the Clean Air Act in connection with capital expenditures, modifications, or operational changes made at these facilities. Cleco Power has completed its response to the initial data request. It is unknown at this time whether the EPA will take further action as a result of the information provided by Cleco Power.

The enactment of federal or state renewable portfolio standards (RPS) mandating the use of renewable and alternative fuel sources, such as wind, solar, biomass and geothermal, could result in certain changes in Cleco's business or its competitive position. These changes could include renewable energy credit costs and capital expenditures for renewable generation resources. RPS legislation has been enacted in many states. States such as Louisiana that do not have RPS requirements could adopt such requirements in the future. Cleco is evaluating the impacts of potential RPS legislation on its businesses based on the RPS programs in other states. Cleco will continue to monitor developments related to RPS at the federal and state levels.

Water Quality

Cleco has received from the EPA and LDEQ permits required under the federal Clean Water Act for waste water discharges from its five generating stations. Waste water discharge permits have fixed dates of expiration, and Cleco applies for renewal of these permits within the applicable time periods.

The LDEQ issued a Louisiana Pollutant Discharge Elimination System waste water permit renewal for Evangeline Power Station on June 22, 2006. This waste water permit contains certain additional Copper and Total Dissolved Solids (TDS) permit limitations that Cleco contends are beyond the legal authority of LDEQ to include in the waste water permit. Cleco challenged these permit provisions by filing a de novo review judicial appeal on September 26, 2006, in district court in East Baton Rouge Parish, Louisiana. While litigation has been filed, Cleco actively is engaged with LDEQ in settlement discussions regarding the appealed provisions of the waste water permit, and Cleco believes that an amicable resolution will be reached with the agency. While the filed litigation is pending, the appealed Copper and TDS permit limitations are stayed and do not take effect. The uncontested portions of the Evangeline waste water permit were effective January 1, 2007.

Section 316(b) of the Clean Water Act regulates potential adverse environmental impacts to all aquatic species due to water intake structures. These regulations establish requirements applicable to the location, design, construction, and capacity of cooling water intake structures. Section 316(b) is applicable to Cleco's Teche Power Station and Evangeline Power Station. On July 2, 2007, the EPA officially suspended the Phase II, 316(b) rule as a result of a January 2007 decision by the U.S. Court of Appeals for the Second Circuit which largely overturned the EPA's final Phase II 316(b) rule. The appeals court decision limits or rejects the use of cost effectiveness and cost benefit tests historically recognized by other federal courts. Due to the suspension of the rule, mandatory compliance dates for the completion of studies and assessments will likely be delayed for some time. Until the EPA promulgates a replacement Phase II rule, the EPA has indicated that it will ask permit writers to use "Best Professional Judgement" in evaluating permit renewals until a new 316(b) rule is promulgated. Unless the Second Circuit's decision is overturned by the Supreme Court, the EPA and the LDEQ could mandate that the next generation of permit renewals, which for

applicable Cleco facilities will occur in the 2010 timeframe, include a more expensive, technology-based approach (i.e. modifications to existing intake structures or conversion to cooling tower systems). At this time, it is uncertain which technology option, if any, will be required to be installed on Cleco's intake structures and the associated costs of those modifications. Cleco anticipates that any new requirements for its affected facilities would be established as the facilities go through the water discharge permit renewal process.

Solid Waste Disposal

The Solid Waste Division of the LDEQ has adopted a permitting system for the management and disposal of solid waste generated by power stations. Cleco has received all required permits from the LDEQ for the on-site disposal of solid waste from its generating stations. Cleco is in the process of renewing the solid waste permits for the Rodemacher and Dolet Hills solid waste units and upgrading them according to the current Solid Waste Regulations. These upgrades are not expected to result in substantial costs.

Hazardous Waste Generation

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

Toxic Substances Control Act (TSCA)
The TSCA directs the EPA to regulate the marketing, disposal, manufacturing, processing, distribution in commerce, and use of PCBs. Cleco may continue to operate equipment containing PCBs under the TSCA. Once the equipment reaches the end of its usefulness, the EPA regulates handling and disposal of the equipment and fluids containing PCBs. Within these regulations, the handling and disposal is allowed only through EPA approved and permitted facilities.
The EPA revised TSCA regulations to require utilities to report data on the manufacture or import of organic compounds every five years. Cleco submitted this information in December 2006 for its applicable facilities.

Toxics Release Inventory (TRI)
The TRI requires an annual report from industrial facilities on about 650 substances that they release into air, water, and land. The TRI ranks companies based on how much of a particular substance they release on a state and parish (county) level. Annual reports are due to the EPA on July 1 following the reporting year-end. Cleco has submitted required TRI reports on its activities, and the TRI rankings are available to the public. The rankings do not result in any federal or state penalties.
On October 8, 2007, Cleco received a Special Notice for Remedial Investigation and Feasibility Study from the EPA. The special notice requested that Cleco Corporation and Cleco Power, along with many other listed potentially responsible parties, enter into negotiations with the EPA for the performance of a Remedial Investigation and Feasibility Study at an area known as the Devil's Swamp Lake just northwest of Baton Rouge, Louisiana. The EPA has identified Cleco as one of many companies sending PCB wastes for disposal to the site. The Devil's Swamp Lake site has been proposed to be added to the National Priorities List (NPL) based on the release of PCBs to fisheries and wetlands located on the site. The EPA will make a final decision on the listing of the site to the NPL after considering relevant comments. Cleco has contacted the EPA in response to the special notice and is reviewing the available information. The EPA and a number of PRPs met on January 31, 2008, for an organizational meeting to discuss the background of the site. The PRPs began discussing a potential proposal to the EPA on February 19, 2008. Since this investigation is in the preliminary stages, management is unable to determine whether the costs associated with possible remediation of the facility site will have a material adverse effect on the Registrants’ results of operations, financial condition, and cash flows.

Electric and Magnetic Fields (EMFs)
The possibility that exposure to EMFs emanating from electric power lines, household appliances, and other electric devices may result in adverse health effects or damage to the environment has been a subject of some public attention. Cleco Power funds scientific research on EMFs through various organizations. To date, there are no definitive results, but research is continuing. Lawsuits alleging that the presence of electric power transmission and distribution lines has an adverse effect on health and/or property values have arisen in several states. Cleco Power is not a party in any lawsuits related to EMFs.

ITEM 1A.RISK FACTORS

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

Rodemacher Unit 3 Construction Costs

The recovery of costs incurred to construct Rodemacher Unit 3 is subject to LPSC review and approval, and some of the costs could be disallowed.

Costs incurred in the construction of Rodemacher Unit 3 are subject to a prudency review by the LPSC. At least one year prior to the in-service date of Rodemacher Unit 3, Cleco Power will file a rate case with the LPSC seeking to recover the construction costs in its base rates. Cleco Power will be required to demonstrate that the costs incurred to construct Rodemacher Unit 3 were prudently incurred and demonstrate the impact of the operation of the facility on its customers. Accordingly, Cleco Power may not be able to recover some of the costs incurred to construct the facility, which could be substantial.

Furthermore, although the Amended EPC Contract is generally a fixed-price agreement, unforeseen events could result in changes in the scope of the project that may result in a delay in the completion of Rodemacher Unit 3 or result in additional costs. It may be more difficult to obtain LPSC approval to recover such additional costs. If the LPSC were to deny Cleco Power's request to recover substantial costs incurred in the construction of the facility, such a decision could have a material adverse effect on the Registrants' results of operations, financial condition, and cash flows.

Rodemacher Unit 3 Technical Specifications

Cleco Power is exposed to certain risks related to the design, construction and operation of Rodemacher Unit 3. This project has technology risk, fuel supply risk and general contractor and certain material subcontractor performance risk.

Rodemacher Unit 3 is designed to utilize circulating fluidized bed (CFB) generating technology. Under the Amended EPC Contract, Shaw is liable for liquidated damages for non-performance. However, Cleco Power's ability to collect any damages for breach is contingent on the demonstration of such damages and on Shaw's financial abilities. Failure by Shaw to meet its obligations under the Amended EPC Contract could have a material adverse impact on the plant's

efficiency, in-service date, and final cost. The Amended EPC Contract does not protect Cleco Power against force majeure events or design/specification oversight which may result in increased and potentially unrecoverable costs to Cleco Power. Although Cleco Power currently delivers coal via rail to the Rodemacher facility, plans are for Rodemacher Unit 3 to primarily use petroleum coke, which can be delivered most economically via barges on the Mississippi and Red Rivers, requiring a conveyor system which has to cross an interstate and local highways. Navigable waterway events such as blockages or low water, or conveyor outages could impact Cleco Power's ability to transport and deliver fuel to Rodemacher Unit 3.

Cleco Power's Rates and Upcoming Rate Case

The LPSC regulates the rates that Cleco Power can charge its customers. Cleco Power is preparing to file a rate case for its rates that will go into effect when Rodemacher Unit 3 starts commercial operations. The LPSC could disallow the recovery of material costs or an adequate return on capital.

Cleco Power's ongoing financial viability depends on its ability to recover its costs from its customers in a timely manner through its LPSC-approved rates and its ability to pass through to its customers in rates its FERC-authorized revenue requirements. Cleco Power's financial viability also depends on its ability to recover in rates an adequate return on capital, including long-term debt and equity. If Cleco Power is unable to recover any material amount of its costs in rates in a timely manner or recover an adequate return on capital, its results of operations, financial condition and cash flows could be materially adversely affected.

Cleco Power's revenues and earnings are substantially affected by regulatory proceedings known as rate cases. During those cases, the LPSC determines Cleco Power's rate base, depreciation rates, operation and maintenance costs, and administrative and general costs that Cleco Power may recover from its retail customers through its rates. These proceedings may examine, among other things, the prudence of the company's operation and maintenance practices, level of subject expenditures, allowed rates of return, and previously incurred capital expenditures. The LPSC has the authority to disallow costs found not to have been prudently incurred. These regulatory proceedings typically involve multiple parties, including governmental bodies and officials, consumer advocacy groups, and various consumers of energy, who have differing concerns but who have the common objective of limiting rate increases or reducing rates. Rate cases generally have long timelines, which may or may not be limited by statute. Decisions are typically subject to appeal, potentially leading to additional uncertainty.

Cleco Power's current base rates have been extended through the start of Rodemacher Unit 3. Currently, Cleco Power plans on filing a rate case at least one year prior to the completion of Rodemacher Unit 3 to establish new rates to be effective upon commercial operation of the unit. Cleco Power's current base rates allow it the opportunity to earn a maximum regulated return on equity of 11.65%, which is based on a return on equity of 11.25%, with any regulated earnings between 11.25% and 12.25% shared between shareholders and customers in a 40/60 ratio. If the LPSC does not increase Cleco Power's base rates or denies Cleco Power's request to recover costs incurred in the construction of Rodemacher Unit 3, Cleco Power's results of operations, financial condition, and cash flows could be materially adversely affected.

Fuel Cost Audits

The LPSC conducts fuel audits that could result in Cleco Power making substantial refunds of previously recorded revenue.

Generally, fuel and purchased power expenses are recovered through the LPSC-established fuel adjustment clause, which enables Cleco Power to pass on to its customers substantially all such charges. Recovery of fuel adjustment clause costs is subject to refund until monthly approval is received from the LPSC; however, all amounts are subject to a periodic fuel audit by the LPSC.

In July 2006, the LPSC commenced a periodic fuel audit of Cleco Power's fuel adjustment clause filings for January 2003 through December 2004. Cleco Power could be required to make a substantial refund of previously recorded revenue as a result of this audit, and such refund could result in a material adverse effect on the Registrants' results of operations, financial condition, and cash flows. The most recent audit completed by the LPSC covered 2001 and 2002 and resulted in a refund of $16.0 million to Cleco Power's retail customers in the first quarter of 2005.

Hedging and Risk Management Activities

Cleco Power is subject to market risk associated with economic hedges relating to open natural gas contracts. Cleco has risk management policies which cannot eliminate all risk involved in its energy commodity activities.
Cleco Power utilizes economic hedges to mitigate the risks associated with a fixed-price wholesale power contract that is not included in the fuel adjustment clause. Any realized gain or loss attributable to these hedges is recorded on the income statement as a component of operating revenue, net. Accordingly, changes in the market value of these hedging arrangements caused by natural gas price volatility will impact the Registrants' results of operations, financial condition, and cash flows.
Cleco Power also has entered into economic hedge positions to mitigate the volatility in fuel costs passed through to its retail customers. When these positions close, actual gains or losses are deferred and included in the fuel adjustment clause in the month the physical contract settles. However, recovery of any of these fuel adjustment clause costs is subject to, and may be disallowed as part of, a prudency review or a periodic fuel audit conducted by the LPSC.
Cleco Power manages its exposure to energy commodity activities by establishing and enforcing risk limits and risk

management procedures. These risk limits and risk management procedures may not be as effective as planned and cannot eliminate all risk associated with these activities.

Future Electricity Sales

Cleco Power's future electricity sales and corresponding base revenue and cash flows could be adversely affected by general economic conditions.

General market conditions can negatively impact the businesses of Cleco Power's industrial customers, resulting in decreased power purchases and lower base revenue. Cleco Power's largest industrial customers, specifically those who manufacture wood and paper products (who generated base revenue of approximately $23.0 million in 2007), have experienced a downturn in their respective markets. The downturn in residential home construction has caused a significant reduction in the demand and prices for lumber and other wood products. The paper industry has been vulnerable in recent years as a result of a mature market with pressures from overseas manufacturers. The rice and sugar cane industries, although recovered from the damage caused by the 2005 hurricane season, remain vulnerable to competition from overseas processors. Reduced production or the shut down of any of these customers' facilities could substantially reduce Cleco Power's base revenue.

The high cost of energy, in general, has become problematic in many industries and has increased interest by industrial customers in switching to alternative sources of energy, including on-site power generation. Also, retail customers may consume less electricity due to increased conservation efforts or increased electric usage efficiency.

Purchased Power

Nonperformance of Cleco Power's power purchase agreements and transmission constraints could have a material adverse effect on the Registrants' results of operations, financial condition, and cash flows.

Cleco Power does not supply all of its customers' power from the generation facilities it owns and must purchase additional energy and capacity from the wholesale power market in order to meet customers' demands. During 2007, Cleco Power met approximately 58.0% of its energy needs with purchased power. A 500-MW power purchase agreement with Bear Energy LP, which expires in 2009, and other short- and long-term power purchase agreements provided approximately 37.3% of Cleco Power's capacity needs in 2007. In November 2007, Williams completed the assignment of this purchase power agreement to Bear Energy LP, and the terms of the agreement remained unchanged. Cleco Power plans to meet its 2008 energy and capacity needs with the Bear Energy LP 500-MW contract; a 115-MW contract with NRG Power Marketing, Inc.; a 218-MW contract with Union Power Partners, L.P; a 20-MW long-term contract with Sabine River Authority; and a 42-MW wholesale power contract with the city of Natchitoches. In January 2008, Cleco Power was notified by UPP that the firm transmission path associated with delivering the contract capacity and energy from the UPP facility for the month of August had been curtailed. UPP has informed Cleco that it anticipates acquiring additional firm transmission to supply the August contract quantity as required under the power purchase agreement. However, if UPP or any other provider of additional energy or capacity does not perform under their respective contracts, Cleco Power would have to replace these supply sources with alternative market sources, the terms of which may not be as favorable and could increase the ultimate cost of power to Cleco Power's customers.

Because of Cleco Power's location on the transmission grid, Cleco Power relies on two main suppliers of electric transmission when accessing external power markets. At times, physical constraints limit the amount of purchased power these transmission providers can deliver into Cleco Power's service territory, which in turn can affect capacity or power purchases under long-term contracts, as well as spot market power purchases. If the amount of purchased power actually delivered into Cleco's transmission system were less than the amount of power contracted for delivery, Cleco Power may rely on its own generation facilities to meet customer demand. Cleco Power's incremental generation cost at that time could be higher than the cost to purchase power from the wholesale power market, thereby increasing its customers' ultimate cost. In addition, the LPSC may not allow Cleco Power to recover part or all of its

incremental generation cost, which could be substantial.

Weather Sensitivity

The operating results of Cleco Power are affected by weather conditions and may fluctuate on a seasonal and quarterly basis.
Weather conditions directly influence the demand for electricity, particularly kWh sales to residential customers. In Cleco Power's service territory, like in many parts of the country, demand for power peaks during the hot summer months, with market power prices also peaking at that time. As a result, Cleco Power's financial results may fluctuate on a seasonal basis. In addition, Cleco Power has sold less power, and consequently earned less income, when weather conditions are milder. Unusually mild weather in the future could adversely impact the Registrants' results of operations, financial condition, and cash flows.
Severe weather, including hurricanes and winter storms, can be destructive, causing outages and property damage that can potentially result in additional expenses and lower revenue.

Commodity Prices

Cleco Power is subject to the fluctuation in the market prices of various commodities which may increase the cost of producing power.
Cleco Power purchases coal, lignite, natural gas and fuel oil under long-term contracts and on the spot market. Historically, the markets for oil, natural gas and coal have been

volatile and are likely to remain volatile in the future. Cleco Power's retail rates include a fuel adjustment clause that enables it to adjust rates for monthly fluctuations in the cost of fuel and purchased power. However, recovery of any of these fuel adjustment clause costs is subject to, and may be disallowed as part of, a prudency review or a periodic fuel audit conducted by the LPSC.

Evangeline Plant Performance

Evangeline has certain plant performance obligations defined in its tolling agreement. Failure to perform these obligations could expose Evangeline to adverse financial penalties.
Performance requirements in the Evangeline tolling agreement include, but are not limited to, maintaining plant performance characteristics such as heat rate and demonstrated generation capacity and maintaining specified availability levels with a combination of plant availability and replacement power. Obligations under the tolling agreement include, but are not limited to, maintaining various types of insurance, maintaining power and natural gas metering equipment, and paying scheduled interest and principal payments on debt. In addition to the performance obligations by Evangeline, there are a guarantee and various commitments required by Cleco Corporation. If Evangeline fails to operate within specified requirements, the facility may purchase replacement power on the open market and provide it to the tolling counterparty in order to meet contractual performance specifications. Providing replacement power maintains availability levels, but exposes Evangeline to power commodity price volatility and transmission constraints. If availability targets under the tolling agreement are not met and economical purchased power and transmission are not available, Cleco Corporation's results of operations, financial condition, and cash flows could be materially adversely affected.

Cleco Power Generation Facilities

Cleco Power's generation facilities are susceptible to unplanned outages, significant maintenance requirements and interruption of fuel deliveries.
The operation of power generation facilities involves many risks, including breakdown or failure of equipment, fuel interruption and performance below expected levels of output or efficiency. Some of Cleco Power's facilities were originally constructed many years ago. Older equipment, even if maintained in accordance with good engineering practices, may require significant expenditures to operate at peak efficiency or availability. If Cleco Power fails to make adequate expenditures for equipment maintenance, Cleco Power risks incurring more frequent unplanned outages, higher than anticipated operating and maintenance expenditures, increased fuel or power purchase costs and potentially the loss of revenue related to competitive opportunities.
Cleco Power's generating facilities are fueled primarily by coal, natural gas and lignite. The deliverability of these fuel sources may be constrained due to such factors as higher demand, production shortages, weather-related disturbances or lack of transportation capacity. If the suppliers are unable to deliver the contracted volume of fuel, Cleco Power would have to replace any deficiency with alternative sources, which may not be as favorable and could increase the ultimate cost of fuel to customers. Fuel and purchased power expenses are recovered from customers through the fuel adjustment clause, which is subject to refund until either a prudency review or a periodic fuel audit is conducted by the LPSC.

ERO

In 2005, the FERC's authority was expanded to include the establishment and enforcement of mandatory reliability standards on the transmission system, as well as the capacity to impose fines and civil penalties on those who fail to comply with those standards.
The Energy Policy Act of 2005 authorizes the creation of an ERO with authority to establish and enforce mandatory reliability standards, subject to FERC approval, for users of the nation's transmission system. In July 2006, the FERC

named the NERC as the ERO. The FERC has approved more than 95 reliability standards developed by NERC. A final order was issued by the FERC in March 2007, and in June 2007 the FERC began enforcing compliance with these standards. New standards are continually being developed and existing standards will be modified as needed. As these standards continue to be adopted and modified, they may impose additional compliance requirements on Cleco Power, Acadia, Attala, Evangeline, and Perryville operations which may result in an increase in capital expenditures and operating expenses. Failure to comply with the reliability standards approved by the FERC can result in the imposition of fines and civil penalties.

Environmental Compliance

Cleco's costs of compliance with environmental laws and regulations are significant. The costs of compliance with new environmental laws and regulations, as well as the incurrence of incremental environmental liabilities, could also be significant to the Registrants.

Cleco is subject to extensive environmental oversight by federal, state and local authorities and is required to comply with numerous environmental laws and regulations related to air quality, water quality, waste management, natural resources and health and safety. Cleco is also required to obtain and comply with numerous governmental permits in operating its facilities. Existing environmental laws, regulations and permits could be revised or reinterpreted, new laws and regulations could be adopted or become applicable to Cleco, and future changes in environmental laws and regulations could occur. For example, Congress is considering climate change legislation that, if ultimately enacted, could impose a cap on carbon dioxide emissions by electric generating units such as Cleco and subject electric generating units to an emissions allowance-based trading system. Cleco may incur significant capital expenditures or additional operating costs to comply with

these revisions, reinterpretations and new requirements. If Cleco fails to comply with these revisions, reinterpretations and requirements, it could be subject to civil or criminal liabilities and fines or may be forced to shut down or reduce productions from its facilities.
Environmental advocacy groups, states, other organizations and some government agencies in the United States are focusing considerable attention on carbon dioxide emissions from power generation facilities and their potential role in climate change. Future changes in environmental regulations governing CO_2 could make some of Cleco's electric generating units uneconomical to maintain or operate. In addition, any legal obligation that would require Cleco to substantially reduce its CO_2 emissions beyond present levels could require extensive mitigation efforts and could raise uncertainty about the future viability of fossil fuels as an energy source for new and existing electric generation facilities.
Cleco Power may request recovery from its retail customers of its costs to comply with environmental laws and regulations. If revenue relief were to be approved by the LPSC, then Cleco Power's retail rates could increase. If the LPSC were to deny Cleco Power's request to recover all or part of its environmental compliance costs, such an adverse decision could have a material effect on the Registrants' results of operations, financial condition, and cash flows.

Regulatory Compliance

Cleco operates in a highly regulated environment and adverse regulatory decisions or changes in applicable regulations could have a material adverse effect on the Registrants' businesses or result in significant additional costs.
Cleco's business is subject to extensive federal, state and local energy, environmental and other laws and regulations. The LPSC regulates Cleco's retail operations, and the FERC regulates Cleco's wholesale operations. The construction, planning, and siting of Cleco's power plants and transmission lines are also subject to the jurisdiction of the LPSC and the FERC. Additional regulatory authorities have jurisdiction over some of Cleco's operations and construction projects including the EPA, the United States Bureau of Land Management, the United States Fish and Wildlife Services, the United States Department of Energy, the United States Army Corps of Engineers, the United States Department of Homeland Security, the Occupational Safety and Health Administration, the United States Department of Transportation, the LDEQ, the Louisiana Department of Health and Hospitals, the Louisiana Department of Natural Resources, the Louisiana Department of Public Safety, regional water quality boards and various local regulatory districts.
Cleco must periodically apply for licenses and permits from these various regulatory authorities and abide by their respective orders. Should Cleco be unsuccessful in obtaining necessary licenses or permits or should these regulatory authorities initiate any investigations or enforcement actions or impose penalties or disallowances on Cleco, Cleco's business could be adversely affected. Existing regulations may be revised or reinterpreted and new laws and regulations may be adopted or become applicable to Cleco or Cleco's facilities in a manner that may have a detrimental effect on the Registrants' business or result in significant additional costs because of Cleco's need to comply with those requirements.

Termination of the Rodemacher Unit 3 Project or the Amended EPC Contract

The abandonment of the Rodemacher Unit 3 project or termination of the Amended EPC Contract could result in unrecoverable costs.
Cleco Power may determine that its decision to construct, own and operate Rodemacher Unit 3 is no longer justified due to changes in circumstances or for other reasons. If Cleco Power decided to abandon the project, the LPSC may not allow Cleco Power to recover some or all of its incurred costs. The Amended EPC Contract allows Cleco Power to terminate the agreement at its sole discretion, but exercise of this termination right would require Cleco Power to pay termination costs, subject to specified limitations, to Shaw. Termination costs under the Amended EPC Contract are substantial and increase significantly as the project progresses.

Retail Electric Service

Cleco Power's retail electric rates and business practices are regulated by the LPSC.
Cleco Power's retail rates for residential, commercial, and industrial customers and other retail sales are regulated by the LPSC, which conducts an annual review of Cleco Power's earnings and regulatory return on equity. Cleco Power files annual monitoring reports with the LPSC for the 12-month period ended September 30. Cleco Power could be required to make a substantial refund of previously recorded revenue as a result of the LPSC review, and such refund could result in a material adverse effect on the Registrants' results of operations, financial condition, and cash flows.

Cleco Credit Ratings

A downgrade in Cleco Corporation's or Cleco Power's credit rating could result in an increase in their respective borrowing costs and a reduced pool of potential investors and funding sources.
While the senior unsecured debt ratings of Cleco Corporation and Cleco Power are currently investment grade, in recent years such ratings have been downgraded or put on negative watch by Moody's and Standard & Poor's. Cleco Corporation or Cleco Power cannot assure that its debt ratings will remain in effect for any given period of time or that one or more of its debt ratings will not be lowered or withdrawn entirely by a rating agency. Credit ratings are not recommendations to buy, sell or hold securities and each rating should be evaluated independently of any other rating. If Moody's or Standard & Poor's were to downgrade Cleco Corporation or Cleco Power's long-term ratings, particularly below investment grade, the value of their debt securities would likely be adversely affected, and the borrowing cost of Cleco Corporation

or Cleco Power would likely increase. In addition, Cleco Corporation or Cleco Power would likely be required to pay higher interest rates in future debt financings and be subject to more onerous debt covenants, and its pool of potential investors and funding sources could decrease.

Holding Company

Cleco Corporation is a holding company, and its ability to meet its debt obligations and pay dividends on its common stock is dependent on the cash generated by its subsidiaries.
Cleco Corporation is a holding company and conducts its operations primarily through its subsidiaries. Substantially all of Cleco's consolidated assets are held by its subsidiaries. Accordingly, Cleco's ability to meet its debt obligations, which at December 31, 2007, consisted of $100.0 million of 7.00% senior notes due in 2008, and to pay dividends on its common stock is largely dependent upon the cash generated by these subsidiaries. Cleco's subsidiaries are separate and distinct entities and have no obligation to pay any amounts due on Cleco's debt or to make any funds available for such payment. In addition, Cleco's subsidiaries' ability to make dividend payments or other distributions to Cleco may be restricted by their obligations to holders of their outstanding securities and to other general business creditors. Moreover, Cleco Power, Cleco's principal subsidiary, is subject to regulation by the LPSC, which may impose limits on the amount of dividends that Cleco Power may pay Cleco Corporation.

Bear Stearns Companies Inc.

Failure by Bear Stearns Companies Inc. to fulfill its guarantee obligations under the Evangeline Tolling Agreement could have a material adverse effect on Cleco's results of operations, financial condition, and cash flows.
Bear Stearns Companies Inc. guarantees the payment obligations of Bear Energy LP under the Evangeline Tolling Agreement. If Bear Stearns Companies Inc. were to fail to perform its payment obligations, such failure could have a material adverse effect on Cleco Corporation's results of operations, financial condition, and cash flows for the following reasons, among others:

§ If the failure of Bear Stearns Companies Inc. to perform constituted a default under the tolling agreement, the holders of the Evangeline bonds would have the right to declare the outstanding principal amount ($177.1 million at December 31, 2007) and interest to be immediately due and payable, which could result in:
  § Cleco's seeking to refinance the bonds, the terms of which may be less favorable than existing terms;
  § Cleco's causing Evangeline to seek protection under federal bankruptcy laws; or
  § the trustee of the bonds foreclosing on the mortgage and assuming ownership of the Evangeline plant;
§ Cleco may not be able to enter into agreements in replacement of the Evangeline Tolling Agreement on terms as favorable as that agreement or at all;
§ Cleco's equity investment in Evangeline may be impaired, requiring a write-down to its fair market value, which could be substantial; and
§ Cleco's credit ratings could be downgraded, which would increase borrowing costs and limit sources of financing.

Evangeline and Acadia Generation Facilities

Evangeline's and Acadia's generation facilities are susceptible to unplanned outages, significant maintenance requirements, interruption of fuel deliveries and transmission constraints.
The operation of power generation facilities involves many risks, including breakdown or failure of equipment, fuel interruption and performance below expected levels of output or efficiency. If adequate expenditures for equipment maintenance are not made, a facility may incur more frequent unplanned outages, higher than anticipated operating and maintenance expenditures, increased fuel costs and potentially the loss of revenue related to competitive

opportunities.
Evangeline’s and Acadia’s generating facilities are fueled by natural gas. The deliverability of this fuel source may be constrained due to such factors as higher demand, production shortages, weather-related disturbances or lack of transportation capacity.
Because of Acadia’s location on the transmission grid, Acadia relies on two main suppliers of electric transmission when accessing external power markets. At times, physical constraints limit the amount of power these transmission providers can deliver.

ITEM 1B.UNRESOLVED STAFF COMMENTS

None.

ITEM 2.PROPERTIES

CLECO

Electric Transmission Substations
As of December 31, 2007, Cleco Corporation owned one active transmission substation in Louisiana and one active transmission substation in Mississippi. On January 22, 2007, the FERC approved the transfer of the ownership interests of Midstream’s transmission substations to Cleco Corporation. The transfer was effective February 1, 2007.

CLECO POWER

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

Electric Generating Stations
As of December 31, 2007, Cleco Power either owned or had an ownership interest in three steam electric generating stations and one gas turbine with a combined name plate capacity of 1,359 MW, and a combined electric net generating capacity of 1,318 MW. The net generating capacity is the result of capacity testing performed between June and September 2007, as required by NERC. This amount reflects the maximum production capacity these units can sustain over a specified period of time. For additional information on Cleco Power's generating facilities, see Item 1, "Business — Operations — Cleco Power — Power Generation."

Electric Substations
As of December 31, 2007, Cleco Power owned 71 active transmission substations and 222 active distribution substations.

Electric Lines
As of December 31, 2007, Cleco Power's transmission system consisted of approximately 67 circuit miles of 500-kiloVolt (kV) lines; 464 circuit miles of 230-kV lines; 662 circuit miles of 138 kV lines; and 21 circuit miles of 69-kV lines. Cleco Power's distribution system consisted of approximately 3,422 circuit miles of 34.5-kV lines and 7,986 circuit miles of other lines.

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

Title
Cleco Power's electric generating plants and certain other principal properties are owned in fee. Electric transmission and distribution lines are located either on private rights-of-way or along streets or highways by public consent. Substantially all of Cleco Power's property, plant and equipment is subject to a lien of Cleco Power's Indenture of Mortgage, which does not impair the use of such properties in the operation of its business. As of December 31, 2007, no obligations were outstanding under the Indenture of Mortgage.

MIDSTREAM

Midstream considers all of its properties to be well maintained, in good operating condition, and suitable for their intended purposes. For information on Midstream's generating facilities, see Item 1, "Business — Operations — Midstream."

Electric Generation
As of December 31, 2007, Midstream owned one steam electric generating station, Evangeline, and had a 50% ownership interest in an additional station, Acadia, both located in Louisiana. For additional information on Midstream's generating facilities, see Item 1, "Business — Operations — Midstream."

Title

Midstream's assets are owned in fee, including Midstream's portion of Acadia. Evangeline is subject to a lien securing obligations under an Indenture of Mortgage, which does not impair the use of such properties in the operation of its business.

ITEM 3. LEGAL PROCEEDINGS

CLECO

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

CLECO POWER

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

CLECO

There were no matters submitted to a vote of security holders of Cleco Corporation during the fourth quarter of 2007.

CLECO POWER

The information called for by Item 4 with respect to Cleco Power is omitted pursuant to General Instruction I(2)(c) to Form 10-K (Omission of Information by Certain Wholly Owned Subsidiaries).

Board of Directors of Cleco

The names of the members of the Board of Directors of Cleco, their ages, dates of election, employment history and committee assignments as of December 31, 2007, are included below. The term of each directorship is three years, and directors are divided among three classes. The terms of the three classes are staggered in a manner so that only one class is elected by the shareholders annually.

NAME OF DIRECTOR	AGES AS OF DECEMBER 31, 2007
Sherian G. Cadoria	Age 67; Elected 1993 Brigadier General, U.S. Army (retired) Retired President, Cadoria Speaker and Consultancy Service, Mansura, LA Member of the Audit, Nominating/Governance and Qualified Legal Compliance committees
Richard B. Crowell	Age 69; Elected 1997 Partner, law firm of Crowell & Owens, Alexandria, LA Member of the Audit, Nominating/Governance and Qualified Legal Compliance committees
J. Patrick Garrett	Age 64; Elected 1981 Retired President and Chief Executive Officer, Windsor Food Company, Ltd., Houston, TX Chairman of the Board and chairman of the Executive, Nominating/Governance and Qualified Legal Compliance committees
F. Ben James Jr.	Age 71; Elected 1986 President, James Investments, Inc. (real estate development and international marketing), Ruston, LA Member of the Audit, Compensation, Nominating/Governance and Qualified Legal Compliance committees
Elton R. King	Age 61; Elected 1999 Retired President of network and carrier services group, BellSouth Telecommunications, Inc., Atlanta, GA. Also retired president and CEO of Visual Networks, Inc. Member of the Compensation and Finance committees
Michael H. Madison	Age 59; Elected 2005 President and Chief Executive Officer, Cleco Corporation, Pineville, LA Member of the Executive Committee
William L. Marks	Age 64; Elected 2001 Chairman and Chief Executive Officer, Whitney Holding Corporation and Whitney National Bank, New Orleans, LA Chairman of the Finance Committee and member of the Compensation and Executive committees
Robert T. Ratcliff Sr.	Age 65; Elected 1993 Chairman, President and Chief Executive Officer, Ratcliff Construction Company, LLC, Alexandria, LA Member of the Audit and Finance committees
	Age 62; Elected 1996

William H. Walker Jr.	Retired Chairman, Howard Weil, Inc., New Orleans, LA Chairman of the Compensation Committee and member of the Executive and Finance committees
W. Larry Westbrook	Age 68; Elected 2003 Retired Chief Financial Officer and Senior Risk Officer of Southern Company, Atlanta, GA Chairman of the Audit Committee and member of the Compensation, Executive and Finance committees

Executive Officers of Cleco

The names of the executive officers of Cleco and certain subsidiaries, their positions held, five-year employment history, ages, and years of service as of December 31, 2007, are presented below. Executive officers are appointed annually to serve for the ensuing year or until their successors have been appointed.

NAME OF EXECUTIVE	POSITION AND FIVE-YEAR EMPLOYMENT HISTORY
Michael H. Madison	
Cleco Corporation	President and Chief Executive Officer since May 2005.
Cleco Power	Chief Executive Officer since May 2005; President and Chief Operating Officer from October 2003 to May 2005; State President, Louisiana-Arkansas with American Electric Power from June 2000 to September 2003. (Age 59; 4 years of service)
Dilek Samil	
Cleco Corporation	Executive Vice President and Chief Financial Officer from April 2004 to May 2005; Senior Vice President Finance and Chief Financial Officer from October 2001 to April 2004.
Cleco Power	President and Chief Operating Officer since May 2005; Executive Vice President and Chief Financial Officer from April 2004 to May 2005; Senior Vice President Finance and Chief Financial Officer from October 2001 to April 2004. (Age 52; 6 years of service)
Kathleen F. Nolen	
Cleco Corporation Cleco Power	Senior Vice President, Treasurer and Chief Financial Officer since March 2007; Senior Vice President and Chief Financial Officer from May 2005 to March 2007; Treasurer from December 2000 to May 2005; Assistant Corporate Secretary from July 2003 to May 2005. (Age 47; 24 years of service)
George W. Bausewine	
Cleco Corporation Cleco Power	Senior Vice President Corporate Services since May 2005; Vice President Regulatory and Rates from October 2002 to May 2005. (Age 52; 22 years of service)
Jeffrey W. Hall	
Cleco Corporation	Senior Vice President Governmental Affairs and Chief Diversity Officer since July 2006; Vice President Governmental and Community Affairs from July 2005 to July 2006.
Cleco Power	Senior Vice President Governmental Affairs and Chief Diversity Officer since July 2006; Vice President Governmental and Community Affairs from October 2004 to July 2006; Vice President Customer Services from August 2000 to October 2004. (Age 56; 27 years of service)
Wade A. Hoefling	
Cleco Corporation Cleco Power	Senior Vice President, General Counsel, Director- Regulatory Compliance and Assistant Corporate Secretary since January 2007; General Counsel, Northeast Utilities Enterprises, Inc. from

	July 2004 to January 2007; Vice President and General Counsel, Energy Trading, Reliant Resources, Inc. from August 2000 to February 2004. (Age 52; 1 year of service)
Darren J. Olagues Midstream	Senior Vice President since July 2007; Vice President, Power – Asset Management and Development, Exelon Corporation from November 2006 to July 2007; Director – Corporate Development, Exelon Corporation from March 2005 to November 2006; Senior Vice President and Chief Financial Officer, Sithe Energies from October 2002 to February 2005. (Age 37; less than 1 year of service)
Anthony L. Bunting Cleco Power	Vice President Customer Services and Energy Delivery since October 2004; acting General Manager Human Resources from August 2003 to October 2004; General Manager Customer Care from December 2001 to August 2003. (Age 48; 16 years of service)
Stephen M. Carter Cleco Power	Vice President Regulated Generation since April 2003; General Manager Regulated Generation from October 2002 to April 2003. (Age 48; 19 years of service)

NAME OF EXECUTIVE	POSITION AND FIVE-YEAR EMPLOYMENT HISTORY
Keith D. Crump	
Cleco Corporation	Treasurer from May 2005 to March 2007; Manager Forecasting and Analytics, Budgeting from December 2004 to May 2005; Manager Forecasting and Analytics from October 2002 to December 2004.
Cleco Power	Vice President – Regulatory, Retail Operations and Resource Planning since March 2007. (Age 46; 18 years of service)
R. Russell Davis	
Cleco Corporation Cleco Power	Vice President and Chief Accounting Officer since May 2005; Vice President and Controller from July 2000 to May 2005. (Age 51; 8 years of service)
William G. Fontenot	
Cleco Power	Vice President Regulated Generation Development since July 2005.
Midstream	Chief Restructuring Officer of Perryville from April 2004 to July 2005.
Cleco Corporation	General Manager Contracts and Analysis from December 2002 to April 2004. (Age 44; 22 years of service)
Judy P. Miller	
Cleco Corporation Cleco Power	Corporate Secretary since January 2004; Assistant Controller from June 2000 to January 2004. (Age 50; 23 years of service)
Terry L. Taylor	
Cleco Corporation Cleco Power	Assistant Controller since August 2006; Director of Accounting Services and Affiliate Compliance from January 2004 to August 2006; Manager Systems Support and Affiliate Compliance from October 2002 to January 2004. (Age 52; 7 years of service)

On January 28, 2004, Perryville entered into an agreement to sell its 718-MW power plant to Entergy Louisiana. As part of the sales process, Perryville and PEH filed voluntary petitions in the Perryville and PEH Bankruptcy Court for protection under Chapter 11 of the U.S. Bankruptcy Code. Ms. Samil and Mr. Fontenot were managers of Perryville and/or PEH within the two years preceding the voluntary bankruptcy filing. For more information regarding the sale of the Perryville facility and the related bankruptcy filing, see Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 20 — Perryville."

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

CLECO CORPORATION

Cleco Corporation's common stock is listed for trading on the New York Stock Exchange (NYSE). For information on the high and low sales prices for Cleco Corporation's common stock as reported on the NYSE Composite Tape and dividends paid per share during each calendar quarter of 2007 and 2006, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 21 — Miscellaneous Financial Information (Unaudited)." During the quarter ended December 31, 2007, none of Cleco Corporation's equity securities registered pursuant to Section 12 of the Securities Exchange Act of 1934 were purchased by or on behalf of Cleco Corporation or any of its "affiliated purchasers," as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934. For information on Cleco Corporation's common stock repurchase program, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 7 — Common Stock — Common Stock Repurchase Program."

Subject to the prior rights of the holders of the respective series of Cleco Corporation's preferred stock, such dividends as determined by the Board of Directors of Cleco Corporation may be declared and paid on the common stock from time to time out of funds legally available. The provisions of Cleco Corporation's charter applicable to preferred stock and certain provisions contained in the debt instruments of Cleco under certain circumstances restrict the amount of retained earnings available for the payment of dividends by Cleco Corporation. The most restrictive covenant, which is in Cleco Corporation's credit facility, requires Cleco Corporation's total indebtedness to be less than or equal to 65% of total capitalization. At December 31, 2007, approximately $447.2 million of retained earnings were unrestricted.

On January 25, 2008, Cleco Corporation's Board of Directors declared a quarterly dividend of $0.225 per share payable on February 15, 2008, to common shareholders of record on February 4, 2008.

As of January 31, 2008, there were 7,203 holders of record of Cleco Corporation's common stock, and the closing price of Cleco Corporation's common stock as reported on the NYSE Composite Tape was $25.85 per share.

CLECO POWER

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

Some provisions in Cleco Power's debt instruments restrict the amount of equity available for distribution to Cleco Corporation by Cleco Power under specified circumstances. The most restrictive covenant requires Cleco Power's total indebtedness to be less than or equal to 65% of total capitalization. At December 31, 2007, approximately $406.4 million of member's equity was unrestricted.

There were no distributions from Cleco Power to Cleco Corporation during 2006 and 2007.

Cleco Corporation made equity contributions to Cleco Power of $85.0 million and $50.0 million for years 2007 and 2006, respectively.

ITEM 6.SELECTED FINANCIAL DATA

CLECO

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

In accordance with FIN 46R, Cleco deconsolidated Evangeline from its consolidated financial statements and began reporting its investment in Evangeline on the equity method of accounting. As a result, effective March 31, 2004, the assets and liabilities of Evangeline no longer are reported on Cleco Corporation's Consolidated Balance Sheets but instead are represented by one line item corresponding to Cleco's equity investment in Evangeline. Effective April 1, 2004, Evangeline's revenue and expenses are netted and reported as equity income from investees on Cleco Corporation's Consolidated Statements of Income. For additional information on the financial results of Evangeline, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 13 — Equity Investment in Investees."

Perryville and PEH were deconsolidated from Cleco in connection with their bankruptcy filings, and no income or loss associated with those subsidiaries was recognized in Midstream's consolidated financial statements subsequent to the bankruptcy filing on January 28, 2004. On October 11, 2005, an order confirming PEH and Perryville's plan of reorganization became final. In accordance with FIN 46R, Cleco recorded its investment in Perryville on the equity method of accounting. In accordance with APB Opinion No. 18, since PEH and Perryville had a negative cost basis and incurred losses for 2004 and the first and second quarters of 2005, PEH and Perryville were not to be reflected in Cleco Corporation's Consolidated Statements of Income until such time as PEH and Perryville had sufficient income to exceed their

negative cost basis and cumulative losses. In the third quarter of 2005, Perryville recognized earnings sufficient to exceed PEH's and Perryville's initial negative cost basis and cumulative losses incurred after January 28, 2004. The previous financial results of Perryville and PEH were reintegrated with Cleco's consolidated financial results effective in the third quarter of 2005. For additional information on PEH's and Perryville's reintegration, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 18 — Perryville."
Cleco's adoption of SFAS No. 123(R) on January 1, 2006, impacted Cleco's consolidated financial results for 2007 and 2006 as compared to prior years. Cleco's adoption of SFAS No. 158 on December 31, 2006, impacted Cleco's consolidated financial position as of December 31, 2007, and 2006 as compared to prior years. For additional information regarding the adoption of SFAS No. 123(R) and SFAS No. 158, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 2 — Summary of Significant Accounting Policies — Recen Accounting Standards."
Cleco's consolidated financial results for 2007 included the settlement of Acadia's pre-petition unsecured claims against CES and Calpine and amounts received by APH relating to Cajun's purchase of CAH's 50% equity ownership interest in Acadia, offset by a pre-tax impairment loss. For additional information, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 19 — Calpine Bankruptcy Settlement."
Cleco's adoption of FIN 48 on January 1, 2007, impacted Cleco's consolidated financial results for 2007 as compared to prior years. For additional information regarding the adoption of FIN 48, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 2 — Summary of Significant Accounting Policies — Recen Accounting Standards."

Five-Year Selected Financial Data

(THOUSANDS, EXCEPT PER SHARE AND PERCENTAGES)	**2007**	2006	2005	2004	2003
Operating revenue, net (excluding intercompany revenue)					
Cleco Power	**$ 1,023,411**	$ 994,191	$ 911,971	$ 727,449	$ 705,079
Midstream	**5,066**	4,400	4,984	14,844	97,129
Other	**2,139**	2,084	3,199	3,524	1,244
Total	**$ 1,030,616**	$ 1,000,675	$ 920,154	$ 745,817	$ 803,452
Income (loss) from continuing operations before income taxes	**$ 222,561**	$ 116,719	$ 298,929	$ 101,983	$ (51,185)
Net income (loss) applicable to common stock	**$ 151,331**	$ 72,856	$ 180,779	$ 63,973	$ (36,790)
Basic earnings (loss) per share from continuing operations	**$ 2.55**	$ 1.36	$ 3.54	$ 1.33	$ (0.68)
Basic earnings (loss) per share applicable to common stock	**$ 2.55**	$ 1.36	$ 3.54	$ 1.33	$ (0.79)
Diluted earnings (loss) per share from continuing operations	**$ 2.54**	$ 1.36	$ 3.53	$ 1.32	$ (0.68)
Diluted earnings (loss) per share applicable to common stock	**$ 2.54**	$ 1.36	$ 3.53	$ 1.32	$ (0.79)
Capitalization					
Common shareholders' equity	**56.75%**	57.81%	52.15%	53.56%	34.27%
Preferred stock	**0.06%**	1.32%	1.52%	1.90%	1.33%
Long-term debt	**43.20%**	40.87%	46.33%	44.54%	64.40%
Common shareholders' equity	**$ 1,010,340**	$ 876,129	$ 686,229	$ 541,838	$ 482,750
Preferred stock	**$ 1,029**	$ 20,092	$ 20,034	$ 19,226	$ 18,717
Long-term debt	**$ 769,103**	$ 619,341	$ 609,643	$ 450,552	$ 907,058

Total assets	**$**	**2,710,735**	$	2,461,104	$	2,149,488	$	1,837,063	$	2,159,426
Cash dividends declared per common share	**$**	**0.900**	$	0.900	$	0.900	$	0.900	$	0.900

CLECO POWER

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

ITEM 7.MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Cleco is a regional energy services holding company that conducts substantially all of its business operations through its two principal operating business segments:

- Cleco Power, an integrated electric utility services subsidiary regulated by the LPSC and the FERC, among other regulators, which also engages in energy management activities; and
- Midstream, a merchant energy subsidiary regulated by the FERC, which owns and operates a merchant generation station and invests in a joint venture that owns and operates a merchant generation station.

For information on Cleco's affiliated companies and the services each company provides to other affiliates, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 17 — Affiliate Transactions." While management believes that Cleco remains a strong company, Cleco continues to focus on several challenges and factors that could affect its results of operations and financial condition in the near term.

Cleco Power

Many factors affect the opportunities, challenges, and risks of Cleco Power's primary business of selling electricity. These factors include the presence of a stable regulatory environment, which includes recovery of costs and maintenance of a competitive return on equity; the ability to achieve energy sales growth while containing costs; and the ability to recover costs related to growing demand and rising fuel prices and increasingly stringent regulatory and environmental standards.

As part of its plan to resolve long-term capacity needs, Cleco Power began construction of Rodemacher Unit 3 in May 2006, which, upon completion, will provide a portion of the utility's future power supply needs and help stabilize customer fuel costs. The project's capital cost, including carrying costs during construction, is estimated at $1.0 billion. Cleco Power anticipates the plant will be operational no later than the fourth quarter of 2009. Cleco Power's current base rates have been extended through the start of Rodemacher Unit 3. Currently, Cleco Power plans on filing a rate case by the end of the second quarter of 2008, at least one year prior to the completion of Rodemacher Unit 3, to establish rates to be effective upon commercial operation of the unit. Cleco Power's current base rates allow it the opportunity to earn a maximum regulated return on equity of 11.65%, which is based on a return on equity of 11.25% and 12.25% shared between shareholders and customers in a 40/60 ratio. If the LPSC does not increase Cleco Power's base rates or denies Cleco Power's request to recover costs incurred in the construction of Rodemacher Unit 3, Cleco Power's results of operations, financial condition, and cash flows could be materially adversely affected. For additional information, see "— Financial Condition — Liquidity and Capital Resources — Regulatory Matters — Rodemacher Unit 3."

Cleco Power continues to evaluate a range of other power supply options for 2009 and beyond. As such, Cleco Power is continuing to update its IRP to look at future sources of supply. Cleco Power released an RFP in October 2007 seeking long-term resources to fill the needs identified by the latest IRP and plans to issue an RFP to meet its 2009 capacity and energy requirements during the first quarter of 2008.

In 2005, Hurricanes Katrina and Rita caused catastrophic damage to the Gulf Coast region, including Cleco Power's service territory. Storm restoration costs from Hurricanes Katrina and Rita currently total $158.0 million, a decrease from the original estimate of $161.8 million filed with the LPSC. In March 2007, Cleco Power and the LPSC Staff filed a settlement agreement allowing the recovery of storm restoration costs. In September 2007, the LPSC approved the settlement agreement and issued a financing order authorizing Cleco Power to securitize and to cause the issuance of storm recovery bonds. The aggregate principal amount of authorized bonds as of January 2008 is approximately

$180.6 million, equal to the sum of (i) Cleco Power's costs incurred in connection with restoring service to its customers who experienced electric power outages as a result of Hurricanes Katrina and Rita (approximately $126.0 million, after crediting revenues from an interim storm surcharge, and excluding income tax benefits associated with such costs), plus (ii) a storm recovery reserve in the amount of approximately $50.0 million, and (iii) the upfront and ongoing costs of issuing, supporting and servicing the storm recovery bonds. Management plans to complete the securitization financing in the first quarter of 2008. For additional information, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 3 — Regulatory Assets and Liabilities."

Midstream

Acadia resides in the Southeastern Electric Reliability Council (SERC)-Entergy sub-region. For merchant generators, this sub-region is challenged both by the general oversupply of gas-fired generation available to serve the Entergy system needs and the physical transmission constraints that can limit the amount of power that Acadia can deliver. The SERC-Entergy sub-region has reserve margins among the highest in the nation, and margins are expected to remain that way for some time. These high reserve margins can lead to lower capacity factors and lower profitability for Acadia. Due to Acadia's location on the transmission grid, Acadia relies on two main suppliers of electric transmission when accessing external power markets. At times, transmission availability limits the wholesale markets accessible by Acadia resulting in limited buyers for Acadia's output.

To address these risks, Acadia markets short-, mid- and long-term products where available. Through its third party energy marketer, Acadia pursues opportunities in the hourly, weekly, and annual markets. In addition, Acadia actively

participates in long-term requests for capacity and energy. Acadia's success in these marketing efforts are a primary driver of Acadia's earnings and cash flow.

RESULTS OF OPERATIONS

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ materially from those estimates.

Cleco Consolidated Results of Operations — Year ended December 31, 2007, Compared to Year ended December 31, 2006

	FOR THE YEAR ENDED DECEMBER 31,			
			FAVORABLE/(UNFAVORABLE)	
(THOUSANDS)	**2007**	2006	VARIANCE	CHANGE
Operating revenue, net	**$ 1,030,616**	$ 1,000,675	$ 29,941	2.99%
Operating expenses	**933,072**	885,699	(47,373)	(5.35)%
Operating income	**$ 97,544**	$ 114,976	$ (17,432)	(15.16)%
Interest income	**$ 11,754**	$ 10,452	$ 1,302	12.46%
Allowance for other funds used during construction	**$ 32,955**	$ 7,779	$ 25,176	323.64%
Equity income from investees	**$ 93,148**	$ 24,452	$ 68,696	280.94%
Other income	**$ 29,531**	$ 7,412	$ 22,119	298.42%
Interest charges	**$ 37,966**	$ 44,271	$ 6,305	14.24%
Federal and state income taxes	**$ 70,772**	$ 42,049	$ (28,723)	(68.31)%
Net income applicable to common stock	**$ 151,331**	$ 72,856	$ 78,475	107.71%

Consolidated net income applicable to common stock increased $78.5 million, or 107.7%, in 2007 compared to 2006 primarily due to increased Midstream and Cleco Power earnings. The increase at Midstream was primarily due to increased earnings at APH, resulting from the settlement of Acadia's pre-petition unsecured claims against CES and Calpine and amounts received by APH relating to Cajun's purchase of CAH's 50% equity ownership interest in Acadia, offset partially by a pre-tax impairment loss.

Operating revenue, net increased $29.9 million, or 3.0%, in 2007 compared to 2006 largely as a result of higher base and fuel cost recovery revenue at Cleco Power.

Operating expenses increased $47.4 million, or 5.4%, in 2007 compared to 2006 primarily due to increased fuel costs, capacity payments, depreciation expense and other operations and maintenance expenses at Cleco Power.

Interest income increased $1.3 million, or 12.5%, in 2007 compared to 2006 largely as a result of higher average investment balances.

Allowance for other funds used during construction increased $25.2 million, or 323.6%, primarily due to increased construction activity at Rodemacher Unit 3.

Equity income from investees increased $68.7 million, or 280.9%, in 2007 compared to 2006. The increase primarily was due to increased earnings at APH as discussed above.

Other income increased $22.1 million, or 298.4%, in 2007 compared to 2006 primarily due to the sale of CAH's 50% equity ownership interest in Acadia, partially offset by the absence of the receipt in 2007 of life insurance proceeds at Cleco Corporation. For additional information, see "— Midstream — Equity Income from Investees and Other Income."
Interest charges decreased $6.3 million, or 14.2%, in 2007 compared to 2006 primarily due to the allowance for borrowed funds used during construction associated with the construction activity at Rodemacher Unit 3. Partially offsetting this decrease was increased interest related to draws against Cleco Power's credit facility, interest related to the issuance of solid waste disposal facility bonds, and the accrual of interest related to uncertain tax positions.
Federal and state income taxes increased $28.7 million, or 68.3%, in 2007 compared to 2006 primarily due to the $105.8 million increase in pre-tax income for 2007 compared to 2006. The effective income tax rate decreased from 36.0% to 31.8% in 2007 compared to 2006, mainly due to the flowthrough of tax benefits associated with AFUDC equity.
Results of operations for Cleco Power and Midstream are more fully described below.

CLECO POWER

Significant Factors Affecting Cleco Power

Revenue is primarily affected by the following factors:
As an electric utility, Cleco Power is affected, to varying degrees, by a number of factors influencing the electric utility industry in general. These factors include, among others, an increasingly competitive business environment, the cost of compliance with environmental regulations, and changes in the federal and state regulation of generation, transmission, and the sale of electricity. For a discussion of various regulatory changes and competitive forces affecting Cleco Power and other electric utilities, see Part I, Item 1 "Business Regulatory Matters, Industry Developments, and Franchises — Franchises" and "— Financial Condition — Market Restructuring." For a discussion of risk factors affecting Cleco Power's business, see Item 1A, "Risk Factors — Rodemacher Unit 3 Technical Specifications," "— Rodemacher Unit 3 Construction Costs," "— Termination of the Rodemacher Unit 3 Project or the Amended EPC Contract," "— Regulatory Compliance," "— Retail Electric Service," "— Cleco Power's Rates and Upcoming Rate Case," "— Audits," "— Purchased Power," "— Commodity Prices," " — Hedging and Risk Management Activities," "— Cleco Credit Ra Environmental Compliance," "— Weather Sensitivity," "— Future Electricity Sales," "— Cleco Power Generation Facilities," ERO."
Cleco Power's residential customers' demand for electricity largely is affected by weather. Weather generally is measured in cooling degree-days and heating degree-days. A cooling degree-day is an indication of the likelihood that a

consumer will use air conditioning, while a heating degree-day is an indication of the likelihood that a consumer will use heating. An increase in heating degree-days does not produce the same increase in revenue as an increase in cooling degree-days, because alternative heating sources are more available. Normal heating degree-days and cooling degree-days are calculated for a month by separately calculating the average actual heating and cooling degree-days for that month over a period of 30 years.

Cleco Power's expected retail growth rate is dependent upon factors such as weather conditions, natural gas prices, customer conservation efforts, retail marketing and business development programs, and the economy of Cleco Power's service area. Kilowatt-hour sales to Cleco Power's retail electric customers have grown an average of 1.8% annually over the last five years and are expected to grow at an average annual rate of 0.7% from 2008 to 2012. This decrease is primarily related to a large industrial customer beginning cogeneration operations in early 2009, which will impact retail sales. Some of Cleco Power's largest industrial customers have experienced downturns in their respective markets, while others have expanded their operations, both impacting base revenue.

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

§ provisions of the Energy Policy Act of 2005;
§ deregulation;
§ retail wheeling (the transmission of power directly to a retail customer, as opposed to transmission via the interconnected transmission facilities of one or more intermediate facilities);
§ possible membership in a RTO or implementation of an ICT model;
§ other legislative and regulatory changes;
§ increase in environmental regulations and compliance costs;
§ cost of power impacted by the price of natural gas;
§ increase in capital and operations and maintenance costs due to higher construction and labor costs;
§ retention of large industrial customers and municipal franchises;
§ awarding of dual franchises by municipalities;
§ changes in electric rates compared to customers' ability to pay; and
§ access to transmission systems.

For more information on energy legislation in regulatory matters that could affect Cleco, see "— Financial Condition — Market Restructuring — Wholesale Electric Markets."

Cleco Power's revenues and earnings are also substantially affected by regulatory proceedings known as rate cases. During those cases, the LPSC determines Cleco Power's rate base, depreciation rates, operation and maintenance costs, and administrative and general costs that Cleco Power may recover from its customers through its rates. These proceedings may examine, among other things, the prudence of the company's operation and maintenance practices, level of subject expenditures, allowed rates of return, and previously incurred capital expenditures. The LPSC has the authority to disallow costs found not to have been prudently incurred. These regulatory proceedings typically involve multiple parties, including governmental bodies and officials, consumer advocacy groups, and various consumers of energy, who have differing concerns but who have the common objective of limiting rate increases or reducing rates. Rate cases generally have long timelines, which may or may not be limited by statute. Decisions are typically subject to appeal, potentially leading to additional uncertainty.

Cleco Power's current base rates have been extended through the start of Rodemacher Unit 3. Currently, Cleco Power plans on filing a rate case by the end of the second quarter of 2008, at least one year prior to the completion of Rodemacher Unit 3, to establish rates to be effective upon commercial operation of the unit. Cleco Power's current base rates allow it to earn a maximum regulated return on equity of 11.65%, which is based on a return on equity of 11.25%, with any regulated earnings between 11.25% and 12.25% shared between shareholders and customers in a 40/60 ratio. If the LPSC does not increase Cleco Power's base rates or denies Cleco Power's request to recover costs incurred in the construction of Rodemacher Unit 3, Cleco Power's results of operations, financial condition, and cash flows could be materially adversely affected.

Cleco Power is currently recording AFUDC income on the debt and equity portions of the carrying costs associated with Rodemacher Unit 3. Once the plant begins commercial operations, Cleco Power will no longer record AFUDC income related to Rodemacher Unit 3. The filing of Cleco's base rate case, which is expected by the end of the second quarter of 2008, is timed such that Cleco Power anticipates completion of the base rate case as early as the second quarter of 2009 in order to begin recording and charging revenues sufficient to cover the increased debt and equity earnings associated with the carrying costs.

Other expenses are primarily affected by the following factors:
The majority of Cleco Power's non-fuel cost recovery expenses consist of other operations, maintenance, depreciation, and taxes other than income taxes. Other operations expenses are affected by, among other things, the cost of employee benefits, insurance expenses, and the costs associated with energy delivery and customer service. Maintenance expenses associated with Cleco Power's plants generally depend upon their physical characteristics, as well as the effectiveness of their preventive maintenance programs. Depreciation expense primarily is affected by the cost of the facility in service, the time the facility was placed in service, and the estimated useful life of the facility. Taxes other than income taxes generally include payroll taxes and ad valorem taxes. Cleco Power anticipates certain non-fuel cost recovery expenses to be higher in 2008 compared to 2007. These expenses include higher generation expenses related to maintenance, salaries and training, higher transmission

expenses, and higher outside consulting fees in the areas of tax planning, regulatory, legal and strategy.

Cleco Power's Results of Operations —
Year ended December 31, 2007,
Compared to Year ended December 31, 2006

	FOR THE YEAR ENDED DECEMBER 31,			
			FAVORABLE/(UNFAVORABLE)	
(THOUSANDS)	**2007**	2006	VARIANCE	CHANGE
Operating revenue				
Base	**$ 353,562**	$ 342,076	$ 11,486	3.36%
Fuel cost recovery	**634,631**	617,317	17,314	2.80%
Electric customer credits	**-**	4,693	(4,693)	(100.00)%
Other operations	**35,176**	30,056	5,120	17.03%
Affiliate revenue	**42**	49	(7)	(14.29)%
Intercompany revenue	**2,008**	2,000	8	0.40%
Operating revenue, net	**1,025,419**	996,191	29,228	2.93%
Operating expenses				
Fuel used for electricgeneration – recoverable	**264,876**	255,880	(8,996)	(3.52)%
Power purchased for utilitycustomers – recoverable	**369,659**	361,741	(7,918)	(2.19)%
Non-recoverable fuel andpower purchased	**24,666**	22,541	(2,125)	(9.43)%
Other operations	**97,320**	87,560	(9,760)	(11.15)%
Maintenance	**46,704**	37,596	(9,108)	(24.23)%
Depreciation	**78,522**	73,360	(5,162)	(7.04)%
Taxes other than incometaxes	**37,658**	37,869	211	0.56%
Loss (gain) on sales of assets	**15**	(71)	(86)	(121.13)%
Total operatingexpenses	**919,420**	876,476	(42,944)	(4.90)%
Operating income	**$ 105,999**	$ 119,715	$ (13,716)	(11.46)%
Interest income	**$ 5,422**	$ 7,425	$ (2,003)	(26.98)%
Allowance for other funds used during construction	**$ 32,955**	$ 7,779	$ 25,176	323.64%
Interest charges	**$ 29,565**	$ 36,250	$ 6,685	18.44%
Federal and state income taxes	**$ 29,613**	$ 33,059	$ 3,446	10.42%
Net income	**$ 84,673**	$ 64,828	$ 19,845	30.61%

Cleco Power's net income for 2007 increased $19.8 million, or 30.6%, compared to 2006. Contributing factors include:

- § higher base revenue,
- § higher other operations revenue,
- § higher allowance for other funds used during construction,
- § lower interest charges, and
- § lower effective income tax rate.

These were partially offset by:

- § absence of favorable customer credit adjustments,

- § higher non-recoverable fuel and power purchased,
- § higher other operations and maintenance expenses,
- § higher depreciation expense, and
- § lower interest income.

	FOR THE YEAR ENDED DECEMBER 31,		
(MILLION kWh)	**2007**	2006	FAVORABLE/ (UNFAVORABLE)
Electric sales			
Residential	**3,596**	3,552	1.24 %
Commercial	**2,478**	2,109	17.50 %
Industrial	**3,008**	2,963	1.52 %
Other retail	**135**	412	(67.23)%
Total retail	**9,217**	9,036	2.00 %
Sales for resale	**473**	480	(1.46)%
Unbilled	**(19)**	7	(371.43)%
Total retail and wholesale customer sales	**9,671**	9,523	1.55 %

	FOR THE YEAR ENDED DECEMBER 31,		
(THOUSANDS)	**2007**	2006	FAVORABLE/ (UNFAVORABLE)
Electric sales			
Residential	**$ 157,521**	$ 156,059	0.94 %
Commercial	**93,644**	79,657	17.56 %
Industrial	**56,534**	55,947	1.05 %
Other retail	**5,702**	16,283	(64.98)%
Storm surcharge	**24,170**	16,304	48.25 %
Total retail	**337,571**	324,250	4.11 %
Sales for resale	**16,614**	17,322	(4.09)%
Unbilled	**(623)**	504	(223.61)%
Total retail and wholesale customer sales	**$ 353,562**	$ 342,076	3.36 %

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

	FOR THE YEAR ENDED DECEMBER 31,				
				2007 CHANGE	
	2007	2006	NORMAL	PRIOR YEAR	NORMAL
Cooling-degree days	**2,999**	2,942	2,662	1.94%	12.66%
Heating-degree days	**1,411**	1,282	1,645	10.06%	(14.22)%

Base

Base revenue during 2007 increased $11.5 million, or 3.4%, compared to 2006. The increase primarily was due to the recovery of storm restoration costs through a monthly customer surcharge that began in May 2006. These storm-related costs are being amortized to depreciation expense based on the amounts collected monthly from customers through this surcharge. Also contributing to the increase in base revenue were higher retail and wholesale kWh sales, primarily from colder winter weather as compared to 2006.

For information on the effects of future energy sales on Cleco Power's financial condition, results of operations, and cash flows, see Part I, Item 1A, "Risk Factors — Future Electricity Sales."

Fuel Cost Recovery

Fuel cost recovery revenue billed to customers during 2007 compared to 2006 increased $17.3 million, or 2.8%, primarily due to increases in the per-unit cost of fuel used for electric generation and higher volumes of power purchased for utility customers.

Electric Customer Credits
The $4.7 million change in electric customer credits is the result of the absence in 2007 of favorable adjustments made during 2006 related to prior RSP filing periods. The potential refunds associated with the RSP are based on results for each 12-month period ended September 30. For additional information on the accrual of electric customer credits, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 12 — Electric Customer Credits."

Other Operations
Other operations revenue increased $5.1 million, or 17.0%, in 2007 compared to 2006 primarily due to a $1.1 million mark-to-market gain in 2007 as compared to a $4.3 million mark-to-market loss in 2006 relating to economic hedge transactions associated with fixed-price power being provided to a wholesale customer. These increases were partially offset by lower transmission services revenue. For information on Cleco's energy commodity activities, see Item 7A, "Quantitative and Qualitative Disclosures about Market Risk — Risk Overview — Commodity Price Risks."

Operating Expenses
Operating expenses increased $42.9 million, or 4.9%, in 2007 compared to 2006. Fuel used for electric generation (recoverable) increased $9.0 million, or 3.5%, primarily due to higher per-unit costs of fuel used as compared to 2006. Partially offsetting this increase were lower volumes of fuel used for electric generation. Power purchased for utility customers (recoverable) increased $7.9 million, or 2.2%, largely due to higher volumes of purchased power. The primary factor causing the increase in volumes of purchased power was the decreased generation of power from Cleco Power's facilities due to scheduled major maintenance. Fuel used for electric generation and power purchased for utility customers generally are influenced by natural gas prices, as well as availability of transmission. However, other factors such as scheduled and/or unscheduled outages, unusual maintenance or repairs, or other developments may affect fuel used for electric generation and power purchased for utility customers. Non-recoverable fuel and power purchased increased $2.1 million, or 9.4%, primarily due to higher capacity payments made during 2007. Other operations expense increased $9.8 million, or 11.2%, primarily due to the absence in 2007 of the $3.5 million recognition of previously recorded storm restoration expenses as a regulatory asset as a result of the LPSC's February 2006, approval of Cleco Power's request to recover these storm restoration costs. Also contributing to the increase were $1.9 million of higher general liability claims and storm expenses, primarily from the absence in 2007 of insurance and damage costs adjustments recorded in 2006, $3.4 million of higher transmission and distribution operation expenses, and $1.0 million of higher customer collection costs, employee benefit costs and payroll and administrative expenses. Maintenance expenses during 2007 increased $9.1 million, or 24.2%, compared to 2006 primarily due to the absence of the $3.0 million recognition of previously recorded storm restoration expenses as a regulatory asset as a result of the LPSC's February 2006, order. Also contributing to the increase was $7.1 million more of distribution and generating station maintenance work performed during 2007. Partially offsetting these increases was the $1.0 million recognition of other previously recorded storm restoration expenses as a regulatory asset during 2007. Depreciation expense increased $5.2 million, or 7.0%, primarily as a result of $3.9 million of storm amortization costs and $1.3 million of normal recurring additions to fixed assets.

Interest Income
Interest income decreased $2.0 million, or 27.0%, during 2007 compared to 2006 primarily due to lower average investment balances. Lower investment balances were the result of construction payments for Rodemacher Unit 3 being partially funded by these investments.

Allowance for Other Funds Used During Construction
Allowance for other funds used during construction increased $25.2 million, or 323.6%, during 2007 compared to 2006 primarily due to increased construction activity at Rodemacher Unit 3. Allowance for other funds used during

construction comprised 38.9% of Cleco Power's net income for 2007, compared to 12.0% for 2006.

Interest Charges

Interest charges decreased $6.7 million, or 18.4%, during 2007 compared to 2006 primarily due to the allowance for borrowed funds used during construction associated with the construction activity at Rodemacher Unit 3 and the repayment of medium-term notes during 2007. Partially offsetting this decrease was interest related to draws against Cleco Power's credit facility during 2007, interest related to the issuance in late 2006 and late 2007 of solid waste disposal facility bonds, and the accrual of interest related to uncertain tax positions, which was previously recorded in tax expense.

Income Taxes

Income tax expense decreased $3.4 million, or 10.4%, during 2007 compared to 2006 primarily due to decreased pre-tax book net income excluding AFUDC equity. Cleco Power's effective income tax rate decreased from 33.8% to 25.9% during 2007 compared to 2006, mainly due to the flow-through of tax benefits associated with AFUDC equity.

MIDSTREAM

Significant Factors Affecting Midstream

Earnings are primarily affected by the following factors:

Midstream's equity earnings from investees are derived primarily from a tolling agreement relating to Evangeline with Bear Energy LP, which prior to November 2007, was with Williams, and from its 50% interest in Acadia, which prior to March 2006 derived its revenue from two tolling agreements with CES. Subsequent to March 2006, Acadia contracted with

a third party marketer to sell its output. Revenue from tolling contracts generally is affected by the availability and efficiency of the facility and the level at which it operates. A facility's availability can be protected by providing replacement power to the tolling counterparties. Each tolling agreement gives a tolling counterparty the right to own, dispatch, and market all of the electric generation capacity of the respective facility. Each tolling counterparty is responsible for providing its own natural gas to the respective facility. In November 2007, Williams completed the assignment of its interest in the Evangeline Tolling Agreements to Bear Energy LP. The terms of the agreement were unchanged.

Under the Evangeline Tolling Agreement, Bear Energy LP pays Evangeline a fixed fee and a variable fee for operating and maintaining the facility. The Evangeline Tolling Agreement is accounted for as an operating lease. For additional information on Cleco's operating leases, see "— Critical Accounting Policies — Midstream" and Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 14 — Operating Leases." Equity income from the Evangeline Tolling Agreement correlates with the seasonal usage of the plant. Evangeline's 2007 revenue was recognized in the following manner:

§ 18% in the first quarter;
§ 23% in the second quarter;
§ 42% in the third quarter; and
§ 17% in the fourth quarter.

Revenue under the Evangeline Tolling Agreement, which is reflected in equity income from investees, is anticipated to be recognized in a similar manner for 2008. For additional information on recognition of revenue from the Evangeline Tolling Agreement, see "— Critical Accounting Policies — Midstream" and Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 2 — Summary of Significant Accounting Policies — Revenue and Fuel Costs — Tolling Revenue."

Prior to the suspension of the Calpine Tolling Agreements, CES paid Acadia a fixed fee and a variable fee for operating and maintaining the facility. Currently, a third party marketer provides energy management services for Acadia. For information on Cleco's investment in Acadia and the Calpine bankruptcy settlement, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 13 — Equity Investment in Investees" and Note 19 — "Calpine Bankruptcy Settlement."

For additional information on the factors affecting Midstream, see Part I, Item 1A, "Risk Factors — Evangeline and Acadia Generation Facilities," "— Evangeline Plant Performance," and "— Bear Energy LP."

Expenses are primarily affected by the following factors:

Midstream's expenses include depreciation, maintenance, and other operations expenses. Depreciation expense is affected by the cost of the facility in service, the time the facility was placed in service, and the estimated useful life of the facility. Maintenance expenses generally depend on the physical characteristics of the facility, the frequency and duration of the facility's operations, and the effectiveness of preventive maintenance. Other operating expenses mainly relate to administrative expenses and employee benefits.

Other Factors Affecting Midstream

Perryville and Attala

Effective February 1, 2007, the ownership interests of Midstream's transmission interconnection facilities, Perryville and Attala, were transferred to Cleco Corporation. In accordance with SFAS No. 131, the net operating results for Midstream for periods prior to February 1, 2007, have been adjusted to reflect this organizational change. For additional information on Perryville, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 18 — Perryville."

Acadia

Acadia's output currently is sold through an energy management services agreement with a third party marketer. Prior to March 2006, Acadia's output was sold through the Calpine Tolling Agreements. In December 2005, the Calpine Debtors filed for protection under Chapter 11 of the Bankruptcy Code and subsequently filed a motion with the Calpine Debtors Bankruptcy Court to reject the Calpine Tolling Agreements. In March 2006, Acadia and CES executed amendments to the Calpine Tolling Agreements, permitting Acadia to suspend its obligations under the agreement. During 2006, APH drew against the $15.0 million letter of credit issued by Calpine. Under an April 2007 settlement between Cleco and Calpine, Acadia received a pre-petition general unsecured claim against Calpine of $185.0 million in connection with the Calpine Tolling Agreements and Calpine's guaranty of those agreements. Acadia made a dividend by assignment to APH for its portion of the claims. In May 2007, APH sold its claim of $85.0 million at 92% of face value. In September 2007, after all regulatory approvals were received, the sale of CAH's Assets to Cajun was completed. At the closing of the sale, APH received an $85.0 million payment from Cajun for the agreed upon value of the priority and guaranteed distributions, plus a $2.9 million break-up fee and other expense reimbursements. For additional information on Acadia and the Calpine bankruptcy, see "— Overview — Midstream" and Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 19 — Calpine Bankruptcy Settlement."

Evangeline

In accordance with FIN 46R, Cleco deconsolidated Evangeline from its consolidated financial statements and began reporting its investment in Evangeline on the equity method of accounting effective March 31, 2004. Consequently, Evangeline's 2007, 2006, and 2005 net operating results are reflected in the equity income from investees' line. For additional information on FIN 46R and the deconsolidation of Evangeline, see Item 8, "Financial Statements and Supplementary Data —

Notes to the Financial Statements — Note 13 — Equity Investment in Investees."

Midstream's Results of Operations —
Year ended December 31, 2007,
Compared to Year ended December 31, 2006

	FOR THE YEAR ENDED DECEMBER 31,		FAVORABLE/(UNFAVORABLE)	
(THOUSANDS)	**2007**	2006	VARIANCE	CHANGE
Operating revenue				
Other operations	**$ 16**	$ 42	$ (26)	(61.90)%
Affiliate revenue	**5,050**	4,358	692	15.88 %
Operating revenue	**5,066**	4,400	666	15.14 %
Operating expenses				
Other operations	**6,289**	4,704	(1,585)	(33.69)%
Maintenance	**2,499**	2,081	(418)	(20.09)%
Depreciation	**306**	307	1	0.33 %
Taxes other than incometaxes	**316**	247	(69)	(27.94)%
Total operatingexpenses	**9,410**	7,339	(2,071)	(28.22)%
Operating loss	**(4,344)**	(2,939)	(1,405)	(47.81)%
Interest income	**1,047**	-	1,047	-
Equity income from investees	**$ 91,581**	$ 21,346	$ 70,235	329.03 %
Other income	**$ 27,924**	$ -	$ 27,924	-
Other expense	**$ 1,253**	$ 16	$ (1,237)	*
Federal and state income tax expense	**$ 36,585**	$ 3,220	$ (33,365)	*
Net (loss) income	**$ 59,317**	$ (3,827)	$ 63,144	*

* Not meaningful

Midstream's net income for 2007 increased $63.1 million compared to 2006 primarily due to Acadia. Factors affecting Midstream during 2007 are described below.

Operating Expenses
Operating expenses increased $2.1 million, or 28.2%, in 2007 compared to 2006. The increase largely was due to higher employee benefit costs and higher administrative expenses.

Interest Income
Interest income increased $1.0 million in 2007 compared to 2006 primarily due to higher investment balances at APH. Higher investment balances were primarily the result of amounts received by APH relating to the settlement of Acadia's pre-petition unsecured claims against CES and Calpine.

Equity Income from Investees
Equity income from investees increased $70.2 million, or 329.0%, in 2007 compared to 2006. The increase was due to a $71.3 million increase in equity earnings at APH, partially offset by a $1.1 million decrease at Evangeline. The $71.3 million increase in earnings at APH primarily was due to $78.2 million related to the settlement of Acadia's pre-petition unsecured claims against CES and Calpine and $60.0 million related to amounts received by APH relating to the sale of the CAH Assets. Partially offsetting these increases was an impairment loss of $45.8 million recorded in 2007, the absence in 2007 of APH's draw against the $15.0 million letter of credit issued by Calpine, $3.0 million of lower merchant revenue, $1.6 million of higher turbine maintenance expenses, and $1.5 million from the absence of

insurance claim settlements. The impairment charge represents the difference between the $234.8 million carrying value and the $189.0 million market value. In January 2008, Acadia entered into a long-term maintenance contract that is expected to stabilize future maintenance expenses at the plant. The decrease at Evangeline primarily was due to purchases of replacement power related to an unscheduled outage at the facility, as well as higher interest charges related to uncertain tax positions. These decreases were partially offset by higher revenue from replacement energy and the absence in 2007 of prior year adjustments related to fixed asset accounting and depreciation. As previously discussed, Midstream's ownership interests in Perryville and Attala were transferred to Cleco Corporation effective February 1, 2007, and are no longer reported as equity income from investees on Midstream's financial statements. In accordance with SFAS No. 131, operating results for 2006 have been adjusted to reflect this new structure. For additional information, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 11 — Disclosures about Segments."

Other Income

Other income increased $27.9 million during 2007 compared to 2006 as a result of amounts received by APH relating to the sale of the CAH Assets. At the closing of the sale, APH received an $85.0 million payment from Cajun for the agreed upon value of the priority and guaranteed distributions, plus a $2.9 million break-up fee. Of these amounts, $27.9 million is included in other income ($25.0 million represents consideration of APH's guaranteed payments from Acadia and $2.9 million represents break-up fees). The remaining $60.0 million is included in equity income from investees. For additional information, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 19 — Calpine Bankruptcy Settlement."

Other Expense

Other expense increased $1.2 million during 2007 compared to 2006 primarily due to APH's payment to acquire Calpine's interest in Acadia's claim against Cleco Power regarding a potential electric metering error at the Acadia facility.

Income Taxes

Income tax expense increased $33.4 million during 2007 compared to 2006 due to a $96.4 million increase in pre-tax income for 2007 compared to the same period of 2006. Midstream's effective income tax rate increased from (610.7)% to 38.1% during 2007 compared to 2006, mainly due to higher pre-tax income, tax adjustments booked in 2006, and interest related to tax positions being accounted for as interest expense in 2007, compared to tax expense in 2006, as a result of the adoption of FIN 48.

Cleco Consolidated Results of Operations —
Year ended December 31, 2006,
Compared to Year ended December 31, 2005

	FOR THE YEAR ENDED DECEMBER 31,			
			FAVORABLE/(UNFAVORABLE)	
(THOUSANDS)	**2006**	2005	VARIANCE	CHANGE
Operating revenue, net	**$ 1,000,675**	$ 920,154	$ 80,521	8.75 %
Operating expenses	**885,699**	808,420	(77,279)	(9.56)%
Operating income	**$ 114,976**	$ 111,734	$ 3,242	2.90 %
Interest income	**$ 10,452**	$ 5,310	$ 5,142	96.84 %
Allowance for other funds used during construction	**$ 7,779**	$ 2,349	$ 5,430	231.16 %
Equity income from investees	**$ 24,452**	$ 218,441	$ (193,989)	(88.81)%
Other income	**$ 7,412**	$ 4,567	$ 2,845	62.29 %
Interest charges	**$ 44,271**	$ 40,535	$ (3,736)	(9.22)%
Income from continuing operations	**$ 74,670**	$ 182,978	$ (108,308)	(59.19)%
Loss from discontinued operations, net	**$ (79)**	$ (334)	$ 255	76.35 %
Net income applicable to common stock	**$ 72,856**	$ 180,779	$ (107,923)	(59.70)%

Consolidated net income applicable to common stock decreased $107.9 million, or 59.7%, in 2006 compared to 2005 primarily due to the absence in 2006 of the sale of the Perryville Power Station and the sale of the Mirant bankruptcy damage claims. Increased Cleco Power earnings and lower interest charges and the receipt of life insurance proceeds at Cleco Corporation partially offset this decrease.

Operating revenue, net increased $80.5 million, or 8.8%, in 2006 compared to 2005 largely as a result of higher fuel cost recovery revenue at Cleco Power.

Operating expenses increased $77.3 million, or 9.6%, in 2006 compared to 2005 primarily due to increased fuel costs and higher depreciation expense at Cleco Power.

Interest income increased $5.1 million, or 96.8%, in 2006 compared to 2005 largely as a result of higher rates and a higher average investment balance.

Allowance for other funds used during construction increased $5.4 million, or 231.2%, primarily due to increased construction activity at Rodemacher Unit 3.

Equity income from investees decreased $194.0 million, or 88.8%, in 2006 compared to 2005 primarily due to the absence in 2006 of the sale of Perryville's generating assets and the sale of the Mirant bankruptcy damage claims which were reintegrated on Cleco Corporation's Consolidated Statements of Income during 2005, in addition to decreases in equity earnings at APH and Evangeline.

Other income increased $2.8 million, or 62.3%, in 2006 compared to 2005 primarily due to $5.6 million of proceeds received from life insurance policies on certain officers and/or key managers, partially offset by the absence in 2006 of payments received by APH in 2005 as a result of the settlement agreement between Acadia and CES.

Interest charges increased $3.7 million, or 9.2%, in 2006 compared to 2005 primarily due to new issuances of senior notes at Cleco Power, partially offset by the repayment of Cleco Corporation senior notes in June 2005.

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

Cleco Power's Results of Operations —
Year ended December 31, 2006,
Compared to Year ended December 31, 2005

(THOUSANDS)	2006	2005	FOR THE YEAR ENDED DECEMBER 31, FAVORABLE/(UNFAVORABLE) VARIANCE	CHANGE
Operating revenue				
Base	**$ 342,076**	$ 322,423	$ 19,653	6.10 %
Fuel cost recovery	**617,317**	552,134	65,183	11.81 %
Electric customer credits	**4,693**	(992)	5,685	573.08 %
Other operations	**30,056**	38,357	(8,301)	(21.64)%
Affiliate revenue	**49**	49	-	-
Intercompany revenue	**2,000**	2,002	(2)	(0.10)%
Operating revenue, net	**996,191**	913,973	82,218	9.00 %
Operating expenses				
Fuel used for electricgeneration – recoverable	**255,880**	195,427	(60,453)	(30.93)%
Power purchased for utilitycustomers – recoverable	**361,741**	356,468	(5,273)	(1.48)%
Non-recoverable fuel andpower purchased	**22,541**	18,864	(3,677)	(19.49)%
Other operations	**87,560**	86,926	(634)	(0.73)%
Maintenance	**37,596**	43,238	5,642	13.05 %
Depreciation	**73,360**	58,696	(14,664)	(24.98)%
Taxes other than incometaxes	**37,869**	38,508	639	1.66 %
Gain on sales of assets	**(71)**	(2,206)	(2,135)	96.78 %
Total operatingexpenses	**876,476**	795,921	(80,555)	(10.12)%
Operating income	**$ 119,715**	$ 118,052	$ 1,663	1.41 %
Interest income	**$ 7,425**	$ 4,355	$ 3,070	70.49 %
Allowance for other funds used during construction	**$ 7,779**	$ 2,349	$ 5,430	231.16 %
Interest charges	**$ 36,250**	$ 27,593	$ (8,657)	(31.37)%
Federal and state income taxes	**$ 33,059**	$ 37,495	$ 4,436	11.83 %
Net income	**$ 64,828**	$ 59,081	$ 5,747	9.73 %

Cleco Power’s net income for 2006 increased $5.7 million, or 9.7%, compared to 2005. Contributing factors include:

§ higher base revenue;
§ reversal of previously accrued customer credits;
§ lower maintenance expense;
§ higher interest income; and
§ higher allowance for other funds used during construction.

These were partially offset by:

§ lower other operations revenue;
§ higher non-recoverable fuel and power purchased;
§ higher depreciation expense;
§ absence of the gain on the sale of certain distribution assets; and
§ higher interest charges.

	FOR THE YEAR ENDED DECEMBER 31,		
(MILLION kWh)	**2006**	2005	FAVORABLE/ (UNFAVORABLE)
Electric sales			
Residential	**3,552**	3,516	1.02 %
Commercial	**2,109**	1,838	14.74 %
Industrial	**2,963**	2,861	3.57 %
Other retail	**412**	610	(32.46)%
Total retail	**9,036**	8,825	2.39 %
Sales for resale	**480**	552	(13.04)%
Unbilled	**7**	18	(61.11)%
Total retail and wholesale customer sales	**9,523**	9,395	1.36 %

	FOR THE YEAR ENDED DECEMBER 31,		
(THOUSANDS)	**2006**	2005	FAVORABLE/ (UNFAVORABLE)
Electric sales			
Residential	**$ 156,059**	$ 154,928	0.73 %
Commercial	**79,657**	70,547	12.91 %
Industrial	**55,947**	54,966	1.78 %
Other retail	**16,283**	23,549	(30.85)%
Storm surcharge	**16,304**	-	*
Total retail	**324,250**	303,990	6.66 %
Sales for resale	**17,322**	17,811	(2.75)%
Unbilled	**504**	622	(18.97)%
Total retail and wholesale customer sales	**$ 342,076**	$ 322,423	6.10 %
* Not meaningful			

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

	FOR THE YEAR ENDED DECEMBER 31,				
				2006 CHANGE	
	2006	2005	NORMAL	PRIOR YEAR	NORMAL
Cooling-degree days	**2,942**	3,084	2,663	(4.60)%	10.48 %
Heating-degree days	**1,282**	1,362	1,645	(5.87)%	(22.07)%

Base

Base revenue during 2006 increased $19.7 million, or 6.1%, compared to 2005. The increase primarily was due to the recovery of storm restoration costs through a monthly customer surcharge that began in May 2006. These storm-related costs are being amortized to expense based on the amounts collected monthly from customers through this surcharge. Also contributing to the increase in base revenue were slightly higher retail and wholesale kWh sales, primarily from sales related to fixed-price power being provided to a wholesale customer beginning in January 2006 and the absence in 2006 of extended hurricane-related outages. The absence in 2006 of a favorable fuel surcharge adjustment from 2005 rate orders related to fuel transportation charges and lower sales to two municipal customers

partially offset these increases.

Fuel Cost Recovery
Fuel cost recovery revenue billed to customers during 2006 compared to 2005 increased $65.2 million, or 11.8%, primarily due to higher fuel costs and the absence in 2006 of extended hurricane-related outages in 2005. Partially offsetting this increase was the absence in 2006 of favorable fuel surcharge adjustments from 2005 rate orders related to fuel transportation charges.

Electric Customer Credits
Electric customer credits during 2006 decreased $5.7 million, or 573.1%, compared to 2005. This decrease in electric customer credits largely is the result of favorable adjustments made during 2006 related to prior RSP filing periods. The potential refunds associated with the RSP are based on results for each 12-month period ended September 30. For additional information on the accrual of electric customer credits, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 12 — Electric Customer Credits."

Other Operations
Other operations revenue decreased $8.3 million, or 21.6%, in 2006 compared to 2005 primarily due to a $4.4 million mark-to-market loss in 2006 as compared to a $5.3 million mark-to-market gain in 2005 relating to economic hedge transactions related to fixed-price power being provided to a wholesale customer. In addition, a $0.6 million realized loss on these positions related to this fixed-price power contract in 2006 as compared to a $0.1 million gain in 2005 contributed to the decrease in other operations revenue. These decreases were partially offset by a $2.1 million net increase from higher transmission revenue, customer fees, and pole attachment revenue. For information on Cleco's energy commodity activities, see Item 7A, "Quantitative and Qualitative Disclosures about Market Risk — Risk Overview — Commodity Price Risks."

Operating Expenses
Operating expenses increased $80.6 million, or 10.1%, in 2006 compared to 2005. Fuel used for electric generation (recoverable) increased $60.5 million, or 30.9%, primarily due to recovery of higher fuel costs deferred in prior periods and higher costs of fuel used as compared to 2005. Power purchased for utility customers (recoverable) increased $5.3 million, or 1.5%, largely due to higher volumes of purchased power. The primary factor causing the increase in volumes of purchased power was a higher incremental generation cost compared to purchased power costs. Fuel used for electric generation and power purchased for utility customers generally are influenced by natural gas prices. However, other factors such as unscheduled outages, unanticipated maintenance or repairs, or other developments may affect fuel used for electric generation and power purchased for utility customers. Non-recoverable fuel and power purchased increased $3.7 million, or 19.5%, primarily due to a $7.0 million increase in power and fuel purchases associated with fixed-price power that is being provided to a wholesale customer. This increase was partially offset by lower capacity payments made during 2006 as a result of the expiration of certain 2005 power purchase agreements and the mutually agreed upon termination of the 2006 CES contract. Factors contributing to the $0.6 million, or 0.7%, increase in other operations expense

include higher employee benefit costs and payroll and administrative expenses, higher professional fees and higher distribution operation expenses. Partially offsetting these increases is the $3.5 million recognition of previously recorded storm restoration expenses as a regulatory asset as a result of the LPSC's February 2006, approval of Cleco Power's request to recover the storm restoration costs. Maintenance expenses during 2006 decreased $5.6 million, or 13.1%, compared to 2005 primarily due to the $3.0 million recognition of previously recorded storm restoration expenses as a regulatory asset as a result of the LPSC's February 2006, approval of Cleco Power's request to recover the storm restoration costs. Also contributing to the decrease was the absence in 2006 of the 2005 expensing of previously deferred IRP-related costs, the absence of a 2005 scheduled major outage on one of Cleco Power's natural gas generating units, as well as lower payroll and administrative expenses. Partially offsetting this decrease was increased routine generating station maintenance work performed during 2006. Depreciation expense increased $14.7 million, or 25.0%, primarily as a result of $11.9 million of storm amortization costs and $2.8 million of normal recurring additions to fixed assets. Gain on sales of assets decreased $2.1 million, or 96.8%, largely as a result of the absence in 2006 of the sale of distribution assets.

Interest Income
Interest income increased $3.1 million, or 70.5%, during 2006 compared to 2005, primarily due to higher rates and a higher average investment balance.

Allowance for Other Funds Used During Construction
Allowance for other funds used during construction increased $5.4 million, or 231.2%, during 2006 compared to 2005 primarily due to increased construction activity at Rodemacher Unit 3.

Interest Charges
Interest charges increased $8.7 million, or 31.4%, during 2006 compared to 2005 primarily due to higher debt balances as a result of new issuances of senior notes in the third and fourth quarters of 2005.

Income Taxes
Income tax expense decreased $4.4 million, or 11.8%, during 2006 compared to 2005. Cleco Power's effective income tax rate decreased from 38.8% to 33.8% during 2006 compared to 2005, mainly due to tax reserve adjustments related to favorable settlements of federal and state income tax audits and appeals. Also contributing to the rate decrease is the permanent flow-through of tax benefits associated with AFUDC equity recorded as a result of the construction of Rodemacher Unit 3. The rate was further decreased due to an adjustment related to an analysis of income taxes payable and state income taxes deducted on the 2004 federal return. Tax rates also were affected by the relative size of pre-tax income related to these items. Pre-tax income during 2006 increased $1.3 million compared to 2005.

**Midstream's Results of Operations —
Year ended December 31, 2006,
Compared to Year ended December 31, 2005**

	FOR THE YEAR ENDED DECEMBER 31,			
			FAVORABLE/(UNFAVORABLE)	
(THOUSANDS)	**2006**	2005	VARIANCE	CHANGE
Operating revenue				
Other operations	**$ 42**	$ 113	$ (71)	(62.83)%
Affiliate revenue	**4,358**	4,871	(513)	(10.53)%
Intercompany revenue	**-**	42	(42)	(100.00)%
Operating revenue, net	**4,400**	5,026	(626)	(12.46)%
Operating expenses				

Other operations	**4,704**	6,336	1,632	25.76 %
Maintenance	**2,081**	2,132	51	2.39 %
Depreciation	**307**	316	9	2.85 %
Taxes other than incometaxes	**247**	316	69	21.84 %
Total operatingexpenses	**7,339**	9,100	1,761	19.35 %
Operating loss	**(2,939)**	(4,074)	1,135	27.86 %
Equity income from investees	**$ 21,346**	$ 42,871	$ (21,525)	(50.21)%
Other income	**$ -**	$ 1,250	$ (1,250)	(100.00)%
Interest charges	**$ 18,918**	$ 15,302	$ (3,616)	(23.63)%
Federal and state income tax expense	**$ 3,220**	$ 10,413	$ 7,193	69.08 %
Loss from discontinued operations, including loss on disposal	**$ (79)**	$ (334)	$ 255	76.35 %
Net (loss) income	**$ (3,827)**	$ 13,967	$ (17,794)	(127.40)%

Midstream's net income for 2006 decreased $17.8 million, or 127.4%, compared to 2005. Factors affecting Midstream are described below.

Affiliate Revenue
Affiliate revenue decreased $0.5 million, or 10.5%, in 2006 compared to 2005 primarily because of decreased power plant operations and maintenance work performed for Perryville as a result of the sale of the Perryville facility on June 30, 2005.

Operating Expenses
Operating expenses decreased $1.8 million, or 19.4%, in 2006 compared to 2005. The decrease largely was due to differences in expense recognition related to share-based compensation as a result of the adoption of SFAS No. 123(R) in 2006 as compared to recognition pursuant to APB Opinion No. 25 in 2005. Also contributing to the decrease were lower insurance costs and the absence of operating expenses from Perryville as a result of the sale of the Perryville facility on June 30, 2005.

Equity Income from Investees
Equity income from investees decreased $21.5 million, or 50.2%, in 2006 compared to 2005 primarily due to decreases in equity earnings of $13.6 million at APH and $7.9 million at Evangeline. The decrease at APH primarily was due to continuing losses related to Calpine's failure to perform under the tolling agreements and the expensing of certain combustion turbine parts during 2006. The losses caused by Calpine

were partially offset by merchant revenue from an energy management contract with a third party marketer, proceeds from insurance claims, and APH's drawing the $15.0 million from the letter of credit issued by Calpine in 2006. The decrease at Evangeline primarily was due to higher turbine maintenance expenses and higher depreciation expense. Equity income from Evangeline decreased by $2.7 million due to prior year adjustments related to fixed asset accounting and depreciation. These adjustments are not material to Cleco. Total maintenance expenses at Evangeline increased $4.3 million as compared to 2005 primarily as a result of increased plant run time. As previously discussed, Midstream's ownership interests in Perryville and Attala were transferred to Cleco Corporation effective February 1, 2007, and are no longer reported as equity income from investees on Midstream's financial statements. In accordance with SFAS No. 131, operating results for 2006 and 2005 have been adjusted to reflect this new structure. For additional information on Evangeline and Acadia, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 13 — Equity Investment in Investees," and for additional information on Acadia and the Calpine bankruptcy, see Note 19 — "Calpine Bankruptcy Settlement."

Other Income

Other income decreased $1.3 million, or 100.0%, during 2006 compared to 2005 due to the absence in 2006 of cash payments received by APH from CES as a result of the settlement of a dispute over the availability of transmission capacity at Acadia.

Interest Charges

Interest charges increased $3.6 million, or 23.6%, during 2006 compared to 2005 primarily due to higher interest rates on affiliate debt relating to APH's investment in Acadia.

Income Taxes

Income tax expense decreased $7.2 million, or 69.1%, during 2006 compared to 2005. Midstream's effective income tax rate decreased from 42.1% to (610.7)% during 2006 compared to 2005 primarily due to an adjustment related to an analysis of income taxes payable following completion of an audit for tax years 1997 through 2000. Also contributing to the decrease is an adjustment for 2003 state income taxes for Cleco Corporation and all non regulated subsidiaries. Tax rates also were affected by the relative size of pre-tax income to these items. Pre-tax income during 2006 decreased $25.2 million compared to the same period of 2005.

CLECO POWER LLC — NARRATIVE ANALYSIS OF RESULTS OF OPERATIONS

For a narrative analysis of the results of operations explaining the reasons for material changes in the amount of revenue and expense items of Cleco Power between the year ended December 31, 2007, and the year ended December 31, 2006, see "Results of Operations — Cleco Power's Results of Operations — Year ended December 31, 2007, Compared to Year ended December 31, 2006."

For a narrative analysis of the results of operations explaining the reasons for material changes in the amount of revenue and expense items of Cleco Power between the year ended December 31, 2006, and the year ended December 31, 2005, see "Results of Operations — Cleco Power's Results of Operations — Year ended December 31, 2006, Compared to Year ended December 31, 2005."

The narrative analyses referenced above should be read in combination with Cleco Power's Financial Statements and the Notes contained in this Form 10-K.

CRITICAL ACCOUNTING POLICIES

Cleco's critical accounting policies include those accounting policies that are both important to Cleco's financial condition and results of operations and those that require management to make difficult, subjective, or complex judgments about future events, which could result in a material impact to the financial statements of Cleco Corporation's segments or to Cleco as a consolidated entity. The financial statements contained in this report are prepared in accordance with accounting principles generally accepted in the United States of America, which require Cleco to make estimates and assumptions. Estimates and assumptions about future events and their effects cannot be made with certainty. Management bases its current estimates and assumptions on historical experience and on various other factors that are believed to be reasonable under the circumstances. On an ongoing basis, these estimates and assumptions are evaluated and, if necessary, adjustments are made when warranted by new or updated information or by a change in circumstances or environment. Actual results may differ significantly from these estimates under different assumptions or conditions. For additional information on Cleco's accounting policies, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 2 — Summary of Significant Accounting Policies."

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

§ Cleco accounts for pensions and other postretirement benefits under SFAS No. 87, SFAS No. 106, and SFAS No. 158. To determine assets, liabilities, income, and expense relating to pension and other postretirement benefits, management must make assumptions about future trends. Assumptions and estimates include, but are not limited to, discount rate, expected return on plan assets, future rate of compensation increases, and medical inflation trend rates. These assumptions are reviewed and updated on an annual basis. Changes in the rates from year to year and newly enacted laws could have a material effect on Cleco's financial condition and results of operations by changing the recorded assets, liabilities, income, expense, or required funding of the pension plan obligation. One component of pension expense is the expected return on plan assets. It is

an assumed percentage return on the market-related value of plan assets. The market-related value of plan assets differs from the fair value of plan assets by the amount of deferred asset gains or losses. Actual asset returns that differ from the expected return on plan assets are deferred and recognized in the market-related value of assets on a straight-line basis over a five-year period. The 2007 return on pension plan assets was 5.7% compared to an expected long-term return of 8.4%. For 2006, the return on plan assets was 15.2% compared to an expected long-term return of 8.4%.

A change in the assumed discount rate creates a deferred actuarial gain or loss. Generally, when the assumed discount rate decreases compared to the prior measurement date, a deferred actuarial loss is created. When the assumed discount rate increases compared to the prior measurement date, a deferred actuarial gain is created. Actuarial gains and losses also are created when actual results, such as assumed compensation increases, differ from assumptions. The net of the deferred gains and losses is amortized to pension expense over the average service life of the remaining plan participants, 16 years for Cleco's plan, when it exceeds certain thresholds defined in SFAS No. 87 and SFAS No. 106. This approach to amortization of gains and losses has the effect of reducing the volatility of pension expense attributable to investment returns. Over time, it is not expected to reduce or increase the pension expense relative to an approach that immediately recognizes losses and gains.

As a result of the annual review of assumptions, Cleco has increased the discount rate from 5.90% to 6.48%. The increase in the discount rate is estimated to reduce 2008 pension expense by approximately $0.9 million relative to holding it constant at 5.9%. Since the discount rate is evaluated every year, the impact of the change may not extend past 2008. Cleco uses the Citigroup Pension Liability Index as a proxy for determining the discount rate applied to its pension plans. The use of the Citigroup Pension Liability Index as a proxy is considered to be proper because of the comparability of the Cleco pension plans' expected future cash flows to the expected future cash flows of the Citigroup Pension Liability Index.

Cleco Power made no discretionary contributions in 2007 or 2006. Future discretionary contributions may be made depending on changes in assumptions, the ability to utilize the contribution as a tax deduction and requirements concerning recognizing a minimum pension liability. Currently, Cleco Power does not expect to be required to make contributions for approximately three years. However, the three-year time period may be shortened by a decrease in discount rates, changes in laws concerning the calculation, or a significant downturn in the return on the pension plan investments. For additional information on pensions and other postretirement benefits, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 9 — Pension Plan and Employee Benefits."

§ Cleco accounts for income taxes under SFAS No. 109. Under this method, income tax expense and related balance sheet amounts are comprised of a "current" portion and a "deferred" portion. The current portion represents Cleco's estimate of the income taxes payable or receivable for the current year. The deferred portion represents Cleco's estimate of the future income tax effects of events that have been recognized in the financial statements or income tax returns in the current or prior years. Cleco makes assumptions and estimates when it records income taxes, such as its ability to deduct items on its tax returns, the timing of the deduction, and the effect of regulation by the LPSC on income taxes. Cleco's income tax expense and related assets and liabilities could be affected by changes in its assumptions and estimates and by ultimate resolution of assumptions and estimates with taxing authorities. The actual results may differ from the estimated results based on these assumptions and may have a material effect on Cleco's results of operations. For additional information about Cleco Corporation's income taxes, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 10 — Income Taxes."

Effective January 1, 2007, Cleco adopted the provisions of FIN 48 relating to uncertain tax positions. FIN 48 requires management to estimate the reliability of positions taken on tax returns. These estimates could differ significantly from the ultimate outcome. For additional information on the adoption of FIN 48, see Item 8, "Financial Statements and Supplemental Data — Notes to the Financial Statements — Note 2 — Summary of Significant Accounting Policies — Recent Accounting Standards."

§ Cleco Corporation consolidates entities as required by ARB No. 51, as amended by SFAS No. 94, and interpreted by FIN 46R. Generally, a parent consolidates entities in which it controls, either directly or indirectly, the majority of the voting interest. Additionally, a parent could be required to consolidate an entity in which it does not control

a majority voting interest if the subsidiary is a variable interest entity and meets certain criteria contained in FIN 46R. An entity is a variable interest entity if it lacks the ability to finance its activities without support from other parties; if its owners lack controlling financial interest in the entity; or if the entity either conducts substantially all of its activities with or on behalf of an investor or if voting rights are disproportional to risks and rewards. While consolidation or deconsolidation will not affect net income applicable to common shareholders, it may affect specific line items within the income statement, such as revenue, specific expense line items, and income from equity investees. Consolidation or deconsolidation of an entity will affect specific

balance sheet items such as property, plant and equipment and long-term debt, which will cause changes in total assets and total liabilities. Shareholders' equity should not be affected by consolidation or deconsolidation of entities.

§ Part of the compensation employees and directors receive is in the form of equity instruments. The instruments may take the form of restricted stock, stock options, stock equivalent units, or other types of equity instruments as described in the plans. Prior to January 1, 2006, Cleco recognized expense related to equity instruments granted to employees and directors using the intrinsic value method as described in APB Opinion No. 25, not using the fair value method as described in SFAS No. 123. Effective January 1, 2006, Cleco adopted SFAS No. 123(R), which requires recognizing equity compensation at fair value. For additional information on stock-based compensation, see Item 8, "Financial Statements and Supplemental Data — Notes to the Financial Statements — Note 7 — Common Stock — Stock-Based Compensation."

Cleco Power

SFAS No. 71 determines how to account for actions by regulators that control the price an entity can charge its customers. Cleco Power's prices are regulated by the LPSC and the FERC. By determining what costs can be recovered by Cleco Power through the price it charges its customers, regulatory assets and liabilities are recognized. Future changes made by the regulatory bodies could have a material impact on the operations and financial condition of Cleco Power. Below are three areas that could be materially impacted by future actions of regulators.

§ The LPSC determines the ability of Cleco Power to recover prudent costs incurred in developing long-lived assets. If the LPSC was to rule that the cost of current or future long-lived assets was imprudent and not recoverable, Cleco Power could be required to write down the imprudent cost and incur a corresponding impairment loss. At December 31, 2007, the carrying value of Cleco Power's long-lived assets was $1.7 billion and is expected to be $2.0 billion at the end of 2008 primarily due to the construction of Rodemacher Unit 3. Currently, Cleco Power has concluded that none of its long-lived assets are impaired.

§ Cleco Power has concluded it is probable that regulatory assets can be recovered from ratepayers in future rates. At December 31, 2007, Cleco Power had $282.2 million in regulatory assets, net of regulatory liabilities. Actions by the LPSC could limit the recovery of these regulatory assets, causing Cleco Power to record a loss on some or all of the regulatory assets. For additional information on the LPSC and regulatory assets, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 2 — Summary of Significant Accounting Policies — Regulation," Note 3 — "Regulatory Assets and Liabilities," and "— Financial Condition — Matters — Lignite Deferral."

§ The LPSC determines the amount and type of fuel and purchased power costs that Cleco Power can charge customers through the fuel adjustment clause. Changes in the determination of allowable costs already incurred by Cleco Power could cause material changes in fuel revenue. In 2004, the LPSC accepted a settlement relating to its fuel audit that required Cleco Power to refund $16.0 million to customers in 2005. This refund was made to customers in February 2005. For the years ended December 31, 2007, 2006, and 2005, Cleco Power reported fuel revenue of $634.6 million, $617.3 million, and $552.1 million, respectively.

Midstream

Generally, Midstream is most affected by market conditions and changes in contract counterparty credit ratings and financial condition. The most important are listed below.

§ Certain triggering events could cause Midstream to determine that its long-lived assets or its equity method investments may be impaired according to applicable accounting guidance. Triggering events which apply to long-lived assets include, but are not limited to, a significant decrease in the market value of long-lived assets, significant changes in a tolling agreement counterparty's financial condition, a significant change in legal factors,

such as adverse changes in environmental laws, or a current operating or cash flow loss combined with a projection of continued losses in the future. An equity method investment is required to be tested for impairment if an "other than temporary" decline in market value occurs. Any impairment calculated is subject to many assumptions and estimations. Management must make assumptions about expected future cash flows, long-term interest rates, estimates about the probability of the occurrence of future events, and estimates of market value of assets without a readily observable market price. Differences between the estimate made at a particular balance sheet date and actual events could cause material adjustments to an impairment charge. In September 2007, Midstream recognized an impairment of its indirect equity investment in Acadia of $45.8 million. At December 31, 2007, Midstream had $1.4 million in long-lived assets and $249.8 million in equity method investments. For additional information on the impairment charges, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 13 — Equity Investment in Investees."

§ Midstream records income from Evangeline as income from an equity investment and accounts for the Evangeline Tolling Agreement as an operating lease. If the tolling agreement was to be modified to the extent that it would make lease accounting no longer appropriate, future results could materially differ from those currently reported. Under current lease accounting rules, over

the first 10 years of the tolling agreement, Evangeline will recognize revenue that will not be billed and collected until the last 10 years of the tolling agreement. If lease accounting was to cease, the revenue would be recognized as billed, causing the revenue recognized in the first 10 years to be lower than it would have been under lease accounting. As of December 31, 2007, Evangeline had recorded $25.0 million in revenue that will not be billed and collected until the last 10 years of the tolling agreement, beginning in the year 2010. If the tolling agreement is modified substantially, the $25.0 million may not be collectible, and Evangeline may be required to incur a loss of some or all of the $25.0 million. For additional information on the tolling agreement, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 14 — Operating Leases."

FINANCIAL CONDITION

Liquidity and Capital Resources

General Considerations and Credit-Related Risks

Credit Ratings and Counterparties

Financing for operational needs and construction requirements is dependent upon the cost and availability of external funds from capital markets and financial institutions. Access to funds is dependent upon factors such as general economic and capital market conditions, regulatory authorizations and policies, Cleco Corporation's credit rating, the credit rating of Cleco Corporation's subsidiaries, the cash flows from routine operations, and the credit ratings of project counterparties. The following table presents the credit ratings of Cleco Corporation, Cleco Power, Evangeline, and Cleco's tolling agreement counterparty at December 31, 2007:

	MOODY'S		STANDARD & POOR'S	
	SENIOR UNSECURED DEBT	SENIOR SECURED DEBT	SENIOR UNSECURED DEBT	SENIOR SECURED DEBT
Cleco Corporation	Baa3	-	BBB-	-
Cleco Power	Baa1	A3	BBB	-
Evangeline	-	Ba1	-	-
Tolling Counterparty:				
Bear Stearns Companies Inc.	A2	-	A	-

Cleco notes that credit ratings are not recommendations to buy, sell, or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. Each rating should be evaluated independently of any other rating.

At December 31, 2007, Moody's and Standard & Poor's outlooks for both Cleco Corporation and Cleco Power were stable. If Cleco Corporation or Cleco Power's credit rating were to be downgraded by Moody's or Standard & Poor's, Cleco Corporation and/or Cleco Power would be required to pay additional fees and higher interest rates under their bank credit and other debt agreements. For additional information on the impacts of a downgrade in credit ratings, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 15 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Risks and Uncertainties — Cleco Power."

In November 2007, Williams completed the assignment of its interest in the Evangeline Tolling Agreement to Bear Energy LP. The terms of the agreement were unchanged. After the assignment, Evangeline's Senior Secured Debt rating was upgraded from Ba2 to Ba1. At December 31, 2007, Moody's outlook for Evangeline and the Bear Stearns Companies Inc. was stable. Bear Stearns Companies Inc. guarantees the payments of its subsidiary, Bear Energy LP,

under the Evangeline Tolling Agreement, which expires in 2020. Bear Energy LP does not have its own credit rating. The tolling agreement is the principal source of cash flow for Evangeline.
Credit concerns affected the markets during the last quarter of 2007. This caused Cleco Katrina/Rita to delay the issuance of bonds for securitization. Cleco Katrina/Rita plans to issue the bonds by the end of the first quarter of 2008. Changes in the bond market also affected the liquidity and pricing of Cleco Power's solid waste disposal facility bonds, which are auction-rate securities. Cleco Power is considering converting the bonds to a fixed-rate issue.
With respect to any open power or natural gas trading positions that Cleco may initiate in the future, Cleco may be required to provide credit support (or pay liquidated damages). The amount of credit support that Cleco may be required to provide at any point in the future is dependent on the amount of the initial transaction, changes in the market price of power and natural gas, the changes in open power and gas positions, and changes in the amount counterparties owe Cleco. Changes in any of these factors could cause the amount of requested credit support to increase or decrease.

Debt

At December 31, 2007, Cleco Corporation and Cleco Power were in compliance with the covenants in their credit facilities. If Cleco Corporation were to default under the covenants in its various credit facilities, it would be unable to borrow additional funds under the facilities. Further, if Cleco Power were to default under its credit facility, Cleco Corporation would be considered in default under its credit facility. The bonds issued by Evangeline are non-recourse to Cleco Corporation, and a default on these bonds would not be considered a default under Cleco Corporation's credit facility. If Cleco Corporation's credit rating were to be downgraded one level below investment grade, Cleco Corporation would be required to pay fees and interest at a rate of 0.45% higher than the current level for its $150.0 million credit facility. A similar downgrade to the credit ratings of Cleco Power would require Cleco Power to pay fees and interest at a rate of 0.70% higher than the current level on its $275.0 million credit facility.

Cleco Consolidated

Cleco had no short-term debt outstanding at December 31, 2007, or December 31, 2006. At December 31, 2007, Cleco's long-term debt outstanding was $869.1 million, of which $100.0 million is long-term debt due within one year,

compared to $669.3 million at December 31, 2006, which included $50.0 million long-term debt due within one year. The $199.8 million increase was primarily due to $190.0 million in draws against Cleco Power's credit facility and the 2007 issuance by the Rapides Finance Authority of $60.0 million of variable-rate solid waste disposal facility bonds due November 1, 2037, callable with 30 days notice. The rate at December 31, 2007, with these associated bonds was 7.99%. This was partially offset by the payment of $50.0 million of medium-term notes. During the year ended December 31, 2007, Cleco repaid $10.0 million of 6.53% medium-term notes, $15.0 million of 7.50% medium-term notes, and $25.0 million of 7.00% medium-term notes, all at maturity. For additional information, see "— Cleco Corporation (Holding Company Level)" and "— Cleco Power" below, and also see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 6 — Debt."

At December 31, 2007, and December 31, 2006, Cleco had a working capital surplus of $47.1 million and $148.8 million, respectively. The $101.7 million decrease in working capital is primarily due to construction costs for Rodemacher Unit 3, and the absence in 2007 of proceeds from Cleco Corporation's 2006 stock offering, partially offset by draws against Cleco Power's credit facility, and the net proceeds from the issuance of the solid waste disposal facility bonds relating to Rodemacher Unit 3.

Cash and cash equivalents available at December 31, 2007, were $129.0 million combined with $217.8 million facility capacity ($132.8 million from Cleco Corporation and $85.0 million from Cleco Power) for total liquidity of $346.8 million. Cash and cash equivalents decreased $63.5 million when compared to December 31, 2006. This decrease is primarily due to additions to property, plant and equipment, primarily Rodemacher Unit 3, partially offset by $190.0 million in draws against Cleco Power's credit facility.

At December 31, 2007, Cleco and Cleco Power were exposed to concentrations of credit risk through their short-term investments classified as cash equivalents. In order to mitigate potential credit risk, Cleco and Cleco Power have established guidelines for short-term investments. For more on the concentration of credit risk through short-term investments classified as cash equivalents, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 5 — "Fair Value of Financial Instruments."

Cleco Corporation (Holding Company Level)

Cleco Corporation had no short-term debt outstanding at December 31, 2007, or December 31, 2006. At December 31, 2007, and December 31, 2006, Cleco Corporation had $100.0 million of long-term debt outstanding related to its 7.00% Senior Notes due May 1, 2008.

Cleco Corporation's $150.0 million five-year credit facility matures on June 2, 2011. This facility provides for working capital and other needs. Cleco Corporation's borrowing costs under the facility are equal to LIBOR plus 0.65%, including facility fees. The facility contains the following material covenants:

§ a requirement that Cleco maintain at all times total indebtedness equal to or less than 65% of total capitalization;
§ a requirement that Cleco maintain a ratio of earnings before interest, taxes, depreciation, and amortization to interest expense as of the end of any fiscal quarter of at least 2.50 to 1.00;
§ a prohibition against incurring debt other than under the facility, subject to the following permitted exceptions, among others: (i) up to $425.0 million (less borrowings under the facility) of specified types of other debt may be incurred; (ii) guarantees of Cleco Power obligations and (iii) other specified guarantees, up to specified amounts;
§ a prohibition against creating liens upon any property, subject to permitted exceptions;
§ restrictions on merging, consolidating, or selling assets outside the ordinary course of business;
§ limitations on the payment of dividends, redemptions or repurchases of equity securities and payments in respect of subordinated debt, subject to various exceptions;
§ a prohibition against making loans or investments, subject to permitted exceptions, including exceptions for investments of up to $10.0 million per year in subsidiaries other than Cleco Power and loans of up to $20.0 million in the aggregate to such subsidiaries;
§ a prohibition against transactions with affiliates, subject to permitted exceptions;
§

a prohibition against Cleco and Cleco Power entering into agreements or arrangements that prohibit or restrict their ability to incur liens, or Cleco Power's ability to pay dividends or to repay debt or make payments to Cleco, subject to permitted exceptions; and

§ a prohibition against entering into speculative and other hedge agreements intended to be a borrowing of funds.

At December 31, 2007, off-balance sheet commitments reduced available borrowings under the credit facility by $17.2 million, leaving available capacity of $132.8 million. For more information about these commitments, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 15 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Off-Balance Sheet Commitments." An uncommitted line of credit with a bank in an amount up to $10.0 million also is available to support Cleco's working capital needs.

Cash and cash equivalents available at December 31, 2007, were $117.1 million, combined with $132.8 million facility capacity, for total liquidity of $249.9 million. Cash and cash equivalents increased $26.5 million when compared to December 31, 2006, largely due to the proceeds received from Cajun's purchase of the CAH Assets and proceeds received from the settlement of the Calpine bankruptcy claims. This was partially offset by the payment of dividends, and equity contributions to Cleco Power. For additional information, see Item 8, "Notes to the Financial Statements and Supplementary

Data — Notes to the Financial Statements — Note 19 — Calpine Bankruptcy Settlement."

Cleco Power

There was no short-term debt outstanding at Cleco Power at December 31, 2007, or December 31, 2006. At December 31, 2007, Cleco Power's long-term debt outstanding was $769.1 million, none of which was due within one year, compared to $569.3 million at December 31, 2006, which included $50.0 million of long-term debt due within one year. The $199.8 million increase was primarily due to $190.0 million in draws against Cleco Power's credit facility and the issuance in November 2007 by the Rapides Financing Authority of $60.0 million of variable-rate solid waste disposal facility bonds due in 2037, callable with 30 days notice. The rate at December 31, 2007, with these associated bonds was 7.99%. This was partially offset by the payment of $50.0 million of medium-term notes. During the year ended December 31, 2007, Cleco Power repaid $10.0 million of 6.53% medium-term notes, $15.0 million of 7.50% medium-term notes, and $25.0 million of 7.00% medium-term notes, all at maturity.
Cleco Power's $275.0 million five-year credit facility matures on June 2, 2011. This facility provides for working capital and other needs. Cleco Power's borrowing costs under the facility are equal to LIBOR plus 0.40%, including facility fees. The facility includes the following material covenants:

§ a requirement that Cleco Power maintain at all times total indebtedness equal to or less than 65% of total capitalization;
§ a requirement that Cleco Power maintain a ratio of earnings before interest, taxes, depreciation, and amortization to interest expense as of the end of any fiscal quarter of at least 2.50 to 1.00;
§ a prohibition against creating liens upon any property, subject to permitted exceptions;
§ restrictions on merging, consolidating, or selling assets outside the ordinary course of business;
§ a prohibition against making loans, subject to permitted exceptions; and
§ a prohibition against amending Cleco Power's Indenture of Mortgage dated July 1, 1950.

At December 31, 2007, and December 31, 2006, Cleco Power had a working capital surplus of $23.8 million and $42.1 million, respectively. The $18.3 million decrease in working capital is primarily due to construction costs for Rodemacher Unit 3, partially offset by draws against Cleco Power's credit facility, and the net proceeds from the issuance of the solid waste disposal facility bonds relating to Rodemacher Unit 3.
At December 31, 2007, $190.0 million was outstanding under Cleco Power's $275.0 million, five-year facility. The weighted average interest rate was 5.52% at December 31, 2007. An uncommitted line of credit with a bank in an amount up to $10.0 million also is available to support Cleco Power's working capital needs.
Cash and cash equivalents available at December 31, 2007, were $11.9 million, combined with $85.0 million facility capacity for total liquidity of $96.9 million. Cash and cash equivalents decreased $90.0 million, when compared to December 31, 2006. This decrease is primarily due to additions to property, plant and equipment, including Rodemacher Unit 3, partially offset by draws against Cleco Power's credit facility, the net proceeds from the issuance of the solid waste disposal facility bonds relating to Rodemacher Unit 3, and equity contributions from Cleco Corporation.
Storm restoration costs from Hurricanes Katrina and Rita total $158.0 million. During 2006, the LPSC agreed to an interim increase in rates of $23.4 million annually over a ten-year period to recover approximately $161.8 million of estimated storm restoration costs, until a review of the costs by the LPSC was completed. In March 2007, after completing this review, Cleco Power and the LPSC Staff signed a settlement term sheet allowing the recovery and securitization of essentially all of Cleco Power's Hurricane Katrina and Rita storm costs, along with the funding and securitization of a $50.0 million reserve for future, extraordinary storm costs. The agreement also allows Cleco Power to recover debt service costs through a customer billing surcharge. For the years ended December 31, 2007, and December 31, 2006, Cleco Power has collected $24.2 million and $16.3 million, respectively. For more information regarding storm restoration costs, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 3 — Regulatory Assets and Liabilities — Deferred Storm Restoration Costs-Katrina/Rita."

In February 2006, the LPSC approved Cleco Power's plans to build Rodemacher Unit 3. Terms of the approval included acceptance of an LPSC Staff recommendation that Cleco Power collect from customers an amount equal to 75% of the carrying costs of capital during the construction phase of the unit. Cleco Power had collected $31.5 million and $4.9 million at December 31, 2007, and December 31, 2006, respectively. In addition to this recovery, Cleco Power plans to fund the construction costs related to Rodemacher Unit 3 by utilizing cash on hand, available funds from its credit facility, the issuance of long-term debt, and equity contributions from Cleco Corporation.

The Louisiana State Bond Commission has approved the issuance of up to $200.0 million of tax-exempt bonds to finance the qualifying costs of the solid waste disposal facilities at Rodemacher Unit 3. The Governor's office allocated $60.0 million for issuance in 2006, and another $60.0 million for issuance in 2007. These bonds were issued by the Rapides Finance Authority in November 2006 and November 2007, respectively. Cleco Power can apply again in 2008, up to the total amount of qualifying costs identified. Thus far, a total of $152.9 million of qualifying costs have been identified. The bonds issued in 2006 have a fixed interest rate of 4.70%, and the maturity date is November 1, 2036. The 2006 bonds may be called at the option of the issuer at the direction of Cleco Power after November 1, 2016. The bonds issued in 2007 have a variable interest rate which is reset weekly via an auction agent. At December 31, 2007, the rate was 7.99%. The

maturity date is November 1, 2037. The 2007 bonds may be called at the option of the issuer at the direction of Cleco Power with 30 days notice. In the event of a failed auction, Cleco would have to pay the default rate of 15%. Cleco Power has initiated steps to cause the Rapides Finance Authority to convert these bonds to a fixed-rate issue for the remaining term of the bonds.

Midstream
Midstream had no short-term or long-term debt outstanding at December 31, 2007, or December 31, 2006. Evangeline, which is deconsolidated and no longer reported in Cleco Corporation's consolidated results, had no short-term debt outstanding at December 31, 2007, or December 31, 2006. Evangeline had $177.1 million and $184.7 million of long-term debt outstanding at December 31, 2007, and December 31, 2006, respectively, in the form of 8.82% Senior Secured Bonds due in 2019. Of these amounts, $8.2 million and $7.7 million was due within one year at December 31, 2007, and December 31, 2006, respectively. The bonds issued by Evangeline are non-recourse to Cleco Corporation. For information on the deconsolidation of Evangeline, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 13 — Equity Investment in Investees."

Cash Generation and Cash Requirements

Restricted Cash
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 general corporate purposes. At December 31, 2007, and 2006, $18.0 million and $24.5 million of cash, respectively, was restricted on Cleco Corporation's Consolidated Balance Sheets. At December 31, 2007, restricted cash consisted of $0.1 million under the Diversified Lands mitigation escrow agreement and $17.9 million held in escrow for the construction of Cleco Power's solid waste disposal facilities at Rodemacher Unit 3 under the Indenture of Trust dated November 1, 2007. Restricted cash at Cleco Power at December 31, 2007, decreased $6.5 million compared to December 31, 2006, due primarily to the release of funds for construction at Rodemacher Unit 3, partially offset by the cash received from the issuance of solid waste disposal facility bonds in November 2007. Evangeline's restricted cash is not reflected in Cleco Corporation's Consolidated Balance Sheets due to deconsolidation. Evangeline's restricted cash at December 31, 2007, and 2006, was $33.3 million and $34.5 million, respectively. This cash is restricted under Evangeline's senior secured bond indenture.

Cleco Cash Flows

Net Cash Provided by Operating Activities
Net cash provided by operating activities was $263.0 million during 2007, $91.4 million in 2006, and $249.7 million in 2005.
Cash from operating activities during 2007 increased $171.6 million from that reported in 2006 primarily due to the receipt of proceeds from the sale of bankruptcy claims, higher dividends from equity investments, lower margin deposits, and lower fuel oil and materials inventory purchases. These were partially offset by lower collections of customer accounts.
Net cash provided by operating activities decreased $158.3 million in 2006 compared to 2005, primarily due to lower dividends from affiliated companies, higher fuel oil and materials inventory purchases, lower deferral/accrual of income taxes due to the absence of the sale of Perryville's assets and storm restoration costs incurred in 2005, payment of storm restoration costs, and higher margin deposit requirements due to a decrease in the value of open natural gas contracts. These were partially offset by higher collections of customer accounts and collections of previously deferred fuel expenses.

Net Cash Used in Investing Activities

Net cash used in investing activities was $480.7 million during 2007, $251.0 million in 2006, and $147.2 million in 2005. Net cash used in 2007 was higher than 2006 and 2005 primarily due to increased additions to property, plant and equipment related to the Rodemacher Unit 3 project.

During 2007, Cleco had additions to property, plant and equipment, net of AFUDC, of $477.2 million, a $2.2 million investment in company- and trust-owned life insurance policies, and an $8.4 million investment in Acadia. This was partially offset by a $6.5 million transfer of cash from restricted accounts.

During 2006, Cleco had additions to property, plant and equipment, net of AFUDC, of $228.7 million, a $3.4 million investment in company- and trust-owned life insurance policies, a $24.4 million transfer of cash to restricted accounts, and a $7.0 million investment in Attala. This was partially offset by $11.2 million of dividends, primarily from APH and Perryville.

During 2005, Cleco had additions to property, plant and equipment, net of AFUDC, of $157.0 million, a $3.7 million investment in company- and trust-owned life insurance policies, and a $1.4 million investment in Perryville. This was partially offset by $12.1 million of dividends, primarily from APH, and $2.8 million in proceeds, primarily from the sale of the Franklinton distribution assets.

Net Cash Provided by/Used in Financing Activities

Net cash provided by financing activities was $154.2 million during 2007 and $132.9 million in 2006, compared to net cash used in financing activities of $7.1 million in 2005. Net cash provided by financing activities in 2007 was more than 2006 primarily due to $190.0 million in draws on Cleco Power's credit facility. This was partially offset by the absence in 2007

of proceeds from the 2006 sale of common stock. In 2006, financing activities provided cash, compared to 2005, when financing activities used cash. This was primarily due to additional cash provided in 2006 from the sale of common stock.

During 2007, Cleco received $190.0 million from draws on Cleco Power's credit facility, and $60.0 million from the issuance of long-term debt. This was partially offset by $50.3 million of cash used for repayment of long-term debt and $53.7 million used for common and preferred stock dividends.

During 2006, Cleco received $157.5 million of net proceeds from the sale of 6.9 million shares of common stock and $60.0 million from the issuance of long-term debt. This was partially offset by $40.4 million of cash used for repayment of long-term debt and $49.1 million for common and preferred stock dividends.

During 2005, Cleco used $200.1 million of cash for repayment of long-term debt obligations and $46.8 million for common and preferred stock dividends. This amount was offset partially by $238.7 million provided by the issuance of long-term debt.

Cleco Power Cash Flows

Net Cash Provided by Operating Activities

Net cash provided by operating activities was $97.6 million during 2007, $102.7 million in 2006, and $125.0 million in 2005.

Cash from operating activities in 2007 decreased $5.1 million from that reported in 2006 primarily due to higher income taxes, and lower collections of customer accounts. These were partially offset by lower fuel oil and materials inventory purchases, and lower margin deposit requirements.

Cash from operating activities in 2006 decreased $22.3 million from that reported in 2005 primarily due to higher fuel oil and materials inventory purchases, lower deferral/accrual of income taxes due to the absence of storm restoration costs incurred in 2005, higher margin deposit requirements due to a decrease in the value of open natural gas contracts, and payment of storm restoration costs. These were partially offset by higher collections of customer accounts and collections of previously deferred fuel expenses.

Net Cash Used in Investing Activities

Net cash used in investing activities was $469.6 million during 2007, $251.8 million in 2006, and $153.9 million in 2005. Net cash used in 2007 was higher than 2006 and 2005 primarily due to higher additions to property, plant and equipment related to the Rodemacher Unit 3 project.

During 2007, Cleco Power had additions to property, plant and equipment, net of AFUDC, of $476.2 million compared to $228.2 million and $156.1 million in 2006 and 2005, respectively.

Net Cash Provided by Financing Activities

Net cash provided by financing activities was $282.1 million during 2007, compared to $67.5 million in 2006, and $158.2 million in 2005. Net cash provided by financing activities in 2007 was $214.6 million higher than 2006 primarily due to $190.0 million in draws on Cleco Power's credit facility and a net contribution from Cleco of $35.0 million. This was partially offset by retirement of long-term debt.

Net cash provided by financing activities in 2006 was $90.7 million lower than 2005 primarily due to lower proceeds from the issuance of long-term debt, net of debt retired of $119.0 million and $25.0 million of lower cash contributions from Cleco Corporation, partially offset by $52.9 million in lower dividends distributed to Cleco Corporation.

Shelf Registrations

Cleco Corporation currently has on file two shelf registration statements with capacity remaining: Registration No. 333-55656 and Registration No. 333-109506. Cleco Power currently has on file one shelf registration statement with capacity: Registration No. 333-132832. At December 31, 2007, Registration Statement No. 333-55656 had

remaining capacity allowing for the issuance of up to $67.0 million of common or preferred stock, Registration Statement No. 333-109506 had remaining capacity allowing for the issuance of approximately $36.1 million of common stock, preferred stock or debt securities, and Registration Statement No. 333-132832 had a remaining capacity allowing for the issuance of $600.0 million in debt securities.

On November 2, 2007, Cleco Power and Cleco Katrina/Rita filed Registration Statement No. 333-147122. Management expects the registration Statement to be declared effective in the first quarter of 2008. The Registration Statement will register the offer and sale of up to $180.6 million of storm recovery bonds. Management expects Cleco Katrina/Rita to issue its storm recovery bonds by the end of the first quarter of 2008.

Construction Overview

Cleco allocates its construction budget among its major first-tier subsidiaries — Cleco Power and Midstream. Cleco Power construction costs relate primarily to assets that may be included in Cleco Power's rate base and, if considered prudent by the LPSC, can be recovered from its customers. Those assets also earn a rate of return authorized by the LPSC and are subject to the rate agreement. Such assets consist of improvements to Cleco Power's distribution system, transmission system, and generating stations, such as Rodemacher Unit 3. Midstream's construction activities pertain predominately to Evangeline and Acadia.

Cleco's 2008 expenditures for construction and debt maturity are estimated to total $397.0 million, which includes $297.0 million of estimated construction expenditures, excluding AFUDC, and $100.0 million of estimated debt maturity payments. For the five-year period ending in 2012, Cleco's expenditures for construction and debt maturity are expected to total approximately $919.0 million, which includes $719.0 million of estimated construction expenditures, excluding AFUDC, and $200.0 million of estimated debt maturity payments. Approximately 36% of the planned construction

expenditures for the five year period is expected to be for Cleco Power's construction of Rodemacher Unit 3. Total additional planned Rodemacher project costs, excluding AFUDC, are estimated at $260.0 million. Approximately 20% of the planned construction expenditures will support line extensions and substation upgrades to accommodate new business and load growth at Cleco Power. The remaining 44% will be for the rehabilitation of older transmission, distribution, and generation assets at Cleco Power and the purchase of computer hardware and software upgrades for Cleco.

Evangeline's 2008 expenditures for construction and debt maturity are estimated to total $16.0 million, which includes $7.0 million of estimated construction expenditures and $8.0 million of estimated debt maturity payments. For the five-year period ending in 2012, Evangeline's expenditures for construction and debt maturity are expected to total $65.0 million, which includes $22.0 million of estimated construction expenditures and $43.0 million of estimated debt maturity payments. The construction and debt maturity payments for Evangeline are not included in Cleco's totals due to the deconsolidation of Evangeline in 2004. For more information on the deconsolidation of Evangeline, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements —Note 13 — Equity Investment in Investees." For information on the maturities of Cleco's debt, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 6 — Debt."

Acadia's 2008 expenditures for construction and debt maturity are estimated to total $1.8 million, entirely consisting of estimated construction expenditures. For the five-year period ending in 2012, Acadia's expenditures for construction are expected to total $10.0 million. The construction and debt maturity payments for Acadia are not included in Cleco's totals due to the deconsolidation of Acadia. For more information on the deconsolidation of Acadia, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 13 — Equity Investment in Investees."

Cleco believes that its cash and cash equivalents on hand, together with cash generated from its operations, borrowings from credit facilities, and the net proceeds of any issuances under Cleco's shelf registration statements, will be adequate to fund normal ongoing capital expenditures, working capital, and debt service requirements for the foreseeable future.

Cleco Power Construction Overview

Cleco Power's construction expenditures, excluding AFUDC, totaled $476.2 million in 2007, $228.2 million in 2006, and $156.1 million in 2005. The increase in construction expenditures from 2005 to 2006, and from 2006 to 2007 is primarily due to costs related to the construction at Rodemacher Unit 3.

Cleco Power's construction expenditures for 2008, excluding AFUDC, are estimated to be $295.0 million. For the five-year period ending in 2012, they are expected to total $716.0 million. Approximately 36% of the planned construction is expected to be for Cleco Power's construction of Rodemacher Unit 3. Total additional planned Rodemacher project costs, excluding AFUDC, are estimated at $260.0 million. Approximately 20% of the planned construction in the five-year period will support line extensions and substation upgrades to accommodate new business and load growth. The remaining 44.0% will be for the rehabilitation of older transmission, distribution, and generation assets.

The construction of Rodemacher Unit 3 is being performed by Shaw under the Amended EPC Contract. For more information on the EPC contract, see "— Regulatory Matters — Rodemacher Unit 3 — Construction."

In 2007, 20.5% of Cleco Power's construction requirements was funded internally. In 2006 and 2005, 45.0% and 80.1%, respectively, of Cleco Power's construction requirements were funded internally. In 2008, 21.2% of construction requirements is expected to be funded internally. After the completion of Rodemacher Unit 3 in 2009, 100.0% of the remaining construction requirements is expected to be funded internally for the five-year period ending 2012. All computations of internally funded construction exclude AFUDC.

Other Subsidiary Construction

Other subsidiaries had construction expenditures of $1.0 million during 2007, $0.5 million during 2006, and $0.9 million during 2005. Other construction expenditures for 2008 are estimated to total $1.6 million. For the five-year period ending 2012, construction expenditures are expected to total $4.0 million. The majority of the planned other construction in the five-year period will consist of upgrades of computer hardware and software for Support Group.

Other Cash Requirements

Cleco Power's regulated operations and Midstream's merchant power plants are Cleco's primary sources of internally generated funds. These funds, along with the issuance of additional debt and equity in future years, will be used for general corporate purposes, construction, and to repay corporate debt.

Contractual Obligations and Other Commitments

Cleco, in the course of normal business activities, enters into a variety of contractual obligations. Some of these result in direct obligations that are reflected in Cleco's Consolidated Balance Sheets while others are commitments, some firm and some based on uncertainties, that are not reflected in the consolidated financial statements. The obligations listed in the following table do not include amounts for ongoing needs for which no contractual obligation existed as of December 31, 2007, and represent only the projected future payments that Cleco was contractually obligated to make as of December 31, 2007.

CONTRACTUAL OBLIGATIONS (THOUSANDS)	TOTAL	LESS THAN ONE YEAR	1-3 YEARS	4-5 YEARS	MORE THAN 5 YEARS
					PAYMENTS DUE BY PERIOD
Cleco Corporation *					
Long-term debt obligations [1]	$ 102,975	$ 102,521	$ 375	$ 79	$ -
Operating lease obligations [3]	596	135	270	191	-
Purchase obligations [4]	17,031	6,470	5,324	4,239	998
Other long-term liabilities [5]	147,865	4,231	9,421	10,028	124,185
Total Cleco Corporation	$ 268,467	$ 113,357	$ 15,390	$ 14,537	$ 125,183
Cleco Power					
Long-term debt obligations [1]	$ 1,199,950	$ 34,863	$ 114,420	$ 110,815	$ 939,852
Capital lease obligations [2]	23,479	4,749	9,486	9,244	-
Operating lease obligations [3]	76,759	14,505	29,840	24,425	7,989
Purchase obligations [4]	2,538,238	1,142,026	577,705	15,252	803,255
Other long-term liabilities [5]	91,569	12,971	26,898	26,222	25,478
Total Cleco Power	$ 3,929,995	$ 1,209,114	$ 758,349	$ 185,958	$ 1,776,574
Midstream *					
Purchase obligations [4]	$ 623	$ 275	$ 348	$ -	$ -
Other long-term liabilities [5]	$ 328	$ 66	$ 135	$ 127	$ -
Total Midstream	$ 951	$ 341	$ 483	$ 127	$ -
Other					
Purchase obligations [4]	$ 7,740	$ 6,615	$ 1,125	$ -	$ -
Total Other	$ 7,740	$ 6,615	$ 1,125	$ -	$ -
Total long-term debt obligations [1]	$ 1,302,925	$ 137,384	$ 114,795	$ 110,894	$ 939,852
Total capital lease obligations [2]	$ 23,479	$ 4,749	$ 9,486	$ 9,244	$ -
Total operating lease obligations [3]	$ 77,355	$ 14,640	$ 30,110	$ 24,616	$ 7,989
Total purchase obligations [4]	$ 2,563,632	$ 1,155,386	$ 584,502	$ 19,491	$ 804,253
Total other long-term liabilities [5]	$ 239,762	$ 17,268	$ 36,454	$ 36,377	$ 149,663
Total	$ 4,207,153	$ 1,329,427	$ 775,347	$ 200,622	$ 1,901,757

[1]Long-term debt existing as of December 31, 2007, is debt that has a final maturity of January 1, 2009, or later (current maturities of long-term debt are due within one-year). Cleco's anticipated interest payments related to long-term debt also are included in this category. Scheduled maturities of debt will total $100.0 million for 2008 and $770.9 million for the years thereafter. These amounts also include capital lease maturities. For additional information regarding Cleco's long-term debt, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 6 — Debt" and "— Debt" above.

[2]Capital leases are maintained in the ordinary course of Cleco's business activities. These leases include mobile data terminal leases and barges.

[3]Operating leases are maintained in the ordinary course of Cleco's business activities. These leases include tolling agreements and towboat, rail car, vehicle, office space, operating facilities, office equipment, and operating equipment leases and have various terms and expiration dates from 1 to 15 years. For additional information regarding Cleco's operating leases, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 14 — Operating Leases."

[4]Significant purchase obligations for Cleco are listed below:

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

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§ Power Purchase Agreements: Cleco Power has entered into agreements with energy suppliers for purchased power to meet system load and energy requirements, replace generation from Cleco Power owned units under maintenance and during outages, and meet operating reserve obligations. In general, these contracts provide for capacity payments, subject to meeting certain contract obligations, and energy payments based on actual power taken under the contracts. Cleco Power also has entered into agreements to purchase transmission capacity. For additional information regarding power purchase agreements, see "— Regulatory Matters — Generation RFP" below.

§ EPC contract: Cleco Power entered into an engineering, procurement, and construction contract with Shaw to construct Rodemacher Unit 3. For more information, see "— Regulatory Matters — Rodemacher Unit 3 — Construction."

§ Gas Futures Contracts: Cleco Power entered into natural gas purchase contracts in order to hedge the risk associated with the volatility in the cost of fuel purchased for utility generation and the risk associated with the fixed-price power that is being provided to a wholesale customer through December 2010. For more information, see Item 7A, "Quantitative and Qualitative Disclosures about Market Risk — Risk Overview — Commodity Price Risk."

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

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

[5]Other long-term liabilities primarily consist of obligations for franchise payments, deferred compensation, facilities use, SERP and other postretirement obligations, and various operating and maintenance agreements.

[*]Long-term debt, long-term maintenance agreements, and various other operating and maintenance agreements related to Cleco Corporation's equity investments in Perryville and Attala, and Midstream's equity investments in Evangeline and Acadia are not reflected in the chart above. For additional information on these entities, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 13 — Equity Investment in Investees" and

Note 18 — "Perryville."

Other Commitments
The obligations listed in the following table represent the projected future payments that Cleco may be obligated to make relative to uncertain tax positions as of December 31, 2007. For more information on Cleco's uncertain tax positions, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 10 — Income Taxes — Uncertain Tax Positions."

UNCERTAIN TAX POSITIONS (THOUSANDS)		**AT DECEMBER 31, 2007**
Tax liability	**$**	**76,252**
Interest		**18,320**
Total*	**$**	**94,572**
Cleco Corporation [(1)]	**$**	**62**
Cleco Power [(2)]		**60,368**
Midstream [(3)]		**34,142**
Total	**$**	**94,572**

*Uncertain federal and state tax positions as of December 31, 2007, that will be settled at some future date with the IRS and Louisiana Department of Revenue.
[(1)]Includes interest of $62 thousand
[(2)]Includes interest of $10,276 thousand
[(3)]Includes interest of $7,981 thousand

Off-Balance Sheet Commitments
Cleco Corporation and Cleco Power have entered into various off-balance sheet commitments, in the form of guarantees and standby letters of credit, in order to facilitate their activities and the activities of Cleco Corporation's subsidiaries and equity investees (affiliates). Cleco Corporation entered into these off-balance sheet commitments in order to entice desired counterparties to contract with its affiliates by providing some measure of credit assurance to the counterparty in the event Cleco's affiliates do not fulfill certain contractual obligations. If Cleco Corporation had not provided the off-balance sheet commitments, the desired counterparties may not have contracted with Cleco's affiliates, or may have contracted with them at terms less favorable to its affiliates.
The off-balance sheet commitments are not recognized on Cleco's Consolidated Balance Sheets, because it has been determined that Cleco's affiliates are able to perform these obligations under their contracts and that it is not probable that payments by Cleco will be required. Some of these commitments reduce borrowings available to Cleco Corporation under its credit facility pursuant to the terms of the credit facility. Cleco's off-balance sheet commitments as of December 31, 2007, are summarized in the following table, and a discussion of the off-balance sheet commitments follows the table. The discussion should be read in conjunction with the table to understand the impact of the off-balance sheet commitments on Cleco's financial condition.

	AT DECEMBER 31, 2007 REDUCTIONS TO THE AMOUNT AVAILABLE

(THOUSANDS)	FACE AMOUNT	REDUCTIONS	NET AMOUNT	TO BE DRAWN ON CLECO CORPORATION'S CREDIT FACILITY
Cleco Corporation				
Guarantee issued to Entergy companies for performance obligations of Perryville	**$ 277,400**	**$ 135,000**	**$ 142,400**	**$ 328**
Guarantees issued to purchasers of the assets of Cleco Energy	**1,400**	**-**	**1,400**	**1,400**
Obligations under standby letter of credit issued to the Evangeline Tolling Agreement counterparty	**15,000**	**-**	**15,000**	**15,000**
Guarantee issued to Entergy Mississippi on behalf of Attala	**500**	**-**	**500**	**500**
Cleco Power				
Obligations under standby letter of credit issued to Louisiana Department of Labor	**525**	**-**	**525**	**-**
Obligations under the Lignite Mining Agreement	**13,576**	**-**	**13,576**	**-**
Total	**$ 308,401**	**$ 135,000**	**$ 173,401**	**$ 17,228**

Cleco Corporation provided a limited guarantee to Entergy Louisiana and Entergy Gulf States for Perryville's performance, indemnity, representation, and warranty obligations under the Sale Agreement, the Power Purchase Agreement, and other ancillary agreements related to the sale of the Perryville facility. As of December 31, 2007, the aggregate guarantee of $277.4 million is limited to $142.4 million (other than with respect to the indemnification of environmental matters, to which there is no limit) due to the performance of some of the underlying obligations that were guaranteed. The discounted probability-weighted liability under the guarantees and indemnifications as of December 31, 2007, was $0.3 million, resulting in a corresponding reduction in the available credit under Cleco's credit facility, which was determined in accordance with the facility's definition of a contingent obligation. The contingent obligation reduces the amount available under the credit agreements by an amount equal to the maximum reasonably anticipated liability in respect of the contingent obligation as determined in good faith. For additional information on this guarantee, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 15 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees."

In November 2004, Cleco completed the sale of substantially all of the assets of Cleco Energy. Cleco Corporation provided guarantees to the buyers of Cleco Energy's assets for the payment and performance of the indemnity obligations of Cleco Energy. The aggregate amount of the guarantees is $1.4 million, and the guarantees expire in 2009.

If Evangeline fails to perform certain obligations under its tolling agreement, Cleco Corporation will be required to make payments to the Evangeline Tolling Agreement counterparty. Cleco Corporation's obligation under the Evangeline commitment is in the form of a standby letter of credit from investment grade banks and is limited to $15.0 million. Ratings triggers do not exist in the Evangeline Tolling Agreement. Cleco expects Evangeline to be able to meet its obligations under the tolling agreement and does not expect Cleco Corporation to

be required to make payments to the counterparty. However, under the covenants associated with Cleco Corporation's credit facility, the entire net amount of the Evangeline commitment reduces the amount that can be borrowed under the credit facility. The letter of credit for Evangeline is expected to be renewed annually until 2020.
In January 2006, Cleco Corporation provided a $0.5 million guarantee to Entergy Mississippi for Attala's obligations under the Interconnection Agreement. This guarantee will be effective through the life of the agreement.
The State of Louisiana allows employers of certain financial net worth to self-insure their workers' compensation benefits. Cleco Power has a certificate of self-insurance from the Louisiana Office of Workers' Compensation and is required to post a $0.5 million letter of credit, an amount equal to 110% of the average losses over the previous three years, as surety.
As part of the Lignite Mining Agreement entered into in 2001, Cleco Power and SWEPCO, joint owners of Dolet Hills, have agreed to pay the lignite miner's loan and lease principal obligations when due, if the lignite miner 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 the next invoice for lignite delivered. At December 31, 2007, Cleco Power's 50% exposure for this obligation was approximately $13.6 million. The lignite mining contract is in place until 2011 and does not affect the amount Cleco Corporation can borrow under its credit facility.
The following table summarizes the expected termination date of the guarantees and standby letters of credit discussed above.

		AT DECEMBER 31, 2007 AMOUNT OF COMMITMENT EXPIRATION PER PERIOD			
(THOUSANDS)	NET AMOUNT COMMITTED	LESS THAN ONE YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Guarantees	**$ 157,876**	**$ -**	**$ 101,400**	**$ 13,576**	**$ 42,900**
Standby letters of credit	**15,525**	**-**	**525**	**-**	**15,000**
Total commercial commitments	**$ 173,401**	**$ -**	**$ 101,925**	**$ 13,576**	**$ 57,900**

Inflation

Annual inflation rates, as measured by the U.S. Consumer Price Index, have averaged approximately 3.16% during the three years ended December 31, 2007. Cleco believes inflation, at this level, does not materially affect its results of operations or financial condition. However, under existing regulatory practice, only the historical cost of a plant is recoverable from customers. As a result, Cleco Power's cash flows designed to provide recovery of historical plant costs may not be adequate to replace property, plant and equipment in future years.

Regulatory Matters

Generation RFP

2007 Short-Term RFP for 2008 Resources

On January 29, 2007, Cleco Power issued a RFP for a minimum of 50 MW up to 350 MW to meet its 2008 capacity and energy requirements. On June 25, 2007, Cleco Power successfully completed negotiations with two selected bidders for two separate power purchase agreements totaling 333 MW of capacity and energy. On September 5, 2007, Cleco Power filed the two executed power purchase agreements with the LPSC, and received LPSC approval of the agreements on November 8, 2007.

2007 Long-Term RFP
On June 27, 2007, Cleco Power filed draft documents with the LPSC for up to approximately 600 MW of intermediate and/or peaking resources to meet projected load growth over a 10-year period beginning in 2010. To meet these needs, Cleco Power is looking for products for a term of 2 to 30 years. Out of the approximate 600-MW total, up to approximately 350 MW may be sourced from a peaking resource. Cleco Power has submitted four potential self-build projects that will be tested against the market. The final version of the RFP was issued October 3, 2007. Bids were received December 8, 2007, and final selections are anticipated by the third quarter of 2008.

Rodemacher Unit 3

Background
Cleco Power is in the process of constructing Rodemacher Unit 3, which will provide a portion of the utility's future power supply needs. Rodemacher Unit 3 will be capable of burning various solid fuels but primarily is expected to burn petroleum coke produced by several refineries throughout the Gulf Coast region. All environmental permits for the unit have been received.

CCN
In May 2006, the LPSC issued its implementing order granting Cleco Power a CCN to construct, own, and operate Rodemacher Unit 3. The CCN authorizes Cleco Power to issue up to $700.0 million of securities and other financial instruments during the 2006 through 2010 time frame in order to finance Rodemacher Unit 3. The CCN requires that Cleco Power provide the LPSC Staff with an advanced review of any specific long-term debt issuance, and the Staff has the right to object.
A condition within the LPSC's implementing order requires that Cleco Power submit periodic updates during the construction phase of Rodemacher Unit 3. At its September 2006 business meeting, the LPSC approved a Rodemacher Unit 3 post-certification monitoring plan that requires, at least quarterly, reports addressing construction progress, expenditures,

project financing, environmental compliance, and other related matters. The monitoring plan will remain in place for at least six months after the unit begins commercial operation.

Construction

In May 2006, Cleco Power and Shaw entered into an Amended EPC Contract, which provides for substantial completion of the construction no later than the fourth quarter of 2009. The total capital cost of the project, including AFUDC, Amended EPC Contract costs, and other development expenses, is estimated at $1.0 billion. The lump sum price under the scope of the Amended EPC Contract, including accepted change orders under the contract, is $785.6 million. Shaw is subject to payment of liquidated damages if certain operating performance criteria and schedule dates are not met. Cleco Power also is liable for potential labor costs above certain estimates up to a maximum of $15.0 million. Any unused portion of the labor contingency may be offset against schedule-delay related damages in an amount up to $9.0 million. The Amended EPC Contract allows for termination at Cleco Power’s sole discretion, which would require payment of termination fees, or if certain milestones, approvals, or other typical commercial terms and conditions are not met. As of December 31, 2007, the maximum termination costs would have been $605.3 million, which is $37.9 million more than the capital expended to date. The Amended EPC Contract also provides in the event Cleco Power does not maintain a senior unsecured credit rating of either: (i) Baa3 or better from Moody’s or (ii) BBB- or better from Standard & Poor’s, Cleco Power will be required to provide a letter of credit to Shaw in the amount of $20.0 million. In the event of further downgrade to both of its credit ratings to: (i) Ba2 or below from Moody’s, and (ii) BB or below from Standard & Poor’s, Cleco Power will be required to provide an additional $15.0 million letter of credit to Shaw.

Upon issuance of the notice to start construction in May 2006, Shaw provided a $58.9 million letter of credit to Cleco Power. In addition to the letter of credit, Shaw also posted a $200.0 million payment and performance bond in favor of Cleco Power in support of its performance obligations under the Amended EPC Contract. The Amended EPC Contract also provides for Shaw to: (a) allow retention, or (b) issue an additional letter of credit, in an amount equal to 7.5% of the payments made by Cleco Power under the contract. As of December 31, 2007, Shaw had issued a letter of credit in the amount of $40.3 million.

The project remains on schedule for commercial operation no later than the fourth quarter of 2009. As of December 31, 2007, Cleco Power had incurred approximately $631.3 million in project costs.

Environmental Matters

For information on environmental matters, see Part I, Item 1, “Business — Regulatory Matters, Industry Developments, and Franchises — Environmental Matters.”

Retail Rates of Cleco Power

Retail rates regulated by the LPSC accounted for approximately 97% and 96% of Cleco Power’s 2007 and 2006 revenue, respectively.

Fuel Rates

The cost of fuel used for electric generation and the cost of power purchased for utility customers are recovered through an LPSC-established fuel adjustment clause that enables Cleco Power to pass onto its customers substantially all such charges. These fuel and purchased power costs are subject to audit by the LPSC pursuant to the Fuel Adjustment Clause General Order issued in November 1997 in Docket No. U-21497, which anticipates that an audit will be performed not less than every other year. The LPSC has reviewed Cleco Power’s fuel and purchased power costs through the year 2002 and, in July 2006, began an audit of Cleco Power’s fuel adjustment clause filings for the period January 2003 through December 2004. This review is ongoing and Cleco Power anticipates completion in 2008.

To help stabilize electricity costs, the LPSC in 2001 suggested hedging the exposure to natural gas price volatility through the use of financial instruments. Cleco Power hedges a portion of the projected natural gas volumes used to

serve its native electric load during each year. The hedge quantity is reviewed and adjusted periodically based on projected market indicators.
In February 2008, the LPSC opened an inquiry and issued a request for comments to investigate the potential for incentive-based mechanisms for fuel cost recovery. Initial comments were due February 25, 2008, and the LPSC has indicated that it anticipates completion during the third quarter of 2008. Management currently cannot determine the impact any potential rulemaking may have on the financial condition and results of operations of Cleco Power.

Base Rates
Beginning in 1996, the amount of Cleco Power's yearly retail earnings has been subject to the terms of a RSP established by Cleco Power and the LPSC in a 1996 earnings review settlement. The RSP establishes a target return on common equity and requires all or a portion of regulated earnings for each yearly review period above the targeted regulatory rate of return on equity to be credited to Cleco Power's customers.
The terms of the current RSP were approved by the LPSC in July 2006, and became effective October 1, 2006, along with Cleco Power's request to extend the terms of the RSP to the in-service date of Rodemacher Unit 3, which is expected to be operational no later than the fourth quarter of 2009. The current RSP allows Cleco Power the opportunity to earn a maximum regulated return on equity of 11.65%. This maximum return is based on a return on equity of 11.25%, with any regulated earnings between 11.25% and 12.25% shared between shareholders and customers in a 40/60 ratio. All regulated earnings over 12.25% will be returned to customers. The amount of credits due customers, if any, is determined by Cleco Power and the LPSC annually, based on results for

each 12-month period ended September 30. The RSP terms require the credits to be included on customers' bills the following summer.

The terms of the original 1996 LPSC RSP settlement, effective through September 30, 2006, allowed Cleco Power to retain all regulated earnings up to a 12.25% return on equity, and to share equally with customers, as credits on their bills, all regulated earnings between 12.25% and 13% return on equity. All regulated earnings above a 13% return on equity were credited to customers. This effectively allowed Cleco Power the opportunity to realize a regulatory rate of return up to 12.625%.

For information concerning amounts accrued and refunded by Cleco Power as a result of the RSP and information on the Staff's RSP reviews, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 12 — Electric Customer Credits."

Based on the current projected construction schedule for Rodemacher Unit 3 and an anticipated commercial operation date for the unit no later than the fourth quarter of 2009, Cleco Power has begun preparing an LPSC filing to request an increase in base rates. The primary purpose of the filing will be to request recovery of capital and expected operating costs of the new unit. Cleco Power anticipates filing the request by the end of the second quarter of 2008. LPSC procedures require that the LPSC Staff complete their review of the application within one year. For information relating to the risks associated with Cleco Power's rate increase request, see Part I, Item 1A, "Risk Factors — Rodemacher Unit 3 Construction Costs" and "— Cleco Power's Rates and Upcoming Rate Case."

Storm Cost Recovery

In September 2007, the LPSC approved securitization and recovery of Cleco Power's storm restoration costs related to Hurricanes Katrina and Rita. Cleco Power is currently recovering these costs through an interim rate increase granted by the LPSC, until securitization financing can be completed. As part of approval, the LPSC also authorized the funding and securitization of a $50.0 million reserve for Cleco Power's future, extraordinary storm costs. For information concerning the recovery of storm restoration costs relating to Hurricanes Katrina and Rita, as well as Tropical Storm Isidore and Hurricane Lili, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 3 — Regulatory Assets and Liabilities."

IRP

For information on Cleco Power's IRP team and its evaluation of generation supply options, see Part I, Item 1, "Business — Operations — Cleco Power — Fuel and Purchased Power — Power Purchases."

Wholesale Rates of Cleco

Power Sales

Cleco's wholesale electric power sales are regulated by the FERC via cost-based and market-based tariffs. Both Evangeline and Acadia have received approval by the FERC to use market-based rates based on Cleco's initial request to the FERC in 1999 for market-based rates and Cleco's demonstration of its lack of market power. These tariffs, including the associated codes of conduct accompanying them, are updated periodically to comply with FERC directives. Cleco updates its filing every three years to demonstrate its lack of market power. Such an update was completed in December 2003 for each entity to comply with the FERC's requirement to amend market-based rates to add "market behavior rules" to the codes of conduct. Contracts utilizing market-based tariffs do not require prior approval by the FERC but are reported each quarter pursuant to the FERC's requirement for reporting of sales by authorized power marketers.

In April 2004, the FERC issued an order revising the methodology to be used in assessing whether a jurisdictional electric utility has generation market power, requiring a utility to pass a screening test as a condition for securing and/or retaining approval to sell electricity in wholesale markets at market-based rates. Reviews conducted by the FERC in 2005 and 2006 of filings submitted by Cleco's authorized power marketing entities, Cleco Power, Evangeline, Marketing & Trading, and Acadia, concluded that Cleco had demonstrated a lack of market power in

Cleco Power's control area, and the power marketing entities may continue to charge market-based rates for wholesale power.

Transmission Service

Cleco's electric transmission rates are regulated by the FERC via cost-based, pro forma open access transmission tariffs (OATTs), a FERC-approved document outlining rates, charges, rules and conditions under which a utility provides electric transmission service. The pro forma OATT was instituted by the FERC in 1996 with the issuance of Order Nos. 888 and 889. These orders required FERC-regulated electric utilities to offer third parties access to transmission under terms and conditions comparable to the terms and conditions followed by the utilities for use of their own systems. The goal of these orders was to ensure that the provision of transmission service is reasonable and not unduly discriminatory or preferential.

On February 15, 2007, the FERC issued Order No. 890 amending its regulations and the pro forma tariff adopted in FERC Order Nos. 888 and 889. The amendments addressed apparent deficiencies in the pro forma tariff and standardized several industry practices relating to the provision of wholesale transmission service. The order became effective on May 14, 2007, and contained various implementation deadlines ranging from 30 days to one year. Order No. 890 was modified by the FERC with Order No. 890-A, issued in December 2007, which clarified certain changes to the pro forma OATT adopted in Order No. 890. Cleco Power is in the process of incorporating these new requirements and business practices into its operations and anticipates no significant impact to Cleco.

Franchises
For information on the treatment of franchise fees paid to municipalities by the state's utilities, see Part I, Item 1, "Business — Regulatory Matters, Industry Developments, and Franchises — Franchises."

Market Restructuring

Wholesale Electric Markets

Regional Transmission Organization
In 1999, the FERC issued Order No. 2000, which established a general framework for all transmission-owning entities in the nation to voluntarily place their transmission facilities under the control of an appropriate RTO. Although participation was voluntary, the FERC made it clear that any jurisdictional entity not participating in a RTO likely would be subject to regulatory directives. The FERC later relaxed its mandate to participate in a RTO, but continued to insist upon large regional models. Many transmission-owning entities and system operators have been trying to interpret and implement the FERC's directives by attempting to organize and/or join acceptable RTOs. In October 2004, the FERC granted the SPP status as a RTO.
In April 2004, Entergy filed at the FERC to make potentially significant modifications to its transmission tariff. The modifications would incorporate an independent third-party entity, the ICT, into its transmission operations, with the ICT having access to pertinent information regarding the Entergy transmission system. After receiving approval from the FERC and state commissions (including the LPSC), the SPP began a four-year trial as Entergy's acting ICT on November 17, 2006.
As with RTO developments at large, other various parties, including several state commissions, utilities, and other industry participants, are participants in the RTO and Entergy proceedings described above. As both the SPP and Entergy proceedings could impact the ability to transport power into and out of the Cleco control area, Cleco will continue monitoring developments in these proceedings and plans to be a participant in these and all other proceedings affecting the availability and sale of power in and around Louisiana.

Electric Reliability Organization
The Energy Policy Act of 2005 added Section 215 to the Federal Power Act, which provides for a uniform system of mandatory, enforceable reliability standards. In July 2006, the FERC named the NERC as the ERO that will be required to develop the mandatory reliability standards. Formed in 1968, NERC's goal is to help maintain and improve the reliability of North America's bulk power system. All public utilities subject to the FERC's authority will be required to comply with the incorporated standards and could be subjected to financial penalties if they violate the FERC's reliability or business practice standards. In March 2007, the FERC issued Order No. 693 approving 83 standards submitted by NERC for approval. The rules essentially deal with documentation and the standardization of practices across the industry. The FERC began enforcement of these standards on June 18, 2007. Cleco Power has incorporated these new reliability standards into its operations. Cleco will continue to monitor and provide input in the development of new proposed standards and will implement processes as necessary to achieve compliance with the standards.
For a discussion of risks associated with FERC's regulation of Cleco Power's wholesale electric business, see Part I, Item 1A, "Risk Factors — ERO."

Retail Electric Markets
Cleco Power and a number of parties, including other Louisiana electric utilities, certain power marketing companies, and various associations representing industry and consumers, have been participating in electric industry restructuring activities before the LPSC since 1997. During 2000, the LPSC Staff developed a transition to competition plan that was presented to the LPSC. In November 2001, the LPSC directed its Staff to monitor neighboring jurisdictions and to report back the success or failure of those efforts 12 months after any such initiatives

begin. In September 2004, the LPSC reviewed a large customer retail choice pilot program study compiled by the Louisiana State University Center for Energy Studies. The study concluded that retail customers 5 MW or larger could lower their electric costs through direct access to overbuilt regional electric markets. The study also concluded that there would be minimal negative impact to remaining customers based on utilities' ability to avoid purchase power costs for existing large customers. Cleco Power filed comments on the study in January 2005 stating the study's suggested savings were overstated, and the impact on remaining captive customers was understated. In April 2005, the LPSC conducted a technical conference to discuss retail choice for large customers. At this time, Cleco cannot predict whether any regulation enacting a large customer pilot program or otherwise affecting Cleco Power will be adopted and, if adopted, what form such legislation or regulation may take. A potentially competitive environment presents both the opportunity to supply electricity to new customers and the risk of losing existing customers. Cleco Power is striving to be able to compete effectively should retail access be adopted at some future time in Louisiana. At this time, the LPSC has deferred pursuing retail open access pending developments at the federal level and in other states.

In April 2002, the LPSC adopted order R-26172 governing the way electric generation sources are to be solicited and tested versus self-build options of a utility. Cleco Power conducted a RFP pursuant to this order during 2003. In January 2004, the LPSC amended its prior order to formally add the requirement that the soliciting utility employ an independent monitor. The independent monitor's role is to assure the RFP process is run fairly, that bidder data is treated confidentially, and that no preference is afforded bids from affiliate companies of the utility or the utility's own self-build proposals. For additional information on Cleco Power's 2006, 2007 and 2008 RFPs, see "— Regulatory Matters — Generation RFP."

Currently, the LPSC does not provide exclusive service territories for electric utilities under its jurisdiction. Instead, retail

service is obtained through a long-term nonexclusive franchise. The LPSC uses a "300-foot rule" for determining the supplier for new customers. The "300-foot rule" requires a customer to take service from the electric utility that is within 300 feet of the respective customer. If the customer is beyond 300 feet from any existing utility service, they may choose their electric supplier. The LPSC is currently reviewing its "300 foot rule" (Docket No. R-28955), and Cleco anticipates a proposed order by the end of 2008. The application of the current rule has led to competition with neighboring utilities for retail customers at the borders of Cleco Power's service areas. Such competition has led to complaints by competitors that Cleco Power has violated the 300-foot rule. Several complaints have been made by competitors who operate as rural electric cooperatives and, if the LPSC were to rule in favor of such competitors, Cleco Power may be fined. Management does not believe any such fines would have a material impact on Cleco Power's financial condition. Cleco Power also competes in its service area with suppliers of alternative forms of energy, some of which may be less costly than electricity for certain applications. Cleco Power could experience some competition for electric sales to industrial customers in the form of cogeneration or from independent power producers.

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

Other Matters

Lignite Deferral

Cleco Power operates a generating unit jointly owned with other utilities, primarily SWEPCO, that uses lignite as its fuel source.

In May 2001, Cleco Power (along with SWEPCO) entered into the Lignite Mining Agreement with DHLC, the operator of the Dolet Hills mine. As ordered then by the LPSC, Cleco Power's retail customers began receiving fuel cost savings equal to 2% of the projected costs under the previous mining contract (the benchmark price) through the year 2011. Actual mining costs incurred above 98% of the benchmark price were deferred, and could be recovered from retail customers through the fuel adjustment clause only when the actual mining costs are below 98% of the benchmark price. The benchmark price used the GDP-IPD index as a proxy for the numerous escalators in the previous mining contract. During the course of the contract, Cleco Power and SWEPCO determined that the GDP-IPD index did not appropriately reflect the increase in mining costs caused by sharp increases in diesel fuel and electricity costs associated with the mining operation. Because of this disconnect between the GDP-IPD index and actual mining costs, a significant amount of mining costs was being deferred by Cleco Power. At December 31, 2007, and 2006, Cleco Power had $29.4 million and $20.1 million, respectively, in deferred costs remaining uncollected. Cleco Power recognized that there was a possibility it may not recover all or part of the lignite mining costs currently deferred. On November 15, 2006, Cleco Power and SWEPCO submitted a joint application to the LPSC requesting approval for Cleco Power to recover its existing deferral balance, and eliminate any future benchmarking of lignite mining costs. In December 2007, the LPSC approved a settlement agreement between Cleco Power, SWEPCO and the LPSC Staff authorizing Cleco Power to recover the existing deferred mining cost balance, including interest, over approximately 11.5 years. The settlement also established a new benchmark utilizing the contract's escalators to assure a minimum 2% savings to customers compared to the costs under the prior mining contract. This benchmarking will end after April 2011. Cleco Power and SWEPCO agreed also to commit to continued operation of the mining operation through 2016 as long as the operation of the mine was considered prudent.

Pension Protection Act of 2006

In August 2006, the President signed the Pension Protection Act of 2006. The new law replaces the defined benefit pension plan funding rules with a new funding system that becomes effective in 2008. Plan contributions will be required if assets are less than 100% of liabilities. After 2007, employers generally will have to make minimum contributions equal to the sum of the plan's normal cost (i.e. benefits that accrue during the year) and a shortfall contribution. The shortfall contribution is the amount necessary to amortize the difference between 100% of the

liabilities and assets over a seven-year period. Funding transition rules will apply to most pension plans. Pension plans that are not fully funded at the beginning of 2008 may meet interim targets of 92% in 2008, 94% in 2009, and 96% in 2010.

Furthermore, the calculation for the pension funding liability will be subject to a new methodology beginning in 2008. The new methodology features the yield on investment grade corporate bonds (of the highest quality rating levels) with maturity dates that match the durations of the pension liabilities owed plan participants (broken down into three maturity segments). A temporary extension of the single corporate bond rate remained in effect for plan years 2006 and 2007.

Cleco expects the implementation of the Pension Protection Act will not result in annual pension contributions going-forward that are materially higher than those estimates calculated under the prior law.

New Accounting Standards

For discussion of new accounting standards, see Item 8, “Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 2 — Summary of Significant Accounting Policies — Recent Accounting Standards.”

ITEM 7A.QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk Overview

Market risk inherent in Cleco's market risk-sensitive instruments and positions includes potential changes arising from changes in interest rates and the commodity market prices of power and natural gas in the industry on different energy exchanges. Cleco is subject to market risk associated with economic hedges relating to open natural gas contracts. Cleco also is subject to market risk associated with its remaining tolling agreement counterparty. For additional information concerning Cleco's market risk associated with its remaining counterparty, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Liquidity and Capital Resources — General Considerations and Credit-Related Risks."

Cleco uses SFAS No. 133 to determine whether the market risk-sensitive instruments and positions are required to be marked-to-market. Generally, Cleco Power's market risk-sensitive instruments and positions qualify for the normal-purchase, normal-sale exception to mark-to-market accounting of SFAS No. 133, as modified by SFAS No. 149, since Cleco Power takes physical delivery and the instruments and positions are used to satisfy customer requirements.

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

Cleco monitors credit risk exposure through reviews of counterparty credit quality, corporate-wide aggregate counterparty credit exposure and corporate-wide aggregate counterparty concentration levels. Cleco actively 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 transactions and contract payments to mitigate credit risk for transactions entered into for risk management purposes.

Interest Rate Risks

Cleco monitors its mix of fixed- and variable-rate debt obligations in light of changing market conditions and from time to time may alter that mix, for example, refinancing balances outstanding under its variable-rate credit facility with fixed-rate debt. For details, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 6 — Debt." Calculations of the changes in fair market value and interest expense of the debt securities are made over a one-year period.

Sensitivity to changes in interest rates for fixed-rate obligations is computed by calculating the current fair market value using a net present value model based upon a 1% change in the average interest rate applicable to such debt. Sensitivity to changes in interest rates for variable-rate obligations is computed by assuming a 1% change in the current interest rate applicable to such debt.

As of December 31, 2007, the carrying value of Cleco's long-term fixed-rate debt was approximately $690.6 million, with a fair market value of approximately $676.7 million. Fair value was determined using quoted market prices. Each 1% increase in the average interest rates applicable to such debt would result in a corresponding decrease of approximately $42.5 million in the fair value of these instruments. If these instruments are held to maturity, no change in stated value will be realized.

At December 31, 2007, Cleco had $60.0 million principal amount of long-term variable-rate debt outstanding. Each 1% increase in the interest rate applicable to such debt would result in a $0.6 million decrease in pre-tax earnings of Cleco. Cleco had no short-term variable-rate debt as of December 31, 2007.

Commodity Price Risks

Management believes Cleco has controls in place to minimize the risks involved in its financial and energy commodity activities. Independent controls over energy commodity functions consist of a middle office (risk management), a back office (accounting), regulatory compliance staff, as well as oversight by a risk management committee comprised of officers and the General Manager – Internal Audit, who are appointed by Cleco Corporation's Board of Directors. VaR limits are recommended by the Risk Management Committee and monitored through a daily risk report that identifies the current VaR and market conditions.

During 2005, Cleco Power entered into certain financial hedge transactions it considers economic hedges to mitigate the risk associated with fixed-price power to be provided to a wholesale customer through December 2010. These transactions are derivatives as defined by SFAS No. 133 but do not meet the accounting criteria to be considered hedges. These transactions are marked-to-market with the resulting gain or loss recorded on the income statement as a component of operating revenue, net. At December 31, 2007, the positions had a mark-to-market value of $2.0 million, which is an increase of $1.1 million from the mark-to-market value of $0.9 million at December 31, 2006. In addition, these positions resulted in a realized loss of $0.2 million in 2007. In light of these economic hedge transactions, volatility in natural gas prices will likely cause fluctuations in the market value of open natural gas positions and ultimately in Cleco Power's future earnings.

Cleco Power provides fuel for generation and purchases power to meet the power demands of customers. Cleco Power has entered into positions to mitigate the volatility in

customer fuel costs, as encouraged by an LPSC order. In December 2004, Cleco Power implemented a fuel stabilization policy (which was filed with the LPSC and subsequently amended in June 2006) to target higher levels of minimum hedging percentages and mitigate the volatility in customer fuel costs. The change in positions could result in increased volatility in the marked-to-market amounts for the financial positions. These positions are marked-to-market with the resulting gain or loss recorded on the balance sheet as a component of the accumulated deferred fuel asset or liability and a component of the risk management assets or liabilities. When these positions close, actual gains or losses are deferred and included in the fuel adjustment clause in the month the physical contract settles. Based on market prices at year end, the net mark-to-market impact related to open natural gas positions at December 31, 2007 and 2006, were losses of $7.0 million and $60.3 million, respectively. Deferred losses relating to closed natural gas positions at December 31, 2007 and 2006, totaled $3.1 million and $8.0 million, respectively.
Cleco utilizes a VaR model to assess the market risk of its hedging portfolios, including derivative financial instruments. VaR represents the potential loss in fair value for an instrument from adverse changes in market factors over a defined period of time with a specified confidence level. VaR is calculated daily, using the variance/covariance method with delta approximation, assuming a holding period of one day, and a 95% confidence level for natural gas and power positions. Volatility is calculated daily from historical forward prices using the exponentially weighted moving average method.
Based on these assumptions, the VaR relating to the economic hedge transactions for 2007, as well as the VaR at December 31, 2007, and 2006, are summarized below:

	FOR THE YEAR ENDED DECEMBER 31, 2007			AT DECEMBER 31,	
(THOUSANDS)	**HIGH**	**LOW**	**AVERAGE**	**2007**	2006
Cleco Power	**$ 452.6**	**$ 157.6**	**$ 269.9**	**$ 160.1**	$ 459.5

All open positions were transacted by Cleco Power. The decrease in VaR at December 31, 2007, compared to December 31, 2006, is primarily due to Cleco Power's economic hedging activity. Under Cleco's VaR model, changes in market value of open positions in excess of $0.2 million over Cleco's estimated VaR are deemed material. During 2007, the limit was exceeded one time.
The following table summarizes the market value maturities of open natural gas purchase contracts at December 31, 2007. All contracts were transacted by Cleco Power.

(THOUSANDS)	MATURITY LESS THAN ONE YEAR	MATURITY 1-3 YEARS	MATURITY OVER THREEYEARS	TOTAL FAIR VALUE
Assets	$ 130,302	$ 88,919	$ -	$ 219,221
Liabilities	$ 173,076	$ 120,091	$ -	$ 293,167

For additional information on the market value maturities of contracts, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 5 — Fair Value of Financial Instruments."

Cleco Power

Please refer to "— Risk Overview" above for a discussion of market risk inherent in Cleco Power's market risk-sensitive instruments.
Cleco Power has entered into various fixed- and variable-rate debt obligations. For details, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 6 — Debt." Please refer to "— Interest Rate Risks" above for a discussion of how Cleco Power monitors its mix of fixed- and variable-rate debt obligations and the

manner of calculating changes in fair market value and interest expense of its debt obligations.
As of December 31, 2007, the carrying value of Cleco Power's long-term fixed-rate debt was approximately $520.6 million, with a fair market value of approximately $516.1 million. Fair value was determined using quoted market prices. Each 1% increase in the average interest rates applicable to such debt would result in a corresponding decrease of approximately $42.4 million in the fair values of these instruments. If these instruments are held to maturity, no change in stated value will be realized.
At December 31, 2007, Cleco Power had $60.0 million principal amount of long-term variable-rate debt outstanding. Each 1% increase in the interest rate applicable to such debt would result in a $0.6 million decrease in pre-tax earnings for Cleco Power. Cleco Power had no short-term variable-rate debt at December 31, 2007.
Please refer to "— Commodity Price Risks" above for a discussion of controls, transactions, VaR, and market value maturities associated with Cleco Power's energy commodity activities.

ITEM 8.FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of
Directors of Cleco Corporation:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Cleco Corporation and its subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15(a)(2) present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for uncertain tax positions in 2007, the manner in which it accounts for share-based compensation in 2006 and the manner in which it accounts for defined benefit pension and other postretirement plans effective December 31, 2006.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
New Orleans, Louisiana
February 27, 2008

CLECO CORPORATION

Consolidated Statements of Income

(THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	FOR THE YEAR ENDED DECEMBER 31,		
	2007	2006	2005
Operating revenue			
Electric operations	**$ 988,193**	$ 959,393	$ 874,557
Other operations	**35,285**	30,233	38,710
Affiliate revenue	**7,138**	6,356	7,879
Gross operating revenue	**1,030,616**	995,982	921,146
Electric customer credits	**-**	4,693	(992)
Operating revenue, net	**1,030,616**	1,000,675	920,154
Operating expenses			
Fuel used for electric generation	**273,954**	265,450	197,915
Power purchased for utility customers	**385,247**	374,712	372,844
Other operations	**102,479**	90,661	91,951
Maintenance	**49,498**	40,082	46,517
Depreciation	**79,904**	74,975	60,330
Taxes other than income taxes	**41,975**	39,888	41,069
Loss (gain) on sales of assets	**15**	(69)	(2,206)
Total operating expenses	**933,072**	885,699	808,420
Operating income	**97,544**	114,976	111,734
Interest income	**11,754**	10,452	5,310
Allowance for other funds used during construction	**32,955**	7,779	2,349
Equity income from investees	**93,148**	24,452	218,441
Other income	**29,531**	7,412	4,567
Other expense	**(4,405)**	(4,081)	(2,937)
Interest charges			
Interest charges, including amortization of debt expenses, premium and discount, net of capitalized interest	**51,111**	47,116	41,438
Allowance for borrowed funds used during construction	**(13,145)**	(2,845)	(903)
Total interest charges	**37,966**	44,271	40,535
Income from continuing operations before income taxes	**222,561**	116,719	298,929
Federal and state income tax expense	**70,772**	42,049	115,951
Income from continuing operations	**151,789**	74,670	182,978
Discontinued operations			
Loss from discontinued operations, net of tax	**-**	(79)	(334)
Net income	**151,789**	74,591	182,644
Preferred dividends requirements, net of tax	**458**	1,735	1,865
Net income applicable to common stock	**$ 151,331**	$ 72,856	$ 180,779
Average shares of common stock outstanding			
Basic	**58,976,052**	52,751,021	49,486,790
Diluted	**59,717,528**	55,028,211	51,760,220
Basic earnings per share			
From continuing operations	**$ 2.55**	$ 1.36	$ 3.54
Net income applicable to common stock	**$ 2.55**	$ 1.36	$ 3.54

Diluted earnings per share						
From continuing operations	**$**	**2.54**	$	1.36	$	3.53
Net income applicable to common stock	**$**	**2.54**	$	1.36	$	3.53
Cash dividends paid per share of common stock	**$**	**0.900**	$	0.900	$	0.900
The accompanying notes are an integral part of the consolidated financial statements.						

CLECO CORPORATION

Consolidated Balance Sheets

(THOUSANDS)	AT DECEMBER 31, **2007**	2006
Assets		
Current assets		
Cash and cash equivalents	**$ 129,013**	$ 192,471
Restricted cash	**17,866**	24,361
Customer accounts receivable (less allowance for doubtful accounts of $1,028 in 2007 and $789 in 2006)	**39,587**	38,889
Accounts receivable – affiliate	**9,367**	11,451
Other accounts receivable	**39,029**	28,708
Unbilled revenue	**17,759**	18,382
Fuel inventory, at average cost	**43,291**	43,236
Material and supplies inventory, at average cost	**39,195**	34,755
Risk management assets	**7,396**	36
Accumulated deferred fuel	**9,398**	77,438
Cash surrender value of company-/trust-owned life insurance policies	**28,857**	26,275
Margin deposits	**2,966**	18,638
Prepayments	**3,661**	4,570
Regulatory assets – other	**20,194**	17,453
Other current assets	**1,098**	645
Total current assets	**408,677**	537,308
Property, plant and equipment		
Property, plant and equipment	**1,926,848**	1,892,533
Accumulated depreciation	**(917,043)**	(876,747)
Net property, plant and equipment	**1,009,805**	1,015,786
Construction work in progress	**716,075**	289,101
Total property, plant and equipment, net	**1,725,880**	1,304,887
Equity investment in investees	**258,101**	307,136
Prepayments	**6,783**	6,515
Restricted cash	**95**	90
Regulatory assets and liabilities – deferred taxes, net	**126,686**	94,653
Regulatory assets – other	**158,268**	192,061
Other deferred charges	**26,245**	18,454
Total assets	**$ 2,710,735**	$ 2,461,104

The accompanying notes are an integral part of the consolidated financial statements.

(Continued on next page)

CLECO CORPORATION

Consolidated Balance Sheets (Continued)

(THOUSANDS)	AT DECEMBER 31, 2007	2006
Liabilities and shareholders' equity		
Liabilities		
Current liabilities		
Long-term debt due within one year	**$ 100,000**	$ 50,000
Accounts payable	**123,061**	134,172
Retainage	**25**	12,409
Accounts payable – affiliate	**6,860**	5,072
Customer deposits	**25,989**	25,312
Provision for rate refund	**-**	3,174
Taxes accrued	**12,411**	49,002
Interest accrued	**21,933**	8,874
Accumulated current deferred taxes, net	**43,055**	23,233
Risk management liability	**7,993**	60,477
Regulatory liabilities - other	**538**	636
Deferred compensation	**6,366**	5,350
Other current liabilities	**13,348**	10,800
Total current liabilities	**361,579**	388,511
Deferred credits		
Accumulated deferred federal and state income taxes, net	**366,305**	436,775
Accumulated deferred investment tax credits	**12,665**	14,100
Regulatory liabilities – other	**31,855**	930
Uncertain tax positions	**68,369**	-
Other deferred credits	**89,490**	105,226
Total deferred credits	**568,684**	557,031
Long-term debt, net	**769,103**	619,341
Total liabilities	**1,699,366**	1,564,883
Commitments and Contingencies (Note 15)		
Shareholders' equity		
Preferred stock		
Not subject to mandatory redemption, $100 par value, authorized 1,491,900 shares, issued 10,288 and 200,922 shares at December 31, 2007 and 2006, respectively	**1,029**	20,092
Common shareholders' equity		
Common stock, $1 par value, authorized 100,000,000 shares, issued 59,971,945 and 57,524,498 shares and outstanding 59,943,589 and 57,492,541 shares at December 31, 2007 and 2006, respectively	**59,972**	57,524
Premium on common stock	**391,565**	358,707
Retained earnings	**567,724**	469,824
Treasury stock, at cost 28,356 and 31,957 shares at December 31, 2007 and 2006, respectively	**(530)**	(616)
Accumulated other comprehensive loss	**(8,391)**	(9,310)
Total common shareholders' equity	**1,010,340**	876,129

Total shareholders’ equity		**1,011,369**		896,221
Total liabilities and shareholders’ equity	**$**	**2,710,735**	$	2,461,104

The accompanying notes are an integral part of the consolidated financial statements.

CLECO CORPORATION

Consolidated Statements of Cash Flows

	FOR THE YEAR ENDED DECEMBER 31,		
(THOUSANDS)	**2007**	2006	2005
Operating activities			
Net income	**$ 151,789**	$ 74,591	$ 182,644
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**82,131**	78,482	65,010
Loss (gain) on sales of property, plant and equipment	**15**	(69)	(2,206)
Provision for doubtful accounts	**2,873**	2,909	3,278
Proceeds from sale of bankruptcy settlement claims	**78,200**	-	-
Return on equity investment in investee	**68,702**	19,435	129,267
Income from equity investments	**(93,148)**	(24,452)	(218,441)
Unearned compensation expense	**8,111**	4,283	6,611
Employee stock ownership plan expense	**2,721**	1,813	868
Allowance for other funds used during construction	**(32,955)**	(7,779)	(2,349)
Amortization of investment tax credits	**(1,435)**	(1,531)	(1,671)
Net deferred income taxes	**6,180**	(3,006)	105,039
Deferred fuel costs	**11,024**	24,241	(21,544)
(Gain) loss on economic hedges	**(1,066)**	4,352	(5,262)
Cash surrender value of company-/trust-owned life insurance	**(1,042)**	(707)	(806)
Changes in assets and liabilities:			
Accounts receivable	**(12,206)**	12,156	(53,013)
Accounts and notes receivable, affiliate	**15,198**	(10,380)	1,205
Unbilled revenue	**623**	(504)	(622)
Fuel, materials and supplies inventory	**(3,363)**	(32,389)	(7,861)
Prepayments	**1,111**	(1,310)	1,338
Accounts payable	**10,008**	(31,893)	33,579
Accounts and notes payable, affiliate	**(11,598)**	1,633	(15,190)
Customer deposits	**5,447**	6,611	5,392
Regulatory assets and liabilities, net	**18,101**	(44,796)	(22,479)
Other deferred accounts	**(20,356)**	622	1,618
Retainage payable	**(12,384)**	11,641	719
Taxes accrued	**(27,906)**	24,271	56,977
Interest accrued	**954**	395	327
Margin deposits	**15,672**	(22,954)	9,474
Other, net	**1,624**	5,778	(2,171)
Net cash provided by operating activities	**263,025**	91,443	249,731
Investing activities			
Additions to property, plant and equipment	**(510,192)**	(236,495)	(159,393)
Allowance for other funds used during construction	**32,955**	7,779	2,349
Proceeds from sale of property, plant and equipment	**601**	1,234	2,801
Return of equity investment in investee	**96**	11,218	12,097
Investment in cost method investments	**-**	-	(1,385)

Equity investment in investee	**(8,427)**	(7,026)	(20)
Premiums paid on company-/trust-owned life insurance	**(2,232)**	(3,367)	(3,696)
Transfer of cash from (to) restricted accounts	**6,490**	(24,365)	7
Net cash used in investing activities	**$ (480,709)**	$ (251,022)	$ (147,240)

(Continued on next page)

CLECO CORPORATION

Consolidated Statements of Cash Flows (Continued)

	FOR THE YEAR ENDED DECEMBER 31,		
(THOUSANDS)	**2007**	2006	2005
Financing activities			
Sale of common stock, net of issuance costs	**$ -**	$ 157,474	$ -
Stock issuance costs	**(93)**	-	-
Conversion of options to common stock	**9,458**	3,526	2,649
Issuance of common stock under employee stock purchase plan	**424**	1,637	-
Stock-based compensation tax benefit	**1,088**	292	-
Retirement of long-term obligations	**(50,318)**	(40,382)	(200,116)
Issuance of long-term debt	**250,000**	60,000	238,715
Deferred financing costs	**(2,593)**	(2,263)	(3,223)
Change in ESOP trust	**-**	1,668	1,635
Dividends paid on preferred stock	**(458)**	(2,184)	(1,915)
Dividends paid on common stock	**(53,282)**	(46,871)	(44,870)
Net cash provided by (used in) financing activities	**154,226**	132,897	(7,125)
Net (decrease) increase in cash and cash equivalents	**(63,458)**	(26,682)	95,366
Cash and cash equivalents at beginning of period	**192,471**	219,153	123,787
Cash and cash equivalents at end of period	**$ 129,013**	$ 192,471	$ 219,153
Supplementary cash flow information			
Interest paid (net of amount capitalized)	**$ 52,045**	$ 45,533	$ 38,517
Income taxes paid	**$ 87,631**	$ 34,818	$ 530
Supplementary noncash investing and financing activities			
Accrued additions to property, plant and equipment not reported above	**$ 30,179**	$ 46,932	$ 28,000
Capital lease not included in additions to property, plant and equipment above	**$ -**	$ -	$ 555
Return on equity investment in investee	**$ 78,200**	$ -	$ -
Issuance of treasury stock – LTICP and ESOP plans	**$ 86**	$ 98	$ 173
Issuance of common stock – LTICP/ESOP/ESPP[1]	**$ 22,151**	$ 4,400	$ 2,820

[1] Includes conversion of preferred stock to common stock ($19,063/2007, $1,725/2006, and $1,599/2005)

The accompanying notes are an integral part of the consolidated financial statements.

CLECO CORPORATION

Consolidated Statements of Comprehensive Income

(THOUSANDS)	FOR THE YEAR ENDED DECEMBER 31, 2007	2006	2005
Net income	**$ 151,789**	$ 74,591	$ 182,644
Other comprehensive (loss) income, net of tax:			
Net unrealized (loss) gain from available-for-sale securities (net of tax benefit of $11 in 2007, $32 in 2006 and $180 in 2005)	**(18)**	(52)	126
Recognition of additional minimum pension liability (net of tax benefit of $547 in 2006 and $618 in 2005)	**-**	(873)	(988)
Amortization of post-retirement benefit net losses (net of tax benefit of $29 in 2007)	**(18)**	-	-
Post-retirement benefit gains incurred during the year (net of tax expense of $806 in 2007)	**955**	-	-
Comprehensive (loss) income	**919**	(925)	(862)
Comprehensive income, net of tax	**$ 152,708**	$ 73,666	$ 181,782

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Changes in Common Shareholders' Equity

(THOUSANDS, EXCEPT SHARE AMOUNTS)	COMMON STOCK SHARES	COMMON STOCK AMOUNT	UNEARNED COMPENSATION	PREMIUM ON COMMON STOCK	RETAINED EARNINGS	TREASURY STOCK SHARES	TREASURY STOCK COST	ACCUMULATED OTHER COMPREHENSIVE LOSS
BALANCE, JANUARY 1, 2005	49,667,861	49,668	(5,733)	194,055	308,003	(44,275)	(887)	(3,268
Common stock issued for compensatory plans	362,174	362		8,362				
Issuance of treasury stock				1		128,612	92	
Unearned compensation (LTICP)			448					
Incentive shares forfeited						(120,981)	81	
Common stock issuance costs				(2)				