CLECO CORP
Form 10-K
February 26, 2016

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, 2015
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	72-1445282
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2030 Donahue Ferry Road, Pineville, Louisiana	71360-5226
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (318) 484-7400
Securities registered pursuant to Section 12(b) of the Act:

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: None

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

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

Registrant's telephone number, including area code: (318) 484-7400
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
6.50% Senior Notes due 2035	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 o

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

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

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

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

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

Indicate by check mark whether Cleco 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 o Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o

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

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

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The aggregate market value of the Cleco Corporation voting stock held by non-affiliates was $3,210,376,042 as of the last business day of Cleco Corporation's most recently completed second fiscal quarter, based on a price of $53.85 per common share, the closing price of Cleco Corporation's common stock as reported on the NYSE 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. As of February 19, 2016, there were no outstanding shares of Cleco Corporation's preferred stock.
As of February 19, 2016, there were 60,547,639 outstanding shares of Cleco Corporation's Common Stock, par value $1.00 per share. As of February 19, 2016, all of Cleco Power's membership interest was owned by Cleco Corporation.

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.

TABLE OF CONTENTS

GLOSSARY OF TERMS

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 and its subsidiaries, unless the context clearly indicates otherwise. References in Part III, Items 10, 11, and 14 to "we," "us," "our," and "the Company" mean Cleco Corporation, unless the context clearly indicates otherwise. Additional abbreviations or acronyms used in this filing, including all items in Parts I, II, III, and IV are defined below:

ABBREVIATION OR ACRONYM	DEFINITION
401(k) Plan	Cleco Power 401(k) Savings and Investment Plan
ABR	Alternate Base Rate which is the greater of the prime rate, the federal funds effective rate plus 0.50%, or the LIBOR plus 1.0%
Acadia	Acadia Power Partners, LLC, previously a wholly owned subsidiary of Midstream. Acadia Power Partners, LLC was dissolved effective August 29, 2014.
Acadia Unit 1	Cleco Power's 580-MW, combined cycle power plant located at the Acadia Power Station in Eunice, Louisiana
Acadia Unit 2	Entergy Louisiana's 580-MW, combined cycle power plant located at the Acadia Power Station in Eunice, Louisiana, which is operated by Cleco Power
AFUDC	Allowance for Funds Used During Construction
ALJ	Administrative Law Judge
Amended Lignite Mining Agreement	Amended and restated lignite mining agreement effective December 29, 2009
AMI	Advanced Metering Infrastructure
AOCI	Accumulated Other Comprehensive Income (Loss)
ARO	Asset Retirement Obligation
ARRA	American Recovery and Reinvestment Act of 2009
Attala	Attala Transmission LLC, a wholly owned subsidiary of Cleco Corporation
Brame Energy Center	A facility consisting of Nesbitt Unit 1, Rodemacher Unit 2, and Madison Unit 3
CAA	Clean Air Act
CCR	Coal combustion by-products or residual
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act of 1980
CPP	Clean Power Plan
Cleco Katrina/Rita	Cleco Katrina/Rita Hurricane Recovery Funding LLC, a wholly owned subsidiary of Cleco Power
Cleco Partners	Cleco Partners L.P., a Delaware limited partnership that prior to the closing of the Merger will be owned by a consortium of investors, including funds or investment vehicles managed by Macquarie Infrastructure and Real Assets, British Columbia Investment Management Corporation, John Hancock Financial, and other infrastructure investors.
CO_2	Carbon dioxide
Coughlin	Cleco Power's 775-MW, combined-cycle power plant located in St. Landry, Louisiana. Coughlin was transferred to Cleco Power on March 15, 2014.
CSAPR	Cross-State Air Pollution Rule
DHLC	Dolet Hills Lignite Company, LLC, a wholly owned subsidiary of SWEPCO
Diversified Lands	Diversified Lands LLC, a wholly owned subsidiary of Cleco Corporation
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DOE	U.S. Department of Energy
Dolet Hills	A 650-MW generating unit at Cleco Power's plant site in Mansfield, Louisiana. Cleco Power has a 50% ownership interest in the capacity of Dolet Hills.

EAC	Environmental Adjustment Clause
EGU	Electric Generating Unit
Entergy Gulf States	Entergy Gulf States Louisiana, L.L.C.
Entergy Louisiana	Entergy Louisiana, LLC
Entergy Mississippi	Entergy Mississippi, Inc.
EPA	U.S. Environmental Protection Agency
ERO	Electric Reliability Organization
ESPP	Cleco Corporation Employee Stock Purchase Plan
Evangeline	Cleco Evangeline LLC, a wholly owned subsidiary of Midstream
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FCC	Federal Communications Commission
FERC	Federal Energy Regulatory Commission
FTR	Financial Transmission Right
FRP	Formula Rate Plan
GAAP	Generally Accepted Accounting Principles in the U.S.
GO Zone	Gulf Opportunity Zone Act of 2005 (Public Law 109-135)
Interconnection Agreement	One of two Interconnection and Real Estate Agreements, one between Attala and Entergy Mississippi, and the other between Perryville and Entergy Louisiana

ABBREVIATION OR ACRONYM	DEFINITION
IRS	Internal Revenue Service
ISO	Independent System Operator
kWh	Kilowatt-hour(s)
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
LMP	Locational Marginal Price
LPSC	Louisiana Public Service Commission
LTIP	Cleco Corporation Long-Term Incentive Compensation Plan
Madison Unit 3	A 641-MW generating unit at Cleco Power's plant site in Boyce, Louisiana
MATS	Mercury and Air Toxics Standards
Merger	Merger of Merger Sub with and into Cleco Corporation pursuant to the terms of the Merger Agreement
Merger Agreement	Agreement and Plan of Merger, dated as of October 17, 2014, by and among Cleco Partners, Merger Sub, and Cleco Corporation
Merger Sub	Cleco Merger Sub, Inc., a Louisiana corporation and an indirect wholly-owned subsidiary of Cleco Partners
Midstream	Cleco Midstream Resources LLC, a wholly owned subsidiary of Cleco Corporation
MISO	Midcontinent Independent System Operator, Inc.
MMBtu	Million British thermal units
Moody's	Moody's Investors Service, a credit rating agency
MSCI EAFE Index	Morgan Stanley Capital International Europe, Australia, Far East Index
MW	Megawatt(s)
MWh	Megawatt-hour(s)
NAAQS	National Ambient Air Quality Standards
NERC	North American Electric Reliability Corporation
NMTC	New Markets Tax Credit
NMTC Fund	USB NMTC Fund 2008-1 LLC was formed to invest in projects qualifying for New Markets Tax Credits and Solar Projects
NOAA	National Oceanic and Atmospheric Administration
Not Meaningful	A percentage comparison of these items is not statistically meaningful because the percentage difference is greater than 1,000%
NO_2	Nitrogen dioxide
NO_x	Nitrogen oxides
NYSE	New York Stock Exchange
Oxbow	Oxbow Lignite Company, LLC, 50% owned by Cleco Power and 50% owned by SWEPCO
PCB	Polychlorinated biphenyl
Perryville	Perryville Energy Partners, L.L.C., a wholly owned subsidiary of Cleco Corporation
PPA	Power Purchase Agreement
PPACA	Patient Protection and Affordable Care Act, as amended
ppb	Parts per billion
PRP	Potentially Responsible Party
Registrant(s)	Cleco Corporation and/or Cleco Power
RFP	Request for Proposal

Rodemacher Unit 2	A 523-MW generating unit at Cleco Power's plant site in Boyce, Louisiana. Cleco Power has a 30% ownership interest in the capacity of Rodemacher Unit 2.
ROE	Return on Equity
RTO	Regional Transmission Organization
S&P	Standard & Poor's Ratings Services, a credit rating agency
SEC	U.S. Securities and Exchange Commission
SERP	Cleco Corporation Supplemental Executive Retirement Plan
SO_2	Sulfur dioxide
SPP RE	Southwest Power Pool Regional Entity
Support Group	Cleco Support Group LLC, a wholly owned subsidiary of Cleco Corporation
SWEPCO	Southwestern Electric Power Company, an electric utility subsidiary of American Electric Power Company, Inc.
VaR	Value-at-Risk
VIE	Variable Interest Entity

CAUTIONARY NOTE 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, results of the Merger; future capital expenditures; projections, including those with respect to base revenue; business strategies; goals, beliefs, plans and objectives; competitive strengths; market developments; development and operation of facilities; growth in sales volume; meeting capacity requirements; expansion of service to existing customers and service to new customers; future environmental regulations and remediation liabilities; electric customer credits; and the anticipated outcome of various regulatory and legal proceedings. Although the Registrants believe that the expectations reflected in such forward-looking statements are reasonable, such forward-looking statements are based on numerous assumptions (some of which may prove to be incorrect) and are subject to risks and uncertainties that could cause the actual results to differ materially from the Registrants’ expectations. In addition to any assumptions and other factors referred to specifically in connection with these forward-looking statements, the following list identifies some of the factors that could cause the Registrants’ actual results to differ materially from those contemplated in any of the Registrants’ forward-looking statements:

- certain risks and uncertainties associated with the Merger, without limitation:
  - the occurrence of any event, change or other circumstance that could give rise to the termination of the Merger Agreement or could otherwise cause the failure of the Merger to close;
  - the failure to obtain regulatory approvals required for the Merger, or required regulatory approvals delaying the Merger or causing the parties to abandon the Merger;
  - the failure to obtain any financing necessary to complete the Merger;
  - risks related to disruption of management’s attention from Cleco’s ongoing business operations due to the Merger;
  - the outcome of any legal proceeding, regulatory proceeding, or enforcement matter that may be instituted against Cleco and others relating to the Merger;
  - the risk that the pendency of the Merger disrupts current plans and operations and the potential difficulties in employee retention as a result of the pendency of the Merger;
  - the effect of the Merger on Cleco’s relationships with its customers, operating results, and business;
  - the amount of the costs, fees, expenses, and charges related to the Merger;
  - the receipt of an unsolicited offer from another party to acquire assets or capital stock of Cleco Corporation that could interfere with the Merger; and
  - future regulatory or legislative actions that could adversely affect Cleco’s participation in the Merger.

- regulatory factors such as changes in rate-setting practices or policies; the unpredictability in political actions of

governmental regulatory bodies; adverse regulatory ratemaking actions; recovery of investments made under traditional regulation; recovery of storm restoration costs; the frequency, timing, and amount of rate increases or decreases; the impact that rate cases or requests for FRP extensions may have on operating decisions of Cleco Power; the results of periodic NERC and LPSC audits; participation in MISO and the related operating challenges and uncertainties, including increased wholesale competition relative to more suppliers; and compliance with the ERO reliability standards for bulk power systems by Cleco Power,
- the ability to recover fuel costs through the FAC,
- factors affecting utility operations, such as unusual weather conditions or other natural phenomena; catastrophic weather-related damage caused by hurricanes and other storms or severe drought conditions; unscheduled generation outages; unanticipated maintenance or repairs; unanticipated changes to fuel costs or fuel supply costs, shortages, transportation problems, or other developments; fuel mix of Cleco’s generation facilities; decreased customer load;

environmental incidents and compliance costs; and power transmission system constraints,

- reliance on third parties for determination of Cleco Power's commitments and obligations to markets for generation resources and reliance on third-party transmission services,
- global and domestic economic conditions, including the ability of customers to continue paying utility bills, related growth and/or down-sizing of businesses in Cleco's service area, monetary fluctuations, changes in commodity prices, and inflation rates,
- the ability of the lignite reserves at Dolet Hills to provide sufficient fuel to the Dolet Hills Power Station until at least 2036,
- Cleco Power's ability to maintain its right to sell wholesale generation at market-based rates within its control area,
- Cleco Power's dependence on energy from sources other than its facilities and future sources of such additional energy,
- reliability of Cleco Power's generating facilities,
- the imposition of energy efficiency requirements or increased conservation efforts of customers,
- the impact of current or future environmental laws and regulations, including those related to CCRs, greenhouse gases, and energy efficiency that could limit or terminate the operation of certain generating units, increase costs, or reduce customer demand for electricity,
- the ability of Cleco Power to recover from its customers the costs of compliance with environmental laws and regulations,
- financial or regulatory accounting principles or policies imposed by FASB, the SEC, FERC, the LPSC, or similar entities with regulatory or accounting oversight,

- changing market conditions and a variety of other factors associated with physical energy, financial transactions, and energy service activities, including, but not limited to, price, basis, credit, liquidity, volatility, capacity, transmission, interest rates, and warranty risks,
- legal, environmental, and regulatory delays and other obstacles associated with acquisitions, reorganizations, investments in joint ventures, or other capital projects,
- costs and other effects of legal and administrative proceedings, settlements, investigations, claims, and other matters,
- the availability and use of alternative sources of energy and technologies, such as wind, solar, battery storage, and distributed generation,
- changes in federal, state, or local laws (including tax laws), changes in tax rates, disallowances of tax positions, or changes in other regulating policies that may result in a change to tax benefits or expenses,
- 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 to its shareholders,
- acts of terrorism, cyber attacks, data security breaches or other attempts to disrupt Cleco's business or the business of third parties, or other man-made disasters,
- nonperformance by and creditworthiness of the guarantor counterparty of the NMTC Fund,

- credit ratings of Cleco Corporation and Cleco Power,
- ability to remain in compliance with debt covenants,
- availability or cost of capital resulting from changes in global markets, Cleco's business or financial condition, interest rates, or market perceptions of the electric utility industry and energy-related industries, and
- employee work force factors, including work stoppages, aging workforce, and changes in key executives.

For more discussion of these factors and other factors that could cause actual results to differ materially from those contemplated in the Registrants' forward-looking statements, see Part I, Item 1A, "Risk Factors" and Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Comparison of the Years Ended December 31, 2015, and 2014 — Cleco Power — Significant Factors Affecting Cleco Power" in this Annual Report.
All subsequent written and oral forward-looking statements attributable to the Registrants, or persons acting on their behalf, are expressly qualified in their entirety by the factors identified above.
The Registrants undertake no obligation to update any forward-looking statements, whether as a result of changes in actual results, changes in assumptions, or other factors affecting such statements.

PART I
ITEM 1. BUSINESS

GENERAL
Cleco 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. Substantially all of its operations are conducted through Cleco Power. 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.
On October 17, 2014, Cleco Corporation entered into an agreement with Cleco Partners and Merger Sub to be acquired. For more information on the Merger, see Part II, Item 8, “Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 20 — Agreement and Plan of Merger.”
Cleco Power’s predecessor was incorporated on January 2, 1935, under the laws of the state of Louisiana. Cleco Power was organized on December 12, 2000. Cleco Power is an electric utility engaged principally in the generation, transmission, distribution, and sale of electricity within Louisiana. In December 2013, Cleco Power integrated its generation dispatch and transmission operations with MISO. Cleco Power is regulated by the LPSC and FERC, along with other governmental authorities. The rates Cleco Power can charge its retail customers are determined by the LPSC, and its transmission tariffs are regulated by FERC. The rates Cleco Power charges its wholesale customers are subject to FERC’s triennial market power analysis. Cleco Power serves approximately 287,000 customers in Louisiana through its retail business and supplies wholesale power in Louisiana and Mississippi. Cleco Power’s operations are described below. For more information on MISO, see Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Regulatory and Other Matters — Transmission Rates of Cleco Power.”
Midstream, which was organized on September 1, 1998, under the laws of the state of Louisiana, is a merchant energy subsidiary that prior to March 15, 2014, owned and operated a merchant power plant (Coughlin). Prior to April 29, 2011, Midstream also owned an indirect interest in a merchant power plant (Acadia). During 2009, Cleco Power and Entergy Louisiana executed definitive agreements whereby Cleco Power and Entergy Louisiana would each acquire one 580-MW unit of the Acadia Power Station. The transaction with Cleco Power was completed in February 2010, and the transaction with Entergy Louisiana was completed in April 2011. In October 2012, Cleco Power announced that Evangeline was the winning bidder in Cleco Power’s 2012 long-term RFP. In December 2012, Cleco Power and Evangeline executed definitive agreements to transfer ownership and control of Coughlin from Evangeline to Cleco Power. The transfer was completed on March 15, 2014. Coughlin consists of two generating units with a total nameplate capacity of 775 MW. For more information on the transfer of Coughlin to Cleco Power, see Part II, Item 8, “Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 17 — Coughlin Transfer.”

At December 31, 2015, Cleco had 1,207 employees.
Cleco’s mailing address is P.O. Box 5000, Pineville, Louisiana 71361-5000, and its telephone number is (318) 484-7400.
Cleco’s website is located at https://www.cleco.com. Cleco 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 Office of Investor Advocacy at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Office of Investor Advocacy may be obtained by calling the SEC at 1-800-SEC-0330. Cleco’s electronically filed reports also can be obtained on the SEC’s website located at http://www.sec.gov. Cleco’s corporate governance guidelines, code of conduct for financial managers, ethics and business standards, and the charters of its board of directors’ audit, compensation, finance, and nominating/governance 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, 2015, Cleco Power had 1,005 employees. Cleco Power's mailing address is P.O. Box 5000, Pineville, Louisiana, 71361-5000, and its telephone number is (318) 484-7400.

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

OPERATIONS

Cleco Power

Segment Financial Information

Summary financial results of the Cleco Power segment for years 2015, 2014, and 2013 are presented in the following table:

(THOUSANDS)	2015	2014	2013
Revenue			
Electric operations	$1,142,389	$1,225,960	$1,047,548
Other operations	67,109	64,893	48,909
Electric customer credits	(2,173)	(23,530)	(1,836)
Affiliate revenue	1,142	1,326	1,338
Operating revenue, net	$1,208,467	$1,268,649	$1,095,959
Depreciation and amortization	$147,839	$144,026	$135,717
Interest charges	$76,560	$74,673	$82,677
Interest income	$725	$1,707	$1,100
Federal and state income taxes	$79,294	$76,974	$79,381
Net income	$141,350	$154,316	$150,410
Additions to property, plant, and equipment	$156,357	$206,607	$184,684
Equity investment in investee	$16,822	$14,532	$14,532
Segment assets	$4,233,337	$4,232,942	$3,932,717

For more information on Cleco Power's results of operations, see Part II, Item 7, "Management's Discussion and

Analysis of Financial Condition and Results of Operations — Results of Operations — Comparison of the Years Ended December 31, 2015, and 2014 — Cleco Power."

Certain Factors Affecting Cleco Power

As an electric utility, Cleco Power is affected, to varying degrees, by a number of factors influencing the electric utility industry in general. For more information on these factors, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Comparison of the Years Ended December 31, 2015, and 2014 — Cleco Power — Significant Factors Affecting Cleco Power."

Power Generation

As of December 31, 2015, Cleco Power's aggregate net electric generating capacity was 3,190 MW. This amount reflects the maximum production capacity these units can sustain over a specified period of time. In October 2015, the Franklin Gas Turbine, a 7-MW natural gas generating unit, was retired. The 42-year-old unit had outlived its 30-year design life and would have required significant investment to continue to be operated in a safe and reliable manner. Additionally, in July 2015, Teche Unit 4 replaced the Franklin Gas Turbine as Cleco Power's official blackstart unit. The following table sets forth certain information with respect to Cleco Power's generating facilities:

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

Nesbitt Unit 1	1975	440	419	natural gas	steam
Rodemacher Unit 2	1982	157 [3]	149 [3]	coal	steam
Madison Unit 3	2010	641	631	petroleum coke/coal	steam
Acadia Unit 1	2002	580	566	natural gas	combined cycle
Coughlin Unit 6	2000	264	242	natural gas	combined cycle
Coughlin Unit 7	2000	511	481	natural gas	combined cycle
Teche Unit 1	1953	23	15	natural gas	steam
Teche Unit 3	1971	359	331	natural gas	steam
Teche Unit 4	2011	33	35	natural gas	combustion
Dolet Hills Power Station	1986	325 [4]	321 [4]	lignite	steam
Total generating capability		3,333	3,190		

(1) Nameplate capacity is the capacity at the start of commercial operations.
(2) Based on capacity testing of the generating units and operational tests performed during May, June, July, August, and December 2015. These amounts do not represent generating unit capacity for MISO planning reserve margins.
(3) Represents Cleco Power’s 30% ownership interest in the capacity of Rodemacher Unit 2, a 523-MW generating unit.
(4) Represents Cleco Power’s 50% ownership interest in the capacity of Dolet Hills, a 650-MW generating unit.

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

PERIOD	THOUSAND MWh	PERCENT OF TOTAL ENERGY REQUIREMENTS
2015	12,564	100.2
2014	9,858	74.9
2013	9,736	83.8
2012	9,143	81.3
2011	10,025	86.5

In December 2013, Cleco Power integrated its generation dispatch and transmission operations with MISO. The amount of power generated by Cleco Power is dictated by the availability of Cleco Power’s generating fleet and the manner in which MISO dispatches each generating unit. Depending on

how generating units are dispatched by MISO, the amount of power generated may be greater than or less than total energy requirements. Generating units are dispatched by referencing each unit’s economic efficiency as it relates to the overall MISO market. For more information on MISO, see Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Regulatory and Other Matters — Transmission Rates of Cleco Power.”

Fuel and Purchased Power
Changes in fuel expenses reflect fluctuations in the amount, type, and pricing of fuel used for electric generation; fuel transportation and delivery costs; and deferral of expenses for recovery from customers through the FAC in subsequent months. Changes in purchased power expenses are a result of the quantity and price of economic power purchased from the

MISO market. These quantity changes can be affected by Cleco plant outages and plant performance. For a discussion of certain risks associated with changes in fuel costs and their impact on utility customers, see Item 1A, “Risk Factors — LPSC Audits” and “— Transmission Constraints.”

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

	LIGNITE		COAL		NATURAL GAS		BIOMASS		PETROLEUM C	
YEAR	COST PER MWh	PERCENT OF GENERATION	COST PER MWh	PERCENT OF GENERATION	COST PER MWh	PERCENT OF GENERATION	COST PER MWh	PERCENT OF GENERATION	COST PER MWh	PERCE GENER
2015	$46.87	16.9	$28.68	9.7	$21.37	50.6	$—	—	$19.80	22.8
2014	$44.79	14.6	$27.34	15.6	$37.00	35.0	$—	—	$21.52	34.8
2013	$42.44	15.6	$29.42	18.2	$34.60	34.4	$—	—	$21.54	31.8
2012	$36.36	25.2	$33.03	17.0	$27.81	45.8	$17.74	*	$23.54	12.0
2011	$30.99	23.6	$29.48	15.6	$46.39	33.8	$65.06	*	$31.70	27.0

* Not meaningful

Power Purchases

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

Coal, Petroleum Coke, and Lignite Supply

Cleco Power uses coal for generation at Rodemacher Unit 2. Cleco Power has an agreement with Peabody Coal Sales LLC to provide the majority of Cleco Power’s coal needs at Rodemacher Unit 2 through 2016. The coal supply agreement is a fixed-price contract and provided for the full requirements to support Cleco Power’s minimum planned dispatch of Rodemacher Unit 2 for 2015 and provides for partial requirements for 2016. Cleco Power actively manages its inventory levels throughout the year with spot purchases, if necessary. With respect to transportation of coal, Cleco Power has an agreement with Union Pacific Railroad Company for transportation of coal from Wyoming’s Powder River Basin to Rodemacher Unit 2 through December 31, 2016. Cleco Power leases 231 railcars to transport its coal under two long-term leases, one expiring in March 2017, under which management is evaluating future options, and the other expiring in March 2021.

The continuous supply of coal may be subject to interruption due to adverse weather conditions or other factors that may disrupt transportation to the plant site. At December 31, 2015, Cleco Power’s coal inventory at Rodemacher Unit 2 was approximately 255,000 tons (approximately a 106-day supply).

Cleco Power uses a combination of petroleum coke and Illinois Basin coal for generation at Madison Unit 3. Petroleum coke is a by-product of the oil refinery process and is not considered a fuel specifically produced for a market; however, ample petroleum coke supplies are produced from refineries each year throughout the world, particularly in the Gulf Coast region. During 2015, Cleco received its petroleum coke supply

from refineries located along the lower Mississippi River with some spot cargo purchases being delivered from upper Mississippi refineries. Cleco purchased slightly less than 1.2 million tons of petroleum coke during 2015, the majority of which was in accordance with existing contracts ranging in terms of one to two years ending December 31, 2015, and December 31, 2016, respectively. All existing contracts have been extended and newly negotiated contracts have been completed for petroleum coke supply in 2016. Petroleum coke spot purchases are typically short-term in nature, ranging from one- to six-month terms. Each of the agreements is either fixed price spot purchases or priced per the Jacobs Consultancy Petroleum Coke Quarterly Monthly Price Index or the "PACE" Monthly Index.

During 2015, Cleco purchased approximately 305,000 tons of Illinois Basin coal. Cleco Power uses Louisiana waterways, such as the Mississippi River and the Red River, to deliver both petroleum coke and Illinois Basin coal to the plant site. The continuous supply of petroleum coke and Illinois Basin coal may be subject to interruption due to adverse weather conditions or other factors that may disrupt transportation to the plant site. Savage Services is Cleco Power's exclusive transportation coordinator and provider. The amended and restated logistics agreement dated December 28, 2012, with Savage Services continues through August 31, 2017. The term of this agreement will automatically renew for successive periods of two years each unless written notice is provided by either party at least four months prior to the expiration of the term in effect. The amended agreement contains a provision for early termination with a three month prior written notice upon the occurrence of specified cancellation events. In September 2014, Cleco Power gained the option to purchase any or all of the dedicated barges. Management is evaluating this option. As of December 31, 2015, Cleco Power had not purchased any of the dedicated barges. At December 31, 2015, Cleco Power's petroleum coke inventory at Madison Unit 3 was approximately 521,000 tons and Cleco Power's Illinois Basin coal inventory at Madison Unit 3 was approximately 153,000 tons. The total fuel inventory was 674,000 tons (approximately a 135-day supply).

Cleco Power uses lignite for generation at the Dolet Hills Power Station. Cleco Power and SWEPCO each own an undivided 50% interest in the other's leased and owned lignite reserves within the Dolet Hills mine in northwestern Louisiana. Additionally, through Oxbow, which is owned 50% by Cleco Power and 50% by SWEPCO, Cleco Power and SWEPCO control 74 million tons of estimated recoverable lignite reserves also located in northwestern Louisiana. Cleco Power and

SWEPCO have entered into a long-term agreement with DHLC for the mining and delivery of lignite reserves at both mines, the operations of which are conducted by SWEPCO. The Amended Lignite Mining Agreement requires Cleco Power and SWEPCO to purchase the lignite mined and delivered by DHLC at cost plus a specified management fee. The term of this contract runs until all economically mineable lignite has been mined. The reserves from these mines are expected to be sufficient to fuel the Dolet Hills Power Station until at least 2036. At December 31, 2015, Cleco Power's investment in Oxbow was $16.8 million. For information regarding deferred mining costs and obligations associated with this mining agreement see, Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 3 — Regulatory Assets and Liabilities — Mining Costs," Note 14 — "Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — On-Balance Sheet Guarantees," and "— Long-Term Purchase Obligations." For more information on Oxbow, see Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 12 — Variable Interest Entities."
The continuous supply of lignite may be subject to interruption due to adverse weather conditions or other factors that may disrupt mining operations or transportation to the plant site. At December 31, 2015, Cleco Power's lignite inventory at Dolet Hills was approximately 300,000 tons (approximately a 48-day supply).

Natural Gas Supply
During 2015, Cleco Power purchased 49.7 million MMBtu of natural gas for the generation of electricity. The annual and average per-day quantities of gas purchased by Cleco Power from each supplier are shown in the following table:

NATURAL GAS SUPPLIER	2015 PURCHASES (MMBtu)	AVERAGE AMOUNT PURCHASED PER DAY (MMBtu)	PERCENT OF TOTAL NATURAL GAS USED	
South Jersey Resources Group	16,262,430	44,555	32.7	%
Anadarko Energy Service Company	8,085,575	22,152	16.3	%
Tenaska Marketing Ventures	5,769,663	15,807	11.6	%
Shell Energy North America	5,190,717	14,221	10.4	%
Iberdrola Renewables	4,183,152	11,461	8.4	%
Range Resources-Appalachia, LLC	3,263,850	8,942	6.5	%
BP Energy Company	2,626,100	7,195	5.3	%
Others	4,354,696	11,931	8.8	%
Total	49,736,183	136,264	100.0	%

Cleco Power owns natural gas pipelines and interconnections at all of its generating facilities which allow it to access various natural gas supply markets and maintain a more economical fuel supply for Cleco Power's customers. Natural gas was available without interruption throughout 2015. Cleco Power expects to continue to meet its natural gas requirements with purchases on the spot market through daily, monthly, and seasonal contracts with various natural gas suppliers. However, future supplies to Cleco Power remain vulnerable to disruptions due to weather events and transportation issues. Large industrial users of natural gas, including electric utilities, generally have low priority among gas users in the event pipeline suppliers are forced to curtail deliveries due to inadequate supplies. As a result, prices may increase rapidly in response to temporary supply interruptions. During 2015, in order to partially address potential natural gas

fuel curtailments and interruptions, Cleco contracted for natural gas firm transportation with several interstate pipelines for a period of one year ending in late 2016. In order to supply gas to Cleco Power's generating facilities in the event of an interruption of supply due to events of force majeure and to operationally balance gas supply to the units, gas storage will continue to be used. The storage volume is contracted by paying a capacity reservation charge at a fixed rate. There are also variable charges incurred to withdraw and inject gas from storage. At December 31, 2015, Cleco Power had 1.6 million MMBtu of gas in storage. Currently, Cleco Power anticipates that its diverse supply options, gas storage, and alternative fuel capability, combined with its solid-fuel generation resources, are adequate to meet its generation needs during any temporary interruption of natural gas supplies.

Sales

Cleco Power's 2015 and 2014 system peak demands, which occurred on August 10, 2015, and August 24, 2014, were 2,700 MW and 2,612 MW, respectively. Sales and system peak demand are affected by weather and are typically highest during the summer air-conditioning season; however, peaks may occur during the winter season as well. In 2015, Cleco Power experienced warmer than normal summer weather conditions and warmer than normal winter weather conditions. In 2014, Cleco Power experienced normal summer weather conditions and cooler than normal winter weather conditions. For information on the effects of future energy sales on Cleco Power's results of operations, financial position, and cash flows, see Item 1A, "Risk Factors — Future Electricity Sales" and "— Weather Sensitivity." For information on the financial effects of seasonal demand on Cleco Power's quarterly operating results, see Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 19 — Miscellaneous Financial Information (Unaudited)."

Reserve margin is the net capacity resources (either owned or purchased) less native load demand, divided by native load demand. Members of MISO submit their forecasted native load demand to MISO each year. During 2015, Cleco Power's reserve margin was 21.3%, which was above MISO's unforced planning reserve margin benchmark of 7.1%. During 2014, Cleco Power's reserve margin was 25.2%, which was above MISO's unforced planning reserve margin benchmark of 7.3%. Cleco Power expects to meet or exceed MISO's unforced planning reserve margin benchmark of 7.6% in 2016.

Capital Investment Projects

For a discussion of Cleco Power's capital investment projects, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview — Cleco Power — MATS," "— Layfield/Messick Project," "— Cenla Transmission Expansion Project," "— Cabot Waste Heat Recovery Project," and "— Bayou Vista."

Midstream

The transfer of Coughlin to Cleco Power occurred on March 15, 2014. As a result of this transfer, the operating activity and operating earnings at Midstream are minimal. The Coughlin transfer changed the structure of Cleco's internal organization and as a result, Midstream is no longer disclosed as a separate reportable segment. Management determined the retrospective application of this transfer to be quantitatively and qualitatively immaterial when taken as a whole in relation to Cleco Power's financial statements. As a result, Cleco's segment reporting disclosures were not retrospectively adjusted to reflect the transfer. At December 31, 2015, Midstream had no employees. For more information on the transfer of Coughlin to Cleco Power, see Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 17 — Coughlin Transfer."

Customers
No single customer accounted for 10% or more of Cleco or Cleco Power's consolidated revenue in 2015, 2014, or 2013. In 2014, Cleco Power added a significant wholesale customer that accounted for 9.2% of Cleco and Cleco Power's consolidated revenue in 2015 and averaged 9.2% of Cleco and Cleco Power's consolidated revenue during the months that it was a customer in 2014. For more information regarding Cleco's sales and revenue, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations."

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

Rates
Cleco Power's electric operations are subject to the jurisdiction of the LPSC with respect to retail rates, standards of service, accounting, and other matters. Also, Cleco Power is subject to the jurisdiction of FERC with respect to transmission tariffs, accounting, interconnections with other utilities, and the transmission of power and reliability. Periodically, Cleco Power has sought and received from both the LPSC and FERC increases in retail rates and transmission tariffs, respectively, to cover increases in operating costs and costs associated with additions to generation, transmission, and distribution facilities. The rates Cleco Power charges its wholesale customers are subject to FERC's triennial market power analysis.
Cleco Power's annual retail earnings are subject to the terms of an FRP established by the LPSC. Prior to July 1, 2014, Cleco Power's FRP allowed a target ROE of 10.7%, while providing the opportunity to earn up to 11.3%. Additionally, 60.0% of retail earnings between 11.3% and 12.3% and all retail earnings over 12.3% were required to be refunded to customers. In April 2013, Cleco Power filed an application with the LPSC to extend its current FRP and to seek rate recovery of the Coughlin transfer. In June 2014, the LPSC approved Cleco Power's FRP extension, finalized the rate treatment of Coughlin, and issued the implementing order. Effective July 1, 2014, under the terms of the FRP extension, Cleco Power's retail rates were adjusted based on a target ROE of 10.0%, while providing the opportunity to earn up to 10.9%. Additionally, 60% of retail earnings between 10.9% and 11.75% and all retail earnings over 11.75% are required to be refunded to customers. The amount of credits due to customers, if any, is determined by Cleco Power and the LPSC annually. Credits are typically included on customers' bills the following summer, but the amount and timing of the refunds is ultimately subject to LPSC approval. The capital structure

assumes an equity ratio of 51%. The FRP extension includes a mechanism that allows for the recovery of revenue requirements related to excess amounts of surcredits refunded for storm costs and uncertain tax positions, MISO transition and administration charges, Louisiana state corporate franchise taxes, incremental production operations and maintenance costs, LPSC renewable project costs, and certain capacity costs. It also includes recovery of deferred costs for the previous LPSC fuel audit, biomass pilot project costs, and costs related to filing the FRP extension. The FRP extension also includes a mechanism allowing for recovery of incremental capacity costs above the level included in base rates and allows Cleco Power to request recovery of additional capital project costs during its four-year term.
Generally, the cost of fuel used for electric generation and the cost of power purchased for utility customers are recovered through the LPSC-established FAC, which enables Cleco Power to pass on to its customers substantially all

such expenses. Recovery of FAC costs is subject to periodic fuel audits by the LPSC. The LPSC FAC General Order issued in November 1997 in Docket No. U-21497 provides that an audit will be performed at least every other year. In November 2014, the LPSC initiated an audit of Cleco Power's fuel and purchased power expenses for the years 2009 through 2013. The total amount of fuel expense included in the audit was $1.73 billion. On August 17, 2015, the LPSC Staff issued its audit report which recommended no disallowance of fuel costs. On October 28, 2015, the LPSC approved the audit report. On February 3, 2016, the LPSC initiated an audit of Cleco Power's fuel and purchased power expenses for the period January 2014 through December 2015. The total amount of fuel expense included in this audit is $582.6 million. Management is unable to predict or give a reasonable estimate of the possible range of the disallowance, if any, related to this audit. If a disallowance of fuel costs is ordered, resulting in a refund, any such refund could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

In July 2009, the LPSC issued Docket No. U-29380 Subdocket A, which provides for an EAC to recover from customers certain costs of environmental compliance. The costs eligible for recovery are prudently incurred air emissions credits associated with complying with federal, state, and local air emission regulations that apply to the generation of electricity reduced by the sale of such allowances. Also eligible for recovery are variable emission mitigation costs, which are the costs of reagents such as ammonia and limestone that are a part of the fuel mix used to reduce air emissions, among other things. Cleco Power began incurring additional environmental compliance expenses in the second quarter of 2015 for reagents associated with compliance with MATS. These expenses are eligible for recovery through Cleco Power's EAC and are subject to periodic review by the LPSC. For more information on MATS, see "Environmental Matters — Air Quality."

On February 3, 2016, the LPSC initiated an audit of Cleco Power's environmental costs for the period November 2010 through December 2015. The total amount of environmental costs included in this audit is $81.2 million, Management is unable to predict or give a reasonable estimate of the possible range of the disallowance, if any, related to this audit. If a disallowance of environmental costs is ordered resulting in a refund, any such refund could have a material adverse effect on the results of operations, financial condition, or cash flows

of the Registrants. The most recent EAC audit completed by the LPSC, for the period October 2009 through October 2010, did not result in any refunds to customers.
For more information on Cleco Power's retail and wholesale rates, including Cleco Power's FRP, see Item 1A, "Risk Factors — LPSC Audits," "— Cleco Power's Rates," "— Retail Electric Service," and "— Wholesale Electric Service" and Pa 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Regulatory and Other Matters — Retail Rates of Cleco Power," and — "Wholesale Rates of Cleco Power."

Franchises
Cleco Power operates under nonexclusive franchise rights granted by governmental units, such as municipalities and parishes (counties), and enforced by state law. These franchises are for fixed terms, which vary from 10 years to more than 50 years. Historically, Cleco Power has been substantially successful in the timely renewal of franchises as each neared the end of its term. Cleco Power's next municipal franchise expires in February 2017.

Franchise Renewals
Cleco Power renewed the following franchise agreements during 2014 and 2015:

DATE	CITY/TOWN/VILLAGE	TERM	NUMBER OF CUSTOMERS
May 2014	Dry Prong	30 years	255
June 2014	Mansura	30 years	1,029
September 2014	Marksville	30 years	30
October 2014	Woodworth	30 years	750
December 2014	Pineville	30 years	9,363
March 2015	Zwolle	30 years	914
May 2015	Merryville	30 years	454
June 2015	Eunice	33 years	5,190
July 2015	Converse	30 years	233
July 2015	Madisonville	34 years	598
August 2015	Pleasant Hill	30 years	382
September 2015	Noble	30 years	108
September 2015	Plaucheville	30 years	147

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

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

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

Legislative and Regulatory Changes and Matters

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

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

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

For information on certain regulatory matters and regulatory accounting affecting Cleco, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Regulatory and Other Matters."

ENVIRONMENTAL MATTERS

Environmental Quality

Cleco is subject to federal, state, and local laws and regulations governing the protection of the environment. Violations of these laws and regulations may result in substantial fines and penalties. Cleco has obtained the environmental permits necessary for its operations, and management believes Cleco is in compliance in all material respects with these permits, as well as all applicable environmental laws and regulations. Environmental requirements affecting electric power generating facilities are complex, change frequently, and have become more stringent over time as a result of new legislation, administrative actions, and judicial interpretations. Therefore, the capital costs and other expenditures necessary to comply with existing and new environmental requirements are difficult to determine. Cleco Power may request recovery of the costs to comply with certain environmental laws and regulations from its retail customers. If revenue relief were to be approved by the LPSC, then Cleco Power's retail rates could increase. If the LPSC were to deny Cleco Power's request to recover all or part of its environmental compliance costs, then Cleco Power would bear those costs directly. Such a decision could negatively impact, perhaps significantly, the results of operations, financial condition, or cash flows of the Registrants. Cleco Power's capital expenditures, including AFUDC, related to environmental compliance were $7.1 million during 2015 and are estimated to be $9.3 million in 2016.

Air Quality

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

The EPA has proposed and adopted rules under the authority of the CAA relevant to the emissions of SO_2 and NO_x from Cleco's generating units. The CAA established the Acid Rain Program to address the effects of acid rain and imposed restrictions on acid rain-causing SO_2 emissions from certain generating units. The CAA requires these EGUs to possess a regulatory "allowance" for each ton of SO_2 emitted beginning in the year 2000. The EPA allocates a set number of allowances to each affected unit based on its historic emissions. As of December 31, 2015, Cleco had sufficient allowances for operations in 2015 and expects to have sufficient allowances for 2016 operations under the Acid Rain Program.

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

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

On December 3, 2015, the EPA published the proposed CSAPR update for the 2008 ozone NAAQS in the Federal Register. The EPA expects to finalize the proposed rule in the summer of 2016. The EPA proposed Federal Implementation Plans (FIPs) that update the existing EGU CSAPR NO_x ozone-season emission budgets and implement the budgets through the existing CSAPR NO_x ozone-season allowance trading program. The proposed FIP requires implementation beginning with the 2017 ozone season, which consists of the months of May through September. Public comments on the proposed rule were received by February 1, 2016. Management is currently evaluating the effect of the proposed rule and is not able to predict if the proposed rule will have a material impact on the results of operations, financial condition, or cash flows of the Registrants.

In February 2012, the EPA finalized the MATS ruling that requires affected EGUs to meet specific emissions standards and work practices standards to address hazardous air pollutants. MATS imposes strict emission limits on new and existing coal- and liquid oil-fired EGUs for mercury, acid gases, and non-mercury metallic pollutants. Cleco Power units impacted by the rule include Rodemacher Unit 2, Madison Unit 3, and Dolet Hills. MATS controls equipment including dry sorbent injection for acid gas control, activated carbon injection systems for mercury control, and fabric filters (baghouses) for metal particulate control were installed at Dolet Hills and Rodemacher Unit 2. In addition, activated carbon injection for mercury control was installed at Madison Unit 3. As a result of the installation of the MATS equipment, Cleco Power's three EGUs affected by the MATS rule were compliant by the April 16, 2015, deadline. On February 1, 2016, the LPSC approved Cleco Power's request for authorization to recover the revenue requirements associated with the MATS equipment. Cleco Power began recovery of the revenue requirement associated with the MATS equipment, subject to refund, on July 1, 2015, and as of December 31, 2015, had recovered

$7.3 million on the project. As of December 31, 2015, Cleco Power had spent $106.4 million on the project. Cleco Power's final project cost is expected to be $108.0 million, with the remaining costs being related to post-construction refinements. On June 29, 2015, the U.S. Supreme Court remanded the MATS rule to the D.C. Circuit Court of Appeals. The U.S. Supreme Court held that the EPA had not demonstrated that the promulgation of the MATS rule was "appropriate and necessary" due to the EPA's failure to consider costs. On December 15, 2015, the D.C. Circuit Court of Appeals remanded the rule to the EPA; however, the D.C. Circuit Court of Appeals did not vacate the rule.
Greenhouse gases (GHG) and their role in climate change have been the focus of extensive study and legal action. Fossil fuel-fired EGUs emit a significant amount of GHG in the combustion process. Congress has attempted to craft specific legislation that would reduce emissions of GHG by utilities, industrial facilities, and other manufacturing sectors of the economy. While congressional attempts have not been successful, it is possible that federal GHG legislation may be enacted within the next several years.
In the absence of federal legislation, the EPA adopted a series of rules under the CAA that, taken together, regulate GHG emissions from both mobile and stationary sources. As a result, since July 2011, new major stationary sources of GHG emissions and major modifications of existing stationary sources have been required to obtain a permit for their GHG emissions. In its May 2010, Prevention of Significant Deterioration (PSD) and Title V GHG "Tailoring Rule," the EPA set the threshold for new major sources and major modifications of existing sources of GHG emissions and CO_2 equivalents at 100,000 tons per year and 75,000 tons per year, respectively. The U.S. Supreme Court partially invalidated the Tailoring Rule in June 2014, holding that the EPA does not have the authority to regulate GHG emissions from all sources, but only from sources that would otherwise be subject to PSD permitting based on exceeding the emissions limits for other pollutants. Cleco does not anticipate a modification at any of its existing sources that would trigger PSD and an associated Best Available Control Technology demonstration for GHG.
On August 3, 2015, the EPA released the final guidelines referred to as the CPP. These guidelines provide each state with standards for CO_2 emissions from the state's utility

industry. The EPA derived the limits for each state through a strategy involving a combination of unit efficiency improvements, dispatching away from boilers to combined cycle units, and applying renewable energy. The CPP requires significant reductions of CO_2 emissions. The CPP sets interim and final CO_2 emission goals for each state. The interim emission goals begin in 2022, with final emission goals required by 2030. The states have been asked to finalize state implementation plans by September 6, 2016, or apply for a two-year extension. The rule is currently under review by electric utilities and state regulators. On February 9, 2016, the U.S. Supreme Court issued a stay of the CPP, which will stay in place until the D.C. Circuit Court of Appeals rules on the merits, followed by a U.S. Supreme Court ruling. Until the U.S. Supreme Court issues a ruling and the State of Louisiana releases an implementation plan, management cannot predict what the final standards will entail for Cleco or what controls the EPA and the state of Louisiana may require in a final state plan. However, any new rules that require significant reductions of CO_2 emissions could require potentially significant capital expenditures or modifications or curtailment of operations of certain EGUs to maintain or achieve compliance.

On August 18, 2015, the EPA released the New Source Performance Standards (NSPS) rules for CO_2 emissions from new, modified, or reconstructed units. The rules set requirements and conditions with respect to CO_2 emission standards for new units and those that are modified or reconstructed. Cleco does not anticipate a modification or reconstruction of its existing sources that would trigger the application of the proposed CO_2 emission limits.

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

As part of its periodic re-evaluation of the protectiveness of the NAAQS, the EPA has adopted rules that strengthen the NAAQS for specific criteria pollutants including ozone, NO_2, and SO_2. In 2008, the EPA issued a NAAQS for ozone of 75 ppb. The EPA designated the five-parish area around Baton Rouge as a non-attainment area for ozone under the 2008 NAAQS, which required that Louisiana establish a state implementation plan to bring those areas back into attainment by 2015. The state plan for implementing the 2008 NAAQS did not impact Cleco’s generating units. On October 1, 2015, the EPA released a final rule to strengthen the 2008 8-hour ozone standard by decreasing the current value of 75 ppb to a value of 70 ppb. However, since the State of Louisiana has not released an implementation plan, Cleco cannot predict what the compliance requirements may be or if the new rule will have a material impact on the results of operations, financial condition, or cash flows of the Registrants.

A revised primary NAAQS for NO_2 promulgated by the EPA took effect in April 2010. The EPA established a new one-hour standard at a level of 100 ppb to supplement the existing

annual standard. In January 2012, the EPA determined that no area in the country was violating the standard. However, the LDEQ expects to operate new monitors at two portions of highways in the Baton Rouge and New Orleans areas. The EPA may redesignate areas based on new data it receives from states. Due to the fact that fossil fuel-fired EGUs are a significant source of NO_2 emissions in the country, a non-attainment designation could result in utilities such as Cleco being required to substantially reduce their NO_2 emissions. However, because the EPA has not yet completed any new designations, Cleco cannot predict the likelihood or potential impacts of such a rule on its generating units at this time.

The EPA revised the NAAQS for SO_2 in June 2010. The new standard is now a one-hour health standard of 75 ppb, designed to reduce short-term exposures to SO_2 ranging from five minutes to 24 hours. An important aspect of the new SO_2 standard is a revised emission monitoring network combined with a new ambient air modeling approach to determine compliance with the new standard. The EPA designated St. Bernard Parish as a non-attainment area. The EPA expects to use monitoring or modeling data developed in the future to confirm the status of areas that currently have no monitoring data. Classification of those areas currently without adequate data will be deferred until adequate data has been developed. In November 2015, the LDEQ notified the EPA that DeSoto Parish was in compliance with the NAAQS SO_2 requirement and recommended a designation of attainment. In February 2016, the EPA responded, indicating that it intends to classify a portion of DeSoto Parish as non-attainment. However, the EPA will also be accepting information and comments from the LDEQ and the public to weigh in on its final designation, which is expected by July 2, 2016. Utilities could be required to substantially reduce their SO_2 emissions to comply with this NAAQS. However, because the EPA has not yet completed all the area designations, Cleco is unable to determine the likelihood or potential future impacts of this rule on its generating units.

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

Water Quality

Cleco's facilities also are subject to federal and state laws and regulations regarding wastewater discharges. Cleco has received from the EPA and the LDEQ permits required under the federal Clean Water Act (CWA) for wastewater discharges from its generating stations. Wastewater discharge permits have fixed dates of expiration and Cleco applies for renewal of these permits within the applicable time periods.

In March 2011, the EPA proposed regulations which would establish standards for cooling water intake structures at existing power plants and other facilities pursuant to Section 316(b) of the CWA. The EPA published its final rule on August 15, 2014. The standards are intended to protect fish and other aquatic wildlife by minimizing capture both in screens attached to intake structures (impingement mortality), and in the actual intake structures themselves (entrainment mortality). The proposed standards would (1) set a performance standard, dealing with fish impingement mortality, or reduce the flow velocity at cooling water intakes to less than 0.5 feet per second, and (2) require entrainment standards to be determined on a case-by-case basis by state-delegated permitting authorities. Facilities subject to the proposed standards are required to complete a number of studies within a 45-month period and then comply with the rule as soon as possible after the next discharge permit renewal by a date determined by the permitting authorities. Portions of the final rule could apply to a number of Cleco's fossil fuel steam electric generating stations. Until the required studies are conducted, including technical and economic evaluations of the control options available, and regulatory agency officials have reviewed the studies and made determinations, Cleco remains uncertain which technology options or retrofits will be required to be installed on its affected facilities. The costs of required technology options and retrofits may be significant, particularly if closed cycle cooling is required.

The CWA requires the EPA to periodically review and, if appropriate, revise technology-based effluent limitations guidelines for categories of industrial facilities, including power generating facilities. On September 30, 2015, the EPA released the revised steam electric effluent limitation guidelines. The rule is focused on reducing the discharge of metals in wastewater from generating facilities to surface waters. The rule may require costly technological upgrades at Cleco's facilities, particularly if additional wastewater treatment systems are required to be installed or if waste streams must be eliminated. Management is currently evaluating the effect of the final rule and is not able to predict if the new rule will have a material impact on the results of operations, financial condition, or cash flows of the Registrants.

Solid Waste Disposal

In the course of operations, Cleco's facilities generate solid and hazardous waste materials requiring eventual disposal. The Solid Waste Division of the LDEQ has adopted a permitting system for the management and disposal of solid waste generated by power stations. Cleco has received all required permits from the LDEQ for the on-site disposal of solid waste from its generating stations.

On April 17, 2015, the EPA published a final rule in the
Federal Register for regulating the disposal and management of CCRs from coal-fired power plants. The federal regulation classifies CCRs as nonhazardous waste under Subtitle D of the Resource Conservation and Recovery Act and allows beneficial use of CCRs with some restrictions. The rule establishes extensive requirements for existing and new CCR landfills and surface impoundments and all lateral expansions consisting of location restrictions, design and operating criteria, groundwater monitoring and corrective action, closure requirements and post closure care, and recordkeeping, notification, and Internet posting requirements.

Prior to the publication of this federal regulation, Cleco Power was subject to state regulations pertaining to the disposal of coal ash. As a result, Cleco Power had an ARO for the retirement of certain ash disposal facilities. At December 31, 2015, based on management's best estimate of the retirement costs related to the CCR ruling, Cleco Power recorded a $1.0 million increase to its ARO for the retirement of certain ash disposal facilities. All costs of the

CCR rule are expected to be recovered from customers in future rates. The actual asset retirement costs related to the CCR rule requirements may vary substantially from the estimates used to record the increased obligation due to the uncertainty about the compliance strategies that will be used and the preliminary nature of available data used to estimate costs. Cleco Power will continue to gather additional data in future periods and will make decisions about compliance strategies and the timing of closure activities. As additional information becomes available and management makes decisions about compliance strategies and the timing of closure activities, Cleco Power will update the ARO balance to reflect these changes in estimates. However, management does not expect any required adjustment to the ARO to have a material effect on the results of operations, financial condition, or cash flows of the Registrants.

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

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

Emergency Planning and Community Right-to-Know Act (EPCRA)
Section 313 of the EPCRA requires certain facilities that manufacture, process, or otherwise use minimum quantities of listed toxic chemicals to file an annual report with the EPA called a Toxic Release Inventory (TRI) report. The TRI report requires industrial facilities to report on approximately 650 substances that the facilities release into the air, water, and land. The TRI report ranks companies based on the amount of a particular substance they release on a state and parish (county) level. Annual reports are due to the EPA on July 1 following the reporting year-end. Cleco has submitted required TRI reports on its activities and the TRI rankings are available to the public. The rankings do not result in any federal or state penalties.

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

ITEM 1A. RISK FACTORS

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

Agreement and Plan of Merger

Cleco Partners and Cleco may be unable to obtain the required governmental, regulatory, and other approvals required to complete the Merger, or such approvals may require Cleco to comply with material restrictions or conditions.
Consummation of the Merger remains subject to the satisfaction or waiver of specified closing conditions, including (i) the absence of any temporary restraining order or injunction preventing, prohibiting, restraining, enjoining, or rendering illegal the consummation of the Merger; (ii) approval from the LPSC; and (iii) other customary closing conditions. On February 24, 2016, the LPSC denied Cleco Power's application to approve the Merger. Consequently, LPSC approval required to consummate the Merger may not be obtained at all, may not be obtained on the proposed terms and schedules as contemplated by the parties, and/or may impose terms, conditions, obligations, or commitments that constitute a "burdensome effect" (as defined in the Merger Agreement). In the event that the LPSC approval includes any such burdensome effect or if any of the conditions to the closing are not satisfied prior to the termination date specified in the Merger Agreement, Cleco Partners will not be obligated to consummate the Merger. These conditions could delay or have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

In the event that the Merger Agreement is terminated prior to the completion of the Merger, Cleco could incur significant transaction costs that could materially impact its financial performance and results of operations.
Cleco will incur significant transaction costs, including legal, accounting, financial advisory, filing, printing, and other costs relating to the Merger. The Merger Agreement provides that upon termination of the Merger Agreement under certain specified circumstances, Cleco will be required to pay Cleco Partners a termination fee of $120.0 million. Any fees due as a result of termination could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

Cleco will be subject to business uncertainties and contractual restrictions while the Merger is pending that could adversely affect Cleco's financial results.
Uncertainty about the effects of the Merger on employees or vendors and others may have an adverse effect on Cleco. These uncertainties may impair Cleco's and its subsidiaries' ability to attract, retain, and motivate key personnel and could cause vendors and others that deal with Cleco to seek to change existing business relationships. Employee retention and recruitment may be particularly challenging prior to the completion of the Merger, as current and prospective employees may experience uncertainty about their future roles with Cleco. If key employees depart or fail to accept employment with Cleco or its subsidiaries due to the uncertainty and difficulty of integration or a desire not to remain

with Cleco, Cleco's results of operations, financial condition, or cash flows could be adversely affected.
Cleco expects that matters relating to the Merger, and if the Merger closes, integration-related issues, will place a significant burden on management, employees, and internal resources, which could otherwise have been devoted to other business opportunities. The diversion of management's time on Merger-related issues could affect Cleco's financial results. In addition, the Merger Agreement restricts Cleco and its subsidiaries, without Cleco Partners' consent, from taking specified actions until the Merger occurs or the Merger Agreement is terminated, including, without limitation: (i) making certain acquisitions and dispositions of assets or property; (ii) exceeding certain capital spending limits; (iii) incurring certain forms of indebtedness; (iv) issuing equity or equity equivalents; and (v)

increasing the dividend rates on its stock. These restrictions may prevent Cleco from pursuing otherwise attractive business opportunities or making other changes to its business prior to consummation of the Merger or termination of the Merger Agreement.

Cleco is subject to litigation related to the proposed Merger.
In connection with the proposed Merger, four actions were filed in the Ninth Judicial District Court for Rapides Parish, Louisiana and three actions were filed in the Civil District Court for Orleans Parish, Louisiana. One of the actions filed in Rapides Parish has been dismissed. The remaining three actions in Rapides Parish have been consolidated. The three actions in Orleans Parish have been transferred to Rapides Parish and consolidated with the other litigation in Rapides Parish. The actions were filed against Cleco Corporation and, among others, Cleco Partners, Merger Sub, and members of the Board of Directors of Cleco Corporation. The petitions generally allege, among other things, that the members of Cleco Corporation’s Board of Directors breached their fiduciary duties by, among other things, conducting an allegedly inadequate sale process, agreeing to the Merger at a price that allegedly undervalues Cleco, and failing to disclose material information about the Merger. The petitions also allege that Cleco Partners, Cleco, and Merger Sub and, in some cases, certain of the investors in Cleco Partners, either aided and abetted or entered into a civil conspiracy to advance those supposed breaches of duty. The petitions seek various remedies, including an injunction against the Merger and monetary damages, including attorneys’ fees and expenses. It is possible that additional claims beyond those that have already been filed will be brought by the current plaintiffs or by others in an effort to enjoin the Merger or seek monetary relief from Cleco. Cleco is not able to predict the outcome of these actions, or others, nor can Cleco predict the amount of time and expense that will be required to resolve the actions. An unfavorable resolution of any such litigation surrounding the proposed Merger could delay or prevent the consummation of the Merger. In addition, the cost to Cleco of defending the actions, even if resolved in Cleco’s favor, could be substantial. Such actions could also divert the attention of Cleco’s management and resources from day-to-day operations.

Failure to complete the Merger could negatively impact the market price of Cleco Corporation's common stock.
Failure to complete the Merger may negatively impact the future trading price of Cleco Corporation's common stock. If the Merger is not completed, the market price of Cleco Corporation's common stock may decline to the extent that the current market price of Cleco Corporation's stock reflects a market assumption that the Merger will be completed. Additionally, if the Merger is not completed, Cleco will have incurred significant costs, as well as the diversion of the time and attention of management. A failure to complete the Merger may also result in negative publicity, litigation against Cleco or its directors and officers, and a negative impression of Cleco in the investment community. The occurrence of any of these events individually or in combination could have a material adverse effect on the results of operations, financial condition, cash flows, or stock price of Cleco Corporation.

LPSC Audits

The LPSC conducts fuel audits that could result in Cleco Power making substantial refunds of previously recorded revenue.
Generally, fuel and purchased power expenses are recovered through the LPSC-established FAC, which enables Cleco Power to pass on to its customers substantially all such expenses. Recovery of FAC costs is subject to periodic fuel audits by the LPSC. The LPSC FAC General Order issued in November 1997 in Docket No. U-21497 provides that an audit will be performed at least every other year.
On February 3, 2016, the LPSC initiated an audit of Cleco Power's fuel and purchased power expenses for the period January 2014 through December 2015. The total amount of fuel expense included in this audit is $582.6 million. Management is unable to predict or give a reasonable estimate of the possible range of the disallowance, if any, related to this audit. If a disallowance of fuel costs is ordered, resulting in a refund, any such refund could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

The LPSC conducts audits of environmental costs that could result in Cleco Power making substantial refunds of previously recorded revenue.
In July 2009, the LPSC issued Docket No. U-29380 Subdocket A, which provides for an EAC to recover from customers certain costs of environmental compliance. The costs eligible for recovery are prudently incurred air emissions credits associated with complying with federal, state, and local air emission regulations that apply to the generation of electricity reduced by the sale of such allowances. Also eligible for recovery are variable emission mitigation costs, which are the costs of reagents such as ammonia and limestone that are a part of the fuel mix used to reduce air emissions, among other things. Cleco Power began incurring additional environmental compliance expenses beginning in the second quarter of 2015 for reagents associated with compliance with MATS. These expenses are eligible for recovery through Cleco Power's EAC and subject to periodic review by the LPSC.
On February 3, 2016, the LPSC initiated an audit of Cleco Power's environmental costs for the period November 2010 through December 2015. The total amount of environmental costs included in this audit is $81.2 million. Management is unable to predict or give a reasonable estimate of the possible range of the disallowance, if any, related to this audit. If a

disallowance of environmental costs is ordered resulting in a refund, any such refund could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

Transmission Constraints

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

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

Hedging and Risk Management Activities

Cleco Power is subject to market risk associated with fuel cost hedges relating to FTRs and any future open natural gas contracts. Cleco has risk management policies that cannot eliminate all risk involved in its energy commodity activities.

Annually, Cleco Power receives Auction Revenue Rights, which can be converted to FTRs. FTRs provide a financial hedge to manage the risk of congestion cost in the Day-Ahead Energy Market. FTRs represent rights to congestion credits or charges along a path during a given time frame for a certain MW quantity. Cleco may purchase additional FTRs to further hedge its congestion cost risk.

Cleco Power may enter into fuel cost hedge positions to mitigate the volatility in fuel costs passed through to its retail customers. When these positions close, actual gains or losses are deferred and included in the FAC in the month the physical contract settles. Recovery of any of these FAC costs is subject to, and may be disallowed as part of, a prudency review or a periodic fuel audit conducted by the LPSC. In June 2015, the LPSC approved a long-term natural gas hedging pilot program that requires Cleco Power to establish a proposal for a long-term natural gas procurement program that will be designed to provide gas price stability for a minimum of five years.

Cleco Power manages its exposure to energy commodity activities by maintaining risk management policies and establishing and enforcing risk limits and risk management procedures. However, these risk limits and risk management procedures cannot eliminate all risk associated with these activities.

Financial derivatives reforms could increase the liquidity needs and costs of Cleco Power's commercial trading operations.

In July 2010, Congress enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) to reform financial markets. This legislation significantly altered the regulation of over-the-counter (OTC) derivatives, including commodity swaps that could be used by Cleco

Power to hedge and mitigate commodities risk. The Dodd-Frank Act increases regulatory oversight of OTC energy derivatives, including (1) requiring standardized OTC derivatives to be traded on registered exchanges regulated by the Commodity Futures Trading Commission (CFTC), (2) imposing new and potentially higher capital and margin requirements, and (3) authorizing the establishment of overall volume and position limits. These requirements could cause Cleco Power's future OTC transactions to be more costly and have an adverse effect on its liquidity due to additional capital requirements. In addition, by standardizing OTC products, these reforms could limit the effectiveness of Cleco Power's hedging programs because Cleco Power would have less ability to tailor OTC derivatives to match the precise risk it is seeking to protect. The law gives the CFTC authority to exempt end users of energy commodities. The end user exemption reduces but does not eliminate the applicability of these measures. Cleco Power would qualify for the end user exemption which reduces but does not eliminate the applicability of these measures. Management continues to review the final rules that have been issued or will be issued under the Dodd-Frank Act and will continue to monitor this law and its possible impacts on the Registrants.

Commodity Prices

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

Global Economic Environment and Uncertainty; Access to Capital

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

Inflation
Annual inflation rates, as measured by the U.S. Consumer Price Index, have averaged 1.07% during the three years ended December 31, 2015. Cleco believes inflation at this

level does not materially affect its results of operations or financial condition. However, under established regulatory practice, historical costs have traditionally formed the basis for recovery from customers. As a result, Cleco Power's cash flows designed to provide recovery of historical plant costs may not be adequate to replace property, plant, and equipment in future years.

Disruptions in the capital and credit markets may adversely affect the Registrants' cost of capital and ability to meet liquidity needs or access capital to operate and grow the business.

The Registrants’ business is capital intensive and dependent upon their respective ability to access capital at reasonable rates and other terms. The Registrants’ liquidity needs could significantly increase in the event of a hurricane or other weather-related or unforeseen disaster or when there are spikes in the price for natural gas and other commodities. The occurrence of one or more contingencies, including a delay in regulatory recovery of fuel, purchased power, or storm restoration costs, higher than expected required pension contributions, an acceleration of payments or decreased credit lines, less cash flow from operations than expected, or other unexpected events, could cause the financing needs of the Registrants to increase.

The Merger Agreement restricts Cleco and its subsidiaries from incurring certain forms of indebtedness without Cleco Partners’ consent. In addition, events beyond the Registrants’ control, such as volatility and disruption in global capital and credit markets, may create uncertainty that could increase their cost of capital or impair their ability to access the capital markets, including the ability to draw on their respective bank credit facilities. The Registrants are unable to predict the degree of success they will have in renewing or replacing their respective credit facilities as they come up for renewal. Moreover, the size, terms, and covenants of any new credit facilities may not be comparable to, and may be more restrictive than, existing facilities. If the Registrants are unable to access the credit and capital markets on terms that are reasonable, they may have to delay raising capital, issue shorter-term securities, and/or bear an unfavorable cost of capital, which, in turn, could have a material adverse effect on the Registrants’ ability to fund capital expenditures or to service debt, or on the Registrants’ flexibility to react to changing economic and business conditions.

Future Electricity Sales

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

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

Energy conservation, energy efficiency efforts, and other factors that reduce energy demand could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

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

Cleco Power's Generation, Transmission, and Distribution Facilities

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

reserves or the liability for impacts on reclaimed lands may not be recoverable and could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

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

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

MISO

MISO market operations could have a material adverse effect on
the results of operations, generation revenues, energy supply costs, financial condition, or cash flows of the Registrants.

Cleco Power is a member of the MISO market region referred to as "MISO South," which encompasses parts of Arkansas, Louisiana, Mississippi, and Texas. Dispatch of generation resources and generation volumes to the market is determined by MISO. Costs in the MISO South region are heavily influenced by commodity fuel prices, transmission congestion, dispatch of the generating assets owned not only by Cleco Power, but by all market participants in the MISO South region, and the overall demand and generation availability in the region.

MISO evaluates forced outage rates to assess generating unit capacity for planning reserve margins. If Cleco Power is subject to an inordinate amount of forced outages, Cleco Power may not possess sufficient planning reserves to serve its needs and could be forced to purchase capacity from the MISO resource adequacy auction. The costs of such capacity may not be recoverable and could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants. Using MISO's unforced capacity method for determining generating unit capacity, Cleco Power's fleet provided for 536MW of capacity in excess of its peak, coincident to MISO's peak, in 2015.

Reliability and Infrastructure Protection Standards Compliance

Cleco is subject to mandatory reliability and critical infrastructure protection standards. Fines and civil penalties are imposed on those who fail to comply with these standards.
NERC serves as the ERO with authority to establish and enforce mandatory reliability and infrastructure protection standards, subject to FERC approval, for users of the nation's transmission system. FERC enforces compliance with these standards. New standards are being developed and existing standards are continuously being modified.
As these standards continue to be adopted and modified, they may impose additional compliance requirements on Cleco Power, which may result in an increase in capital expenditures and operating expenses. Failure to comply with these standards can result in the imposition of material fines and civil penalties.
The SPP RE conducts a NERC Reliability Standards audit every three years. Cleco's next audit is scheduled to begin in April 2016. Management is unable to predict the outcome of this audit, or any future audits, or whether any findings will have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

Environmental Compliance

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

Regulatory Compliance

Cleco operates in a highly regulated environment and adverse regulatory decisions or changes in applicable regulations could have a material adverse effect on the Registrants' business or result in significant additional costs.
Cleco's business is subject to extensive federal, state, and local energy, environmental, and other laws and regulations. The LPSC regulates Cleco's retail operations and FERC regulates Cleco's wholesale operations. The construction,

planning, and siting of Cleco's power plants and transmission lines also are subject to the jurisdiction of the LPSC and FERC. Additional regulatory authorities have jurisdiction over some of Cleco's operations and construction projects including the EPA, the U.S. Bureau of Land Management, the U.S. Fish and Wildlife Services, the DOE, the U.S. Army Corps of Engineers, the U.S. Department of Homeland Security, the Occupational Safety and Health Administration, the U.S. Department of Transportation, the Federal Communications Commission, 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 due to Cleco's need to comply with those requirements.

Cleco Power's Rates

The LPSC and FERC regulate the retail rates and transmission tariffs, respectively, that Cleco Power can charge its customers.

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

Cleco Power's revenues and earnings are substantially affected by regulatory proceedings known as rate cases or, in some cases, a request for extension of an FRP. During those cases, the LPSC determines Cleco Power's rate base, depreciation rates, operation and maintenance costs, and administrative and general costs that Cleco Power may recover from its retail customers through its rates. In some

instances, the outcome of a rate case or request for extension of an FRP may impact wholesale decisions of Cleco Power. These proceedings may examine, among other things, the prudence of Cleco Power's operation and maintenance practices, level of subject expenditures, allowed rates of return, and previously incurred capital expenditures. The LPSC has the authority to disallow costs found not to have been prudently incurred. Rate cases generally have timelines of approximately one year, and decisions are typically subject to appeal, potentially leading to additional uncertainty. The transmission tariffs of Cleco Power are regulated by FERC with its own regulatory proceedings. Both the LPSC and FERC regulatory proceedings can involve multiple parties, including governmental bodies and officials, consumer advocacy groups, and various consumers of energy, all of whom have differing concerns but who have the common objective of limiting rate increases or reducing rates.
Transmission rates that MISO transmission owners may collect are regulated by FERC. If there is a reduction to the ROE component of the transmission rates, there could be a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

Retail Electric Service

Cleco Power's retail electric rates and business practices are regulated by the LPSC and reviews may result in refunds to customers.
Cleco Power's retail rates for residential, commercial, and industrial customers and other retail sales are regulated by the LPSC, which conducts an annual review of Cleco Power's earnings and regulatory ROE. Cleco Power could be required to make a substantial refund of previously recorded revenue as a result of the LPSC review and such refund could result in a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

Wholesale Electric Service

Cleco Power's business practices are regulated by FERC, and its wholesale rates are subject to FERC's triennial market power analysis. Cleco could lose the right to sell at market-based rates.
FERC conducts a review of Cleco Power's generation market power every three years in addition to each time generation capacity changes. Cleco filed its most recent triennial market power analysis with FERC on January 23, 2015. If FERC determines Cleco Power possesses generation market power in excess of certain thresholds, Cleco Power could lose the right to sell wholesale generation at market-based rates, which could result in a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

Weather Sensitivity

The operating results of Cleco Power are affected by weather conditions and may fluctuate on a seasonal basis. Weather conditions directly influence the demand for electricity, particularly kWh sales to residential customers. In Cleco Power's service territory, demand for power typically peaks during the hot summer months. As a result, Cleco Power's financial results may fluctuate on a seasonal basis. In addition, Cleco Power has sold less power and, consequently, earned less income when weather conditions were milder.

Unusually mild weather in the future could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.
Severe weather, including hurricanes and winter storms, can affect transportation of fuel to plant sites and can be destructive, causing outages and property damage that can potentially result in additional expenses, lower revenue, and additional capital restoration costs. Extreme drought conditions can impact the availability of cooling water to support the operations of generating plants, which can also result in additional expenses and lower revenue.

The physical risks associated with global climate change could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

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

Litigation

The outcome of legal proceedings cannot be predicted. An adverse finding could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

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

Alternative Generation Technology

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

Taxes

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

Cleco Credit Ratings

A downgrade in Cleco Corporation's or Cleco Power's credit ratings could result in an increase in their respective borrowing costs and a reduced pool of potential investors and funding sources.
Neither Cleco Corporation nor Cleco Power can assure that its current debt ratings will remain in effect for any given period of time or that one or more of its debt ratings will not be lowered or withdrawn entirely by a rating agency. Upon announcement of the Merger, Moody's and S&P placed Cleco Corporation and Cleco Power on negative outlook and CreditWatch negative, respectively. On February 25, 2016, S&P changed the outlook for Cleco Corporation and Cleco Power from CreditWatch negative to CreditWatch developing. Prior to close of the Merger or upon termination of the Merger Agreement, it is expected that the credit rating agencies will update their ratings on both Cleco Corporation and Cleco Power taking into consideration the results of the merger transaction. If Moody's

or S&P were to downgrade Cleco Corporation's or Cleco Power's long-term ratings, particularly below investment grade, the value of their debt securities would likely be adversely affected. In addition, Cleco Corporation or Cleco Power, as the case may be, would likely be required to pay higher interest rates in future debt financings and be subject to more onerous debt covenants, and their 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 to its shareholders is dependent on the cash generated by its subsidiaries.

Cleco Corporation is a holding company and conducts its operations primarily through its subsidiaries. Accordingly, Cleco Corporation's ability to meet its debt obligations and to pay dividends to its shareholders is largely dependent upon the cash generated by these subsidiaries. Cleco Corporation's subsidiaries are separate and distinct entities and have no obligations to pay any amounts due on Cleco Corporation's debt or to make any funds available for such payment. In addition, Cleco Corporation's subsidiaries' ability to make dividend payments or other distributions to Cleco Corporation may be restricted by their obligations to holders of their outstanding securities and to other general business creditors. Substantially all of Cleco's consolidated assets are held by Cleco Power. Cleco Corporation's right to receive any assets of any subsidiary, and therefore the right of its creditors to participate in those assets, will be effectively subordinated to the claims of that subsidiary's creditors, including trade creditors. In addition, even if Cleco Corporation were a creditor of any subsidiary, its rights as a creditor would be subordinated to any security interest in the assets of that subsidiary and any indebtedness of the subsidiary senior to that held by Cleco Corporation. Moreover, Cleco Power, Cleco Corporation'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.

Technology and Terrorism Threats

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

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

parties, any of which could have a material adverse effect on the financial condition, results of operations, or cash flows of the Registrants.
Cleco's systems, including its financial information, operational systems, advanced metering, and billing systems, require constant maintenance, monitoring, security patches, modification or configuration of systems, and update and upgrade of systems, which can be costly and increase the risk of errors and malfunction. Any disruptions or deficiencies in existing systems, or disruptions, delays, or deficiencies in the modification or implementation of new systems, could result in increased costs, the inability to track or collect revenues, the diversion of management's and employees' attention and resources, and could adversely affect the effectiveness of Cleco's control environment, and/or its ability to accurately or timely file required regulatory reports.
Despite implementation of security and mitigation measures, all of Cleco's technology systems are vulnerable to inoperability and/or impaired operations or failures due to cyber and/or physical attacks on the facilities and equipment needed to operate the technology systems, viruses, human errors, acts of war or terrorism, and other events. If Cleco's information technology systems or network infrastructure were to fail, Cleco might be unable to fulfill critical business functions and serve its customers, which could have a material adverse effect on the financial conditions, results of operations, or cash flows of the Registrants.
In addition, in the ordinary course of its business, Cleco collects and retains sensitive information including personal identification information about customers and employees, customer energy usage, and other confidential information. The theft, damage, or improper disclosure of sensitive electronic data could subject Cleco to penalties for violation of applicable privacy laws, subject Cleco to claims from third parties, and/or harm Cleco's reputation.

Insurance

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

Cleco Power LLC's Unsecured and Unsubordinated Obligations

Cleco Power LLC's unsecured and unsubordinated obligations, including, without limitation, its senior notes, will be effectively subordinated to any secured debt of Cleco Power LLC, certain unsecured debt of Cleco Power LLC, and any preferred equity of any of Cleco Power LLC's subsidiaries.
Some of Cleco Power LLC's senior notes and its obligations under various loan agreements and refunding agreements with the Rapides Finance Authority, the Louisiana Public Facilities Authority, and other issuers of tax-exempt bonds for the benefit of Cleco Power LLC are unsecured and rank equally with all of Cleco Power LLC's existing and future unsecured and unsubordinated indebtedness. As of December 31, 2015, Cleco Power LLC had an aggregate of $1.17 billion of unsecured and unsubordinated indebtedness. The unsecured and unsubordinated indebtedness of Cleco

Power LLC will be effectively subordinated to, and thus have a junior position to, any secured debt that Cleco Power LLC may have outstanding from time to time (including any mortgage bonds) with respect to the assets securing such debt. Certain agreements entered into by Cleco Power LLC with other lenders that are unsecured provide that if Cleco Power LLC issues secured debt, Cleco Power is obligated to grant these lenders the same security interest in certain assets of Cleco Power LLC. If such a security interest were to arise, it would further subordinate Cleco Power LLC's unsecured and unsubordinated obligations.

As of December 31, 2015, Cleco Power LLC had no secured indebtedness outstanding. Cleco Power LLC may issue mortgage bonds in the future under its current or any future Indenture of Mortgage, and holders of mortgage bonds would have a prior claim on certain Cleco Power LLC material assets upon dissolution, winding up, liquidation, or reorganization. Additionally, Cleco Power LLC's ability (and the ability of Cleco Power LLC's creditors, including holders of its senior notes) to participate in the assets of Cleco Power LLC's subsidiary, Cleco Katrina/Rita, is subject to the prior claims of the subsidiary's creditors. As of December 31, 2015, Cleco Katrina/Rita had $84.2 million of indebtedness outstanding, net of debt discount.

Health Care Reform

Cleco may experience increased costs arising from health care reform.

In 2010, the President of the U.S. signed the PPACA, a comprehensive health care law. This law has had a significant impact on health care providers, insurers, and others associated with the health care industry. Cleco continues to evaluate the impact of this comprehensive law on its business and has made the required changes to its health plan. Federal and state governments may propose other health care initiatives and revisions to the health care and health insurance systems. It is uncertain what legislative programs, if any, will be adopted in the future, or what action Congress or state legislatures may take regarding other health care reform proposals or legislation. The complexities and ramifications of the legislation are significant and are being implemented through a phased-in approach concluding in 2020. Management is unable to estimate the comprehensive effects of health care reform and its impact on the Registrants' business, results of operations, financial condition, or cash flows. Accordingly, the PPACA could adversely affect the cost of providing health care coverage generally and could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

Workforce

Failure to attract and retain an appropriately qualified workforce could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.
Certain events, such as an aging workforce without appropriate replacements, matching of skill set or complement to future needs, or unavailability of contract resources may lead to operating challenges and increased costs. The challenges include lack of resources, loss of knowledge, and a

lengthy time period associated with skill development. In this case, costs, including costs for contractors to replace employees, productivity costs, and safety costs, may rise. Failure to hire and adequately train replacement employees, including the transfer of significant internal historical knowledge and expertise to new employees, or the future availability and cost of contract labor may adversely affect the ability to manage and operate the Registrants' businesses. If the Registrants are unable to successfully attract and retain an appropriately qualified workforce, the results of operations, financial condition, or cash flows of the Registrants could be materially adversely affected.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

CLECO CORPORATION

Electric Transmission Substations
As of December 31, 2015, Cleco Corporation, through two wholly owned subsidiaries, owned one transmission substation in Louisiana and one transmission substation in Mississippi.

CLECO POWER

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

Electric Generating Stations
As of December 31, 2015, Cleco Power either owned or had an ownership interest in six steam electric generating stations, three combined cycle units, and one gas turbine with a combined nameplate capacity of 3,333 MW, and a combined electric net generating capacity of 3,190 MW. The net generating capacity is the result of capacity tests and operational tests performed during 2015, as required by MISO criteria. This amount reflects the maximum production capacity these units can sustain over a specified period of time. For more information on Cleco Power's generating facilities, see Item 1, "Business — Operations — Cleco Power — Power Generation."

Electric Substations
As of December 31, 2015, Cleco Power owned 82 active transmission substations and 219 active distribution substations.

Electric Lines

As of December 31, 2015, Cleco Power's transmission system consisted of 67 circuit miles of 500-kiloVolt (kV) lines; 539 circuit miles of 230-kV lines; 671 circuit miles of 138 kV lines; and 28 circuit miles of 69-kV lines. Cleco Power's distribution system consisted of 3,640 circuit miles of 34.5-kV lines and 8,291 circuit miles of other lines.

General Properties

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

Title

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

Substantially all of Cleco Power's property, plant, and equipment are subject to a lien of Cleco Power's Indenture of Mortgage, which does not impair the use of such properties in the operation of its business. As of December 31, 2015, no mortgage bonds were outstanding under the Indenture of Mortgage. Some of the unsecured and unsubordinated indebtedness of Cleco Power will be effectively subordinated to, and thus have a junior position to, any mortgage bonds that Cleco Power may have outstanding from time to time with respect to the assets subject to the lien of the Indenture of Mortgage. Cleco Power may issue mortgage bonds in the future under its Indenture of Mortgage, and holders of mortgage bonds would have a prior claim on certain Cleco Power material assets upon dissolution, winding up, liquidation, or reorganization.

ITEM 3. LEGAL PROCEEDINGS

CLECO CORPORATION

For information on legal proceedings affecting Cleco, see Item I, “Business — Environmental Matters — Environmental Quality” and “— Air Quality,” Item 1A, “Risk Factors — Agreement and Plan of Merger,” and Part II, Item 8, “Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 14 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Litigation.”

CLECO POWER

For information on legal proceedings affecting Cleco Power, see Item I, “Business — Environmental Matters — Environmental Quality” and “— Air Quality” and Part II, Item 8, “Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 14 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Litigation.”

ITEM 4. MINE SAFETY DISCLOSURES

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

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

CLECO CORPORATION
Cleco Corporation's common stock is listed for trading on the NYSE. During the years ended December 31, 2015, and 2013, Cleco Corporation did not repurchase any shares of common stock. During the year ended December 31, 2014, 250,000 shares of common stock were repurchased. In accordance with the Merger Agreement, until the completion of the Merger, no additional common stock will be repurchased under this program without the prior written consent of Cleco Partners. 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."
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, subject to prior rights to dividends on any outstanding series of preferred stock. The provisions of Cleco Corporation's amended and restated articles of incorporation applicable to preferred stock and certain provisions contained in the debt instruments of Cleco under certain circumstances 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, 2015, $1.01 billion of retained earnings was unrestricted.
On January 28, 2016, Cleco Corporation's Board of Directors declared a quarterly dividend of $0.40 per share of common stock payable on February 16, 2016, to common shareholders of record at the close of business on February 8, 2016. The declaration of dividend payments is at the Board of Directors' sole discretion, and future dividends are subject to numerous factors that ordinarily affect the dividend policy, including the result of Cleco's operations and its financial position, as well as general economic and business conditions. In accordance with the Merger Agreement, until the completion of the Merger, Cleco Corporation's Board of Directors may continue the declaration and payment of regular

quarterly cash dividends to its shareholders, not to exceed $0.40 per share of common stock, with usual record and payment dates for such dividends in accordance with past dividend practices. For more information about the Merger, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 20 — Agreement and Plan of Merger." As of February 19, 2016, there were 5,027 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 $52.88 per share. 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 2015 and 2014, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 19 — Miscellaneous Financial Information (Unaudited)."
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 into which Cleco Power may enter.
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, 2015, $884.3 million of member's equity was unrestricted.
During 2015, 2014, and 2013, Cleco Power made $135.0 million, $115.0 million, and $105.0 million of distribution payments to Cleco Corporation, respectively.

Cleco Power received no equity contributions from Cleco Corporation in 2015 or 2013. In 2014, Cleco Power received a $138.1 million non-cash contribution relating to the transfer of Coughlin from Cleco Corporation.

ITEM 6. SELECTED FINANCIAL DATA
CLECO CORPORATION
The information set forth in the following table should be read in conjunction with the Consolidated Financial Statements and the related Notes in Item 8, "Financial Statements and Supplementary Data."

Cleco's consolidated financial results for 2011 include the gain related to the disposition of Acadia Unit 2 and the remaining half of Acadia Power Station's related common facilities.

Five-Year Selected Financial Data (THOUSANDS, EXCEPT PER SHARE AND PERCENTAGES)	2015	2014	2013	2012	2011
Operating revenue, net (excluding intercompany revenue)					
Cleco Power	$1,207,325	$1,267,323	$1,094,621	$991,695	$1,096,093
Midstream [1]	—	5,467	31,672	25,562	19,013
Other	2,077	(3,305)	(29,579)	(23,560)	2,207
Total	$1,209,402	$1,269,485	$1,096,714	$993,697	$1,117,313
Income before income taxes	$211,373	$221,855	$240,260	$228,975	$298,745
Net income applicable to common stock	$133,669	$154,739	$160,685	$163,648	$195,710
Basic earnings per average common share outstanding	$2.21	$2.56	$2.66	$2.71	$3.24
Diluted earnings per average common share outstanding	$2.20	$2.55	$2.65	$2.70	$3.22
Capitalization					
Common shareholders' equity	56.92 %	54.86 %	54.89 %	54.67 %	51.80 %
Long-term debt [2]	43.08 %	45.14 %	45.11 %	45.33 %	48.20 %
Common shareholders' equity	$1,674,841	$1,627,270	$1,586,197	$1,499,213	$1,419,857
Long-term debt, net [2]	$1,267,703	$1,338,998 [3]	$1,303,786 [3]	$1,243,266 [3]	$1,321,346 [3]
Total assets	$4,323,354	$4,368,418	$4,203,548	$4,133,357	$4,034,492
Cash dividends declared per common share	$1.60	$1.5625	$1.425	$1.30	$1.1225

[1] Effective March 15, 2014, upon the transfer of Coughlin to Cleco Power, Midstream had minimal operations.
[2] Long-term debt includes obligations for capital leases and excludes debt due within one year.
[3] Amounts for 2011 through 2014 were adjusted to reflect 2015 accounting guidance that requires debt issuance costs to be presented as a direct deduction from the carrying value of the related debt. For more information, see Item 8, "Financial Statements and Supplementary Data — Notes to Financial Statements — Note 2 — Summary of Significant Accounting Policies — Recent Authoritative Guidance."

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

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

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

OVERVIEW

Cleco is a regional energy company that conducts substantially all of its business operations through its primary subsidiary, Cleco Power. Cleco Power is a regulated electric utility company that owns 10 generating units with a total nameplate capacity of 3,333 MW and serves approximately 287,000 customers in Louisiana through its retail business and supplies wholesale power in Louisiana and Mississippi. Prior to March 15, 2014, Cleco also conducted wholesale business operations through its Midstream subsidiary. Midstream owns Evangeline (which owned and operated Coughlin). On March 15, 2014, the Coughlin generating assets were transferred to Cleco Power. Coughlin consists of two generating units with a total nameplate capacity of 775 MW.

For more information on the transfer of Coughlin to Cleco Power, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 17 — Coughlin Transfer."

Merger

On October 17, 2014, Cleco Corporation entered into the Merger Agreement with Cleco Partners and Merger Sub providing for the merger of Merger Sub with and into Cleco Corporation, with Cleco Corporation surviving the Merger as an indirect, wholly-owned subsidiary of Cleco Partners. On February 24, 2016, the LPSC denied the application to approve the Merger. Management is currently evaluating options relating to the Merger. For more information on the Merger, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 20 — Agreement and Plan of Merger." For additional information regarding the terms of the Merger, including a copy of the Merger Agreement, see Cleco Corporation's Current Reports on Form 8-K filed with the SEC and its Proxy Statement related to the Merger.

Cleco Power

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

Layfield/Messick Project

The Layfield/Messick project, or Northwest Louisiana Transmission Expansion project, includes the construction of the new Layfield transmission substation and the construction of additional transmission interconnection facilities near the Dolet Hills Power Station. The project is anticipated to reduce congestion and increase reliability for customers in northwest Louisiana. Cleco Power's portion of the joint project with SWEPCO is expected to cost $32.0 million. As of December 31, 2015, Cleco Power had spent $22.5 million on the project. Construction is expected to be complete by the end of 2016.

Cenla Transmission Expansion Project

The Cenla Transmission Expansion project includes the construction of transmission lines and a transmission substation within the central Louisiana area. The project is expected to improve reliability to customers by relieving forecasted overloads and mitigating potential load shedding events while providing flexibility to allow routine maintenance outages and serve future growth in the central Louisiana area. Right-of-way acquisition is substantially complete and right-of-way clearing has begun with construction expected to begin in March 2016. The project is expected to be complete by the end of 2017 with an estimated cost to Cleco Power of $38.0 million. As of December 31, 2015, Cleco Power had spent $3.6 million on the project.

Cabot Waste Heat Recovery Project

On March 24, 2015, Cleco Power filed an application with the LPSC requesting a certificate of public convenience and necessity authorizing Cleco Power to construct, own, and operate a proposed 40-MW generating unit, to be fueled by waste heat from Cabot Corporation's carbon black manufacturing plant in Franklin, Louisiana. The project was approved by the LPSC on December 16, 2015, and is projected to be commercially operational by the second quarter of 2018. The project is estimated to cost $81.0 million, and upon achieving commercial operations, is expected to generate more than 250,000 MWh of zero additional carbon emitting energy each year. As of December 31, 2015, Cleco Power had spent $1.9 million on the project.

Bayou Vista

The Bayou Vista project includes the construction of additional transmission interconnection facilities south of Teche Power Station. Cleco Power's portion of the joint project with Entergy Louisiana will cost approximately $47.7 million. The project is expected to increase reliability, reduce congestion, and provide hurricane hardening for customers in southeast Louisiana. The project was approved by MISO on December 10, 2015. Routing, permitting, and right-of-way acquisition is expected to take place during 2016 with construction expected to be complete by the first quarter of 2019.

Other

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

MATS

Prior to February 1, 2016, a key initiative on which Cleco Power had been working was requesting authorization to recover the revenue requirements associated with the MATS equipment. The MATS rule was finalized in February 2012 and requires affected EGUs to meet specific emission standards and work practice standards to address hazardous air pollutants. MATS imposes strict emission limits on new and existing coal- and liquid oil-fired EGUs for mercury, acid gases, and non-mercury metallic pollutants. Cleco Power units impacted by the rule include Rodemacher Unit 2, Madison Unit 3, and Dolet Hills. Cleco Power's three EGUs affected by the MATS rule were compliant by the April 16, 2015, deadline. On February 1, 2016, the LPSC approved Cleco Power's request for authorization to recover the revenue requirements associated with the MATS equipment. For more information, see Part I, Item 1, "Business — Environmental Matters — Air Quality."

Midstream

On March 15, 2014, Coughlin was transferred from Midstream to Cleco Power. As a result of this transfer, the operating activity and operating earnings at Midstream are minimal. The Coughlin transfer changed the structure of Cleco's internal organization and as a result, Midstream is no longer disclosed as a separate reportable segment. For more information, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 17 — Coughlin Transfer."

RESULTS OF OPERATIONS

Use of Estimates

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

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

Cleco Consolidated

Cleco Consolidated Results of Operations

	FOR THE YEAR ENDED DEC. 31,			
			FAVORABLE/(UNFAVORABLE)	
(THOUSANDS)	2015	2014	VARIANCE	CHANGE
Operating revenue, net	$1,209,402	$1,269,485	$(60,083)	(4.7)%
Operating expenses	922,063	983,453	61,390	6.2 %
Operating income	$287,339	$286,032	$1,307	0.5 %
Allowance for equity funds used during construction	$3,063	$5,380	$(2,317)	(43.1)%
Other income	$1,443	$4,790	$(3,347)	(69.9)%
Other expense	$3,368	$2,509	$(859)	(34.2)%
Interest charges	$77,991	$73,606	$(4,385)	(6.0)%
Federal and state income taxes	$77,704	$67,116	$(10,588)	(15.8)%
Net income applicable to common stock	$133,669	$154,739	$(21,070)	(13.6)%

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

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

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

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

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

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

Federal and state income taxes increased $10.6 million in 2015 compared to 2014. Tax expense increased primarily due to the absence of favorable settlements with taxing authorities, tax returns filed, and the flowthrough of state tax benefits. These increases were partially offset by the change in pretax income, excluding AFUDC equity. The effective income tax rate is 36.8%, which is higher than the federal statutory rate

primarily due to permanent tax differences, the flowthrough of benefits associated with AFUDC equity, adjustments for tax returns as filed, tax credits, and state tax expense.

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

Cleco Power

Significant Factors Affecting Cleco Power

Revenue is primarily affected by the following factors:
As an electric utility, Cleco Power is affected, to varying degrees, by a number of factors influencing the electric utility industry. These factors include, among others, an increasingly competitive business environment; the ability to recover costs through rate-setting proceedings; the ability to successfully perform in MISO and the related operating challenges; the cost of compliance with environmental and reliability regulations; conditions in the credit markets and global economy; changes in the federal and state regulation of generation, transmission, and the sale of electricity; and the increasing uncertainty of future federal and state regulatory and environmental policies. For a discussion of various regulatory changes and competitive forces affecting Cleco Power and other electric utilities, see “Cautionary Note Regarding Forward-Looking Statements,” Part I, Item 1, “Business — Regulatory Matters, Industry Developments, and Franchises,” and “— Financial Condition — Regulatory and Other Matters — Market Restructuring.” For a discussion of risk factors affecting Cleco Power’s business, see Item 1A, “Risk Factors — LPSC Audits,” “—Transmission Constraints,” “— Hedging and Risk Management Activities,” “— Commodity Prices,” “— Global Economic Environment and Uncertainty; Access to Capital,” “— Future Electricity Sales,” “— Cleco Power’s Generation, Transmission, and Distribution Facilities,” “— MISO,” “— Reliability and Infrastructure Protection Standards Compliance,” “— Environmental Compliance,” “— Regulatory Compliance,” “— Cleco Power’s Rates,” “— Retail Electric Service,” “— Wholesale Electric Service,” “— Weather Sensitivit Litigation,” “— Alternative Generation Technology,” “— Taxes,” “— Cleco Credit Ratings,” “— Technology and Terrorism T Insurance,” “— Cleco Power LLC’s Unsecured and Unsubordinated Obligations,” “— Health Care Reform,” and “— Workfor
Cleco Power’s residential customers’ demand for electricity is affected largely by weather. Weather generally is measured in cooling degree-days and heating degree-days. A cooling degree-day is an indication of the likelihood that a consumer will use air conditioning, while a heating degree-day is an indication of the likelihood that a consumer will use heating. An increase in heating degree-days does not produce the same increase in revenue as an increase in cooling degree-days, because alternative heating sources are more available and winter energy is typically priced below the rate charged for energy used in the summer. Normal heating degree-days and cooling degree-days are calculated for a month by separately calculating the average actual heating and cooling degree-days for that month over a period of 30 years.

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

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

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

For more information on energy legislation in regulatory matters that could affect Cleco, see Part I, Item 1, "Business — Regulatory Matters, Industry Developments, and Franchises — Legislative and Regulatory Changes and Matters."

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

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

Other expenses are primarily affected by the following factors:

The majority of Cleco Power's non-fuel cost recovery expenses consist of other operations, maintenance, depreciation and amortization, and taxes other than income taxes. Other operations expenses are affected by, among other things, the cost of employee benefits, insurance expense, and the costs associated with energy delivery and customer service. Annual maintenance expenses associated with Cleco Power's plants generally depend upon their physical characteristics, maintenance practices, and the effectiveness of their preventive maintenance programs. Transmission and distribution maintenance expenses are generally affected by the level of repair and rehabilitation of lines to maintain reliability. Depreciation and amortization expense primarily is affected by the cost of the facilities in service, the time the facilities were placed in service, and the estimated useful life of the facilities. Taxes other than income taxes generally include payroll taxes, franchise taxes, and property taxes. Cleco Power anticipates certain non-fuel cost recovery expenses to be higher in 2016 compared to 2015. These expenses include higher generation maintenance expense, higher generation operations expense, higher taxes other than income taxes, higher customer relations expense, and higher distribution maintenance expense. These increases are partially offset by lower income tax expense and lower depreciation. In addition, Cleco Power expects its postretirement benefit expenses to be affected by changes in discount rates, actual returns on plan assets, level of benefits provided, and actuarial assumptions used in the calculations. For more information on Cleco's pension plan, see "— Critical Accounting Policies."

Cleco Power's Results of Operations

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

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

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

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

	FOR THE YEAR ENDED DEC. 31,		FAVORABLE/
(MILLION kWh)	2015	2014	(UNFAVORABLE)
Electric sales			
Residential	3,789	3,783	0.2 %

Commercial	2,763	2,689	2.8 %
Industrial	1,927	2,212	(12.9)%
Other retail	134	130	3.1 %
Total retail	8,613	8,814	(2.3)%
Sales for resale	3,353	3,412	(1.7)%
Unbilled	(95)	171	(155.6)%
Total retail and wholesale customer sales	11,871	12,397	(4.2)%

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

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

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

Base

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

Cleco Power expects to begin providing service to expansions of current customers' operations, as well as service to new retail customers. These expansions of current customers' operations and service to new retail customers are expected to contribute additional base revenue of $2.0 million in 2017 and an additional $0.8 million in 2018. Cleco Power expects wholesale revenue to decrease by $1.0 million in 2016 and an additional $2.1 million in 2017 primarily due to the restructuring of contracts, partially offset by the addition of new contracts. In 2018, Cleco Power expects $1.2 million of additional wholesale revenue. For information on other expectations of future energy sales on Cleco Power, see "— Significant Factors Affecting Cleco Power," "Cautionary Note Regarding Forward-Looking Statements," and Part I, Item 1A, "Risk Factors — Future Electricity Sales."

Fuel Cost Recovery/Recoverable Fuel and Power Purchased

Changes in fuel costs historically have not significantly affected Cleco Power's net income. Generally, fuel and purchased power expenses are recovered through the LPSC-established FAC, which enables Cleco Power to pass on to its customers substantially all such charges. Approximately 74% of Cleco Power's total fuel cost during 2015 was regulated by the LPSC. Recovery of FAC costs is subject to periodic fuel audits by the LPSC which may result in a refund to customers. Generally, fuel and purchased power expenses are impacted by customer usage, the per unit cost of fuel used for electric generation, and the dispatch of Cleco Power's generating facilities by MISO. For more information on the accounting for MISO transactions, see Item 8, “Financial Statements and

31

Supplementary Data — Notes to the Financial Statements — Note 2 — Summary of Significant Accounting Policies — Accounting for MISO Transactions.”

Electric Customer Credits
Electric customer credits decreased $21.4 million in 2015 compared to 2014 primarily due to the absence of $22.3 million of provisions for refunds included in the June 2014 FRP extension and $1.6 million related to lower accruals for site-specific customers. These amounts were partially offset by $2.5 million related to accruals for anticipated refunds related to the transmission ROE dispute. For more information on the FRP extension and the accrual of electric customer credits, see Item 8, “Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 11 — Regulation and Rates.” For more information on the transmission ROE dispute, see Item 8, “Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 14 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Litigation — Transmission ROE.”

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

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

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

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

Depreciation and Amortization
Depreciation and amortization expense increased $3.8 million in 2015 compared to 2014 primarily due to $6.0 million of lower deferrals of production operations and maintenance expenses to a regulatory asset, $3.9 million of normal recurring additions to fixed assets, and $3.2 million for the amortization of new regulatory assets related to the FRP extension. The increase was also due to $1.9 million of amortization related to a regulatory asset for state corporate franchise taxes, $1.2 million for the absence of the deferral of AMI revenue requirements to a regulatory asset, and $1.1 million of higher miscellaneous amortization. These amounts were partially offset by $13.5 million for the absence of amortization of the Evangeline PPA capacity costs.

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

Allowance for Equity Funds Used During Construction

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

Interest Charges

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

Income Taxes

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

Midstream

Significant Factors Affecting Midstream

The transfer of Coughlin to Cleco Power occurred on March 15, 2014. As a result of this transfer, the operating activity and operating earnings at Midstream are minimal. The Coughlin transfer changed the structure of Cleco's internal organization and as a result, Midstream is no longer disclosed as a separate reportable segment. Management determined the retrospective application of this transfer to be quantitatively and qualitatively immaterial when taken as a whole in relation to Cleco Power's financial statements. As a result, Cleco's segment reporting disclosures were not retrospectively adjusted to reflect the transfer. For information on the transfer of Coughlin to Cleco Power, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 17 — Coughlin Transfer."

Comparison of the Years Ended December 31, 2014, and 2013

Cleco Consolidated

Cleco Consolidated Results of Operations

	FOR THE YEAR ENDED DEC. 31,			
			FAVORABLE/(UNFAVORABLE)	
(THOUSANDS)	2014	2013	VARIANCE	CHANGE
Operating revenue, net	$1,269,485	$1,096,714	$172,771	15.8 %
Operating expenses	983,453	788,382	(195,071)	(24.7)%
Operating income	$286,032	$308,332	$(22,300)	(7.2)%
Allowance for other funds used during construction	$5,380	$4,081	$1,299	31.8 %
Other income	$4,790	$13,857	$(9,067)	(65.4)%
Interest charges	$73,606	$84,254	$10,648	12.6 %
Federal and state income taxes	$67,116	$79,575	$12,459	15.7 %
Net income applicable to common stock	$154,739	$160,685	$(5,946)	(3.7)%

Operating revenue, net of electric customer credits increased $172.8 million in 2014 compared to 2013 largely as a result of higher base revenue, higher fuel cost recovery revenue, and higher other operations revenue, partially offset by higher electric customer credits at Cleco Power.

Operating expenses increased $195.1 million in 2014 compared to 2013 primarily due to higher recoverable fuel and power purchased at Cleco Power, higher non-recoverable fuel and power purchased due to the expiration of a PPA when Coughlin was transferred to Cleco Power in March 2014, and Cleco's participation in the energy market through MISO. Also contributing to this increase are Cleco Corporation merger transaction costs incurred in 2014, partially offset by the gain on the sale of property and favorable settlements with taxing authorities.

Allowance for equity funds used during construction increased $1.3 million in 2014 compared to 2013 primarily due to higher costs related to the MATS project.

Other income decreased $9.1 million in 2014 compared to 2013 primarily due to lower income related to the contractual expiration of underlying indemnifications resulting from the disposition of Acadia Unit 2 and the absence of a death benefit recognized on company-owned life insurance policies at Cleco Power.

Federal and state income taxes decreased $12.5 million in 2014 compared to 2013. Tax expense decreased primarily due to the change in pretax income, excluding AFUDC equity, settlements with taxing authorities, and tax returns filed. These decreases were partially offset by lower permanent tax differences and a decrease in tax credits. The effective income tax rate is 30.3%, which is different than the federal statutory rate primarily due to permanent tax differences, the flowthrough of state tax benefits, including AFUDC equity, settlements with taxing authorities, adjustments for tax returns as filed, tax credits, and state tax expense.

The effective tax rate of 30.3% for 2014 was lower than the effective tax rate of 33.1% for 2013 primarily due to settlements with taxing authorities, partially offset by permanent tax differences and lower tax credits. The current effective tax rate may not be indicative of future effective tax rates.

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

Cleco Power

Cleco Power's Results of Operations

FOR THE YEAR ENDED DEC. 31,

(THOUSANDS)	2014	2013	FAVORABLE/(UNFAVORABLE) VARIANCE	CHANGE
Operating revenue				
Base	$683,565	$654,015	$29,550	4.5 %
Fuel cost recovery	542,395	393,533	148,862	37.8 %
Electric customer credits	(23,530)	(1,836)	(21,694)	*
Other operations	64,893	48,909	15,984	32.7 %
Affiliate revenue	1,326	1,338	(12)	(0.9)%
Operating revenue, net	$1,268,649	$1,095,959	$172,690	15.8 %
Operating expenses				
Recoverable fuel and power purchased	542,397	393,534	(148,863)	(37.8)%
Non-recoverable fuel and power purchased	27,985	13,302	(14,683)	(110.4)%
Other operations	116,664	114,884	(1,780)	(1.5)%
Maintenance	96,054	85,638	(10,416)	(12.2)%
Depreciation and amortization	144,026	135,717	(8,309)	(6.1)%
Taxes other than income taxes	41,812	46,203	4,391	9.5 %
Gain on sale of assets	(4)	—	4	— %
Total operating expenses	968,934	789,278	(179,656)	(22.8)%
Operating income	$299,715	$306,681	$(6,966)	(2.3)%
Allowance for equity funds used during construction	$5,380	$4,081	$1,299	31.8 %
Other income	$1,483	$4,883	$(3,400)	(69.6)%
Other expense	$2,322	$4,277	$1,955	45.7 %
Interest charges	$74,673	$82,677	$8,004	9.7 %
Federal and state income taxes	$76,974	$79,381	$2,407	3.0 %
Net income	$154,316	$150,410	$3,906	2.6 %

* Not meaningful

Cleco Power’s net income for 2014 increased $3.9 million compared to 2013. Contributing factors include:

- higher base revenue,
- higher other operations revenue,
- lower interest charges,
- lower taxes other than income taxes,
- lower income taxes,
- lower other expense, and
- higher allowance for equity funds used during construction.

These were partially offset by:

- higher electric customer credits,
- higher non-recoverable fuel and power purchased,
- higher other operations expense and maintenance,
- higher depreciation and amortization, and
- lower other income.

	FOR THE YEAR ENDED DEC. 31,		
(MILLION kWh)	2014	2013	FAVORABLE/ (UNFAVORABLE)
Electric sales			
Residential	3,783	3,714	1.9 %
Commercial	2,689	2,672	0.6 %
Industrial	2,212	2,322	(4.7)%
Other retail	130	134	(3.0)%
Total retail	8,814	8,842	(0.3)%
Sales for resale	3,412	2,057	65.9 %
Unbilled	171	61	180.3 %
Total retail and wholesale customer sales	12,397	10,960	13.1 %

	FOR THE YEAR ENDED DEC. 31,		
(THOUSANDS)	2014	2013	FAVORABLE/ (UNFAVORABLE)
Electric sales			
Residential	$293,871	$297,158	(1.1)%
Commercial	188,012	189,807	(0.9)%
Industrial	86,823	91,093	(4.7)%
Other retail	10,215	10,590	(3.5)%
Storm surcharge	15,833	14,978	5.7 %
Other	—	(4,694)	100.0 %
Total retail	$594,754	$598,932	(0.7)%
Sales for resale	81,371	51,922	56.7 %
Unbilled	7,440	3,161	135.4 %
Total retail and wholesale customer sales	$683,565	$654,015	4.5 %

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

	FOR THE YEAR ENDED DEC. 31,			2014 CHANGE	
	2014	2013	NORMAL	PRIOR YEAR	NORMAL
Cooling degree-days	2,780	2,954	2,776	(5.9)%	0.1 %
Heating degree-days	1,833	1,559	1,589	17.6 %	15.4 %

Base

Base revenue increased $29.6 million during 2014 compared to 2013. The increase was primarily due to sales to a new wholesale customer that began in April 2014.

Fuel Cost Recovery/Recoverable Fuel and Power Purchased

Changes in fuel costs historically have not significantly affected Cleco Power's net income. Generally, fuel and purchased power expenses are recovered through the LPSC-established FAC, which enables Cleco Power to pass on to its customers substantially all such charges. Approximately 74% of Cleco Power's total fuel cost during 2014 was regulated by the LPSC. Recovery of FAC costs is subject to periodic fuel audits by the LPSC which may result in a refund to customers. Generally, fuel and purchased power expenses are impacted by customer usage, the per unit cost of fuel used for electric generation, and the dispatch of Cleco Power's generating facilities by MISO. For more information on the accounting for MISO transactions, see Item 8, “Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 2 — Summary of Significant Accounting Policies — Accounting for MISO Transactions.”

Electric Customer Credits
Electric customer credits increased $21.7 million in 2014 compared to 2013 primarily due to provisions for refunds as a result of the FRP extension approved on June 18, 2014. For more information on the FRP extension and the accrual of electric customer credits, see Item 8, “Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 11 — Regulation and Rates.”

Other Operations Revenue
Other operations revenue increased $16.0 million in 2014 compared to 2013 primarily due to $12.4 million of higher wholesale transmission revenue, $2.5 million of higher transmission and distribution charges revenue, and $1.1 million of higher miscellaneous revenue.

Non-Recoverable Fuel and Power Purchased
Non-recoverable fuel and power purchased increased $14.7 million in 2014 compared to 2013 primarily due to Cleco’s participation in the energy market through MISO, partially offset by transmission reimbursements and lower capacity charges.

Other Operations Expense and Maintenance
Other operations and maintenance expenses increased $12.2 million during 2014 compared to 2013 primarily due to the transfer of Coughlin to Cleco Power as well as higher planned generating station maintenance outage expenses.

Depreciation and Amortization
Depreciation and amortization expense increased $8.3 million during 2014 compared to 2013 primarily due to $5.2 million related to normal recurring additions to fixed assets and $4.7 million related to the transfer of Coughlin to Cleco Power. These amounts were partially offset by $1.6 million of lower amortization expense related to Evangeline PPA capacity costs and the establishment of a regulatory asset to recover corporate franchise taxes, partially offset by the amortization of new regulatory assets related to the FRP extension.

Taxes Other Than Income Taxes
Taxes other than income taxes decreased $4.4 million during 2014 compared to 2013 primarily due to favorable settlements with taxing authorities, partially offset by higher property taxes as a result of the transfer of Coughlin to Cleco Power.

Allowance for Equity Funds Used During Construction
Allowance for equity funds used during construction increased $1.3 million during 2014 compared to 2013 primarily due to higher costs related to the MATS project.

Other Income
Other income decreased $3.4 million during 2014 compared to 2013 primarily due to the absence of $2.3 million of a death benefit recognized on company-owned life insurance policies in 2013, $0.8 million of lower royalty income, and $0.6 million of lower revenue from mutual assistance to other utilities for restoration efforts. These amounts were partially offset by $0.3 million of higher miscellaneous income.

Other Expense
Other expense decreased $2.0 million during 2014 compared to 2013 primarily due to the absence of a decrease in the cash surrender value of company-owned life insurance policies of

$1.9 million related to a death benefit recognized and $0.6 million of lower expenses from mutual assistance to other utilities for restoration efforts. These amounts were partially offset by $0.5 million of higher miscellaneous expenses.

Interest Charges
Interest charges decreased $8.0 million during 2014 compared to 2013 primarily due to $3.8 million related to favorable settlements with taxing authorities, $3.8 million related to the customer surcredit, and $1.3 million due to the retirement of senior notes, partially offset by $0.9 million related to GO Zone bonds.

Income Taxes
Federal and state income taxes decreased $2.4 million during 2014 compared to 2013. Tax expense decreased primarily due to settlements with taxing authorities and tax returns filed. These decreases were partially offset by the change in pretax income, excluding AFUDC equity, lower permanent tax differences, and a decrease in tax credits. The effective income tax rate is 33.3%, which is lower than the federal statutory rate primarily due to permanent tax differences, the flowthrough of state tax benefits, including AFUDC equity, settlements with taxing authorities, adjustments for tax returns as filed, tax credits, and state tax expense.

CLECO POWER — NARRATIVE ANALYSIS OF RESULTS OF OPERATIONS

For a narrative analysis of the results of operations explaining the reasons for material changes in the amount of revenue and expense items of Cleco Power between the year ended December 31, 2015, and the year ended December 31, 2014, see "— Results of Operations — Comparison of the Years Ended December 31, 2015, and 2014 — Cleco Power."
For a narrative analysis of the results of operations explaining the reasons for material changes in the amount of revenue and expense items of Cleco Power between the year ended December 31, 2014, and the year ended December 31, 2013, see "— Results of Operations — Comparison of the Years Ended December 31, 2014, and 2013 — Cleco Power."
The narrative analysis referenced above should be read in combination with Cleco Power's Financial Statements and the Notes contained in this Form 10-K.

CRITICAL ACCOUNTING POLICIES

Cleco's critical accounting policies include accounting policies that are important to Cleco's financial condition and results of operations and that require management to make difficult, subjective, or complex judgments about future events, which could result in a material impact to the financial statements of Cleco. The preparation of financial statements contained in this report requires management to make estimates and assumptions. Estimates and assumptions about future events and their effects cannot be made with certainty. These estimates involve judgments regarding many factors that in and of themselves could materially affect the financial statements and disclosures. On an ongoing basis, these estimates and assumptions are evaluated and, if necessary, adjustments are made when warranted by new or updated information or by a change in circumstances or environment. Actual results may differ significantly from these estimates under different assumptions or conditions. For more information on Cleco's accounting policies, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 2 — Summary of Significant Accounting Policies."
Cleco believes that the following are the most significant critical accounting policies:

- To determine assets, liabilities, and expenses relating to pension and other postretirement benefits, management must make assumptions about future trends. Assumptions and estimates include, but are not limited to, discount rate, expected return on plan assets, mortality rates, future rate of compensation increases, and medical inflation trend rates. These assumptions are reviewed and updated on an annual basis. Changes in the rates from year-to-year and newly-enacted laws could have a material effect on Cleco's financial condition and results of operations by changing the recorded assets, liabilities, expense, or required funding of the pension plan obligation. One component of pension expense is the expected return on plan assets. It is an assumed percentage return on the market-related value of plan assets. The market-related value of plan assets differs from the fair value of plan assets by the amount of deferred asset gains or losses. Actual asset returns that differ from the expected return on plan assets are deferred and recognized in the market-related value of assets on a straight-line basis over a five-year period. The 2015 return on plan assets was (2.90)% compared to an expected long-term return of 6.15%. For 2014, the return on plan assets was 11.70% compared to an expected long-term return of 6.76%. For the calculation of the 2016 periodic expense, Cleco is increasing the expected long-term return on plan assets to 6.21%.

Management uses a theoretical bond portfolio in order to calculate the discount rate for the measurement of liabilities. As a result of the annual review of assumptions, the pension plan discount rate increased from 4.21% to 4.62% for the December 31, 2015, measurement of liabilities. Pension expense is expected to decrease by approximately $4.8 million in 2016 compared to 2015, primarily due to the increase in the discount rate. Because the assumption is evaluated yearly, the decrease may not extend beyond 2016.

A change in the assumed discount rate creates a deferred actuarial gain or loss. Generally, when the assumed discount rate decreases compared to the prior measurement date, a deferred actuarial loss is created. When the assumed discount rate increases compared to the prior measurement date, a deferred actuarial gain is created. Actuarial gains and losses also are created when actual results, such as compensation increases, differ from assumptions. Historically, Cleco Power has been allowed to recover pension plan expenses; therefore, deferred actuarial gains and losses are recorded as a regulatory asset or liability. The net of the deferred gains and losses is amortized to pension expense over the average service life of the remaining plan participants (approximately 10 years as of December 31, 2015, for Cleco's plan) when it exceeds certain thresholds. This approach of amortizing gains and losses has the effect of reducing the volatility of pension expense. Over time, it is not expected to reduce or increase the pension expense relative to an approach that immediately recognizes losses and gains.

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

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

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

ACTUARIAL ASSUMPTION (THOUSANDS)	CHANGE IN ASSUMPTION	CHANGE IN PROJECTED BENEFIT OBLIGATION	CHANGE IN ESTIMATED BENEFIT COST
Discount rate	0.5% increase	$(32,611)	$(3,178)
	0.5% decrease	$36,570	$3,504
Salary scale	0.5% increase	$7,962	$1,533
	0.5% decrease	$(7,226)	$(1,386)
Expected return on assets	0.5% increase	$—	$(1,935)
	0.5% decrease	$—	$1,935

Cleco Power did not make any required or discretionary contributions to the pension plan in 2015 and 2014. In 2013, Cleco Power made $34.0 million in discretionary contributions to the pension plan designated for the 2012 plan year. Based on current funding assumptions, management estimates that $25.3 million in pension contributions will be required through 2019. Future discretionary contributions may be made depending on changes in assumptions, the ability to utilize the contribution as a tax deduction, and requirements concerning recognizing a minimum pension liability. Future required contributions are driven by liability funding target percentages set by law which could cause the required contributions to change from year to year. The ultimate amount and timing of the contributions will be affected by changes in the discount rate, changes in the funding regulations, and actual returns on fund assets. Adverse changes in assumptions or adverse actual events could cause additional minimum contributions.

For more information on pension and other postretirement benefits, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 8 — Pension Plan and Employee Benefits."

- Income tax expense and related balance sheet amounts are comprised of a "current" portion and a "deferred" portion. The current portion represents Cleco's estimate of the income taxes payable or receivable for the current year. The deferred portion represents Cleco's estimate of the future income tax effects of events that have been recognized in the financial statements or income tax returns in the current or prior years. Cleco makes assumptions and estimates when it records income taxes, such as its ability to deduct items on its tax returns, the timing of the deduction, and the

effect of regulation by the LPSC on income taxes. Cleco's income tax expense and related assets and liabilities could be affected by changes in its assumptions and estimates and by ultimate resolution of assumptions and estimates with taxing authorities. The actual results may differ from the estimated results based on these assumptions and may have a material effect on Cleco's results of operations.

For more information on income taxes, see Item 8, "Financial Statements and Supplemental Data — Notes to the Financial Statements — Note 9 — Income Taxes."

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Cleco is currently involved in certain legal proceedings and management has estimated the probable costs for the resolution of these claims. These estimates are based on an analysis of potential results, assuming a combination of litigation and settlement assumptions. For more information on legal proceedings affecting Cleco, see Part I, Item 1, “Business — Environmental Matters — Air Quality,” Item 1A, “Risk Factors — Agreement and Plan of Merger,” and “—Litig and Item 8, “Financial Statements and Supplemental Data — Notes to the Financial Statements — Note 14 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Litigation.”

Cleco Power

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

- The LPSC determines the ability of Cleco Power to recover prudent costs incurred in developing long-lived assets. If the LPSC were to rule that the cost of current or future long-lived assets was imprudent and not recoverable, Cleco Power could be required to write down the imprudent cost and incur a corresponding impairment loss. At December 31, 2015, the carrying value of Cleco Power’s long-lived assets was $3.12 billion. 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, 2015, Cleco Power had $548.3 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 more information on the LPSC and regulatory assets, see Item 8, “Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 2 — Summary of Significant Accounting Policies — Regulation,” “Note 3 — Regulatory Assets and Liabilities,” and “— Financial Condition — Regulatory and Other Matters — Lignite Deferral.”

- The LPSC determines the amount and type of fuel and purchased power expenses that Cleco Power can charge customers through the FAC. Changes in the determination of allowable costs already incurred by Cleco Power could cause material changes in fuel revenue. On February 3, 2016, the LPSC initiated an audit of Cleco Power’s fuel and purchased power expenses for the period January 2014 through December 2015. The total amount of fuel expense included in this audit is $582.6 million. Management is unable to predict or give a reasonable estimate of the possible range of the disallowance, if any, related to this audit. For more information on LPSC fuel audits, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 14 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees —Litigation — LPSC Audits." For information on fuel revenue, see "— Results of Operations — Comparison of the Years Ended December 31, 2015, and 2014 — Cleco Power — Cleco Power's Results of Operations — Fuel Cost Recovery/Recoverable Fuel and Power Purchased."

FINANCIAL CONDITION

Liquidity and Capital Resources

General Considerations and Credit-Related Risks

Credit Ratings and Counterparties

Financing for operational needs and capital expenditure requirements not satisfied by operating cash flows depends upon the cost and availability of external funds through both short- and long-term financing. The inability to raise capital on favorable terms could negatively affect Cleco's ability to maintain or expand its businesses. Access to funds is dependent upon factors such as general economic and capital market conditions, regulatory authorizations and policies, Cleco Corporation's and Cleco Power's credit ratings, cash flows from routine operations, and credit ratings of project counterparties. After assessing the current operating performance, liquidity, and credit ratings of Cleco Corporation and Cleco Power, management believes that Cleco will have access to the capital markets at prevailing market rates for companies with comparable credit ratings. The following table presents the credit ratings of Cleco Corporation and Cleco Power at December 31, 2015:

	SENIOR UNSECURED DEBT		CORPORATE CREDIT
	MOODY'S	S&P	S&P
Cleco Corporation	Baa1	N/A	BBB+
Cleco Power	A3	BBB+	BBB+

Upon announcement of the Merger, Moody's and S&P placed Cleco Corporation and Cleco Power on negative outlook and CreditWatch negative, respectively. On February 25, 2016, S&P changed the outlook for Cleco Corporation and Cleco Power from CreditWatch negative to CreditWatch developing. Prior to close of the Merger or upon termination of the Merger Agreement, it is expected that the credit rating agencies will update their ratings on both Cleco Corporation and Cleco Power taking into consideration the results of the merger transaction.

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

Cleco Corporation and Cleco Power pay fees and interest under their bank credit agreements based on the highest rating held. Savings are dependent upon the level of borrowings. If Cleco Corporation or Cleco Power's credit ratings were to be downgraded by Moody's or S&P, Cleco Corporation and/or Cleco Power would be required to pay additional fees and incur higher interest rates for borrowings under their respective credit facilities. Cleco Power's collateral for derivatives is based on the lowest rating held. If Cleco Power's credit ratings were to be downgraded by Moody's or S&P, Cleco Power would be required to post additional collateral for derivatives.

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, 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. Cleco Power is integrated into the MISO market. MISO operates a fully functioning RTO market with two major market processes: the Day-Ahead Energy and Operating Reserves Market and the Real-Time Energy and Operating Reserves Market. Both use market-based mechanisms to manage transmission congestion across the MISO market area. MISO requires Cleco Power to provide credit support which may increase or decrease due to the timing of the settlement schedules. At December 31, 2015, Cleco Power had a $2.0 million letter of credit to MISO pursuant to the credit requirements of FTRs. The letter of credit automatically renews each year and reduces Cleco Power's credit facility capacity. For more about MISO, see "— Regulatory and Other Matters — Transmission Rates of Cleco Power."

Global and U.S. Economic Environment

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

Fair Value Measurements

Various accounting pronouncements require certain assets and liabilities to be measured at their fair values. Some assets and liabilities are required to be measured at their fair value each reporting period, while others are required to be measured only one time, generally at the date of acquisition or debt issuance. Cleco Corporation and Cleco Power are required to disclose the fair value of certain assets and liabilities by one of three levels. Other financial assets and liabilities, such as long-term debt, are reported at their carrying values at their date of issuance on the consolidated balance sheets with their fair values as of the balance sheet date disclosed within the three levels. For more information about fair value levels, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 5 — Fair Value Accounting."

Cash Generation and Cash Requirements

Restricted Cash and Cash Equivalents

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

	AT DEC. 31,	
(THOUSANDS)	2015	2014
Current:		
Cleco Katrina/Rita's storm recovery bonds	$9,263	$8,986
Non-current:		
Diversified Lands' mitigation escrow	21	21
Cleco Power's future storm restoration costs	16,174	14,915
Cleco Power's building renovation escrow	—	194
Total non-current	16,195	15,130
Total restricted cash and cash equivalents	$25,458	$24,116

Cleco Katrina/Rita has the right to bill and collect storm restoration costs from Cleco Power's customers. As cash is collected, it is restricted for payment of administration fees, interest, and principal on storm recovery bonds. During 2015, Cleco Katrina/Rita collected $21.2 million net of administration fees. In March and September 2015, Cleco Katrina/Rita used $8.1 million and $7.7 million, respectively, for scheduled storm recovery bond principal payments and $2.6 million and $2.5 million, respectively, for related interest payments.

In connection with Cleco Power's building modernization project, Cleco Power was required to establish an escrow account with a qualified financial institution and deposit all retainage monies as they accrued under the construction contract. On July 16, 2015, the final funds held in the escrow account were released and paid to the construction contractor for the completion of building renovations.

Debt

Cleco Consolidated

Cleco had no short-term debt outstanding at December 31, 2015, or 2014.

At December 31, 2015, Cleco's long-term debt outstanding was $1.29 billion, of which $19.4 million was due within one year. The long-term debt due within one year at December 31, 2015, represents $16.8 million of principal payments for the Cleco Katrina/Rita storm recovery bonds and $2.6 million of capital lease payments. For Cleco, long-term debt decreased $70.1 million from December 31, 2014, due to a $50.0 million repayment of senior notes in July 2015, a $43.0 million net decrease in Cleco Corporation and Cleco Power's credit facility borrowings outstanding, a $35.0 million repayment of a bank term loan in April 2015, $15.8 million of scheduled Cleco Katrina/Rita storm recovery bond principal payments made in March and September 2015, and a $2.4 million decrease in capital lease obligations. These decreases were partially offset by the issuance of $75.0 million senior unsecured notes in the fourth quarter of 2015, debt expense amortization of $0.7 million, and debt discount amortization of $0.4 million.

Cash and cash equivalents available at December 31, 2015, were $68.2 million combined with $514.0 million available credit facility capacity ($216.0 million from Cleco Corporation and $298.0 million from Cleco Power) for total liquidity of $582.2 million.

At December 31, 2015, Cleco and Cleco Power were exposed to concentrations of credit risk through their short-term investments classified as cash equivalents. In order to mitigate potential credit risk, Cleco and Cleco Power have established guidelines for short-term investments. For more information on the concentration of credit risk through short-term investments classified as cash equivalents, see Item 8, “Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 5 — Fair Value Accounting.”

At December 31, 2015, and 2014, Cleco had a working capital surplus of $242.3 million and $262.8 million, respectively. The $20.5 million decrease in working capital is primarily due to:

- a $77.2 million net decrease in net current tax assets and related interest charges primarily due to the reclassification of deferred taxes from current to long-term in accordance with new accounting guidance and
- a $7.5 million decrease in accumulated deferred fuel primarily related to the loss of a wholesale customer, the timing of collections of fuel expenses, and a decrease in fuel costs and power purchases.

These decreases in working capital were partially offset by:

- a $29.7 million decrease in accounts payable (excluding FTR purchases) primarily due to the timing of property taxes and other vendor payments,
- a $23.8 million increase in unrestricted cash and cash equivalents,
- an $8.1 million increase in fuel inventory primarily due to higher petcoke reserves as a result of the increased use of natural gas, and
- a $5.6 million increase in materials and supplies primarily to address potential system restoration events and purchases for planned outages.

For information on recent authoritative guidance relating to the reclassification of deferred taxes, see Item 8, “Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 2 — Summary of Significant Accounting Policies — Recent Authoritative Guidance.”

At December 31, 2015, Cleco’s Consolidated Balance Sheets reflected $2.65 billion of total liabilities compared to $2.74 billion at December 31, 2014. The $92.6 million decrease in total liabilities was primarily due to decreases in long-term debt and accounts payable, partially offset by increases in postretirement benefit obligations. During 2015, long-term debt decreased $70.1 million, as discussed above, and accounts payable decreased $33.4 million as a result of the timing of property taxes and other vendor payments. Postretirement benefit obligations increased $7.4 million primarily due to a lower than expected return on plan assets, partially offset by higher discount rates.

Cleco Corporation (Holding Company Level)
Cleco Corporation had no short-term debt outstanding at December 31, 2015, or 2014.
At December 31, 2015, Cleco Corporation had $34.0 million draws outstanding under its $250.0 million credit facility compared to $57.0 million outstanding at December 31, 2014. This facility provides for working capital and other needs.
Cleco Corporation and Cleco Power have uncommitted lines of credit with a bank that allow up to $10.0 million each in short term borrowings, but no more than $10.0 million in aggregate, to support their working capital needs.
Cash and cash equivalents available at Cleco Corporation at December 31, 2015, were $2.2 million, combined with $216.0 million credit facility capacity for a total liquidity of $218.2 million.

Cleco Power
There was no short-term debt outstanding at Cleco Power at December 31, 2015, or 2014.
At December 31, 2015, Cleco Power's long-term debt outstanding was $1.25 billion, of which $19.4 million was due within one year. The long-term debt due within one year at December 31, 2015, represents $16.8 million of principal payments for the Cleco Katrina/Rita storm recovery bonds and $2.6 million of capital lease payments. For Cleco Power, long-term debt decreased $47.4 million from December 31, 2014, primarily due to a $50.0 million repayment of senior notes in July 2015, a $35.0 million repayment of a bank term loan in April 2015, a $20.0 million net decrease in Cleco Power's credit facility borrowings outstanding, $15.8 million of scheduled Cleco Katrina/Rita storm recovery bond principal payments made in March and September 2015, and a $2.4 million decrease in capital lease obligations. These decreases were partially offset by the issuance of $75.0 million senior unsecured notes in the fourth quarter of 2015, debt expense amortization of $0.4 million, and debt discount amortization of $0.4 million.
On April 30, 2015, Cleco Power repaid its $35.0 million outstanding bank term loan that was due May 29, 2015. At December 31, 2014, Cleco Power had the intent and ability to refinance this outstanding bank term loan with other long-term debt; however, due to a temporary increase in cash balances, Cleco Power repaid the bank term loan early, with the intent to include it in a new financing in the fourth quarter of 2015.
On May 1, 2015, Cleco Power repriced at a mandatory tender date its $50.0 million 2008 Series A GO Zone bonds and entered into a new interest rate period with a mandatory tender date of April 30, 2020. In connection with the new interest rate period, the interest rate is at a fixed rate of 2.0% per annum.
On July 15, 2015, Cleco Power repaid its $50.0 million 4.95% senior notes. As part of the redemption, Cleco Power paid $1.2 million of accrued interest. At December 31, 2014, Cleco Power had the intent and ability to refinance these outstanding senior notes with other long-term debt; however, due to available cash on July 15, 2015, the senior notes were repaid with $25.0 million of cash and $25.0 million from Cleco Power's credit facility.
On November 13, 2015, Cleco Power issued $75.0 million of 10-year bonds in a private placement with an interest rate of 3.68%. The debt proceeds were received in two tranches. On November 13, 2015, Cleco Power received $30.0 million of these debt proceeds, and on December 15, 2015, Cleco Power received the remaining $45.0 million. The maturity date of the notes is November 15, 2025. The proceeds partially replenished funds used to repay debt that matured in May and July 2015 as described above.
At December 31, 2015, and 2014, Cleco Power had no borrowings outstanding under its $300.0 million credit facility. This facility provides for working capital and other financing needs. At December 31, 2015, Cleco Power had a $2.0 million letter of credit to MISO pursuant to the credit requirements of FTRs. This letter of credit automatically renews each year and reduces Cleco Power's credit facility capacity.
Cleco Corporation and Cleco Power have uncommitted lines of credit with a bank that allow up to $10.0 million each in short term borrowings, but no more than $10.0 million in aggregate, to support their working capital needs.
Cash and cash equivalents available at December 31, 2015, were $65.7 million combined with $298.0 million credit facility capacity for total liquidity of $363.7 million.

At December 31, 2015, and 2014, Cleco Power had a working capital surplus of $184.9 million and $172.7 million, respectively. The $12.2 million increase in working capital is primarily due to:

- a $26.5 million increase in unrestricted cash and cash equivalents,
- a $25.0 million decrease in accounts payable (excluding FTR purchases) primarily related to the timing of property taxes and other vendor payments,
- an $8.1 million increase in fuel inventory primarily due to higher petcoke reserves as a result of the increased use of natural gas, and
- a $5.6 million increase in materials and supplies primarily to address potential system restoration events and purchases for planned outages.

These increases in working capital were partially offset by:

- a $21.7 million decrease in affiliate accounts receivable primarily due to a partial utilization of Cleco Corporation’s net operating loss due to Cleco Power’s estimated taxable income exceeding its net operating loss carryforward,
- a $20.2 million net decrease in net current tax assets and related interest charges primarily due to the reclassification of deferred taxes from current to long-term in accordance with new accounting guidance, and
- a $7.5 million decrease in accumulated deferred fuel primarily related to the loss of a wholesale customer, the timing of collections of fuel expenses, and a decrease in fuel costs and power purchases.

For information on recent authoritative guidance relating to the reclassification of deferred taxes, see Item 8, “Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 2 — Summary of Significant Accounting Policies — Recent Authoritative Guidance.”

At December 31, 2015, Cleco Power’s Consolidated Balance Sheets reflected $2.68 billion of total liabilities compared to $2.69 billion at December 31, 2014. The $6.2 million decrease in total liabilities during 2015 was primarily due to decreases in long-term debt and accounts payable, partially offset by increases in accumulated deferred federal and state income taxes and postretirement benefit obligations. During 2015, long-term debt decreased $47.4 million, as previously discussed, and accounts payable decreased $28.7 million as a result of the timing of property taxes and other vendor payments. The increase in net accumulated deferred federal and state income taxes and taxes payable of $56.1 million was the result of the utilization of the tax net operating loss and tax depreciation. Postretirement benefit obligations also increased $16.3 million primarily due to a lower than expected return on plan assets, partially offset by higher discount rates.

Credit Facilities

At December 31, 2015, Cleco had two separate revolving credit facilities, one for Cleco Corporation and one for Cleco Power, with a maximum aggregate capacity of $550.0 million.

At December 31, 2015, Cleco Corporation had $34.0 million of borrowings outstanding under its $250.0 million credit facility at an all-in interest rate of 1.465%, leaving an available borrowing capacity of $216.0 million. The borrowings under the credit facility are considered to be long-term because the credit facility expires in 2018. The borrowing costs under the facility are equal to LIBOR plus 1.075% or ABR plus 0.075%, plus facility fees of 0.175%. If Cleco Corporation's credit ratings were to be downgraded one level, Cleco Corporation would be required to pay higher fees and additional interest of 0.05% and 0.20%, respectively, under the pricing levels for its credit facility.

At December 31, 2015, Cleco Power had no borrowings outstanding under its $300.0 million credit facility; however, Cleco Power has issued a $2.0 million letter of credit to MISO, leaving an available borrowing capacity of $298.0 million. The borrowing costs under the facility are equal to LIBOR plus 0.9% or ABR, plus facility fees of 0.1%. If Cleco Power's credit ratings were to be downgraded one level, Cleco Power would be required to pay higher fees and additional interest of 0.075% and 0.175%, respectively, under the pricing levels of its credit facility. The letter of credit issued to MISO is pursuant to the credit requirements of FTRs. The letter of credit automatically renews each year and reduces Cleco Power's credit facility capacity. If the Merger is completed, upon closing, the current credit facilities will be replaced with facilities of similar terms and extended maturities.

At December 31, 2015, Cleco Corporation and Cleco Power were in compliance with the covenants in their credit facilities. If Cleco Corporation or Cleco Power were to default under the covenants in their respective credit facilities or other debt agreements, they would be unable to borrow additional funds under the facilities, and the lenders could accelerate all principal and interest outstanding. Further, if Cleco Power were to default under its credit facility or other debt agreements, Cleco Corporation would be considered to be in default under its credit facility.

Cleco Consolidated Cash Flows

Net Operating Cash Flow

Net cash provided by operating activities was $361.0 million during 2015, $335.2 million during 2014, and $341.7 million during 2013. Net cash provided by operating activities during 2015 increased $25.8 million from 2014 primarily due to the following items:

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

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

Net cash provided by operating activities during 2014 decreased $6.5 million from 2013 primarily due to the following items:

- lower income tax refunds of $47.4 million and higher income tax payments of $15.3 million, for a net decrease of $62.7 million,
- higher payments for fuel and power purchases of $30.4 million, primarily as a result of extended plant outages, the addition of a wholesale customer, and the timing difference in collections, and
- higher corporate franchise tax payments of $3.7 million.

These decreases in net operating cash were partially offset by:

- the absence of pension plan contributions of $34.0 million,
- lower payments to vendors of $29.3 million,
- higher collections from customers of $18.9 million,
- lower payments for fuel inventory and materials and supplies of $6.4 million, and
- higher receipts for deposits from customers of $2.7 million.

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

Cleco Power Cash Flows

Net Operating Cash Flow
Net cash provided by operating activities was $366.5 million during 2015, $347.1 million during 2014, and $279.4 million during 2013. Net cash provided by operating activities during 2015 increased $19.4 million from 2014 primarily due to the following items:

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

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

Net cash provided by operating activities during 2014 increased $67.7 million from 2013 primarily due to the following items:

- the absence of pension plan contributions of $34.0 million,
- lower payments to vendors of $29.3 million,
- higher collections from customers of $18.9 million,
- lower payments for fuel inventory and materials and supplies of $6.4 million, and
- higher receipts for deposits from customers of $2.7 million.

These increases in net operating cash were partially offset by higher payments for fuel and power purchases of $30.4 million, primarily as a result of extended plant outages, the addition of a wholesale customer, and the timing difference in collections.

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

Capital Expenditures

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

During the years ended December 31, 2015, 2014, and 2013, Cleco Power had capital expenditures, excluding AFUDC, of $153.3 million, $201.2 million, and $177.1 million, respectively. In 2015, 2014, and 2013, 100% of Cleco Power's capital expenditure requirements were funded internally.

Other subsidiaries had capital expenditures of $0.5 million, $1.0 million, and $7.5 million during the years ended December 31, 2015, 2014, and 2013, respectively.

In 2016 and for the five-year period ending 2020, Cleco Power expects to internally fund 100% of its capital expenditure requirements. However, Cleco Power may choose to issue debt in order to achieve a capital structure with a debt ratio of 49%. All computations of internally funded capital expenditures exclude AFUDC.

Cleco's and Cleco Power's estimated capital expenditures and debt maturities for 2016 and for the five-year period ending 2020 are presented in the following tables. All amounts exclude AFUDC.

Cleco

PROJECT (THOUSANDS)	2016	%		2016-2020	%	
Environmental	$9,000	3	%	$44,000	4	%
New business	36,000	14	%	158,000	16	%
Transmission reliability	44,000	17	%	99,000	10	%
Fuel optimization	50,000	19	%	119,000	12	%
General [(1)]	121,000	47	%	590,000	58	%
Total capital expenditures	$260,000	100	%	$1,010,000	100	%
Debt payments	17,000			370,000		
Total capital expenditures and debt payments	$277,000			$1,380,000		

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

Cleco Power

PROJECT (THOUSANDS)	2016	%		2016-2020	%	
Environmental	$9,000	4	%	$44,000	4	%
New business	36,000	14	%	158,000	16	%
Transmission reliability	44,000	17	%	99,000	10	%
Fuel optimization	50,000	19	%	119,000	12	%
General [1]	118,000	46	%	579,000	58	%
Total capital expenditures	$257,000	100	%	$999,000	100	%
Debt payments	17,000			336,000		
Total capital expenditures and debt payments	$274,000			$1,335,000		

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

Capital expenditures for other subsidiaries in 2016 are estimated to total $3.0 million. For the five-year period ending 2020, capital expenditures for other subsidiaries are estimated to total $11.0 million. Cleco expects cash and cash equivalents on hand in addition to cash generated from operations, borrowings from credit facilities, and the net proceeds of any issuances of equity or debt securities to be adequate to fund normal ongoing capital expenditures, working capital, and debt service requirements for the foreseeable future.

Other Cash Requirements

Cleco Power's regulated operations are Cleco's primary source of internally generated funds. These funds, along with the issuance of additional debt and equity in future years, will be used for general corporate purposes, capital expenditures, and repayment of corporate debt.

Shelf Registrations

On October 29, 2015, a registration statement (No. 333-207681) was declared effective by the SEC and registered the offer and sale of up to $500.0 million of debt and equity securities for Cleco Corporation. At December 31, 2015, this registration statement had remaining capacity allowing for the issuance of up to $500.0 million in debt and equity securities.

On October 29, 2015, a registration statement (No. 333-207673) was declared effective by the SEC and registered the offer and sale of up to $400.0 million of debt securities for Cleco Power. At December 31, 2015, this registration statement had remaining capacity allowing for the issuance of up to $400.0 million in debt securities.

Common Stock Repurchase Program

Cleco Corporation has a common stock repurchase program that authorizes management to repurchase shares of common stock so that Cleco's diluted average shares of common stock outstanding remain approximately equal to its diluted average shares of common stock outstanding at December 31, 2010. In accordance with the Merger Agreement, until the completion of the Merger, no additional common stock will be repurchased under this program without the prior written consent of Cleco Partners. For more information, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 7 — Common Stock — Common Stock Repurchase Program."

Contractual Obligations

Cleco, in the course of normal business activities, enters into a variety of contractual obligations. Some of these result in direct obligations that are reflected in Cleco's Consolidated Balance Sheets while others are commitments, some firm and some based on uncertainties, that are not reflected in the consolidated financial statements. The obligations listed in the following table do not include amounts for ongoing needs for which no contractual obligation existed as of December 31, 2015, and represent only the projected future payments that Cleco was contractually obligated to make as of December 31, 2015.

				PAYMENTS DUE BY PERIOD	
CONTRACTUAL OBLIGATIONS (THOUSANDS)	TOTAL	LESS THAN ONE YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Cleco Corporation					
Long-term debt obligations (1)	$35,339	$34,445	$894	$—	$—
Operating lease obligations (3)	943	315	628	—	—
Purchase obligations (4)	25,566	9,388	9,408	4,492	2,278
Other long-term liabilities (5)	14,559	2,242	3,235	2,850	6,232
Pension and other benefits obligations (6)	215,118	6,990	14,316	15,164	178,648
Total Cleco Corporation	$291,525	$53,380	$28,481	$22,506	$187,158
Cleco Power					
Long-term debt obligations (1)	$2,480,999	$88,066	$417,550	$133,103	$1,842,280
Capital lease obligations (2)	6,278	3,722	2,556	—	—
Operating lease obligations (3)	29,293	8,642	9,263	5,639	5,749
Purchase obligations (4)	200,300	146,011	46,081	7,474	734
Other long-term liabilities (5)	98,153	16,200	32,946	33,651	15,356
Total Cleco Power	$2,815,023	$262,641	$508,396	$179,867	$1,864,119
Total long-term debt obligations (1)	$2,516,338	$122,511	$418,444	$133,103	$1,842,280
Total capital lease obligations (2)	$6,278	$3,722	$2,556	$—	$—
Total operating lease obligations (3)	$30,236	$8,957	$9,891	$5,639	$5,749
Total purchase obligations (4)	$225,866	$155,399	$55,489	$11,966	$3,012
Total other long-term liabilities (5)	$112,712	$18,442	$36,181	$36,501	$21,588
Total pension and other benefits obligations (6)	$215,118	$6,990	$14,316	$15,164	$178,648
Total	$3,106,548	$316,021	$536,877	$202,373	$2,051,277

(1) Long-term debt existing as of December 31, 2015, is debt that has a final maturity of January 1, 2017, or later (current maturities of long-term debt are due within one-year). Cleco's anticipated interest payments related to long-term debt also are included in this category. Scheduled maturities of debt total $16.8 million for 2016 and $1.28 billion for the years thereafter. For more information regarding Cleco's long-term debt, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 6 — Debt" and "— Debt" above.

(2) Capital leases are maintained in the ordinary course of Cleco's business activities, including leases for barges. For more information regarding these leases, see Item 8, "Financial Statement and Supplementary Data — Notes to the Financial Statements — Note 14 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Other Commitments — Fuel Transportation Agreement."

(3) Operating leases are maintained in the ordinary course of Cleco's business activities. These leases include utility systems, railcars, towboats, office space, operating facilities, office equipment, tower rentals, and vehicles and have various terms and expiration dates from 1 to 27 years. For more information regarding Cleco's operating leases, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 13 — Operating Leases."
(4) Significant purchase obligations for Cleco are:
Fuel Contracts: To supply a portion of the fuel requirements for Cleco Power's generating plants, Cleco has entered into various commitments to obtain and deliver coal, lignite, petroleum coke, and natural gas. Some of these contracts contain provisions for price escalation and minimum purchase commitments. Generally, fuel and purchased power expenses are recovered through the LPSC-established FAC, which enables Cleco Power to pass on to customers substantially all such charges. For more information regarding fuel contracts, see Part I, Item 1, "Business — Operations — Cleco Power — Fuel and Purchased Power."
PPAs: Cleco Power has entered into agreements with energy suppliers for purchased power to meet system load and energy requirements, replace generation from Cleco Power owned units under maintenance and during outages, and meet operating reserve obligations.
Purchase orders: Cleco has entered into purchase orders in the course of normal business activities.
(5) Other long-term liabilities primarily consist of obligations for franchise payments, deferred compensation, facilities use, and various operating and maintenance agreements.
(6) Pension and other benefits obligations consist of obligations for SERP and other postretirement obligations. For more information regarding Cleco's pension plan, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 8 — Pension Plan and Employee Benefits."

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

Off-Balance Sheet Commitments and On-Balance Sheet Guarantees

Cleco 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 and Cleco Power have also agreed to contractual terms that require them to pay third parties if certain triggering events occur. These contractual terms generally are defined as guarantees. For more information about off-balance sheet commitments and on-balance sheet guarantees, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 14 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Off-Balance Sheet Commitments" and "— On-Balance Sheet Guarantees."

Regulatory and Other Matters

Inflation

Annual inflation rates, as measured by the U.S. Consumer Price Index, have averaged 1.07% during the three years ended December 31, 2015. Cleco believes inflation at this level does not materially affect its results of operations or financial condition. However, under established regulatory practice, historical costs have traditionally formed the basis for recovery from customers. As a result, Cleco Power's cash flows designed to provide recovery of historical plant costs may not be adequate to replace property, plant, and equipment in future years.

Environmental Matters

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

Retail Rates of Cleco Power
Retail rates (comprised of base revenue, the FAC revenue, and the EAC revenue) regulated by the LPSC accounted for approximately 85% and 82% of Cleco Power's 2015 and 2014 revenue, respectively.

Fuel Rates
Generally, the cost of fuel used for electric generation and the cost of power purchased for utility customers are recovered through the LPSC-established FAC, which enables Cleco Power to pass on to its customers substantially all such expenses. Recovery of FAC costs is subject to periodic fuel audits by the LPSC. The LPSC FAC General Order issued in November 1997 in Docket No. U-21497 provides that an audit will be performed at least every other year. In November 2014, the LPSC initiated an audit of Cleco Power's fuel and purchased power expenses for the years 2009 through 2013. The total amount of fuel expense included in the audit was $1.73 billion. On August 17, 2015, the LPSC Staff issued its audit report which recommended no disallowance of fuel costs. On October 28, 2015, the LPSC approved the audit report. On February 3, 2016, the LPSC initiated an audit of Cleco Power's fuel and purchased power expenses for the period January 2014 through December 2015. The total amount of fuel expense included in this audit is $582.6 million. Management is unable to predict or give a reasonable estimate of the possible range of the disallowance, if any, related to this audit. If a disallowance of fuel costs is ordered, resulting in a refund, any such refund could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

Environmental Rates
In July 2009, the LPSC issued Docket No. U-29380 Subdocket A, which provides for an EAC to recover from customers certain costs of environmental compliance. The costs eligible for recovery are prudently incurred air emissions credits associated with complying with federal, state, and local air emission regulations that apply to the generation of electricity reduced by the sale of such allowances. Also eligible for recovery are variable emission mitigation costs, which are the costs of reagents such as ammonia and limestone that are a part of the fuel mix used to reduce air emissions, among other things. Cleco Power began incurring additional environmental compliance expenses in the second quarter of 2015 for reagents associated with compliance with MATS. These expenses are eligible for recovery through Cleco Power's EAC and are subject to periodic review by the LPSC. For more information on MATS, see Part I, Item 1, "Business — Environmental Matters — Air Quality."
On February 3, 2016, the LPSC initiated an audit of Cleco Power's environmental costs for the period November 2010 through December 2015. The total amount of environmental costs included in this audit is $81.2 million. Management is unable to predict or give a reasonable estimate of the possible range of the disallowance if, any related to this audit. If a disallowance of environmental costs is ordered resulting in a refund, any such refund could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

Base Rates
Cleco Power's annual retail earnings are subject to the terms of an FRP established by the LPSC. Prior to July 1, 2014, Cleco

Power's FRP allowed a target ROE of 10.7%, while providing the opportunity to earn up to 11.3%. Additionally, 60.0% of retail earnings between 11.3% and 12.3% and all retail earnings over 12.3% were required to be refunded to customers. In April 2013, Cleco Power filed an application with the LPSC to extend its current FRP and to seek rate recovery of the Coughlin transfer. In June 2014, the LPSC approved Cleco Power's FRP extension, finalized the rate treatment of Coughlin, and issued the implementing order. Effective July 1, 2014, under the terms of the FRP extension, Cleco Power's retail rates were adjusted based on a target ROE of 10.0%, while providing the opportunity to earn up to 10.9%. Additionally, 60% of retail earnings between 10.9% and 11.75% and all retail earnings over 11.75% are required to be refunded to customers. The amount of credits due to customers, if any, is determined by Cleco

Power and the LPSC annually. Credits are typically included on customers' bills the following summer, but the amount and timing of the refunds is ultimately subject to LPSC approval. The capital structure assumes an equity ratio of 51%. The FRP extension includes a mechanism that allows for the recovery of revenue requirements related to excess amounts of surcredits refunded for storm costs and uncertain tax positions, MISO transition and administration charges, Louisiana state corporate franchise taxes, incremental production operations and maintenance costs, LPSC renewable project costs, and certain capacity costs. It also includes recovery of deferred costs for the previous LPSC fuel audit, biomass pilot project costs, and costs related to filing the FRP extension. The FRP extension also includes a mechanism allowing for recovery of incremental capacity costs above the level included in base rates and allows Cleco Power to request recovery of additional capital project costs during its four-year term. For information concerning amounts accrued and refunded by Cleco Power as a result of the FRP and information on the LPSC Staff's FRP reviews, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 11 — Regulation and Rates."

Energy Efficiency

In August 2009, the LPSC opened a docket to study the promotion of energy efficiency by jurisdictional electric and natural gas utilities. In September 2013, the LPSC issued a General Order adopting rules promoting energy efficiency programs. Cleco Power subsequently filed its formal intent with the LPSC to participate in the Phase I - Quick Start portion of the LPSC's energy efficiency initiative, which runs November 1, 2014, through July 31, 2017. During Phase I, Cleco Power designed several energy efficiency programs and began offering these programs to customers on November 1, 2014. In November 2014, Cleco Power began recovering approximately $3.3 million annually of estimated costs for the program through an approved rate tariff.

Wholesale Rates of Cleco Power

The rates Cleco Power charges its wholesale customers are subject to FERC's triennial market power analysis. FERC requires a utility to pass a screening test as a condition for securing and/or retaining approval to sell electricity in wholesale markets at market-based rates. An updated market power analysis is to be filed with FERC every three years or upon the occurrence of a change in status as defined by FERC regulation. In February 2014, FERC issued an order to accept Cleco's substitute market power analysis and grant the power marketing entities the authority to continue to charge market-based rates for wholesale power. Cleco filed its triennial market power analysis with FERC on January 23, 2015. The comment period has passed with no interventions, and Cleco Power is currently waiting on an order from FERC. If FERC determines Cleco Power possesses generation market power in excess of certain thresholds, Cleco Power could lose the right to sell wholesale generation at market-based rates, which could result in a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

Transmission Rates of Cleco Power

In July 2011, FERC issued Order No. 1000 that reforms the electric transmission planning and cost allocation requirements for public utility transmission providers. The rule builds on the reforms of Order No. 890 and corrects remaining deficiencies with respect to transmission planning processes and cost allocation methods. In 2015, MISO and SPP made separate filings containing different metrics to meet specific requirements. A compliance determination for both filings has not been made and will be addressed later this year at the MISO/SPP Interconnection Process Task Force meetings. Management is unable, at this time, to determine if this order will have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

In June 2013, the LPSC unanimously approved Cleco Power's MISO change of control request to transfer functional control of certain transmission assets to MISO. MISO operates a fully functioning RTO market with two major market processes: the Day-Ahead Energy and Operating Reserves Market and the Real-Time Energy and Operating Reserves Market. These markets use market-based mechanisms to manage transmission congestion across the MISO market area. In December 2013, Cleco Power integrated its generation dispatch and transmission operations with MISO. The LPSC authorized Cleco Power to defer and collect the retail portion of its MISO integration costs from LPSC jurisdictional customers through the FRP. Cleco Power deferred $3.7 million of integration costs and began recovering these costs over a four-year period beginning July 1, 2014.

In November 2013, a group of industrial customers from the northern region of MISO and other stakeholders filed a complaint at FERC seeking to reduce the ROE component of the transmission rates that MISO transmission owners, including Cleco, may collect under the MISO tariff. The complainants are seeking to reduce the current 12.38% ROE used in MISO's transmission rates to a proposed 6.68%. A group of MISO transmission owners filed responses to the complaint, defending the current ROE and seeking dismissal of the complaint. In October 2014, FERC issued an order finding that the current MISO ROE may be unjust and unreasonable and set the issue for hearing, subject to the outcome of settlement discussions. On December 22, 2015, an ALJ issued an initial decision in this docket. Subject to review by the LPSC on exceptions, the initial decision authorizes the MISO transmission owners to collect a 10.32% ROE. A binding FERC order is expected to be issued during the second half of 2016. In November 2014, the MISO transmission owners committee, of which Cleco is a member, filed a request with FERC for an incentive to increase the new ROE by 0.5% for RTO participation as allowed by the MISO tariff. On January 5, 2015, FERC granted the request. The collection of the adder is delayed until the resolution of the ROE complaint proceeding. As of December 31, 2015, Cleco Power had $2.5 million

accrued for a possible reduction to the ROE for the period December 2013 through December 2015. Management believes a reduction in the ROE, as well as any resulting refund, will not have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

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

Transmission and Generation Projects

Cleco Power is involved in several transmission projects, including the Layfield/Messick project, the Cenla Transmission Expansion project, and the Bayou Vista project. Cleco Power is also currently involved in the Cabot Waste Heat Recovery project, which is a proposed waste heat generating unit. For information on these projects, please read "— Overview — Cleco Power."

Market Restructuring

Wholesale Electric Markets

RTO

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

ERO

The Energy Policy Act of 2005 added Section 215 to the Federal Power Act, which provides for a uniform system of mandatory, enforceable reliability standards. In 2006, FERC named NERC as the ERO that will be required to develop and enforce the mandatory reliability standards.

The SPP RE conducts a NERC Reliability Standard audit every three years. Cleco's next audit is expected to begin in April 2016. Management is unable to predict the outcome of any future audits or whether any findings in future audits will have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

For a discussion of risks associated with FERC's regulation of Cleco Power's transmission system, see Part I, Item 1A, "Risk Factors — Reliability and Infrastructure Protection Standards Compliance."

Retail Electric Markets

Currently, the LPSC does not provide exclusive service territories for electric utilities under its jurisdiction. Instead, retail service is obtained through a long-term nonexclusive franchise. The LPSC uses a "300-foot rule" for determining the supplier for new customers. The "300-foot rule" requires a customer to take service from the electric utility that is within 300 feet of the respective customer. If the customer is beyond 300 feet from any existing utility service, they may choose their electric supplier. The "300-foot rule" is currently under review by the LPSC in Docket No. R-32763. Management is unable to predict the time of completion and cannot determine the impact any potential rulemaking may have on the results of operations, financial condition, or cash flows of Cleco Power.

The application of the current rule has led to competition with neighboring utilities for retail customers at the borders of Cleco Power's service areas. 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, if imposed, would have a material impact on the results of operations, financial condition, or cash flows of the Registrants. Cleco Power also competes in its service area with suppliers of alternative forms of energy, some of which may be less costly than electricity for certain applications. Cleco Power could experience some competition for electric sales to industrial customers in the form of cogeneration or from independent power producers.

Lignite Deferral

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

In 2006, Cleco Power recognized that there was a possibility it may not recover all or part of the lignite mining costs it had deferred and sought relief from the LPSC. In December 2007, the LPSC approved a settlement agreement between Cleco Power, SWEPCO, and the LPSC Staff authorizing Cleco Power to recover the existing deferred mining cost balance, including interest, over 11.5 years. In connection with its approval of the Oxbow Lignite Mine acquisition, in 2009 the LPSC agreed to discontinue benchmarking and the corresponding potential to defer future lignite mining costs while preserving the recovery of the legacy deferred fuel balance previously authorized. At December 31, 2015, and 2014, Cleco Power had $8.9 million and $11.5 million, respectively, in deferred costs remaining uncollected.

Integrated Resource Plan (IRP)

In accordance with the General Order in LPSC Docket No. R-30021, Cleco Power filed a request with the LPSC to initiate an IRP process in October 2013. The IRP process included the conduct of stakeholder meetings and consideration of feedback provided by stakeholders. Cleco Power filed its IRP

with the LPSC in September 2015. Stakeholders filed comments in November 2015. The LPSC Staff filed its comments in December 2015, which included a recommendation that the LPSC accept Cleco Power's IRP as filed. Cleco Power is currently waiting for the final LPSC ruling.

Service Quality Program

In October 2015, the LPSC proposed a Service Quality Program containing 21 requirements for Cleco Power. The Service Quality Program has provisions relating to employee headcount, customer service, reliability, vegetation management, and reporting. On February 1, 2016, the Service Quality Program was approved by the LPSC.

AMI Project

In October 2009, Cleco Power received notification of its selection to receive a $20.0 million grant from the DOE to deploy advanced metering infrastructure technology for Cleco Power's customers. Advanced metering technology allows Cleco Power to better manage its electric system and provides remote meter reading through the meter's communicating capabilities. The primary benefit is savings gained through operational efficiencies. The project was approved by the LPSC in February 2011, and the initial installation of the advanced meters was completed in May 2013. The total project cost was $71.4 million, of which $20.0 million was reimbursed by the DOE.

As part of the LPSC approval of Cleco Power's AMI project, Cleco Power is required to conduct a demand response pilot program following the AMI system implementation. The pilot program test reduced rates during times of the day when power usage is typically lower. By choosing off-peak times to use appliances and equipment that consume the most energy, customers can save money on electric bills. Cleco Power is in the final analysis and reporting stage of the pilot program and expects completion in April 2016.

Franchises

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

Recent Authoritative Guidance

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

RISK OVERVIEW

Market risk inherent in Cleco's market risk-sensitive instruments and positions includes potential changes in value arising from changes in interest rates and the commodity market prices of power, FTRs, and natural gas in the industry on different energy exchanges.

Cleco evaluates derivatives and hedging activities to determine whether market risk-sensitive instruments and positions are required to be marked-to-market. With the exception of FTRs, Cleco Power's market risk-sensitive instruments and positions qualify for the normal-purchase, normal-sale exception to mark-to-market accounting because Cleco Power takes physical delivery and the instruments and positions are used to satisfy customer requirements. When positions close, actual gains or losses are included in the FAC and reflected on customers' bills as a component of the FAC.

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

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

Access to capital markets is a significant source of funding for both short- and long-term capital requirements not satisfied by operating cash flows. Future actions or inactions of the federal government, including a failure to increase the government debt limit, could increase the actual or perceived risk that the U.S. may not pay its obligations when due and may disrupt financial markets, including capital markets, potentially limiting availability and increasing costs of capital. The inability to raise capital on favorable terms could negatively affect Cleco's ability to maintain and expand its businesses. After assessing the current operating performance, liquidity, and credit ratings of Cleco Corporation and Cleco Power, management believes that Cleco will have access to the capital markets at prevailing market rates for companies with comparable credit ratings. Cleco Corporation and Cleco Power pay fees and interest under their respective credit facilities based on the highest rating held. Upon announcement of the Merger, Moody's and S&P placed Cleco Corporation and Cleco Power on negative outlook and CreditWatch negative, respectively. On February 25, 2016, S&P changed the outlook for Cleco Corporation and Cleco Power from CreditWatch negative to CreditWatch developing. Prior to close of the Merger or upon termination of the Merger Agreement, it is expected that the credit rating agencies will update their ratings on both Cleco Corporation and Cleco Power taking into consideration the results of the merger transaction. If Cleco Corporation or Cleco Power's credit ratings were to be downgraded by Moody's or S&P, Cleco Corporation and/or Cleco Power would be required to pay additional fees and incur higher interest rates for borrowings under their respective credit facilities. Cleco Power's collateral for derivatives is based on the lowest rating held. If Cleco Power's credit ratings were to be downgraded by Moody's or S&P, Cleco Power would be required to post additional collateral for derivatives.

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

At December 31, 2015, the carrying value of Cleco's long-term fixed-rate debt was $1.27 billion, with a fair market value of $1.43 billion. The $164.5 million difference between the carrying value of the debt and the market value is driven by the spread between the stated rate of Cleco's debt as compared to the current market yield for debt with similar risk profiles, maturities, and terms as Cleco's debt. Fair value was determined using quoted market prices. A 1% increase in the average interest rates would result in a corresponding decrease of approximately $133.6 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, 2015, Cleco had no short-term variable rate debt and $34.0 million in long-term variable-rate debt under Cleco Corporation's $250.0 million credit facility at an all-in interest rate of 1.465%, leaving an available borrowing capacity of $216.0 million. The borrowings under the credit facility are considered to be long-term because the credit facility expires in 2018. The rate for the current borrowings under the facility is equal to LIBOR plus

1.075%, plus facility fees of 0.175%. Each 1% increase in the all-in interest rate applicable to such debt would result in a decrease in Cleco's pretax earnings of $0.3 million.
At December 31, 2015, Cleco Power had no long-term variable rate debt. See below for more details.

Commodity Price Risks
Management believes Cleco has controls in place to minimize the risks involved in its financial and energy commodity activities. Independent controls over energy commodity functions consist of a middle office (risk management), a back office (accounting), and regulatory compliance staff, as well as monitoring by a risk management committee comprised of officers, who are approved by Cleco Corporation's Board of Directors. Risk limits are recommended by the Risk Management Committee and monitored through a daily risk report that identifies the current VaR, current market conditions, and concentration of energy market positions.
Cleco Power provides fuel for generation and purchases power to meet the power demands of customers. Cleco Power may enter into positions to mitigate the volatility in customer fuel costs, as encouraged by various LPSC orders. These positions 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 energy risk management assets or liabilities. When these positions close, actual gains or losses are included in the FAC and reflected in customers' bills as a component of the fuel cost adjustment. There were no open natural gas positions at December 31, 2015. In June 2015, the LPSC approved a long-term natural gas hedging pilot program that requires Cleco Power to establish a proposal for a long-term natural gas procurement program that will be designed to provide gas price stability for a minimum of five years. This proposal is required to be submitted to the LPSC by June 30, 2018.
Cleco Power purchases the majority of its FTRs in annual auctions facilitated by MISO during the second quarter of each year and may also purchase additional FTRs in monthly auctions facilitated by MISO. FTRs are derivative instruments which represent economic hedges of future congestion charges that will be incurred in serving Cleco Power's customer load. They are not designated as hedging instruments for accounting purposes. Cleco Power initially records FTRs at their estimated fair value and subsequently

adjusts the carrying value to their estimated fair value at the end of each accounting period based on the most recent MISO FTR auction prices. Unrealized gains or losses on FTRs held by Cleco Power are included in Accumulated deferred fuel on Cleco and Cleco Power's Consolidated Balance Sheets. Realized gains or losses on settled FTRs are recorded in Electric operations or Power purchased for utility customers on Cleco and Cleco Power's Consolidated Statements of Income. At December 31, 2015, Cleco and Cleco Power's Consolidated Balance Sheets reflected open FTR positions of $7.7 million in Energy risk management assets and $0.3 million in Energy risk management liabilities. For more information on FTRs, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 5 — Fair Value Accounting — Commodity Contracts."

CLECO POWER

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

Cleco Power may enter into various fixed- and variable-rate debt obligations. For details, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 6 — Debt." Please refer to "— Interest Rate Risks" for a discussion of how Cleco Power monitors its mix of fixed- and variable-rate debt obligations and the manner of calculating changes in fair market value and interest expense of its debt obligations.

As of December 31, 2015, the carrying value of Cleco Power's long-term fixed-rate debt was $1.27 billion, with a fair market value of $1.43 billion. The $164.5 million difference between the carrying value of the debt and the market value of such debt is driven by the spread between the stated rate of Cleco Power's debt as compared to the current market yield for debt with similar risk profiles, maturities, and terms as Cleco Power's debt. Fair value was determined using quoted market prices. A 1% increase in the average interest rates applicable to such debt would result in a corresponding decrease of approximately $133.6 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, 2015, Cleco Power had no short-term variable rate debt or long-term variable-rate debt.

At December 31, 2015, Cleco Power had no borrowings outstanding under its $300.0 million credit facility; however, Cleco Power has issued a $2.0 million letter of credit to MISO, leaving an available borrowing capacity of $298.0 million.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Cleco Corporation
Pineville, Louisiana

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

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

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

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2016, expressed an unqualified opinion on the Company's internal control over financial reporting.

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

CLECO CORPORATION

Consolidated Statements of Income

	FOR THE YEAR ENDED DEC. 31,		
(THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	2015	2014	2013
Operating revenue			
Electric operations	$1,142,389	$1,225,960	$1,047,548
Other operations	69,186	67,055	51,002
Gross operating revenue	1,211,575	1,293,015	1,098,550
Electric customer credits	(2,173)	(23,530)	(1,836)
Operating revenue, net	1,209,402	1,269,485	1,096,714
Operating expenses			
Fuel used for electric generation	373,117	322,696	329,874
Power purchased for utility customers	130,095	242,219	45,292
Other operations	127,410	117,369	121,646
Maintenance	88,137	98,999	97,441
Depreciation and amortization	149,579	146,505	142,860
Taxes other than income taxes	49,134	43,924	50,469
Merger transaction costs	4,591	17,848	—
(Gain) loss on sale of assets	—	(6,107)	800
Total operating expenses	922,063	983,453	788,382
Operating income	287,339	286,032	308,332
Interest income	895	1,768	1,105
Allowance for equity funds used during construction	3,063	5,380	4,081
Equity loss from investees, before tax	(8)	—	—
Other income	1,443	4,790	13,857
Other expense	(3,368)	(2,509)	(2,861)
Interest charges			
Interest charges, including amortization of debt issuance costs, premiums, and discounts, net	78,877	75,186	85,570
Allowance for borrowed funds used during construction	(886)	(1,580)	(1,316)
Total interest charges	77,991	73,606	84,254
Income before income taxes	211,373	221,855	240,260
Federal and state income tax expense	77,704	67,116	79,575
Net income applicable to common stock	$133,669	$154,739	$160,685
Basic average number of common shares outstanding	60,476,066	60,406,001	60,434,510
Diluted average number of common shares outstanding	60,689,269	60,601,458	60,720,090
Basic earnings per average common share outstanding	$2.21	$2.56	$2.66
Diluted earnings per average common share outstanding	$2.20	$2.55	$2.65

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

CLECO CORPORATION

Consolidated Statements of Comprehensive Income

	FOR THE YEAR ENDED DEC. 31,		
(THOUSANDS)	2015	2014	2013
Net income	$133,669	$154,739	$160,685
Other comprehensive income (loss), net of tax:			
Postretirement benefits gain (loss) (net of tax expense of $3,670 in 2015, tax benefit of $4,378 in 2014, and tax expense of $3,137 in 2013)	5,869	(7,001)	5,016
Net gain on cash flow hedges (net of tax expense of $132 in 2015, $132 in 2014, and $925 in 2013)	211	212	1,478
Total other comprehensive income (loss), net of tax	6,080	(6,789)	6,494
Comprehensive income, net of tax	$139,749	$147,950	$167,179

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

CLECO CORPORATION

Consolidated Balance Sheets

(THOUSANDS)	AT DEC. 31, 2015	2014
Assets		
Current assets		
Cash and cash equivalents	$68,246	$44,423
Restricted cash and cash equivalents	9,263	8,986
Customer accounts receivable (less allowance for doubtful accounts of $2,674 in 2015 and $922 in 2014)	43,255	41,500
Other accounts receivable	27,677	28,098
Unbilled revenue	33,995	38,475
Fuel inventory, at average cost	72,838	64,747
Materials and supplies, at average cost	76,731	71,124
Energy risk management assets	7,673	10,776
Accumulated deferred federal and state income taxes, net	—	76,785
Accumulated deferred fuel	12,910	21,554
Cash surrender value of company-/trust-owned life insurance policies	73,823	71,167
Prepayments	7,883	10,284
Regulatory assets	14,117	12,212
Other current assets	448	473
Total current assets	448,859	500,604
Property, plant, and equipment		
Property, plant, and equipment	4,661,212	4,508,960
Accumulated depreciation	(1,536,158)	(1,442,960)
Net property, plant, and equipment	3,125,054	3,066,000
Construction work in progress	66,509	99,458
Total property, plant, and equipment, net	3,191,563	3,165,458
Equity investment in investees	16,822	14,540
Prepayments	4,542	4,891
Restricted cash and cash equivalents	16,195	15,130
Regulatory assets - deferred taxes, net	236,941	234,370
Regulatory assets	284,689	311,867
Net investment in direct financing lease	13,464	13,498
Intangible asset	74,963	90,642
Tax credit fund investment, net	13,741	7,251
Other deferred charges	21,575	10,167
Total assets	$4,323,354	$4,368,418

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

(Continued on next page)

CLECO CORPORATION

Consolidated Balance Sheets

(THOUSANDS)	AT DEC. 31, 2015	2014
Liabilities and shareholders’ equity		
Liabilities		
Current liabilities		
Long-term debt due within one year	$19,421	$18,272
Accounts payable	93,822	127,268
Customer deposits	55,233	53,411
Provision for rate refund	2,696	2,264
Taxes payable	2,573	2,197
Interest accrued	7,814	8,669
Energy risk management liabilities	275	827
Regulatory liabilities - other	312	312
Deferred compensation	10,156	11,374
Other current liabilities	14,277	13,176
Total current liabilities	206,579	237,770
Long-term liabilities and deferred credits		
Accumulated deferred federal and state income taxes, net	925,103	918,858
Accumulated deferred investment tax credits	3,245	4,161
Postretirement benefit obligations	205,036	197,623
Regulatory liabilities - other	—	312
Restricted storm reserve	16,177	14,916
Other deferred credits	24,670	28,510
Total long-term liabilities and deferred credits	1,174,231	1,164,380
Long-term debt, net	1,267,703	1,338,998
Total liabilities	2,648,513	2,741,148
Commitments and contingencies (Note 14)		
Shareholders’ equity		
Common shareholders’ equity		
Common stock, $1 par value, authorized 100,000,000 shares, issued 61,058,918 and 61,051,286 shares and outstanding 60,482,468 and 60,421,467 shares at December 31, 2015, and 2014, respectively	61,059	61,051
Premium on common stock	418,518	415,482
Retained earnings	1,245,014	1,208,712
Treasury stock, at cost, 576,450 and 629,819 shares at December 31, 2015, and 2014, respectively	(23,165)	(25,310)
Accumulated other comprehensive loss	(26,585)	(32,665)
Total shareholders’ equity	1,674,841	1,627,270
Total liabilities and shareholders’ equity	$4,323,354	$4,368,418

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

CLECO CORPORATION

Consolidated Statements of Cash Flows

	FOR THE YEAR ENDED DEC. 31,		
(THOUSANDS)	2015	2014	2013
Operating activities			
Net income	$133,669	$154,739	$160,685
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	156,211	156,590	161,047
(Gain) loss on sale of assets	—	(6,224)	885
Unearned compensation expense	6,344	6,545	6,446
Allowance for equity funds used during construction	(3,063)	(5,380)	(4,081)
Net deferred income taxes	74,103	63,597	65,989
Deferred fuel costs	9,899	(11,558)	5,630
Cash surrender value of company-/trust-owned life insurance	950	(3,616)	(3,669)
Changes in assets and liabilities			
Accounts receivable	(13,656)	11,556	(26,357)
Unbilled revenue	4,481	(7,310)	(2,504)
Fuel inventory and materials and supplies	(13,698)	(12,147)	(18,626)
Prepayments	2,750	27	(3,502)
Accounts payable	(25,294)	4,481	(1,656)
Customer deposits	12,162	14,960	12,213
Postretirement benefit obligations	14,173	8,864	(24,541)
Regulatory assets and liabilities, net	18,793	(777)	(30,524)
Other deferred accounts	(17,454)	(14,691)	(5,547)
Taxes accrued	(831)	(22,685)	53,197
Interest accrued	(1,024)	(3,519)	(768)
Other operating	2,507	1,717	(2,627)
Net cash provided by operating activities	361,022	335,169	341,690
Investing activities			
Additions to property, plant, and equipment	(156,819)	(207,636)	(188,614)
Allowance for equity funds used during construction	3,063	5,380	4,081
Property, plant, and equipment grants	—	—	729
Proceeds from sale of property, plant, and equipment	—	9,316	1,145
Reimbursement for property loss	—	191	1,306
Contributions to equity investment in investee	(2,290)	—	—
Premiums paid on trust-owned life insurance	(3,607)	(2,831)	(3,705)
Return of equity investment in tax credit fund	2,128	2,579	1,619
Contributions to tax credit fund	(9,966)	(55,315)	(51,011)
Transfer of cash (to) from restricted accounts, net	(1,341)	(10,097)	201
Purchase of restricted investments	—	—	(8,782)
Sale of restricted investments	—	11,138	—
Maturity of restricted investments	—	1,458	6,816
Other investing	881	(697)	(1)
Net cash used in investing activities	(167,951)	(246,514)	(236,216)

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

(Continued on next page)

CLECO CORPORATION

Consolidated Statements of Cash Flows

	FOR THE YEAR ENDED DEC. 31,		
(THOUSANDS)	2015	2014	2013
Financing activities			
Draws on credit facility	120,000	254,000	228,000
Payments on credit facility	(163,000)	(202,000)	(228,000)
Issuance of long-term debt	75,000	—	160,000
Repayment of long-term debt	(100,824)	(14,876)	(113,969)
Repurchase of long-term debt	—	—	(60,000)
Repurchase of common stock	—	(12,449)	—
Settlement of interest rate swap	—	—	(3,269)
Dividends paid on common stock	(97,283)	(95,044)	(86,376)
Other financing	(3,141)	(2,519)	(4,224)
Net cash used in financing activities	(169,248)	(72,888)	(107,838)
Net increase (decrease) in cash and cash equivalents	23,823	15,767	(2,364)
Cash and cash equivalents at beginning of period	44,423	28,656	31,020
Cash and cash equivalents at end of period	$68,246	$44,423	$28,656
Supplementary cash flow information			
Interest paid, net of amount capitalized	$74,349	$74,515	$77,296
Income taxes paid (refunded), net	$1,434	$15,286	$(47,374)
Supplementary non-cash investing and financing activities			
Accrued additions to property, plant, and equipment	$7,313	$12,325	$18,627
Issuance of common stock – ESPP	$—	$220	$318
Decreases in property, plant, and equipment	$234	$47	$1,280
Non-cash additions to property, plant, and equipment - ARO	$184	$4,400	$—
Non-cash donation of property	$373	$—	$—

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

CLECO CORPORATION

Consolidated Statements of Changes in Common Shareholders' Equity

(THOUSANDS, EXCEPT SHARE AMOUNTS)	COMMON STOCK SHARES	COMMON STOCK AMOUNT	TREASURY STOCK SHARES	TREASURY STOCK COST	PREMIUM ON COMMON STOCK	RETAINED EARNINGS	AOCI	TOTAL COMMON SHAREHOLDERS' EQUITY
Balances, Dec. 31, 2012	60,961,570	$ 60,962	(606,025)	$ (21,072)	$ 416,619	$ 1,075,074	$ (32,370)	$ 1,499,213
Common stock issued for compensatory plans	85,436	85	13,539	471	6,005	—	—	6,561
Dividends on common stock, $1.425 per share	—	—	—	—	—	(86,756)	—	(86,756)
Net income	—	—	—	—	—	160,685	—	160,685
Other comprehensive income, net of tax	—	—	—	—	—	—	6,494	6,494
Balances, Dec. 31, 2013	61,047,006	$ 61,047	(592,486)	$ (20,601)	$ 422,624	$ 1,149,003	$ (25,876)	$ 1,586,197
Common stock issued for compensatory plans	4,280	4	212,667	7,740	(7,142)	—	—	602
Repurchase of common stock	—	—	(250,000)	(12,449)	—	—	—	(12,449)
Dividends on common stock, $1.5625 per share	—	—	—	—	—	(95,030)	—	(95,030)
Net income	—	—	—	—	—	154,739	—	154,739
Other comprehensive loss, net of tax	—	—	—	—	—	—	(6,789)	(6,789)
Balances, Dec. 31, 2014	61,051,286	$ 61,051	(629,819)	$ (25,310)	$ 415,482	$ 1,208,712	$ (32,665)	$ 1,627,270
Common stock issued for compensatory plans	7,632	8	53,369	2,145	3,036	—	—	5,189
Dividends on common stock, $1.60 per share	—	—	—	—	—	(97,367)	—	(97,367)
Net income	—	—	—	—	—	133,669	—	133,669
Other comprehensive income, net of tax	—	—	—	—	—	—	6,080	6,080
	61,058,918	$ 61,059	(576,450)	$ (23,165)	$ 418,518	$ 1,245,014	$ (26,585)	$ 1,674,841

Balances, Dec. 31,
2015

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

55

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Cleco Power LLC and subsidiaries (the “Company”) as of December 31, 2015, and 2014, and the related consolidated statements of income, comprehensive income, changes in member’s equity, and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and the financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.
We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Cleco Power LLC and subsidiaries as of December 31, 2015, and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.
We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2016, expressed an unqualified opinion on the Company’s internal control over financial reporting.

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

CLECO POWER

Consolidated Statements of Income

	FOR THE YEAR ENDED DEC. 31,		
(THOUSANDS)	2015	2014	2013
Operating revenue			
Electric operations	$1,142,389	$1,225,960	$1,047,548
Other operations	67,109	64,893	48,909
Affiliate revenue	1,142	1,326	1,338
Gross operating revenue	1,210,640	1,292,179	1,097,795
Electric customer credits	(2,173)	(23,530)	(1,836)
Operating revenue, net	1,208,467	1,268,649	1,095,959
Operating expenses			
Fuel used for electric generation	373,117	322,696	329,874
Power purchased for utility customers	130,095	247,686	76,962
Other operations	128,697	116,664	114,884
Maintenance	87,416	96,054	85,638
Depreciation and amortization	147,839	144,026	135,717
Taxes other than income taxes	47,102	41,812	46,203
Gain on sale of assets	—	(4)	—
Total operating expenses	914,266	968,934	789,278
Operating income	294,201	299,715	306,681
Interest income	725	1,707	1,100
Allowance for equity funds used during construction	3,063	5,380	4,081
Other income	1,764	1,483	4,883
Other expense	(2,549)	(2,322)	(4,277)
Interest charges			
Interest charges, including amortization of debt issuance costs, premiums, and discounts, net	77,446	76,253	83,993
Allowance for borrowed funds used during construction	(886)	(1,580)	(1,316)
Total interest charges	76,560	74,673	82,677
Income before income taxes	220,644	231,290	229,791
Federal and state income tax expense	79,294	76,974	79,381
Net income	$141,350	$154,316	$150,410

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

CLECO POWER

Consolidated Statements of Comprehensive Income

	FOR THE YEAR ENDED DEC. 31,		
(THOUSANDS)	2015	2014	2013
Net income	$141,350	$154,316	$150,410
Other comprehensive income (loss), net of tax:			
Postretirement benefits (loss) gain (net of tax benefit of $9 in 2015, tax benefit of $1,453 in 2014, and tax expense of $2,355 in 2013)	(15)	(2,323)	3,766
Net gain on cash flow hedges (net of tax expense of $132 in 2015, $132 in 2014, and $925 in 2013)	211	212	1,478
Total other comprehensive income (loss), net of tax	196	(2,111)	5,244
Comprehensive income, net of tax	$141,546	$152,205	$155,654

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

CLECO POWER

Consolidated Balance Sheets

(THOUSANDS)	AT DEC. 31, 2015	2014
Assets		
Utility plant and equipment		
Property, plant, and equipment	$4,645,698	$4,495,490
Accumulated depreciation	(1,525,298)	(1,433,206)
Net property, plant, and equipment	3,120,400	3,062,284
Construction work in progress	66,069	96,702
Total utility plant, net	3,186,469	3,158,986
Current assets		
Cash and cash equivalents	65,705	39,162
Restricted cash and cash equivalents	9,263	8,986
Customer accounts receivable (less allowance for doubtful accounts of $2,674 in 2015 and $922 in 2014)	43,255	41,500
Accounts receivable - affiliate	1,908	23,621
Other accounts receivable	27,553	27,949
Unbilled revenue	33,995	38,475
Fuel inventory, at average cost	72,838	64,747
Materials and supplies, at average cost	76,731	71,124
Energy risk management assets	7,673	10,776
Accumulated deferred federal and state income taxes, net	—	6,725
Accumulated deferred fuel	12,910	21,554
Cash surrender value of company-owned life insurance policies	20,003	19,678
Prepayments	6,309	7,283
Regulatory assets	14,117	12,212
Other current assets	337	368
Total current assets	392,597	394,160
Equity investment in investees	16,822	14,532
Prepayments	4,542	4,891
Restricted cash and cash equivalents	16,174	15,109
Regulatory assets - deferred taxes, net	236,941	234,370
Regulatory assets	284,689	311,867
Intangible asset	74,963	90,642
Other deferred charges	20,140	8,385
Total assets	$4,233,337	$4,232,942

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

(Continued on next page)

CLECO POWER

Consolidated Balance Sheets

(THOUSANDS)	AT DEC. 31, 2015	2014
Liabilities and member's equity		
Member's equity	$1,552,404	$1,545,858
Long-term debt, net	1,234,039	1,282,609
Total capitalization	2,786,443	2,828,467
Current liabilities		
Long-term debt due within one year	19,421	18,272
Accounts payable	88,235	116,925
Accounts payable - affiliate	6,598	7,760
Customer deposits	55,233	53,411
Provision for rate refund	2,696	2,264
Taxes payable	17,045	3,115
Interest accrued	7,813	9,224
Energy risk management liabilities	275	827
Regulatory liabilities - other	312	312
Other current liabilities	10,078	9,380
Total current liabilities	207,706	221,490
Commitments and contingencies (Note 14)		
Long-term liabilities and deferred credits		
Accumulated deferred federal and state income taxes, net	1,043,531	1,001,332
Accumulated deferred investment tax credits	3,245	4,161
Postretirement benefit obligations	152,152	135,825
Regulatory liabilities - other	—	312
Restricted storm reserve	16,177	14,916
Other deferred credits	24,083	26,439
Total long-term liabilities and deferred credits	1,239,188	1,182,985
Total liabilities and member's equity	$4,233,337	$4,232,942

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

CLECO POWER

Consolidated Statements of Cash Flows

	FOR THE YEAR ENDED DEC. 31,		
(THOUSANDS)	2015	2014	2013
Operating activities			
Net income	$141,350	$154,316	$150,410
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	152,833	151,252	147,452
Allowance for equity funds used during construction	(3,063)	(5,380)	(4,081)
Net deferred income taxes	43,675	82,315	81,534
Deferred fuel costs	9,899	(11,558)	5,630
Changes in assets and liabilities			
Accounts receivable	(13,681)	11,689	(26,491)
Accounts and notes receivable, affiliate	6,195	709	2,113
Unbilled revenue	4,481	(7,310)	(2,504)
Fuel inventory and materials and supplies	(13,698)	(12,114)	(18,539)
Accounts payable	(20,575)	5,459	(848)
Accounts and notes payable, affiliate	(3,990)	(2,749)	(3,403)
Customer deposits	12,162	14,960	12,213
Postretirement benefit obligations	7,405	4,963	(28,306)
Regulatory assets and liabilities, net	18,793	(777)	(30,524)
Other deferred accounts	(15,991)	(10,798)	(8,212)
Taxes accrued	36,287	(26,373)	5,372
Interest accrued	(1,412)	(4,364)	(304)
Other operating	5,868	2,832	(2,108)
Net cash provided by operating activities	366,538	347,072	279,404
Investing activities			
Additions to property, plant, and equipment	(156,357)	(206,607)	(181,154)
Allowance for equity funds used during construction	3,063	5,380	4,081
Property, plant, and equipment grants	—	—	729
Contributions to equity investment in investee	(2,290)	—	—
Transfer of cash (to) from restricted accounts, net	(1,341)	(10,097)	125
Purchase of restricted investments	—	—	(8,782)
Sale of restricted investments	—	11,138	—
Maturity of restricted investments	—	1,458	6,816
Other investing	881	2,153	2,367
Net cash used in investing activities	(156,044)	(196,575)	(175,818)
Financing activities			
Draws on credit facility	63,000	157,000	180,000
Payments on credit facility	(83,000)	(157,000)	(160,000)
Issuance of long-term debt	75,000	—	160,000
Repayment of long-term debt	(100,824)	(14,876)	(113,969)
Repurchase of long-term debt	—	—	(60,000)
Settlement of interest rate swap	—	—	(3,269)
Distribution to parent	(135,000)	(115,000)	(105,000)

Other financing	(3,127)	(2,514)	(3,661)
Net cash used in financing activities	(183,951)	(132,390)	(105,899)
Net increase (decrease) in cash and cash equivalents	26,543	18,107	(2,313)
Cash and cash equivalents at beginning of period	39,162	21,055	23,368
Cash and cash equivalents at end of period	$65,705	$39,162	$21,055
Supplementary cash flow information			
Interest paid, net of amount capitalized	$74,219	$74,326	$77,079
Income taxes (refunded) paid, net	$(27)	$257	$(456)
Supplementary non-cash investing and financing activities			
Accrued additions to property, plant, and equipment	$7,249	$12,225	$18,414
Decreases in property, plant, and equipment	$234	$47	$1,280
Non-cash additions to property, plant, and equipment - ARO	$184	$4,400	$—
Non-cash additions to property, plant, and equipment - Coughlin	$—	$176,244	$—
Non-cash donation of property	$373	$—	$—

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

CLECO POWER

Consolidated Statements of Changes in Member's Equity

(THOUSANDS)	MEMBER'S EQUITY	AOCI	TOTAL MEMBER'S EQUITY
Balances, Dec. 31, 2012	$1,340,340	$(20,421)	$1,319,919
Other comprehensive income, net of tax	—	5,244	5,244
Distributions to parent	(105,000)	—	(105,000)
Net income	150,410	—	150,410
Balances, Dec. 31, 2013	1,385,750	(15,177)	1,370,573
Other comprehensive loss, net of tax	—	(2,111)	(2,111)
Non-cash contributions from parent	138,080	—	138,080
Distributions to parent	(115,000)	—	(115,000)
Net income	154,316	—	154,316
Balances, Dec. 31, 2014	1,563,146	(17,288)	1,545,858
Other comprehensive income, net of tax	—	196	196
Distributions to parent	(135,000)	—	(135,000)
Net income	141,350	—	141,350
Balances, Dec. 31, 2015	$1,569,496	$(17,092)	$1,552,404

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

Index to Applicable Notes to the Financial Statements of Registrants

Notes to the Financial Statements

Note 1 — The Company

General

Cleco Corporation is a holding company composed of the following:

- Cleco Power, a regulated electric utility subsidiary, which owns ten generating units with a total nameplate capacity of 3,333 MW and serves approximately 287,000 customers in Louisiana through its retail business and supplies wholesale power in Louisiana and Mississippi. Cleco Power also owns a 50% interest in an entity that owns lignite reserves. Cleco Power owns all of the outstanding membership interests in Cleco Katrina/Rita, a special purpose entity that is consolidated with Cleco Power in its financial statements.

- Midstream is a wholesale energy subsidiary, regulated by FERC, which owns Evangeline. Prior to March 15, 2014, Evangeline owned Coughlin and its two generating units with a total nameplate capacity of 775 MW. On March 15, 2014, Coughlin was transferred from Evangeline to Cleco Power.
- Cleco Corporation's other operations consist of a holding company, two transmission interconnection facility subsidiaries, a shared services subsidiary, and an investment subsidiary.

On October 17, 2014, Cleco Corporation entered into the Merger Agreement with Cleco Partners and Merger Sub providing for the merger of Merger Sub with and into Cleco Corporation, with Cleco Corporation surviving the Merger as an indirect, wholly-owned subsidiary of Cleco Partners. For more information on the Merger, see Note 20 — "Agreement and Plan of Merger."

Note 2 — Summary of Significant Accounting Policies

Use of Estimates

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

Principles of Consolidation

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

Statements of Cash Flows

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

Regulation

Cleco Power is subject to regulation by FERC and the LPSC. Cleco Power complies with the accounting policies and practices prescribed by its regulatory commissions. Cleco Power's retail rates are regulated by the LPSC and its tariffs for transmission services are regulated by FERC. Rates for wholesale power sales are based on market-based rates, pending FERC review of Cleco Power's generation market power analysis. Cleco Power capitalizes or defers certain costs for recovery from customers and recognizes a liability for amounts expected to be returned to customers based on regulatory approval and management's ongoing assessment that it is probable these items will be recovered through the ratemaking process. Regulatory assets and liabilities are amortized consistent with the treatment of the related cost in the ratemaking process. Pursuant to this regulatory approval, Cleco Power has recorded regulatory assets and liabilities.

Any future plan adopted by the LPSC for purposes of transitioning utilities from LPSC regulation to retail competition may affect the regulatory assets and liabilities recorded by Cleco Power if the criteria for the application of the authoritative guidelines for industry regulated operations cannot continue to be met. At this time, Cleco cannot predict whether any legislation or regulation affecting Cleco Power will be enacted or adopted and, if enacted, what form such legislation or regulation may take.

For more information regarding the regulatory assets and liabilities recorded by Cleco Power, see Note 3 — "Regulatory Assets and Liabilities."

AROs

Cleco Power recognizes an ARO when there is a legal obligation under existing or enacted law, statute, written or oral contract, or by legal construction under the doctrine of promissory estoppel to incur costs to remove an asset when the asset is retired. These guidelines also require an ARO which is conditional on a future event to be recorded even if the event has not yet occurred.

Cleco Power recognizes AROs at the present value of the projected liability in the period in which it is incurred, if a reasonable estimate of fair value can be made. The liability is then accreted to its present value each accounting period. Cleco Power defers this accretion as a regulatory asset based on its determination that these costs can be collected from customers. Concurrent with the recognition of the liability, these costs are capitalized to the related property, plant, and equipment asset. These capitalized costs are depreciated over the same period as the related property asset. Cleco Power also defers the current depreciation of the asset retirement cost as a regulatory asset.

On April 17, 2015, the EPA published the final rule in the Federal Register for regulating the disposal and management of CCRs from coal-fired power plants under Subtitle D of the Resource Conservation and Recovery Act. The Subtitle D option will regulate CCRs in a manner similar to industrial solid waste. The final rule does not require expensive synthetic lining of existing impoundments. At December 31, 2015, based on management's best estimate of the retirement costs related to this ruling, Cleco Power recorded a $1.0 million increase to its ARO for the retirement of certain ash disposal facilities. All costs of the CCR rule are expected to be recovered from customers in future rates. The actual asset retirement costs related to the CCR rule requirements may vary substantially from the estimates used to record the increased obligation due to the uncertainty about the compliance strategies that will be used and the preliminary nature of available data used to estimate costs. Cleco Power will continue to gather additional data in future periods and will make decisions about compliance strategies and the timing of closure activities. As this additional information becomes available, Cleco Power will update the ARO balance for these changes in estimates.

For more information on Cleco Power's current AROs, see Note 3 — "Regulatory Assets and Liabilities — AROs."

Property, Plant, and Equipment

Property, plant, and equipment consists primarily of regulated utility generation and energy transmission and distribution assets. Regulated assets, utilized primarily for retail operations and electric transmission and distribution, are stated at the cost of construction, which includes certain materials, labor, payroll taxes and benefits, administrative and general costs, and the estimated cost of funds used during construction. Jointly owned assets are reflected in property, plant, and equipment at Cleco Power's share of the cost to construct or purchase the assets. For information on jointly owned assets, see Note 4 — "Jointly Owned Generation Units."

Cleco's cost of improvements to property, plant, and equipment is capitalized. Costs associated with repairs and major maintenance projects are expensed as incurred. Cleco capitalizes the cost to purchase or develop software for internal use. The amounts of unamortized computer software costs at December 31, 2015, and 2014 were $12.5 million and $11.0 million, respectively. Amortization of capitalized computer software costs charged to expense for the years

ending December 31, 2015, 2014, and 2013 was $2.2 million, $1.4 million, and $1.4 million, respectively.
Upon retirement or disposition, the cost of Cleco Power's depreciable plant and the cost of removal, net of salvage value, are charged to accumulated depreciation. For Cleco's other depreciable assets, upon disposition or retirement, the difference between the net book value of the property and any proceeds received for the property is recorded as a gain or loss on asset disposition on Cleco's Consolidated Statements of Income. Any cost incurred to remove the asset is charged to expense. Annual depreciation provisions expressed as a percentage of average depreciable property for Cleco Power for 2015, 2014, and 2013,were 2.68%, 2.66%, and 2.70%, respectively.
Depreciation on property, plant, and equipment is calculated primarily on a straight-line basis over the useful lives of the assets. The estimated useful life of utility plant assets ranges from 5 years to 95 years. The estimated useful life of other property and equipment ranges from 5 years to 50 years.
At December 31, 2015, and 2014, property, plant, and equipment consisted of the following:

	AT DEC. 31,	
(THOUSANDS)	2015	2014
Regulated utility plants	$4,645,698	$4,495,490
Other	15,514	13,470
Total property, plant, and equipment	4,661,212	4,508,960
Accumulated depreciation	(1,536,158)	(1,442,960)
Net property, plant, and equipment	$3,125,054	$3,066,000

During 2015, Cleco's investment in regulated utility property, plant, and equipment increased primarily due to the Layfield/Messick project, or Northwest Louisiana Transmission Expansion project and general rehabilitation of transmission, distribution, and generation assets.
Cleco Power's property, plant, and equipment includes plant acquisition adjustments related primarily to the acquisition of Acadia Unit 1 in 2010 and Teche in 1997. Accumulated amortization associated with the plant acquisition adjustments are reported in accumulated depreciation on Cleco Power's Consolidated Balance Sheets. The plant acquisition adjustments and accumulated amortization reported in property, plant, and equipment and accumulated

depreciation on Cleco Power's Consolidated Balance Sheets at December 31, 2015, and 2014 are shown in the following table:

	AT DEC. 31,		
(THOUSANDS)	2015		2014
Acadia Unit 1			
Plant acquisition adjustment	$95,578		$95,578
Less: accumulated amortization	18,567		15,384
Net plant acquisition adjustment	$77,011		$80,194
Teche and other			
Plant acquisition adjustment	$5,271	(1)	$5,359
Less: accumulated amortization	4,655		4,488
Net plant acquisition adjustment	$616		$871

(1) In October 2015, the Franklin Gas Turbine, a 7-MW natural gas generating unit, was retired.

Deferred Project Costs

Cleco defers costs related to the initial stage of a construction project during which time the feasibility of the construction of property, plant, and equipment is being investigated. At December 31, 2015, and 2014, Cleco had deferred $4.6 million and $1.4 million, respectively, for projects that are in the initial stages of development. These amounts are classified as Other deferred charges on Cleco's Consolidated Balance Sheets.

Fuel Inventory and Materials and Supplies

Fuel inventory consists primarily of petroleum coke, coal, limestone, lignite, and natural gas used to generate electricity.

Materials and supplies consists of transmission and distribution line construction and repair materials. It also consists of generating station and transmission and distribution substation repair materials.

Both fuel inventory and materials and supplies are stated at average cost and are issued from stock using the average cost of existing stock. Materials and supplies are recorded when purchased and subsequently charged to expense or capitalized to property, plant, and equipment when installed.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. It is the policy of management to review the outstanding accounts receivable monthly, as well as the bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts. Account balances are charged off against the allowance when management determines it is probable the receivable will not be recovered. At December 31, 2015, and 2014, the balance of the allowance for doubtful accounts was $2.7 million and $0.9 million, respectively. There was no off-balance sheet credit exposure related to Cleco's customers.

Financing Receivables

At December 31, 2015, Cleco, through Perryville and Attala, had a combined net investment in direct financing lease long-term assets of $13.5 million. The net investment at December 31, 2014, was also $13.5 million. Each subsidiary leases its respective transmission assets to a single counterparty. Both counterparties are considered credit worthy and are expected to pay their obligations when due, thus, no allowance for credit loss has been recognized. Management bases this assessment on the following common factors of each counterparty:

- both counterparties use the respective transmission facilities to move electricity from its power plants to the regional transmission grid,
-

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

Management monitors both entities for indication of adverse actions by their respective public service commissions and market conditions which would indicate an inability to pay their obligations under the direct financing leases when due. Since the inception of the agreements, each counterparty has paid their respective obligations when due, and at December 31, 2015, and 2014, no amounts were past due.

Reserves
Cleco maintains property insurance on generating stations, buildings and contents, and substations. Cleco is self-insured for any damage to transmission and distribution lines. To mitigate the exposure to potential financial loss for damage to lines, Cleco maintains an LPSC-approved funded storm reserve.
Cleco also maintains liability and workers' compensation insurance to mitigate financial losses due to injuries and damages to the property of others. Cleco's insurance covers claims that exceed certain self-insured limits. For claims that do not meet the limits to be covered by insurance, Cleco maintains reserves. At December 31, 2015, and 2014, the general liability and workers compensation reserves together were $5.5 million and $6.0 million, respectively. Additionally, Cleco maintains directors and officers insurance to protect managers from claims which may arise from their decisions and actions taken within the scope of their regular duties.

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

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

	AT DEC. 31,	
(THOUSANDS)	2015	2014
Current:		
Cleco Katrina/Rita's storm recovery bonds	$9,263	$8,986
Non-current:		
Diversified Lands' mitigation escrow	21	21
Cleco Power's future storm restoration costs	16,174	14,915
Cleco Power's building renovation escrow	—	194
Total non-current	16,195	15,130
Total restricted cash and cash equivalents	$25,458	$24,116

Cleco Katrina/Rita has the right to bill and collect storm restoration costs from Cleco Power's customers. As cash is collected, it is restricted for payment of administration fees, interest, and principal on storm recovery bonds. During 2015, Cleco Katrina/Rita collected $21.2 million net of administration fees. In March and September 2015, Cleco Katrina/Rita used $8.1 million and $7.7 million, respectively, for scheduled storm recovery bond principal payments and $2.6 million and $2.5 million, respectively, for related interest payments.
In connection with Cleco Power's building modernization project, Cleco Power was required to establish an escrow account with a qualified financial institution and deposit all retainage monies as they accrued under the construction contract. On July 16, 2015, the final funds held in the escrow account were released and paid to the construction contractor for the completion of building renovations.

Equity Investments
Cleco and Cleco Power account for investments in unconsolidated affiliated companies using the equity method of accounting. The amounts reported on Cleco and Cleco Power's Consolidated Balance Sheets represent assets contributed by Cleco Corporation or Cleco Power, plus their share of the net income of the affiliate, less any distributions of earnings (dividends) received from the affiliate. The revenues and expenses (excluding income taxes) of these affiliates are netted and reported on one line item as equity income from investees on Cleco and Cleco Power's Consolidated Statements of Income.
Cleco evaluates for impairments of equity method investments at each balance sheet date whether events and circumstances have occurred that indicate a possible other-than-temporary decline in the fair value of the investment and the possible inability to recover the carrying value through operations. Cleco uses estimates of the future cash flows from the investee and observable market transactions in order to calculate fair value and recoverability. An impairment is recognized when an other-than-temporary decline in market value occurs and recovery of the carrying value is not probable. There were no impairments recorded for 2015, 2014, or 2013. For more information on Cleco's equity investments, see Note 12 — "Variable Interest Entities."

Income Taxes
Cleco accounts for income taxes under the asset and liability method. Cleco provides for federal and state income taxes currently payable, as well as for those deferred due to timing differences between reporting income and expenses for financial statement purposes versus tax purposes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and

liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted income tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. Beginning with the December 31, 2015, reporting period, deferred tax assets and liabilities are classified as noncurrent on Cleco and Cleco Power's Consolidated Balance Sheets due to the early adoption of new accounting guidance. Prior periods were not retrospectively adjusted. For more information on the new accounting guidance, see "— Recent Authoritative Guidance." Cleco's income tax expense and related regulatory assets and liabilities could be affected by changes in its assumptions and estimates and by ultimate resolution of assumptions and estimates with taxing authorities. Cleco files a federal consolidated income tax return for all wholly owned subsidiaries. Cleco computes its federal and state income taxes as if it were a stand-alone taxpayer. The LPSC generally requires Cleco Power to flow the effects of state income taxes to customers immediately. The LPSC specifically requires that the state tax benefits associated with the deductions related to certain storm damages be normalized. For more information on income taxes, see Note 9 — "Income Taxes."

Investment Tax Credits

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

NMTC Fund

In 2008, Cleco Corporation and U.S. Bancorp Community Development Corporation (USBCDC) formed the NMTC Fund. The purpose of the NMTC Fund is to invest in projects located in qualified active low-income communities that are underserved by typical debt capital markets. These investments are designed to generate NMTCs and Historical Rehabilitation tax credits. The NMTC Fund was later amended to include renewable energy investments. The majority of the energy investments qualify for grants under Section 1603 of the ARRA. The gross investment amortization expense of the NMTC Fund will be recognized over a nine-year period, with two years remaining under the new amendment, using the cost method. The grants received under Section 1603, which allow certain projects to receive a federal grant in lieu of tax credits, and other cash reduce the basis of the investment. Periodic amortization of the investment and the deferred taxes generated by the basis reduction temporary difference are included as components of income tax expense.

For more information, see Note 14 — "Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Other Commitments — NMTC Fund."

Accounting for Renewable Energy Tax Credits and Grants Under the ARRA

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

Debt Issuance Costs, Premiums, and Discounts
Issuance costs, premiums, and discounts applicable to debt securities are amortized to income ratably over the lives of the related issues. Expenses and call premiums related to refinanced Cleco Power debt are deferred and amortized over the life of the new issue. Premiums and discounts are presented as a direct deduction from the carrying value of the related debt liability. In accordance with accounting guidance issued in April 2015, debt issuance costs are now presented as a direct deduction from the carrying value of the related debt liability. As a result of the adoption of this guidance, debt issuance costs at December 31, 2014, on Cleco and Cleco Power's Consolidated Balance Sheets of $10.7 million and $10.0 million, respectively, were reclassified from Other deferred charges to Long-term debt, net. For more information on the new accounting guidance, see "— Recent Authoritative Guidance."

Revenue and Fuel Costs

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

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

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

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

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

AFUDC
The capitalization of AFUDC by Cleco Power is a utility accounting practice prescribed by FERC and the LPSC. AFUDC represents the estimated debt and equity costs of capital funds that are necessary to finance construction of new and existing facilities. While cash is not realized currently from such allowance, AFUDC increases the revenue requirement over the same life of the plant through a higher rate base and higher depreciation. Under regulatory

practices, a return on and recovery of AFUDC is permitted in setting rates charged for utility services. The composite AFUDC rate, including borrowed and other funds, was 11.46% on a pretax basis (7.09% net of tax) for 2015, 10.46% on a pretax basis (6.47% net of tax) for 2014, and 11.61% on a pretax basis (7.19% net of tax) for 2013.

Fair Value Measurements and Disclosures

Various accounting pronouncements require certain assets and liabilities to be measured at their fair values. Some assets and liabilities are required to be measured at their fair value each reporting period, while others are required to be measured only one time, generally at the date of acquisition or debt issuance. Cleco and Cleco Power disclose the fair value of certain assets and liabilities by one of three levels when required for recognition purposes. For more information about fair value levels, see Note 5 — "Fair Value Accounting."

Risk Management

Market risk inherent in Cleco's market risk-sensitive instruments and positions includes potential changes in value arising from changes in interest rates and the commodity market prices of power, FTRs, and natural gas in the industry on different energy exchanges. Cleco's Energy Market Risk Management Policy authorizes the use of various derivative instruments, including exchange traded futures and option contracts, forward purchase and sales contracts, and swap transactions to reduce exposure to fluctuations in the price of power, FTRs, and natural gas. Cleco evaluates derivatives and hedging activities to determine whether market risk-sensitive instruments and positions are required to be marked-to-market. With the exception of FTRs, Cleco Power's market risk-sensitive instruments and positions qualify for the normal-purchase, normal-sale exception to mark-to-market accounting because Cleco Power takes physical delivery and the instruments and positions are used to satisfy customer requirements.

Cleco Power may also enter into risk mitigating positions that would not meet the requirements of a normal-purchase, normal-sale transaction in order to attempt to mitigate the volatility in customer fuel costs. These positions are marked-to-market with the resulting gain or loss recorded on Cleco and Cleco Power's Consolidated Balance Sheets as a component of energy risk management assets or liabilities. Such gain or loss is deferred as a component of deferred fuel assets or liabilities in accordance with regulatory policy. When these positions close, actual gains or losses are included in the FAC and reflected on customers' bills as a component of the fuel cost adjustment. There were no open natural gas positions at December 31, 2015, or 2014. In June 2015, the LPSC approved a long-term natural gas hedging pilot program that requires Cleco Power to establish a proposal for a long-term natural gas procurement program that will be designed to provide gas price stability for a minimum of five years. This proposal is required to be submitted to the LPSC by June 30, 2018.

Cleco Power purchases the majority of its FTRs in annual auctions facilitated by MISO during the second quarter of each year and may also purchase additional FTRs in monthly auctions facilitated by MISO. FTRs are derivative instruments which represent economic hedges of future congestion charges that will be incurred in serving Cleco Power's customer load. They are not designated as hedging instruments for accounting purposes. Cleco Power initially records FTRs at their estimated fair value and subsequently adjusts the carrying value to their estimated fair value at the end of each accounting period based on the most recent MISO FTR auction prices. Unrealized gains or losses on FTRs held by Cleco Power are included in Accumulated deferred fuel on Cleco and Cleco Power's Consolidated Balance Sheets. Realized gains or losses on settled FTRs are recorded in Electric operations or Power purchased for utility customers on Cleco and Cleco Power's Consolidated Statements of Income. At December 31, 2015, Cleco and Cleco Power's Consolidated Balance Sheets reflected the fair value of open FTR positions of $7.7 million in Energy risk management assets and $0.3 million in Energy risk management liabilities, compared to $10.8 million in Energy risk management assets and $0.8 million in Energy risk management liabilities at December 31, 2014. For more information on FTRs, see Note 5 — "Fair Value Accounting — Commodity Contracts."

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

Cleco may enter into contracts to mitigate the volatility in interest rate risk. These contracts include, but are not limited to, interest rate swaps and treasury rate locks. For the years ended December 31, 2015, and 2014, Cleco did not enter into any contracts to mitigate the volatility in interest rate risk.

Recent Authoritative Guidance

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

In May 2014, FASB amended the accounting guidance for revenue recognition. The amended guidance affects entities that enter into contracts for the transfer of non-financial assets unless those contracts are within the scope of other standards. The core principle of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under the new guidance, an entity must identify the performance obligations in a contract and the transaction price, and allocate the price to specific performance obligations to recognize the revenue when the obligation is completed. The amendments in this update also require disclosure of sufficient information to allow users to understand the nature, amount, timing, and uncertainty of revenue and cash flow arising from contracts. In

August 2015, FASB amended the guidance to provide for a one-year deferral of the effective date. The standard will be effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Cleco does not plan to early adopt the amended guidance. Reporting entities have the option of using either a full retrospective or a modified retrospective approach. Management will evaluate the advantages and disadvantages of each transition method before selecting the method of adoption. Management is assessing the potential areas of impact, including the identification of specific contracts that would fall under the scope of this guidance. Management will continue evaluating the impact that the adoption of this guidance will have on the results of operations, financial condition, and cash flows of the Registrants.

In February 2015, FASB amended the accounting guidance for the consolidation analysis. All legal entities are subject to re-evaluation under this revised consolidation model. The adoption of this guidance is effective for annual periods beginning after December 15, 2015, including interim periods within that reporting period. Early adoption is permitted, including adoption in an interim period. Reporting entities may apply these amendments using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. This guidance will not have an impact on the results of operations, financial condition, or cash flows of the Registrants.

In April 2015, FASB amended the accounting guidance to simplify the presentation of debt issuance costs. This guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The adoption of this guidance is effective for annual periods beginning after December 15, 2015, including interim periods within that reporting period. Early adoption is permitted. Entities should apply these amendments on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Prior to the application of the new guidance, Cleco recorded debt issuance costs in Other deferred charges on Cleco's Consolidated Balance Sheets. Cleco early adopted the revisions to this amendment beginning with the December 31, 2015, reporting period. The adoption of this guidance did not have an impact on the results of operations, financial condition, or cash flows of the Registrants. For more information on debt issuance costs, see "— Debt Issuance Costs, Premiums, and Discounts" and Note 6 — "Debt."

In April 2015, FASB issued accounting guidance for a customer's accounting for fees paid in a cloud computing arrangement. This amendment provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The adoption of this guidance is effective for annual periods beginning after December 15, 2015, including interim periods within that reporting period. Early adoption is permitted. Entities can elect to adopt the amendments either prospectively to all arrangements entered into or materially modified after the effective date or retrospectively. The adoption of this guidance will not impact the results of operations, financial condition, or cash flows of the Registrants.

In April 2015, FASB amended the accounting guidance for fair value measurements. This guidance permits entities, as a practical expedient, to measure the fair value of certain investments using the net asset value per share of the investment. These investments are currently categorized within the fair value hierarchy on the basis of whether the investment is redeemable at net asset value on the measurement date, never redeemable at net asset value, or redeemable at net asset value at a future date. This amendment removed the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendment also removed the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The adoption of this guidance is effective for annual periods beginning after December 15, 2015, including interim periods within that reporting period. Early adoption is permitted. These amendments should be applied retrospectively to all periods presented. The retrospective approach requires that an investment for which fair value is measured using the net asset value per share practical expedient be removed from the fair value hierarchy in all periods presented. Cleco early adopted the revisions to this amendment beginning with the December 31, 2015, reporting period. The adoption of this guidance did not have an impact on the results of operations, financial condition, or cash flows of the Registrants. For more information see Note 8 — “Pension Plan and Employee Benefits — Fair Value Disclosures.”

In July 2015, FASB issued the accounting guidance to simplify the measurement of inventory. This guidance requires entities to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The adoption of this guidance is effective for annual periods beginning after December 15, 2016, including interim periods within that reporting period. These amendments should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. Management is currently evaluating this guidance, but does not expect it to have an impact on the results of operations, financial condition, or cash flows of the Registrants.

In August 2015, FASB amended the derivatives and hedging accounting guidance to allow the application of the normal-purchases and normal-sales scope exception to certain electricity contracts within nodal energy markets. The amendments specify that purchases and sales of electricity on a forward basis within nodal energy markets do not constitute net settlement of a contract. The adoption of this guidance is effective immediately and should be applied prospectively. This amended guidance preserves Cleco Power’s current accounting elections; therefore, the adoption of this guidance

did not have an impact on the results of operations, financial condition, or cash flows of the Registrants.

In September 2015, FASB amended the business combinations guidance to simplify the accounting for measurement-period adjustments. This guidance eliminates the requirement to retrospectively account for these adjustments. The adoption of this guidance is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. These amendments should be applied prospectively to adjustments to provisional amounts that occur after the effective date with earlier application permitted. Currently, this guidance is not applicable to Cleco, and as a result, will not have an impact on the results of operations, financial condition, or cash flows of the Registrants. However, if the Merger is completed, this guidance will be adopted by the Registrants.

In November 2015, FASB amended the income taxes guidance to simplify the balance sheet classification of deferred taxes. This guidance requires that deferred tax liabilities and assets be classified as non-current in a classified statement of financial position. The adoption of this guidance is effective for annual periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is permitted. Cleco early adopted this amended guidance beginning with the December 31, 2015, reporting period, with prospective application. The adoption of this guidance did not have an impact on the results of operations, financial condition, or cash flows of the Registrants.

In January 2016, FASB amended the guidance for recognition and measurement of financial assets and liabilities. These amendments address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The adoption of this guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those years. Management does not expect this guidance to have a significant impact on the results of operations, financial condition, or cash flows of the Registrants.

In February 2016, FASB amended the guidance to account for leases. This guidance is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The adoption of this guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those years. Early adoption will be permitted. Management is evaluating the impact that the adoption of this guidance will have on the results of operations, financial condition, and cash flows of the Registrants.

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

	FOR THE YEAR ENDED DEC. 31,								
			2015			2014			2013
(THOUSANDS, EXCEPT SHARES AND PER SHARE AMOUNTS)	INCOME	SHARES	PER SHARE AMOUNT	INCOME	SHARES	PER SHARE AMOUNT	INCOME	SHARES	PER SHARE AMOUNT
Basic net income applicable to common stock	$133,669	60,476,066	$ 2.21	$154,739	60,406,001	$ 2.56	$160,685	60,434,510	$ 2.66
Effect of dilutive securities									
Add: restricted stock (LTIP)		213,203			195,457			285,580	
Diluted net income applicable to common stock	$133,669	60,689,269	$ 2.20	$154,739	60,601,458	$ 2.55	$160,685	60,720,090	$ 2.65

There were no anti-dilutive shares during the years ended 2015, 2014, and 2013.

Stock-Based Compensation
For information on Cleco's stock-based compensation, see Note 7 — "Common Stock — Stock-Based Compensation."

Accounting for MISO Transactions
Cleco Power participates in MISO's Energy and Operating Reserve market where sales and purchases are netted hourly. If the hourly activity nets to sales, the result is reported in Electric operations on Cleco and Cleco Power's Consolidated Statements of Income. If the hourly activity nets to purchases, the result is reported in Power purchased for utility customers on Cleco and Cleco Power's Consolidated Statements of Income.
Note 3 — Regulatory Assets and Liabilities
Cleco Power capitalizes or defers certain costs for recovery from customers and recognizes a liability for amounts expected to be returned to customers based on regulatory approval and management's ongoing assessment that it is probable these items will be recovered or refunded through the ratemaking process.
Under the current regulatory environment, Cleco Power believes these regulatory assets will be fully recoverable; however, if in the future, as a result of regulatory changes or competition, Cleco Power's ability to recover these regulatory assets would no longer be probable, then to the extent that such regulatory assets were determined not to be recoverable, Cleco Power would be required to write-down such assets. In addition, potential deregulation of the industry or possible future changes in the method of rate regulation of Cleco Power could require discontinuance of the application of these authoritative guidelines.

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

	AT DEC. 31,		REMAINING RECOVERY PERIOD
(THOUSANDS)	2015	2014	
Total federal regulatory asset — income taxes	$5,614	$124	
Total state regulatory asset — income taxes	105,868	106,964	

AFUDC	127,092	129,545	
Total investment tax credit	(1,633)	(2,263)	
Total regulatory assets — deferred taxes, net	236,941	234,370	*
Mining costs	8,921	11,470	3.5 yrs.
Interest costs	5,221	5,582	*
AROs [1]	2,462	1,029	*
Postretirement costs [1]	150,274	160,903	*
Tree trimming costs	6,318	8,066	2.5 yrs.
Training costs	6,863	7,019	44 yrs.
Surcredits, net [2]	9,661	13,587	2.5 yrs.
Amended lignite mining agreement contingency [1]	3,781	3,781	*
AMI deferred revenue requirement	5,318	5,863	10 yrs.
Production operations and maintenance expenses	12,436	14,761	*
AFUDC equity gross-up [2]	71,444	72,859	*
Acadia Unit 1 acquisition costs	2,548	2,653	24 yrs.
Financing costs	9,032	9,402	*
Biomass costs	50	82	1.5 yrs.
MISO integration costs	2,340	3,275	2.5 yrs.
Coughlin transaction costs	1,030	1,060	33.5 yrs.
Corporate franchise tax	373	1,223	*
Acadia FRP true-up	377	754	0.5 yrs.
Energy efficiency	—	114	—
Other	357	596	1.5 yrs.
Total regulatory assets	298,806	324,079	
PPA true-up	(312)	(624)	0.5 yrs.
Fuel and purchased power	12,910	21,554	*
Total regulatory assets, net	$548,345	$579,379	

[1]Represents regulatory assets in which cash has not yet been expended and the assets are offset by liabilities that do not incur a carrying cost.
[2]Represents regulatory assets for past expenditures that were not earning a return on investment at December 31, 2015. All other assets are earning a return on investment.
* For information related to the remaining recovery periods, refer to the following disclosures for each specific regulatory asset.

Income Taxes

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

Mining Costs

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

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

Interest Costs

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

AROs

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

Postretirement Costs

Cleco Power recognizes the funded status of its postretirement benefit plans as a net liability or asset. The net liability or asset is defined as the difference between the benefit obligation and the fair market value of plan assets. For defined benefit pension plans, the benefit obligation is the projected benefit obligation. Historically, the LPSC has allowed Cleco Power to recover pension plan expense. Cleco Power, therefore, recognizes a regulatory asset based on its determination that these costs can be collected from customers. These costs are amortized to pension expense over the average service life of the remaining plan participants (approximately 10 years as of December 31, 2015, for Cleco's plan) when it exceeds certain thresholds. The amount and timing of the recovery will be based on the changing funded status of the pension plan in future periods. For more information on Cleco's pension plan and adoption of these authoritative guidelines, see Note 8 — "Pension Plan and Employee Benefits."

Tree Trimming Costs

In January 2008, the LPSC approved Cleco Power's request to establish a regulatory asset for costs incurred to trim, cut, or remove trees that were damaged by Hurricanes Katrina and Rita, but were not addressed as part of the restoration efforts. The regulatory asset was capped at $12.0 million in actual expenditures, plus a 12.4% grossed-up rate of return.

Recovery of these expenditures was approved by the LPSC in October 2009. The regulatory asset for the initial tree trimming project was completely amortized in January 2015.

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

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

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

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

As a result of a settlement with the LPSC, Cleco Power is required to implement a surcredit when funds are withdrawn from the restricted storm reserve. In March 2014, Cleco Power withdrew $4.0 million from the restricted storm reserve to pay for storm damages, resulting in the establishment of a new surcredit. This surcredit will be utilized to partially replenish the storm reserve. These amounts are being collected and amortized over a four-year period.

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

In June 2014, the LPSC approved Cleco Power's FRP extension. A provision of the FRP extension was to reduce base rates by the amount of the surcredits beginning in July 2014. For more information on the FRP extension, see Note 11 — "Regulation and Rates."

Amended Lignite Mining Agreement Contingency
In April 2009, Cleco Power and SWEPCO entered into a series of transactions to acquire additional lignite reserves and mining equipment from the North American Coal Corporation (NAC), each agreeing to purchase a 50% ownership interest in Oxbow from NAC for a combined price of $25.7 million. Cleco

Power, SWEPCO, and DHLC entered into the Amended Lignite Mining Agreement which requires DHLC to mine lignite at the existing Dolet Hills Mine along with the Oxbow Mine and deliver the lignite to the Dolet Hills Power Station at cost plus a specified management fee. The mining areas are expected to be sufficient to provide the Dolet Hills Power Station with lignite fuel until at least 2036.
Among the provisions of the Amended Lignite Mining Agreement is a requirement that if DHLC is unable to pay for loans and lease payments when due, Cleco Power will pay 50% of the amounts due. Any payments under this provision will be considered a prepayment of lignite to be delivered in the future and will be credited to future invoices from DHLC. This provision meets the recognition requirements as a guarantee to an unrelated third party. Cleco Power recognized a liability of $3.8 million upon the closing of the transactions. A regulatory asset of $3.8 million was also recognized due to Cleco Power's ability to recover prudent fuel costs from customers through the FAC. The liability and related regulatory asset will be derecognized when the Amended Lignite Mining Agreement terminates. The maximum projected payment by Cleco Power under this guarantee is estimated to be $106.5 million; however, the Amended Lignite Mining Agreement does not contain a cap. The projection is based on the forecasted loan and lease obligations to be incurred by DHLC, primarily for purchases of equipment. Cleco Power has the right to dispute the incurrence of loan and lease obligations through the review of the mining plan before the incurrence of such loan and lease obligations.

AMI Deferred Revenue Requirement

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

Production Operations and Maintenance Expenses

In September 2009, the LPSC authorized Cleco Power to defer, as a regulatory asset, production operations and maintenance expenses, net of fuel and payroll, above the retail jurisdictional portion of $25.6 million annually (deferral threshold). On June 18, 2014, the LPSC approved Cleco Power's FRP extension, which increased the operations and maintenance deferral threshold to $45.0 million annually. The amount of the regulatory asset is capped at $23.0 million. Also, as part of the FRP extension, the LPSC allowed Cleco Power to recover the amount deferred in any calendar year over the following three-year regulatory period, beginning on July 1, when the annual rates are set. In December 2013, Cleco Power deferred $8.5 million as a regulatory asset and began recovering this amount in July 2014. In December 2014, Cleco Power deferred an additional $7.7 million as a regulatory asset and began recovering this amount in July 2015. In December 2015, Cleco Power deferred an additional $1.8 million as a regulatory asset and will begin recovering this amount on July 1, 2016.

AFUDC Equity Gross-Up

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

Acadia Unit 1 Acquisition Costs

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

Financing Costs

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

Biomass Costs

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

MISO Integration Costs

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

Coughlin Transaction Costs

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

Corporate Franchise Tax

As part of the FRP extension approved by the LPSC in June 2014, Cleco Power was authorized to recover through a rider the retail portion of state corporate franchise taxes paid. In 2015 and 2014, Cleco Power's net retail portion of franchise taxes paid was $1.7 million and $2.4 million, respectively. The retail portion of state corporate franchise taxes paid each year will be recovered over 12 months beginning July 1 of the following year.

Acadia FRP True-up

For the FRP period July 1, 2013 through June 30, 2014, Cleco Power was authorized by the LPSC to recover the estimated revenue requirement of $58.3 million related to Acadia Unit 1. In June 2014, Cleco Power determined that it had under-recovered $0.8 million in revenue from customers based on the actual revenue requirement for Acadia Unit 1. The amount representing the under-collection was deferred and is being recovered from customers over 12 months beginning July 1, 2015.

Energy Efficiency
In September 2013, the LPSC issued a General Order adopting rules promoting energy efficiency programs by jurisdictional electric and natural gas utilities. Cleco Power subsequently filed with the LPSC its intent to participate in the Phase I Quick Start portion of the LPSC's energy efficiency initiative, which runs November 1, 2014, through July 31, 2017. During Phase I, Cleco Power designed several energy efficiency programs and began offering these programs to customers in November 2014. The incremental costs incurred by Cleco Power to design and implement the programs were recorded as a regulatory asset and recovered from customers over the initial year of Phase I.

Other
In June 2014, the LPSC approved Cleco Power's FRP extension which authorized the recovery of previously deferred costs incurred as a result of Cleco Power's FRP extension filing, the 2003 through 2008 fuel audit, and a biomass study. Cleco Power is recovering these costs over a three-year period beginning in July 2014.

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

Fuel and Purchased Power
The cost of fuel used for electric generation and power purchased for utility customers are recovered through the LPSC-established FAC or related wholesale contract provisions, which enable Cleco Power to pass on to its customers substantially all such charges. For 2015, approximately 74% of Cleco Power's total fuel cost was regulated by the LPSC.

Fuel and purchased power decreased $8.6 million from December 31, 2014. Of this amount, $7.4 million was due to the loss of a wholesale customer and the lower per unit costs due to the price volatility of natural gas, and a $1.2 million decrease in the mark-to-market value on the FTRs.

Note 4 — Jointly Owned Generation Units

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

	AT DEC. 31, 2015		
(THOUSANDS, EXCEPT PERCENTAGES AND MW)	RODEMACHER UNIT 2	DOLET HILLS	TOTAL
Utility plant in service	$142,648	$390,162	$532,810
Accumulated depreciation	$73,591	$215,829	$289,420
Construction work in progress	$148	$2,075	$2,223
Ownership interest percentage	30 %	50 %	
Nameplate capacity (MW)	523	650	
Ownership interest (MW)	157	325	

Note 5 — Fair Value Accounting

The amounts reflected in Cleco and Cleco Power's Consolidated Balance Sheets at December 31, 2015, and December 31, 2014, for cash equivalents, restricted cash equivalents, accounts receivable, other accounts receivable, and accounts payable approximate fair value because of their short-term nature.
The following tables summarize the carrying value and estimated market value of Cleco and Cleco Power's financial instruments not measured at fair value in Cleco and Cleco Power's Consolidated Balance Sheets:

Cleco

	AT DEC. 31,			
	2015		2014	
(THOUSANDS)	CARRYING VALUE	ESTIMATED FAIR VALUE	CARRYING VALUE	ESTIMATED FAIR VALUE
Cash equivalents	$ 64,200	$ 64,200	$ 39,700	$ 39,700
Restricted cash equivalents	$ 25,384	$ 25,384	$ 24,001	$ 24,001
Long-term debt	$ 1,299,529	$ 1,463,989	$ 1,368,354	$ 1,601,816

Cleco Power

	AT DEC. 31,			
	2015		2014	
(THOUSANDS)	CARRYING VALUE	ESTIMATED FAIR VALUE	CARRYING VALUE	ESTIMATED FAIR VALUE
Cash equivalents	$ 62,000	$ 62,000	$ 34,700	$ 34,700
Restricted cash equivalents	$ 25,363	$ 25,363	$ 23,980	$ 23,980
Long-term debt	$ 1,265,529	$ 1,429,989	$ 1,311,354	$ 1,544,816

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

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

Cleco

	CLECO CONSOLIDATED FAIR VALUE MEASUREMENTS AT REPORTING DATE USING:							
(THOUSANDS)	AT DEC. 31, 2015	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	AT DEC. 31, 2014	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Asset Description								
Institutional money market funds	$89,584	$—	$ 89,584	$ —	$63,701	$—	$ 63,701	$ —
FTRs	7,673	—	—	7,673	10,776	—	—	10,776
Total assets	$97,257	$—	$ 89,584	$ 7,673	$74,477	$—	$ 63,701	$ 10,776
Liability Description								
Long-term debt	$1,463,989	$—	$ 1,463,989	$ —	$1,601,816	$—	$ 1,601,816	$ —
FTRs	275	—	—	275	827	—	—	827
Total liabilities	$1,464,264	$—	$ 1,463,989	$ 275	$1,602,643	$—	$ 1,601,816	$ 827

Cleco Power

	CLECO POWER FAIR VALUE MEASUREMENTS AT REPORTING DATE USING:							
(THOUSANDS)	AT DEC. 31, 2015	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	AT DEC. 31, 2014	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Asset Description								
Institutional money market funds	$87,363	$—	$ 87,363	$ —	$58,680	$—	$ 58,680	$ —
FTRs	7,673	—	—	7,673	10,776	—	—	10,776

Total assets	$95,036	$—	$ 87,363	$ 7,673	$69,456	$—	$ 58,680	$ 10,776
Liability Description								
Long-term debt	$1,429,989	$—	$ 1,429,989	$ —	$1,544,816	$—	$ 1,544,816	$ —
FTRs	275	—	—	275	827	—	—	827
Total liabilities	$1,430,264	$—	$ 1,429,989	$ 275	$1,545,643	$—	$ 1,544,816	$ 827

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

	FOR THE YEAR ENDED DEC. 31,	
(THOUSANDS)	2015	2014
Beginning balance	$9,949	$8,638
Unrealized losses*	(1,476)	(2,651)
Purchases	20,319	51,200
Settlements	(21,394)	(47,238)
Ending balance	$7,398	$9,949

* Unrealized losses are reported in Accumulated deferred fuel on Cleco and Cleco Power's Consolidated Balance Sheets.

The following table quantifies the significant unobservable inputs used in developing the fair value of Level 3 positions as of December 31, 2015:

(THOUSANDS, EXCEPT DOLLAR PER MWh)	FAIR VALUE		VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUTS	FORWARD PRICE RANGE	
	Assets	Liabilities			Low	High
FTRs at December 31, 2015	$7,673	$275	RTO auction pricing	FTR price - per MWh	$(3.63)	$4.51
FTRs at December 31, 2014	$10,776	$827	RTO auction pricing	FTR price - per MWh	$(4.12)	$7.76

Cleco utilizes different valuation techniques for fair value calculations. In order to measure the fair value for Level 1 assets and liabilities, Cleco obtains the closing price from published indices in active markets for the various instruments and multiplies this price by the appropriate number of

instruments held. Level 2 fair values are determined by obtaining the closing price of similar assets and liabilities from published indices in active markets and then discounting the price to the current period using a U.S. Treasury published interest rate as a proxy for a risk-free rate of return. Cleco has

consistently applied the Level 2 fair value technique from fiscal period to fiscal period. Level 3 fair values occur in situations in which there is little, if any, market activity for the asset or liability at the measurement date and therefore RTO auction prices are used. Significant increases or decreases in any of those inputs in isolation would result in a significantly different fair value measurement.
The assets and liabilities reported at fair value are grouped into classes based on the underlying nature and risks associated with the individual asset or liability.
At December 31, 2015, Cleco and Cleco Power were exposed to concentrations of credit risk through their short-term investments classified as cash equivalents and restricted cash equivalents. The institutional money market funds were reported on Cleco's Consolidated Balance Sheets in cash and cash equivalents, current restricted cash and cash equivalents, and non-current restricted cash and cash equivalents of $64.2 million, $9.3 million, and $16.1 million, respectively, at December 31, 2015. At Cleco Power, the institutional money market funds were reported on Cleco Power's Consolidated Balance Sheets in cash and cash equivalents, current restricted cash and cash equivalents, and non-current restricted cash and cash equivalents of $62.0 million, $9.3 million, and $16.1 million, respectively, at December 31, 2015. If the money market funds failed to perform under the terms of the investments, Cleco and Cleco Power would be exposed to a loss of the invested amounts. Collateral on these types of investments is not required by either Cleco or Cleco Power. The Level 2 institutional money market funds asset consists of a single class. In order to capture interest income and minimize risk, cash is invested in money market funds that invest primarily in short-term securities issued by the U. S. Treasury to maintain liquidity and achieve the goal of a net asset value of a dollar. The risks associated with this class are counterparty risk of the fund manager and risk of price volatility associated with the underlying securities of the fund.
Cleco Power's FTRs were priced using MISO's monthly auction prices. Forward seasonal periods are not included in every monthly auction; therefore, the average of the most recent seasonal auction prices is used for monthly valuation. FTRs are categorized as Level 3 fair value measurements because the only relevant pricing available comes from MISO auctions, which occur monthly in the Multi-Period Monthly Auction.
The Level 2 long-term debt liability consists of a single class. In order to fund capital requirements, Cleco issues fixed and variable rate long-term debt with various tenors. The fair value of this class fluctuates as the market interest rates for fixed and variable rate debt with similar tenors and credit ratings change. The fair value of the debt could also change from period to period due to changes in the credit rating of the Cleco entity by which the debt was issued.
During the years ended December 31, 2015, and 2014, Cleco did not experience any transfers between levels within the fair value hierarchy.

Commodity Contracts
The following table presents the fair values of derivative instruments and their respective line items as recorded on Cleco and Cleco Power's Consolidated Balance Sheets at December 31, 2015, and 2014:

	DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS		
(THOUSANDS)	BALANCE SHEET LINE ITEM	AT DEC. 31, 2015	AT DEC. 31, 2014
Commodity-related contracts			
FTRs:			
Current	Energy risk management assets	$7,673	$10,776
Current	Energy risk management liabilities	275	827
Commodity-related contracts, net		$7,398	$9,949

The following table presents the effect of derivatives not designated as hedging instruments on Cleco and Cleco Power's Consolidated Statements of Income for the years December 31, 2015, 2014, and 2013:

(THOUSANDS)	DERIVATIVES LINE ITEM	FOR THE YEAR ENDED DEC. 31, 2015	2014	2013
		AMOUNT OF GAIN/(LOSS) RECOGNIZED IN INCOME ON DERIVATIVES		
Commodity contracts				
FTRs[1]	Electric operations	$50,594	74,454	$243
FTRs[1]	Power purchased for utility customers	(27,509)	(46,386)	(19)
Total		$23,085	$28,068	$224

[1] At December 31, 2015, 2014, and 2013, unrealized (losses) gains associated with FTRs of ($1.5 million), ($2.7 million), and $8.6 million, respectively, were reported in Accumulated deferred fuel on the balance sheet.

At December 31, 2015, and 2014, Cleco Power had no open positions hedged for natural gas. In June 2015, the LPSC approved a long-term natural gas hedging pilot program that requires Cleco Power to establish a proposal for a long-term natural gas procurement program that will be designed to provide gas price stability for a minimum of five years. This proposal is required to be submitted to the LPSC by June 30, 2018.

Cleco Power purchases the majority of its FTRs in annual auctions facilitated by MISO during the second quarter of each year and may also purchase additional FTRs in monthly auctions facilitated by MISO. FTRs are derivative instruments which represent economic hedges of future congestion charges that will be incurred in serving Cleco Power’s customer load. FTRs represent rights to congestion credits or

charges along a path during a given time frame for a certain MW quantity. They are not designated as hedging instruments for accounting purposes. The total volume of FTRs that Cleco Power had outstanding at December 31, 2015, and 2014 was 8.4 million MWh and 8.9 million MWh, respectively.

Note 6 — Debt

Cleco
Cleco’s total indebtedness as of December 31, 2015, and 2014 was as follows:

	AT DEC. 31,	
(THOUSANDS)	2015	2014
Bonds		
Cleco Power’s senior notes, 4.95%, due 2015	$—	$50,000
Cleco Power’s senior notes, 6.65%, due 2018	250,000	250,000
Cleco Power’s senior notes, 3.68%, due 2025	75,000	—
Cleco Power’s senior notes, 4.33%, due 2027	50,000	50,000
Cleco Power’s senior notes, 6.50%, due 2035	295,000	295,000
Cleco Power’s senior notes, 6.00%, due 2040	250,000	250,000
Cleco Power’s senior notes, 5.12%, due 2041	100,000	100,000
Cleco Power’s Series A GO Zone bonds, 2.00%, due 2038, mandatory tender in 2020	50,000	50,000
Cleco Power’s Series B GO Zone bonds, 4.25%, due 2038	50,000	50,000
Cleco Power’s solid waste disposal facility bonds, 4.70%, due 2036, callable after November 1, 2016	60,000	60,000
Cleco Katrina/Rita’s storm recovery bonds, 4.41%, due 2020	17,929	33,754
Cleco Katrina/Rita’s storm recovery bonds, 5.61%, due 2023	67,600	67,600
Total bonds	1,265,529	1,256,354
Other long-term debt		
Cleco Corporation’s credit facility draws	34,000	57,000
Cleco Power’s credit facility draws	—	20,000
Cleco Power’s bank term loan, due 2015	—	35,000
Barge lease obligations, ending 2017	4,425	6,873
Gross amount of long-term debt	1,303,954	1,375,227
Less: long-term debt due within one year	16,814	15,824
Less: lease obligations classified as long-term debt due within one year	2,607	2,448
Unamortized debt discount	(6,885)	(7,302)
Unamortized debt issuance costs	(9,945)	(10,655) [1]
Total long-term debt, net	$1,267,703	$1,338,998

[1]Amounts for 2014 were adjusted to reflect 2015 accounting guidance that requires debt issuance costs to be presented as a direct deduction from the carrying value of the related debt. For more information, see Note 2 — “Summary of Significant Accounting Policies — Recent Authoritative Guidance.”

The principal amounts payable under long-term debt agreements for each year through 2020 and thereafter are as follows:

YEAR ENDING DEC. 31,	(THOUSANDS)
Amounts payable under long-term debt agreements	
2016	$16,814
2017	$17,896
2018	$303,193
2019	$20,571
2020	$11,055

Thereafter	$930,000

The principal amounts payable under the capital lease agreements for each year through 2017 are as follows:

YEAR ENDING DEC. 31,	(THOUSANDS)
Amounts payable under capital lease agreements	
2016	$2,607
2017	$1,818

Cleco had no short-term debt outstanding at December 31, 2015, and 2014.
At December 31, 2015, Cleco's long-term debt outstanding was $1.29 billion, of which $19.4 million was due within one year. The long-term debt due within one year at December 31, 2015, represents $16.8 million of principal payments for the Cleco Katrina/Rita storm recovery bonds and $2.6 million of capital lease payments.

Cleco Power
Cleco Power's total indebtedness as of December 31, 2015, and 2014 was as follows:

	AT DEC. 31,	
(THOUSANDS)	2015	2014
Bonds		
Senior notes, 4.95%, due 2015	$—	$50,000
Senior notes, 6.65%, due 2018	250,000	250,000
Senior notes, 3.68%, due 2025	75,000	—
Senior notes, 4.33%, due 2027	50,000	50,000
Senior notes, 6.50%, due 2035	295,000	295,000
Senior notes, 6.00%, due 2040	250,000	250,000
Senior notes, 5.12%, due 2041	100,000	100,000
Series A GO Zone bonds, 2.00%, due 2038, mandatory tender in 2020	50,000	50,000
Series B GO Zone bonds, 4.25%, due 2038	50,000	50,000
Solid waste disposal facility bonds, 4.70%, due 2036, callable after November 1, 2016	60,000	60,000
Cleco Katrina/Rita's storm recovery bonds, 4.41%, due 2020	17,929	33,754
Cleco Katrina/Rita's storm recovery bonds, 5.61%, due 2023	67,600	67,600
Total bonds	1,265,529	1,256,354
Other long-term debt		
Bank term loan, due 2015	—	35,000
Credit facility draws	—	20,000
Barge lease obligations, ending 2017	4,425	6,873
Gross amount of long-term debt	1,269,954	1,318,227
Less: long-term debt due within one year	16,814	15,824
Less: lease obligations classified as long-term debt due within one year	2,607	2,448
Unamortized debt discount	(6,885)	(7,302)
Unamortized debt issuance costs	(9,609)	(10,044) [(1)]
Total long-term debt, net	$1,234,039	$1,282,609

(1)Amounts for 2014 were adjusted to reflect 2015 accounting guidance that requires debt issuance costs to be presented as a direct deduction from the carrying value of the related debt. For more information, see Note 2 — "Summary of Significant Accounting Policies — Recent Authoritative Guidance."

The principal amounts payable under long-term debt agreements for each year through 2020 and thereafter are as follows:

YEAR ENDING DEC. 31,	(THOUSANDS)

Amounts payable under long-term debt agreements	
2016	$16,814
2017	$17,896
2018	$269,193
2019	$20,571
2020	$11,055
Thereafter	$930,000

The principal amounts payable under the capital lease agreements for each year through 2017 are as follows:

YEAR ENDING DEC. 31,	(THOUSANDS)
Amounts payable under capital lease agreements	
2016	$2,607
2017	$1,818

Cleco Power had no short-term debt outstanding at December 31, 2015, and 2014.
At December 31, 2015, Cleco Power's long-term debt outstanding was $1.25 billion, of which $19.4 million was due within one year. The long-term debt due within one year at December 31, 2015, represents $16.8 million of principal payments for the Cleco Katrina/Rita storm recovery bonds and $2.6 million of capital lease payments.
On April 30, 2015, Cleco Power repaid its $35.0 million outstanding bank term loan that was due May 29, 2015. At December 31, 2014, Cleco Power had the intent and ability to refinance this outstanding bank term loan with other long-term debt; however, due to a temporary increase in cash balances, Cleco Power repaid the bank term loan early, with the intent to include it in a new financing in the fourth quarter of 2015.
On May 1, 2015, Cleco Power repriced at a mandatory tender date its $50.0 million 2008 Series A GO Zone bonds and entered into a new interest rate period with a mandatory tender date of April 30, 2020. In connection with the new interest rate period, the interest rate is at a fixed rate of 2.0% per annum.
On July 15, 2015, Cleco Power repaid its $50.0 million 4.95% senior notes. As part of the redemption, Cleco Power paid $1.2 million of accrued interest. At December 31, 2014, Cleco Power had the intent and ability to refinance these outstanding senior notes with other long-term debt; however, due to available cash on July 15, 2015, the senior notes were repaid with $25.0 million of cash and $25.0 million from Cleco Power's credit facility.
In the fourth quarter of 2015, Cleco Power issued $75.0 million of 10-year bonds in a private placement with an interest rate of 3.68%. The debt proceeds were received in two tranches. On November 13, 2015, Cleco Power received $30.0 million of these debt proceeds, and on December 15, 2015, Cleco Power received the remaining $45.0 million. The maturity date of the notes is November 15, 2025. The proceeds partially replenished funds used to repay debt that matured in May and July 2015 as described above.

Credit Facilities
At December 31, 2015, Cleco had two separate revolving credit facilities, one for Cleco Corporation and one for Cleco Power, with a maximum aggregate capacity of $550.0 million.
At December 31, 2015, Cleco Corporation had $34.0 million of borrowings outstanding under its $250.0 million credit facility at an all-in interest rate of 1.465%, leaving an available borrowing capacity of $216.0 million. The borrowings under the credit facility are considered to be long-term because the credit facility expires in 2018. The borrowing costs under this credit facility are equal to LIBOR plus 1.075% or ABR plus 0.075%, plus facility fees of 0.175%. Under covenants contained in Cleco Corporation's credit facility, Cleco is required to maintain total indebtedness equal to or less than 65% of total capitalization. At December 31, 2015, $1.01 billion of Cleco's retained earnings was unrestricted.

At December 31, 2015, Cleco Power had no borrowings outstanding under its $300.0 million credit facility; however, Cleco Power has issued a $2.0 million letter of credit to MISO, leaving an available borrowing capacity of $298.0 million. The borrowing costs under this facility are equal to LIBOR plus 0.9% or ABR, plus facility fees of 0.1%. The letter of credit issued to MISO is pursuant to the credit requirements of FTRs. This letter of credit automatically renews each year and reduces Cleco Power's credit facility capacity. Under covenants contained in Cleco Power's credit facility, Cleco Power is required to maintain total indebtedness equal to or less than 65% of total capitalization. At December 31, 2015, $884.3 million of Cleco Power's member's equity was unrestricted. If Cleco Power were to default under its facility, then Cleco Corporation would be considered to be in default under its facility. At December 31, 2015, Cleco Power was in compliance with the covenants in its credit facility.

Note 7 — Common Stock

Stock-Based Plan Descriptions and Share Information
At December 31, 2015, and 2014, Cleco had two stock-based compensation plans: the ESPP and the LTIP. In accordance with the Merger Agreement, the ESPP has been suspended and will be terminated if the Merger is completed. If the Merger closes, all unvested shares outstanding under the LTIP that were granted prior to January 1, 2015, will vest at target and be paid out in cash to plan participants in accordance with the terms of the Merger Agreement. Unvested shares granted in 2015 will be prorated to the target amount and be paid out in cash to plan participants in accordance with the terms of the Merger Agreement. For more information about the Merger, see Note 20 — "Agreement and Plan of Merger."

Employee Stock Purchase Plan
Prior to October 17, 2014, regular, full-time, and part-time employees of Cleco Corporation and its participating subsidiaries, except officers, general managers, and employees who owned 5% or more of Cleco Corporation's stock, were eligible to participate in the ESPP. No trust or other fiduciary account was established in connection with the ESPP. Shares of common stock were purchased at a 5% discount of the fair market value as of the last trading day of each calendar quarter. A participant could purchase a maximum of 125 shares per offering period. Dividends received on shares were automatically reinvested as required by the dividend reinvestment plan (DRIP) provisions of the ESPP. A maximum of 734,000 shares of common stock could be purchased under the ESPP, subject to adjustment for changes in the capitalization of Cleco Corporation. The Compensation Committee of Cleco Corporation's Board of Directors monitors the ESPP. The Compensation Committee and the Board of Directors possess the authority to amend the ESPP, but shareholder approval is required for any amendment that increases the number of shares covered by the ESPP. As of December 31, 2015, there were 392,704 shares of common stock available for purchase under the ESPP. As stated above, the ESPP plan has been suspended pending the completion of the Merger.

Long-Term Incentive Compensation Plan
Stock options, restricted stock, also known as non-vested stock, common stock equivalent units, and stock appreciation

rights may be granted or awarded to certain officers, key employees, or directors of Cleco Corporation and its affiliates under the LTIP. On December 31, 2009, the 2000 LTIP expired and no further grants or awards were made under this plan. The grants and awards that had been made under the 2000 LTIP were to remain outstanding and in effect until exercised, matured, expired, or forfeited in accordance with their existing terms. During 2015, all restrictions on non-vested shares previously awarded pursuant to the 2000 LTIP had lapsed. As of December 31, 2015, no shares of non-vested Cleco Corporation common stock remained outstanding under the 2000 LTIP. There were no stock options or common stock equivalent units outstanding under this plan at December 31, 2015.
With shareholder approval, the 2010 LTIP became effective January 1, 2010. Under this plan, a maximum of 2,250,000 shares of Cleco Corporation common stock can be granted or awarded. During 2015, Cleco granted 9,611 shares of stock to directors of Cleco pursuant to the LTIP. All of these shares vested immediately upon award and were issued from shares previously purchased through Cleco's common stock repurchase program. At December 31, 2015, there were 1,207,560 shares available for future grants or awards under the 2010 LTIP.

Non-Vested Stock and Common Stock Equivalent Units
In 2015, 2014, and 2013, Cleco granted non-vested stock to certain officers, key employees, and directors. Because it can only be settled in shares of Cleco Corporation common stock, non-vested stock is classified as equity. Recipients of non-vested stock have full voting rights of a stockholder. At the time restrictions lapse, the accrued dividend equivalent units are paid to the recipient only to the extent that target shares vest.
In order to vest, the non-vested stock requires the satisfaction of a service requirement and a market-based requirement. Recipients of non-vested stock are eligible to receive opportunity instruments if certain market-based measures are exceeded. Cleco also awards non-vested stock with only a service period requirement to certain employees and directors. These awards require the satisfaction of a pre-determined service period in order for the shares to vest.
During 2015, Cleco granted 90,050 shares of non-vested stock to certain officers and key employees of Cleco pursuant to the LTIP. All of these shares of non-vested stock were granted from shares previously purchased through Cleco's common stock repurchase program.
At December 31, 2015, there were 392,954 non-vested target and opportunity shares for which restrictions had not lapsed. At December 31, 2015, there were 73,511 shares of non-vested stock granted with only a service period requirement that had not yet been completed.
Under the 2010 LTIP plan, common stock equivalent units are also available to be awarded. Because they are settled in cash, awarded common stock equivalent units are classified as a liability. Recipients of common stock equivalent units receive dividend equivalent units under the same terms as the dividends paid on non-vested stock. Also like non-vested stock, common stock equivalent units require the satisfaction of a service requirement and a market-based requirement. Recipients of common stock equivalent units are eligible to receive opportunity instruments if certain market-based measures are exceeded.
During January 2013, restrictions on all previously awarded common stock equivalent units had lapsed. There were no common stock equivalent units granted in 2015, 2014, or 2013.
A summary of non-vested stock activity during the year ended December 31, 2015, is presented in the following table:

	SHARES		WEIGHTED-AVERAGE GRANT-DATE FAIR VALUE
Non-vested at Jan. 1, 2015	301,049		$43.29
Granted	90,050		$54.74
Vested	(82,322	)	$40.26
Forfeited	(38,789	)	$42.75

Non-vested at Dec. 31, 2015	269,988	$48.11

The fair value of shares of non-vested stock which vested during the years ended December 31, 2015, 2014, and 2013 was $3.3 million, $5.6 million, and $5.2 million, respectively.
The fair value of shares of non-vested stock granted during 2015, 2014, and 2013 under the LTIP is estimated on the date of grant and the expense is calculated using the Monte Carlo simulation model with the assumptions listed in the following table:

					AT DEC. 31,	
	2015		2014		2013	
Expected term (in years) [(1)]	3.0		3.0		3.0	
Volatility of Cleco stock [(2)]	15.8	%	17.3	%	18.1	%
Correlation between Cleco stock volatility and peer group	63.1	%	66.5	%	69.7	%
Expected dividend yield	2.92	%	3.0	%	3.2	%
Weighted average fair value (Monte Carlo model)	$45.60		$54.58		$42.66	

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

Stock-Based Compensation
During the years ended December 31, 2015, 2014, and 2013, Cleco did not modify any of the terms of outstanding awards. Cleco has recognized stock-based compensation expense for these provisions in accordance with the non-substantive vesting period approach.
Cleco recorded compensation expense for all non-vested stock during the years ended December 31, 2015, 2014, and 2013. Assuming achievement of vesting requirements is probable, stock-based compensation expense of non-vested stock is recorded during the service periods, which are generally three years, after which the restrictions lapse. All stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as an expense in the income statement over the requisite service period of the award. Awards that vest pro rata during the requisite service period that contain only a service condition are defined as having a graded vesting schedule and could be treated as multiple awards with separate vesting schedules. However, Cleco has elected to treat grants with graded vesting schedules as one award and recognize the related compensation expense on a straight-line basis over the requisite service period.

The ESPP does not contain optionality features beyond those listed by the authoritative guidance on stock-based compensation. Therefore, Cleco is not required to recognize a fair-value expense related to the ESPP.

Pretax compensation expense reported by Cleco and Cleco Power relating to their share-based compensation plans is shown in the following table:

	CLECO			CLECO POWER		
		FOR THE YEAR ENDED DEC. 31,			FOR THE YEAR ENDED DEC. 31,	
(THOUSANDS)	2015	2014	2013	2015	2014	2013
Equity classification						
Non-vested stock [1]	$6,110	$6,308	$6,147	$2,000	$2,004	$1,754
Total equity classification	6,110	6,308	6,147	2,000	2,004	1,754
Liability classification						
Common stock equivalent units	—	—	1	—	—	—
Total pretax compensation expense	$6,110	$6,308	$6,148	$2,000	$2,004	$1,754
Tax benefit	$2,351	$2,427	$2,366	$770	$771	$675

[1] For each of the years ended December 31, 2015, 2014, and 2013, compensation expense included in Cleco's Consolidated Statements of Income related to non-forfeitable dividends paid on non-vested stock that is not expected to vest and stock options was $0.1 million.

The amount of stock-based compensation capitalized in property, plant, and equipment on Cleco's Consolidated Balance Sheets for each of the years ended December 31, 2015, and 2014 was $0.8 million. The amount of stock-based compensation capitalized in property, plant, and equipment on Cleco Power's Consolidated Balance Sheets for the years ended December 31, 2015, and 2014 was $0.7 million and $0.8 million, respectively.
At December 31, 2015, there were 145,979 non-vested share-based compensation arrangements granted under the LTIP that were expected to vest over an average period of 1.4 years. The total unrecognized pretax compensation cost was $6.7 million for non-vested stock-based compensation arrangements granted under the LTIP.

Common Stock Repurchase Program
Cleco Corporation has a common stock repurchase program that authorizes management to repurchase shares of common stock so that Cleco's diluted average shares of common stock outstanding remain approximately equal to its diluted average shares of common stock outstanding at December 31, 2010. Under this program, purchases may be made on a discretionary basis at times and in amounts as determined by management, subject to market conditions, legal requirements, and other factors. Purchases under the program are not announced in advance and may be made in the open market or through privately negotiated transactions. During the years ended December 31, 2015, and 2013, no shares of common stock were repurchased by Cleco Corporation. During the year ended December 31, 2014, 250,000 shares of common stock were repurchased by Cleco Corporation. In accordance with the Merger Agreement, until the completion of the Merger, no additional common stock will be repurchased under this program without the prior written consent of Cleco Partners. For more information about the Merger, see Note 20 — "Agreement and Plan of Merger."
Note 8 — Pension Plan and Employee Benefits

Pension Plan and Other Benefits Plan
Employees hired before August 1, 2007, are covered by a non-contributory, defined benefit pension plan. Benefits under the plan reflect an employee's years of service, age at retirement, and highest total average compensation for any consecutive five calendar years during the last ten years of employment with Cleco. Cleco's policy is to base its

contributions to the

employee pension plan upon actuarial computations utilizing the projected unit credit method, subject to the IRS's full funding limitation. Cleco did not make any required or discretionary contributions to the pension plan in 2015 and 2014. The required contributions are driven by liability funding target percentages set by law which could cause the required contributions to be uneven among the years. The ultimate amount and timing of the contributions may be affected by changes in the discount rate, changes in the funding regulations, and actual returns on fund assets. Cleco Power is considered the plan sponsor and Support Group is considered the plan administrator.
Cleco's retirees and their dependents may be eligible to receive medical, dental, vision, and life insurance benefits (other benefits). Cleco recognizes the expected cost of these other benefits during the periods in which the benefits are earned.
The employee pension plan and other benefits obligation plan assets and funded status at December 31, 2015, and 2014 are presented in the following table:

	PENSION BENEFITS		OTHER BENEFITS	
(THOUSANDS)	2015	2014	2015	2014
Change in benefit obligation				
Benefit obligation at beginning of year	$498,372	$392,488	$44,652	$43,840
Service cost	10,419	8,050	1,635	1,542
Interest cost	20,795	19,851	1,607	1,809
Plan participants' contributions	—	—	903	872
Actuarial (gain) loss	(30,483)	95,576	(1,039)	1,228
Expenses paid	(1,995)	(1,671)	—	—
Medicare D	—	—	48	132
Other adjustments	—	—	—	(551)
Benefits paid	(17,046)	(15,922)	(4,736)	(4,220)
Benefit obligation at end of year	480,062	498,372	43,070	44,652
Change in plan assets				
Fair value of plan assets at beginning of year	412,803	384,555	—	—
Actual return on plan assets	(10,230)	45,841	—	—
Employer contributions	—	—	—	—
Expenses paid	(1,995)	(1,671)	—	—
Benefits paid	(17,046)	(15,922)	—	—
Fair value of plan assets at end of year	383,532	412,803	—	—
Unfunded status	$(96,530)	$(85,569)	$(43,070)	$(44,652)

The employee pension plan accumulated benefit obligation at December 31, 2015, and 2014 is presented in the following table:

	PENSION BENEFITS	
(THOUSANDS)	2015	2014
Accumulated benefit obligation	$440,876	$452,991

The following table presents the net actuarial gains/losses, transition obligations/assets, and prior period service costs included in other comprehensive income as a result of being included as a component of net periodic benefit costs for the employee pension plan and other benefits plan at December 31, 2015, and 2014:

	PENSION BENEFITS		OTHER BENEFITS	
(THOUSANDS)	2015	2014	2015	2014
Net actuarial loss (gain) occurring during year	$3,128	$74,242	$(1,039)	$1,228
Net actuarial loss amortized during year	$13,828	$6,743	$866	$670
Transition obligation amortized during year	$—	$—	$—	$16
Prior service (credit) cost amortized during year	$(71)	$(71)	$119	$119

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

components of net periodic benefit costs and the amounts expected to be recognized in 2016 for the employee pension plan and other benefits plans for December 31, 2016, 2015, and 2014:

		PENSION BENEFITS			OTHER BENEFITS	
(THOUSANDS)	2016	2015	2014	2016	2015	2014
Net actuarial loss	$8,935	$150,620	$161,320	$666	$8,805	$10,710
Prior service (credit) cost	$(71)	$(345)	$(417)	$119	$363	$482

The components of net periodic pension and other benefits costs for 2015, 2014, and 2013 are as follows:

		PENSION BENEFITS			OTHER BENEFITS	
(THOUSANDS)	2015	2014	2013	2015	2014	2013
Components of periodic benefit costs:						
Service cost	$10,419	$8,050	$9,889	$1,635	$1,542	$1,656
Interest cost	20,795	19,851	17,940	1,607	1,809	1,568
Expected return on plan assets	(23,382)	(24,507)	(23,446)	—	—	—
Amortizations:						
Transition obligation	—	—	—	—	16	20
Prior period service (credit) cost	(71)	(71)	(71)	119	119	—
Net loss	13,828	6,743	13,218	866	670	1,131
Net periodic benefit cost	$21,589	$10,066	$17,530	$4,227	$4,156	$4,375

Because Cleco Power is the pension plan sponsor and the related trust holds the assets, the net unfunded status of the pension plan is reflected at Cleco Power. The liability of Cleco’s other subsidiaries is transferred with a like amount of

assets to Cleco Power monthly. The expense of the pension plan related to Cleco's other subsidiaries for the years ended December 31, 2015, 2014, and 2013 was $2.1 million, $1.7 million, and $2.5 million, respectively.
Cleco Corporation is the plan sponsor for the other benefit plans. There are no assets set aside in a trust and the liabilities are reported on the individual subsidiaries' financial statements. The expense related to other benefits reflected in Cleco Power's Consolidated Statements of Income for the years ended December 31, 2015, 2014, and 2013 was $3.6 million, $3.6 million, and $3.8 million, respectively. The current and non-current portions of the other benefits liability for Cleco and Cleco Power at December 31, 2015, and 2014 are as follows:

	OTHER BENEFITS LIABILITY	
(THOUSANDS)	2015	2014
Cleco		
Current	$3,613	$3,470
Non-current	$39,457	$41,182
Cleco Power		
Current	$3,140	$3,206
Non-current	$34,300	$31,250

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

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

	PENSION BENEFITS		OTHER BENEFITS	
	2015	2014	2015	2014
Weighted-average assumptions used to determine the benefit obligation as of Dec. 31:				
Discount rate	4.62 %	4.21 %	4.08 %	3.76 %
Rate of compensation increase	3.08 %	3.17 %	N/A	N/A

	PENSION BENEFITS			OTHER BENEFITS		
	2015	2014	2013	2015	2014	2013
Weighted-average assumptions used to determine the net benefit cost for the year ended Dec. 31:						
Discount rate	4.21 %	5.14 %	4.19 %	3.76 %	4.46 %	3.54 %
Expected return on plan assets	6.15 %	6.76 %	6.78 %	N/A	N/A	N/A
Rate of compensation increase	3.08 %	3.17 %	3.26 %	N/A	N/A	N/A

The expected return on plan assets was determined by examining the risk profile of each target category as compared to the expected return on that risk, within the parameters determined by the retirement committee. The result was also compared to the expected rate of return of other comparable plans. In assessing the risk as compared to return profile, historical returns as compared to risk were considered. The historical risk compared to returns was adjusted for the expected future long-term relationship between risk and return. The adjustment for the future risk compared to returns was, in part, subjective and not based on any measurable or observable events. For the calculation of the 2016 periodic expense, Cleco increased the expected long-term return on plan assets to 6.21%.

Employee pension plan assets may be invested in publicly traded domestic common stocks, including Cleco Corporation common stock; U.S. Government, federal agency, and

corporate obligations; an international equity fund, commercial real estate funds; a hedge fund of funds; and pooled temporary investments. Investments in securities (obligations of U.S. Government, U.S. Government Agencies, and state and local governments, corporate debt, common/collective trust funds, mutual funds, common stocks, and preferred stock) traded on a national securities exchange are valued at the last reported sales price on the last business day of the year.

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

The hedge fund of funds is stated at fair value based upon financial statements and other financial information reported by the management of the underlying funds. In January 2009, the relationship with the hedge fund of funds manager was restructured to redemption status only.

Fair Value Disclosures

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

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

•Level 3 – unobservable inputs based upon the entities' own assumptions.

There have been no changes in the methodologies for determining fair value at December 31, 2015, and December 31, 2014. The following tables disclose the pension plan's fair value of financial assets measured on a recurring basis:

(THOUSANDS)		AT DEC. 31, 2015	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Asset Description					
Cash and cash equivalents		$4,568	$ —	$ 4,568	$ —
Common stock		13,816	13,816	—	—
Obligations of U.S. Government, U.S. Government Agencies, and state and local governments		48,792	—	48,792	—
Mutual funds					
Domestic		47,801	47,801	—	—
International		22,853	22,853	—	—
Real estate funds		17,890	—	—	17,890
Corporate debt		182,408	—	182,408	—
Total		$338,128	$ 84,470	$ 235,768	$ 17,890
	Investments measured at net asset value	42,362			
	Interest accrual	3,042			
	Total net assets	$383,532			

81

(THOUSANDS)	AT DEC. 31, 2014	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Asset Description				
Cash and cash equivalents	$5,180	$ —	$ 5,180	$ —
Common stock	13,967	13,967	—	—
Preferred stock	968	968	—	—
Obligations of U.S. Government, U.S. Government Agencies, and state and local governments	49,942	—	49,942	—
Mutual funds				
Domestic	55,005	55,005	—	—
International	25,096	25,096	—	—
Real estate funds	18,792	—	—	18,792
Corporate debt	202,253	—	202,253	—
Total	$371,203	$ 95,036	$ 257,375	$ 18,792
Investments measured at net asset value[(1)]	38,770			
Interest accrual	2,830			
Total net assets	$412,803			

(1) Amounts for 2014 were adjusted to reflect 2015 accounting guidance that no longer requires investments for which fair value is measured using the net asset value per share practical expedient to be categorized within the fair value hierarchy. For more information, see Note 2 — "Summary of Significant Accounting Policies — Recent Authoritative Guidance."

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

The following is a reconciliation of the beginning and ending balances of the pension plan's real estate funds measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended December 31, 2015, and 2014:

(THOUSANDS)	
Balance, Dec. 31, 2013	$17,928
Unrealized gains	570
Purchases	294
Balance, Dec. 31, 2014	$18,792
Realized gains	9

Unrealized gains	(148)
Purchases	679
Sales	(1,442)
Balance, Dec. 31, 2015	$17,890

The market-related value of plan assets differs from the fair value of plan assets by the amount of deferred asset gains or losses. Actual asset returns that differ from the expected return on plan assets are deferred and recognized in the market-related value of assets on a straight-line basis over a five-year period. For 2015, the return on plan assets was (2.90)% compared to an expected long-term return of 6.15%. The 2014 return on pension plan assets was 11.70% compared to an expected long-term return of 6.76%.
As of December 31, 2015, the pension plan held no shares of Cleco Corporation common stock. None of the plan participants' future annual benefits is covered by insurance contracts. In December 2008, Cleco became aware that, through its hedge fund of funds manager, a portion of its pension plan assets were invested in the Madoff feeder fund investment, Ascot Fund Limited. In January 2009, Cleco Power

elected to liquidate the holdings of the hedge fund of funds manager. At December 31, 2015, the fund had $1.0 million remaining to be liquidated. Proceeds from the hedge fund of funds manager will be reallocated to the plan's other investment managers. The hedge fund of funds investment is measured at fair value using the net asset value per share as a practical expedient (or its equivalent) and has not been classified in the fair value hierarchy.

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

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

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

Domestic Equity Portfolios
- Equity holdings of a single company must not exceed 10% of the manager's portfolio.
- A minimum of 25 stocks should be owned.
- Equity holdings in a single sector should not exceed the lesser of three times the sector's weighting in the S&P 500 Index or 35% of the portfolio.
- Equity holdings should represent at least 90% of the portfolio.
- Marketable common stocks, preferred stocks convertible into common stocks, and fixed income securities convertible into common stocks are the only permissible equity investments.

- Securities in foreign entities denominated in U.S. dollars are limited to 10%. Securities denominated in currencies other than U.S. dollars are not permitted.
- The purchase of securities on margin and short sales is prohibited.

International Equity Portfolios

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

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

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

Fixed Income Portfolio - Long Credit
- Permitted assets include U.S. government and agency securities, corporate securities, mortgage-backed securities, investment-grade private placements, surplus notes, trust preferred, e-caps and hybrids, money-market securities, and senior and subordinated debt.
- At least 90% of securities must be U.S. dollar denominated.
- At least 70% of the securities must be investment-grade credit.

- Securities must have a maximum position size of 5% for A rated securities and 3% for BBB rated securities.
- The duration of the portfolio must be within +/- 1 year of benchmark.

Real Estate Portfolios

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

Hedge Fund of Funds

- The fund should be invested in a minimum of 20 individual partnerships.
- No individual partnership should exceed 10% of the fund of funds.
- The fund should be diversified across several different "styles" of partnerships, including event-driven strategies, fixed income arbitrage and trading, and other arbitrage strategies. The fund generally should not be invested in emerging markets, short-term only, traditional Commodity Trading Advisor's, or derivative-only strategies.

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

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

The following chart shows the dynamic asset allocation based on the funded ratio at December 31, 2015:

	PERCENT OF TOTAL PLAN ASSETS*					
	MINIMUM		TARGET		MAXIMUM	
Return-seeking						
Domestic equity			16	%		
International equity			16	%		
Real estate			7	%		
Hedge fund of funds			1	%		
Total return-seeking	35	%	40	%	45	%
Liability hedging						
Fixed income- long government/credit			20	%		
Fixed income - long credit			40	%		
Total liability hedging	55	%	60	%	65	%

*Minimums and maximums within subcategories not intended to equal total for category.

The assumed health care cost trend rates used to measure the expected cost of other benefits is 5.0% for 2016 and remains at 5.0% thereafter. The rate used for 2015 was also 5.0%. Assumed health care cost trend rates have a limited effect on the amount reported for Cleco's health care plans. A one-percentage point change in assumed health care cost trend rates would have the following effects on other benefits:

	ONE-PERCENTAGE POINT	
(THOUSANDS)	INCREASE	DECREASE
Effect on total of service and interest cost components	$19	$(22)
Effect on postretirement benefit obligation	$258	$(288)

The projected benefit payments for the employee pension plan and other benefits obligation plan for each year through 2020 and the next five years thereafter are listed in the following table:

(THOUSANDS)	PENSION BENEFITS	OTHER BENEFITS, GROSS
2016	$18,509	$3,686
2017	$19,651	$3,714
2018	$20,787	$3,779
2019	$22,048	$3,866
2020	$23,424	$3,897
Next five years	$136,165	$18,598

SERP

Certain Cleco officers are covered by SERP. SERP is a non-qualified, non-contributory, defined benefit pension plan. Benefits under the plan reflect an employee's years of service, age at retirement, and the sum of (a) the highest base salary paid out over the last five calendar years and (b) the average of the three highest cash bonuses paid during the 60 months prior to retirement, which sum is reduced by benefits received from any other defined benefit pension plan, supplemental executive retirement plan, or Cleco contributions under the enhanced 401(k) Plan to the extent such contributions exceed the limits of the 401(k) Plan. Cleco does not fund the SERP liability, but instead pays for current benefits out of the general funds available. Cleco Power has formed a rabbi trust designated as the beneficiary for life insurance policies issued on SERP participants. Market conditions could have a significant impact on the cash surrender value of the life insurance policies. Proceeds from the life insurance policies are expected to be used to pay the SERP participants' death benefits, as well as future SERP payments. However, because SERP is a non-qualified plan, the assets of the trust could be used to satisfy general creditors of Cleco Power in the event of insolvency. All SERP benefits are paid out of the general cash available of the respective companies from which the officer retired. Cleco Power is considered the plan sponsor and Support Group is considered the plan administrator. In July 2014, the Board of Directors of Cleco voted to close SERP to new participants; however, with regard to current SERP participants, including former employees or their beneficiaries, all terms of SERP will continue. Management will review current market trends as it evaluates Cleco's future compensation strategy.

In accordance with the SERP plan document and the Merger Agreement, executives are entitled to enhancement of benefits and accelerated vesting upon terminations of employment that may occur in connection with or following the Merger.

SERP's funded status at December 31, 2015, and 2014 is presented in the following table:

	SERP BENEFITS	
(THOUSANDS)	2015	2014
Change in benefit obligation		
Benefit obligation at beginning of year	$73,902	$57,865
Service cost	2,705	2,278

Interest cost	3,056	3,028
Actuarial (gain) loss	(4,488)	13,436
Benefits paid	(2,860)	(2,705)
Benefit obligation at end of year	$72,315	$73,902

SERP's accumulated benefit obligation at December 31, 2015, and 2014 is presented in the following table:

	SERP BENEFITS	
(THOUSANDS)	2015	2014
Accumulated benefit obligation	$65,840	$67,126

The following table presents net actuarial gains/losses and prior period service costs included in other comprehensive income as a result of being amortized as a component of net periodic benefit costs for the SERP at December 31, 2015, and 2014:

	SERP BENEFITS	
(THOUSANDS)	2015	2014
Net actuarial (gain) loss occurring during year	$(4,487)	$13,436
Net actuarial loss amortized during year	$2,973	$1,876
Prior service cost amortized during year	$54	$54

The following table presents net gains/losses and prior period service costs/credit in accumulated other comprehensive income that have not been recognized as components of net periodic benefit costs and the amounts expected to be recognized in 2016 for SERP for December 31, 2016, 2015, and 2014:

		SERP BENEFITS	
(THOUSANDS)	2016	2015	2014
Net actuarial loss	$2,033	$23,763	$31,224
Prior service cost	$59	$120	$173

The components of the net SERP costs for 2015, 2014, and 2013 are as follows:

		SERP BENEFITS	
(THOUSANDS)	2015	2014	2013
Components of periodic benefit costs:			
Service cost	$2,705	$2,278	$2,055
Interest cost	3,056	3,028	2,578
Amortizations:			
Prior period service cost	54	54	54
Net loss	2,973	1,875	2,305
Net periodic benefit cost	$8,788	$7,235	$6,992

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

	SERP			
	2015		2014	
Weighted-average assumptions used to determine the benefit obligation as of Dec. 31:				
Discount rate	4.60	%	4.20	%
Rate of compensation increase	5.00	%	5.00	%

			SERP			
	2015		2014		2013	
Weighted-average assumptions used to determine the net benefit cost for the year ended Dec. 31:						
Discount rate	4.20	%	5.09	%	4.17	%
Rate of compensation increase	5.00	%	5.00	%	5.00	%

The expense related to SERP reflected on Cleco Power's Consolidated Statements of Income for the years ended December 31, 2015, 2014, and 2013 was $2.2 million, $1.7 million, and $1.5 million, respectively.
Liabilities relating to SERP are reported on the individual subsidiaries' financial statements.The current and non-current portions of the SERP liability for Cleco and Cleco Power at December 31, 2015, and 2014 are as follows:

	SERP LIABILITY	
(THOUSANDS)	2015	2014
Cleco		
Current	$3,238	$3,031
Non-current	$69,049	$70,871
Cleco Power		
Current	$1,000	$813
Non-current	$21,321	$19,006

The projected benefit payments for the SERP for each year through 2020 and the next five years thereafter are shown in the following table:

(THOUSANDS)	2016	2017	2018	2019	2020	NEXT FIVE YEARS
SERP	$3,311	$3,366	$3,562	$3,734	$4,061	$23,519

401(k)
Cleco's 401(k) Plan is intended to provide active, eligible employees with voluntary, long-term savings and investment opportunities. The Plan is a defined contribution plan and is subject to the applicable provisions of the Employee Retirement Income Security Act of 1974. In accordance with the Plan, employer contributions can be in the form of Cleco Corporation stock or cash. Cash contributions are invested in proportion to the participant's voluntary contribution investment choices. Plan participants are allowed to choose whether to have dividends on Cleco Corporation common stock distributed in cash or reinvested in additional shares of Cleco Corporation common stock. Participation in the Plan is voluntary and active Cleco employees are eligible to participate. Cleco's 401(k) Plan expense for the years ended December 31, 2015, 2014, and 2013 is as follows:

	FOR THE YEAR ENDED DEC. 31,		
(THOUSANDS)	2015	2014	2013

401(k) Plan expense	$5,029	$4,730	$4,422

Cleco Power is the plan sponsor for the 401(k) Plan. The expense of the 401(k) Plan related to Cleco's other subsidiaries was $0.9 million, $0.9 million, and $1.0 million for the years ended December 31, 2015, 2014, and 2013, respectively.

Note 9 — Income Taxes

Cleco

For the year ended December 31, 2015, income tax expense was higher than the amount computed by applying the statutory federal rate. For the years ended December 31, 2014, and 2013, income tax expense was lower than the amount computed by applying the statutory federal rate to income before tax. The differences are as follows:

	FOR THE YEAR ENDED DEC. 31,					
(THOUSANDS, EXCEPT FOR %)	2015		2014		2013	
Income before tax	$211,373		$221,855		$240,260	
Statutory rate	35.0	%	35.0	%	35.0	%
Tax at federal statutory rate	$73,981		$77,649		$84,091	
Increase (decrease):						
Plant differences, including AFUDC flowthrough	1,875		462		427	
Amortization of investment tax credits	(916	)	(983	)	(1,108	)
State income taxes	1,117		23		1,094	
Settlement with taxing authorities	—		(9,106	)	—	
NMTC	243		(754	)	(4,806	)
Other	1,404		(175	)	(123	)
Total taxes	$77,704		$67,116		$79,575	
Effective Rate	36.8	%	30.3	%	33.1	%

Information about current and deferred income tax expense is as follows:

	FOR THE YEAR ENDED DEC. 31,					
(THOUSANDS)	2015		2014		2013	
Current federal income tax expense	$1,284		$11,082		$15,672	
Deferred federal income tax expense	76,219		71,061		65,237	
Amortization of accumulated deferred investment tax credits	(916	)	(983	)	(1,108	)
Total federal income tax expense	$76,587		$81,160		$79,801	
Current state income tax expense (benefit)	3,233		(6,580	)	(978	)
Deferred state income tax (benefit) expense	(2,116	)	(7,464	)	752	
Total state income tax expense (benefit)	$1,117		$(14,044	)	$(226	)
Total federal and state income tax expense	$77,704		$67,116		$79,575	
Items charged or credited directly to shareholders' equity						
Federal deferred	3,274		(3,656	)	3,497	
State deferred	528		(590	)	565	
Total tax expense (benefit) from items charged directly to shareholders' equity	$3,802		$(4,246	)	$4,062	
Total federal and state income tax expense	$81,506		$62,870		$83,637	

The $8.0 million increase in total tax expense from items charged directly to shareholders' equity in 2015 compared to 2014 was primarily due to the tax effect of SERP and other post-employment benefit adjustments booked to accumulated other comprehensive income and interest rate derivatives.

Cleco recognizes the amortization of the NMTC Fund investment and the related interest on the liability as a component of current tax expense. The amount of amortization and interest recognized as of December 31, 2015, 2014, and 2013 was $1.1 million, $3.4 million, and $13.3 million, respectively.

The balance of accumulated deferred federal and state income tax assets and liabilities at December 31, 2015, and 2014 was comprised of the following:

	AT DEC. 31,	
(THOUSANDS)	2015	2014
Depreciation and property basis differences	$(948,597)	$(892,725)
Net operating loss carryforward	12,092	56,315
NMTC	87,544	84,504
Fuel costs	(7,833)	(11,686)
Other comprehensive income	15,774	19,576
Regulated operations regulatory liability, net	(90,122)	(90,135)
Postretirement benefits other than pension	11,561	812
Other	(5,522)	(8,734)
Accumulated deferred federal and state income taxes	$(925,103)	$(842,073)

Valuation Allowance

Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. As of December 31, 2015, and 2014, Cleco had a deferred tax asset resulting from NMTC carryforwards of $96.5 million and $95.4 million, respectively. If the NMTC carryforwards are not utilized, they will begin to expire in 2029. Management considers it more likely than not that all deferred tax assets related to NMTC carryforwards will be realized; therefore, no valuation allowance has been recorded.

Net Operating Losses

As of December 31, 2015, Cleco had a federal net operating loss carryforward of $15.8 million and a state net operating loss carryforward of $127.7 million. If the carryforwards are not utilized, the federal carryforward will expire in 2026 and the state carryforward will begin to expire in 2031. Cleco considers it more likely than not that these income tax losses will be utilized to reduce future payments of income taxes and Cleco expects to utilize the entire net operating loss carryforward within the statutory deadlines.

Cleco Power

For the year ended December 31, 2015, income tax expense was higher than the amount computed by applying the statutory rate. For the years ended December 31, 2014, and 2013, income tax expense was lower than the amount computed by applying the statutory federal rate to income before tax. The differences are as follows:

	FOR THE YEAR ENDED DEC. 31,		
(THOUSANDS, EXCEPT FOR %)	2015	2014	2013
Income before tax	$220,644	$231,290	$229,791
Statutory rate	35.0 %	35.0 %	35.0 %
Tax at federal statutory rate	$77,225	$80,952	$80,427
Increase (decrease):			
Plant differences, including AFUDC flowthrough	1,875	462	427
Amortization of investment tax credits	(916)	(983)	(1,108)
State income taxes	1,501	351	730
Settlement with taxing authorities	—	(2,320)	—

Other	(391)	(1,488)	(1,095)
Total taxes	$79,294	$76,974	$79,381
Effective Rate	35.9 %	33.3 %	34.5 %

Information about current and deferred income tax expense is as follows:

	FOR THE YEAR ENDED DEC. 31,		
(THOUSANDS)	2015	2014	2013
Current federal income tax expense (benefit)	$33,138	$(197)	$(33)
Deferred federal income tax expense	45,572	83,676	81,188
Amortization of accumulated deferred investment tax credits	(916)	(983)	(1,108)
Total federal income tax expense	$77,794	$82,496	$80,047
Current state income tax expense (benefit)	3,397	(4,161)	(1,012)
Deferred state income tax (benefit) expense	(1,897)	(1,361)	346
Total state income tax expense (benefit)	$1,500	$(5,522)	$(666)
Total federal and state income taxes	$79,294	$76,974	$79,381
Items charged or credited directly to members' equity			
Federal deferred	106	(1,137)	2,824
State deferred	17	(184)	456
Total tax expense (benefit) from items charged directly to member's equity	$123	$(1,321)	$3,280
Total federal and state income tax expense	$79,417	$75,653	$82,661

The $1.4 million increase in total tax expense from items charged directly to member's equity in 2015 compared to 2014 was primarily due to the tax effect of other post-employment benefit adjustments booked to accumulated other comprehensive income and interest rate derivatives.

The balance of accumulated deferred federal and state income tax assets and liabilities at December 31, 2015, and 2014 was comprised of the following:

	AT DEC. 31,	
(THOUSANDS)	2015	2014
Depreciation and property basis differences	$(944,675)	$(890,030)
Net operating loss carryforward	18	12,323
Fuel costs	(7,833)	(11,686)
Other comprehensive income	9,878	10,002
Regulated operations regulatory liability, net	(90,122)	(90,135)
Postretirement benefits other than pension	(3,853)	(14,346)
Other	(6,944)	(10,735)
Accumulated deferred federal and state income taxes	$(1,043,531)	$(994,607)

Valuation Allowance

Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. Management considers it more likely than not that all deferred tax assets will be realized; therefore, no valuation allowance has been recorded.

Uncertain Tax Positions

Cleco classifies all interest related to uncertain tax positions as a component of interest payable and interest expense. At December 31, 2015, and December 31, 2014, Cleco and Cleco Power had no interest payable related to uncertain tax positions. The interest payable reflects the amount of interest anticipated to be paid to or received from taxing authorities. These amounts do not include any offset for amounts that may be recovered from customers under the existing rate orders. The amounts expected to be recoverable from Cleco Power’s customers under existing rate orders for settled positions at December 31, 2015, and 2014, are $1.3 million and $5.2 million, respectively. For the years ended December 31, 2015, and December 31, 2014, Cleco and Cleco Power had no interest expense related to uncertain tax positions. For the year ended December 31, 2013, Cleco and Cleco Power had $0.2 million and less than $0.1 million, respectively, of interest expense related to uncertain tax positions.
The total liability for unrecognized tax benefits for Cleco and Cleco Power at December 31, 2015, 2014, and 2013 is shown in the following table:

Cleco

(THOUSANDS)	LIABILITY FOR UNRECOGNIZED TAX BENEFITS
Balance, Jan. 1, 2013	$3,126
Reduction for tax positions of current period	—
Additions for tax positions of prior years	2,193
Reduction for tax positions of prior years	(248)
Reduction for settlement with tax authority	—
Reduction for lapse of statute of limitations	—
Balance, Dec. 31, 2013	$5,071
Reduction for tax positions of current period	—
Additions for tax positions of prior years	—
Reduction for tax positions of prior years	—
Reduction for settlement with tax authority	(5,071)
Reduction for lapse of statute of limitations	—

Balance, Dec. 31, 2014	$—
Reduction for tax positions of current period	—
Additions for tax positions of prior years	—
Reduction for tax positions of prior years	