

CLECO CORP  
Form 10-K  
February 28, 2008

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-K

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

For the fiscal year ended December 31, 2007

Or

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

Commission file number 1-15759

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CLECO CORPORATION

*(Exact name of registrant as specified in its charter)*

Louisiana

*(State or other jurisdiction of incorporation or organization)*

72-1445282

*(I.R.S. Employer Identification No.)*

2030 Donahue Ferry Road, Pineville, Louisiana

*(Address of principal executive offices)*

71360-5226

*(Zip Code)*

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

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

**Title of each class**

Common Stock, \$1.00 par value, and associated rights to purchase Preferred Stock

**Name of each exchange on which registered**

New York Stock Exchange

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

**Title of each class**

4.50% Cumulative Preferred Stock, \$100 Par Value

Commission file number 1-05663

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CLECO POWER LLC

*(Exact name of registrant as specified in its charter)*

Louisiana

72-0244480

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(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

**2030 Donahue Ferry Road, Pineville, Louisiana**  
(Address of principal executive offices)

**71360-5226**  
(Zip Code)

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

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

**Name of each exchange on which registered**

**Title of each class**

6.52% Medium-Term Notes due 2009

New York Stock Exchange

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

**Title of each class**

Membership Interests

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

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

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

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

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

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

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(Continuation of cover page)

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

## DOCUMENTS INCORPORATED BY REFERENCE

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

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

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

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GLOSSARY OF TERMS

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

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

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CES	Calpine Energy Services, L.P.
Claims Settlement Agreement	Claims Settlement Agreement, dated April 23, 2007, by and among Calpine, CAH, CES, Acadia, and APH
CLE Intrastate	CLE Intrastate Pipeline Company LLC, a wholly owned subsidiary of Midstream
Cleco Energy	Cleco Energy LLC, a wholly owned subsidiary of Midstream
Cleco Innovations LLC	A wholly owned subsidiary of Cleco Corporation
Cleco Katrina/Rita	Cleco Katrina/Rita Hurricane Recovery Funding LLC, a wholly owned subsidiary of Cleco Power
CO <sub>2</sub>	Carbon dioxide
Compliance Plan	The one-year plan included in the Stipulation and Consent Agreement (Docket No. IN07-28-00), effective June 12, 2007
Consent Agreement	Stipulation and Consent Agreement, dated as of July 25, 2003, between Cleco and the FERC Staff
DHLC	Dolet Hills Lignite Company, LLC, a wholly owned subsidiary of SWEPCO
Diversified Lands	Diversified Lands LLC, a wholly owned subsidiary of Cleco Innovations LLC, a wholly owned subsidiary of Cleco Corporation
EITF	Emerging Issues Task Force of the FASB
EITF No. 06-11	Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards
EITF No. 07-1	Accounting for Collaborative Arrangements Related to the Development and Commercialization of Intellectual Property
EITF No. 07-3	Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities
Entergy	Entergy Corporation
Entergy Gulf States	Entergy Gulf States, Inc.
Entergy Louisiana	Entergy Louisiana, Inc.
Entergy Mississippi	Entergy Mississippi, Inc.
Entergy Services	Entergy Services, Inc., as agent for Entergy Louisiana and Entergy Gulf States
EPA	United States Environmental Protection Agency
EPC	Engineering, Procurement, and Construction

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



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MAI	Mirant Americas, Inc., a wholly owned subsidiary of Mirant
Marketing & Trading Midstream	Cleco Marketing & Trading LLC, a wholly owned subsidiary of Midstream Cleco Midstream Resources LLC, a wholly owned subsidiary of Cleco Corporation
Mirant	Mirant Corporation
Mirant Debtors	Mirant, MAEM, MAI, and certain other Mirant subsidiaries
Mirant Debtors Bankruptcy Court	U.S. Bankruptcy Court for the Northern District of Texas, Ft. Worth Division
MMBtu	Million British thermal units
Moody's	Moody's Investors Service
MW	Megawatt(s) as applicable
MWh	Megawatt-hour(s) as applicable
NERC	North American Electric Reliability Council
Not meaningful	A percentage comparison of these items is not statistically meaningful because the percentage difference is greater than 1,000%.
NO <sub>x</sub>	Nitrogen oxides
PCB	Polychlorinated biphenyls
PEH	Perryville Energy Holdings LLC, a wholly owned subsidiary of Midstream.
Perryville	Perryville Energy Partners, L.L.C., a wholly owned subsidiary of Cleco Corporation. Prior to February 1, 2007, Perryville was a wholly owned subsidiary of Perryville Energy Holdings LLC, a wholly owned subsidiary of Midstream.
Perryville and PEH Bankruptcy Court	U.S. Bankruptcy Court for the Western District of Louisiana, Alexandria Division
Perryville Tolling Agreement	Capacity Sale and Tolling Agreement between Perryville and MAEM
Power Purchase Agreement	Power Purchase Agreement, dated as of January 28, 2004, between Perryville and Entergy Services
PRP	Potentially responsible party
Registrant(s)	Cleco Corporation and Cleco Power
RFP	Request for Proposal
Rodemacher Unit 3	A 600-MW solid fuel generating unit under construction by Cleco Power at its existing Rodemacher plant site in Boyce, Louisiana

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ABBREVIATION OR ACRONYM	DEFINITION
RSP	Rate Stabilization Plan
RTO	Regional Transmission Organization
SAB	Staff Accounting Bulletin
SAB No. 110	Certain Assumptions Used In Valuation Methods – Expected Term
Sale Agreement	Purchase and Sale Agreement, dated as of January 28, 2004, between Perryville and Entergy Louisiana
SEC	Securities and Exchange Commission
Senior Loan Agreement	Construction and Term Loan Agreement, dated as of June 7, 2001, between Perryville and KBC Bank N.V., as Agent Bank
SERP	Cleco Corporation Supplemental Executive Retirement Plan
SFAS	Statement of Financial Accounting Standards
SFAS No. 13	Accounting for Leases
SFAS No. 29	Determining Contingent Rentals
SFAS No. 71	Accounting for the Effects of Certain Types of Regulation
SFAS No. 87	Employers' Accounting for Pensions
SFAS No. 94	Consolidation of All Majority Owned Subsidiaries
SFAS No. 95	Statement of Cash Flows
SFAS No. 106	Employers' Accounting for Postretirement Benefits Other Than Pensions
SFAS No. 109	Accounting for Income Taxes
SFAS No. 123	Accounting for Stock-Based Compensation
SFAS No. 123(R)	Share-Based Payment
SFAS No. 131	Disclosures about Segments of an Enterprise and Related Information
SFAS No. 133	Accounting for Derivative Instruments and Hedging Activities
SFAS No. 140	Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities
SFAS No. 141(R)	Business Combinations
SFAS No. 143	Accounting for Asset Retirement Obligations
SFAS No. 149	Amendment of Statement 133 on Derivative Instruments and Hedging Activities
SFAS No. 155	Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140
SFAS No. 156	Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140
SFAS No. 157	Fair Value Measurements
SFAS No. 158	Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)
SFAS No. 159	The Fair Value Option For Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115
SFAS No. 160	Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51
Shaw	Shaw Contractors, Inc., a subsidiary of The Shaw Group Inc.
SO <sub>2</sub>	Sulfur dioxide
SPP	Southwest Power Pool
Subordinated Loan Agreement	Subordinated Loan Agreement, dated as of August 23, 2002, between Perryville and MAI
Support Group	Cleco Support Group LLC, a wholly owned subsidiary of Cleco Corporation

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

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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

- § Factors affecting utility operations, such as unusual weather conditions or other natural phenomena; catastrophic weather-related damage (such as hurricanes and other storms); unscheduled generation outages; unanticipated maintenance or repairs; unanticipated changes to fuel costs, cost of and reliance on natural gas as a component of Cleco’s generation fuel mix and their impact on competition and franchises, fuel supply costs or availability constraints due to higher demand, shortages, transportation problems or other developments; environmental incidents; environmental compliance costs; power transmission system constraints; or outcome of Cleco Power’s rate case to be filed with the LPSC in 2008;
- § Cleco Corporation’s holding company structure and its dependence on the earnings, dividends, or distributions from its subsidiaries to meet its debt obligations and pay dividends on its common stock;
- § Cleco Power’s ability to construct, operate, and maintain, within its projected costs (including financing) and timeframe, Rodemacher Unit 3, in addition to any other self-build projects identified in future IRP and RFP processes;
- § Dependence of Cleco Power for energy from sources other than its facilities and the uncertainty of future long-term sources of such additional energy;
- § Nonperformance by and creditworthiness of counterparties under tolling, power purchase, and energy service agreements, or the restructuring of those agreements, including possible termination;
- § Regulatory factors such as changes in rate-setting policies, recovery of investments made under traditional regulation, the frequency and timing of rate increases or decreases, the results of periodic fuel audits, the results of IRP and RFP processes, the formation of RTOs and ICTs, and the compliance with ERO reliability standards for bulk power systems by Cleco Power, Acadia, Attala, Evangeline, and Perryville;
- § Financial or regulatory accounting principles or policies imposed by the FASB, the SEC, the Public Company Accounting Oversight Board, the FERC, the LPSC or similar entities with regulatory or accounting oversight;
- § Economic conditions, including the ability of customers to continue paying for high energy costs, related growth and/or down-sizing of businesses in Cleco’s service area, monetary fluctuations, changes in commodity prices, and inflation rates;
- § Credit ratings of Cleco Corporation, Cleco Power, and Evangeline;

§ Changing market conditions and a variety of other factors associated with physical energy, financial transactions, and energy service activities, including, but not limited to, price, basis, credit, liquidity, volatility, capacity, transmission, interest rates, and warranty risks;

§ Acts of terrorism;

§ Availability or cost of capital resulting from changes in Cleco's business or financial condition, interest rates or market perceptions of the electric utility industry and energy-related industries;

§ Employee work force factors, including work stoppages and changes in key executives;

§ Legal, environmental, and regulatory delays and other obstacles associated with acquisitions, investments in joint ventures, or other capital projects;

§ Costs and other effects of legal and administrative proceedings, settlements, investigations, claims and other matters;

§ Changes in federal, state, or local laws, and changes in tax laws or rates, regulating policies or environmental laws and regulations; and

§ Ability of Cleco Power to recover, from its retail customers, the costs of compliance with environmental laws and regulations.

For additional discussion of these factors and other factors that could cause actual results to differ materially from those contemplated in the Registrants' forward-looking statements, please read Item 1A, "Risk Factors" and Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Cleco Power — Significant Factors Affecting Cleco Power" and "— Midstream — Significant Factors Affecting Midstream," in this Annual Report. All subsequent written and oral forward-looking statements attributable to the Registrants or persons acting on their behalf are expressly qualified in their entirety by the factors identified above.

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

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## PART I

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**ITEM 1. BUSINESS**

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**GENERAL**

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

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

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

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

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

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

**OPERATIONS****Cleco Power*****Segment Financial Information***

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

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

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

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### *Certain Factors Affecting Cleco Power*

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

### *Power Generation*

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

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

<sup>(1)</sup> Based on capacity testing of the generating units performed between June and September 2007.

<sup>(2)</sup> When oil is used on a standby basis, capacity may be reduced.

<sup>(3)</sup> Represents Cleco Power’s 30% ownership interest in the capacity of Rodemacher Unit 2, a 523-MW generating unit.

<sup>(4)</sup> 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
<b>2007</b>	<b>4,504</b>	<b>42.0</b>
2006	4,691	44.0



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

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

#### ***Fuel and Purchased Power***

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

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

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

#### Power Purchases

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

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

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

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

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

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

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

Management expects to meet its native load demand in 2008 with Cleco Power's own generation capacity, economy energy purchases, and power purchase agreements with Bear Energy LP, UPP, and NRG. For additional information on Cleco Power's risks associated with purchased power contracts, see Item 1A, "Risk Factors — Purchased Power." Cleco Power has an IRP team to evaluate its long-term capacity requirements. IRP is a process to evaluate resources in order to provide reliable and flexible power supplies to electric customers at the lowest reasonable cost. A full range of options are being analyzed, including:

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

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

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

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

#### *Coal and Lignite Supply*

Cleco Power uses coal for generation at Rodemacher Unit 2. The majority of this coal is purchased from mines in Wyoming's Powder River Basin from Rio Tinto Energy America, (Rio Tinto) formerly known as Kennecott Energy Company. In May 2006, Cleco Power entered into a new two-year agreement with Rio Tinto that established fixed pricing through December 31, 2008, for the majority of Cleco Power's coal needs. In 2007, Cleco Power entered into agreements with Rio Tinto and Peabody Energy which provide the majority of coal needs through 2014. The coal supply agreements are fixed price (without reopeners) and together provide for the full requirements to support Cleco Power's minimum case planned dispatch of Rodemacher Unit 2 (4 million tons total over the 7-year period). To the extent that the actual dispatch of the unit exceeds the minimum case model, Cleco Power expects to make additional spot purchases to maintain inventory within targeted levels. The volume commitment was designed to reasonably assure that excess inventory will not accumulate during the term of the agreement. With respect to transportation of coal, Cleco Power has a three-year agreement with Union Pacific Railroad Company (UP) for transportation of coal from the Powder River Basin to Rodemacher Unit 2 through 2008. Cleco Power is currently engaged in discussions with UP regarding renewal of the rail transportation agreement for Rodemacher Unit 2 and expects to see UP's published offers during the first quarter of 2008. Cleco Power leases approximately 225 railcars to transport its coal under two long-term leases. One of the railcar leases expires in March 2017, and the other expires in March 2021. Cleco Power uses lignite for generation at the Dolet Hills power station. Substantially all of the lignite used to fuel Dolet Hills is obtained under two long-term agreements. One of the agreements expires on December 31, 2010. The other agreement has no specific expiration date. Factors that could cause the agreement to expire are the depletion of all economically surface mineable lignite reserves or the closing of the mine and the completion of reclamation work. Cleco Power and SWEPCO, each a 50% owner of Dolet Hills, have acquired an undivided 50% interest in the other's leased and owned lignite reserves in northwestern Louisiana. In May 2001, Cleco Power and SWEPCO entered into a long-term agreement with DHLC for the mining and delivery of such lignite reserves. These reserves are expected to provide a substantial portion of the Dolet Hills' unit's fuel requirements throughout the life of the contract with DHLC. Additionally, Cleco Power and SWEPCO have entered into an agreement which expires in 2010 with Red River Mining Company to purchase lignite. Cleco Power's minimum annual purchase requirement of lignite under this agreement is 550,000 tons. The lignite price under the contract is a base price per MMBtu, subject to escalation, plus certain "pass-through" costs. DHLC provides all of the lignite in excess of the 550,000 tons base commitment. For information regarding deferred mining costs and obligations associated with the DHLC mining agreement see, Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 3 — Regulatory Assets and Liabilities — Deferred Mining Costs" and Note 15 — "Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Off-Balance Sheet Commitments and Disclosures about Guarantees."

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

*Natural Gas Supply*

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

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

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

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

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

#### *Fuel Oil Supply*

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

#### *Sales*

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

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

#### **Midstream**

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

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

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

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

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

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

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

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

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

The following table sets forth certain information with respect to Midstream's operating generating facilities.

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

<sup>(1)</sup> Based on capacity testing of generating units performed in June 2007.

<sup>(2)</sup> Represents APH's 50% ownership interest in the capacity of Acadia.

<sup>(3)</sup> Based on SPP rated condition factors in November 2007.

Midstream competes against regional and national companies that own and operate merchant power stations. Prior to November 2007, Evangeline's capacity was dedicated to one customer, Williams, which was the counterparty to the Evangeline Tolling Agreement. In November 2007, Williams completed the assignment of its interest in the Evangeline Tolling Agreement to Bear Energy LP. The terms of the Evangeline Tolling Agreement, set to expire in 2020, were unchanged. Tolling agreements give the tolling counterparty the right to own, dispatch, and market all of the electric generation capacity of the respective facility. Under a tolling agreement, the tolling counterparty is responsible for providing its own natural gas to the facility and pays a fixed fee and a variable fee for operating and maintaining the respective facility.

Prior to March 2006, Acadia's capacity was also dedicated to one customer, CES, which was the counterparty to the Calpine Tolling Agreements. In December 2005, the Calpine Debtors filed for protection under Chapter 11 of the Bankruptcy Code and subsequently filed a motion with the Calpine Debtors Bankruptcy Court to reject the Calpine Tolling Agreements. In March 2006, Acadia and CES executed amendments to the Calpine Tolling Agreements, which were approved by the Calpine Debtors Bankruptcy Court, permitting Acadia to suspend its obligations under the agreements. Currently, Acadia's output is sold through an energy management services agreement with a third party marketer. For additional information on the above tolling agreements and related transactions, risks and uncertainties, see Item 1A, "Risk Factors — Evangeline Plant Performance" and "— Bear Energy LP," and Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Midstream — Significant Factors Affecting Midstream — Earnings are primarily affected by the following factors." For additional information on the Calpine bankruptcy and the suspension of the Calpine Tolling Agreements, see Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 19 — Calpine Bankruptcy Settlement."

CLE Intrastate's revenue is generated primarily from a monthly reservation fee paid by Evangeline for access to the Columbia Gulf interconnect and from a transportation fee that varies depending on the amount of gas transported through the interconnect for use by Evangeline.

At December 31, 2007, Midstream and its subsidiaries employed 61 people: 58 within Generation Services and 3 at Midstream.

For additional information on Midstream's operations, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Midstream," and "— Financial Condition — Cash Generation and Cash Requirements — Midstream Construction."

### Customers

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



### **Construction and Financing**

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

## **REGULATORY MATTERS, INDUSTRY DEVELOPMENTS, AND FRANCHISES**

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### **Rates**

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

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

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

For additional information on Cleco Power's retail and wholesale rates, including Cleco Power's RSP, see Item 1A, "Risk Factors — Retail Electric Service" and — "Fuel Cost Audits" and Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Regulatory Matters — Retail Rates of Cleco Power," and — "Wholesale Rates of Cleco."

### Franchises

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

#### *Renewed Franchises*

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

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

#### *Other Franchise Matters*

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

In June 2007, SLEMCO entered into a limited franchise agreement with the City of Crowley. Cleco Power also provides electric service to Crowley under an existing franchise agreement. The new agreement allows SLEMCO to compete for new customers in areas of the city that have been annexed by Crowley since 2003. This decision does not

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

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

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

### **Industry Developments**

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

### **Wholesale Electric Competition**

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

### **Retail Electric Competition**

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

### **Legislative and Regulatory Changes and Matters**

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

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

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

The Registrants are unable, at this time, to predict the outcome of such issues or effects on their financial position, results of operations, or cash flows.

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

## ENVIRONMENTAL MATTERS

### *Environmental Quality*

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

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

Acadia		-	197 <sup>(1)</sup>
Total	\$	4,469	\$ 7,087

<sup>(1)</sup> Represents APH's 50% portion of Acadia

The increase in projected environmental capital expenditures at Cleco Power from 2007 to 2008 primarily relates to the installation of new low NO<sub>x</sub> burners at the Rodemacher Unit 2 Power Station and enhancements to the SO<sub>2</sub> scrubber at the Dolet Hills Power Station. The installation of the low NO<sub>x</sub> burners at Rodemacher Unit 2 is expected to be completed during 2008, while the enhancements to the SO<sub>2</sub> scrubber at Dolet Hills are expected to be completed in 2012. The increase in projected capital expenditures at Evangeline from 2007 to 2008 primarily relates to the installation of a system to remove aquatic vegetation in the lake which cools the circulating water from the generating units at the plant. The installation of this system is expected to be completed during 2008.

#### *Air Quality*

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

The federal Clean Air Act established a regulatory program to address the effects of acid rain and imposed restrictions on SO<sub>2</sub> emissions from certain generating units. The federal Clean Air Act requires these generating stations to possess a regulatory "allowance" for each ton of SO<sub>2</sub> emitted beginning in the year 2000. The EPA allocates a set number of allowances to each affected unit based on its historic emissions. As of December 31, 2007, Cleco Power and Midstream had sufficient allowances for 2007 operations and expect to have sufficient allowances for 2008 operations.

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

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these reduced acid rain NO<sub>x</sub> limits in its current configuration. With its low NO<sub>x</sub> burner project completed, Rodemacher Unit 2 is expected to achieve compliance by an even greater margin. The additional NO<sub>x</sub> reductions achieved by the low NO<sub>x</sub> burner projects may qualify for early reduction credits under the federal Clean Air Interstate Rule (CAIR). Significant future reductions in NO<sub>x</sub> emissions limits may require other capital improvements at one or both of the units.

NO<sub>x</sub> emissions from the Evangeline and Acadia generating units are within the units' respective permitted limits, as these units use modern turbine and selective catalytic reduction technology that reduces NO<sub>x</sub> emissions to minimal levels.

On March 10, 2005, CAIR was finalized by the EPA. CAIR covers the District of Columbia and 28 eastern states, including Louisiana, and provides a federal framework requiring states to reduce emissions of SO<sub>2</sub> and NO<sub>x</sub>. CAIR calls for NO<sub>x</sub> reductions to begin in the year 2009 and SO<sub>2</sub> reductions in 2010. The EPA anticipates that the states will achieve this primarily by reducing emissions from the power generation sector. Louisiana promulgated state regulations to incorporate these requirements. The LDEQ has chosen to remain under the Federal Implementation Plan (FIP) for compliance with CAIR SO<sub>2</sub> provisions. It has also proposed to follow the FIP for the Annual NO<sub>x</sub> and Ozone Season NO<sub>x</sub> trading programs with the exception of the NO<sub>x</sub> allowance allocation methodology. Cleco is evaluating potential compliance strategies to meet the emission reductions contemplated by these regulations. The installation of new low NO<sub>x</sub> burners and enhancements to the SO<sub>2</sub> scrubber at Dolet Hills are expected to be an integral part of meeting the CAIR NO<sub>x</sub> and SO<sub>2</sub> reduction provisions. Likewise, the installation of new low NO<sub>x</sub> burners planned for Rodemacher Unit 2 in 2008 at a projected cost of \$3.2 million should also help meet CAIR requirements. Cleco's compliance strategy to meet the CAIR requirements may also include additional emission controls, purchase of allowances, or fuel changes.

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

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

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

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

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

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

On June 20, 2007, the EPA proposed to strengthen the national ambient air quality standards (NAAQS) for ground-level ozone, the primary component of smog. The EPA also requested comments on alternative levels of the primary ozone standard. Depending on the final level the EPA chooses, a significant number of additional parishes of Louisiana could be designated as "non-attainment," meaning they do not meet the national ambient air quality standards for that area. Since NO<sub>x</sub> emissions are a precursor to ozone formation, existing fossil fuel fired units located in or near these ozone non-attainment areas that do not currently utilize best available control technology could be targeted for installation of additional NO<sub>x</sub> emission controls.

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

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

#### *Water Quality*

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

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

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



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

*Solid Waste Disposal*

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

*Hazardous Waste Generation*

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

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*Toxic Substances Control Act (TSCA)*

The TSCA directs the EPA to regulate the marketing, disposal, manufacturing, processing, distribution in commerce, and use of PCBs. Cleco may continue to operate equipment containing PCBs under the TSCA. Once the equipment reaches the end of its usefulness, the EPA regulates handling and disposal of the equipment and fluids containing PCBs. Within these regulations, the handling and disposal is allowed only through EPA approved and permitted facilities.

The EPA revised TSCA regulations to require utilities to report data on the manufacture or import of organic compounds every five years. Cleco submitted this information in December 2006 for its applicable facilities.

*Toxics Release Inventory (TRI)*

The TRI requires an annual report from industrial facilities on about 650 substances that they release into air, water, and land. The TRI ranks companies based on how much of a particular substance they release on a state and parish (county) level. Annual reports are due to the EPA on July 1 following the reporting year-end. Cleco has submitted required TRI reports on its activities, and the TRI rankings are available to the public. The rankings do not result in any federal or state penalties.

On October 8, 2007, Cleco received a Special Notice for Remedial Investigation and Feasibility Study from the EPA. The special notice requested that Cleco Corporation and Cleco Power, along with many other listed potentially responsible parties, enter into negotiations with the EPA for the performance of a Remedial Investigation and Feasibility Study at an area known as the Devil's Swamp Lake just northwest of Baton Rouge, Louisiana. The EPA has identified Cleco as one of many companies sending PCB wastes for disposal to the site. The Devil's Swamp Lake site has been proposed to be added to the National Priorities List (NPL) based on the release of PCBs to fisheries and wetlands located on the site. The EPA will make a final decision on the listing of the site to the NPL after considering relevant comments. Cleco has contacted the EPA in response to the special notice and is reviewing the available information. The EPA and a number of PRPs met on January 31, 2008, for an organizational meeting to discuss the background of the site. The PRPs began discussing a potential proposal to the EPA on February 19, 2008. Since this investigation is in the preliminary stages, management is unable to determine whether the costs associated with possible remediation of the facility site will have a material adverse effect on the Registrants' results of operations, financial condition, and cash flows.

*Electric and Magnetic Fields (EMFs)*

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

**ITEM 1A. RISK FACTORS**

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

**Rodemacher Unit 3 Construction Costs**

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

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

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

### **Rodemacher Unit 3 Technical Specifications**

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

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

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

### **Cleco Power's Rates and Upcoming Rate Case**

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

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

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

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

### **Fuel Cost Audits**

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

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

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

### **Hedging and Risk Management Activities**

*Cleco Power is subject to market risk associated with economic hedges relating to open natural gas contracts.*

*Cleco has risk management policies which cannot eliminate all risk involved in its energy commodity activities.*

Cleco Power utilizes economic hedges to mitigate the risks associated with a fixed-price wholesale power contract that is not included in the fuel adjustment clause. Any realized gain or loss attributable to these hedges is recorded on the income statement as a component of operating revenue, net. Accordingly, changes in the market value of these hedging arrangements caused by natural gas price volatility will impact the Registrants' results of operations, financial condition, and cash flows.

Cleco Power also has entered into economic hedge positions to mitigate the volatility in fuel costs passed through to its retail customers. When these positions close, actual gains or losses are deferred and included in the fuel adjustment clause in the month the physical contract settles. However, recovery of any of these fuel adjustment clause costs is subject to, and may be disallowed as part of, a prudency review or a periodic fuel audit conducted by the LPSC. Cleco Power manages its exposure to energy commodity activities by establishing and enforcing risk limits and risk

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

### **Future Electricity Sales**

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

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

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

### **Purchased Power**

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

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

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

incremental generation cost, which could be substantial.

### **Weather Sensitivity**

*The operating results of Cleco Power are affected by weather conditions and may fluctuate on a seasonal and quarterly basis.*

Weather conditions directly influence the demand for electricity, particularly kWh sales to residential customers. In Cleco Power's service territory, like in many parts of the country, demand for power peaks during the hot summer months, with market power prices also peaking at that time. As a result, Cleco Power's financial results may fluctuate on a seasonal basis. In addition, Cleco Power has sold less power, and consequently earned less income, when weather conditions are milder. Unusually mild weather in the future could adversely impact the Registrants' results of operations, financial condition, and cash flows.

Severe weather, including hurricanes and winter storms, can be destructive, causing outages and property damage that can potentially result in additional expenses and lower revenue.

### **Commodity Prices**

*Cleco Power is subject to the fluctuation in the market prices of various commodities which may increase the cost of producing power.*

Cleco Power purchases coal, lignite, natural gas and fuel oil under long-term contracts and on the spot market. Historically, the markets for oil, natural gas and coal have been

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

### **Evangeline Plant Performance**

*Evangeline has certain plant performance obligations defined in its tolling agreement. Failure to perform these obligations could expose Evangeline to adverse financial penalties.*

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

### **Cleco Power Generation Facilities**

*Cleco Power's generation facilities are susceptible to unplanned outages, significant maintenance requirements and interruption of fuel deliveries.*

The operation of power generation facilities involves many risks, including breakdown or failure of equipment, fuel interruption and performance below expected levels of output or efficiency. Some of Cleco Power's facilities were originally constructed many years ago. Older equipment, even if maintained in accordance with good engineering practices, may require significant expenditures to operate at peak efficiency or availability. If Cleco Power fails to make adequate expenditures for equipment maintenance, Cleco Power risks incurring more frequent unplanned outages, higher than anticipated operating and maintenance expenditures, increased fuel or power purchase costs and potentially the loss of revenue related to competitive opportunities.

Cleco Power's generating facilities are fueled primarily by coal, natural gas and lignite. The deliverability of these fuel sources may be constrained due to such factors as higher demand, production shortages, weather-related disturbances or lack of transportation capacity. If the suppliers are unable to deliver the contracted volume of fuel, Cleco Power would have to replace any deficiency with alternative sources, which may not be as favorable and could increase the ultimate cost of fuel to customers. Fuel and purchased power expenses are recovered from customers through the fuel adjustment clause, which is subject to refund until either a prudence review or a periodic fuel audit is conducted by the LPSC.

### **ERO**

*In 2005, the FERC's authority was expanded to include the establishment and enforcement of mandatory reliability standards on the transmission system, as well as the capacity to impose fines and civil penalties on those who fail to comply with those standards.*

The Energy Policy Act of 2005 authorizes the creation of an ERO with authority to establish and enforce mandatory reliability standards, subject to FERC approval, for users of the nation's transmission system. In July 2006, the FERC



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

## **Environmental Compliance**

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

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

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these revisions, reinterpretations and new requirements. If Cleco fails to comply with these revisions, reinterpretations and requirements, it could be subject to civil or criminal liabilities and fines or may be forced to shut down or reduce productions from its facilities.

Environmental advocacy groups, states, other organizations and some government agencies in the United States are focusing considerable attention on carbon dioxide emissions from power generation facilities and their potential role in climate change. Future changes in environmental regulations governing CO<sub>2</sub> could make some of Cleco's electric generating units uneconomical to maintain or operate. In addition, any legal obligation that would require Cleco to substantially reduce its CO<sub>2</sub> emissions beyond present levels could require extensive mitigation efforts and could raise uncertainty about the future viability of fossil fuels as an energy source for new and existing electric generation facilities.

Cleco Power may request recovery from its retail customers of its costs to comply with environmental laws and regulations. If revenue relief were to be approved by the LPSC, then Cleco Power's retail rates could increase. If the LPSC were to deny Cleco Power's request to recover all or part of its environmental compliance costs, such an adverse decision could have a material effect on the Registrants' results of operations, financial condition, and cash flows.

### **Regulatory Compliance**

***Cleco operates in a highly regulated environment and adverse regulatory decisions or changes in applicable regulations could have a material adverse effect on the Registrants' businesses or result in significant additional costs.***

Cleco's business is subject to extensive federal, state and local energy, environmental and other laws and regulations. The LPSC regulates Cleco's retail operations, and the FERC regulates Cleco's wholesale operations. The construction, planning, and siting of Cleco's power plants and transmission lines are also subject to the jurisdiction of the LPSC and the FERC. Additional regulatory authorities have jurisdiction over some of Cleco's operations and construction projects including the EPA, the United States Bureau of Land Management, the United States Fish and Wildlife Services, the United States Department of Energy, the United States Army Corps of Engineers, the United States Department of Homeland Security, the Occupational Safety and Health Administration, the United States Department of Transportation, the LDEQ, the Louisiana Department of Health and Hospitals, the Louisiana Department of Natural Resources, the Louisiana Department of Public Safety, regional water quality boards and various local regulatory districts.

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

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

***The abandonment of the Rodemacher Unit 3 project or termination of the Amended EPC Contract could result in unrecoverable costs.***

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

## **Retail Electric Service**

### ***Cleco Power's retail electric rates and business practices are regulated by the LPSC.***

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

## **Cleco Credit Ratings**

### ***A downgrade in Cleco Corporation's or Cleco Power's credit rating could result in an increase in their respective borrowing costs and a reduced pool of potential investors and funding sources.***

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

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

### **Holding Company**

***Cleco Corporation is a holding company, and its ability to meet its debt obligations and pay dividends on its common stock is dependent on the cash generated by its subsidiaries.***

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

### **Bear Stearns Companies Inc.**

***Failure by Bear Stearns Companies Inc. to fulfill its guarantee obligations under the Evangeline Tolling Agreement could have a material adverse effect on Cleco's results of operations, financial condition, and cash flows.***

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

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

### **Evangeline and Acadia Generation Facilities**

***Evangeline's and Acadia's generation facilities are susceptible to unplanned outages, significant maintenance requirements, interruption of fuel deliveries and transmission constraints.***

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

opportunities.

Evangeline's and Acadia's generating facilities are fueled by natural gas. The deliverability of this fuel source may be constrained due to such factors as higher demand, production shortages, weather-related disturbances or lack of transportation capacity.

Because of Acadia's location on the transmission grid, Acadia relies on two main suppliers of electric transmission when accessing external power markets. At times, physical constraints limit the amount of power these transmission providers can deliver.

**ITEM 1B.UNRESOLVED STAFF COMMENTS**

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None.

**ITEM 2.PROPERTIES**

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**CLECO**

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**Electric Transmission Substations**

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

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## **CLECO POWER**

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

### **Electric Generating Stations**

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

### **Electric Substations**

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

### **Electric Lines**

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

### **General Properties**

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

### **Title**

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

## **MIDSTREAM**

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

### **Electric Generation**

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

### **Title**

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

### **ITEM 3.LEGAL PROCEEDINGS**

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#### **CLECO**

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

#### **CLECO POWER**

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

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

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#### **CLECO**

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

#### **CLECO POWER**

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

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**Board of Directors of Cleco**

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

NAME OF  
DIRECTOR

AGES AS OF DECEMBER 31, 2007

**Sherian G.  
Cadoria**

Age 67; Elected 1993

Brigadier General, U.S. Army (retired)

Retired President, Cadoria Speaker and Consultancy Service, Mansura, LA

Member of the Audit, Nominating/Governance and Qualified Legal Compliance committees

**Richard B.  
Crowell**

Age 69; Elected 1997

Partner, law firm of Crowell & Owens, Alexandria, LA

Member of the Audit, Nominating/Governance and Qualified Legal Compliance committees

**J. Patrick Garrett**

Age 64; Elected 1981

Retired President and Chief Executive Officer, Windsor Food Company, Ltd., Houston, TX

Chairman of the Board and chairman of the Executive, Nominating/Governance and Qualified Legal Compliance committees

**F. Ben James Jr.**

Age 71; Elected 1986

President, James Investments, Inc. (real estate development and international marketing), Ruston, LA

Member of the Audit, Compensation, Nominating/Governance and Qualified Legal Compliance committees

**Elton R. King**

Age 61; Elected 1999

Retired President of network and carrier services group, BellSouth Telecommunications, Inc., Atlanta, GA. Also retired president and CEO of Visual Networks, Inc.

Member of the Compensation and Finance committees

**Michael H.  
Madison**

Age 59; Elected 2005

President and Chief Executive Officer, Cleco Corporation, Pineville, LA

Member of the Executive Committee

**William L. Marks**

Age 64; Elected 2001

Chairman and Chief Executive Officer, Whitney Holding Corporation and Whitney National Bank, New Orleans, LA

Chairman of the Finance Committee and member of the Compensation and Executive committees

**Robert T. Ratcliff  
Sr.**

Age 65; Elected 1993

Chairman, President and Chief Executive Officer, Ratcliff Construction Company, LLC, Alexandria, LA

Member of the Audit and Finance committees

Age 62; Elected 1996



**William H. Walker Jr.** Retired Chairman, Howard Weil, Inc., New Orleans, LA  
Chairman of the Compensation Committee and member of the Executive and Finance committees

**W. Larry Westbrook** Age 68; Elected 2003  
Retired Chief Financial Officer and Senior Risk Officer of Southern Company, Atlanta, GA  
Chairman of the Audit Committee and member of the Compensation, Executive and Finance committees

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***Executive Officers of Cleco***

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

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

July 2004 to January 2007; Vice President and General Counsel, Energy Trading, Reliant Resources, Inc. from August 2000 to February 2004.

(Age 52; 1 year of service)

**Darren J. Olagues**

Midstream

Senior Vice President since July 2007; Vice President, Power – Asset Management and Development, Exelon Corporation from November 2006 to July 2007; Director – Corporate Development, Exelon Corporation from March 2005 to November 2006; Senior Vice President and Chief Financial Officer, Sithe Energies from October 2002 to February 2005.

(Age 37; less than 1 year of service)

**Anthony L.  
Bunting**

Cleco Power

Vice President Customer Services and Energy Delivery since October 2004; acting General Manager Human Resources from August 2003 to October 2004; General Manager Customer Care from December 2001 to August 2003.

(Age 48; 16 years of service)

**Stephen M. Carter**

Cleco Power

Vice President Regulated Generation since April 2003; General Manager Regulated Generation from October 2002 to April 2003.

(Age 48; 19 years of service)

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NAME OF  
EXECUTIVE            POSITION AND FIVE-YEAR EMPLOYMENT HISTORY

**Keith D. Crump**

Cleco Corporation    Treasurer from May 2005 to March 2007; Manager Forecasting and Analytics, Budgeting from December 2004 to May 2005; Manager Forecasting and Analytics from October 2002 to December 2004.

Cleco Power

Vice President – Regulatory, Retail Operations and Resource Planning since March 2007.  
(Age 46; 18 years of service)

**R. Russell Davis**

Cleco Corporation    Vice President and Chief Accounting Officer since May 2005; Vice President and Controller  
Cleco Power            from July 2000 to May 2005.  
(Age 51; 8 years of service)

**William G.  
Fontenot**

Cleco Power

Vice President Regulated Generation Development since July 2005.

Midstream

Chief Restructuring Officer of Perryville from April 2004 to July 2005.

Cleco Corporation

General Manager Contracts and Analysis from December 2002 to April 2004.  
(Age 44; 22 years of service)

**Judy P. Miller**

Cleco Corporation    Corporate Secretary since January 2004; Assistant Controller  
Cleco Power            from June 2000 to January 2004.  
(Age 50; 23 years of service)

**Terry L. Taylor**

Cleco Corporation    Assistant Controller since August 2006; Director of Accounting  
Cleco Power            Services and Affiliate Compliance from January 2004 to August  
2006; Manager Systems Support and Affiliate Compliance from  
October 2002 to January 2004.  
(Age 52; 7 years of service)

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

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PART II

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

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**CLECO CORPORATION**

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

Subject to the prior rights of the holders of the respective series of Cleco Corporation's preferred stock, such dividends as determined by the Board of Directors of Cleco Corporation may be declared and paid on the common stock from time to time out of funds legally available. The provisions of Cleco Corporation's charter applicable to preferred stock and certain provisions contained in the debt instruments of Cleco under certain circumstances restrict the amount of retained earnings available for the payment of dividends by Cleco Corporation. The most restrictive covenant, which is in Cleco Corporation's credit facility, requires Cleco Corporation's total indebtedness to be less than or equal to 65% of total capitalization. At December 31, 2007, approximately \$447.2 million of retained earnings were unrestricted. On January 25, 2008, Cleco Corporation's Board of Directors declared a quarterly dividend of \$0.225 per share payable on February 15, 2008, to common shareholders of record on February 4, 2008.

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

**CLECO POWER**

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

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

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

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

**ITEM 6. SELECTED FINANCIAL DATA**

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## CLECO

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

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

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

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negative cost basis and cumulative losses. In the third quarter of 2005, Perryville recognized earnings sufficient to exceed PEH's and Perryville's initial negative cost basis and cumulative losses incurred after January 28, 2004. The previous financial results of Perryville and PEH were reintegrated with Cleco's consolidated financial results effective in the third quarter of 2005. For additional information on PEH's and Perryville's reintegration, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 18 — Perryville."

Cleco's adoption of SFAS No. 123(R) on January 1, 2006, impacted Cleco's consolidated financial results for 2007 and 2006 as compared to prior years. Cleco's adoption of SFAS No. 158 on December 31, 2006, impacted Cleco's consolidated financial position as of December 31, 2007, and 2006 as compared to prior years. For additional information regarding the adoption of SFAS No. 123(R) and SFAS No. 158, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 2 — Summary of Significant Accounting Policies — Recent Accounting Standards."

Cleco's consolidated financial results for 2007 included the settlement of Acadia's pre-petition unsecured claims against CES and Calpine and amounts received by APH relating to Cajun's purchase of CAH's 50% equity ownership interest in Acadia, offset by a pre-tax impairment loss. For additional information, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 19 — Calpine Bankruptcy Settlement."

Cleco's adoption of FIN 48 on January 1, 2007, impacted Cleco's consolidated financial results for 2007 as compared to prior years. For additional information regarding the adoption of FIN 48, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 2 — Summary of Significant Accounting Policies — Recent Accounting Standards."

**Five-Year Selected Financial Data**

(THOUSANDS, EXCEPT PER  
SHARE AND PERCENTAGES)

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

Total assets	\$ <b>2,710,735</b>	\$ 2,461,104	\$ 2,149,488	\$ 1,837,063	\$ 2,159,426
Cash dividends declared per common share	\$ <b>0.900</b>	\$ 0.900	\$ 0.900	\$ 0.900	\$ 0.900

**CLECO POWER**

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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).



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

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### OVERVIEW

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

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

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

#### *Cleco Power*

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

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

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

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

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

***Midstream***

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

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

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

## RESULTS OF OPERATIONS

### Use of Estimates

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

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

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

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

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

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

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

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

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

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

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

## CLECO POWER

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### Significant Factors Affecting Cleco Power

#### *Revenue is primarily affected by the following factors:*

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

Cleco Power's residential customers' demand for electricity largely is affected by weather. Weather generally is measured in cooling degree-days and heating degree-days. A cooling degree-day is an indication of the likelihood that a

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

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

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

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

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

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

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

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

***Other expenses are primarily affected by the following factors:***

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

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

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

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

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

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

These were partially offset by:

- § absence of favorable customer credit adjustments,

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

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

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

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

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

**Base**

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



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

***Fuel Cost Recovery***

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

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### ***Electric Customer Credits***

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

### ***Other Operations***

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

### ***Operating Expenses***

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

### ***Interest Income***

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

### ***Allowance for Other Funds Used During Construction***

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

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

***Interest Charges***

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

***Income Taxes***

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

**MIDSTREAM**

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**Significant Factors Affecting Midstream**

***Earnings are primarily affected by the following factors:***

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

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

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

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

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

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

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

***Expenses are primarily affected by the following factors:***

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

**Other Factors Affecting Midstream**

***Perryville and Attala***

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

***Acadia***

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

***Evangeline***

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

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

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

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

\* Not meaningful

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

***Operating Expenses***

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

***Interest Income***

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

***Equity Income from Investees***

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

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

***Other Income***

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

***Other Expense***

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

***Income Taxes***

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

CLECO CORPORATION  
 CLECO POWER

2007 FORM 10-K

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

(THOUSANDS)	FOR THE YEAR ENDED DECEMBER 31, FAVORABLE/(UNFAVORABLE)		
	2006	2005	VARIANCE CHANGE
Operating revenue, net	\$ 1,000,675	\$ 920,154	