CLECO POWER LLC
Form 10-K
February 25, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2009

Or

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

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

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

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

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

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

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

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

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

Louisiana	72-0244480

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

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

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

Title of each class	Name of each exchange on which registered
6.50% Senior Notes due 2035	New York Stock Exchange

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

Title of each class
Membership Interests

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

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

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

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

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

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

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

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

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

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

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The aggregate market value of the Cleco Corporation voting stock held by non-affiliates was $1,320,856,355 as of the last business day of Cleco Corporation's most recently completed second fiscal quarter, based on a price of $22.42 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.
As of February 1, 2010, there were 60,503,781 outstanding shares of Cleco Corporation's Common Stock, par value $1.00 per share. As of February 1, 2010, 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 30, 2010, are incorporated by reference into Part III herein.

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

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

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GLOSSARY OF TERMS

References in this filing, including all items in Parts I, II, III, and IV, to “Cleco” mean Cleco Corporation and its subsidiaries, including Cleco Power, and references to “Cleco Power” mean Cleco Power LLC, 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 Calpine Acadia Holdings, LLC.
Acadiana Load Pocket	An area in south central Louisiana that has experienced transmission constraints caused by local load and lack of generation. Transmission within the Acadiana Load Pocket is owned by several entities, including Cleco Power.
Accounting Codification	FASB Accounting Standards CodificationTM the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities.
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, for engineering, procurement, and construction of Rodemacher Unit 3, as amended by Amendment No. 1 thereto effective March 9, 2007, Amendment No. 2 thereto dated as of July 2, 2008, Amendment No. 3 thereto dated as of July 22, 2009, and Amendment No. 4 thereto dated October 19, 2009.
Amended Lignite Mining Agreement	Amended and restated lignite mining agreement effective December 29, 2009
APH	Acadia Power Holdings LLC, a wholly owned subsidiary of Midstream
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	BE Louisiana LLC, an indirect wholly owned subsidiary of JPMorgan Chase & Co. In September 2008, BE Louisiana LLC was merged into JPMVEC.
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
CAA	Clean Air Act
CAH	Calpine Acadia Holdings, LLC
CAH Assets	CAH’s interest in Acadia and certain related assets
Cajun	Cajun Gas Energy L.L.C.
Calpine	Calpine Corporation
Calpine Debtors	Calpine, CES, and certain other Calpine subsidiaries
Calpine Debtors Bankruptcy Court	U.S. Bankruptcy Court for the Southern District of New York
Calpine Tolling Agreements	Capacity Sale and Tolling Agreements between Acadia and CES which were suspended in March 2006
CCN	Certificate of Public Convenience and Necessity
CES	Calpine Energy Services, L.P.

Claims Settlement Agreement	Claims Settlement Agreement, dated April 23, 2007, by and among Calpine, CAH, CES, Acadia, and APH
CLE Intrastate	CLE Intrastate Pipeline Company LLC, a wholly owned subsidiary of Midstream
Cleco Energy	Cleco Energy LLC, a wholly owned subsidiary of Midstream
Cleco Innovations LLC	A wholly owned subsidiary of Cleco Corporation
Cleco Katrina/Rita	Cleco Katrina/Rita Hurricane Recovery Funding LLC, a wholly owned subsidiary of Cleco Power
CO_2	Carbon dioxide
Compliance Plan	The one-year plan included in the Stipulation and Consent Agreement (Docket No. IN07-28-00), effective June 12, 2007
Consent Agreement	Stipulation and Consent Agreement, dated as of July 25, 2003, between Cleco and the FERC Staff
DHLC	Dolet Hills Lignite Company, LLC, a wholly owned subsidiary of SWEPCO
Diversified Lands	Diversified Lands LLC, a wholly owned subsidiary of Cleco Innovations LLC
DOE	United States Department of Energy
Entergy	Entergy Corporation
Entergy Gulf States	Entergy Gulf States Louisiana, L.L.C., formerly Entergy Gulf States, Inc.
Entergy Louisiana	Entergy Louisiana, LLC
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
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 2010 Tolling Agreement	Capacity Sale and Tolling Agreement between Evangeline and JPMVEC, which was executed in February 2010.
Evangeline Restructuring Agreement	Purchase, Sale and Restructuring Agreement entered into on February 22, 2010, by Evangeline and JPMVEC.

ABBREVIATION OR ACRONYM	DEFINITION
Evangeline Tolling Agreement	Capacity Sale and Tolling Agreement between Evangeline and BE Louisiana LLC (as successor to Williams Power Company, Inc. (formerly known as Williams Energy Marketing & Trading Company)) which was set to expire in 2020 and was terminated in February 2010. In September 2008, BE Louisiana LLC was merged into JPMVEC.
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
GAAP	Generally Accepted Accounting Principles in the United States
GDP-IPD	Gross Domestic Product – Implicit Price Deflator
Generation Services	Cleco Generation Services LLC, a wholly owned subsidiary of Midstream
GO Zone	Gulf Opportunity Zone Act of 2005 (Public Law 109-135)
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
JPMVEC	J.P. Morgan Ventures Energy Corporation. In September 2008, BE Louisiana LLC was merged into JPMVEC.
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
Midstream	Cleco Midstream Resources LLC, a wholly owned subsidiary of Cleco Corporation
MMBtu	Million British thermal units
Moody’s	Moody’s Investors Service
MW	Megawatt(s) as applicable
MWh	Megawatt-hour(s) as applicable
NAC	North American Coal Corporation
NERC	North American Electric Reliability Corporation
NOx	Nitrogen oxides
OCI	Other Comprehensive Income
Oxbow	Oxbow Lignite Company, LLC, 50% owned by Cleco Power and 50% owned by SWEPCO
PCAOB	Public Company Accounting Oversight Board
PCB	Polychlorinated biphenyl
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
	Power Purchase Agreement, dated as of January 28, 2004, between Perryville and Entergy Services

Power Purchase Agreement	
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 at Cleco Power's Rodemacher plant site in Boyce, Louisiana that commenced commercial operations on February 12, 2010.
RSP	Rate Stabilization Plan
RTO	Regional Transmission Organization
Sale Agreement	Purchase and Sale Agreement, dated as of January 28, 2004, between Perryville and Entergy Louisiana
SEC	Securities and Exchange Commission
SERP	Cleco Corporation Supplemental Executive Retirement Plan
Shaw	Shaw Contractors, Inc., a subsidiary of The Shaw Group Inc.
SO2	Sulfur dioxide
SPP	Southwest Power Pool
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.
The Bear Stearns Companies Inc.	The parent company of Bear, Stearns & Co. Inc.
VaR	Value-at-risk
Williams	Williams Power Company, Inc.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes “forward-looking statements” about future events, circumstances, and results. All statements other than statements of historical fact included in this Annual Report are forward-looking statements, including, without limitation, statements regarding the construction and cost of Rodemacher Unit 3; JPMVEC’s performance under the Evangeline 2010 Tolling Agreement; future capital expenditures; projections; business strategies; goals; competitive strengths; market and industry developments; development and operation of facilities; future environmental regulations and remediation liabilities; and the anticipated outcome of various regulatory and legal proceedings. Although the Registrants believe that the expectations reflected in such forward-looking statements are reasonable, such forward-looking statements are based on numerous assumptions (some of which may prove to be incorrect) and are subject to risks and uncertainties that could cause the actual results to differ materially from the Registrants’ expectations. In addition to any assumptions and other factors referred to specifically in connection with these forward-looking statements, the following list identifies some of the factors that could cause the Registrants’ actual results to differ materially from those contemplated in any of the Registrants’ forward-looking statements:

§ Factors affecting utility operations, such as unusual weather conditions or other natural phenomena; catastrophic weather-related damage (such as hurricanes and other storms); 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; decreased customer load; environmental incidents; environmental compliance costs; or power transmission system constraints;

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

§ Cleco Power’s ability to construct, operate, and maintain, within its projected costs, 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 short-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, recovery of storm restoration costs, the frequency and timing of rate increases or decreases, the results of periodic NERC audits and fuel audits, the results of IRP and RFP processes, the formation of ICTs, and the compliance with the ERO reliability standards for bulk power systems by Cleco Power, Acadia, and Evangeline;

§ Financial or regulatory accounting principles or policies imposed by FASB, the SEC, the PCAOB, FERC, the LPSC or similar entities with regulatory or accounting oversight;

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

§ The current global economic downturn and U.S. recession;

§ Credit ratings of Cleco Corporation and Cleco Power;

§ Ability to remain in compliance with debt covenants;

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

§ Impact of the imposition of energy efficiency requirements;

§ Reliability of Rodemacher Unit 3 during its first year of commercial operations;

§ 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;

§ Uncertain tax positions;

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

§ Legal, environmental, and regulatory delays and other obstacles associated with mergers, acquisitions, reorganizations, investments in joint ventures, or other capital projects, including Rodemacher Unit 3, the joint project to upgrade the Acadiana Load Pocket transmission system, Entergy Louisiana's acquisition of the remaining 50%, a 580-MW unit, at the Acadia Power Station, and the Teche blackstart project;

§ 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;

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

§ Ability of the Dolet Hills lignite reserve to provide sufficient fuel to the Dolet Hills Power Station until at least 2026.

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

PART I

ITEM 1. BUSINESS

GENERAL

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

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 FERC, along with other governmental authorities, which determine the rates Cleco Power can charge its customers. Cleco Power serves approximately 277,000 customers in 107 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 power plant (Evangeline). At December 31, 2009, Midstream also owned a 50 percent interest in a merchant power plant (Acadia) and operated the plant on behalf of its partner. During 2009, Cleco Power and Entergy Louisiana executed definitive agreements whereby Cleco Power and Entergy Louisiana would each purchase one 580-MW unit of the Acadia Power Station. The transaction with Cleco Power was completed in February 2010 and the transaction with Entergy Louisiana is expected to be completed in late 2010 or early 2011. For additional information, 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 — Acadia Transactions" and Note 23 — "Subsequent Events — Acadia Transaction."

At December 31, 2009, Cleco had 1,305 employees. 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, 2009, Cleco Power had 1,015 employees. Cleco Power's mailing address is P.O. Box 5000, Pineville, Louisiana, 71361-5000, and its telephone number is (318) 484-7400.

Cleco Power meets the conditions specified in General Instructions I(1)(a) and (b) to Form 10-K and therefore is permitted to use the reduced disclosure format for wholly owned subsidiaries of reporting companies. Accordingly, Cleco Power has omitted from this Report the information called for by 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

Summary financial results of the Cleco Power segment for years 2009, 2008, and 2007 are presented below.

(THOUSANDS)	2009	2008	2007
Revenue			
Electric operations	$808,646	$1,032,970	$988,193
Other operations	33,558	36,675	35,176
Affiliate revenue	23	29	42
Intercompany revenue	1,372	2,008	2,008
Operating revenue, net	$843,599	$1,071,682	$1,025,419
Depreciation expense	$77,064	$76,420	$78,522
Interest charges	$58,562	$47,283	$29,565
Interest income	$1,449	$3,943	$5,422
Federal and state income taxes	$15,297	$27,956	$29,613
Segment profit	$111,166	$113,832	$84,673
Additions to long-lived assets	$235,385	$321,407	$492,445
Equity investment in investees	$12,873	$-	$-
Segment assets	$3,363,962	$3,041,597	$2,306,482

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

Certain Factors Affecting Cleco Power

As an electric utility, Cleco Power is affected, to varying degrees, by a number of factors influencing the electric utility industry in general. These factors include, among others, fluctuations in the price of fuel, an increasingly competitive business environment, the cost of compliance with environmental and reliability regulations, conditions in the credit markets and global economy, changes in the federal and state regulation of generation, transmission, and the sale of electricity, and the increasing uncertainty of future federal regulatory and environmental policies. 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 — Global Economic Downturn," "— Future Electricity Sales," "— Fuel Cost Audits," "— Hedging and Risk Management Activities," "— Transmission Constraints Commodity Prices," "— Cleco Power Generation Facilities," "— ERO," "— Environmental Compliance," "— Regulatory Co Weather Sensitivity," "— Retail Electric Service," "— Wholesale Electric Service," "— Cleco Credit Ratings," "— Interest Ra and " — Cleco Power's Rates."

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, 2009, Cleco Power's aggregate net electric generating capacity was 1,318 MW. This amount reflects the maximum production capacity these units can sustain over a specified period of time. The following table sets forth certain information with respect to Cleco Power's generating facilities:

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

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

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

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

(4) Represents Cleco Power's 50% ownership interest in the capacity of Dolet Hills, a 650-MW generating unit.

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

PERIOD	THOUSAND MWh	PERCENT OF TOTAL

		ENERGY REQUIREMENTS
2009	4,943	46.4
2008	4,747	44.3
2007	4,504	42.0
2006	4,691	44.0
2005	5,284	51.2

In May 2006, Cleco Power began construction of Rodemacher Unit 3, a 600-MW solid-fuel power plant at its Rodemacher facility. The unit commenced commercial operations on February 12, 2010. Rodemacher Unit 3 is capable of burning various solid fuels, but initially will primarily burn petroleum coke produced by several refineries throughout the Gulf Coast region. The total capital cost of the project, including AFUDC, Amended EPC Contract costs, and other development expenses, is approximately $1.0 billion. 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 "— Transmission Constraints."

The following table sets forth the percentages of power generated from various fuels at Cleco Power's electric generating plants, the cost of fuel used per MWh attributable to each such fuel, and the weighted average fuel cost per MWh. The percent of generation from each fuel source as shown in the table is expected to change as a result of the startup of Rodemacher Unit 3. Rodemacher Unit 3 is capable of burning various solid fuels, but initially will primarily burn petroleum coke. Rodemacher Unit 3 is expected to diversify and help stabilize Cleco Power's fuel costs, given the availability and projected pricing of petroleum coke. The generation from petroleum coke in the following table represents power produced during testing of Rodemacher Unit 3.

		LIGNITE		COAL		NATURAL GAS		FUEL OIL		PETROLEUM COKE	WEIGHTED AVERAGE
YEAR	COST PER MWh	PERCENT OF GENERATION	COST PER MWh	PERCENT OF GENERATION	COST PER MWh	PERCENT OF GENERATION	COST PER MWh	PERCENT OF GENERATION	COST PER MWh	PERCENT OF GENERATION	COST PER MWh
2009	$26.04	45.1	$27.10	21.5	$105.22	33.1	$-	-	$34.64	0.3	$ 52.49
2008	$24.09	51.3	$27.50	18.4	$108.48	30.3	$-	-	$-	-	$ 50.27
2007	$19.80	42.2	$26.07	24.8	$129.80	33.0	$-	-	$-	-	$ 57.65
2006	$18.20	50.0	$22.81	20.8	$125.07	29.1	$107.65	0.1	$-	-	$ 50.32
2005	$17.44	45.7	$19.44	20.6	$85.72	27.3	$83.08	6.4	$-	-	$ 40.79

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 2009, portions of Cleco Power's capacity and power purchases were made at contract prices, and the remainder was made at prevailing market prices.

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

PERIOD	COST PER MWh	THOUSAND MWh	PERCENT OF TOTAL ENERGY REQUIREMENTS
2009	$34.57	5,712	53.6
2008	$73.72	5,959	55.7
2007	$58.08	6,221	58.0
2006	$59.50	5,968	56.0
2005	$69.84	5,028	48.8

During 2009, 53.6% of Cleco Power's energy requirements were met with purchased power, down from 55.7% in 2008. The primary factor causing the decrease was the increased generation from Cleco Power's own facilities as a result of increased power transmission system constraints. The lower cost per MWh of purchased power was primarily due to lower natural gas prices. Cleco Power expects the volume of purchased power to decrease in future periods as a result of the acquisition of 50% of the Acadia Power Station, or one of its two 580-MW units, and the completion of Rodemacher Unit 3. 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 2009, Cleco Power obtained approximately 40.4% of its annual capacity from short- and long-term power purchase agreements. One agreement was with Bear Energy for 500 MW of annual capacity and energy which expired at the end of 2009. The second agreement was with NRG Power Marketing, Inc. (NRG). The term of this agreement was April through October 2009 during which Cleco Power purchased 200 MW from June through September and 50 MW during the remainder of the term. A third capacity and energy agreement with Acadia was for 235 MW for the term of March through September 2009. Cleco Power also has a long-term contract, which expires in April 2018, 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, which provided 41 MW of capacity in 2009. The contract was scheduled to expire in December 2009. However, the expiration date has been extended by three months to facilitate negotiations for a long-term contract.

Beginning in January 2010, Acadia began serving Cleco Power under a tolling agreement covering 50% of the Acadia Power Station. In February 2010, the transaction between Cleco Power and Acadia was completed and Cleco Power now owns and operates the unit at Acadia. Cleco expects to meet its native load demand in 2010 with Cleco Power's own generation capacity, the acquisition of 580 MW from the Acadia plant, and the completion of Rodemacher Unit 3.

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. For information on the Acadiana Load Pocket project and how transmission constraints in this area are expected to be reduced, see Part II, Item 7A, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Regulatory Matters — Acadiana Load Pocket."

Coal and Lignite Supply

Cleco Power uses coal for generation at Rodemacher Unit 2. In 2007, Cleco Power entered into agreements with Rio Tinto Energy America and Peabody Energy which will provide the majority of coal needs through 2014. The coal supply agreements are fixed-priced for each year of the contract and together provide for the full requirements to support Cleco Power's minimum 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 planned dispatch, 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 Wyoming's Powder River Basin to Rodemacher Unit 2 through 2011. Cleco Power leases approximately 241 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. 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 within the Dolet Hills mine 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. The term of this contract runs until all economically mineable lignite has been mined, which is currently estimated to be around 2016.

Additionally, Cleco Power and SWEPCO had entered into an agreement which was set to expire on December 31, 2010 with the Red River Mining Company to purchase lignite. Cleco Power's and SWEPCO's minimum annual purchase requirement of lignite under this agreement was 550,000 tons. However, on December 29, 2009, Cleco Power and SWEPCO acquired all interests in the Red River mine, and have merged its operations with the Dolet Hills mine. The Lignite Mining Agreement with DHLC has been amended to extend its services to cover operations in both mining areas. Among other things, the terms of this acquisition provided for the transfer of the reserves formerly held by the Red River Mining Company to Oxbow which is owned 50% by Cleco Power and 50% by SWEPCO. It is estimated that Oxbow holds approximately 100 million tons of recoverable lignite reserves which together with the Dolet Hills mine are expected to be sufficient to fuel the Dolet Hills Power Station until at least 2026. Cleco Power's investment in the acquisition was $12.9 million. 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, 2009, Cleco Power's coal inventory at Rodemacher Unit 2 was approximately 290,000 tons (about a 132-day supply), and Cleco Power's lignite inventory at Dolet Hills was approximately 155,000 tons (about a 26-day supply).

Natural Gas Supply

During 2009, Cleco Power purchased a total of 19,614,753 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	2009 PURCHASES (MMBtu)	AVERAGE AMOUNT PURCHASED PER DAY (MMBtu)	PERCENT OF TOTAL NATURAL GAS USED
Tenaska Marketing Ventures	1,988,906	5,400	10.1%
Noble Gas	1,985,119	5,400	10.1%
BP Energy	1,835,270	5,000	9.4%
Eagle Energy Partners	1,709,576	4,600	8.7%
Gavilon, LLC	1,618,303	4,400	8.3%
Pacific Summit Energy	1,530,700	4,200	7.8%
Others	8,946,879	25,000	45.6%
Total	19,614,753	54,000	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 2009. Cleco Power expects to continue to meet its natural gas requirements with purchases on the spot market through daily, monthly, and seasonal contracts with various natural gas suppliers. However, future supplies to Cleco Power remain vulnerable to disruptions due to weather events and transportation delays. Large industrial users of natural gas, including electric utilities, generally have low priority among gas users in the event pipeline suppliers are forced to curtail deliveries due to inadequate supplies. As a result, prices may increase rapidly in response to temporary supply interruptions. Although prices may increase rapidly, Cleco Power enters into economic hedge positions to mitigate the volatility in fuel costs as encouraged by an LPSC order. For additional information on these economic hedge positions, see Item 1A, "Risk Factors — Hedging and Risk Management Activities" and Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk — Commodity Price Risks." Currently, Cleco Power anticipates that its diverse supply options and alternative fuel capability, combined with its solid-fuel generation resources, are adequate to meet its fuel needs during any temporary interruption of natural gas supplies.

Fuel Oil Supply

Cleco Power stores fuel oil as an alternative fuel source at its Rodemacher and Teche power stations. The Rodemacher Power Station has storage capacity for an approximate 95-day supply, and the Teche power station has storage capacity for an approximate 28-day supply. However, in accordance with Cleco Power's current fuel oil inventory practices, Cleco Power had approximately an 89-day supply of fuel oil stored at its Rodemacher facility and a 16-day supply at its Teche facility at December 31, 2009. During 2009, no fuel oil was purchased or burned.

Sales

Cleco Power's 2009 and 2008 system peak demands, which occurred on July 2, 2009, and July 28, 2008, were 2,242 MW and 2,113 MW, respectively. Sales and system peak demand are affected by weather and are typically highest during the summer air-conditioning season. In 2009 and 2008, Cleco Power experienced above-normal summer weather and mild

winters. 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 22 — 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. During 2009, Cleco Power's capacity margin was 11.7%, which is below the SPP's capacity benchmark of 12.0%, primarily due to higher than expected native load demand. Cleco Power's capacity margin was 12.8% in 2008. Cleco Power expects to meet the SPP's capacity benchmark of 12.0% with the addition of 580 MW from the Acadia plant and 600 MW from Rodemacher Unit 3.

Midstream
Summary financial results of the Midstream segment for 2009, 2008, and 2007 are presented below.

(THOUSANDS)	2009	2008	2007
Revenue			
Other operations	$1	$1	$16
Affiliate revenue	8,748	7,920	5,050
Operating revenue, net	$8,749	$7,921	$5,066
Depreciation expense	$177	$307	$306
Interest charges	$7,408	$6,978	$19,053
Interest income	$-	$-	$1,047
Equity (loss) income from investees	$(19,339)	$(7,037)	$91,581
Federal and state income tax (benefit) expense	$(11,027)	$(7,182)	$36,585
Segment (loss) profit	$(17,730)	$(10,017)	$59,317
Additions to long-lived assets	$55	$64	$10
Equity investment in investees	$223,652	$234,273	$249,758
Total segment assets	$270,713	$250,882	$265,918

As of December 31, 2009, 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 owned 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.

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

GENERATING STATION	GENERATING UNIT #	COMMENCEMENT OF COMMERCIAL OPERATION	NAME PLATE CAPACITY (MW)	NET CAPACITY (MW)	TYPE OF FUEL USED FOR GENERATION
Evangeline	6	2000	264	258(1)	natural gas

	7	2000	511	497(1)	natural gas
Acadia	1	2002	290(2)	290(3)	natural gas
	2	2002	290(2)	291(4)	natural gas
Total capacity			1,355	1,336	

(1) Based on capacity testing of generating units performed in June 2009.
(2) Represents APH's 50% ownership interest in the capacity of Acadia.
(3) Based on capacity testing of generating unit performed in August 2009.
(4) Based on capacity testing of generating unit performed in September 2009.

Midstream competes against regional and national companies that own and operate merchant power stations. Evangeline's capacity is currently dedicated to one customer, JPMVEC. On February 22, 2010, Evangeline and JPMVEC terminated the existing Evangeline Tolling Agreement which was set to expire in 2020 and entered into the Evangeline 2010 Tolling Agreement, effective March 1, 2010. The new tolling agreement is an exclusive, market-based tolling agreement for Evangeline's generating Units 6 and 7, expiring December 31, 2011, with an option for JPMVEC to extend the term of the agreement through December 31, 2012. The tolling agreement gives 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. JPMorgan Chase & Co. guaranteed JPMVEC's obligations under the Evangeline Tolling Agreement and also is guaranteeing JPMVEC's obligations under the Evangeline 2010 Tolling Agreement. For additional information on the Evangeline transactions, see Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 23 — Subsequent Events — Evangeline Transactions."

During 2009, Acadia executed definitive agreements with both Cleco Power and Entergy Louisiana whereby Cleco Power and Entergy Louisiana would each purchase one 580-MW unit of the Acadia plant. In January 2010, Acadia began serving Cleco Power under a tolling agreement covering 50% of the Acadia Power Station. In February 2010, the Cleco Power transaction was completed and Cleco Power now owns one unit at Acadia and operates the Acadia Power Station. The transaction with Entergy Louisiana is expected to be completed in late 2010 or early 2011. Beginning in May 2010, Acadia will serve Entergy Louisiana under a tolling agreement covering 50% of the Acadia plant until the sale to Entergy Louisiana is completed. Until May 2010, this portion of Acadia's output is being 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 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 Acadia's transactions with Cleco Power and Entergy Louisiana, 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 15— Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Acadia Transactions," Note 20 — "Calpine Bankruptcy Settlement," and Note 23 — "Subsequent Events — Ac Transaction."

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, 2009, Midstream and its subsidiaries had 64 employees: 62 within Generation Services and 2 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."

Customers

No single customer accounted for 10% or more of Cleco's consolidated revenue or Cleco Power's revenue in 2009, 2008, or 2007. For additional information regarding Cleco's sales and revenue, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations."

Construction and Financing

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

REGULATORY MATTERS, INDUSTRY DEVELOPMENTS, AND FRANCHISES

Rates

Cleco Power's electric operations are subject to the jurisdiction of the LPSC with respect to retail rates, standards of service, accounting and other matters. Cleco Power also is subject to the jurisdiction of 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 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. 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. The LPSC Fuel Adjustment Clause General Order issued November 6, 1997, in Docket No. U-21497 provides that an audit will be performed not less than every other year. Cleco Power currently has fuel adjustment clause filings for 2003 through 2008 subject to audit. In July 2006, the LPSC informed Cleco Power that it was planning to conduct a periodic fuel audit that included fuel adjustment clause filings for the period January 2003 through December 2004. In March 2009, the LPSC indicated its intent to proceed with the audit for the years 2003 through 2008. The total amount of fuel expenses included in the audit is approximately $3.2 billion. The audit is expected to proceed in the first quarter of 2010. Cleco Power could be required to make a substantial refund of previously recorded revenue as a result of these audits, and such refund could result in a material adverse effect on the Registrants' results of operations, financial condition, and cash flows.

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 commercial operation date of Rodemacher Unit 3, which was on February 12, 2010. 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. In March 2008, the securitization financing was completed, collection of the interim surcharge ceased, and the right to bill and collect unamortized storm damage costs from customers was sold to Cleco Katrina/Rita, a special purpose, wholly owned subsidiary of Cleco Power.

In July 2009, the LPSC issued Docket No. U-29380 Subdocket A, which provides for an Environmental Adjustment Clause to recover certain costs of environmental compliance as an adder to the customers' bills. The costs eligible for recovery are prudently incurred air emissions credits associated with complying with federal, state, and local air emission regulations that apply to the generation of electricity reduced by sale of such allowances. Also eligible for recovery are variable emission mitigation costs, which are the cost of reagents such as ammonia and limestone that are used to reduce air emissions. These variable emission mitigation costs were historically recovered through the Fuel Adjustment Clause.

For additional information on Cleco Power's retail and wholesale rates, including Cleco Power's RSP, see Item 1A, "Risk Factors — Fuel Cost Audits," "— Retail Electric Service," "— Wholesale Electric Service," and "— Cleco Power's Rate 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."

Cleco Power's Rate Case

In July 2008, Cleco Power filed a request with the LPSC for a new rate plan to increase its base rates for electricity. Cleco Power sought recovery of revenues sufficient to cover the addition of Rodemacher Unit 3 to its existing expense and rate base levels. Cleco Power and the LPSC Staff filed testimony in support of an uncontested stipulated settlement in September 2009.

In October 2009, the LPSC voted unanimously to approve the retail rate plan for Cleco Power. The retail rate plan became effective upon the commercial operation of Rodemacher Unit 3, which occurred on February 12, 2010.

The retail rate plan is expected to increase retail base revenues, in the first twelve months of Rodemacher Unit 3 commercial operations, by approximately $173.0 million with an anticipated net billing decrease for retail customers of approximately $40.0 million, or 5.0% (assuming a gas price of $5/MMBtu), including a reduction of approximately $97.0 million resulting from the cessation of the collection and the refund of Rodemacher Unit 3 construction financing based on a five-year crediting period. The retail rate plan also provides for the recovery of other costs including costs associated with damage caused by Hurricanes Gustav and Ike.

The retail rate plan includes a Formula Rate Plan (FRP) that has a target return on equity of 10.7%, including returning to retail customers 60.0% of retail earnings between 11.3% and 12.3% and all retail earnings over 12.3%. The capital structure assumes an equity ratio of 51.0%. The FRP also has a mechanism allowing for recovery of future revenue requirements for the Acadiana Load Pocket transmission project and the acquisition of 50% of the Acadia Power Station, or one of its two 580-MW units. The retail rate plan allows Cleco Power to propose additional capital projects for inclusion in the FRP to the LPSC during the FRP's initial four-year term.

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 neared the end of its term. Cleco Power's next municipal franchise expires in 2011.

Renewed Franchises

Cleco Power renewed the following franchise agreements during 2009. No franchises were renewed in 2008.

DATE	CITY	TERM	NUMBER OF CUSTOMERS
January 2009	Coushatta	30 years	1,400
May 2009	Bunkie	27 years	2,200
May 2009	Abita Springs	25 years	710
July 2009	Simmesport	28 years	1,200
September 2009	Mansfield	30 years	2,700

Other Franchise Matters

In July 2009, the City of Opelousas notified Cleco Power that it would begin formally requesting proposals from other power companies to supply its electricity needs. The current agreement is set to expire in August 2011. In November 2009, the City of Opelousas received responses from power companies from which it solicited bids declining its request for proposals to provide power to the City. The Mayor formed a citizens committee to determine if the City of Opelousas should operate its power system or continue the operating and franchise agreement with Cleco Power. In December 2009, the City of Opelousas requested an extension under the operating and franchise agreement to perform the review. Cleco Power granted an extension until December 31, 2010. For the twelve-month period ended December 31, 2009, Cleco Power's base revenue from the City of Opelousas was $8.2 million. Approximately 10,000 customers are located in the City of Opelousas. While the City of Opelousas owns a portion of the power system, Cleco Power has performed upgrades and expansions since May 1991, which was the inception of the operating and franchise agreement. If the operating and franchise agreement is not renewed by the City of Opelousas, the City of Opelousas will be liable to Cleco Power for the cost of the upgrades and expansions of approximately $9.0 million.

Industry Developments

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

Wholesale Electric Competition

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

Retail Electric Competition

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

Legislative and Regulatory Changes and Matters

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

- § 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 FERC to grant utilities the power of eminent domain;
- increasing requirements for renewable energy sources;
- comprehensive multi-emissions environmental legislation;
- regulation of greenhouse gas emissions;
- FERC's increased ability to impose financial penalties; and
- the American Recovery and Reinvestment Act of 2009.

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 $4.9 million during 2009 and are estimated to total $3.0 million in 2010. The following table lists capital expenditures for environmental matters by subsidiary.

SUBSIDIARY (THOUSANDS)	ENVIRONMENTAL CAPITAL EXPENDITURES FOR 2009			PROJECTED ENVIRONMENTAL CAPITAL EXPENDITURES FOR 2010		
Cleco Power	$	3,905		$	1,745	
Evangeline		920			1,183	
Acadia		107	(1)		56	(2)
Total	$	4,932		$	2,984	

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

(2) Represents APH's remaining portion of Acadia subsequent to Cleco Power's purchase of one 580-MW unit of Acadia

Projected environmental capital expenditures for 2010 are lower than 2009 environmental capital expenditures primarily due to a project that was completed in 2009 related to the EPA's Spill Prevention Containment and Countermeasure rules and the installation of upgrades to the SO2 system at Cleco Power's Dolet Hills Power Station that is expected to be completed during 2010.

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 CAA established a regulatory program, known as the Acid Rain Program, to address the effects of acid rain and imposed restrictions on SO2 emissions from certain generating units. The federal CAA requires these generating stations to possess a regulatory "allowance" for each ton of SO2 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, 2009, Cleco Power and Midstream had sufficient allowances for 2009 operations and expect to have sufficient allowances for 2010 operations under the Acid Rain Program.

The Acid Rain Program also established emission rate limits on NOx emissions for electric generating units (EGUs). Cleco Power's low NOx burner project was installed in 2006 to achieve compliance with the reduced acid rain permit limits for NOx at Dolet Hills. With its low NOx burner project completed, Rodemacher Unit 2 is able to achieve compliance with the Acid Rain NOx limits by a greater margin. Significant future reductions in NOx emissions limits may require additional capital improvements at one or both of the units.

NOx 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 NOx emissions to low levels.

On March 10, 2005, the Clean Air Interstate Rule (CAIR) was finalized by the EPA. CAIR covered the District of Columbia and 28 eastern states, including Louisiana, and provides a federal framework requiring states to reduce emissions of SO2 and NOx via a cap-and-trade emission reduction program. CAIR called for NOx reductions to begin in the year 2009 and SO2 reductions in 2010. Louisiana promulgated state regulations to incorporate these federal requirements. The federal rule has been heavily litigated by multiple parties in the case known as North Carolina vs. EPA. On July 11, 2008, the U.S. Court of Appeals for the D.C. Circuit vacated the CAIR rule in its entirety. Then, after rehearing the case, the D.C. Circuit Court on December 23, 2008 reinstated the CAIR rule and directed the EPA to conduct further proceedings consistent with the Court's opinion in the case. The Court determined that, notwithstanding the flaws of CAIR, remanding it to the EPA without vacature was preferable in that it preserved the environmental benefits of the rule. As a result, CAIR went into effect in its entirety on January 1, 2009 and will remain in effect until the EPA re-writes the rule to address the flaws identified by the Court in the initial CAIR rule. The EPA does not have a specified timeframe to complete the new rule, however, Cleco expects the EPA to propose a replacement rule in early 2010 with a final rule completed in early 2011. At this time, Cleco cannot determine what the new rule requirements will entail, to what extent compliance costs would be increased, or what level of capital expenditures would be required to comply with the new rule. Cleco had previously evaluated potential compliance strategies to meet the emission reductions contemplated by the initial CAIR regulations. The installation of new low NOx burners and enhancements to the SO2 scrubber at Dolet Hills were expected to be an integral part of meeting the CAIR NOx and SO2 reduction provisions. Likewise, the installation of the new low NOx burners at Rodemacher Unit 2 in 2008 will help meet CAIR NOx reduction requirements. Cleco will rely on its previous compliance strategy to meet the current CAIR requirements and also may include additional emission controls, purchase of allowances, or fuel changes to enhance its compliance, if warranted.

On March 15, 2005, the EPA issued final rules regarding mercury emissions from electric utility boilers known as the federal Clean Air Mercury Rule (CAMR). 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. 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 EGUs from regulation under Section 112 of the CAA and the entire CAMR rule. Since the Supreme Court denied industry petitions to review the appeals court decision, CAMR is officially vacated. 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 EPA is now moving forward to set MACT standards for these units which will require 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." The EPA is requiring certain coal- and oil-fired facilities to perform stack testing to help determine what these emission rates will be for the best performing 12 percent of existing sources. The EPA has entered into a consent decree with various environmental groups which require them to promulgate proposed MACT standards for EGUs by March 2011 and final standards by November 2011. Typically, the EPA allows three years after promulgating a final rule for the regulations to become effective. These new standards will likely contain emission limits not only for mercury but for other hazardous air pollutants.

On January 7, 2009, the EPA issued guidance directing state permitting authorities to make case-by-case MACT determinations, consistent with the requirements of Section 112(g) of the CAA, for coal- and oil-fired EGUs that began actual construction or reconstruction between March 29, 2005 and March 14, 2008. Rodemacher Unit 3 is a unit that began construction between the dates in question, and was permitted as a "minor source" within the context of what constitutes hazardous air pollutants under Section 112(g) rules. Cleco does not believe that case-by-case MACT applies to Rodemacher Unit 3 and on March 18, 2009, Cleco received a letter from the LDEQ concurring with its position. The LDEQ is ultimately responsible for making a determination regarding the applicability of case-by-case MACT to Rodemacher Unit 3. As such, Dolet Hills and Rodemacher Units 2 and 3 should all be treated as existing units under the new MACT rules once they are finalized.

Congress continues to consider various climate related bills that require the reduction of greenhouse gases (GHG) by emission sources in the U.S. On June 26, 2009, the U.S. House of Representatives voted 219-212 to pass the American Clean Energy and Security Act of 2009 (ACES). The bill includes an economy-wide GHG cap-and-trade program that requires a reduction in GHG emissions from major U.S. sources of 17% by 2020 and 83% by 2050 compared to 2005 levels. The bill also imposes a renewable electricity standard for utilities of up to 20% by 2020, and addresses other issues such as energy efficiency, carbon capture and sequestration and performance standards for new coal units permitted after 2009. Under ACES, approximately 80% of emission allowances would be freely allocated during the early years of the cap-and-trade program. Over time, however, a greater percentage of allowances would be auctioned, eventually requiring full auctions after 2030. Members of the Senate are also considering climate change legislation. The Senate Environment and Public Works Committee passed the Kerry-Boxer bill out of committee in November 2009. This bill mirrors the ACES legislation passed by the House but has a stricter GHG reduction target by 2020. Each of the current bills being considered, if enacted, could potentially have a material adverse effect on the Registrants' results of operations, financial condition, and cash flows. Similar material effects would also potentially be realized by other companies in the electric generating industry that rely heavily on fossil fuels to produce electricity. Moreover, it is unclear when, if ever, climate change legislation that includes a cap on greenhouse gas emissions will be enacted by the federal government, and if enacted, what the specific provisions of the legislation will be and when such provisions will take effect.

In addition to Congress considering climate change legislation, the EPA has initiated actions toward regulating GHG under the existing CAA. In December 2009, the EPA promulgated its long-awaited endangerment finding. The Agency's finding states that elevated atmospheric concentrations of six GHG, which include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride, are contributing to climate change. Although the endangerment finding technically is being made in the context of GHG emissions from new motor vehicles, the finding will trigger GHG regulation of a variety of mobile and stationary sources under the CAA. The first GHG regulation that the EPA will issue will be its light-duty motor vehicle GHG regulation, which Cleco expects will be issued by March 2010. This regulation is being issued jointly with the Department of Transportation and primarily requires improvements in fuel economy for automobiles and light duty trucks beginning in Model Year 2012. The EPA states that once the motor vehicle GHG regulations become effective, which Cleco expects to be in May or June of 2010, GHG will be considered regulated pollutants under the Prevention of Significant Deterioration (PSD) air quality permit program. As a result, new major stationary sources of GHG emissions, and modifications of existing major stationary sources that significantly increase their GHG emissions will be required to obtain a permit setting forth Best Available Control Technology (BACT) for those emissions. At this time, BACT has not been defined for these major stationary sources. Both the EPA and businesses in general have a high level of concern for how BACT will be determined and that a very large number of sources could be required to obtain PSD permits for their GHG emissions when GHG become regulated pollutants. As a result, to avoid grid-locking the PSD permit system, the Agency has proposed a "tailoring rule" designed to limit applicability of the PSD program to only the largest GHG emitters, at least for an initial five-year period. Under the tailoring rule, major sources to which PSD requirements for GHG would become applicable would be those that emit more than 25,000 tons per year of CO2 equivalent, and a significant increase of GHG emissions from a modification would be defined at a level between 10,000 and 25,000 tons per year. The tailoring rule would also set a 25,000-ton per year threshold under the Title V operating permit program. The legality of the tailoring rule has been questioned because the CAA explicitly defines the PSD major source threshold as 100 tons per year for sources in 28 industrial categories and 250 tons per year for sources in all other categories, and the Title V threshold at 100 tons per year. Regulations adopted by the EPA could potentially have a material adverse effect on the Registrants' results of operations, financial condition, and cash flows. For example, Cleco may be required to obtain authorization for greenhouse gas emissions from all new and modified facilities in PSD and Title V permits, or upon renewal of such permits for existing facilities. Such facilities may be required to meet then-current BACT requirements, which could potentially have a material adverse effect on the Registrants' results of operations, financial condition, and cash flows. However, at this time, due to several factors including the anticipated legal challenges to various EPA greenhouse gas rules, it is unclear when, if ever, such rules would be finalized and if finalized, when relevant rule provisions would become effective. Uncertainty as to whether EPA rules and/or federal legislation regulating greenhouse gases will become effective complicates Cleco's decision-making process for modifying existing facilities or adding new power generating facilities.

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 costs for renewable energy credits, alternate compliance payments, or capital expenditures for renewable generation resources. RPS legislation has been enacted in many states and Congress could continue to pursue legislation to create a national RPS. States such as Louisiana that do not have RPS requirements could adopt such requirements in the future or be subject to federal RPS requirements. Cleco continues to evaluate 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.

On March 12, 2008, the EPA set new National Ambient Air Quality Standards (NAAQS) for Ozone; the new primary 8-hour ozone standard is set at 0.075 parts per million (ppm) and the new secondary standard at a form and level identical to the primary standard. The previous primary and secondary standards were each effectively set at 0.084 ppm. The previous standard was set in 1997 and Louisiana had five parishes in the Baton Rouge area that had not yet attained compliance with the standards. In March 2009, the LDEQ made its initial "non-attainment" designations to the

EPA under the 2008 ozone standards. This designation added several parishes in Louisiana designated as "non-attainment" with the 2008 ozone NAAQS standards. Cleco has no generating facilities in any of the newly designated or existing non-attainment parishes. The state was to make the initial designations by June 2009, final designations by 2010 and by 2012-2013, promulgate regulations on how Louisiana would comply. However, on January 7, 2009, the EPA proposed to set the primary standard, which protects public health, at a level between 0.060 and 0.070 ppm measured over eight hours. The EPA is also proposing to set a separate secondary standard to protect the environment, especially plants and trees. The Agency is expected to issue a final decision on revising the standards by August 2010. Since NOx emissions are a precursor to ozone formation, existing fossil fuel-fired units located in or near these newly designated ozone non-attainment areas that do not currently utilize best available control technology could be targeted for installation of additional NOx 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 CAA 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.

On March 19, 2008, Cleco Power received a consolidated compliance order and notice of potential penalty (CO/NOPP) from the LDEQ for alleged violations of the air quality rules at its Dolet Hills and Rodemacher Power Stations. For Dolet Hills, the CO/NOPP alleges that upon a file review conducted on or about February 26, 2008, the LDEQ found that Cleco Power was in violation of conditions in its Title V permit regarding compliance assurance tests to be conducted upon its continuous monitoring systems. Upon review of the LDEQ findings and the Part 75 regulations, Cleco Power contends that the actions taken were allowed under the Part 75 regulations, as well as the Title V permit. In regard to the Rodemacher Power Station alleged violations, the CO/NOPP states that a file review of the Rodemacher facility was conducted on or about September 14, 2007, and that upon the agency's review of the Quarterly Stack Emissions Reports required under 40 CFR Part 60 submitted by Cleco Power, the LDEQ found that Rodemacher Unit 2 exceeded opacity limits at various times during the second, third and fourth quarters of 2007. On December 29, 2009, Cleco and the LDEQ entered into a settlement agreement whereby the parties agreed to settle the enforcement matter for approximately $23,000 and the matter is now closed.

On September 3, 2009, Dolet Hills Power Station received a notice from EPA Region 6, alleging that the facility may be in violation of the Accident Prevention requirements of Section 112 (r)(7) of the CAA and the Chemical Accident Prevention provisions in 40 CFR Part 68. The EPA claims that the facility may have been required to have a risk management plan (RMP) for the chemical anhydrous ammonia, which is used and stored on site. The EPA alleges that Dolet Hills exceeded the threshold quantity of 10,000 pounds of anhydrous ammonia in a single process, which triggers the requirement to have such a plan in place. The EPA made this claim after a review of their Central Data Exchange, which includes information submitted to the EPA in the Toxic Release Inventory. In the notice, the EPA has offered to settle the matter, which would include the payment of a non-negotiable penalty of $145,802 and the correction of the alleged deficiencies. Cleco Power contends that Dolet Hills employed administrative controls to limit the quantity of ammonia stored to less than 10,000 pounds which was sufficient to exempt the facility from the RMP program requirements. Cleco Power provided the EPA with documentation supporting its position, the EPA has determined that Cleco is in compliance and the matter is closed.

Water Quality

Cleco has received from the EPA and the 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 (LPDES) waste water permit renewal for Evangeline Power Station on June 22, 2006. This waste water permit contained certain additional Copper and Total Dissolved Solids (TDS) permit limitations that Cleco contended were beyond the legal authority of the 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. The appealed Copper and TDS permit limitations were stayed during litigation. The uncontested portions of the Evangeline waste water permit were effective January 1, 2007. During the litigation, Cleco and the LDEQ were actively engaged in settlement discussions regarding the appealed provisions of the waste water permit. In December 2008, Cleco filed an application with the LDEQ modifying its LPDES permit to incorporate new Copper and TDS discharge limitations that were agreed to by both parties. On August 27, 2009, the LDEQ issued a modified water permit with the agreed upon Copper and TDS limits which the facility expects to be able to meet. The effective date of the modified permit is October 1, 2009. The modified permit resolves the issues on appeal, and the matter is now closed.

On May 1, 2009, the Acadia Power Station became subject to certain daily maximum and monthly average discharge limitations for total sulfate under the terms of LPDES Water Discharge Permit No. LA0112836, issued by the LDEQ in April 2006. The facility was unable to achieve compliance with these discharge limitations and received a compliance order from the LDEQ on July 31, 2009 to address the total sulfate violations. In that compliance order, the LDEQ also noted violations of various daily maximum temperatures and whole effluent toxicity limits. The LDEQ also found that Acadia had previously corrected and resubmitted discharge monitoring reports for four months in 2007, which the LDEQ contends are not timely submittals. The LDEQ included these violations as well as the total sulfate violations in the compliance order. Acadia believes that the total sulfate limits in the LPDES permit were erroneously low and as such applied for a permit modification to increase the total sulfate limitations in the permit. Acadia has now received a modified water discharge permit from the LDEQ which contains increased total sulfate limitations that can be met by the facility. Acadia is operating in compliance with and under the terms of the modified LPDES permit and has requested that the LDEQ close the compliance order. However, the LDEQ does have the ability to seek enforcement action on the violations of the water discharge permit limits experienced prior to the receipt of the water discharge permit modification. For each of the violations described above, the LDEQ has the right to seek civil penalties. At this time, Acadia is unable to determine whether the LDEQ will pursue any civil penalties as part of this enforcement action or what the penalty amounts will be.

In 2004, the EPA promulgated Phase II of Section 316(b) of the Clean Water Act which regulates potential adverse

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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. This section of the rule is applicable to Cleco's Teche and Evangeline Power Stations. The 2004 rule was immediately challenged by a coalition of environmental groups and six states. In 2007, the U.S. Court of Appeals for the Second Circuit ruled that some of the provisions of the rule were unlawful and remanded the rule to the EPA for re-consideration. Most importantly, the Court concluded that the approach used by the EPA to eliminate closed cycle cooling as the best technology available for minimizing adverse environmental impacts for cooling water intake structures was not clear and potentially based on unlawful consideration of the closed cycle cooling costs relative to its benefits. Industry appealed the Second Circuit decision on whether the EPA could consider technology costs relative to its benefits to the U.S. Supreme Court and in April 2009 the U.S. Supreme Court overturned the lower court's ruling and ruled that the EPA does have the discretion to consider costs relative to benefits in developing cooling water intake structure regulations under this rule. The decision gives the EPA the option to retain substantial features of its July 2004 "Phase II" final rule, which set reasonable national performance standards for existing electric generating facilities, while also allowing variances based on cost-benefit considerations. The EPA has indicated that it plans to propose a revised Phase II rule by late 2010 and a final rule some time in 2012. Until the EPA promulgates a replacement Phase II rule, the EPA has indicated that it will ask permit writers to use "Best Professional Judgment" in evaluating permit renewals until a new 316(b) rule is promulgated. 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.

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 has renewed the solid waste permits for the existing Rodemacher and Dolet Hills solid waste units and is in the process of upgrading them according to the current Solid Waste Regulations and permit requirements. These upgrades are not expected to result in substantial costs.

A catastrophic event involving coal ash at the Tennessee Valley Authority's coal ash management impoundment in Kingston, Tennessee has prompted closer scrutiny by the EPA of coal ash management facilities at coal-fired power plants across the country. Cleco Power, like most utilities with coal-fired units, received a formal request, to which it has fully responded, for information under Section 104(e) of the Comprehensive Environmental Response, Compensation, and Liability Act (RCRA) regarding the safety and structural integrity of its coal ash management units. After reviewing the data collected, the EPA has indicated its preference to listing coal combustion by-products, including fly ash, bottom ash, boiler slag, and flue gas desulfurization solids (including synthetic gypsum), as RCRA Subtitle C hazardous wastes. Regulating coal ash as a Subtitle C hazardous waste could have significant impacts on Cleco's coal ash management units at its Rodemacher and Dolet Hills Power Stations. Cleco expects the EPA to propose new coal ash management rules in early 2010. Due to the uncertainty of the content of the proposed rule, Cleco cannot quantify or estimate the cost impacts such a rule might have on its operations. However, any new, stricter requirements imposed on coal ash and associated management units by the EPA as a result of this new rule could significantly increase the cost of operating existing units or require them to be upgraded. These proposed rules could also thwart the beneficial reuse of the material that Cleco currently enjoys. At this time, management is unable to determine whether the costs associated with potential stricter requirements will have a material adverse effect on the Registrants' results of operations, financial condition, and cash flows.

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 properly disposed of at federally permitted hazardous waste disposal sites.

Toxic Substances Control Act (TSCA)
The TSCA directs the EPA to regulate the marketing, disposal, manufacturing, processing, distribution in commerce, and use of PCBs. Cleco may continue to operate equipment containing PCBs under the TSCA. Once the equipment reaches the end of its usefulness, the EPA regulates handling and disposal of the equipment and fluids containing PCBs. Within these regulations, the handling and disposal is allowed only through the EPA approved and permitted facilities. Cleco properly disposes its PCB waste material at TSCA permitted disposal facilities.

Toxics Release Inventory (TRI)
The TRI requires an annual report from industrial facilities on about 650 substances that the facilities 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.

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.

Other

In October 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 PRPs, 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 has yet to make a final determination on whether to add Devil's Swamp Lake to the NPL. The EPA and a number of PRPs met in January 2008 for an organizational meeting to discuss the background of the site. The PRPs began discussing a potential proposal to the EPA in February 2008. Negotiations among the PRPs and the EPA are ongoing in regard to the remedial investigation and feasibility study at the Devil's Swamp site, with little progress having been made since the January 2008 meeting. The PRPs alleged to have disposed PCBs at the site have proposed a tentative cost-sharing formula with the facility owner to fund the remedial investigation. The response to the proposal has been pending for months. 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.

ITEM 1A. RISK FACTORS

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

Global Economic Downturn

The global economic downturn may negatively impact Cleco's business and financial condition.

The current economic downturn may have an impact on Cleco's business and financial condition. Cleco's ability to access the capital markets may be severely restricted at a time when Cleco would like, or need, to do so, which could have a material adverse impact on its ability to fund capital expenditures or debt service, or on Cleco's flexibility to react to changing economic and business conditions. If Cleco Corporation's or Cleco Power's credit ratings were to be downgraded by Moody's or by Standard & Poor's, Cleco Corporation or Cleco Power, as the case may be, would be required to pay additional fees and higher interest rates under its bank credit and other debt agreements. Cleco's pension plan portfolio has experienced significant volatility due to market conditions and may experience material losses in the future. The losses, in conjunction with plan funding requirements, could result in required pension plan contributions significantly higher and earlier than previously anticipated, which could have a material adverse impact on Cleco's results of operations, financial condition, and cash flows. Further, the current economic downturn could have a material adverse impact on Cleco's lenders or its customers, causing them to fail to meet their obligations to Cleco or to delay payment of such obligations. Additionally, the current economic downturn could lead to reduced electricity usage, which could have a material adverse impact on the Registrants' results of operations and financial condition.

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. The current U. S. recession has led to reduced power usage by Cleco Power's industrial customers. Industrial kWh sales in 2009 were down 23% from 2008 levels. Lower sales to industrial customers were largely the result of decreased production at one of Cleco Power's large industrial customers and a large customer beginning to cogenerate a portion of its electricity requirements. Cleco Power's largest industrial customers, specifically those who manufacture wood and paper products (who generated $21.7 million in base revenue in 2009), have experienced a downturn in their respective markets. The paper industry has been vulnerable in recent years due to decreasing demand for the product, and the downturn in residential home construction has also caused a significant reduction in the demand and prices for lumber and other wood products. Reduced production or the shut down of any of these customers' facilities could substantially reduce Cleco Power's base revenue. For example, in 2009 a paper manufacturer announced the closing of a plant in Cleco Power's service territory, which is expected to decrease 2010 base revenue by $2.3 million from 2009 levels.

Future electricity sales could be impacted by industrial customers switching to alternative sources of energy, including on-site power generation, and retail customers consuming less electricity due to increased conservation efforts or increased electric usage efficiency.

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 a periodic fuel audit by the LPSC. The LPSC Fuel Adjustment Clause General Order issued November 6, 1997, in Docket No. U-21497 provides that an audit will be performed not less than every other year. Cleco Power currently has fuel adjustment clause filings for 2003 through 2008 subject to audit. In July 2006, the LPSC informed Cleco Power that it was planning to conduct a periodic fuel audit that included fuel adjustment clause filings for January 2003 through December 2004. In March 2009, the LPSC indicated its intent to proceed with the audit for the years 2003 through 2008. The total amount of fuel expenses included in the audit is approximately $3.2 billion. The audit is expected to proceed in the first quarter of 2010. Cleco Power could be required to make a substantial refund of previously recorded revenue as a result of these audits, and such refund could result in a material adverse effect on the Registrants' results of operations, financial condition, and cash flows. The most recent audit completed by the LPSC covered 2001 and 2002 and resulted in a refund of $16.0 million to Cleco Power's retail customers in the first quarter of 2005.

Hedging and Risk Management Activities

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

Transmission Constraints

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

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

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 supply 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, or in compliance with its environmental permits.

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. Newer equipment, such as that installed at Rodemacher Unit 3, can be subject to startup issues, such as failures due to immaturity of control equipment safeguards and experience with operating under forced outage conditions. Equipment manufacturer warranty coverage will be subject to proof of Cleco Power's proper operation of the equipment.

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

Competition for access to other natural resources, particularly oil and natural gas, could negatively impact Cleco Power's ability to access its lignite reserves. Land owners may grant other parties access for oil and natural gas drilling in the same area to which Cleco has been granted access for lignite reserves. Placement of drilling rigs and pipelines for developing oil and gas reserves can preclude access to lignite in the same areas, making right of first access critical with respect to extracting lignite. Competition for the right of first access may need to be determined through legal processes. Additionally, Cleco Power could be liable for the impacts of other companies' activities on lands that have been mined and reclaimed by Cleco Power. Loss of access to the lignite reserves or the liability for impacts on reclaimed lands could have material adverse effects to the Registrants' results of operations, financial condition, and cash flows.

ERO

In 2005, 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 authorized 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, FERC named NERC as the ERO. FERC has approved numerous reliability standards developed by NERC. A final order was issued by FERC in March 2007, and in June 2007, FERC began enforcing compliance with these standards. New standards are being developed and existing standards are continuously being modified.

As these standards continue to be adopted and modified, they may impose additional compliance requirements on Cleco Power, Acadia, and Evangeline operations, which may result in an increase in capital expenditures and operating expenses. Failure to comply with the reliability standards approved by FERC can result in the imposition of material fines and civil penalties. Cleco is scheduled for an audit by SPP, the RTO for Cleco's region, in April 2010. Management is currently unable to predict the outcome of the audit and whether the result will have a material adverse effect on the Registrants' results of operations, financial condition, and cash flows.

Environmental Compliance

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

Cleco is subject to extensive environmental oversight by federal, state, and local authorities and is required to comply with numerous environmental laws and regulations related to air quality, water quality, waste management, natural resources, and health and safety. Cleco also is required to obtain and comply with numerous governmental permits in operating its facilities. Existing environmental laws, regulations, and permits could be revised or reinterpreted, and new laws and regulations could be adopted or become applicable to Cleco. For example, Congress is considering climate change legislation that, if ultimately enacted, could impose a cap on CO_2 emissions by electric generating units and subject these units to an emissions allowance-based trading system. Cleco may incur significant capital expenditures or additional operating costs to comply with these revisions, reinterpretations, and new requirements. If Cleco fails to comply with these revisions, reinterpretations, and requirements, it could be subject to civil or criminal liabilities and fines or may be forced to shut down or reduce productions from its facilities.

Environmental advocacy groups, states, other organizations, some government agencies, and the presidential administration are focusing considerable attention on emissions from power generation facilities, including CO_2 emissions, and their potential role in climate change. Future changes in environmental regulations governing power plant emissions 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 emissions beyond present levels could require extensive mitigation efforts and could raise uncertainty about the future viability of some 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 new 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, there could be a material adverse 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 FERC regulates Cleco's wholesale operations. The construction, planning, and siting of Cleco's power plants and transmission lines also are subject to the jurisdiction of the LPSC and FERC. Additional regulatory authorities have jurisdiction over some of Cleco's operations and construction projects including the EPA, the 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.

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, demand for power typically peaks during the hot summer months. As a result, Cleco Power's financial results may fluctuate on a seasonal basis. In addition, Cleco Power has sold less power, and consequently earned less income, when weather conditions were milder. Unusually mild weather in the future could have a material adverse impact on 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.

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. Through 2009, Cleco Power filed annual monitoring reports with the LPSC for 12-month periods ended September 30. In 2010, the reports will be filed for 12-month periods ended June 30 and September 30. Beginning in 2011, Cleco Power will file annual monitoring reports for the 12-month period ended June 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.

Wholesale Electric Service

Cleco Power's wholesale electric rates and business practices are regulated by FERC.
Cleco Power's wholesale rates are regulated by FERC, which conducts a review of Cleco Power's generation market power every three years, in addition to each time generation capacity changes. If FERC determines Cleco Power possesses generation market power in excess of certain thresholds, Cleco Power could lose the right to sell wholesale generation at market-based rates within its control area, which 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 current debt ratings will remain in effect for any given period of time or that one or more of its debt ratings will not be lowered or withdrawn entirely by a rating agency. 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's or Cleco Power's long-term ratings, particularly below investment grade, the value of their debt securities would likely be adversely affected, and the borrowing cost of Cleco Corporation

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

Interest Rate Swap

Cleco Power has entered into an interest rate swap relating to its variable rate debt. The effectiveness of this contract is dependent on the ability of the counterparty to perform its obligations and nonperformance could harm Cleco Power's results of operations, financial condition, and cash flows.
Cleco Power utilizes interest rate swaps to offset the effects of interest rate fluctuations on its variable rate debt. The effectiveness of these contracts is dependent, in part, upon the counterparties to these contracts honoring their financial obligations. If the counterparties to the interest rate swaps are unable to perform their obligations, Cleco Power would be exposed to the effect of the fluctuations of the LIBOR market on its variable rate debt and may have to pay increased interest expenses, which could have a material adverse impact on the Registrants' results of operations, financial condition, and cash flows.

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 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.

Evangeline and Acadia Generation Facilities

The Evangeline and Acadia 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.
The Evangeline and Acadia 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. However, at times, physical constraints limit the amount of power these transmission providers can deliver.

Cleco Power's Rates

The LPSC and FERC regulate the rates that Cleco Power can charge its customers.

Cleco Power's ongoing financial viability depends on its ability to recover its costs from its LPSC-jurisdicational customers in a timely manner through its LPSC-approved rates and its ability to pass through to its FERC 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, the Registrants' 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 Cleco Power's operation and maintenance practices, level of subject expenditures, allowed rates of return, and previously incurred capital expenditures. The LPSC has the authority to disallow costs found not to have been prudently incurred. 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 be limited by statute. Decisions are typically subject to appeal, potentially leading to additional uncertainty.

Alternate Generation Technology

Changes in technology may negatively impact the value of the Cleco Power, Evangeline, and Acadia generation facilities.

A basic premise of Cleco's business is that generating electricity at central power plants achieves economies of scale and produces electricity at a relatively low price. There are alternate technologies to produce electricity, most notably fuel cells, microturbines, windmills, and photovoltaic (solar) cells. Research and development activities are ongoing to seek improvements in alternate technologies. It is possible that advances will reduce the cost of alternate methods of electricity production to a level that is equal to or below that of most central station production. Also, as new technologies are developed and become available, the quantity and pattern of electricity usage by customers could decline, with a corresponding decline in revenues derived by generators. In addition, the current presidential administration and U.S. Congress have voiced strong support for such alternative energy sources. The American Recovery and Reinvestment Act of 2009 specifically provides a total of $58.0 billion to be available for energy-related initiatives, primarily $20.0 billion in renewable energy tax credits to encourage development of wind, solar, and other renewable energy sources, and $32.0 billion for development of a “smart grid” in the U.S. It is uncertain at this time to what extent these initiatives may impact Cleco’s businesses, except that little impact is expected in the short term. As a result of these factors, the value of the Cleco Power, Evangeline, and Acadia generation facilities could be significantly reduced.

Technology and Terrorism Threats

Man-made problems such as computer viruses or terrorism may negatively impact the Registrants’ operating results. Man-made problems such as computer viruses or terrorism may disrupt the Registrants’ operations and harm the Registrants’ operating results. The Registrants operate in a highly regulated industry that requires the continued operation of sophisticated information technology systems and network infrastructure. Despite the implementation of security measures, all of the Registrants’ technology systems are vulnerable to disability or failures due to hacking, viruses, acts of war or terrorism, and other causes. If the Registrants’ technology systems were to fail and the Registrants were unable to recover in a timely way, the Registrants would be unable to fulfill critical business functions, which could have a material adverse effect on the Registrants’ business, operating results, financial condition, and cash flows. In addition, the Cleco Power, Evangeline, and Acadia generation plants, fuel storage facilities, transmission, and distribution facilities may be targets of terrorist activities that could disrupt the Registrants’ ability to produce or distribute some portion of their energy products. Any such disruption could result in a material decrease in revenues and significant additional costs to repair and insure the Registrants’ assets, which could have a material adverse effect on the Registrants’ business, operating results, financial condition, and cash flows. The continued threat of terrorism and heightened security and military action in response to this threat, or any future acts of terrorism, may cause further disruptions to the economies of the United States and other countries and create further uncertainties or otherwise materially harm the Registrants’ business, operating results, financial condition, and cash flows.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

CLECO

Electric Transmission Substations
As of December 31, 2009, Cleco Corporation owned one active transmission substation in Louisiana and one active transmission substation in Mississippi.

CLECO POWER

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

Electric Generating Stations
As of December 31, 2009, 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. Rodemacher Unit 3, a 600-MW solid-fuel power plant, commenced commercial operations on February 12, 2010. During 2009, Acadia executed definitive agreements with Cleco Power to acquire 50% of the Acadia Power Station, or one of its two 580-MW units. The transaction with Cleco Power was completed in February 2010. For additional information on Cleco Power's generating facilities, see Item 1, "Business — Operations — Cleco Power — Power Generation" and Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 15 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Acadia Transactions" and Note 23 — "Subsequent Events — Acadia Transaction."

Electric Substations
As of December 31, 2009, Cleco Power owned 70 active transmission substations and 224 active distribution substations.

Electric Lines
As of December 31, 2009, Cleco Power's transmission system consisted of approximately 67 circuit miles of 500-kiloVolt (kV) lines; 460 circuit miles of 230-kV lines; 676 circuit miles of 138 kV lines; and 21 circuit miles of 69-kV lines. Cleco Power's distribution system consisted of approximately 3,464 circuit miles of 34.5-kV lines and 8,107 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 are subject to a lien of Cleco Power's Indenture of Mortgage, which does not impair the use of such properties in the operation of its business. As of December 31, 2009, no obligations were outstanding under the Indenture of Mortgage.

MIDSTREAM

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

Electric Generation
As of December 31, 2009, Midstream owned one electric generating station, Evangeline, and had a 50% ownership interest in an additional station, Acadia, both located in Louisiana. During 2009, Acadia executed definitive agreements with both Cleco Power and Entergy Louisiana whereby Cleco Power and Entergy Louisiana would each acquire a 580-MW unit at the Acadia plant. The transaction with Cleco Power was completed in February 2010 and the transaction with Entergy Louisiana is expected to be completed in late 2010 or early 2011. For additional information on Midstream's generating facilities, see Item 1, "Business — Operations — Midstream" and Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 23 — Subsequent Events — Acadia Transaction."

Title
Midstream's assets are owned in fee, including Midstream's portion of Acadia. Evangeline was subject to a lien securing obligations under an Indenture of Mortgage, which did not impair the use of such properties in the operation of its business. On February 22, 2010, Evangeline and JPMVEC terminated the Evangeline Tolling Agreement and executed the Evangeline 2010 Tolling Agreement. For additional information, see Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 23 — Subsequent Events — Evangeline Transactions."

ITEM 3. LEGAL PROCEEDINGS

CLECO

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

CLECO POWER

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

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

CLECO

There were no matters submitted to a vote of security holders of Cleco Corporation during the fourth quarter of 2009.

CLECO POWER

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

Board of Directors of Cleco

The names of the members of the Board of Directors of Cleco, their ages, dates of election, employment history and committee assignments as of December 31, 2009, 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, 2009
Sherian G. Cadoria	Age 69; 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 71; 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 66; 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
Elton R. King	Age 63; Elected 1999 Retired President of network and carrier services group, BellSouth Telecommunications, Inc., Atlanta, GA. Also retired president and Chief Executive Officer of Visual Networks, Inc. Member of the Finance and Nominating/Governance committees
Logan W. Kruger	Age 59; Elected 2008 President, Chief Executive Officer and Director of Century Aluminum Company, Monterey, CA since December 2005. Executive Vice President of Technical Services, Inco Limited from September 2003 to September 2005; President, Inco Asia Pacific from September 2005 to November 2005. Member of the Audit and Compensation committees
Michael H. Madison	Age 61; Elected 2005 President and Chief Executive Officer, Cleco Corporation, Pineville, LA Member of the Executive Committee
William L. Marks	Age 66; Elected 2001 Retired 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 67; Elected 1993 Chairman, President and Chief Executive Officer, Ratcliff Construction Company, LLC, Alexandria, LA Member of the Audit and Finance committees

Peter M. Scott III	Age 60; Elected 2009 Retired Executive Vice President and Chief Financial Officer, Progress Energy, Inc., Raleigh, NC. Also retired President and Chief Executive Officer of Progress Energy Service Company, LLC Member of the Audit and Compensation committees
William H. Walker Jr.	Age 64; Elected 1996 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 70; Elected 2003 Retired Chief Financial Officer and Senior Risk Officer of Southern Company, Atlanta, GA Chairman of the Audit Committee and member of the Compensation, Executive and Finance committees

Executive Officers of Cleco
The names of the executive officers of Cleco and certain subsidiaries, their positions held, five-year employment history, ages, and years of service as of December 31, 2009, are presented below. Executive officers are appointed annually to serve for the ensuing year or until their successors have been appointed.

NAME OF EXECUTIVE	POSITION AND FIVE-YEAR EMPLOYMENT HISTORY
Michael H. Madison	
Cleco Corporation	President and Chief Executive Officer since May 2005.
Cleco Power	Chief Executive Officer since May 2005; President and Chief Operating Officer from October 2003 to May 2005.
	(Age 61; 6 years of service)
Dilek Samil	
Cleco Corporation	Executive Vice President and Chief Financial Officer from April 2004 to May 2005.
Cleco Power	President and Chief Operating Officer since May 2005; Executive Vice President and Chief Financial Officer from April 2004 to May 2005.
	(Age 54; 8 years of service)
Darren J. Olagues	
Cleco Corporation	Senior Vice President and Chief Financial Officer since May 2009.
Cleco Power	
Midstream	Senior Vice President from July 2007 to May 2009; 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 39; 2 years of service)
George W. Bausewine	
Cleco Corporation Cleco Power	Senior Vice President Corporate Services since May 2005; Vice President Regulatory and Rates from October 2002 to May 2005.
	(Age 54; 24 years of service)
Jeffrey W. Hall	
Cleco Corporation	Senior Vice President Governmental Affairs and Chief Diversity Officer since July 2006; Vice President Governmental and Community Affairs from July 2005 to July 2006.
Cleco Power	Senior Vice President Governmental Affairs and Chief Diversity Officer since July 2006; Vice President Governmental and Community Affairs from October 2004 to July 2006.
	(Age 58; 29 years of service)
Wade A. Hoefling	Senior Vice President, General Counsel & Director - Regulatory Compliance since April 2008; Senior Vice President, General

Cleco Corporation Cleco Power	Counsel, Director - Regulatory Compliance and Assistant Corporate Secretary from January 2007 to April 2008; General Counsel, Northeast Utilities Enterprises, Inc. from July 2004 to January 2007. (Age 54; 3 years of service)
Anthony L. Bunting Cleco Power	Vice President Customer Services and Energy Delivery since October 2004. (Age 50; 18 years of service)
Stephen M. Carter Cleco Power	Vice President Regulated Generation since April 2003. (Age 50; 21 years of service)

NAME OF EXECUTIVE	POSITION AND FIVE-YEAR EMPLOYMENT HISTORY
Keith D. Crump	
Cleco Corporation	Treasurer from May 2005 to March 2007; Manager Forecasting and Analytics, Budgeting from December 2004 to May 2005.
Cleco Power	Vice President - Regulatory, Retail Operations and Resource Planning since March 2007. (Age 48; 20 years of service)
R. Russell Davis	
Cleco Corporation Cleco Power	Vice President - Investor Relations and Chief Accounting Officer since May 2009; Vice President, Chief Accounting Officer & Interim CFO from June 2008 to May 2009; Vice President and Chief Accounting Officer from May 2005 to June 2008; Vice President and Controller from July 2000 to May 2005. (Age 53; 10 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. (Age 46; 24 years of service)
Charles A. Mannix Cleco Corporation Cleco Power	Vice President - Tax & Treasurer since March 2008; Manager of Income Taxes, Treasurer of Energy Risk Assurance Co., Ameren Corporation from October 2004 to March 2008. (Age 51; 2 years of service)
Judy P. Miller Cleco Corporation Cleco Power	Corporate Secretary since January 2004. (Age 52; 25 years of service)
Terry L. Taylor Cleco Corporation Cleco Power	Assistant Controller since August 2006; Director of Accounting Services and Affiliate Compliance from January 2004 to August 2006. (Age 54; 9 years of service)
W. Keith Johnson, Jr. Midstream	Acting Vice President since May 2009; General Manager - Midstream Commercial Operations from October 2007 to May 2009; Director -Business Development from October 2002 to October 2007. (Age 48; 15 years of service)

In January 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.

PART II

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

CLECO CORPORATION

Cleco Corporation's common stock is listed for trading on the 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 2009 and 2008, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 22 — Miscellaneous Financial Information (Unaudited)." During the year ended December 31, 2009, 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, 2009, approximately $401.7 million of retained earnings were unrestricted.

On January 29, 2010, Cleco Corporation's Board of Directors declared a quarterly dividend of $0.225 per share payable on February 15, 2010, to common shareholders of record at the close of business on February 8, 2010.

As of January 29, 2010, there were 6,701 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 $25.92 per share.

The Board of Directors of Cleco Corporation has approved a dividend policy that will increase its quarterly dividend rate, subject to future dividend declarations by the Board of Directors, from $0.225 per common share to $0.25 per common share beginning with the dividend payable May 15, 2010. The declaration of dividend payments is at the Board of Directors' sole discretion and future dividend increases are subject to numerous factors that ordinarily affect dividend policy, including the result of Cleco's operations and its financial position, as well as general economic and business conditions.

CLECO POWER

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

Some provisions in Cleco Power's debt instruments restrict the amount of equity available for distribution to Cleco Corporation by Cleco Power under specified circumstances. The most restrictive covenant requires Cleco Power's total indebtedness to be less than or equal to 65% of total capitalization. At December 31, 2009, approximately $349.6 million of member's equity was unrestricted.

During 2009, Cleco Power made $30.0 million of distribution payments to Cleco Corporation. There were no distributions from Cleco Power to Cleco Corporation during 2008 or 2007.
Cleco Power received no equity contributions from Cleco Corporation in 2009 or 2008. During 2007, Cleco Power received equity contributions of $85.0 million from Cleco Corporation.

ITEM 6. SELECTED FINANCIAL DATA

CLECO

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

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. In October 2005, an order confirming PEH and Perryville's plan of reorganization became final. In accordance with the authoritative guidance for transfers and servicing, Cleco recorded its investment in Perryville on the equity method of accounting. In accordance with the authoritative guidance on investments, since PEH and Perryville had a negative cost basis and incurred losses for 2004 and the first and second quarters of 2005, PEH and Perryville were not to be reflected in Cleco Corporation's Consolidated Statements of Income until such time as PEH and Perryville had sufficient income to exceed their negative cost basis and cumulative losses. In the third quarter of 2005, Perryville recognized earnings sufficient to exceed PEH's and Perryville's initial negative cost basis and cumulative losses incurred after January 28, 2004. The previous financial results of Perryville and PEH were reintegrated with Cleco's consolidated financial results effective in the third quarter of 2005.

Cleco's adoption of the authoritative guidance on compensation-stock compensation on January 1, 2006, impacted Cleco's consolidated financial results for 2009, 2008, 2007, and 2006 as compared to prior years. Cleco's adoption of the authoritative guidance as it relates to compensation-retirement benefits on December 31, 2006, impacted Cleco's consolidated financial position as of December 31, 2009, 2008, 2007, and 2006 as compared to prior years. This guidance required all equity instruments, including stock options, to be expensed at their fair value.

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 20 — Calpine Bankruptcy Settlement."

Cleco's adoption of the authoritative guidance on income taxes on January 1, 2007, impacted Cleco's consolidated financial results for 2009, 2008, and 2007 as compared to prior years. The guidance impacted the financial statement presentation and timing of the recognition of uncertain tax positions.

Five-Year Selected Financial Data (THOUSANDS, EXCEPT PER SHARE AND PERCENTAGES)	2009	2008	2007	2006	2005
Operating revenue, net (excluding intercompany revenue)					
Cleco Power	$842,227	$1,069,674	$1,023,411	$994,191	$911,971
Midstream	8,749	7,921	5,066	4,400	4,984
Other	2,782	2,603	2,139	2,084	3,199
Total	$853,758	$1,080,198	$1,030,616	$1,000,675	$920,154
Income from continuing operations before income taxes	$115,886	$120,598	$222,561	$116,719	$298,929
Net income applicable to common stock	$106,261	$102,095	$151,331	$72,856	$180,779
Basic earnings per share applicable to common stock	$1.77	$1.70	$2.55	$1.36	$3.54
Diluted earnings per share applicable to common stock	$1.76	$1.70	$2.54	$1.36	$3.53

Capitalization					
Common shareholders’ equity	45.77 %	48.89 %	56.74 %	57.81 %	52.15 %
Preferred stock	0.04 %	0.05 %	0.06 %	1.32 %	1.52 %
Long-term debt	54.19 %	51.06 %	43.20 %	40.87 %	46.33 %
Common shareholders’ equity	$1,115,043	$1,059,836	$1,010,340	$876,129	$686,229
Preferred stock	$1,029	$1,029	$1,029	$20,092	$20,034
Long-term debt, net	$1,320,299	$1,106,819	$769,103	$619,341	$609,643
Total assets	$3,694,847	$3,341,204	$2,706,623	$2,448,067	$2,145,172
Cash dividends declared per common share	$0.900	$0.900	$0.900	$0.900	$0.900

CLECO POWER

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

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

OVERVIEW

Cleco is a regional energy services holding company that conducts substantially all of its business operations through its two primary subsidiaries:

§ Cleco Power, an integrated electric utility services company regulated by the LPSC, FERC, and other regulators, which serves approximately 277,000 customers across Louisiana and also engages in energy management activities; and
§ Midstream, a merchant energy company regulated by FERC, which owns and operates a merchant power plant (Evangeline). At December 31, 2009, Midstream also owned a 50 percent interest in a merchant power plant (Acadia) and operated the plant on behalf of its partner. For information on Cleco Power and Entergy Louisiana each acquiring one 580-MW unit of the Acadia Power Station, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 15 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Acadia Transactions" and Note 23 — "Subsequent Events — Acadia Transaction." F additional information on Evangeline, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 23 — Subsequent Events — Evangeline Transactions."

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 Cleco Power's primary business of selling electricity. These factors include the presence of a stable regulatory environment, which can impact cost recovery and return on equity, as well as the recovery of costs related to growing energy demand and rising fuel prices; the ability to increase energy sales while containing costs; and the ability to meet increasingly stringent regulatory and environmental standards.

In July 2008, Cleco Power filed a rate plan to establish new rates to be effective upon the commercial operation of Rodemacher Unit 3, which was February 12, 2010. Recovery of the Rodemacher Unit 3 investment was the largest component in Cleco Power's new rate plan. As part of the new rate plan, Cleco Power requested a return on equity of 12.25%.

Cleco Power's then-current base rates allowed it the opportunity to earn a maximum regulated return on equity of 11.65%, which was based on a return on equity of 11.25%, with any regulated earnings between 11.25% and 12.25% shared between shareholders and customers in a 40/60 ratio. All regulated earnings over 12.25% were to be returned to customers.

In October 2009, the LPSC approved Cleco Power's new retail rate plan which includes a target return on equity of 10.7%, including returning to retail customers 60% of retail earnings between 11.3% and 12.3% and all retail earnings over 12.3%. The new rates became effective upon the commercial operation of Rodemacher Unit 3. The retail rate plan is expected to increase retail base revenues in the first twelve months of Rodemacher Unit 3 commercial operations by approximately $173.0 million with an anticipated net billing decrease for retail customers of approximately $40.0 million, or 5.0% (assuming a gas price of $5/MMBtu), including a reduction of approximately $97.0 million resulting from the cessation of the collection and the refund of Rodemacher Unit 3 construction financing costs based on a five-year crediting period. The retail rate plan established that $183.2 million be returned to customers over the five-year period. For additional information, see Part I, Item 1, "Business — Regulatory Matters, Industry Developments, and Franchises — Rates — Cleco Power's Rate Case," and "— Financial Condition — Liquidity and Capital Resources — Regulatory Matters —"Rodemacher Unit 3" and "— Retail Rates of Cleco Power."

Cleco Power released a RFP in October 2007 seeking long-term resources to fill the needs identified by the latest IRP. In February 2009, Cleco Power announced that it had chosen the acquisition of 50% of the Acadia Power Station, or one of its two 580-MW units, as the lowest bid in its 2007 long-term RFP for capacity beginning in 2010. Cleco Power will own and operate one unit and operate the other 580-MW unit on behalf of Acadia or a future owner as described further under "— Midstream." Cleco Power and the parties have executed the definitive agreements. Cleco Power received LPSC and FERC approvals for the transaction in January 2010 and February 2010, respectively. Beginning in January 2010, Acadia operated the plant and served Cleco Power under a tolling agreement covering 50% of the Acadia Power Station. The tolling agreement was approved by the LPSC in October 2009 and by FERC in December 2009. The tolling agreement was terminated when the transaction closed in February 2010. The transaction was consummated through a $304.0 million equity contribution from Cleco Corporation to Cleco Power.

Cleco Power's construction of Rodemacher Unit 3 and Cleco Power's acquisition of 50% of Acadia were driven by primary objectives to diversify fuel mix, stabilize fuel costs, and develop reliable sources of generating capacity to meet customers' long-term power needs. With Rodemacher Unit 3 commencing commercial operations on February 12, 2010, and Cleco Power completing the transaction with Acadia, Cleco Power will more than double its rate base and diversify the fuel mix of its generating portfolio.

Midstream

In recent years, Acadia has marketed short-, mid- and long-term products where available. Through its third-party energy marketer, Acadia has pursued opportunities in the hourly, weekly, monthly, and annual markets. Acadia's success in these marketing efforts was a primary driver of its earnings and cash flow. During 2009, Acadia's revenues were primarily derived from two short-term capacity agreements with Cleco Power and NRG Power Marketing, Inc. that were managed by the third-party energy marketer.

In February 2009, Cleco Power announced that it had selected Acadia's proposal to fulfill Cleco Power's capacity and energy needs as defined in the Cleco Power 2007 long-term RFP. Under the proposed arrangement, Cleco Power would acquire and operate one of Acadia's generating units and operate the other unit, as described further above under "— Cleco Power."

In October 2009, Acadia and Entergy Louisiana announced that definitive agreements had been executed whereby Entergy Louisiana would purchase 50% of the Acadia Power Station, or one of its two 580-MW units. The transaction is anticipated to be completed in late 2010 or early 2011. The agreements provide that, beginning in May 2010, Acadia will serve Entergy Louisiana under a tolling agreement covering 50% of the Acadia Power Station until the sale is completed. Both the asset sale and interim tolling agreement require regulatory approval. Cleco Power will continue to operate both units at Acadia after the Entergy Louisiana transaction is completed.

Midstream's other source of revenue, which will be its principal source of revenue upon completion of the Acadia transactions described above, will be from its new tolling agreement at Evangeline, under which the counterparty has the right to dispatch the electric generation capacity of the facility. For additional information on Evangeline's new tolling agreement, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 23 — Subsequent Events — Evangeline Transactions."

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, 2009,
Compared to Year ended December 31, 2008

	FOR THE YEAR ENDED DECEMBER 31,			
			FAVORABLE/(UNFAVORABLE)	
(THOUSANDS)	2009	2008	VARIANCE	CHANGE
Operating revenue, net	$853,758	$1,080,198	$ (226,440)	(21.0)%
Operating expenses	746,949	965,321	218,372	22.6 %
Operating income	$106,809	$114,877	$ (8,068)	(7.0)%
Interest income	$1,512	$5,417	$ (3,905)	(72.1)%
Allowance for other funds used during construction	$73,269	$64,953	$ 8,316	12.8 %
Equity loss from investees	$(17,423)	$(5,542)	$ (11,881)	(214.4)%
Other income	$5,581	$1,263	$ 4,318	341.9 %
Other expense	$2,807	$7,970	$ 5,163	64.8 %

Interest charges	$51,055	$52,400	$ 1,345	2.6	%
Federal and state income taxes	$9,579	$18,457	$ 8,878	48.1	%
Net income applicable to common stock	$106,261	$102,095	$ 4,166	4.1	%

Consolidated net income applicable to common stock increased $4.2 million, or 4.1%, in 2009 compared to 2008 primarily due to increased corporate earnings. Increased corporate earnings were primarily driven by lower interest charges and lower other expenses as discussed in further detail below. Partially offsetting this increase were lower earnings at Cleco Power and higher losses at Midstream.

Operating revenue, net decreased $226.4 million, or 21.0%, in 2009 compared to 2008 largely as a result of lower fuel cost recovery revenue at Cleco Power.

Operating expenses decreased $218.4 million, or 22.6%, in 2009 compared to 2008 primarily due to lower per-unit costs and volumes of purchased power for utility customers.

Interest income decreased $3.9 million, or 72.1%, in 2009 compared to 2008 primarily due to lower interest rates and lower average investment balances. Also contributing to the decrease was a lower recovery of interest costs relating to Cleco Power's lower deferred lignite mining costs.

Allowance for other funds used during construction increased $8.3 million, or 12.8%, in 2009 compared to 2008, primarily due to increased construction activity at Rodemacher Unit 3.

Equity loss from investees increased $11.9 million, or 214.4%, in 2009 compared to 2008 primarily due to equity losses at Evangeline primarily from higher interest on uncertain tax positions and higher equity losses at APH.

Other income increased $4.3 million, or 341.9%, in 2009 compared to 2008 primarily due to the recognition of an increase in the cash surrender value of life insurance policies at Cleco Corporation and higher mutual assistance revenue at Cleco Power.

Other expense decreased $5.2 million, or 64.8%, in 2009 compared to 2008 primarily due to the absence in 2009 of decreases in the cash surrender value of life insurance policies at Cleco Corporation during 2008. Partially offsetting this decrease were higher mutual assistance expenses at Cleco Power.

Interest charges decreased $1.3 million, or 2.6%, in 2009 compared to 2008 primarily due to lower interest charges at Cleco Corporation from interest related to uncertain tax positions, the favorable settlement of a franchise tax lawsuit, and the repayment of senior notes. These decreases were partially offset by higher net interest charges at Cleco Power as discussed below.

Federal and state income taxes decreased $8.9 million, or 48.1%, in 2009 compared to 2008 primarily due to a decrease in pre-tax income, excluding equity AFUDC, the flow through of state tax benefits to customers, and tax credits utilized in 2009. The effective income tax rate is less than the expected statutory rate due to the significant impact of flow-through treatment on electric plant-related differences such as equity AFUDC.

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

CLECO POWER

Significant Factors Affecting Cleco Power

Revenue is primarily affected by the following factors:

As an electric utility, Cleco Power is affected, to varying degrees, by a number of factors influencing the electric utility industry in general. These factors include, among others, an increasingly competitive business environment, the cost of compliance with environmental and reliability regulations, conditions in the credit markets and global economy, 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 — Global Economic Downturn,” “— Future Electricity Sales,” “— Fuel Cost Audits,” “— Hedging and Risk Manager Activities,” “— Transmission Constraints,” “— Commodity Prices,” “— Cleco Power Generation Facilities,” “— ERO,” “— E Compliance,” “— Regulatory Compliance,” “— Weather Sensitivity,” “— Retail Electric Service,” “— Wholesale Electric Ser Cleco Credit Ratings,” “— Interest Rate Swap,” and “— Cleco Power’s Rates.”

Cleco Power’s residential customers’ demand for electricity largely is affected by weather. Weather generally is measured in cooling degree-days and heating degree-days. A cooling degree-day is an indication of the likelihood that a consumer will use air conditioning, while a heating degree-day is an indication of the likelihood that a consumer will use heating. An increase in heating degree-days does not produce the same increase in revenue as an increase in cooling degree-days, because alternative heating sources are more available and because winter energy is priced below the rate charged for energy used in the summer. Normal heating degree-days and cooling degree-days are calculated for a month by separately calculating the average actual heating and cooling degree-days for that month over a period of 30 years.

Cleco Power’s expected retail sales are dependent upon factors such as weather conditions, natural gas prices, customer conservation efforts, retail marketing and business development programs, and the economy of Cleco Power’s service area. Cleco Power has experienced over the last five years, and anticipates over the next five years, moderate growth in sales volume except for sales to industrial customers. Two large industrial customers have installed cogeneration, another has discontinued a portion of its product line, and another has ceased operations. The decrease in sales attributed to these four customers is approximately 321,000 MWh. After this initial decrease attributable to these customers, Cleco Power anticipates moderate growth on the remaining industrial sales over the next five years.

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

- imposition of federal and/or state renewable portfolio standards;
- imposition of energy efficiency mandates;
- legislative and regulatory changes;
- increases in environmental regulations and compliance costs;
- cost of power impacted by the price increases of natural gas, the addition of lower cost solid-fuel plants, and the addition of additional generation capacity;
- increase in capital and operations and maintenance costs due to higher construction and labor costs;
- retention or loss of large industrial customers and municipal franchises;
- changes in electric rates compared to customers' ability to pay;
- access to transmission systems;
- need for additional transmission capacity for reliability purposes;
- turmoil in the credit markets and global economy; and
- implementation of automated metering initiatives or smart grid technologies.

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 also 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 customers through the rates charged for electric service. These proceedings may examine, among other things, the prudence of Cleco Power's operation and maintenance practices, level of subject expenditures, allowed rates of return, and previously incurred capital expenditures. The LPSC has the authority to disallow costs found not to have been prudently incurred. 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 be limited by statute. Decisions are typically subject to appeal, potentially leading to additional uncertainty.
In October 2009, the LPSC voted unanimously to approve the retail rate plan that Cleco Power filed to increase its base rates for electricity. The retail rate plan became effective upon the commercial operation of Rodemacher Unit 3, which was February 12, 2010. For additional information see "— Overview — Cleco Power."

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. Transmission and distribution maintenance expenses are generally affected by the level of repair and rehabilitation of lines to maintain reliability. 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 2010 compared to 2009. These expenses include higher depreciation expense, higher generation expenses related to operations and maintenance, and higher salaries and benefits. In addition, Cleco Power expects the implementation of the Pension Protection Act, in conjunction with material pension plan portfolio losses in 2008, will result in annual pension contributions going-forward that are significantly higher than estimates calculated in prior years. For additional information, see "— Regulatory Matters — Pension Protection Act of 2006."

Cleco Power's Results of Operations —
Year ended December 31, 2009,
Compared to Year ended December 31, 2008

			FOR THE YEAR ENDED DECEMBER 31, FAVORABLE/(UNFAVORABLE)	
(THOUSANDS)	2009	2008	VARIANCE	CHANGE
Operating revenue				
Base	$355,091	$352,120	$ 2,971	0.8 %
Fuel cost recovery	453,555	680,850	(227,295)	(33.4)%
Other operations	33,558	36,675	(3,117)	(8.5)%
Affiliate revenue	23	29	(6)	(20.7)%
Intercompany revenue	1,372	2,008	(636)	(31.7)%
Total operating revenue	843,599	1,071,682	(228,083)	(21.3)%
Operating expenses				
Fuel used for electric generation – recoverable	253,911	226,250	(27,661)	(12.2)%
Power purchased for utility customers – recoverable	199,619	454,649	255,030	56.1 %

Non-recoverable fuel and power purchased	24,832	26,068	1,236	4.7 %
Other operations	99,704	93,288	(6,416)	(6.9)%
Maintenance	47,179	43,030	(4,149)	(9.6)%
Depreciation	77,064	76,420	(644)	(0.8)%
Taxes other than income taxes	29,758	31,011	1,253	4.0 %
Loss on sales of assets	70	-	(70)	-
Total operating expenses	732,137	950,716	218,579	23.0 %
Operating income	$111,462	$120,966	$ (9,504)	(7.9)%
Interest income	$1,449	$3,943	$ (2,494)	(63.3)%
Allowance for other funds used during construction	$73,269	$64,953	$ 8,316	12.8 %
Other income	$2,370	$1,467	$ 903	61.6 %
Other expense	$3,525	$2,258	$ (1,267)	(56.1)%
Interest charges	$58,562	$47,283	$ (11,279)	(23.9)%
Federal and state income taxes	$15,297	$27,956	$ 12,659	45.3 %
Net income	$111,166	$113,832	$ (2,666)	(2.3)%

Cleco Power's net income for 2009 decreased $2.7 million, or 2.3%, compared to 2008. Contributing factors include:

§ higher other operations and maintenance expenses,
§ higher interest charges,
§ lower interest income,
§ lower other operations revenue, and
§ higher other expense.

These were partially offset by:

§ higher allowance for other funds used during construction,
§ higher base revenue,
§ lower effective income tax rate,
§ lower taxes other than income taxes, and
§ lower non-recoverable fuel and power purchased.

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(MILLION kWh)	FOR THE YEAR ENDED DECEMBER 31, 2009	2008	FAVORABLE/ (UNFAVORABLE)
Electric sales			
Residential	3,637	3,545	2.6 %
Commercial	2,484	2,450	1.4 %
Industrial	2,232	2,898	(23.0)%
Other retail	136	134	1.5 %
Total retail	8,489	9,027	(6.0)%
Sales for resale	560	441	27.0 %
Unbilled	60	16	275.0 %
Total retail and wholesale customer sales	9,109	9,484	(4.0)%

(THOUSANDS)	FOR THE YEAR ENDED DECEMBER 31, 2009	2008	FAVORABLE/ (UNFAVORABLE)
Electric sales			
Residential	$157,672	$154,001	2.4 %
Commercial	95,453	94,226	1.3 %
Industrial	50,957	55,560	(8.3)%
Other retail	5,715	5,589	2.3 %
Storm surcharge	19,661	21,105	(6.8)%
Total retail	329,458	330,481	(0.3)%
Sales for resale	23,371	19,685	18.7 %
Unbilled	2,262	1,954	15.8 %
Total retail and wholesale customer sales	$355,091	$352,120	0.8 %

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,			2009 CHANGE	
	2009	2008	NORMAL	PRIOR YEAR	NORMAL
Cooling degree-days	2,977	2,923	2,662	1.8 %	11.8 %
Heating degree-days	1,447	1,437	1,645	0.7 %	(12.0)%

Base

Base revenue during 2009 increased $3.0 million, or 0.8%, compared to 2008 primarily due to Cleco Power providing service to a new wholesale customer that commenced in April 2009 and higher residential sales primarily from an increase in the number of customers served. Partially offsetting these increases were lower sales to industrial customers largely as a result of decreased production at one of Cleco Power's large industrial customers and the start of a large customer cogenerating a portion of its electricity requirements. Cleco Power's future industrial sales, including customers in the wood and paper industries, may continue to decrease as a result of customers beginning self-generation operations and customers decreasing their production lines. In December 2009, one of Cleco Power's large industrial customers closed its operations. Cleco Power's annual base revenue billings to this customer were expected to be approximately $2.3 million in 2010. For information on other 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." When Rodemacher Unit 3 achieved commercial operations on February 12, 2010, Cleco Power began returning amounts collected to customers, as established in Cleco Power's retail rate plan over a period of five years. Over the five-year period, base revenue will be reduced $40.2 million, representing the amortization of this regulatory asset. For additional information, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 3 — Regulatory Assets and Liabilities — Deferred Construction Carrying Costs."

Fuel Cost Recovery

Fuel cost recovery revenue billed to customers during 2009 compared to 2008 decreased $227.3 million, or 33.4%, primarily due to decreases in the per-unit cost and volume of power purchased for utility customers. Partially offsetting the decrease were increases in the per-unit cost and volume of fuel used for electric generation.

Other Operations

Other operations revenue decreased $3.1 million, or 8.5%, in 2009 compared to 2008, primarily due to $2.6 million of lower transmission revenue, customer fees, and pole attachment revenue. Also contributing to the decrease was a $0.5 million net loss relating to economic hedge transactions associated with fixed-price power being provided to a wholesale customer. 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 decreased $218.6 million, or 23.0%, in 2009 compared to 2008. Fuel used for electric generation (recoverable) increased $27.7 million, or 12.2%, primarily due to higher per-unit costs of fuel used as compared to the same period of 2008, as a result of realized losses on fuel hedging due to lower natural gas prices. Also contributing to the increase were higher fuel costs deferred in prior periods and higher volumes of fuel used for electric generation. Power purchased for utility customers (recoverable) decreased $255.0 million, or 56.1%, largely due to lower per-unit costs and volumes of purchased power. 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 decreased $1.2 million, or 4.7%, primarily due to lower non-recoverable expenses primarily related to fixed-price power being provided to a wholesale customer. Partially offsetting this decrease were higher net capacity charges. Other operations expense increased $6.4 million, or 6.9%, primarily due to higher general liability expense, and higher employee benefit costs and administrative expenses. Maintenance expenses during 2009 increased $4.1 million, or 9.6%, compared to 2008 primarily due to a planned major outage at one of Cleco Power's generating facilities during 2009. Taxes other than income taxes decreased $1.3 million, or 4.0%, primarily due to lower franchise fees.

Interest Income
Interest income decreased $2.5 million, or 63.3%, during 2009 compared to 2008 primarily due to a lower recovery of interest costs relating to Cleco Power's lower balance of deferred lignite mining costs and lower interest rates and lower average investment balances.

Allowance for Other Funds Used During Construction
Allowance for other funds used during construction increased $8.3 million, or 12.8%, during 2009 compared to 2008 primarily due to increased construction activity at Rodemacher Unit 3. Allowance for other funds used during construction comprised 65.9% of Cleco Power's net income for 2009, compared to 57.1% for 2008. Through December 2009, Cleco Power was recording AFUDC associated with the construction of Rodemacher Unit 3. Cleco Power ceased recording AFUDC related to Rodemacher Unit 3 on February12, 2010, the commercial operation date of Rodemacher Unit 3.

Other Income
Other income increased $0.9 million, or 61.6%, during 2009 compared to 2008 primarily due to higher revenue from mutual assistance to other utilities for restoration efforts, partially offset by other miscellaneous income.

Other Expense
Other expense increased $1.3 million, or 56.1%, during 2009 compared to 2008 primarily due to higher expenses from mutual assistance to other utilities for restoration efforts.

Interest Charges
Interest charges increased $11.3 million, or 23.9%, during 2009 compared to 2008 primarily due to $8.3 million related to the May 2008 issuance of senior notes, $6.6 million related to the December 2008 issuance of GO Zone bonds, $2.5 million on tax related items, $1.2 million related to the March 2008 issuance of storm recovery bonds, and $1.1 million related to solid waste disposal facility bonds. Partially offsetting these increases were the capitalization of an additional $6.5 million of allowance for borrowed funds used during construction associated with Rodemacher Unit 3 and $1.9 million of lower net other miscellaneous charges.

Income Taxes
Federal and state income taxes decreased $12.7 million, or 45.3%, during 2009 compared to 2008, primarily due to a decrease in pre-tax income, excluding equity AFUDC, and the flow through of state tax benefits to customers. The effective income tax rate is less than the expected statutory rate due to the significant impact of flow-through treatment on electric plant-related differences such as equity AFUDC.

MIDSTREAM

Significant Factors Affecting Midstream

Earnings are primarily affected by the following factors:
Midstream's equity earnings from investees were derived in 2009 primarily from the Evangeline Tolling Agreement with JPMVEC, which prior to November 2007, was with Williams, and from its 50% interest in Acadia, which derived its revenue from energy sales. In 2009, Acadia's revenues were primarily derived from two short-term capacity agreements with Cleco Power and NRG Power Marketing, Inc. that were managed by the third party marketer. On February 22, 2010, Evangeline and JPMVEC terminated the existing tolling agreement and entered into a new tolling agreement. 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 requirements can be satisfied by providing replacement power to the tolling counterparties. A tolling agreement gives the tolling counterparty the right to own, dispatch, and market all of the electric generation capacity of the respective facility. JPMVEC is responsible for providing its own natural gas to Evangeline. JPMorgan Chase & Co. guaranteed JPMVEC's obligations under the Evangeline Tolling Agreement and is also guaranteeing JPMVEC's obligations under the Evangeline 2010 Tolling Agreement.

Under the tolling agreement, JPMVEC pays Evangeline a fixed fee and a variable fee for operating and maintaining the facility. The Evangeline Tolling Agreement was accounted for as an operating lease. For additional information on Cleco's operating leases, see "— Critical Accounting Policies — Midstream." Equity income from the Evangeline Tolling Agreement correlated with the seasonal usage of the plant. Evangeline's 2009 revenue was recognized in the following manner:

§ 17% in the first quarter;
§ 22% in the second quarter;
§ 43% in the third quarter; and
§ 18% in the fourth quarter.

Evangeline's 2010 revenue is anticipated to be recognized in a similar manner; however, revenue under the Evangeline 2010 Tolling Agreement will be reflected in operating revenue. The new tolling agreement will be accounted for as an operating lease. 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 — Equity Income" and Note 23 — "Subsequent Events — Evangeline Transactions."

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

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, employee benefits, and generation operating expenses.

Other Factors Affecting Midstream

Evangeline
In accordance with the authoritative guidance on consolidations, Cleco reported its investment in Evangeline on the equity method of accounting and reflected Evangeline's net operating results in the equity income (loss) from investees' line during 2009 and prior years presented. Effective January 1, 2010, the requirements for consolidation changed. On and after January 1, 2010, Evangeline's assets, liabilities, revenues, expenses, and cash flows will be presented in the appropriate line items of the consolidated financial statements. For additional information, see "— Critical Accounting Policies" below. For additional information on the consolidation guidelines and the equity method of accounting related to Evangeline, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 13 — Equity Investment in Investees." On February 22, 2010, Evangeline and JPMVEC executed the Evangeline 2010 Tolling Agreement. For additional information, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 23 — Subsequent Events — Evangeline Transactions."

Midstream's Results of Operations —
Year ended December 31, 2009,
Compared to Year ended December 31, 2008

	FOR THE YEAR ENDED DECEMBER 31,			
			FAVORABLE/(UNFAVORABLE)	
(THOUSANDS)	2009	2008	VARIANCE	CHANGE
Operating revenue				
Other operations	$1	$1	$ -	-
Affiliate revenue	8,748	7,920	828	10.5 %
Total operating revenue	8,749	7,921	828	10.5 %
Operating expenses				
Other operations	6,292	6,670	378	5.7 %
Maintenance	3,887	3,800	(87)	(2.3)%
Depreciation	177	307	130	42.3 %
Taxes other than income taxes	403	395	(8)	(2.0)%
Loss (gain) on sales of assets	5	(99)	(104)	(105.1)%
Total operating expenses	10,764	11,073	309	2.8 %
Operating loss	(2,015)	(3,152)	1,137	36.1 %
Equity loss from investees	$(19,339)	$(7,037)	$ (12,302)	(174.8)%
Federal and state income tax benefit	$(11,027)	$(7,182)	$ 3,845	53.5 %
Net loss	$(17,730)	$(10,017)	$ (7,713)	(77.0)%

Factors affecting Midstream during 2009 are described below.

Operating Revenue

Operating revenue increased $0.8 million, or 10.5%, in 2009 compared to 2008. The increase was primarily due to additional employees hired by Generation Services for the benefit of Midstream to provide power plant operations, maintenance, and engineering services to Acadia and Evangeline. As a result, revenue associated with these services is included in affiliate revenue.

Operating Expenses

Operating expenses decreased $0.3 million, or 2.8%, in 2009 compared to 2008. The decrease was primarily due to lower outside consulting fees and lower employee benefit costs and administrative expenses. These expenses were partially offset by higher expenses due to additional employees hired by Generation Services for the benefit of Midstream to provide power plant operations, maintenance, and engineering services to Acadia and Evangeline.

Equity Loss from Investees

Equity loss from investees increased $12.3 million, or 174.8%, in 2009 compared to 2008. The increase was due to a $6.3 million decrease in equity earnings at Evangeline and a $6.0 million increase in equity losses at APH. The decreased earnings at Evangeline were primarily from higher interest related to uncertain tax positions, partially offset by lower maintenance expenses and the absence in 2009 of replacement power purchases that were made in 2008 as a result of an unplanned outage. The increased loss at APH was primarily due to outages at the facility during 2009, resulting in higher removal and retirement costs and higher turbine and general maintenance expenses. Also contributing to the increased losses were higher legal fees associated with the sale transactions. These decreases were partially offset by higher net revenue from Acadia's short-term tolling agreement with Cleco Power and lower depreciation expense resulting from certain Acadia assets meeting the criteria of assets held for sale, at which point depreciation of these assets ceased. For additional information, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 13 — Equity Investment in Investees — Acadia."

Income Taxes
Federal and state income taxes decreased $3.8 million, or 53.5%, during 2009 compared to 2008, primarily due to a decrease in pre-tax income.

Cleco Consolidated Results of Operations —
Year ended December 31, 2008,
Compared to Year ended December 31, 2007

	FOR THE YEAR ENDED DECEMBER 31,			
			FAVORABLE/(UNFAVORABLE)	
(THOUSANDS)	2008	2007	VARIANCE	CHANGE
Operating revenue, net	$1,080,198	$1,030,616	$ 49,582	4.8 %
Operating expenses	965,321	933,072	(32,249)	(3.5)%
Operating income	$114,877	$97,544	$ 17,333	17.8 %
Interest income	$5,417	$11,754	$ (6,337)	(53.9)%
Allowance for other funds used during construction	$64,953	$32,955	$ 31,998	97.1 %
Equity (loss) income from investees	$(5,542)	$93,148	$ (98,690)	(105.9)%
Other income	$1,263	$29,531	$ (28,268)	(95.7)%
Other expense	$7,970	$4,405	$ (3,565)	(80.9)%
Interest charges	$52,400	$37,966	$ (14,434)	(38.0)%
Federal and state income taxes	$18,457	$70,772	$ 52,315	73.9 %
Net income applicable to common stock	$102,095	$151,331	$ (49,236)	(32.5)%

Consolidated net income applicable to common stock decreased $49.2 million, or 32.5%, in 2008 compared to 2007 primarily due to decreased Midstream and Corporate earnings. Partially offsetting these decreases were increased Cleco Power earnings.

Operating revenue, net increased $49.6 million, or 4.8%, in 2008 compared to 2007 largely as a result of higher fuel cost recovery revenue at Cleco Power.

Operating expenses increased $32.2 million, or 3.5%, in 2008 compared to 2007 primarily due to higher fuel costs at Cleco Power.

Interest income decreased $6.3 million, or 53.9%, in 2008 compared to 2007 primarily due to lower interest rates and lower average investment balances.

Allowance for other funds used during construction increased $32.0 million, or 97.1%, in 2008 compared to 2007, primarily due to increased construction activity at Rodemacher Unit 3.

Equity income from investees decreased $98.7 million, or 106.0%, in 2008 compared to 2007. The decrease primarily was due to decreased equity earnings at APH, resulting from the $78.2 million 2007 settlement of Acadia's claims against CES and Calpine and $60.0 million received by APH during 2007 relating to Cajun's purchase of CAH's 50% equity ownership interest in Acadia, offset by a $45.8 million pre-tax impairment loss.

Other income decreased $28.3 million, or 95.7%, in 2008 compared to 2007 as a result of amounts received by APH during 2007 relating to Cajun's purchase of CAH's 50% equity ownership interest in Acadia. For additional information, see "— Midstream — Equity Income from Investees" and "— Other Income."

Other expense increased $3.6 million, or 80.9%, in 2008 compared to 2007 primarily due to a decrease in the cash surrender value of life insurance policies at Cleco Corporation. Partially offsetting this increase was APH's payment in 2007 to acquire Calpine's interest in Acadia's claim against Cleco Power regarding a potential electric metering error at the Acadia facility.

Interest charges increased $14.4 million, or 38.0%, in 2008 compared to 2007 primarily due to the carrying cost of the tax benefits of storm damage costs, a favorable 2007 settlement with the IRS, and interest related to the issuances of new senior notes, solid waste disposal facility bonds, GO Zone bonds, and storm recovery bonds. Partially offsetting this increase was the allowance for borrowed funds used during construction associated with the construction activity at Rodemacher Unit 3, the repayments of medium-term and senior notes at Cleco Power and Cleco Corporation, respectively, the storm damage surcredit, and interest related to retainage from Shaw.

Federal and state income taxes decreased $52.3 million, or 73.9%, in 2008 compared to 2007 primarily due to a decrease in pre-tax income, excluding equity AFUDC. The effective income tax rate is less than the expected statutory rate due to the significant impact of flow-though treatment on electric plant-related differences such as equity AFUDC.

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

Cleco Power's Results of Operations —
Year ended December 31, 2008,
Compared to Year ended December 31, 2007

			FOR THE YEAR ENDED DECEMBER 31, FAVORABLE/(UNFAVORABLE)	
(THOUSANDS)	2008	2007	VARIANCE	CHANGE
Operating revenue				
Base	$352,120	$353,562	$ (1,442)	(0.4)%
Fuel cost recovery	680,850	634,631	46,219	7.3 %
Other operations	36,675	35,176	1,499	4.3 %
Affiliate revenue	29	42	(13)	(31.0)%
Intercompany revenue	2,008	2,008	-	-
Total operating revenue	1,071,682	1,025,419	46,263	4.5 %
Operating expenses				
Fuel used for electric generation – recoverable	226,250	264,975	38,725	14.6 %
Power purchased for utility customers – recoverable	454,649	369,659	(84,990)	(23.0)%
Non-recoverable fuel and power purchased	26,068	24,567	(1,501)	(6.1)%
Other operations	93,288	97,320	4,032	4.1 %
Maintenance	43,030	46,704	3,674	7.9 %
Depreciation	76,420	78,522	2,102	2.7 %
Taxes other than income taxes	31,011	37,658	6,647	17.7 %
Loss on sales of assets	-	15	15	100.0 %
Total operating expenses	950,716	919,420	(31,296)	(3.4)%
Operating income	$120,966	$105,999	$ 14,967	14.1 %
Interest income	$3,943	$5,422	$ (1,479)	(27.3)%
Allowance for other funds used during construction	$64,953	$32,955	$ 31,998	97.1 %
Interest charges	$47,283	$29,565	$ (17,718)	(59.9)%
Federal and state income taxes	$27,956	$29,613	$ 1,657	5.6 %
Net income	$113,832	$84,673	$ 29,159	34.4 %

Cleco Power's net income for 2008 increased $29.2 million, or 34.4%, compared to 2007. Contributing factors include:

§ higher allowance for other funds used during construction,
§ lower other operations and maintenance expenses,
§ lower taxes other than incomes taxes,
§ lower depreciation expense, and
§ higher other operations revenue.

These were partially offset by:

§ higher interest charges,
§ lower interest income,
§ higher non-recoverable fuel and power purchased, and
§ lower base revenue.

	FOR THE YEAR ENDED DECEMBER 31,		
(MILLION kWh)	2008	2007	FAVORABLE/ (UNFAVORABLE)
Electric sales			
Residential	3,545	3,596	(1.4)%
Commercial	2,450	2,478	(1.1)%
Industrial	2,898	3,008	(3.7)%
Other retail	134	135	(0.7)%
Total retail	9,027	9,217	