Cleco Corporate Holdings LLC
Form 10-K
February 27, 2019

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, 2018
Or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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

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

Registrant's telephone number, including area code: (318) 484-7400
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: None

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

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

Registrant's telephone number, including area code: (318) 484-7400
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: None

Cleco Power LLC, a wholly owned subsidiary of Cleco Corporate Holdings LLC, 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 Corporate Holdings LLC is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

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

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

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 o Nox

Indicate by check mark whether the Registrants have submitted electronically every Interactive Data File required to be submitted 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 such files). Yes x No o

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

Indicate by check mark whether Cleco Corporate Holdings LLC is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer o Accelerated filer o Non-accelerated filer x Smaller reporting company o Emerging growth company o
If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revise accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether Cleco Power LLC is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer o Accelerated filer o Non-accelerated filer x Smaller reporting company o Emerging growth company o
If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revise accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

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

CLECO
CLECO POWER 2018 FORM 10-K

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

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GLOSSARY OF TERMS

References in Part III, Item 11 in this filing to "we," "our," and "the Company" mean Cleco Corporate Holdings 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
2016 Merger	Merger of Merger Sub with and into Cleco Corporation pursuant to the terms of the Merger Agreement which was completed on April 13, 2016
2016 Merger Commitments	Cleco Partners', Cleco Group's, Cleco Holdings', and Cleco Power's 77 commitments to the LPSC as defined in Docket No. U-33434 of which a performance report must be filed annually by October 31 for the 12 months ending June 30
401(k) Plan	Cleco Power 401(k) Savings and Investment Plan
ABR	Alternate Base Rate which is the greater of the prime rate, the federal funds effective rate plus 0.50%, or LIBOR plus 1.0%
Acadia	Acadia Power Partners, LLC, previously a wholly owned subsidiary of Midstream. Acadia Power Partners, LLC was dissolved effective August 29, 2014.
Acadia Unit 1	Cleco Power's 580-MW, combined cycle power plant located at the Acadia Power Station in Eunice, Louisiana
Acadia Unit 2	Entergy Louisiana's 580-MW, combined cycle power plant located at the Acadia Power Station in Eunice, Louisiana, which is operated by Cleco Power
ADIT	Accumulated Deferred Income Tax
AFUDC	Allowance for Funds Used During Construction
ALJ	Administrative Law Judge
Amended Lignite Mining Agreement	Amended and restated lignite mining agreement effective December 29, 2009
AMI	Advanced Metering Infrastructure
AOCI	Accumulated Other Comprehensive Income (Loss)
ARO	Asset Retirement Obligation
ARRA	American Recovery and Reinvestment Act of 2009
Attala	Attala Transmission LLC, a wholly owned subsidiary of Cleco Holdings
BCI	British Columbia Investment Management Corporation
Brame Energy Center	A facility consisting of Nesbitt Unit 1, Rodemacher Unit 2, and Madison Unit 3
CAA	Clean Air Act
CCR	Coal combustion by-products or residual
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Cleco	Cleco Holdings and its subsidiaries
Cleco Cajun	Cleco Cajun LLC, formerly Cleco Energy LLC, a wholly owned subsidiary of Cleco Holdings
Cleco Cajun Transaction	The transaction between Cleco Cajun and NRG Energy in which Cleco Cajun acquired all the membership interest in NRG South Central which closed on February 4, 2019.
Cleco Corporation	Pre-2016 Merger entity that was converted to a limited liability company and changed its name to Cleco Corporate Holdings LLC on April 13, 2016
Cleco Group	Cleco Group LLC, a wholly owned subsidiary of Cleco Partners

Cleco Holdings	Cleco Corporate Holdings LLC, a wholly owned subsidiary of Cleco Group
Cleco Katrina/Rita	Cleco Katrina/Rita Hurricane Recovery Funding LLC, a wholly owned subsidiary of Cleco Power
Cleco Partners	Cleco Partners L.P., a Delaware limited partnership that is owned by a consortium of investors, including funds or investment vehicles managed by MIRA, BCI, John Hancock Financial, and other infrastructure investors
Cleco Power	Cleco Power LLC and its subsidiaries, a wholly owned subsidiary of Cleco Holdings
CO_2	Carbon dioxide
Cottonwood Energy	Cottonwood Energy Company LP, a wholly owned subsidiary of Cleco Cajun. Prior to the closing of the Cleco Cajun Transaction on February 4, 2019, Cottonwood Energy was an indirect subsidiary of NRG South Central.
Coughlin	Cleco Power's 775-MW, combined-cycle power plant located in St. Landry, Louisiana
CPP	Clean Power Plan
CSAPR	Cross-State Air Pollution Rule
DHLC	Dolet Hills Lignite Company, LLC, a wholly owned subsidiary of SWEPCO
Diversified Lands	Diversified Lands LLC, a wholly owned subsidiary of Cleco Holdings
Dolet Hills	A facility consisting of Dolet Hills Power Station, the Dolet Hills mine, and the Oxbow mine
Dolet Hills Power Station	A 650-MW generating unit at Cleco Power's plant site in Mansfield, Louisiana. Cleco Power has a 50% ownership interest in the capacity of Dolet Hills.
EAC	Environmental Adjustment Clause
EBITDA	Earnings before interest, taxes, depreciation, and amortization
EGU	Electric Generating Unit
Entergy Gulf States	Entergy Gulf States Louisiana, LLC
Entergy Louisiana	Entergy Louisiana, LLC
EPA	U.S. Environmental Protection Agency
ERO	Electric Reliability Organization
ESPP	Employee Stock Purchase Plan

ABBREVIATION OR ACRONYM	DEFINITION
Evangeline	Cleco Evangeline LLC, a wholly owned subsidiary of Midstream
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fitch	Fitch Ratings, a credit rating agency
FTR	Financial Transmission Right
FRP	Formula Rate Plan
GAAP	Generally Accepted Accounting Principles in the U.S.
GO Zone	Gulf Opportunity Zone Act of 2005 (Public Law 109-135)
IRC	Internal Revenue Code
IRP	Integrated Resource Plan
IRS	Internal Revenue Service
ISO	Independent System Operator
kWh	Kilowatt-hour(s)
LDEQ	Louisiana Department of Environmental Quality
LED	Louisiana Economic Development
LIBOR	London Interbank Offered Rate
LMP	Locational Marginal Price
LPSC	Louisiana Public Service Commission
LTIP	Long-Term Incentive Compensation Plan
Madison Unit 3	A 641-MW generating unit at Cleco Power’s plant site in Boyce, Louisiana
MATS	Mercury and Air Toxics Standards
Merger Agreement	Agreement and Plan of Merger, dated as of October 17, 2014, by and among Cleco Partners, Merger Sub, and Cleco Corporation relating to the 2016 Merger
Merger Sub	Cleco MergerSub Inc., previously an indirect wholly owned subsidiary of Cleco Partners that was merged with and into Cleco Corporation, with Cleco Corporation surviving the 2016 Merger, and Cleco Corporation converting to a limited liability company and changing its name to Cleco Holdings
Midstream	Cleco Midstream Resources LLC, a wholly owned subsidiary of Cleco Holdings
MIRA	Macquarie Infrastructure and Real Assets Inc.
MISO	Midcontinent Independent System Operator, Inc.
MMBtu	Million British thermal units
Moody’s	Moody’s Investors Service, a credit rating agency
MW	Megawatt(s)
MWh	Megawatt-hour(s)
N/A	Not Applicable
NAAQS	National Ambient Air Quality Standards
NERC	North American Electric Reliability Corporation
NMTC	New Markets Tax Credit
NMTC Fund	USB NMTC Fund 2008-1 LLC was formed to invest in projects qualifying for New Markets Tax Credits and Solar Projects. This fund was dissolved effective January 25, 2019.
NOAA	National Oceanic and Atmospheric Administration
Not Meaningful	A percentage comparison of these items is not statistically meaningful because the percentage difference is greater than 1,000%

NO_2	Nitrogen dioxide
NO_x	Nitrogen oxide
NRG Energy	NRG Energy, Inc.
NRG South Central	NRG South Central Generating LLC
Other Benefits	Includes medical, dental, vision, and life insurance for Cleco's retirees
Oxbow	Oxbow Lignite Company, LLC, 50% owned by Cleco Power and 50% owned by SWEPCO
PCB	Polychlorinated biphenyl
Perryville	Perryville Energy Partners, L.L.C., a wholly owned subsidiary of Cleco Holdings
ppb	Parts per billion
Predecessor	Pre-merger activity of Cleco. Cleco has accounted for the 2016 Merger transaction by applying the acquisition method of accounting. The predecessor period is not comparable to the successor period.
Purchase and Sale Agreement	Purchase and Sale Agreement, dated as of February 6, 2018, by and among NRG Energy, NRG South Central, and Cleco Cajun
RE	Regional Entity
Registrant(s)	Cleco Holdings and/or Cleco Power
Rodemacher Unit 2	A 523-MW generating unit at Cleco Power's plant site in Boyce, Louisiana. Cleco Power has a 30% ownership interest in the capacity of Rodemacher Unit 2.
ROE	Return on Equity
RTO	Regional Transmission Organization

ABBREVIATION OR ACRONYM	DEFINITION
S&P	Standard & Poor's Ratings Services, a credit rating agency
SEC	U.S. Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
SERP	Supplemental Executive Retirement Plan
SO_2	Sulfur dioxide
SPP	Southwest Power Pool
SPP RE	Southwest Power Pool Regional Entity
SSR	System Support Resource
START	Strategic Alignment and Real-Time Transformation
STIP	Short-Term Incentive Plan
Successor	Post-merger activity of Cleco. Cleco has accounted for the 2016 Merger transaction by applying the acquisition method of accounting. The successor period is not comparable to the predecessor period.
Support Group	Cleco Support Group LLC, a wholly owned subsidiary of Cleco Holdings
SWEPCO	Southwestern Electric Power Company, an electric utility subsidiary of American Electric Power Company, Inc.
TCJA	Federal tax legislation commonly referred to as the Tax Cuts and Jobs Act of 2017
Teche Unit 3	A 359-MW generating unit at Cleco Power's plant site in Baldwin, Louisiana
USBCDC	US Bancorp Community Development Corporation
VaR	Value-at-Risk

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

- the effects of the Cleco Cajun Transaction and the 2016 Merger on Cleco Holdings' and Cleco Power's business relationships, operating results, and business generally,
- regulatory factors, such as changes in rate-setting practices or policies; political actions of governmental regulatory bodies; adverse regulatory ratemaking actions; recovery of investments made under traditional regulation; recovery of storm restoration costs; the frequency, timing, and amount of rate increases or decreases; the impact that rate cases or requests for FRP extensions may have on operating decisions of Cleco Power; the results of periodic NERC, LPSC, and FERC audits; participation in MISO and the related operating challenges and uncertainties, including increased wholesale competition relative to additional suppliers; and compliance with the ERO reliability standards for bulk power systems by Cleco Power,
- the ability to recover fuel costs through the FAC,
- the ability to successfully integrate the assets acquired in the Cleco Cajun Transaction into Cleco's operations,
- factors affecting utility operations, such as unusual weather conditions or other natural phenomena; catastrophic weather-related damage caused by hurricanes and other storms or severe drought conditions; unscheduled generation outages; unanticipated maintenance or repairs; unanticipated changes to fuel costs or fuel supply costs, shortages, transportation problems, or other developments; fuel mix of Cleco's generating facilities; decreased customer load; environmental incidents and compliance costs; and power transmission system constraints,
- reliance on third parties for determination of Cleco's commitments and obligations to markets for generation resources and reliance on third-party transmission services,
- global and domestic economic conditions, including the

ability of customers to continue paying their utility bills, related growth and/or down-sizing of businesses in Cleco's service area, monetary fluctuations, changes in commodity prices, and inflation rates,

- political uncertainty in the U.S., including the ongoing debates related to the U.S. federal government budget and debt ceiling, and volatility and disruption in global capital and credit markets,
- the ability of the lignite reserves at Dolet Hills to provide sufficient fuel to the Dolet Hills Power Station for seasonal operations until at least 2036,
- Cleco Power's ability to maintain its right to sell wholesale power at market-based rates within its control area,
-

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

- reliability of Cleco Power's generating facilities,
- the imposition of energy efficiency requirements or increased conservation efforts of customers,
- the impact of current or future environmental laws and regulations, including those related to CCRs, greenhouse gases, and energy efficiency that could limit or terminate the operation of Cleco's generating units, increase costs, or reduce customer demand for electricity,
- the ability to recover costs of compliance with environmental laws and regulations, including those through the EAC,
- financial or regulatory accounting principles or policies imposed by FASB, the SEC, FERC, the LPSC, or similar entities with regulatory or accounting oversight,
- changing market conditions and a variety of other factors associated with physical energy, financial transactions, and energy service activities, including, but not limited to, price, basis, credit, liquidity, volatility, capacity, transmission, interest rates, and warranty risks,
- legal, environmental, and regulatory delays and other obstacles associated with acquisitions, reorganizations, investments in joint ventures, or other capital projects,
- costs and other effects of legal and administrative proceedings, settlements, investigations, claims, and other matters,
- the availability and use of alternative sources of energy and technologies, such as wind, solar, battery storage, and distributed generation,
- changes in federal, state, or local laws (including the TCJA and other tax laws), changes in tax rates, disallowances of tax positions, or changes in other regulating policies that may result in a change to tax benefits or expenses,
- the restriction on the ability of Cleco Power to make distributions to Cleco Holdings in certain instances, as a result of the 2016 Merger Commitments,
- Cleco Holdings' dependence on the earnings, dividends, or distributions from its subsidiaries to meet its debt obligations,

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

For more discussion of these factors and other factors that could cause actual results to differ materially from those contemplated in the Registrants' forward-looking statements, see Part I, Item 1A, "Risk Factors" and Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Comparison of the Years Ended December 31, 2018, and 2017 — Cleco Power — Significant Factors Affecting Cleco Power" in this Annual Report on Form 10-K.
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.
Any forward-looking statement is considered only as of the date of this Annual Report on Form 10-K and, except as required by law, 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 Holdings is a public utility holding company that holds investments in several subsidiaries, including Cleco Power. Prior to the Cleco Cajun Transaction, substantially all of Cleco Holdings' operations were conducted through Cleco Power. Cleco Holdings, 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 Holdings' predecessor was incorporated on October 30, 1998, under the laws of the state of Louisiana. On April 13, 2016, Cleco Holdings completed its merger with Merger Sub whereby Merger Sub merged with and into Cleco Corporation, with Cleco Corporation surviving the 2016 Merger, and Cleco Corporation converting to a limited liability company and changing its name to Cleco Holdings, as a direct, wholly owned subsidiary of Cleco Group and an indirect, wholly owned subsidiary of Cleco Partners. For more information on the 2016 Merger, see Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 4 — Business Combinations."
Cleco Power is a regulated electric utility engaged principally in the generation, transmission, distribution, and sale of electricity within Louisiana. Cleco Power owns nine generating units with a total nameplate capacity of 3,310 MW and serves approximately 291,000 customers in Louisiana through its retail business. Additionally, Cleco Power supplies wholesale power in Louisiana and Mississippi. Cleco Power was organized as a limited liability company under the laws of the state of Louisiana on December 12, 2000. Cleco Power's predecessor was incorporated on January 2, 1935, under the laws of the state of Louisiana.
Cleco Cajun was organized on December 28, 2017, under the laws of the state of Louisiana. On February 4, 2019, the Cleco Cajun Transaction was completed. For more information on the Cleco Cajun Transaction, see Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 21 — Cleco Cajun Transaction."
At December 31, 2018, Cleco had 1,212 employees. Cleco's mailing address is P.O. Box 5000, Pineville, Louisiana 71361-5000, and its telephone number is (318) 484-7400. Cleco's website is located at https://www.cleco.com. Cleco 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 electronically filed reports can also be obtained on the SEC's website located at https://www.sec.gov. Cleco's governance guidelines, code of conduct for financial managers, ethics and business standards, and the charters of its boards of managers' audit, leadership development and compensation, business planning and budget review, governance and public affairs, and asset management committees are available on its website and available in print upon request. Information on Cleco's website or any other website is not incorporated by reference into this Annual Report on Form 10-K and does not constitute a part of this Annual Report on Form 10-K.

At December 31, 2018, Cleco Power had 996 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 Annual Report on Form
10-K the information called for by the following Part II items of Form 10-K: Item 6 (Selected Financial Data) and Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations); and the following Part III items of Form 10-K: Item 10 (Directors, Executive Officers, and Corporate Governance of the Registrants), Item 11 (Executive Compensation), Item 12 (Security Ownership of Certain Beneficial Owners and Management and

Related Stockholder Matters), and Item 13 (Certain Relationships and Related Transactions, and Director Independence).
Because the Cleco Cajun Transaction closed after December 31, 2018, the Registrants' respective consolidated financial statements and the notes thereto do not include or take into account the closing and the effects of the Cleco Cajun Transaction. For more information on the Cleco Cajun Transaction, see Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 21 — Cleco Cajun Transaction."
OPERATIONS

Cleco Power

Certain Factors Affecting Cleco Power
As an electric utility, Cleco Power is affected by a number of factors influencing the electric utility industry in general. For more information on these factors, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Comparison of the Years Ended December 31, 2018, and 2017 — Cleco Power — Significant Factors Affecting Cleco Power."

Power Generation
As of December 31, 2018, Cleco Power's aggregate net electric generating capacity was 3,162 MW. This amount reflects the maximum production capacity these units can sustain over a specified period of time. Beginning March 1, 2019, Cleco Power intends to operate Dolet Hills Power Station from June through September of each year; however, Dolet Hills Power Station will be available to operate in other months, as needed. Cleco Power will continue to evaluate the cost of operating the Dolet Hills Power Station compared with other alternatives and decide the best course of action for the Dolet Hills Power Station within the LPSC regulatory requirements and recovery mechanism.
The following table sets forth certain information with respect to Cleco Power's generating facilities as of December 31, 2018:

GENERATING STATION	YEAR OF INITIAL OPERATION	NAMEPLATE CAPACITY (MW) (1)	NET CAPACITY (MW) (2)	PRIMARY FUEL USED FOR GENERATION	GENERATION TYPE
Brame Energy Center					
Nesbitt Unit 1	1975	440	416	natural gas	steam
Rodemacher Unit 2	1982	157 (3)	148 (3)	coal	steam
Madison Unit 3	2010	641	627	petroleum coke/coal	steam
Acadia Unit 1	2002	580	555	natural gas	combined cycle
Coughlin Unit 6	2000	264	246	natural gas	combined cycle
Coughlin Unit 7	2000	511	484	natural gas	combined cycle
Teche Unit 3	1971	359	331	natural gas	steam
Teche Unit 4	2011	33	34	natural gas	combustion
Dolet Hills Power Station	1986	325 (4)	321 (4)	lignite	steam
Total generating capability		3,310	3,162		

(1) Nameplate capacity is the capacity at the start of commercial operations.
(2) Based on capacity testing of the generating units and operational tests performed between May and August 2018. These amounts do not represent generating unit capacity for MISO planning reserve margins.
(3) Represents Cleco Power's 30% ownership interest in the capacity of Rodemacher Unit 2, a 523-MW generating unit.
(4) Represents Cleco Power's 50% ownership interest in the capacity of Dolet Hills, a 650-MW generating unit.

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

YEAR	THOUSAND MWh	PERCENT OF TOTAL ENERGY REQUIREMENTS
2018	11,848	94.6 %
2017	10,864	91.1 %
2016	12,759	103.6 %
2015	12,564	100.2 %
2014	9,858	74.9 %

Cleco Power's generation dispatch and transmission operations are integrated with MISO. The amount of power generated by Cleco Power is dictated by the availability of Cleco Power's generating fleet and the manner in which MISO dispatches each generating unit. Depending on how generating units are dispatched by MISO, the amount of power generated may be greater than or less than total energy requirements. Generating units are dispatched by referencing each unit's economic efficiency as it relates to the overall MISO market. For more information on MISO, see Part II, Item 7,

"Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Regulatory and Other Matters — Transmission Rates of Cleco Power."

Fuel and Purchased Power

Changes in fuel expenses reflect fluctuations in the amount, type, and pricing of fuel used for electric generation; fuel transportation and delivery costs; and deferral of expenses for recovery from customers through the FAC in subsequent months. Changes in purchased power expenses are a result of the quantity and price of economic power purchased from the MISO market. These quantity changes can be affected by Cleco plant outages and plant performance. For a discussion of certain risks associated with changes in fuel costs and their impact on utility customers, see Item 1A, "Risk Factors — Transmission Constraints" and "— LPSC Audits."

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

to each such fuel, and the weighted average fuel cost per MWh:

	LIGNITE		COAL		NATURAL GAS		PETROLEUM COKE		WEIG AVER
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
2018	$93.88	6.9 %	$22.55	16.7 %	$26.81	52.6 %	$26.54	23.8 %	$30.66
2017	$44.70	8.9 %	$24.75	12.4 %	$27.19	51.3 %	$22.50	27.4 %	$27.16
2016	$50.39	13.0 %	$28.13	9.3 %	$20.84	52.9 %	$18.77	24.8 %	$24.86
2015	$46.87	16.9 %	$28.68	9.7 %	$21.37	50.6 %	$19.80	22.8 %	$26.04
2014	$44.79	14.6 %	$27.34	15.6 %	$37.00	35.0 %	$21.52	34.8 %	$31.19

Power Purchases

Cleco Power is a participant in the MISO market. MISO makes economic and routine dispatch decisions regarding Cleco Power's generating units. Power purchases are made at prevailing market prices, also referred to as LMP, which are highly correlated to natural gas prices. LMP includes a component directly related to congestion on the transmission system. Pricing zones with greater transmission congestion may have higher LMPs. Physical transmission constraints present in the MISO market could increase energy costs within Cleco Power's pricing zones. 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." For information on the cost benefit analysis of Cleco Power's MISO

membership, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Regulatory and Other Matters — Retail Rates of Cleco Power — MISO Cost Benefit Analysis."

Coal, Petroleum Coke, and Lignite Supply

Cleco Power uses coal for generation at Rodemacher Unit 2. During 2018, Cleco Power contracted with Cloud Peak Energy, Arch Coal Sales, and Coal Network LLC to provide Cleco Power's coal needs at Rodemacher Unit 2, utilizing short-term spot coal agreements. The coal supply agreements were fixed-price contracts or based on market indexes. For 2019, Cleco Power intends to meet its coal needs through short-term spot coal agreements which are expected to be fixed-price contracts or based on market indexes. For the transportation of coal, Cleco Power has an agreement with Union Pacific Railroad Company to transport coal from Wyoming's Powder

River Basin to Rodemacher Unit 2. The transportation agreement is for three years, expiring December 31, 2019. Cleco Power expects to renegotiate with Union Pacific Railroad Company to continue this transportation agreement. Cleco Power leases 200 railcars to transport its coal under two leases. One lease expires on March 31, 2021, and the newest lease, which was entered into on April 1, 2017, expires on March 31, 2020.
The continuous supply of coal may be subject to interruption due to adverse weather conditions or other factors that may disrupt transportation to the plant site. At December 31, 2018, Cleco Power's coal inventory at Rodemacher Unit 2 was approximately 77,000 tons (approximately a 32-day supply).
Cleco Power uses a combination of petroleum coke and Illinois Basin coal for generation at Madison Unit 3. Petroleum coke is a by-product of the oil refinery process and is not considered a fuel specifically produced for a market; however, ample petroleum coke supplies are produced from refineries each year throughout the world, particularly in the Gulf Coast region. During 2018, Cleco received its petroleum coke supply from multiple refineries located along the upper and lower Mississippi River. Cleco purchased slightly more than 900,000 tons of petroleum coke during 2018, all of which were either an evergreen extension of a previous agreement or a negotiated agreement for one year ending December 31, 2018. For 2019, Cleco has contracted for 650,000 tons of petroleum coke from multiple refineries located along the upper and lower Mississippi River through one-year agreements ending December 31, 2019. The agreements are priced according to the Jacobs Consultancy Petroleum Coke Quarterly Monthly Price Index or the "PACE" Monthly Index.
During 2018, Cleco purchased approximately 525,000 tons of Illinois Basin coal. Cleco Power uses Louisiana waterways, such as the Mississippi River and the Red River, to deliver both petroleum coke and Illinois Basin coal to the Madison Unit 3 plant site. The continuous supply of petroleum coke and Illinois Basin coal may be subject to interruption due to adverse weather conditions or other factors that may disrupt transportation to the plant site. Savage Inland Marine is Cleco Power's exclusive transportation coordinator and provider. From September 2017 until April 2, 2018, Cleco Power had a logistics agreement with Savage Services that renewed on a month-to-month basis. On April 2, 2018, Cleco Power entered into a new logistics agreement with Savage Inland Marine that is set to expire in March 2033. At December 31, 2018, Cleco Power's petroleum coke inventory at Madison Unit 3 was approximately 366,000 tons and Cleco Power's Illinois Basin coal inventory at Madison Unit 3 was approximately 126,000 tons. The total fuel inventory was 492,000 tons (approximately a 98-day supply).
Cleco Power uses lignite for generation at the Dolet Hills Power Station. Cleco Power and SWEPCO each own an undivided 50% interest in the other's leased and owned lignite reserves within the Dolet Hills mine in northwestern Louisiana. Additionally, through Oxbow, which is owned 50% by Cleco Power and 50% by SWEPCO, Cleco Power and SWEPCO control 74 million tons of estimated recoverable lignite reserves also located in northwestern Louisiana. Cleco Power and SWEPCO have entered into a long-term agreement with DHLC for the mining and delivery of lignite reserves at both mines, which are operated by SWEPCO. The Amended Lignite Mining Agreement requires Cleco Power and SWEPCO to purchase

the lignite mined and delivered by DHLC at cost plus a specified management fee. The term of this contract runs until all economically mineable lignite has been mined. The reserves from these mines are expected to be sufficient to fuel the Dolet Hills Power Station for seasonal operations until at least 2036. At December 31, 2018, Cleco Power's investment in Oxbow was $18.2 million. For information regarding deferred mining costs and obligations associated with this mining agreement see, Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 5 — Regulatory Assets and Liabilities — Mining Costs," Note 16 — "Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Off-Balance Sheet Commitments and Guarantees," and "— Long-Term Purchase Obligations." For more information on Oxbow, see Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 14 — Variable Interest Entities."
The continuous supply of lignite may be subject to interruption due to adverse weather conditions or other factors that may disrupt mining operations or transportation to the plant site. During 2018, the cost of lignite per MWh increased

primarily due to the mine continuing to incur fixed costs, despite fewer tons of lignite mined compared to prior years. At December 31, 2018, Cleco Power's lignite inventory at Dolet Hills was approximately 239,000 tons (approximately a 38-day supply).

Natural Gas Supply

During 2018, Cleco Power purchased 36.1 million MMBtu of natural gas for the generation of electricity. The annual and average per-day quantities of gas purchased by Cleco Power from each supplier are shown in the following table:

NATURAL GAS SUPPLIER	2018 PURCHASES (MMBtu)	AVERAGE AMOUNT PURCHASED PER DAY (MMBtu)	PERCENT OF TOTAL NATURAL GAS USED	
Tenaska Marketing Ventures	10,087,891	27,638	28.0	%
Shell Energy North America	5,107,793	13,994	14.2	%
DTE Energy Trading, Inc.	4,439,000	12,162	12.3	%
Sequent Energy Management	4,323,600	11,845	12.0	%
BP Energy Company	2,506,778	6,868	7.0	%
Range Resources	2,302,930	6,309	6.4	%
Spire Marketing, Inc.	1,600,108	4,384	4.4	%
Mansfield Power and Gas	1,199,400	3,286	3.3	%
Others	4,487,609	12,295	12.4	%
Total	36,055,109	98,781	100.0	%

Cleco Power owns natural gas pipelines and interconnections at all of its generating facilities that allow it to access various natural gas supply markets and maintain a reliable, economical fuel supply for Cleco Power's customers. Natural gas was available without interruption throughout 2018. Cleco Power expects to continue to meet its natural gas requirements with purchases on the spot market through daily, monthly, and seasonal contracts with various natural gas suppliers. However, future supplies to Cleco Power remain vulnerable to disruptions due to weather events and transportation issues. Large industrial users of natural gas, including electric utilities, generally have low priority among gas users in the event pipeline suppliers are forced to curtail deliveries due to inadequate supplies. As a result, prices may increase rapidly in response to temporary supply interruptions. During 2018, in order to partially address potential natural gas fuel curtailments and interruptions, Cleco contracted for natural gas firm transportation with several interstate pipelines for a period of one year ending in late 2019. Additionally, the Coughlin Pipeline project, expected to be completed in the third quarter of 2019, is expected to increase reliability for natural gas delivery and mitigate exposure to transportation cost increases. For more information on the Coughlin Pipeline project see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview — Cleco Power — Coughlin Pipeline Project."

Cleco uses gas storage in order to supply gas to Cleco Power's generating facilities in the event of an interruption of supply due to events of force majeure and to operationally balance gas supply to the units. The storage volume is contracted by paying a capacity reservation charge at a fixed rate. There are also variable charges incurred to withdraw and inject gas from storage. At December 31, 2018, Cleco Power had 1.7 million MMBtu of gas in storage. Currently, Cleco Power anticipates that its diverse supply options and gas storage, combined with its solid-fuel generation resources, are adequate to meet its generation needs during any temporary interruption of natural gas supplies.

Sales

Cleco Power's 2018 and 2017 system peak demands, which occurred on January 17, 2018, and July 20, 2017, were 2,879 MW and 2,508 MW, respectively. Sales and system peak demand are affected by weather and are typically highest during the summer air-conditioning season; however, peaks may occur during the winter season as well. In 2018, Cleco Power experienced warmer than normal summer weather conditions and warmer than normal winter weather conditions. In 2017, Cleco Power experienced warmer than normal summer weather conditions and warmer than normal winter weather conditions. For information on the effects of future energy sales on Cleco Power's results of operations, financial condition, and cash flows, see Item 1A, "Risk Factors — Future Electricity Sales" and "— Weather Sensitivity." For information on the financial effects of seasonal demand on Cleco Power's quarterly operating results, see Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 20 — Miscellaneous Financial Information (Unaudited)."

Reserve margin is the net capacity resources (either owned or purchased) less native load demand, divided by native load demand. Members of MISO submit their forecasted native load demand to MISO each year. During 2018, Cleco Power's reserve margin was 21.2%, which was above MISO's unforced planning reserve margin benchmark of 8.4%. During 2017, Cleco Power's reserve margin was 17.9%, which was above MISO's unforced planning reserve margin benchmark of 7.8%. Cleco Power expects to meet or exceed MISO's unforced planning reserve margin benchmark of 7.9% in 2019. For more information on MISO, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Regulatory and Other Matters — Transmission Rates of Cleco Power."

Capital Investment Projects

For a discussion of certain Cleco Power major capital investment projects, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview — Cleco Power — St. Mary Clean Energy Center Project," "— Terrebonne to Bayou Vista

Transmission Project," "— Coughlin Pipeline Project," "— Bayou Vista to Segura Transmission Project," "— START Project, DSMART Project."

Customers

No single customer accounted for 10% or more of Cleco or Cleco Power's consolidated revenue in 2018, 2017, or 2016. Cleco Power has a significant wholesale customer that accounted for 9.9% of Cleco and Cleco Power's consolidated revenue in 2018, 9.3% in 2017, and 9.2% in 2016. For more information regarding Cleco's sales and revenue, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations —

Results of Operations."

Capital Expenditures and Financing

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

REGULATORY
MATTERS,
INDUSTRY
DEVELOPMENTS,
AND FRANCHISES

Rates

Cleco Power's electric operations are subject to the jurisdiction of the LPSC with respect to retail rates, standards of service, accounting, and other matters. Also, Cleco Power is subject to the jurisdiction of FERC with respect to transmission tariffs, accounting, interconnections with other utilities, reliability, and the transmission of power. Periodically, Cleco Power has sought and received from both the LPSC and FERC increases in retail rates and transmission tariffs, respectively, to cover increases in operating costs and costs associated with additions to generation, transmission, and distribution facilities. The rates Cleco Power charges its wholesale customers are subject to FERC's triennial market power analysis.

Cleco Power's annual retail earnings are subject to an FRP that was approved by the LPSC in June 2014. Under the terms of the FRP, Cleco Power is allowed to earn a target ROE of 10.0%, while providing the opportunity to earn up to 10.9%. Additionally, 60% of retail earnings between 10.9% and 11.75% and all retail earnings over 11.75% are required to be refunded to customers. The amount of credits due to customers, if any, is determined by Cleco Power and the LPSC annually. Credits are typically included on customers' bills the following summer, but the amount and timing of the refunds are ultimately subject to LPSC approval. Cleco Power expects to file an application with the LPSC for a new FRP by July 1, 2019, with anticipated new rates being effective on July 1, 2020.

Generally, the cost of fuel used for electric generation and the cost of power purchased for utility customers are recovered through the LPSC-established FAC that enables Cleco Power to pass on to its customers substantially all such charges. Recovery of FAC costs is subject to periodic fuel audits by the LPSC.

For more information on the FAC and the most recent fuel audit, see Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 16 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Litigation — LPSC Audits — Fuel Audit."

In 2009, the LPSC issued Docket No. U-29380 Subdocket A, which provides for an EAC to recover from customers certain costs of environmental compliance. These expenses are eligible for recovery through Cleco Power's EAC and are subject to periodic review by the LPSC. For more information on the EAC and the ongoing environmental audit covering January 1, 2016, through December 31, 2017, see Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 16 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Litigation — LPSC Audits — Environmental Audit."
For more information on the LPSC Staff's FRP reviews, amounts accrued by Cleco Power as a result of the TCJA, and information on the tax dockets, see Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 13 — Regulation and Rates — FRP" and "— TCJA."
For more information on Cleco Power's retail and wholesale rates, including Cleco Power's FRP, see Item 1A, "Risk Factors — LPSC Audits," "— Cleco Power's Rates," "— Retail Electric Service," and "— Wholesale Electric Service" and Pa
7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Regulatory and Other Matters — Retail Rates of Cleco Power," and "— Wholesale Rates of Cleco Power."

Franchises
Cleco Power operates under nonexclusive franchise rights granted by governmental units, such as municipalities and parishes (counties), and enforced by state law. These franchises are for fixed terms, which vary from 10 years to more than 50 years. Historically, Cleco Power has been substantially successful in the timely renewal of franchises as each neared the end of its term. Cleco Power's next municipal franchise expires in July 2021.

Franchise Renewals
Cleco Power renewed the following franchise agreements:

RENEWAL DATE	CITY/TOWN/VILLAGE	TERM	NUMBER OF CUSTOMERS
April 2017	Slidell	35 years	13,823
July 2017	Rosepine	33 years	916
July 2017	Cheneyville	33 years	356
October 2017	New Llano[1]	15 years	7
January 2019	Jeanerette	22 years	2,849

[1] This franchise agreement provides Cleco Power the opportunity to compete for future growth opportunities in the town.

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

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

Retail Electric Competition

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

Legislative and Regulatory Changes and Matters

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

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

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

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

ENVIRONMENTAL MATTERS

Environmental Quality

Cleco is subject to federal, state, and local laws and regulations governing the protection of the environment. Violations of these laws and regulations may result in substantial fines and penalties. Cleco has obtained the environmental permits necessary for its operations, and management believes Cleco is in compliance in all material respects with these permits, as well as all applicable environmental laws and regulations. Environmental requirements affecting electric power generating facilities are complex, change frequently, and have become more stringent over time as a result of new legislation, administrative actions, and judicial interpretations. Therefore, the capital costs and other expenditures necessary to comply with existing and new environmental requirements are difficult to determine. Cleco Power may request recovery of the costs to comply with certain environmental laws and regulations from its retail customers. If revenue relief were to be approved by the LPSC, then Cleco Power's retail rates could increase. If the LPSC were to deny Cleco Power's request to recover all or part of its environmental compliance costs, then Cleco Power would bear those costs directly. Such a decision could negatively impact the results of operations, financial condition, or cash flows of the Registrants. For Cleco Power's expected capital expenditures related to environmental compliance in 2019, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Liquidity and Capital Resources — Cash Generation and Cash Requirements — Capital Expenditures."

Air Quality

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

The EPA has proposed and adopted rules under the authority of the CAA relevant to the emissions of SO_2 and NO_x from Cleco's generating units. The CAA contains a regional haze program with the goal of returning certain areas of the nation to natural visibility by 2064. States are required to develop regional haze State Implementation Plans (SIP) and revise them every ten years. A SIP must include requirements for the installation of Best Available Retrofit Technology (BART) for applicable EGUs in Louisiana. The EPA issued a final approval of the Louisiana SIP in December 2017 and it is currently on appeal to the U.S. Court of Appeals for the Fifth Circuit by the Sierra Club and the National Parks Conservation Association. Because the Louisiana SIP mandates use of existing controls and participation in the Cross State Air Pollution rule as BART, Cleco does not believe the Louisiana SIP will have a material impact on the results of operations, financial condition, or cash flows of the Registrants.

The CAA also established the Acid Rain Program to address the effects of acid rain and imposed restrictions on acid rain-causing SO_2 emissions from certain generating units. The CAA requires these EGUs to possess a regulatory allowance for each ton of SO_2 emitted beginning in the year 2000. The EPA allocates a set number of allowances to each affected unit based on its historic emissions. Cleco expects to have sufficient allowances for 2019 operations under the Acid Rain Program.

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

In December 2015, the EPA published the proposed CSAPR update for the 2008 ozone NAAQS in the Federal Register. The EPA finalized the rule in October 2016 with publication in the Federal Register. The EPA proposed Federal Implementation Plans (FIP) that update the existing EGU CSAPR NO_x ozone season emission budgets and implement the budgets through the existing CSAPR NO_x ozone-season allowance trading program. The FIP required implementation began with the 2017 ozone season. Cleco is in compliance with the rule. This rule did not have a material impact on the results of operations, financial condition, or cash flows of the Registrants.

In October 2015, the EPA promulgated a revision to the 2015 ozone NAAQS, lowering the level of both the primary and secondary standards to 70 ppb. Under the CAA, each state is required to submit a state implementation plan (SIP) that provides for the implementation, maintenance and enforcement of each primary and secondary NAAQS. In particular, each SIP must contain adequate provisions prohibiting emissions activity within the state which will contribute significantly to non-attainment or interfere with maintenance by any other state with respect to any such primary or secondary ambient air quality standard. This "good neighbor" SIP is to be submitted to the EPA by the state within three years of promulgation of a new or revised NAAQS. But until the EPA has approved the Louisiana submission and the final information is published, Cleco cannot determine if the SIP will have a material impact on the results of operations, financial condition, or cash flows of the Registrants.

In February 2012, the EPA finalized the MATS ruling that requires affected EGUs to meet strict emission limits on new and existing coal- and liquid oil-fired EGUs for mercury, acid gases, and non-mercury metallic pollutants. Cleco Power units impacted by the rule included Rodemacher Unit 2, Madison Unit 3, and Dolet Hills. MATS controls equipment was installed, and Cleco Power's three EGUs affected by the MATS rule were compliant by the April 2015 deadline. In February 2016, the LPSC approved Cleco Power's request for authorization to recover the revenue requirements associated with the MATS equipment. In 2017, this project was completed at a cost of $106.2 million. In March 2016, the Sierra Club filed a petition for judicial review in the 19th Judicial District Court, state of Louisiana, requesting that the LPSC's approval of MATS be vacated. In January 2018, the 19th Judicial District Court affirmed the LPSC ruling in the Cleco MATS cost recovery case. Consequently, that same month, the Sierra Club filed an appeal seeking reversal by the Louisiana Supreme Court of the District Court's and the LPSC's rulings approving Cleco's decision to install the MATS controls equipment. In March 2018, the Sierra Club filed a request to abandon their appeal and the District Court executed an order dismissing the Sierra Club's appeal. Cleco Power has since recovered the eligible capital costs through its FRP, which is subject to periodic review by the LPSC.

For more information on the legal proceedings of the MATS ruling, see Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 16 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Litigation — LPSC Audits — Environmental Audit."

In August 2015, the EPA released the final guidelines referred to as the CPP. These guidelines provide each state with standards for CO_2 emissions from the state's utility industry. The EPA derived the limits for each state through a strategy involving a combination of unit efficiency improvements, dispatching away from boilers to combined cycle units, and applying renewable energy. The CPP requires significant reductions of CO_2 emissions. The CPP sets interim and final CO_2 emission goals for each state. The interim emission goals begin in 2022, with final emission goals required by 2030. In February 2016, the U.S. Supreme Court issued a stay of the CPP, which will remain in place until the

D.C. Circuit Court of Appeals rules on the merits, followed by a U.S. Supreme Court ruling.

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

In March 2017, the President signed a broad executive order. Among other measures, the order directed the EPA to review the CPP, the proposed FIP for the CPP, and the greenhouse gas new source performance standards (GHG NSPS). The executive order also gave the U.S. Department of Justice discretion to request that the U.S. Court of Appeals of the D.C. Circuit stay or otherwise delay the litigation challenging the CPP and the GHG NSPS while the administrative review is underway. In April 2017, the Court began the postponement of the litigation. In October 2017, following a review as directed by the President, the EPA published a proposed rule to repeal the CPP. In December 2017, the EPA published Advance Notice of Proposed Rulemaking (ANPR), soliciting information as it considers a potential future rule under CAA section 111(d) to reduce GHG emissions from existing EGUs. On August 31, 2018, the EPA published in the Federal Register a proposed rule to replace the CPP. The Proposed Rule, titled Emission Guidelines for Greenhouse Gas Emissions from Existing Electric Utility Generating Units; Revisions to Emission Guideline Implementing Regulations, Revision to New Source Review Program, would establish emission guidelines for states to address CO_2 emissions from existing fossil fuel-fired electric generating units. The Proposed Rule is informally named the Affordable Clean Energy (ACE) Rule. Whether the EPA will finalize its proposed rule to repeal the CPP is uncertain. In addition, the date for finalizing the ACE rule is also uncertain. As a result, the CPP rule is not currently in force and the future regulation of greenhouse gas emissions from existing EGUs is uncertain.

In December 2018, following a review as directed by the President, the EPA published proposed rules to replace the August 2015 NSPS rules for CO_2 emissions from new, modified, or reconstructed units. As with the current NSPS rules, the proposed rules set requirements and conditions with respect to CO_2 emission standards for new, modified, or reconstructed units. Cleco does not anticipate a future modification or future reconstruction of its existing units, as defined in the proposal, that would trigger the application of the proposed CO_2 emission limits. Until the EPA finalizes the rule, management cannot state what the final standards will entail or if the new rule will have a material impact on the results of operations, financial condition, or cash flows of the Registrants.

Until all directions of the executive order are carried out, management cannot predict what the final standards will entail or what controls the EPA and the state of Louisiana may require of Cleco in a final state implementation plan for existing units. However, any new rules that require significant reductions of CO_2 emissions could require significant capital expenditures or curtailment of operations of certain EGUs to achieve compliance.

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 energy could result in certain changes in Cleco's business or its competitive position. These changes could include additional costs for renewable energy credits, alternate compliance payments, or capital expenditures for renewable generation resources. RPS legislation has been enacted in many states, and Congress is considering various bills that would create a national RPS. Cleco continues to evaluate the impacts of potential RPS legislation on its business based on the RPS programs in other states.

A primary NAAQS for NO_2 promulgated by the EPA became effective in April 2010. The EPA established a new one-hour standard at a level of 100 ppb to supplement the existing annual standard. In January 2012, the EPA determined that no area in the country was violating the standard. In April 2018, the EPA published, following the required review of the NAAQS, a final action that retains the ambient air standards for NO_2. The EPA may redesignate areas based on new data it receives from states. Due to the fact that fossil fuel-fired EGUs are a significant source of NO_2 emissions in the country, a non-attainment designation could result in utilities such as Cleco being required to substantially reduce their NO_2 emissions. However, because the EPA has not yet completed any new designations, Cleco cannot predict the likelihood or potential impacts of such a rule on its generating units at this time.

The EPA revised the NAAQS for SO_2 in June 2010. The new standard is now a one-hour health standard of 75 ppb, designed to reduce short-term exposures to SO_2 ranging from five minutes to 24 hours. An important aspect of the new SO_2 standard is a revised emission monitoring network combined with a new ambient air modeling approach to determine compliance with the new standard. The EPA expects to use monitoring or modeling data developed in the future to confirm the status of areas that currently have no monitoring data. Classification of those areas without adequate data will be deferred until adequate data has been developed. On January 9, 2018, the EPA published a final rule designating all areas containing Cleco generation facilities as either attainment/unclassifiable or unclassifiable. Therefore, there is no adverse impact to Cleco’s generating units.

Water Quality

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

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

The CWA requires the EPA to periodically review and, if appropriate, revise technology-based effluent limitations guidelines for categories of industrial facilities, including power generating facilities. In September 2015, the EPA released the revised steam electric effluent limitation guidelines. The rule is focused on reducing the discharge of metals in wastewater from generating facilities to surface waters. In April 2017, the EPA Administrator indicated that it is appropriate and in the public interest to reconsider the rule.

In September 2017, the EPA published a rule postponing for a two year period the earliest compliance dates for some of the wastewater streams that fall under the rule. The EPA intends to conduct a rulemaking to potentially revise certain effluent limitations for those particular wastewater streams. The rule may require costly technological upgrades at Cleco's facilities, particularly if additional wastewater treatment systems are required to be installed or if waste streams must be eliminated. Until the EPA finalizes the rule, management cannot predict what the final standards will entail, what controls the EPA and the state of Louisiana may require of Cleco, or if the new rule will have a material impact on the results of operations, financial condition, or cash flows of the Registrants.

Solid Waste Disposal

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

In April 2015, the EPA published a final rule in the Federal Register for regulating the disposal and management of CCRs from coal-fired power plants. The federal regulation classifies CCRs as nonhazardous waste under Subtitle D of the Resource Conservation and Recovery Act and allows beneficial use of CCRs with some restrictions. The rule establishes extensive requirements for existing and new CCR landfills and surface impoundments and all lateral expansions consisting of location restrictions, design and operating criteria, groundwater monitoring and corrective action, closure requirements and post closure care, and recordkeeping, notification, and Internet posting requirements. In September 2017, the EPA Administrator indicated that it is appropriate and in the public interest to reconsider the provisions of the final CCR rule. On August 21, 2018, the Court of Appeals for the D.C. Circuit vacated several requirements in the CCR regulation. As a result, until the EPA has completed its evaluation of the CCR rule and made a decision on revising the provisions of the final rule, Cleco cannot determine if the rule will have a material impact on the results of operations, financial condition, or cash flows of the Registrants.

Cleco Power continues to be subject to state regulations pertaining to the disposal of coal ash. As a result, Cleco Power has an ARO for the retirement of certain ash disposal facilities. In March 2018, Cleco Power recorded a $1.5 million decrease to its ARO related to certain ash management areas. All costs of the CCR rule are expected to be recovered from customers in future rates. The actual asset retirement costs related to the CCR rule requirements may vary substantially from the estimates used to record the increased obligation due to the uncertainty about the compliance strategies that will be used and the preliminary nature of available data used to estimate costs. Cleco Power will continue to gather additional data in future periods and will make decisions about compliance strategies and the timing of closure activities. As additional information becomes available and management makes decisions about compliance strategies and the timing of closure activities, Cleco Power will update the ARO balance to reflect these changes in estimates. However, management does not expect any required adjustment to the ARO to have a material effect on the results of operations, financial condition, or cash flows of the Registrants. At December 31, 2018, management's analysis confirmed that no additional adjustments were needed to update Cleco Power's ARO balance.

In December 2016, the Water Infrastructure Improvements for the Nation Act (WIIN Act), including the WIIN Act's provisions regarding CCRs was signed into law. The WIIN Act's CCR provisions allow for implementation of the federal CCR rule through a state-based permit program. However, until the state of Louisiana has evaluated the WIIN Act and made a decision on implementing a state-based option, Cleco cannot determine if the rule will have a material impact on the results of operations, financial condition, or cash flows of the Registrants.

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

Toxic Substances Control Act (TSCA)

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

Comprehensive Environmental Response, Compensation and Liability Act (CERCLA)

The CERCLA imposes liability on parties responsible for, in whole or in part, the presence of hazardous substances at a site. In 2007, Cleco received a Special Notice for Remedial Investigation and Feasibility Study (RI/FS) from the EPA for a facility known as the Devil's Swamp Lake site located just northwest of Baton Rouge, Louisiana. The notice requested that Cleco and Cleco Power, along with many other listed potentially responsible parties (PRP), enter into negotiations with the EPA for the performance of an RI/FS at the Devil's Swamp Lake site. In 2008 the EPA identified Cleco as one of many companies that sent PCB wastes for disposal to the site. The EPA proposed to add the Devil's Swamp Lake site to the National Priorities List, based on the release of PCBs to fisheries and wetlands located on the site, but no final listing decision has been made. The EPA issued a Unilateral Administrative Order to two PRP's, Clean Harbors, Inc. and Baton Rouge Disposal, to conduct an RI/FS in 2009. The Tier 1 part of the study was completed in June 2012. The tier 2 remedial investigation report, that fish and crawfish from the area should not be eaten, was made public in December 2015. Currently, the study/remedy selection task continues, and there is no record of a decision. Therefore, management is unable to determine how significant Cleco's share of the costs associated with the RI/FS and possible response action at the site, if any, may be and whether this will have a material impact on the results of operations, financial condition, or cash flows of the Registrants.

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

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

ITEM 1A. RISK FACTORS

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

Cleco Cajun Transaction

The success of the Cleco Cajun Transaction depends, in part, on Cleco's ability to realize anticipated benefits and conduct an effective integration process.
On February 4, 2019, Cleco acquired all of the membership interests of NRG South Central upon the closing of the Cleco Cajun Transaction. The success of the Cleco Cajun Transaction will depend, in part, on Cleco's ability to realize the expected benefits in the anticipated timeframe, including operating efficiencies, growth opportunities, cost savings and customer retention, from integrating Cleco's and NRG South Central's businesses, while at the same time continuing to provide consistent, high quality services. The integration process could be complex, costly and time consuming, including the diversion of significant management time and resources thereto, and may result in the following challenges, among others:

- unanticipated delays, disruptions, issues or costs in integrating operations, financial and accounting, information technology, communications and other systems;
- potential inconsistencies in procedures, practices, policies, controls, and standards;
- possible differences in compensation arrangements, management perspectives and corporate culture; and
- loss of or difficulties retaining valuable employees or third-party relationships.

Even with the successful integration of the businesses, Cleco may not achieve the expected results or economic benefits. Any of the factors addressed above could decrease

or delay the projected neutral or accretive effect of the Cleco Cajun Transaction. Failure to fully realize the anticipated benefits could adversely affect Cleco's results of operations, financial condition and cash flows.
From time to time, Cleco may continue to make acquisitions or divestitures of businesses and assets, form joint ventures or undertake restructurings. If Cleco is unable to make acquisitions or if those acquisitions do not perform as anticipated, Cleco's future growth may be adversely affected.

Holding Company

Cleco Holdings is a holding company and its ability to meet its debt obligations is dependent on the cash generated by its subsidiaries.
Cleco Holdings is a holding company and conducts its operations primarily through its subsidiaries. Accordingly, Cleco Holdings' ability to meet its debt obligations is largely dependent upon the cash generated by these subsidiaries. Cleco Holdings' subsidiaries are separate and distinct entities and have no obligations to pay any amounts due on Cleco Holdings' debt or to make any funds available for such payment. In addition, Cleco Holdings' subsidiaries' ability to make dividend payments or other distributions to Cleco Holdings may be restricted by their obligations to holders of their outstanding securities and to other general business creditors. Substantially all of Cleco's consolidated assets are held by Cleco Power. Cleco Holdings' right to receive any assets of any subsidiary, and therefore the right of its creditors to participate in those assets, will be effectively subordinated to the claims of that subsidiary's creditors, including trade creditors. In addition, even if Cleco Holdings were a creditor of any subsidiary, its rights as a creditor would be subordinated to any security interest in the assets of that subsidiary and any indebtedness of the subsidiary senior to that held by Cleco Holdings. Moreover, Cleco Power is subject to regulation by the LPSC, which may impose limits on the amount of dividends that Cleco Power may pay Cleco Holdings. The 2016 Merger Commitments also provide for limitations on the amount of

distributions that may be paid from Cleco Power to Cleco Holdings, depending on Cleco Power's common equity ratio and its corporate credit/issuer ratings. As a result, Cleco Power may be prohibited from making distributions to Cleco Holdings.

Regulatory Compliance

Cleco operates in a highly regulated environment and adverse regulatory decisions or changes in applicable regulations could have a material adverse effect on the Registrants' business or result in significant additional costs. Cleco's business is subject to extensive federal, state, and local energy, environmental, and other laws and regulations. The LPSC regulates Cleco's retail operations and FERC regulates Cleco's wholesale operations. The construction, planning, and siting of Cleco's power plants and transmission lines are also subject to the jurisdiction of the LPSC and FERC. Additional regulatory authorities have jurisdiction over some of Cleco's operations and construction projects including the EPA, the U.S. Bureau of Land Management, the U.S. Fish and Wildlife Services, the U.S. Department of Energy, the U.S. Coast Guard, the U.S. Army Corps of Engineers, the U.S. Department of Homeland Security, the Occupational Safety and Health Administration, the U.S. Department of Transportation, the U.S. Department of Agriculture, the U.S. Bureau of Economic Analysis, the Federal Communications Commission, the LDEQ, the Louisiana Department of Health and Hospitals, the Louisiana Department of Natural Resources, the Louisiana Department of Public Safety, the Louisiana Department of Agriculture, the Louisiana Bureau of Economic Analysis, regional water quality boards, and various local regulatory districts.

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 material adverse effect on the Registrants' business or result in significant additional costs.

As a result of the 2016 Merger, Cleco Holdings and Cleco Power made 2016 Merger Commitments to the LPSC including but not limited to the extension of Cleco Power's current FRP for an additional two years, maintaining employee headcount, salaries, and benefits for ten years, and a limitation from incurring additional long-term debt, excluding non-recourse debt, unless certain financial ratios are achieved.

In April 2016, the LPSC issued Docket No. R-34026 to investigate the double leveraging issues for all LPSC-jurisdictional utilities whereby double leveraging is utilized to fund a utility's capital structure, and to consider whether any costs associated with such double leveraging should be included in the rates paid by the utility's retail ratepayers. Cleco Power has intervened in this proceeding, along with other Louisiana utilities. In April 2016, the LPSC also issued Docket No. R-34029 to investigate the tax structure issues for all LPSC-jurisdictional utilities to consider whether only the state and federal taxes included in a utility's retail rate will be those that do not exceed the utility's share of the actual taxes paid to those federal and state taxing authorities. Cleco Power filed a motion to intervene in this proceeding along with other Louisiana utilities. In October 2016, Cleco received the first set of data requests from the LPSC Staff for each of the above mentioned dockets. Cleco has filed responses to the non-confidential requests and is waiting on the completion of a confidentiality agreement to respond to the confidential requests. Cleco is unable to determine if or when the completion of this confidentiality agreement will occur. If the LPSC were to disallow such costs incurred by the utility to be included in retail rates, such disallowance could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

Commodity Prices

Cleco Power and Cleco Cajun may be exposed to fluctuations in commodity prices and other factors.

Cleco Power
Cleco Power may enter into fuel cost hedge positions to mitigate the volatility in fuel costs passed through to its retail customers. As a transmission owner in the MISO market, Cleco Power receives Auction Revenue Rights, which can be converted to FTRs. FTRs provide a financial hedge to manage the risk of transmission congestion costs in the day-ahead energy market. Cleco Power may purchase additional FTRs to further hedge its residual congestion cost risk.
When these positions close, actual gains or losses are deferred and included in the FAC in the month the physical contract settles. Recovery of any of these FAC costs is subject to, and may be disallowed as part of, a prudency review or a periodic fuel audit conducted by the LPSC.

Cleco Cajun
Cleco Cajun may be exposed to market price fluctuations due to generation and customer load uncertainty, unexpected plant outages, changes in fuel costs or changes in load driven by weather or other factors.
Cleco Cajun may also enter into commercial or hedging transactions that introduce locational basis exposure, transmission or transportation risks, counterparty credit risk, or do not perfectly match the price or volumetric exposure of hourly demand and prices.

Cleco Power and Cleco Cajun may not be adequately hedged against changes in commodity prices, which could materially affect Cleco Power and Cleco Cajun's results of operations, financial condition, and liquidity.
Cleco may enter into transactions to hedge portions of customer supply agreements, natural gas, solid fuel requirements (coal), and other commodities within established risk management guidelines to manage the financial exposure related to uncertainty in commodity prices. As part of this strategy, Cleco may utilize fixed and variable price forward physical purchase and sales contracts, FTRs, firm transportation for fuels, futures, financial swaps, and physical or financial option contracts traded bilaterally with counterparties, in the over-the-counter markets, or on exchanges.
Additionally, Cleco may be able to only cover a portion of the exposure of its assets and commodities exposed to market price volatility, and the coverage will vary over time. To the extent Cleco has unhedged exposure, fluctuating commodity prices can materially affect Cleco's results of operations and financial position.

Cleco may guarantee the performance of a portion of the obligations relating to hedging and risk management activities. Reductions in Cleco or Cleco Power's credit quality or changes in the market prices of transaction related energy commodities could increase the cash (margining) or letter of credit collateral required to be posted in connection with hedging and risk management activities, which could materially affect Cleco or Cleco Power's liquidity and financial position.

Transmission Constraints

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

LPSC Audits

The LPSC conducts fuel audits that could result in Cleco Power making substantial refunds of previously recorded revenue.
Generally, fuel and purchased power expenses are recovered through the LPSC-established FAC, that enables Cleco Power to pass on to its customers substantially all such charges. Recovery of FAC costs is subject to periodic fuel audits by the LPSC. The LPSC FAC General Order issued in November 1997, in Docket No. U-21497 provides that an audit will be performed at least every other year.
Cleco Power has FAC filings for 2018 and thereafter subject to audit. Management is unable to predict or give a reasonable estimate of the possible range of the disallowance, if any, related to these filings. If a disallowance of fuel costs is ordered, resulting in a refund to Cleco Power's customers, any such refund could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

The LPSC conducts audits of environmental costs that could result in Cleco Power making substantial refunds of previously recorded revenue.
In 2009, the LPSC issued Docket No. U-29380 Subdocket A, which provides for an EAC to recover from customers certain costs of environmental compliance. The costs eligible for recovery are prudently incurred air emissions credits associated with complying with federal, state, and local air emission regulations that apply to the generation of electricity reduced by the sale of such allowances. Also eligible for recovery are variable emission mitigation costs, which are the costs of reagents such as ammonia and limestone that are a part of the fuel mix used to reduce air emissions, among other

things. Cleco Power began incurring additional environmental compliance expenses beginning in 2015 for reagents associated with compliance with MATS. These expenses are eligible for recovery through Cleco Power's EAC and subject to periodic review by the LPSC.
Cleco Power has EAC filings for 2016 and thereafter subject to audit. On May 22, 2018, Cleco Power received notice of an EAC audit from the LPSC for the period of January 1, 2016, to December 31, 2017, and Cleco Power has

responded to several sets of data requests. The total amount of environmental expense included in the audit is $30.7 million. Management is unable to predict or give a reasonable estimate of the possible range of the disallowance, if any, related to these filings. If a disallowance of environmental costs is ordered resulting in a refund to Cleco Power’s customers, any such refund could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

FERC Audit

FERC conducts audits that could result in Cleco Power making refunds of previously recorded revenue.
Generally, Cleco Power records wholesale transmission revenue through Attachment O of the MISO tariff and certain grandfathered agreements. These formulas are based on inputs from Cleco Power’s FERC Form 1. These rates and regulatory filings are subject to periodic audits by FERC. On March 13, 2018, the Division of Audits and Accounting within the Office of Enforcement of FERC initiated an audit of Cleco Power for the period of January 1, 2014, to the present. Cleco has responded to several sets of data requests. Management is unable to predict or give a reasonable estimate of the possible range of the refund, if any, related to this audit. Any such refund could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

Hedging and Risk Management Activities

Cleco Power and Cleco Cajun are exposed to the risk that counterparties may not meet their obligations, which may materially affect Cleco Power and Cleco Cajun’s operating and financial performance.
The supply, commercial, and hedging transaction activities of Cleco Power and Cleco Cajun can be exposed to the risk that counterparties may not perform on their physical or financial obligations. Currently, some master agreements contain provisions that require the counterparties to provide credit support to secure all or part of their obligations to Cleco, or specifically to Cleco Power or Cleco Cajun. If the counterparties to these arrangements fail to perform, Cleco may enforce and recover the proceeds from the credit support provided and acquire alternative hedging arrangements; however, credit support may not always be adequate to cover the related obligations. In such event, Cleco may incur losses in excess of amounts, if any, already paid to the counterparties. In addition, the credit commitments of Cleco’s lenders under its bank facilities may not be honored for a variety of reasons, including unexpected periods of financial distress affecting such lenders, which could materially affect the adequacy of its liquidity sources.

The accounting for Cleco's hedging activities may increase the volatility in the Registrants' quarterly and annual financial results.
Cleco engages in transactions to economically hedge forward commodity market price risk exposure utilizing both physical and financial commodity purchases and sales commitments. Some of these contracts are accounted for as derivatives, which requires Cleco to record the fair value of the commitment on the balance sheet with changes in the fair value of all derivatives reflected within current period earnings. As a result, Cleco is unable to accurately predict the effect that its risk management decisions may have on quarterly and annual financial results, which could materially adversely affect the results of operations of the Registrants.

Global Economic Environment and Uncertainty; Access to Capital

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

Inflation
Annual inflation rates, as measured by the U.S. Consumer Price Index, have averaged 2% during the three years ended December 31, 2018. Under established regulatory practice, historical costs have traditionally formed the basis for recovery from customers. As a result, Cleco Power's future cash flows designed to provide recovery of historical plant costs may not be adequate to replace property, plant, and equipment in future years.

Disruptions in the capital and credit markets may adversely affect the Registrants' cost of capital and ability to meet liquidity needs or access capital to operate and grow the business.
The Registrants' business is capital intensive and dependent upon the Registrants' respective abilities to access capital at reasonable rates and other terms. The Registrants' liquidity needs could significantly increase in the event of a hurricane or other weather-related or unforeseen disaster or when there are spikes in the price for natural gas and other commodities. The occurrence of one or more contingencies, including a delay in regulatory recovery of fuel, purchased power, or storm restoration costs; higher than expected required pension contributions; an acceleration of payments or decreased credit lines; less cash flow from operations than expected; or other unexpected events, could cause the financing needs of the Registrants to increase materially.
Events beyond the Registrants' control, such as political uncertainty in the U.S. (including the ongoing debates related to the U.S. federal government budget and debt ceiling), volatility and disruption in global capital and credit markets, may create uncertainty that could increase their cost of capital

or impair their ability to access the capital markets, including the ability to draw on their respective bank credit facilities. The Registrants are unable to predict the degree of success they will have in renewing or replacing their respective credit facilities as they come up for renewal. Moreover, the size, terms, and covenants of any new credit facilities may not be comparable to, and may be more restrictive than, existing facilities. If the Registrants are unable to access the credit and capital markets on terms that are reasonable, they may have to delay raising capital, issue shorter-term securities, and/or bear an unfavorable cost of capital, which, in turn, could have a material adverse effect on the Registrants' ability to fund capital expenditures or to service debt, or on the Registrants' flexibility to react to changing economic and business conditions.

Future Electricity Sales

Cleco Power's future electricity sales and corresponding base revenue and cash flows could be adversely affected by adverse macroeconomic conditions.
Adverse macroeconomic conditions resulting in low economic growth can negatively impact the businesses of Cleco Power's residential, industrial, and commercial customers resulting in decreased power consumption, which causes a corresponding decrease in base revenue. Reduced production or the shutdown of any of these customers' facilities could substantially reduce Cleco Power's base revenue.

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

Cleco Power's Generation, Transmission, and Distribution Facilities

Cleco Power's generation facilities are susceptible to unplanned outages, significant maintenance requirements, and interruption of fuel deliveries.
The operation of power generation facilities involves many risks, including breakdown or failure of equipment, fuel supply interruption, and performance below expected levels of output or efficiency. Approximately 25% of Cleco Power's net capacity was constructed before 1980. Aging equipment, even if maintained in accordance with good engineering practices, may require significant expenditures to operate at peak efficiency, or to comply with environmental permits. Newer equipment can also be subject to unexpected failures. Accordingly, Cleco Power may incur more frequent unplanned

outages, higher than anticipated operating and maintenance expenditures, higher replacement costs of purchased power, increased fuel costs, MISO related costs, and the loss of potential revenue related to competitive opportunities. The costs of such repairs, maintenance, and purchased power may not be fully recoverable in rates and could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.
Cleco Power's generating facilities are fueled primarily by coal, natural gas, petroleum coke, and lignite. The deliverability of these fuel sources may be constrained due to such factors as higher demand, decreased regional supply, production shortages, weather-related disturbances, railroad constraints, waterway levels, labor strikes, or lack of transportation capacity. If suppliers are unable to deliver the contracted volume of fuel and associated inventories are depleted, Cleco Power may be unable to operate generating units which may cause Cleco Power to operate at higher overall energy costs, which would increase the cost to customers. Fuel and MISO-procured/settled energy expenses, which are recovered from customers through the FAC, are subject to refund until either a prudency review or a periodic fuel audit is conducted by the LPSC.
Competition for access to other natural resources, particularly oil and natural gas, could negatively impact Cleco Power's ability to access its lignite reserves. Placement of drilling rigs and pipelines for developing oil and gas reserves can preclude access to lignite in the same areas. Additionally, Cleco Power could be indirectly liable for the impacts of other companies' activities on lands that have been mined and reclaimed by Cleco Power. Access to lignite reserves or the liability for impacts on reclaimed lands may not be recoverable in rates and could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

The construction of, and capital improvements to, power generation and transmission and distribution facilities involve substantial risks. Should construction or capital improvement efforts be significantly more expensive than planned, the financial condition, results of operations, or liquidity of Cleco Power could be materially affected.
Cleco Power's ability to complete construction of capital improvements to power generation and transmission and distribution facilities in a timely manner and within budget is contingent upon many variables and subject to substantial risks. These variables include engineering and project execution risk and escalating costs for materials, labor, and environmental compliance. Delays in obtaining permits, shortages in materials and qualified labor, suppliers and contractors not performing as set forth under their contracts, changes in the scope and timing of projects, inaccurate cost estimates, the inability to raise capital on favorable terms, changes in commodity prices affecting revenue, fuel or material costs, changes in the economy, changes in laws or regulations, including environmental compliance requirements, and other events beyond the control of Cleco Power may materially affect the schedule and cost of these projects. If these projects are significantly delayed or become subject to cost overruns or cancellation, Cleco Power could incur additional costs including termination payments, face increased risk of potential write-off of the investment in the project, or may not be able to recover such costs in rates. Furthermore, failure to maintain various levels of generating

unit availability or transmission and distribution reliability may result in various disallowances of Cleco Power's investments.

Cleco Credit Ratings

A downgrade in Cleco Holdings' or Cleco Power's credit ratings could result in an increase in their respective borrowing costs, a reduced pool of potential investors and funding sources, and a restriction on Cleco Power making distributions to Cleco Holdings.
Neither Cleco Holdings nor Cleco Power can assure that its current debt ratings will remain in effect for any given period of time or that one or more of its debt ratings will not be lowered or withdrawn entirely by a rating agency. If S&P, Moody's, or Fitch were to downgrade Cleco Holdings' or Cleco Power's long-term ratings, particularly below

investment grade, the value of their debt securities would be adversely affected. Downgrades of either Cleco Holdings' or Cleco Power's credit ratings could result in additional fees and higher interest rates for borrowings under their respective credit facilities. In addition, Cleco Holdings or Cleco Power, as the case may be, would likely be required to pay higher interest rates in future debt financings, may be subject to more onerous debt covenants, and their pool of potential investors and funding sources could decrease. In addition, the 2016 Merger Commitments provide for limitations on the amount of distributions that may be paid from Cleco Power to Cleco Holdings, depending on Cleco Power's common equity ratio and its corporate credit/issuer ratings. As a result, Cleco Power may be prohibited from making distributions to Cleco Holdings in the event of a ratings downgrade.

MISO

MISO market operations could have a material adverse effect on the results of operations, generation revenues, energy supply costs, financial condition, or cash flows of the Registrants.
Cleco is a member of the MISO market region referred to as "MISO South," which encompasses parts of Arkansas, Louisiana, Mississippi, and Texas. Dispatch of generation resources and generation volumes to the market is determined by MISO. Costs in the MISO South region are heavily influenced by commodity fuel prices, transmission congestion, dispatch of the generating assets owned not only by Cleco, but by all market participants in the MISO South region, and the overall demand and generation availability in the region.
MISO evaluates forced outage rates to assess generating unit capacity for planning reserve margins. If Cleco is subject to a significant amount of forced outages, Cleco may not possess sufficient planning reserves to serve its needs and could be forced to purchase capacity from the MISO resource adequacy auction. For Cleco Power, the costs of such capacity may not be recoverable in its rates and could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants. Using MISO's unforced capacity method for determining generating unit capacity, Cleco Power's fleet provided for 323 MW of capacity in excess of its peak, coincident to MISO's peak, in 2018.

Technology and Terrorism Threats

The operational and information technology systems on which Cleco relies to conduct its business and serve customers could fail to function properly due to technological problems, cyber attacks, physical attacks on Cleco's assets, acts of terrorism, severe weather, solar events, electromagnetic events, natural disasters, the age and condition of information technology assets, human error, or other reasons that could disrupt Cleco's operations and cause Cleco to incur unanticipated losses and expense.
The operation of Cleco's extensive electrical systems relies on evolving operational and information technology systems and network infrastructures that are becoming extremely complex as new technologies and systems are implemented to more safely and reliably deliver electric services. Cleco's business is highly dependent on its ability to process and monitor, on a real-time daily basis, a large number of tasks and transactions, many of which are highly complex. The failure of Cleco's operational and information technology systems and networks due to a physical or cyber attack, or other event would significantly disrupt operations; cause harm to the public or employees; result in outages or reduced generating output; result in damage to Cleco's assets or operations, or those of third parties; and subject Cleco to claims by customers or third parties, any of which could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.
Cleco's systems, including its financial information, operational systems, advanced metering, and billing systems, require constant maintenance, monitoring, security patches, modification or configuration of systems, and update and upgrade of systems, which can be costly and increase the risk of errors and malfunction. Any disruptions or deficiencies in existing systems, or disruptions, delays, or deficiencies in the modification or implementation of new systems, could result in increased costs, the inability to track or collect revenues and the diversion of management's and employees' attention and resources, and could adversely affect the effectiveness of Cleco's control environment, and/or its ability to accurately or timely file required regulatory reports.
Despite implementation of security and mitigation measures, all of Cleco's technology systems and those of Cleco's vendors are vulnerable to inoperability or impaired operations or failures due to cyber or physical attacks on the facilities and equipment needed to operate the technology systems, viruses, human errors, acts of war or terrorism, and other events. If Cleco's or its vendor's information technology systems or network infrastructure were to fail, Cleco might be unable to fulfill critical business functions and serve its customers, which could have a material adverse effect on the financial conditions, results of operations, or cash flows of the Registrants.
In addition, in the ordinary course of its business, Cleco collects and retains sensitive information including personal identification information about customers and employees, customer energy usage, and other confidential information. The theft, damage, or improper disclosure of sensitive electronic data could subject Cleco to both penalties for violation of applicable privacy laws and claims from third parties, or harm Cleco's reputation. In addition, new laws and regulations governing data privacy and the unauthorized disclosure of confidential information pose increasingly complex compliance challenges and potentially elevate costs,

and any failure to comply with these laws and regulations could result in significant penalties and legal liability.

Taxes

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

or local tax laws, adverse tax audit results, or adverse tax rulings on positions taken by the Registrants could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

Changes in taxation due to uncertain effects of the TCJA could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.
The budget reconciliation act commonly referred to as the TCJA was signed into law on December 22, 2017. Proposed rulemakings issued in 2018 by the IRS subsequent to the TCJA could have a material adverse effect on the results of operations, financial conditions, or cash flows of the Registrants. The Registrants continue to assess the regulatory treatment of the TCJA, which could also have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.
Reliability and Infrastructure Protection Standards Compliance

Cleco is subject to mandatory reliability and critical infrastructure protection standards. Fines and civil penalties are imposed on those who fail to comply with these standards.
NERC serves as the ERO with authority to establish and enforce mandatory reliability and infrastructure protection standards, subject to FERC approval, for users of the nation's transmission system. FERC enforces compliance with these standards. New standards are being developed and existing standards are continuously being modified.
As these standards continue to be adopted and modified, they may impose additional compliance requirements on Cleco Power, which may result in increased capital expenditures and operating expenses. Failure to comply with these standards can result in the imposition of material fines and civil penalties. Furthermore, failure to maintain various levels of generating unit availability or transmission and distribution reliability may result in various disallowances of Cleco Power's investments.
The SERC RE conducts a NERC Reliability Standards audit and a NERC Critical Infrastructure Protection audit every three years. Cleco Power's next NERC Reliability Standards audit is scheduled to begin in October 2019 and the next NERC Critical Infrastructure Protection audit is scheduled to begin in 2020. Management is unable to predict the outcome of any future audits or whether any findings will have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

Environmental Compliance

Cleco's costs of compliance with environmental laws and regulations are significant. The costs of compliance with new environmental laws and regulations, as well as the incurrence of incremental environmental liabilities, could be significant to the Registrants.
Cleco is subject to extensive environmental oversight by federal, state, and local authorities and is required to comply with numerous environmental laws and regulations related to air quality, water quality, waste management, natural resources, and health and safety. Cleco also is required to obtain and comply with numerous governmental permits in operating its facilities. Existing environmental laws, regulations, and permits could be revised or reinterpreted, and new laws and regulations could be adopted or become applicable to Cleco. For example, the EPA has issued the CPP to reduce CO_2 emissions from existing EGUs by 32% from 2005 levels of CO_2 emissions; however, on February 9, 2016, the U.S. Supreme Court issued orders staying implementation of the CPP pending resolution of challenges to the rule. On October 16, 2017, following a review as directed by the President, the EPA published a proposed rule to repeal the CPP. Whether the EPA will finalize its proposed rule to repeal the CPP remains uncertain; however, the EPA has proposed a draft rule called the Affordable Clean Energy (ACE) rule to replace the CPP. These proposed actions by the EPA could also be subject to future legal challenges. As a result, there is currently no regulation in force and the future regulation of greenhouse gas emissions from existing EGUs is uncertain. Changes under the stayed CPP would have environmental regulations governing power plant emissions effective beginning 2022, with final emission goals required by 2030, and, if implemented, could render some of Cleco's EGUs uneconomical to maintain or operate and could prompt early retirement of certain generation units. Any legal obligation that would require Cleco to substantially reduce its emissions beyond present levels could require extensive mitigation efforts and could raise uncertainty about the future viability of some fossil fuels as fuel for new and existing electric generating facilities. Cleco will evaluate potential solutions to comply with such regulations and monitor rulemaking and any legal matters impacting the proposed regulations. Cleco may incur significant capital expenditures or additional operating costs to comply with such revisions, reinterpretations, and new requirements. If Cleco were to fail to comply, it could be subject to civil or criminal liabilities and fines or may be forced to shut down or reduce production from its facilities. Cleco cannot predict the timing or the outcome of pending or future legislative and rulemaking proposals.
Cleco Power may request from its customers recovery of its costs to comply with new environmental laws and regulations. If the LPSC were to deny Cleco Power's request to recover all or part of its environmental compliance costs, there could be a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

Cleco Power's Rates

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

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

Transmission rates that MISO transmission owners may collect are regulated by FERC. Two complaints were filed with FERC seeking to reduce the ROE component of the transmission rates that MISO transmission owners, including Cleco, may collect under the MISO tariff. There is one complaint currently open. Any reduction to the ROE component of the transmission rates could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

Retail Electric Service

Cleco Power's retail electric rates and business practices are regulated by the LPSC and reviews may result in refunds to customers.

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

Wholesale Electric Service

Cleco Power's business practices are regulated by FERC, and its wholesale rates are subject to FERC's triennial market power analysis. Cleco could lose the right to sell wholesale generation at market-based rates.
FERC conducts a review of Cleco Power's generation market power every three years in addition to each time generation capacity changes. Cleco's next triennial market power analysis is expected to be filed in 2020. In the future, if FERC determines Cleco Power possesses generation market power in excess of certain thresholds, Cleco Power could lose the right to sell wholesale generation at market-based rates, which could result in a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

Weather Sensitivity

The operating results of Cleco Power are affected by weather conditions and may fluctuate on a seasonal basis. Weather conditions directly influence the demand for electricity, particularly with respect to residential customers. In Cleco Power's service territory, demand for power typically peaks during the hot summer months. As a result, Cleco Power's financial results may fluctuate on a seasonal basis. In addition, Cleco Power has sold less power and, consequently, earned less income when weather conditions were milder. Unusually mild weather in the future could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.
Severe weather, including hurricanes and winter storms, can affect transportation of fuel to plant sites and can be destructive, causing outages and property damage that can potentially result in additional expenses, lower revenue, and additional capital restoration costs. Extreme drought conditions can impact the availability of cooling water to support the operations of generating plants, which can also result in additional expenses and lower revenue.

The physical risks associated with climate changes could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.
If climate changes occur that result in warmer temperatures in Cleco's service territories, it could result in one or more physical risks, such as an increase in sea level, wind and storm surge damages, wetland and barrier island erosion, risks of flooding, and changes in weather conditions, such as changes in temperature and precipitation patterns, and potential increased impacts of extreme weather conditions or storms, or could affect the Registrants' operations. The Registrants' assets are in and serve communities that are at risk from sea level rise, changes in weather conditions, storms, and loss of the protection offered by coastal wetlands. A significant portion of the nation's oil and gas infrastructure is located in these areas and is susceptible to storm damage that could be aggravated by wetland and barrier island erosion, which could give rise to fuel supply interruptions and price spikes.
These and other physical changes could result in changes in customer demand, increased costs associated with repairing and maintaining generating facilities and transmission and distribution systems, resulting in increased maintenance and capital costs (and potential increased

financing needs), limits on Cleco Power's ability to meet peak customer demand, increased regulatory oversight, and lower customer satisfaction. Also, to the extent that climate change would adversely impact the economic health of a region or result in energy conservation or demand side management programs, it may adversely impact customer demand and revenues. Such physical or operational risks could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

Litigation

Cleco is subject to litigation related to the 2016 Merger.

In connection with the 2016 Merger, four actions were filed in the Ninth Judicial District Court for Rapides Parish, Louisiana and three actions were filed in the Civil District Court for Orleans Parish, Louisiana. One of the actions filed in Rapides Parish has been dismissed. The remaining three actions in Rapides Parish have been consolidated. The three actions in Orleans Parish have been transferred to Rapides Parish and consolidated with the other litigation in Rapides Parish. The actions were filed against Cleco Corporation and, among others, Cleco Partners, Merger Sub, and members of the Board of Directors of Cleco Corporation. The petitions generally allege, among other things, that the members of Cleco Corporation's Board of Directors breached their fiduciary duties by, among other things, conducting an allegedly inadequate sale process, agreeing to the 2016 Merger at a price that allegedly undervalues Cleco, and failing to disclose material information about the 2016 Merger. The petitions also allege that Cleco Partners, Cleco, and Merger Sub and, in some cases, certain of the investors in Cleco Partners, either aided and abetted or entered into a civil conspiracy to advance those supposed breaches of duty. The petitions seek various remedies, including monetary damages, which includes attorneys' fees and expenses. In September 2016, the District Court granted the exceptions filed by Cleco and dismissed all claims asserted by the former shareholders. The plaintiffs appealed the District Court's ruling and on December 13, 2017, the Third Circuit Court of Appeal issued an order reversing and remanding the case back to the District Court for further proceedings. On January 12, 2018, Cleco filed a writ with the Louisiana Supreme Court seeking review of the Third Circuit Court of Appeal's decision. On March 2, 2018, the Louisiana Supreme Court denied the writ. Cleco filed writs of exception of res judicata and no cause of action in the District Court seeking dismissal of the case. On January 14, 2019, the District Court denied the writs.

It is possible that additional claims beyond those that have already been filed will be brought by the current plaintiffs or by others in an effort to seek monetary relief from Cleco. Cleco is not able to predict the outcome of these actions, or others, nor can Cleco predict the amount of time and expense that will be required to resolve the actions. In addition, the cost to Cleco of defending the actions, even if resolved in Cleco's favor, could be substantial. Such actions could also divert the attention of Cleco's management and resources from day-to-day operations.

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

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

Government Reform

Changes in environmental, fiscal, and tax policies could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.
The current Administration has called for substantial changes to environmental, fiscal, and tax policies. It is possible that these changes could adversely affect Cleco's business. Until changes are enacted, management is unable to determine the impact of the changes on the Registrants' business, results of operations, financial condition, or cash flows.

Workforce

Failure to attract and retain an appropriately qualified workforce could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.
Certain events, such as an aging workforce without appropriate replacements, matching of skill set or complement to future needs, or unavailability of contract resources may lead to operating challenges and increased costs. The challenges include lack of resources, loss of knowledge, and a lengthy time period associated with skill development. In this case, costs, including costs for contractors to replace employees, productivity costs, and safety costs, may rise. Failure to hire and adequately train replacement employees, including the transfer of significant internal historical knowledge and expertise to new employees, or the future availability and cost of contract labor may adversely affect the ability to manage and operate the Registrants' businesses. If the Registrants are unable to successfully attract and retain an appropriately qualified workforce, the results of operations, financial condition, or cash flows of the Registrants could be materially adversely affected.

Alternative Generation Technology

Changes in technology may have a material adverse effect on the value of Cleco Power's generating facilities.
A basic premise of Cleco's business is that generating electricity at central power plants achieves economies of scale and produces electricity at a relatively low price. There are alternative technologies to produce electricity, most notably wind turbines, photovoltaic cells, and other solar generated power. Many companies and organizations conduct research and development activities to seek improvements in alternative technologies. As new technologies are developed and become available, the quantity and pattern of electricity purchased by customers could decline, with a corresponding decline in revenues derived by generating assets. As a result, the value of Cleco Power's generating facilities could be reduced.

Insurance

Cleco's insurance coverage may not be sufficient.
Cleco currently has property, casualty, cyber security and liability insurance policies in place to protect its employees, directors, and assets in amounts that it considers appropriate. Such policies are subject to certain limits and

deductibles. Insurance coverage may not be available in the future at current costs, on commercially reasonable terms, or at all, and the insurance proceeds received for any loss of, or any damage to, any of Cleco's facilities may not be sufficient to restore the loss or damage without a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.
Like other utilities that serve coastal regions, Cleco Power does not have insurance covering its transmission and distribution system, other than substations, because it believes such insurance to be cost prohibitive. In the future, Cleco Power may not be able to recover the costs incurred in restoring transmission and distribution properties following hurricanes or other natural disasters through issuance of storm recovery bonds or a change in Cleco Power's regulated rates or otherwise, or any such recovery may not be timely granted. Therefore, Cleco Power may not be able to restore any loss of, or damage to, any of its transmission and distribution properties without a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

Cleco Power LLC's Unsecured and Unsubordinated Obligations

Cleco Power LLC's unsecured and unsubordinated obligations, including, without limitation, its senior notes, will be effectively subordinated to any secured debt of Cleco Power LLC, certain unsecured debt of Cleco Power LLC, and any preferred equity of any of Cleco Power LLC's subsidiaries.
Some of Cleco Power LLC's senior notes and its obligations under various loan agreements and refunding agreements with the Rapides Finance Authority, the Louisiana Public Facilities Authority, and other issuers of tax-exempt bonds for the benefit of Cleco Power LLC are unsecured and rank equally with all of Cleco Power LLC's existing and future unsecured and unsubordinated indebtedness. As of December 31, 2018, Cleco Power LLC had an aggregate of $1.36 billion of unsecured and unsubordinated indebtedness net of debt discount and debt expense. The unsecured and unsubordinated indebtedness of Cleco Power LLC will be effectively subordinated to, and thus have a junior position to, any secured debt that Cleco Power LLC may have outstanding from time to time (including any mortgage bonds) with respect to the assets securing such debt. Certain agreements entered into by Cleco Power LLC with other lenders that are unsecured provide that if Cleco Power LLC issues secured debt, Cleco Power LLC is obligated to grant these lenders the same security interest in certain assets of Cleco Power LLC. If such a security interest were to arise, it would further subordinate Cleco Power LLC's unsecured and unsubordinated obligations.
As of December 31, 2018, Cleco Power LLC had no secured indebtedness outstanding. Cleco Power LLC may issue mortgage bonds in the future under any future Indenture of Mortgage, and holders of mortgage bonds would have a prior claim on certain Cleco Power LLC material assets upon dissolution, winding up, liquidation, or reorganization.

Additionally, Cleco Power LLC's ability (and the ability of Cleco Power LLC's creditors, including holders of its senior notes) to participate in the assets of Cleco Power LLC's subsidiary, Cleco Katrina/Rita, is subject to the prior claims of the

subsidiary's creditors. As of December 31, 2018, Cleco Katrina/Rita had $31.3 million of indebtedness outstanding, net of debt discount and debt expense.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

Electric Generating Stations

As of December 31, 2018, Cleco Power either owned or had an ownership interest in five steam electric generating stations, three combined cycle units, and one gas turbine with a combined nameplate capacity of 3,310 MW, and a combined electric net generating capacity of 3,162 MW. The nameplate capacity is the capacity at the start of commercial operations, and the net generating capacity is the result of capacity tests and operational tests performed during 2018, as required by MISO. This amount reflects the maximum production capacity these units can sustain over a specified period of time. For more information on Cleco Power's generating facilities, see Item 1, "Business — Operations — Cleco Power — Power Generation."

Electric Substations

As of December 31, 2018, Cleco Power owned 86 active transmission substations and 238 active distribution substations.

Electric Lines

As of December 31, 2018, Cleco Power's transmission system consisted of 67 circuit miles of 500-kiloVolt (kV) lines; 549

circuit miles of 230-kV lines; 672 circuit miles of 138 kV lines; and 29 circuit miles of 69-kV lines. Cleco Power's distribution system consisted of 3,680 circuit miles of 34.5-kV lines and 8,381 circuit miles of other lines.

General Properties

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

Title

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

Substantially all of Cleco Power's property, plant, and equipment are subject to a lien of Cleco Power's Indenture of Mortgage, which does not impair the use of such properties in the operation of its business. As of December 31, 2018, no mortgage bonds were outstanding under the Indenture of Mortgage. Some of the unsecured and unsubordinated indebtedness of Cleco Power will be effectively subordinated to, and thus have a junior position to, any mortgage bonds that Cleco Power may have outstanding from time to time with respect to the assets subject to the lien of the Indenture of Mortgage. Cleco Power may issue mortgage bonds in the future under its Indenture of Mortgage, and holders of mortgage bonds would have a prior claim on certain Cleco Power material assets upon dissolution, winding up, liquidation, or reorganization.

ITEM 3. LEGAL PROCEEDINGS

CLECO

For information on legal proceedings affecting Cleco, see Item 1, "Business — Environmental Matters — Air Quality," Item 1A, "Risk Factors — Litigation," and Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 16 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Litigation."

CLECO POWER

For information on legal proceedings affecting Cleco Power, see Item 1, "Business — Environmental Matters — Air Quality" and Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 16 – Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Litigation."

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

CLECO HOLDINGS

On April 13, 2016, upon completion of the 2016 Merger, Cleco Corporation's common stock was delisted from trading on the New York Stock Exchange. There is no established public trading market for Cleco Holdings' membership interests.

In connection with the 2016 Merger, Cleco Holdings replaced its credit facility. Cleco Holdings' new credit facility still requires a total indebtedness of less than or equal to 65% of total capitalization in order to declare dividend payments. Additionally, in accordance with the 2016 Merger Commitments, Cleco Holdings is subjected to certain provisions limiting the amount of distributions that may be paid from Cleco Holdings to Cleco Group or Cleco Partners, depending on Cleco Holdings' debt to EBITDA ratio and its corporate credit ratings.

Cleco Holdings made $71.4 million, $84.1 million, and $88.8 million of distribution payments to Cleco Group in 2018, 2017, and 2016, respectively.

Cleco Holdings received no equity contributions in 2018 and 2017 from Cleco Group. In 2016, Cleco Holdings received $100.7 million of equity contributions from Cleco Group.

For more information about the 2016 Merger, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 4 — Business Combinations."

CLECO POWER

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

Some provisions in Cleco Power's debt instruments restrict the amount of equity available for distribution to Cleco Holdings by Cleco Power by requiring Cleco Power's total indebtedness to be less than or equal to 65% of total capitalization. In addition, the 2016 Merger Commitments provide for limitations on the amount of distributions that may be paid from Cleco Power to Cleco Holdings, depending on Cleco Power's common equity ratio and its corporate credit ratings.

During 2018, 2017, and 2016, Cleco Power made $121.4 million, $135.0 million, and $110.0 million, respectively, of distribution payments to Cleco Holdings.

Cleco Power received no equity contributions from Cleco Holdings in 2018 and 2017. Cleco Power received $50.0 million of equity contributions from Cleco Holdings in 2016.

ITEM
6. SELECTED
FINANCIAL
DATA

CLECO

The information set forth in the following table should be read in conjunction with the Consolidated Financial Statements and the related Notes in Item 8, “Financial Statements and Supplementary Data.”

Five-Year Selected Financial Data

(THOUSANDS, EXCEPT PER SHARE AND PERCENTAGES)	SUCCESSOR FOR THE YEAR ENDED DEC. 31, 2018	FOR THE YEAR ENDED DEC. 31, 2017	APR. 13, 2016 - DEC. 31, 2016	PREDECESSOR JAN. 1, 2016 - APR. 12, 2016	FOR THE YEAR ENDED DEC. 31, 2015	FOR THE YEAR ENDED DEC. 31, 2014
Operating revenue, net (excluding intercompany revenue)						
Cleco Power	$1,240,722	$1,184,345	$859,006	$299,283	$1,207,325	$1,267,323
Midstream [1]	—	—	—	—	—	5,467
Other	(9,678)	(8,699)	(6,001)	587	2,077	(3,305)
Total	$1,231,044	$1,175,646	$853,005	$299,870	$1,209,402	$1,269,485
Income (loss) before income taxes	$123,819	$145,159	$(46,935)	$(492)	$211,373	$221,855
Net income (loss)	$94,437	$138,080	$(24,113)	$(3,960)	$133,669	$154,739
Capitalization						
Member’s equity/Common shareholders’ equity	42.50 %	42.50 %	42.77 %		56.92 %	54.86 %
Long-term debt and capital leases [2]	57.50 %	57.50 %	57.23 %		43.08 %	45.14 %
Member’s equity/Common shareholders’ equity	$2,124,740	$2,096,357	$2,046,764		$1,674,841	$1,627,270
Long-term debt and capital leases [2]	$2,874,485	$2,836,105	$2,738,571		$1,267,703	$1,338,998
Total assets	$6,436,814	$6,278,382	$6,343,144		$4,323,354	$4,368,418
Cash dividends declared per common share	N/A	N/A	N/A	$0.40	$1.60	$1.5625

[1] Effective March 15, 2014, upon the transfer of Coughlin to Cleco Power, Midstream had minimal operations.

[2] Excludes long-term debt and capital leases due within one year. There were no capital lease obligations at December 31, 2017.

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

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

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

OVERVIEW

Cleco is a regional energy company that, prior to the close of the Cleco Cajun Transaction, conducted substantially all of its business operations through its primary subsidiary, Cleco Power. Cleco Power is a regulated electric utility company that owns nine generating units with a total nameplate capacity of 3,310 MW and serves approximately 291,000 customers in Louisiana through its retail business and supplies wholesale power in Louisiana and Mississippi.

Cleco Cajun Transaction

On February 4, 2019, the Cleco Cajun Transaction was completed. For the Registrants' Combined Quarterly Report on Form 10-Q for the quarter ended March 31, 2019, Cleco Cajun is expected to become a new reportable segment. For more information on the transaction, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 21 — Cleco Cajun Transaction."

Because the Cleco Cajun Transaction closed after December 31, 2018, the Registrants' respective consolidated financial statements and the notes thereto do not include or take into account the closing and the effects of the Cleco Cajun Transaction. For more information on the Cleco Cajun Transaction, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 21 — Cleco Cajun Transaction."

Cleco Power

Many factors affect Cleco Power's primary business of generating, delivering, and selling electricity. These factors include weather and the presence of a stable regulatory environment, which impacts cost recovery and the ROE, as well as the recovery of costs related to growing energy demand and rising fuel prices; the ability to increase energy sales while containing costs; the ability to reliably deliver power to its jurisdictional customers; the ability to comply with increasingly stringent regulatory and environmental standards; and the ability to successfully perform in MISO while subject to the related operating challenges and uncertainties, including increased wholesale competition. Cleco Power's current key initiatives are continuing construction on the St. Mary Clean Energy Center project, the Terrebonne to Bayou Vista Transmission project, and the Coughlin Pipeline project; beginning construction on the

Bayou Vista to Segura Transmission project; continuing the START project; initiating the DSMART project; and maintaining and growing its

wholesale and retail business. These initiatives are discussed below.

St. Mary Clean Energy Center Project

The St. Mary Clean Energy Center project includes Cleco Power constructing, owning, and operating a 47.6 net MW generating unit to be fueled by waste heat from Cabot Corporation's carbon black manufacturing plant in Franklin, Louisiana. Construction began in October 2016 and the unit is expected to be commercially operational in the second quarter of 2019 at an estimated cost of $128.2 million. The project is expected to generate more than 300,000 MWh of zero additional carbon emitting energy each year. As of December 31, 2018, Cleco Power had spent $111.4 million on the project. Legal proceedings have been filed in connection with the St. Mary Clean Energy Center project. For more information about the ongoing litigation, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 16 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Litigation — Dispute with Saulsbury Industries."

Terrebonne to Bayou Vista Transmission Project

The Terrebonne to Bayou Vista Transmission project includes the construction of additional transmission interconnection facilities south of Teche Power Station. The project is expected to increase reliability, reduce congestion, and provide hurricane hardening of the 230-kilovolt transmission system for customers in south Louisiana. Cleco Power's portion of the joint project with Entergy Louisiana is expected to cost $64.5 million. Construction began in July 2018 and is expected to be completed in the second quarter of 2019. As of December 31, 2018, Cleco Power had spent $51.9 million on the project.

Coughlin Pipeline Project

The Coughlin Pipeline project includes construction of a pipeline directly connecting the Pine Prairie Energy Center to Cleco's Coughlin Power Station. The project is expected to increase reliability for fuel delivery and mitigate exposure to transportation cost increases. In June 2017, the LPSC approved a regulatory asset to be established upon the completion of the Coughlin Pipeline project for the revenue requirement associated with the project until Cleco Power seeks recovery in the new FRP, which is anticipated to be effective July 1, 2020. Construction on the Coughlin Pipeline project began in September 2018. The project is expected to be completed in the third quarter of 2019 with an estimated cost of $32.5 million. As of December 31, 2018, Cleco Power had spent $20.3 million on the project.

Bayou Vista to Segura Transmission Project

The Bayou Vista to Segura Transmission project includes the construction of 47 miles of 230kV transmission line, a 230/138kV substation and three substation expansions in south Louisiana. The project is expected to cost approximately $142.7 million. The project is expected to increase reliability, provide transmission system redundancy, and provide hurricane hardening for customers in south Louisiana. Cleco Power received MISO approval for the project in December 2017. The project is currently in the early planning and engineering phase and is expected to begin construction in the fourth quarter of 2019, with the northern phase expected to be completed in the fourth quarter of 2020 and the southern phase expected to be completed in the fourth quarter of 2021. As of December 31, 2018, Cleco Power had spent $1.0 million on the project.

START Project
The START project includes replacement of and improvement to Cleco's enterprise business applications. The project's objectives are to gain efficiencies through consistent, industry-leading work processes and practices; enable better decision making through data transparency across business functions; mitigate risk through knowledge transfer and better process documentation; provide a modernized, flexible platform to support future growth and changing business models; and provide customer-centric focus through technology and flexibility. The project is in the testing phase. Management expects the project to be completed in the second quarter of 2019. The total estimated project cost is $147.5 million. As of December 31, 2018, Cleco had spent $113.1 million on the project.

DSMART Project
The DSMART project includes modernization of Cleco Power's distribution system by replacing or upgrading distribution line equipment utilizing new and emerging technologies to facilitate automatic fault isolation, service restoration, and fault location. The project is expected to provide savings through a reduction in outage restoration time, time to locate faults, and improved operational efficiencies. The project is also expected to improve safety and reliability of Cleco Power's distribution assets by minimizing outage patrols and improving situational awareness in the distribution operations center. The total estimated project cost is $90.2 million. The project implementation will be completed in phases and management expects the total project will be completed by the end of 2025. In January 2019, Cleco Power began the first phase of the project.

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

RESULTS OF
OPERATIONS

Use of Estimates
The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the

reporting period. Actual results could differ materially from those estimates.

Comparison of the Years Ended December 31, 2018, and 2017
Cleco

	FOR THE YEAR ENDED DEC. 31,			
			FAVORABLE/(UNFAVORABLE)	
(THOUSANDS)	2018	2017	VARIANCE	CHANGE

Operating revenue, net	$1,231,044	$1,175,646	$ 55,398	4.7 %
Operating expenses	986,487	910,419	$ (76,068)	(8.4)%
Operating income	$244,557	$265,227	$ (20,670)	(7.8)%
Interest income	$6,073	$1,424	$ 4,649	326.5 %
Allowance for equity funds used during construction	$14,159	$8,320	$ 5,839	70.2 %
Other expense, net	$(14,328)	$(6,899)	$ (7,429)	(107.7)%
Federal and state income tax expense	$29,382	$7,079	$ (22,303)	(315.1)%
Net income	$94,437	$138,080	$ (43,643)	(31.6)%

Operating revenue, net increased $55.4 million during 2018 compared to the 2017 primarily due to $56.6 million of higher fuel cost recovery revenue at Cleco Power, and $27.7 million higher base revenue at Cleco Power, partially offset by $31.6 million of higher electric customer credits at Cleco Power.

Operating expenses increased $76.1 million during 2018 compared to 2017 primarily due to $56.7 million of higher recoverable fuel and power purchased expenses at Cleco Power and $14.4 million of expenses associated with the Cleco Cajun Transaction at Cleco Holdings.

Interest income increased $4.6 million during 2018 compared to 2017 primarily due to $2.7 million of higher interest rates and balances on temporary investments and $1.2 million of interest on a note receivable at Cleco Power.

Allowance for equity funds used during construction increased $5.8 million during 2018 compared to 2017 primarily due to higher construction costs related to various projects.

Other expense, net increased $7.4 million during 2018 compared to 2017 primarily due to $6.4 million of change in value of life insurance policies as a result of unfavorable market conditions at Cleco Holdings.

Federal and state income tax expense increased $22.3 million during 2018 compared to 2017 primarily due to $46.3 million for the absence of adjustments related to the TCJA and $3.7 million for the flowthrough of state tax benefits. The increases were partially offset by $15.2 million for the reduction in the federal statutory tax rate as prescribed by the TCJA and $10.5 million for the change in pretax income, excluding AFDUC equity. The effective income tax rate for the year ended December 31, 2018, was 23.7%. For more information on the TCJA, see Item 8, “Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 11 — Income Taxes — TCJA” and “Note 1
Regulation and Rates — TCJA.”

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

Cleco Power

Significant Factors Affecting Cleco Power

Revenue is primarily affected by the following factors:
As an electric utility, Cleco Power is affected, to varying degrees, by a number of factors influencing the electric utility industry. These factors include, among others, an increasingly competitive business environment; the ability to recover costs through rate-setting proceedings; the ability to successfully perform in MISO and the related operating challenges; the cost of compliance with environmental and reliability regulations; conditions in the credit markets and global economy; changes in the federal and state regulation of generation, transmission, and the sale of electricity; the regulatory treatment of the TCJA, and the increasing uncertainty of future federal and state regulatory and environmental policies. For a discussion of various regulatory changes and competitive forces affecting Cleco Power and other electric utilities, see "Cautionary Note Regarding Forward-Looking Statements," Part I, Item 1, "Business — Regulatory Matters, Industry Developments, and Franchises," and "— Financial Condition — Regulatory and Other Matters — Market Restructuring." For a discussion of risk factors affecting Cleco Power's business, see Part I, Item 1A, "Risk Factors." For more information about the TCJA, see "— Financial Condition — Liquidity and Capital Resources — General Considerations and Credit-Related Risks — TCJA."
Cleco Power's residential customers' demand for electricity is affected largely by weather. Weather is generally 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 readily available, and energy used in the winter is typically priced below the rate charged for energy used in the summer. Normal heating degree-days and cooling degree-days are calculated for a month by separately calculating the average actual heating and cooling degree-days for that month over a period of 30 years.
Over the last five years, Cleco Power has experienced moderate growth in retail non-industrial sales and anticipates the same over the next five years. Cleco Power may experience increases in the retail industrial class in 2019, due to the oil and gas industry. In addition, Cleco Power expects to begin providing service to expansions of current customers' operations, as well as service to new retail customers. Cleco Power's expectations and projections regarding retail sales are dependent upon factors such as weather conditions, natural gas prices, customer conservation efforts, retail marketing and business development programs, and the economy of Cleco Power's service area. Cleco Power is pursuing load growth opportunities that include renewal of existing franchises and wholesale contracts as well as adding new wholesale customers and franchises. For more information on other expectations of future energy sales on Cleco Power, see "— Base," "Cautionary Note Regarding Forward-Looking Statements," and Part I, Item 1A, "Risk Factors — Future Electricity Sales."

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

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

- changes in the credit markets and local and global economies.

For more information on energy legislation in regulatory matters that could affect Cleco, see Part I, Item 1, "Business — Regulatory Matters, Industry Developments, and Franchises — Legislative and Regulatory Changes and Matters."
Cleco Power's revenues and earnings are substantially affected by regulatory proceedings known as rate cases, or in some cases, a request for extension of an FRP. During those cases, the LPSC determines Cleco Power's rate base, depreciation rates, operation and maintenance costs, and administrative and general costs that Cleco Power may recover from its retail customers through its rates. In some instances, the outcome of a rate case or request for extension of an FRP may impact wholesale decisions of Cleco Power. These proceedings may examine, among other things, the prudence of Cleco Power's operation and maintenance practices, level of expenditures, allowed rates of return, and previously incurred capital expenditures. The LPSC has the authority to disallow costs found not to have been prudently incurred. Rate cases generally have timelines of approximately one year, and decisions are typically subject to appeal, potentially leading to additional uncertainty. The transmission tariffs of Cleco Power are regulated by FERC with its own regulatory proceedings. Both the LPSC and FERC regulatory proceedings can involve multiple parties, including governmental bodies and officials, consumer advocacy groups, and various consumers of energy, all of whom have differing concerns but who have the common objective of limiting rate increases or reducing rates.

Other expenses are primarily affected by the following factors:
The majority of Cleco Power's non-fuel cost recovery expenses consist of other operations, maintenance, depreciation and amortization, and taxes other than income taxes. Other operations expenses are affected by, among other things, the cost of employee benefits, insurance expense, and the costs associated with energy delivery and customer service. Annual maintenance expenses associated with Cleco Power's plants generally depend upon their physical characteristics, maintenance practices, and the effectiveness of their preventive maintenance programs. Transmission and distribution maintenance expenses are generally affected by the level of repair and rehabilitation of lines to maintain reliability. Depreciation and amortization expense is primarily affected by the cost of the facilities in service, the time the facilities were placed in service, and the estimated useful life

of the facilities. Taxes other than income taxes generally include payroll taxes, franchise taxes, and property taxes. Cleco Power anticipates certain non-fuel cost recovery expenses to be higher in 2019 compared to 2018. These expenses include higher depreciation and amortization expense, higher interest expense, and higher customer relations expense, partially offset by lower administration and general operations expense and lower generation maintenance expense.

	FOR THE YEAR ENDED DEC. 31,			
			FAVORABLE/(UNFAVORABLE)	
(THOUSANDS)	2018	2017	VARIANCE	CHANGE
Operating revenue				
Base	$678,378	$651,732	$ 26,646	4.1 %
Fuel cost recovery	513,209	456,657	56,552	12.4 %
Electric customer credits	(33,195)	(1,566)	(31,629)	*
Other operations	82,330	77,522	4,808	6.2 %
Affiliate revenue	874	851	23	2.7 %
Operating revenue, net	$1,241,596	$1,185,196	$ 56,400	4.8 %
Operating expenses				
Recoverable fuel and power purchased	513,206	456,509	(56,697)	(12.4)%
Non-recoverable fuel and power purchased	37,530	35,750	(1,780)	(5.0)%
Other operations and maintenance	202,556	202,738	182	0.1 %
Depreciation and amortization	162,069	158,415	(3,654)	(2.3)%
Taxes other than income taxes	47,267	46,539	(728)	(1.6)%
Gain on sale of asset	(4)	—	4	—
Total operating expenses	962,624	899,951	(62,673)	(7.0)%
Operating income	$278,972	$285,245	$ (6,273)	(2.2)%
Interest income	$5,052	$1,283	$ 3,769	293.8 %
Allowance for equity funds used during construction	$14,159	$8,320	$ 5,839	70.2 %
Interest charges	$71,303	$69,362	$ (1,941)	(2.8)%
Federal and state income tax expense	$55,924	$67,331	$ 11,407	16.9 %
Net income	$162,257	$150,738	$ 11,519	7.6 %

*Not Meaningful

Cleco Power's net income for 2018 increased $11.5 million compared to 2017 primarily as a result of the following factors:

- higher base revenue,
- lower federal and state income tax expense,
- higher allowance for equity funds used during construction,
- higher other operations revenue, and
- higher interest income.

These increases were partially offset by:

- higher electric customer credits,
- higher depreciation and amortization, and
- higher interest charges.

The following table shows the components of Cleco Power's retail and wholesale customer sales related to base revenue:

	FOR THE YEAR ENDED DEC. 31,		
(MILLION kWh)	2018	2017	FAVORABLE/ (UNFAVORABLE)
Electric sales			
Residential	3,780	3,526	7.2 %
Commercial	2,731	2,650	3.1 %
Industrial	2,243	2,078	7.9 %
Other retail	133	131	1.5 %
Total retail	8,887	8,385	6.0 %
Sales for resale	2,991	2,959	1.1 %
Total retail and wholesale customer sales	11,878	11,344	4.7 %

The following table shows the components of Cleco Power's base revenue:

	FOR THE YEAR ENDED DEC. 31,		
(THOUSANDS)	2018	2017	FAVORABLE/ (UNFAVORABLE)
Electric sales			
Residential	$304,708	$286,587	6.3 %
Commercial	192,781	188,431	2.3 %
Industrial	90,291	87,528	3.2 %
Other retail	10,918	10,592	3.1 %
Storm surcharge	23,138	20,965	10.4 %
Total retail	621,836	594,103	4.7 %
Sales for resale	56,542	57,629	(1.9)%
Total base revenue	$678,378	$651,732	4.1 %

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

	FOR THE YEAR ENDED DEC. 31,				
				2018 CHANGE	
	2018	2017	NORMAL	PRIOR YEAR	NORMAL
Cooling degree-days	3,311	3,044	2,779	8.8 %	19.1 %
Heating degree-days	1,470	1,029	1,546	42.9 %	(4.9)%

Base

Base revenue increased $26.6 million in 2018 compared to 2017 primarily due to $22.6 million of higher usage from warmer summer weather and colder winter weather and $4.1 million due to higher rates.

Cleco Power expects increased base revenue of
$13.0 million in 2019 and an additional $11.7 million in 2020 through an FRP rider associated with the recovery of expenditures for capital projects. For more information on other expectations of future energy sales on Cleco Power, see "— Significant Factors Affecting Cleco Power," "Cautionary Note Regarding Forward-Looking Statements," and Part I, Item 1A, "Risk Factors — Future Electricity Sales."

Fuel Cost Recovery/Recoverable Fuel and Power Purchased

Changes in fuel costs historically have not significantly affected Cleco Power's net income. Generally, fuel and purchased power expenses are recovered through the LPSC-established FAC, which enables Cleco Power to pass on to its customers substantially all such charges. Approximately 76% of Cleco Power's total fuel cost during 2018 was regulated by

the LPSC. Recovery of FAC costs is subject to periodic fuel audits by the LPSC which may result in a refund to customers. Generally, fuel and purchased power expenses are impacted by customer usage, the per unit cost of fuel used for electric generation, and the dispatch of Cleco Power's generating facilities by MISO. Fuel and purchased power expenses were also impacted by the interruption of the continuous supply of lignite due to adverse weather conditions and other factors that disrupted mining operations and transportation to Dolet Hills Power Station. For more information on the accounting for MISO transactions, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 2 — Summary of Significant Accounting Policies — Accounting for MISO Transactions." For more information on Cleco Power's fuel audit, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 16 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Litigation — LPSC Audits — Fuel Audit."

Electric Customer Credits
Electric customer credits increased $31.6 million in 2018 compared to 2017 primarily due to accrued estimated refunds for the tax-related benefits of the TCJA. For more information on the TCJA, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 11 — Income Taxes — TCJA," and "Note 13 — Regul and Rates — TCJA."

Other Operations Revenue
Other operations revenue increased $4.8 million in 2018 compared to 2017 primarily due to $2.3 million of higher revenue from wholesale customers due to the absence of the 2017 customer credits relating to the MISO ROE complaints, $1.6 million of higher net transmission and distribution revenue, and $0.2 million of higher generation revenue from the Teche Unit 3 SSR. The $0.2 million of Teche Unit 3 SSR revenue consisted of $1.8 million higher revenue, partially offset by $1.6 million of expected refunds to MISO as a result of the SSR settlement agreement. For more information on the SSR, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 13 — Regulation and Rates — SSR."

Other Operations and Maintenance Expense
Other operations and maintenance expense decreased $0.2 million in 2018 compared to 2017 primarily due to $7.6 million of higher deferrals of production operations and maintenance
expenses to a regulatory asset, $7.5 million of lower compensation expense, and the absence of $1.9 million for the write-off of an uncollectible account. These decreases were
partially offset by $5.6 million of higher fees for outside services, $3.4 million of higher employee benefits expenses, $2.9 million of higher net generating station outage and routine maintenance expenses, $2.8 million of higher customer service expenses, $1.7 million of higher distribution operations expenses, and $1.5 million of higher generation operations expenses.

Depreciation and Amortization
Depreciation and amortization expense increased $3.7 million in 2018 compared to 2017 primarily due to $4.2 million of normal recurring additions to fixed assets and $3.8 million of higher amortization of storm damages which is based on

collections from customers. These increases were partially offset by $2.7 million of higher deferrals of corporate franchise taxes to a regulatory asset and $1.4 million of lower amortization of the production operations and maintenance regulatory asset.

Interest Income

Interest income increased $3.8 million in 2018 compared to 2017 primarily due to $1.7 million of higher interest rates and balances on temporary investments and $1.2 million of interest on a note receivable.

Allowance for Equity Funds Used During Construction

Allowance for equity funds used during construction increased $5.8 million in 2018 compared to 2017 primarily due to higher construction costs related to the St. Mary Clean Energy Center project, the Coughlin Pipeline project, the START project, the Terrebonne to Bayou Vista Transmission project, and the Bayou Vista to Segura Transmission project.

Interest Charges

Interest charges increased $1.9 million in 2018 compared to 2017 primarily due to $4.9 million of interest on senior notes issued in December 2017 and March 2018. This increase was partially offset by $2.4 million of higher allowance for borrowed funds used during construction and $1.0 million of lower interest on Cleco Katrina/Rita storm recovery bonds.

Income Taxes

Federal and state income taxes decreased $11.4 million in 2018 compared to 2017. Tax expense decreased primarily due to $26.9 million related to the reduction in the federal statutory tax rate as prescribed by the TCJA, $2.2 million for the change in pretax income, excluding AFUDC equity, and $1.3 million for adjustments for permanent tax differences. These decreases were partially offset by $14.3 million for the absence of adjustments related to the TCJA and $3.7 million for the flowthrough of state tax benefits. The effective income tax rate is 25.6%, which is different than the federal statutory rate primarily due to permanent tax differences, the flowthrough of benefits associated with AFUDC equity, adjustments for tax returns as filed, tax credits, and state tax expense. For more information on the TCJA, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 11 — Income Taxes — TCJA" and "Note 13 — Regulation and Rates — TCJA."

Comparison of the Years Ended December 31, 2017, and 2016

Cleco

(THOUSANDS)	SUCCESSOR FOR THE YEAR ENDED DEC. 31, 2017	SUCCESSOR APR. 13, 2016 - DEC. 31, 2016	PREDECESSOR JAN. 1, 2016 - APR. 12, 2016
Operating revenue, net	$1,175,646	$853,005	$ 299,870
Operating expenses	910,419	808,096	276,060
Operating income	$265,227	$44,909	$ 23,810
Interest income	1,424	840	265
Allowance for equity funds used during construction	8,320	3,735	723
Other expense, net	(6,899)	(6,653)	(3,167)
Interest charges	122,913	89,766	22,123
Federal and state income tax expense (benefit)	7,079	(22,822)	3,468
Net income (loss)	$138,080	$(24,113)	$ (3,960)

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Cleco's net income attributable to the year ended December 31, 2017, was $138.1 million. There were no significant changes in the underlying trends impacting net income with the exception of the impact of a $46.3 million tax benefit for an adjustment related to the TCJA. The effective income tax rate for 2017 was 4.9%. For more information on the TCJA, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 11 — Income Taxes — TCJA" and "Note 13 — Regulation and Rates — TCJA."
Cleco's net loss attributable to the successor period April 13, 2016, through December 31, 2016, was $24.1 million. There were no significant changes in the underlying trends impacting net loss with the exception of the change in pretax loss primarily related to:

- $174.7 million of merger transaction and commitment costs relating to the 2016 Merger,
- $34.0 million of interest costs related to debt obtained as a result of the 2016 Merger,
- $7.5 million of an offset to operating revenue related to the amortization of the intangible asset recorded for the fair value adjustment of wholesale power supply agreements as a result of the 2016 Merger, and
- $6.4 million of amortization of the fair value adjustment made as a result of the 2016 Merger to record the stepped-up basis for the Coughlin assets.

The effective income tax rate for the successor period April 13, 2016, through December 31, 2016, was 48.6%.
Cleco's net loss attributable to the predecessor period January 1, 2016, through April 12, 2016, was $4.0 million. There were no significant changes in the underlying trends impacting net loss with the exception of the change in pretax loss primarily related to $34.9 million of merger transaction costs relating to the 2016 Merger. The effective income tax rate for the predecessor period January 1, 2016, through April 12, 2016, was (704.9)%.
Results of operations for Cleco Power are more fully described below.

Cleco Power

	FOR THE YEAR ENDED DEC. 31,		FAVORABLE/(UNFAVORABLE)	
(THOUSANDS)	2017	2016	VARIANCE	CHANGE
Operating revenue				
Base	$651,732	$660,974	$ (9,242)	(1.4)%
Fuel cost recovery	456,657	430,255	26,402	6.1%
Electric customer credits	(1,566)	(1,513)	(53)	(3.5)%
Other operations	77,522	68,573	8,949	13.1%
Affiliate revenue	851	884	(33)	(3.7)%
Operating revenue, net	$1,185,196	$1,159,173	$ 26,023	2.2%
Operating expenses				
Recoverable fuel and power purchased	456,509	430,422	(26,087)	(6.1)%
Non-recoverable fuel and power purchased	35,750	35,684	(66)	(0.2)%
Other operations and maintenance	202,738	203,452	714	0.4%
Depreciation and amortization	158,415	153,393	(5,022)	(3.3)%
Taxes other than income taxes	46,539	48,287	1,748	3.6%
Merger commitment costs	—	151,501	151,501	100.0%
Gain on sale of asset	—	(1,095)	(1,095)	(100.0)%
Total operating expenses	899,951	1,021,644	121,693	11.9%
Operating income	$285,245	$137,529	$ 147,716	107.4%
Allowance for equity funds used during construction	$8,320	$4,458	$ 3,862	86.6%
Interest charges	$69,362	$76,446	$ 7,084	9.3%

Federal and state income tax expense	$67,331	$18,369	$ (48,962)	(266.5)%
Net income	$150,738	$39,128	$ 111,610	285.2%

Cleco Power’s net income for 2017 increased $111.6 million compared to 2016 primarily as a result of the following factors:

- the absence of 2016 Merger commitment costs,
- higher other operations revenue,
- lower interest charges, and
- higher allowance for equity funds used during construction.

These increases were partially offset by:

- higher income taxes,
- lower base revenue, and
- higher depreciation and amortization.

The following table shows the components of Cleco Power's retail and wholesale customer sales related to base revenue:

	FOR THE YEAR ENDED DEC. 31,		
(MILLION kWh)	2017	2016	FAVORABLE/ (UNFAVORABLE)
Electric sales			
Residential	3,526	3,671	(3.9)%
Commercial	2,650	2,724	(2.7)%
Industrial	2,078	1,988	4.5 %
Other retail	131	133	(1.5)%
Total retail	8,385	8,516	(1.5)%
Sales for resale	2,959	3,143	(5.9)%
Total retail and wholesale customer sales	11,344	11,659	(2.7)%

The following table shows the components of Cleco Power's base revenue:

	FOR THE YEAR ENDED DEC. 31,		
(THOUSANDS)	2017	2016	FAVORABLE/ (UNFAVORABLE)
Electric sales			
Residential	$286,587	$292,397	(2.0)%
Commercial	188,431	191,440	(1.6)%
Industrial	87,528	86,299	1.4 %
Other retail	10,592	10,589	— %
Surcharge	20,965	21,175	(1.0)%
Total retail	594,103	601,900	(1.3)%
Sales for resale	57,629	59,074	(2.4)%
Total base revenue	$651,732	$660,974	(1.4)%

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

	FOR THE YEAR ENDED DEC. 31,			2017 CHANGE	
	2017	2016	NORMAL	PRIOR YEAR	NORMAL
Cooling degree-days	3,044	3,309	2,779	(8.0)%	9.5 %
Heating degree-days	1,029	1,145	1,546	(10.1)%	(33.4)%

Base
Base revenue decreased $9.2 million in 2017 compared to 2016 primarily due to $5.8 million of lower rates to a site specific industrial customer and $4.3 million of lower usage as a result of milder weather and lower sales to wholesale customers.

Fuel Cost Recovery/Recoverable Fuel and Power Purchased
Changes in fuel costs historically have not significantly affected Cleco Power's net income. Generally, fuel and purchased power expenses are recovered through the LPSC-established FAC, which enables Cleco Power to pass on to its customers substantially all such charges. Approximately 76% of Cleco Power's total fuel costs during 2017 was

regulated by the LPSC. Recovery of FAC costs is subject to periodic fuel audits by the LPSC which may result in a refund to customers. Generally, fuel and purchased power expenses are impacted by customer usage, the per unit cost of fuel used for electric generation, and the dispatch of Cleco Power's generating facilities by MISO. For more information on the accounting for

MISO transactions, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 2 — Summary of Significant Accounting Policies — Accounting for MISO Transactions." For more information on Cleco Power's fuel audit, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 16 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Litigation — LPSC Audits — Fuel Audit."

Other Operations Revenue

Other operations revenue increased $8.9 million in 2017 compared to 2016 primarily due to $9.4 million of generation revenue from the Teche Unit 3 SSR and $1.7 million of higher forfeited discounts and reconnect fees mostly due to the absence of the 2016 customer rate credits as a result of the 2016 Merger and the absence of LPSC executive orders relating to 2016 flooding, which allowed impacted customers to defer utility payments. These increases were partially offset by $2.3 million of lower transmission revenue from wholesale customers as a result of issuing customer credits relating to the MISO ROE complaints. For more information on the SSR, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 13 — Regulation and Rates — SSR."

Non-recoverable Fuel and Power Purchased

Non-recoverable fuel and power purchased increased $0.1 million in 2017 compared to 2016 primarily due to $4.1 million of MISO SSR transmission expenses, $0.8 million related to higher MISO administrative fees, and $0.6 million of expenses related to flood damages. These increases were partially offset by a $2.3 million refund from MISO for wholesale customers relating to the MISO ROE complaints, $1.8 million of lower MISO transmission expenses, and $1.3 million due to the absence of expenses in 2017 related to fuel accounting software. For more information on the SSR, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 13 — Regulation and Rates — SSR."

Other Operations and Maintenance Expense

Other operations and maintenance expense decreased $0.7 million in 2017 compared to 2016 primarily due to $5.4 million of lower net generating station outage and routine maintenance expenses, $2.1 million of higher capitalized administrative and general expenses, $1.5 million for flood related uncollectible accounts deferred to regulatory assets, $1.5 million of lower employee benefits expenses, and $1.3 million for lower provision for other uncollectible accounts. These decreases were partially offset by $6.8 million of lower deferrals of production operations and maintenance expenses to a regulatory asset, $4.0 million of higher salaries, and $1.2 million for higher fees for outside services.

Depreciation and Amortization

Depreciation and amortization expense increased $5.0 million in 2017 compared to 2016 primarily due to higher depreciation due to additions to fixed assets.

Merger Commitment Costs

Merger commitment costs decreased $151.5 million in 2017 compared to 2016 due to the close of the 2016 Merger which resulted in $136.0 million one-time customer rate credits.

Allowance for Equity Funds Used During Construction

Allowance for equity funds used during construction increased $3.9 million in 2017 compared to 2016 primarily due to higher costs related to the St. Mary Clean Energy Center and other capital projects, partially offset by the completion of the Cenla Transmission Expansion project.

Interest Charges

Interest charges decreased $7.1 million in 2017 compared to 2016 primarily due to lower interest of $7.1 million due to long-term debt redeemed and replaced with lower interest rate debt in the fourth quarter of 2016.

Income Taxes

Federal and state income taxes increased $49.0 million in 2017 compared to 2016 primarily due to $62.5 million for the change in pretax income, excluding AFUDC equity. This increase was partially offset by $14.3 million for adjustments related to the TCJA. The effective income tax rate for 2017 was 30.9% which is different than the federal statutory rate primarily due to the TCJA, permanent tax differences, the flowthrough of benefits associated with AFUDC equity, adjustments for tax returns as filed, and state tax expense. For more information on the TCJA, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 11 — Income Taxes — TCJA" and "Note 13 — Regulation and Rates — TCJA."

CLECO POWER — NARRATIVE ANALYSIS OF RESULTS OF OPERATIONS

For a narrative analysis of the results of operations explaining the reasons for material changes in the amount of revenue and expense items of Cleco Power between the year ended December 31, 2018, and the year ended December 31, 2017, see "— Results of Operations — Comparison of the Years Ended December 31, 2018, and 2017 — Cleco Power."
For a narrative analysis of the results of operations explaining the reasons for material changes in the amount of revenue and expense items of Cleco Power between the year ended December 31, 2017, and the year ended December 31, 2016, see "— Results of Operations — Comparison of the Years Ended December 31, 2017, and 2016 — Cleco Power."
The narrative analysis referenced above should be read in combination with Cleco Power's Financial Statements and the Notes contained in this Annual Report on Form 10-K.

CRITICAL ACCOUNTING POLICIES

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

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

- To determine assets, liabilities, and expenses relating to pension and other postretirement benefits, management must make assumptions about future trends. Assumptions and estimates include, but are not limited to, discount rates, expected return on plan assets, mortality rates, future rate of compensation increases, and medical inflation trend rates. These assumptions are reviewed and updated on an annual basis. Changes in the rates from year-to-year and newly-enacted laws could have a material effect on Cleco's financial condition and results of operations by changing the recorded assets, liabilities, expense, or required funding of the pension plan obligation. One component of pension expense is the expected return on plan assets. It is an assumed percentage return on the market-related value of plan assets. The market-related value of plan assets differs from the fair value of plan assets by the amount of deferred asset gains or losses. Actual asset returns that differ from the expected return on plan assets are deferred and recognized in the market-related value of assets on a straight-line basis over a five-year period. The 2018 return on plan assets was (7.31)% compared to an expected long-term return of 5.86%. For 2017, the return on plan assets was 16.32% compared to an expected long-term return of 6.08%. For the calculation of the 2019 periodic expense, Cleco decreased the expected long-term return on plan assets to 6.55%.

Management uses a theoretical bond portfolio in order to calculate the discount rate for the measurement of liabilities. As a result of the annual review of assumptions, the pension plan discount rate increased from 3.73% to 4.35% for the December 31, 2018, measurement of liabilities.

A change in the assumed discount rate creates a deferred actuarial gain or loss. Generally, when the assumed discount rate decreases compared to the prior measurement date, a deferred actuarial loss is created. When the assumed discount rate increases compared to the prior measurement date, a deferred actuarial gain is created. Actuarial gains and losses also are created when actual results, such as compensation increases, differ from assumptions. Historically, Cleco Power has been allowed to recover pension plan expenses; therefore, deferred actuarial gains and losses are recorded as a regulatory asset or liability. The net of the deferred gains and losses is amortized to pension expense over the average service life of the remaining plan participants (approximately 9 years as of December 31, 2018, for Cleco's plan) when it exceeds certain thresholds. This approach of amortizing gains and losses has the effect of reducing the volatility of pension expense. Over time, it is not expected to reduce or increase the pension expense relative to an approach that immediately recognizes losses and gains.

In October 2016, the Society of Actuaries released an updated mortality improvement scale which indicated lower mortality improvements than previously indicated in the 2015 mortality improvement scale. As a result, in December 2016, Cleco updated its mortality assumptions using the new data released by the Society of Actuaries. The update resulted in a decrease of $6.8 million in the pension plan obligation at December 31, 2016.

In October 2017, the Society of Actuaries released another updated mortality improvement scale which indicated lower mortality improvements than previously indicated in the 2016 mortality improvement scale. As a result, in December 2017, Cleco updated its mortality assumptions using the new data released by the Society of Actuaries. The update resulted in a decrease of $3.1 million in the pension plan obligation at December 31, 2017.

In October 2018, the Society of Actuaries released another updated mortality improvement scale which indicated lower mortality improvements than previously indicated in the 2017 mortality improvement scale. As a result, in December 2018, Cleco updated its mortality assumptions using the new data released by the Society of Actuaries. The update resulted in a decrease of $1.4 million in the pension plan obligation at December 31, 2018.

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

ACTUARIAL ASSUMPTION (THOUSANDS)	CHANGE IN ASSUMPTION	CHANGE IN PROJECTED BENEFIT OBLIGATION	CHANGE IN ESTIMATED BENEFIT COST
Discount rate	0.5% increase	$ (34,289)	$ (3,452)
	0.5% decrease	$ 38,295	$ 3,794
Salary scale	0.5% increase	$ 7,412	$ 1,481
	0.5% decrease	$ (6,776)	$ (1,351)
Expected return on assets	0.5% increase	$ —	$ (2,022)
	0.5% decrease	$ —	$ 2,022

Cleco Power did not make any required or discretionary contributions to the pension plan in 2018, 2017, or 2016. Based on funding assumptions at December 31, 2018, management estimates that $95.5 million in pension contributions will be required through 2023. Future discretionary contributions may be made depending on changes in assumptions, the ability to utilize the contribution as a tax deduction, and requirements concerning recognizing a minimum pension liability. Future required contributions are driven by liability funding target percentages set by law which could cause the required contributions to change from year-to-year. The ultimate amount and timing of the contributions will be affected by changes in the discount rate, changes in the funding regulations, and actual returns on fund assets. Adverse changes in assumptions or adverse actual events could cause additional minimum contributions. For more information on pension and other postretirement benefits, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 10 — Pension Plan and Employee Benefits."

- Cleco has concluded it is probable that regulatory assets can be recovered from ratepayers in future rates. At December 31, 2018, Cleco Power had $134.8 million in regulatory assets, net. As a result of the 2016 Merger, Cleco Holdings recognized regulatory assets. At December 31, 2018, Cleco Holdings had $172.6 million of regulatory assets. Actions by the LPSC could limit the recovery of Cleco's regulatory assets, causing Cleco to record a loss on

some or all of the regulatory assets. If future recovery of costs ceases to be probable, Cleco Holdings could be required to record a loss of its regulatory assets associated with acquisition adjustments. For more information on the LPSC and regulatory assets, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 2 — Summary of Significant Accounting Policies — Regulation," and "Note 5 — Regulatory Assets and Liabilities."

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Income tax expense and related balance sheet amounts are comprised of a "current" portion and a "deferred" portion. The current portion represents Cleco's estimate of the income taxes payable or receivable for the current year. The deferred portion represents Cleco's estimate of the future income tax effects of events that have been recognized in the financial statements or income tax returns in the current or prior years. Cleco makes assumptions and estimates when it records income taxes, such as its ability to deduct items on its tax returns, the timing of the deduction, and the effect of regulation on income taxes. Cleco's income tax expense and related assets and liabilities could be affected by changes in its assumptions and estimates and by ultimate resolution of assumptions and estimates with taxing authorities. The actual results may differ from the estimated results based on these assumptions and may have a material effect on Cleco's results of operations.

For more information on income taxes, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 11 — Income Taxes."

- Cleco is currently involved in certain legal proceedings and management has estimated the probable costs for the resolution of these claims. These estimates are based on an analysis of potential results, assuming a combination of litigation and settlement assumptions. For more information on legal proceedings affecting Cleco, see Part I, Item 1, "Business — Environmental Matters — Air Quality," Item 1A, "Risk Factors — Litigation," and Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 16 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Litigation."

- Assets acquired and liabilities assumed in an acquired business are recorded at their estimated fair values on the date of acquisition. The difference between the purchase price amount and the net fair value of assets acquired and liabilities assumed is recognized as goodwill on the balance sheet if it exceeds the estimated fair value. On April 13, 2016, in connection with the completion of the 2016 Merger, Cleco recognized goodwill of $1.49 billion. Goodwill is required to be tested for impairment at the reporting segment level on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting segment below its carrying value. Additionally, on the date of the 2016 Merger, intangible assets were recognized for fair value adjustments of the Cleco trade name and long-term wholesale power supply contracts. Determining the fair value of assets acquired and liabilities assumed requires management's judgment, often utilizing independent valuation experts, and involves the use of significant estimates and assumptions. Management's judgments and estimates can materially impact the financial statements in periods after acquisition, such as through depreciation, amortization, and goodwill impairment. For more information on intangible assets and goodwill recorded in connection with the 2016 Merger, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 18 — Intangible Assets and Goodwill."

Cleco Power

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

- The LPSC determines the ability of Cleco Power to recover prudent costs incurred in developing long-lived assets. If the LPSC were to rule that the cost of current or future long-lived assets was imprudent and not recoverable, Cleco Power could be required to write down the imprudent cost and incur a corresponding impairment loss. At December 31, 2018, the carrying value of Cleco Power's long-lived assets was $3.21 billion. Currently, Cleco Power has concluded that none of its long-lived assets are impaired.

- The LPSC determines the amount and type of fuel and purchased power expenses that Cleco Power can charge customers through the FAC. Changes in the determination of allowable costs already incurred by Cleco Power could cause material changes in fuel revenue. Cleco Power has FAC filings for January 2018 and thereafter that are subject to audit. Management is unable to predict or give a reasonable estimate of the possible range of the disallowance, if any, related to these filings. For more information on LPSC fuel audits, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 16 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees —Litigation — LPSC Audits." For information on fuel revenue, see "— Results of Operations — Comparison of the Years Ended December 31, 2018, and 2017 — Cleco Power — Significant Factors Affecting Cleco Power — Fuel Cost Recovery/Recoverable Fuel and Power Purchased."

FINANCIAL CONDITION

Liquidity and Capital Resources

General Considerations and Credit-Related Risks

Credit Ratings and Counterparties

Financing for operational needs and capital expenditure requirements not satisfied by operating cash flows depends upon the cost and availability of external funds through both short- and long-term financing. The inability to raise capital on favorable terms could negatively affect Cleco's ability to maintain or expand its businesses. Access to funds is dependent upon factors such as general economic and capital market conditions, regulatory authorizations and policies, Cleco Holdings' and Cleco Power's credit ratings, cash flows from routine operations, and credit ratings of project counterparties. After assessing the current operating performance, liquidity, and credit ratings of Cleco Holdings

and Cleco Power, management believes that Cleco will have access to the capital markets at prevailing market rates for companies with comparable credit ratings. The following table presents the credit ratings of Cleco Holdings and Cleco Power at December 31, 2018:

	SENIOR UNSECURED DEBT	CORPORATE/LONG-TERM ISSUER

	S&P	MOODY'S	FITCH	S&P	MOODY'S	FITCH
Cleco Holdings	BBB-	Baa3	BBB-	BBB-	Baa3	BBB-
Cleco Power	BBB+	A3	BBB+	BBB+	A3	BBB

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

Taking into consideration the Cleco Cajun Transaction, Moody's completed its review on January 10, 2019, and updated its credit opinion of Cleco Holdings to Baa3 (stable) and affirmed Cleco Power at A3 (stable). On January 24, 2019, taking into consideration the Cleco Cajun Transaction, Fitch affirmed Cleco Holdings' and Cleco Power's long-term issuer default ratings at BBB- and BBB, respectively. Also on January 24, 2019, taking into consideration the Cleco Cajun Transaction, Fitch affirmed Cleco Holdings' and Cleco Power's senior unsecured ratings at BBB- (stable) and BBB+ (stable), respectively. On February 5, 2019, after the completion of the Cleco Cajun Transaction, S&P affirmed Cleco Holdings' and Cleco Power's credit ratings at BBB- (stable) and BBB+ (stable), respectively. On February 11, 2019, after the completion of the Cleco Cajun Transaction, Fitch affirmed Cleco Holdings' long-term issuer default ratings at BBB-.

Cleco Holdings and Cleco Power pay fees and interest under their bank credit agreements based on the highest rating held. Savings are dependent upon the level of borrowings. If Cleco Holdings' or Cleco Power's credit ratings were to be downgraded, Cleco Holdings or Cleco Power, respectively, could be required to pay additional fees and incur higher interest rates for borrowings under their respective credit facilities.

With respect to any open power or natural gas trading positions that Cleco may initiate in the future, Cleco may be required to provide credit support or pay liquidated damages. The amount of credit support that Cleco may be required to provide at any point in the future is dependent on the amount of the initial transaction, changes in the market price of power and natural gas, changes in open power and gas positions, and changes in the amount counterparties owe Cleco. Changes in any of these factors could cause the amount of requested credit support to increase or decrease.

Cleco Power and Cleco Cajun participate in the MISO market, which operates a fully functioning RTO market with two major market processes: the Day-Ahead Energy and Operating Reserves Market and the Real-Time Energy and Operating Reserves Market. Both use market-based mechanisms to manage transmission congestion across the MISO market area. MISO requires Cleco Power to provide credit support which may increase or decrease due to the timing of the settlement schedules. At December 31, 2018, Cleco Power had a $2.0 million letter of credit to MISO pursuant to the credit requirements of FTRs. The letter of credit automatically renews each year. In anticipation of the Cleco Cajun Transaction, Cleco was required to provide credit support for MISO related to Cleco Cajun's participation in MISO. On January 11, 2019, Cleco provided a $34.5 million letter of credit to MISO pursuant to energy market requirements. This letter of credit decreases availability under

the Cleco Holdings' credit facility. For more information about MISO, see "— Regulatory and Other Matters — Transmission Rates of Cleco Power."
In connection with Cleco Cajun Transaction, Cleco Holdings, on behalf of Cleco Cajun, issued three letters of credit totaling $1.1 million to a capacity agreement customer and a gas transport company. These letters of credit automatically renew each year and have no impact on the Cleco Holdings' credit facility.

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

TCJA
The TCJA was signed into law on December 22, 2017. The provisions of the law reduce the top federal statutory corporate income tax rate from 35% to 21%, generally allow for 100% bonus depreciation for new and used equipment purchased after September 27, 2017, generally restrict deduction of interest expense to 30% of adjusted taxable EBITDA, and repeal the corporate alternative minimum tax. As defined by the TCJA, rate regulated activities are not allowed to utilize 100% bonus depreciation and are not subject to the restricted interest deduction.
As a result of a request by the LPSC, Cleco Power began accruing an estimated reserve for the change in the tax rates beginning January 1, 2018. At December 31, 2018, Cleco Power had $31.6 million accrued for the estimated tax-related benefits from the TCJA. On October 26, 2018, the LPSC Staff approved a final rule that would require utilities to adjust formula rates on the earlier of January 31, 2019, or the next date required for implementation of compliance rate changes under the normal operation of the FRP. Cleco Power filed its report with the LPSC on December 3, 2018, describing its methodology for TCJA refunds and related items, including the allocation of such refunds among jurisdictional customers. On January 31, 2019, Cleco Power filed an application with the LPSC requesting the implementation of rate reductions and modifications of certain tariffs resulting from TCJA to be effective July 1, 2019. Cleco Power also requested to reduce the annual FRP rate, effective July 1, 2019, by the amount accrued for the change in tax rates as of June 30, 2019. Cleco Power recommended that the revenue reduction due to the change in the statutory corporate tax rate be allocated to only residential customers. Cleco Power also requested to address

the regulatory liability for excess ADIT resulting from the enactment of the TCJA in Cleco Power's application for its new FRP, which is expected to be filed by July 1, 2019, with anticipated new rates being effective July 1, 2020. All items requested in the January 31, 2019, application are subject to LPSC review and approval.
At December 31, 2017, Cleco reduced net ADIT liability due to the reduction in the income tax rate from 35% to 21%. During the fourth quarter of 2018, Cleco finalized the remeasurement and accounting for the effects of the TCJA. While activities not subject to cost of service rate regulation recognize the reduction in ADIT liability in income tax expense, Cleco Power is required to recognize a regulatory liability for the portion of the net reduction subject to regulatory treatment.

The following tables summarize the effects on Cleco and Cleco Power for the TCJA:
Cleco

(THOUSANDS)	NET REDUCTION TO ADIT	RECOGNIZED AS REGULATORY LIABILITY	RECOGNIZED IN INCOME TAX EXPENSE
Provisional at Dec. 31, 2017	$ (394,881)	$ (348,590)	$ (46,291)
TCJA adjustments recorded in 2018	(26,390)	(26,371)	(19)
Final at Dec. 31, 2018	$ (421,271)	$ (374,961)	$ (46,310)

Cleco Power

(THOUSANDS)	NET REDUCTION TO ADIT	RECOGNIZED AS REGULATORY LIABILITY	RECOGNIZED IN INCOME TAX EXPENSE
Provisional at Dec. 31, 2017	$ (362,882)	$ (348,590)	$ (14,292)
TCJA adjustments recorded in 2018	(26,390)	(26,371)	(19)
Final at Dec. 31, 2018	$ (389,272)	$ (374,961)	$ (14,311)

Due to the uncertainty around the regulatory treatment, the entire regulatory liability is reflected in non-current liabilities.

As a result of the TCJA, Cleco's current and deferred income tax expense in future periods is expected to be lower than in past periods. Cleco also expects to pay lower cash taxes for federal income taxes; however, higher income taxes are expected to be paid for state income taxes because of the lower federal income tax deduction.

Fair Value Measurements

Various accounting pronouncements require certain assets and liabilities to be measured at their fair values. Some assets and liabilities are required to be measured at their fair value each reporting period, while others are required to be measured only one time, generally the date of acquisition or debt issuance. Cleco and Cleco Power are required to disclose the fair value of certain assets and liabilities by one of three levels. Other financial assets and liabilities are reported at their carrying values at their date of issuance on the consolidated balance sheets with their fair values as of the balance sheet date disclosed within the three levels. For more information about fair value levels, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 7 — Fair Value Accounting."

Cash Generation and Cash Requirements

Restricted Cash and Cash Equivalents

Various agreements to which Cleco is subject contain covenants that restrict its use of cash. As certain provisions under these agreements are met, cash is transferred out of related escrow accounts and becomes available for its intended purposes and/or general company purposes. For more information on Cleco and Cleco Power's restricted cash and cash equivalents, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 2 — Summary of Significant Accounting Policies — Restricted Cash and Cash Equivalents."

Debt

Cleco Consolidated

Cleco had no short-term debt outstanding at December 31, 2018, or 2017. Cleco Holdings and Cleco Power have uncommitted lines of credit with a bank that allow up to $10.0 million each in short-term borrowings, but no more than $10.0 million in aggregate, to support their working capital needs.

At December 31, 2018, Cleco's long-term debt outstanding was $2.90 billion, of which $21.1 million was due within one year. The long-term debt due within one year at December 31, 2018, represents $20.6 million of principal payments for the Cleco Katrina/Rita storm recovery bonds and $0.5 million of capital lease payments. For Cleco, long-term debt increased by $40.3 million from December 31, 2017, primarily due to the March 2018 issuance of $50.0 million principal amount of senior notes due in December 2024, a $16.8 million increase in capital lease obligations, and $1.5 million related to debt discount and expense. These increases were partially offset by $19.2 million of scheduled payments on Cleco Katrina/Rita storm recovery bonds, $8.4 million for amortization of long-term debt fair value adjustments related to the 2016 Merger, and $0.4 million of capital lease principal payments.

On December 18, 2017, Cleco entered into an agreement for the issuance and sale in a private placement of an aggregate principal amount of $175.0 million of senior notes. For more information, see "— Cleco Power" below.

On April 2, 2018, Cleco entered into a capital lease agreement for use of 42 dedicated barges to transport petroleum coke and limestone to Madison Unit 3. For more information on the capital lease agreement, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 16 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Other Commitments — Fuel Transportation Agreement."

Cash and cash equivalents available at December 31, 2018, were $110.2 million combined with $400.0 million available credit facility capacity ($100.0 million from Cleco Holdings and $300.0 million from Cleco Power) for total liquidity of $510.2 million.

At December 31, 2018, Cleco and Cleco Power were exposed to concentrations of credit risk through their short-term investments classified as cash equivalents. In order to mitigate potential credit risk, Cleco and Cleco Power have established guidelines for short-term investments. For more information on the concentration of credit risk through short-term investments classified as cash equivalents, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 7 — Fair Value Accounting."

At December 31, 2018, and 2017, Cleco had a working capital surplus of $185.9 million and $271.4 million, respectively. The $85.5 million decrease in working capital is primarily due to:

- a $31.6 million increase in provision for rate refund primarily due to estimated refunds for the tax-related benefits of the TCJA,
- a $21.0 million increase in taxes payable primarily due to higher provisions for income taxes and higher corporate franchise taxes,
- a $10.1 million decrease in customer accounts receivable primarily due to the timing of a payment received from a wholesale customer and payments received on deferred agreements
- a $9.6 million increase in other current liabilities primarily due to the timing of LTIP accruals, higher accruals for the refund of the SSR capital portion, and higher accruals for hydroelectric power purchases as a result of a contract that began in April 2018,
- an $8.9 million decrease in cash and cash equivalents,

- a $6.4 million increase in accounts payable, excluding FTR purchases, primarily due to the timing of payables, higher accruals of capital projects, and an increase in fuel costs, partially offset by lower accruals for STIP,
- a $4.7 million decrease in fuel inventory primarily due to lower lignite deliveries and lower coal purchases, partially offset by higher per unit lignite costs, and
- a $3.6 million decrease in other accounts receivable primarily due to the receipt of an insurance reimbursement and lower receivables from joint owners, partially offset by a NMTC receivable for the difference between guaranteed benefits and actual benefits received.

These decreases in working capital were partially offset by:

- a $19.4 million increase in accumulated deferred fuel, excluding FTRs, primarily due to additional deferrals through a fuel surcharge and timing of collections and
- a $7.3 million increase in material and supplies inventory primarily due to higher purchases.

At December 31, 2018, Cleco's Consolidated Balance Sheets reflected $4.31 billion of total liabilities compared to $4.18 billion at December 31, 2017. The $130.0 million increase in total liabilities during 2018 was primarily due to:

- an increase in long-term debt of $40.3 million, as previously discussed,
- a higher provision for rate refund of $31.6 million due to the estimated refunds for the tax-related benefits of the TCJA,
- an increase in taxes payable of $21.0 million primarily due to higher provisions for income taxes and higher corporate franchise taxes, and
- an increase in net deferred taxes regulatory liability of $15.1 million primarily due to the finalization of the TCJA.

In connection with the Cleco Cajun Transaction on February 4, 2019, Cleco Holdings issued $300.0 million under a new bridge loan agreement and $100.0 million under a new term loan agreement. Both loan agreements are variable rate debt and have a three-year term. Both loan agreements contain certain financial covenants, including requiring Cleco

Holdings to maintain (i) a debt to capital ratio (as defined in the applicable agreement) below 65% and (ii) a rating applicable to the company's senior debt rating (as defined in the applicable agreement). Cleco Holdings anticipates that some or all of the variable rate debt may be replaced or repaid with long-term financing, markets permitting, within 12 months of the closing of the Cleco Cajun Transaction. Also in connection with the Cleco Cajun Transaction on February 4, 2019, Cleco Holdings made a $75.0 million draw on its credit facility, which was repaid on February 5, 2019.

In connection with Cleco Cajun Transaction, Cleco Holdings, on behalf of Cleco Cajun, issued three letters of credit totaling $1.1 million to a capacity agreement customer and a gas transport company. These letters of credit automatically renew each year and have no impact on the Cleco Holdings' credit facility.

Cleco Holdings (Holding Company Level)

Cleco Holdings had no short-term debt outstanding at December 31, 2018, or 2017. Cleco Holdings and Cleco Power have uncommitted lines of credit with a bank that allow up to $10.0 million each in short-term borrowings, but no more than $10.0 million in aggregate, to support their working capital needs.

At December 31, 2018, Cleco Holding's long-term debt outstanding was $1.34 billion, none of which was due within one year.

At December 31, 2018, and 2017, Cleco Holdings had no borrowings outstanding under its $100.0 million credit facility. This credit facility provides for working capital and other financing needs. The credit facility includes restricted financial covenants and expires in 2021.

Cash and cash equivalents available at Cleco Holdings at December 31, 2018, were $76.9 million, combined with $100.0 million credit facility capacity for a total liquidity of $176.9 million.

Cleco Power

There was no short-term debt outstanding at Cleco Power at December 31, 2018, or 2017. Cleco Holdings and Cleco Power have uncommitted lines of credit with a bank that allow up to $10.0 million each in short-term borrowings, but no more than $10.0 million in aggregate, to support their working capital needs.

At December 31, 2018, Cleco Power's long-term debt outstanding was $1.41 billion, of which $21.1 million was due within one year. The long-term debt due within one year at December 31, 2018, represents $20.6 million of principal payments for the Cleco Katrina/Rita storm recovery bonds and $0.5 million of capital lease payments. For Cleco Power, long-term debt increased $48.2 million from December 31, 2017, primarily due to the March 2018 issuance of $50.0 million principal amount of senior notes due in December 2024, a $16.8 million increase in capital obligations, and $1.0 million related to debt discount and expense. These increases were partially offset by $19.2 million of scheduled payments on Cleco Katrina/Rita storm recovery bonds and a $0.4 million in capital lease principal payments.

At December 31, 2018, and 2017, Cleco Power had no borrowings outstanding under its $300.0 million credit facility. This credit facility provides for working capital and other financing needs. The credit facility includes restricted financial covenants and expires in 2021.

On December 18, 2017, Cleco Power entered into an agreement for the issuance and sale in a private placement of an aggregate principal amount of $175.0 million of senior notes. The senior notes were issued in two tranches. The first tranche was issued on December 18, 2017, with a principal amount of $25.0 million at an interest rate of 2.94% and $100.0 million at an interest rate of 3.08%, with final maturity dates in December 2022 and 2023, respectively. The second tranche was issued on March 26, 2018, with a principal amount of $50.0 million at an interest rate of 3.17%, with a final maturity date in December 2024. The proceeds from the issuance and sale were used for capital investments and general utility purposes.

On April 2, 2018, Cleco entered into a capital lease agreement for use of 42 dedicated barges to transport petroleum coke and limestone to Madison Unit 3. For more information on the capital lease agreement, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 16 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Other Commitments — Fuel Transportation Agreement."

Cash and cash equivalents available at December 31, 2018, were $32.0 million combined with $300.0 million credit facility capacity for total liquidity of $332.0 million.

At December 31, 2018, and 2017, Cleco Power had a working capital surplus of $62.3 million and $169.6 million, respectively. The $107.3 million decrease in working capital is primarily due to:

- a $37.8 million decrease in cash and cash equivalents,
- a $31.6 million increase in provision for rate refund primarily due to estimated refunds for the tax-related benefits of the TCJA,
- a $16.6 million increase in taxes payable primarily due to higher provisions for income taxes and higher corporate franchise taxes,
- a $10.1 million decrease in customer accounts receivable primarily due to the timing of a payment received from a wholesale customer and payments received on deferred agreements,
- a $9.4 million increase in accounts payable, excluding FTR purchases, primarily due to the timing of payables, higher accruals of capital projects, and an increase in fuel costs, partially offset by lower accruals for STIP,
- a $6.4 million increase in other current liabilities primarily due to the timing of LTIP accruals, higher accruals for the refund of the SSR capital portion, and higher accruals for hydroelectric power purchases as a result of a contract that began in April 2018,
- a $6.1 million decrease in other accounts receivable primarily due to the receipt of an insurance reimbursement and lower receivables from joint owners, and
- a $4.7 million decrease in fuel inventory primarily due to lower lignite deliveries and lower coal purchases, partially offset by higher per unit lignite costs.

These decreases in working capital were partially offset by:

- a $19.4 million increase in accumulated deferred fuel, excluding FTRs, primarily due to additional deferrals through a fuel surcharge and timing of collections and
- a $7.3 million increase in material and supplies inventory primarily due to higher purchases.

At December 31, 2018, Cleco Power's Consolidated Balance Sheets reflected $2.75 billion of total liabilities compared to $2.64 billion at December 31, 2017. The $116.5 million increase in total liabilities during 2018 was primarily due to:

- an increase in long-term debt of $48.2 million, as previously discussed,
- a higher provision for rate refund of $31.6 million due to the estimated refunds for the tax-related benefits of the TCJA,
- an increase in taxes payable of $16.6 million primarily due to higher provisions for income taxes and higher corporate franchise taxes,
- an increase in net deferred taxes regulatory liability of $15.1 million primarily due to the finalization of the TCJA, and
- an increase in accounts payable of $11.9 million primarily due to the timing of payables, higher accruals of capital projects, and an increase in fuel costs, partially offset by lower accruals for STIP.

These increases were partially offset by a decrease of $25.6 million in accumulated deferred federal and state income taxes primarily due to adjustments related to the TCJA.

Credit Facilities

At December 31, 2018, Cleco had two separate revolving credit facilities, one for Cleco Holdings and one for Cleco Power, with a maximum aggregate capacity of $400.0 million.

At December 31, 2018, Cleco Holdings had a $100.0 million credit facility. The credit facility includes restricted financial covenants and expires in 2021. Under covenants contained in Cleco Holdings' credit facility, Cleco is required to maintain total indebtedness less than or equal to 65% of total capitalization. At December 31, 2018, Cleco Holdings was in compliance with the covenants of its credit facility. The borrowing costs under the facility are equal to LIBOR plus 1.75% or ABR plus 0.75%, plus commitment fees of 0.275%. At December 31, 2018, Cleco Holdings had no borrowings outstanding under its $100.0 million credit facility. If Cleco Holdings' credit ratings were to be downgraded one level by either agency, Cleco Holdings would be required to pay higher fees and additional interest of 0.075% and 0.50%, respectively, under the pricing levels for its credit facility. In connection with the Cleco Cajun Transaction, Cleco Holdings increased its credit facility capacity by $75.0 million, for a total credit facility of $175.0 million. All other terms remained the same. Also in connection with the Cleco Cajun Transaction on February 4, 2019, Cleco Holdings made a $75.0 million draw on its credit facility, which was repaid on February 5, 2019.

At December 31, 2018, Cleco Power had a $300.0 million credit facility. The credit facility includes restricted financial covenants and expires in 2021. Under covenants contained in Cleco Power's credit facility, Cleco Power is required to maintain total indebtedness less than or equal to 65% of total capitalization. At December 31, 2018, Cleco Power was in compliance with the covenants of its credit facility. The borrowing costs under the facility are equal to LIBOR plus 1.125% or ABR plus 0.125%, plus commitment fees of 0.125%. At December 31, 2018, Cleco Power had no borrowings outstanding under its $300.0 million credit facility. If Cleco Power's credit ratings were to be downgraded one level by either agency, Cleco Power would be required to pay higher fees and additional interest of 0.05% and

0.125%, respectively, under the pricing levels of its credit facility.
If Cleco Holdings or Cleco Power were to default under the covenants in their respective credit facilities or other debt agreements, they would be unable to borrow additional funds under the facilities, and the lenders could accelerate all principal and interest outstanding. Further, if Cleco Power were to default under its credit facility or other debt agreements, Cleco Holdings would be considered in default under its credit facility.

Debt Limitations

The 2016 Merger Commitments include provisions for limiting the amount of distributions that can be made from Cleco Holdings to Cleco Group or Cleco Partners, depending on Cleco Holdings' debt to EBITDA ratio and its corporate credit ratings. Cleco Holdings may not make any distribution unless, after giving effect to such distribution, Cleco Holdings' debt to EBITDA ratio is equal to or less than 6.50 to 1.00 and Cleco Holdings' corporate credit rating is investment grade with one or more of the three credit rating agencies. Additionally, in accordance with the 2016 Merger Commitments, Cleco Power is subject to certain provisions limiting the amount of distributions that may be paid to Cleco Holdings, depending on Cleco Power's common equity ratio and its corporate credit ratings. Cleco Power may not make any distribution unless, after giving effect to such distribution, Cleco Power's common equity ratio would not be less than 48% and Cleco Power's corporate credit rating is investment grade with two of the three credit rating agencies. The 2016 Merger Commitments also prohibit Cleco from incurring additional long-term debt, excluding non-recourse debt, unless certain financial ratios are achieved. At December 31, 2018 and 2017, Cleco Holdings and Cleco Power were in compliance with the provisions of the 2016 Merger Commitments that would restrict the amount of distributions available. For more information on additional merger commitments, see Part I, Item 1A, "Risk Factors — Holding Company."

Cleco Cash Flows

Net Operating Cash Flow

Net cash provided by operating activities was $317.8 million and $265.4 million for the years ended December 31, 2018, and 2017, respectively. Net cash provided by operating activities during 2018 increased $52.4 million from 2017 primarily due to:

- higher collections from customers of $25.3 million due to lower 2016 Merger credits used in 2018 and the timing of collections of accounts receivables,
- lower payments for fuel purchases of $23.6 million primarily due to lower deliveries of lignite and petroleum coke,
- lower payments for affiliate settlements of $18.1 million
- lower payments of $18.0 million due to timing of property tax payments, and

- higher receipts of $8.1 million primarily due to timing of receipts of joint owners' portion of generating station expenditures.

These increases were partially offset by:

- lower net fuel and power purchase collections of $30.4 million primarily due to timing of collections and
- higher payments for employee benefits of $8.2 million.

For the year ended December 31, 2017, there were no significant changes in the underlying trends impacting cash provided by operating activities.
Net cash provided by operating activities for the successor period April 13, 2016, through December 31, 2016, was $69.9 million. There were no significant changes in the underlying trends impacting cash provided by operating activities with the exception of the following:

- lower collections from customers of $121.5 million due to 2016 Merger credits used in 2016 and
- $23.7 million related to payments for 2016 Merger transaction costs.

Net cash provided by operating activities for the predecessor period January 1, 2016, through April 12, 2016, was $129.8 million. There were no significant changes in the underlying trends impacting cash provided by operating activities.

Net Investing Cash Flow
Net cash used in investing activities was $288.2 million and$203.6 million during the years ended December 31, 2018, and 2017, respectively. Net cash used in investing activities increased $84.6 million primarily due to:

- higher additions to property, plant, and equipment, net of AFUDC, of $48.3 million,
- issuance of a $16.8 million note receivable, and
- the absence of proceeds from the sale of transmission assets of $16.7 million.

For more information about the note receivable, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 16 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Other Commitments — Fuel Transportation Agreement."
For the year ended December 31, 2017, there were no significant changes in the underlying trends impacting cash provided by investing activities with the exception of $16.7 million of proceeds from the sale of transmission assets sold by Cleco on December 20, 2017.
Cleco's net cash used in investing activities for the successor period April 13, 2016, through December 31, 2016, was $135.3 million. There were no significant changes in the underlying trends impacting cash used in investing activities.
Cleco's net cash used in investing activities for the predecessor period January 1, 2016, through April 12, 2016, was $41.7 million. There were no significant changes in the underlying trends impacting cash used in investing activities.

Net Financing Cash Flow
Net cash used in financing activities was $41.7 million for the year ended December 31, 2018. Net cash provided by financing activities was $20.8 million for the year ended December 31, 2017. Net cash used in financing activities increased $62.5 million primarily due to:

- absence of draws on Cleco's credit facilities of $179.0 million and
- lower issuances issuances of senior notes of $75.0 million.

These increases were partially offset by:

- absence of payments on Cleco's credit facility of $179.0 million and
- lower distributions to Cleco Group of $12.7 million.

For the year ended December 31, 2017, there were no significant changes in the underlying trends impacting cash provided by financing activities.
Cleco's net cash used in financing activities for the successor period April 13, 2016, through December 31, 2016, was $6.0 million. There were no significant changes in the underlying trends impacting cash provided by financing activities with the exception of $100.7 million in contributions from Cleco Group.
Cleco's net cash used in financing activities for the predecessor period January 1, 2016, through April 12, 2016, was $40.9 million. There were no significant changes in the underlying trends impacting cash used in financing activities.

Cleco Power Cash Flows

Net Operating Cash Flow
Net cash provided by operating activities was $339.7 million during 2018, $287.1 million during 2017, and $234.3 million during 2016. Net cash provided by operating activities during 2018 increased $52.6 million from 2017 primarily due to:

- higher collections from customers of $25.3 million due to lower 2016 Merger credits used in 2018 and the timing of collections of accounts receivables,
- lower payments for fuel purchases of $23.6 million primarily due to lower deliveries of lignite and petroleum coke,
- lower payments of $18.0 million due to timing of property tax payments,
- higher receipts of $8.1 million primarily due to timing of receipts of joint owners' portion of generating station expenditures, and
- lower payment for affiliate settlements of $5.3 million.

These increases in net operating cash were partially offset by:

- lower net fuel and power purchase collections of $30.4 million primarily due to timing of collections and
- higher payments for employee benefits of $6.4 million.

Net cash provided by operating activities during 2017 increased $52.8 million from 2016 primarily due to:

- higher collections from customers of $109.9 million due to lower 2016 Merger credits used,

- higher net fuel and power purchase collections of $19.1 million primarily due to the timing of collections, and
- lower interest payments of $8.2 million due to long-term debt redeemed and replaced with lower interest rate debt in the fourth quarter of 2016.

These increases in net operating cash were partially offset by:

- higher payments for fuel inventory of $59.9 million primarily due to higher per unit lignite and petroleum coke costs and higher coal purchases and
- higher payments for affiliate settlements of $23.4 million.

Net Investing Cash Flow
Net cash used in investing activities was $289.0 million during 2018, $222.2 million during 2017, and $177.6 million during 2016. Net cash used in investing activities during 2018 increased $66.8 million from 2017 primarily due to:

- higher additions to property, plant, and equipment, net of AFUDC, of $48.1 million and
- issuance of a $16.8 million note receivable.

Net cash used in investing activities during 2017 increased $44.6 million from 2016 primarily due to higher payments for additions to property, plant, and equipment, net of AFUDC, of $45.2 million.

Net Financing Cash Flow
Net cash used in financing activities was $91.7 million during 2018, $29.9 million during 2017, and $79.9 million during 2016. Net cash used in financing activities during 2018 increased $61.8 million from 2017 primarily due to:

- the absence of draws on Cleco Power's credit facilities of $106.0 million and
- lower issuances of senior notes of $75.0 million.

These increases were partially offset by:

- the absence of payments on Cleco Power's credit facility of $106.0 million and
- lower distributions to Cleco Holdings of $13.6 million.

Net cash used in financing activities during 2017 decreased $50.0 million from 2016 primarily due to:

- lower repayments of long-term debt of $308.9 million and
- the absence of an $18.6 million make-whole payment made in connection with the redemption of $250.0 million of 6.65% senior notes in 2016.

These decreases in net financing activities were partially offset by:

- lower issuances of long-term debt of $205.0 million,
- the absence of contributions from Cleco Holdings of $50.0 million, and
- higher distributions to Cleco Holdings of $25.0 million.

Capital Expenditures
Prior to the Cleco Cajun Transaction, Cleco's capital expenditures were primarily incurred at Cleco Power. Cleco

Power's capital expenditures relate primarily to assets that may be included in Cleco Power's rate base and, if considered prudent by the LPSC, can be recovered from its customers. Those assets also earn a rate of return authorized by the LPSC and are subject to the FRP. Such assets primarily consist of improvements to Cleco Power's distribution system, transmission system, and generating stations as well as hardware and software upgrades.
During the years ended December 31, 2018, 2017, and 2016, Cleco Power had capital expenditures, excluding AFUDC, of $275.0 million, $226.9 million, $181.7 million, respectively. In 2018, 2017, and 2016, 100% of Cleco Power's capital expenditure requirements were funded internally.
During the years ended December 31, 2018, December 31, 2017, and the successor period April 13, 2016, through December 31, 2016, other subsidiaries had capital expenditures of $1.9 million, $1.7 million, and $0.7 million, respectively. During the predecessor period January 1, 2016, through April 12, 2016, other subsidiaries had capital expenditures of less than $0.1 million.
In 2019 and for the five-year period ending 2023, Cleco Power expects to materially fund its capital expenditure requirements with internally generated funds. However, Cleco Power may choose to issue debt in order to achieve its stipulated regulatory capital structure. All computations of internally funded capital expenditures exclude AFUDC.
Cleco and Cleco Power's estimated capital expenditures and debt maturities for 2019 and for the five-year period ending December 31, 2023 are presented in the following tables. All amounts exclude AFUDC and Cleco Cajun estimated capital expenditures. Following the Cleco Cajun Transaction, Cleco expects to incur capital expenditures at Cleco Cajun. Cleco Cajun's estimated capital expenditures are expected to be included in the Registrants' Combined Quarterly Report on Form 10-Q for the quarter ended March 31, 2019.

Cleco

PROJECT (THOUSANDS)	2019	%	2019-2023	%
Environmental	$1,000	— %	$20,000	1 %
New business	38,000	16 %	166,000	12 %
Transmission reliability	33,000	14 %	157,000	12 %
Fuel optimization	22,000	9 %	287,000	22 %
General [(1)]	144,000	61 %	704,000	53 %
Total capital expenditures	$238,000	100%	$1,334,000	100%
Debt payments	21,000		622,000	
Total capital expenditures and debt payments	$259,000		$1,956,000	

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

Cleco Power

PROJECT (THOUSANDS)	2019	%	2019-2023	%
Environmental	$1,000	— %	$20,000	2 %
New business	38,000	16 %	166,000	12 %
Transmission reliability	33,000	14 %	157,000	12 %
Fuel optimization	22,000	9 %	287,000	22 %
General [(1)]	142,000	61 %	698,000	52 %
Total capital expenditures	$236,000	100%	$1,328,000	100%
Debt payments	21,000		157,000	
Total capital expenditures and debt payments	$257,000		$1,485,000	

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

Capital expenditures for other subsidiaries, excluding Cleco Cajun, in 2019 are estimated to total $2.0 million. For the five-year period ending December 31, 2023, capital expenditures for other subsidiaries, excluding Cleco Cajun, are estimated to total $6.0 million. Cleco expects cash and cash equivalents on hand in addition to cash generated from operations, borrowings from credit facilities, and the net proceeds of any issuances of debt securities to be adequate to fund normal ongoing capital expenditures, working capital, and debt service requirements for the foreseeable future.

Other Cash Requirements
Prior to the Cleco Cajun Transaction, Cleco Power's regulated operations were Cleco's primary source of internally generated funds. These funds, along with Cleco Cajun's operation and the issuance of additional debt in future years, will be used for general company purposes, capital expenditures, and debt service.

Contractual Obligations
Cleco, in the course of normal business activities, enters into a variety of contractual obligations. Some of these result in direct obligations that are reflected in Cleco's Consolidated Balance Sheets while others are commitments, some firm and some based on uncertainties, that are not reflected in the consolidated financial statements. Additionally, the obligations listed in the following table do not include amounts related to Cleco Cajun; however, as a result of the Cleco Cajun Transaction, Cleco expects to incur contractual obligations at Cleco Cajun. The obligations listed in the following table do not include amounts for ongoing needs for which no contractual obligation existed as of December 31, 2018, and represent only the projected future payments that Cleco was contractually obligated to make as of December 31, 2018.

				PAYMENTS DUE BY PERIOD	
CONTRACTUAL OBLIGATIONS (THOUSANDS)	TOTAL	LESS THAN ONE YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Cleco					
Long-term debt obligations (1)	$4,497,965	$142,937	$547,327	$506,722	$3,300,979
Capital lease obligations (2)	36,710	2,611	5,222	5,222	23,655
Operating lease obligations (3)	20,517	4,150	6,679	2,453	7,235
Purchase obligations (4)	215,712	148,229	41,787	9,254	16,442
Other long-term liabilities (5)	17,128	5,321	4,778	1,694	5,335
Postretirement benefits obligations (6)	368,559	8,863	52,888	77,012	229,796
Total Cleco	$5,156,591	$312,111	$658,681	$602,357	$3,583,442
Cleco Power					
Long-term debt obligations (1)	$2,443,296	$87,964	$143,619	$256,136	$1,955,577
Capital lease obligations (2)	36,710	2,611	5,222	5,222	23,655
Operating lease obligations (3)	20,397	4,030	6,679	2,453	7,235
Purchase obligations (4)	182,789	126,846	33,013	8,159	14,771
Other long-term liabilities (5)	3,600	1,800	1,800	—	—
Postretirement benefits obligations (6)	167,501	—	35,393	60,093	72,015
Total Cleco Power	$2,854,293	$223,251	$225,726	$332,063	$2,073,253

(1) For individual long-term debt maturities, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 8 — Debt." For Cleco, the amount above excludes the fair value adjustments related to the 2016 Merger. Cleco's anticipated interest payments related to long-term debt also are included in this category and do

not reflect anticipated future refinancing, early redemptions, or debt issuances.
(2) Capital leases are maintained in the ordinary course of Cleco's business activities, including leases for barges. Cleco's anticipated interest payments and operating fees related to capital lease obligations are also included in this category. For more information regarding these leases, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 16 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Other Commitments — Fuel Transportation Agreement."
(3) Operating leases are maintained in the ordinary course of Cleco's business activities. These leases include utility systems, railcars, towboats, office space, operating facilities, and office equipment and have various terms and expiration dates from 1 to 27 years. For more information regarding Cleco's operating leases, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 15 — Operating Leases."
(4) Significant purchase obligations for Cleco are:
Fuel Contracts: To supply a portion of the fuel requirements for Cleco Power's generating plants, Cleco has entered into various commitments to obtain and deliver coal, lignite, petroleum coke, and natural gas. Some of these contracts contain provisions for price escalation and minimum purchase commitments. Generally, fuel and purchased power expenses are recovered through the LPSC-established FAC, which enables Cleco Power to pass on to customers substantially all such charges. For more information regarding fuel contracts, see Part I, Item 1, "Business — Operations — Cleco Power — Fuel and Purchased Power."
Purchase orders: Cleco has entered into purchase orders in the course of normal business activities.
(5) Other long-term liabilities primarily consist of obligations for deferred compensation and various operating and maintenance agreements.
(6) Postretirement benefits obligations consist of the expected required contributions for the Pension Plan and the estimated present value of obligations for SERP and other postretirement obligations. For more information regarding Cleco's defined benefit pension plan, SERP, and other postretirement obligations, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 10 — Pension Plan and Employee Benefits."

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

Off-Balance Sheet Commitments and On-Balance Sheet Guarantees
Cleco Holdings and Cleco Power have entered into various off-balance sheet commitments in the form of guarantees and standby letters of credit in order to facilitate their activities and the activities of Cleco Holdings' subsidiaries and equity investees (affiliates). Cleco Holdings and Cleco Power have also agreed to contractual terms that require the Registrants to pay third parties if certain triggering events occur. These contractual terms generally are defined as guarantees. For more information about off-balance sheet commitments and on-balance sheet guarantees, see Item 8, "Financial

Statements and Supplementary Data — Notes to the Financial Statements — Note 16 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Off-Balance Sheet Commitments and Guarantees."

Cybersecurity
The operation of Cleco's electrical systems relies on evolving operational and information technology systems and network infrastructures that are complex. The failure of Cleco's operational and information technology systems and networks and those of Cleco's vendors due to a physical or cyberattack,

or other event could significantly disrupt operations; cause harm to the public or employees; result in outages or reduced generating output; result in damage to Cleco's assets or operations, or those of third parties; result in damage to Cleco's reputation; and subject Cleco to claims by customers or third parties, any of which could have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants. In addition, Cleco's recent acquisition of NRG South Central could increase the risk associated with cybersecurity that could have a material adverse effect on Cleco's results of operations, financial condition, or cash flows including phishing attacks, denial of service attacks, and employee insider attacks. Cleco continues to assess its cybersecurity tools and processes and has taken a variety of actions to monitor and address cyber-related risks. Cleco's Chief Administrative Officer leads Cleco's cybersecurity team and oversees Cleco's cybersecurity maturity plan. Each quarter, management provides cybersecurity updates to Cleco's Board of Managers. For more information on risks related to Cleco's cybersecurity, see Part I, Item 1A, "Risk Factors — Technology and Terrorism Threats" in this Annual Report on Form 10-K.

Regulatory and Other Matters

Inflation
Annual inflation rates, as measured by the U.S. Consumer Price Index, have averaged 2% during the three years ended December 31, 2018. Under established regulatory practice, historical costs have traditionally formed the basis for recovery from customers. As a result, Cleco Power's cash flows designed to provide recovery of historical plant costs may not be adequate to replace property, plant, and equipment in future years.

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

Retail Rates of Cleco Power
Retail rates (comprised of base revenue, FAC revenue, and EAC revenue) regulated by the LPSC accounted for approximately 86% of Cleco Power's 2018 revenue and 85% of Cleco Power's 2017 revenue.

Fuel Rates
Generally, the cost of fuel used for electric generation and the cost of power purchased for utility customers are recovered through the LPSC-established FAC that enables Cleco Power to pass on to its customers substantially all such charges. Recovery of FAC costs is subject to periodic fuel audits by the LPSC. For more information on the FAC and the most recent fuel audit, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 16 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Litigation — LPSC Audits — Fuel Audit."

Environmental Rates
In July 2009, the LPSC issued Docket No. U-29380 Subdocket A, which provides for an EAC to recover from customers certain costs of environmental compliance. These expenses are eligible for recovery through Cleco Power's EAC and are subject to periodic review by the LPSC. For more information

on the EAC and the ongoing environmental audit covering January 1, 2016, through December 31, 2017, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 16 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Litigation — LPSC Audits — Environmental Audit."

Base Rates

Cleco Power's annual retail earnings are subject to an FRP that was approved by the LPSC in June 2014. For more information on the LPSC's regulation of Cleco Power's base rates, see Part I, Item 1, "Business — Regulatory Matters, Industry Developments, and Franchises — Rates."

For more information on the LPSC Staff's FRP reviews, amounts accrued by Cleco Power as a result of the TCJA, and information on the tax dockets, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 13 — Regulation and Rates — FRP" and "— TCJA."

SSR

In September 2016, Cleco Power filed an Attachment Y with MISO requesting retirement of Teche Unit 3 effective April 1, 2017. MISO conducted a study which determined the proposed retirement would result in violations of specific applicable reliability standards for which no mitigation is available. As a result, MISO designated Teche Unit 3 as an SSR unit until such time that an appropriate alternative solution can be implemented to mitigate reliability issues. For more information on the MISO SSR designation of Teche Unit 3, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 13 — Regulation and Rates — SSR."

Energy Efficiency

In 2009, the LPSC opened a docket to study the promotion of energy efficiency by jurisdictional electric and natural gas utilities. In 2013, the LPSC issued a General Order adopting rules promoting energy efficiency programs. The order addressed two energy efficiency programs, Phase I and Phase II. Phase I, known as the Quick Start program, was a three-year program to expedite the energy efficiency implementation and was expected to develop into Phase II, a more detailed and comprehensive program. Cleco Power participated in the Phase I program beginning in November 2014 for three years and designed several energy efficiency programs for customers. In January 2017, the LPSC amended the third year of the Phase I program to allocate no less than 50% of its annual program budgets to applicable government and state agencies. Beginning in November 2014, Cleco Power recovered approximately $3.3 million annually for each of the three program years through an approved rate tariff.

In September 2017, the LPSC extended Phase I for an additional year. Cleco Power began recovery of approximately $3.3 million for estimated costs for the fourth program year beginning January 1, 2018. Also in September 2017, the LPSC approved a motion for additional energy efficiency program funds for the exclusive benefit of school districts, local governments, state agencies, and higher education institutions or any other public entities (political subdivision). The recovery of approximately $3.3 million annually for estimated costs for the political subdivision program began on January 1, 2018.

On December 19, 2018, the LPSC extended Phase I for an additional year.
Utility companies are allowed to recover from customers the accumulated decrease in revenues associated with the energy efficiency programs. In December 2018, Cleco Power filed a letter of intent with the LPSC to recover the accumulated decrease in revenues. Beginning March 1, 2019, this amount will be recovered over approximately four years, subject to LPSC review and approval.
In November 2017, the LPSC initiated an audit on the first two program years to consider all program costs. Cleco Power has responded to the two sets of data requests on the energy efficiency audit. On December 6, 2018, Cleco Power received the LPSC's preliminary audit report, which concluded that the costs were reasonable and prudent, and eligible for recovery consistent with the Energy Efficiency Rules.

MISO Cost Benefit Analysis
Cleco Power entered into MISO in 2013. Within five years of joining MISO, the LPSC required Cleco Power to conduct a study of the costs and benefits of its membership in MISO. During the second quarter of 2017, Cleco Power submitted an analysis with both a backward-looking, historical analysis and a forward-looking, prospective analysis of the costs and benefits of operating in MISO, as compared to a scenario where Cleco Power and Entergy Louisiana exit MISO and operate independently. Cleco Power's analysis indicated that continued MISO membership would best serve the public interest. Cleco Power has responded to several sets of data requests on the analysis. Management is unable to predict the outcome of this analysis or give a reasonable estimate of the possible range of disallowance of costs, if any.

Wholesale Rates of Cleco Power
The rates Cleco Power charges its wholesale customers are subject to FERC's triennial market power analysis. FERC requires a utility to pass a screening test as a condition for securing and/or retaining approval to sell electricity in wholesale markets at market-based rates. An updated market power analysis is to be filed with FERC every three years or upon the occurrence of a change in status as defined by FERC regulation. Cleco filed its triennial market power analysis with FERC in December 2017. On November 8, 2018, FERC determined that Cleco Power has satisfied the requirements for market-based rate authority. Cleco's next triennial market power analysis is expected to be filed during the fourth quarter of 2020.

Transmission Rates of Cleco Power
In July 2011, FERC issued Order No. 1000 that reforms the electric transmission planning and cost allocation requirements for public utility transmission providers. The rule builds on the reforms of Order No. 890 and corrects remaining deficiencies with respect to transmission planning processes and cost allocation methods. In 2015, MISO and the SPP made separate filings containing different metrics to meet specific requirements. A compliance determination for both filings has not been made and no timetable is available for when a determination will be made. Until a determination is made, Cleco is unable to determine if this order will have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.
Cleco Power's generation dispatch and transmission operations are integrated with MISO. MISO operates a fully functioning RTO market with two major market processes: the Day-Ahead Energy and Operating Reserves Market and the Real-Time Energy and Operating Reserves Market. Both use market-based mechanisms to manage transmission congestion across the MISO market area. For more information about the risks associated with Cleco Power's participation in MISO, see Part I, Item 1A, "Risk Factors — MISO."
In May 2017, Cleco Power filed a MISO Schedule 2 rate increase request with FERC. MISO Schedule 2 provides for compensation to Cleco Power for providing reactive power to MISO customers. On July 1, 2017, Cleco Power began collecting revenue at the requested rate, subject to refund. On December 1, 2017, a new rate in pursuance with

interveners became effective. FERC approved this rate through a settlement agreement on February 1, 2018. In April 2018, Cleco refunded $0.1 million, including accrued interest, for the amount over-collected in 2017.
Two complaints were filed with FERC seeking to reduce the ROE component of the transmission rates that MISO transmission owners, including Cleco, may collect under the MISO tariff. For more information about the ROE complaints, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 16 — Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Litigation — Transmission ROE."

Transmission and Generation Projects
Cleco Power is currently involved in the Terrebonne to Bayou Vista and Bayou Vista to Segura transmission projects, as well as the DSMART project. Cleco Power is also involved in the St. Mary Clean Energy Center project, which is a waste heat generating unit, and the Coughlin Pipeline project. For information on these projects, see "— Overview — Cleco Power."

Market Restructuring

Wholesale Electric Markets

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

ERO
The Energy Policy Act of 2005 added Section 215 to the Federal Power Act, which provides for a uniform system of mandatory, enforceable reliability standards. In 2006, FERC named NERC as the ERO that will be required to develop and enforce the mandatory reliability standards.
In July 2017, the SPP RTO's board of directors and members committee voted to authorize the SPP's President and CEO to terminate the delegation agreement between the SPP and NERC. On February 8, 2018, NERC approved Cleco Power's proposed RE. On July 1, 2018, SERC assumed the delegated authority as the new RE for Cleco Power, which replaced the SPP RE. Management does not expect the movement to SERC to have a significant impact on the results of operations, financial condition, or cash flows of the Registrants.

A NERC Reliability Standards audit is conducted every three years. Cleco Power's next NERC Reliability Standards audit is scheduled to begin in October 2019.

A NERC Critical Infrastructure Protection audit is also conducted every three years. A NERC Critical Infrastructure Protection audit was conducted in February 2017. There were three violations associated with the February 2017 audit. Cleco Power has completed the mitigation plans for the violations. The SPP RE has approved two of the mitigation plans. The third mitigation plan has been transferred to SERC due to the dissolution of the SPP RE. SERC continues to analyze Cleco Power's mitigation plan.

Cleco Power's next NERC Critical Infrastructure Protection audit is scheduled to begin in 2020. Management is unable to predict the final outcome of the remaining violation, or any future audits, or whether any findings will have a material adverse effect on the results of operations, financial condition, or cash flows of the Registrants.

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

Retail Electric Markets

Currently, the LPSC does not provide exclusive service territories for electric utilities under its jurisdiction. Instead, retail service is obtained through a long-term nonexclusive franchise. The LPSC uses a "300-foot rule" for determining the supplier for new customers. The "300-foot rule" requires a customer to take service from the electric utility that is within 300 feet of the respective customer. If the customer is beyond 300 feet from any existing utility service, they may choose their electric supplier. The "300-foot rule" is currently under review by the LPSC in Docket No. R-32763. Management is unable to predict the time of completion and cannot determine the impact any potential rulemaking may have on the results of operations, financial condition, or cash flows of Cleco Power. The application of the current rule has led to competition with neighboring utilities for retail customers at the borders of Cleco Power's service areas. Cleco Power also competes in its service area with suppliers of alternative forms of energy, some of which may be less costly than electricity for certain applications. Cleco Power could experience some competition for electric sales to industrial customers in the form of cogeneration or from independent power producers.

Lignite Deferral

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

In 2006, Cleco Power recognized that there was a possibility it may not recover all or part of the lignite mining costs it had deferred and sought relief from the LPSC. In December 2007, the LPSC approved a settlement agreement between Cleco Power, SWEPCO, and the LPSC Staff authorizing Cleco Power to recover the existing deferred mining cost balance, including interest, over 11.5 years. In connection with its 2009 approval of the Oxbow Lignite Mine acquisition, the LPSC agreed to discontinue benchmarking and the corresponding potential to defer future lignite mining costs while preserving the previously authorized recovery of the legacy deferred fuel balance. At December 31, 2018, and 2017, Cleco Power had $1.3 million and $3.8 million, respectively, deferred as a regulatory asset.

IRP

In accordance with the General Order in LPSC Docket No. R-30021, on October 20, 2017, Cleco Power filed a request with the LPSC to initiate an IRP process. On February 20, 2018, Cleco Power filed the data assumptions to be used in its IRP analysis. The IRP process includes conducting stakeholder meetings and receiving feedback from stakeholders. The first stakeholder meeting was held on April 5, 2018. Comments from the stakeholders were filed on June 5, 2018. Cleco Power has responded to multiple sets of data requests. Cleco Power filed a draft IRP report on January 29, 2019, and expects to file the final report no later than August 30, 2019, with final LPSC approval expected in early 2020.

Service Quality Plan (SQP)

In October 2015, the LPSC proposed an SQP containing 21 requirements for Cleco Power. The SQP has provisions relating to employee headcount, customer service, reliability, vegetation management, and reporting. In April 2016, the SQP was approved by the LPSC. The SQP will remain in effect until 2021. Prior to the expiration of the SQP, a new five-year program must be negotiated and submitted to the LPSC for approval. Cleco Power filed its annual monitoring report on March 29, 2018.

Franchises

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

Recent Authoritative Guidance

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

RISK OVERVIEW

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

Cleco Power evaluates derivatives and hedging activities to determine whether market risk-sensitive instruments and positions are required to be marked-to-market. When positions close, actual gains or losses are included in the FAC and reflected on customers' bills as a component of the FAC.

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

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

Access to capital markets is a significant source of funding for both short- and long-term capital requirements not satisfied by operating cash flows. Future actions or inactions of the federal government, including a failure to increase the government debt limit, could increase the actual or perceived risk that the U.S. may not pay its obligations when due and may disrupt financial markets, including capital markets, potentially limiting availability and increasing costs of capital. The inability to raise capital on favorable terms could negatively affect Cleco's ability to maintain and expand its businesses. After assessing the current operating performance, liquidity, and credit ratings of Cleco Holdings and Cleco Power, management believes that Cleco will have access to the capital markets at prevailing market rates for companies with comparable credit ratings. Cleco Holdings and Cleco Power pay fees and interest under their respective credit facilities based on the highest rating held. For more information, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Liquidity and Capital Resources — General Considerations and Credit-Related Risks."

Interest Rate Risks

Cleco monitors its mix of fixed- and variable-rate debt obligations in light of changing market conditions and from time to time may alter that mix, for example, refinancing balances outstanding under its variable-rate credit facility with fixed-rate debt. Calculations of the changes in fair market value and interest expense of the debt securities are made over a one-year period.

Sensitivity to changes in interest rates for variable-rate obligations is computed by assuming a 1% change in the current interest rate applicable to such debt.
At December 31, 2018, Cleco Holdings had no debt outstanding under its $100.0 million credit facility. The borrowing costs under Cleco Holdings' credit facility are equal to LIBOR plus 1.75% or ABR plus 0.75%, plus commitment fees of 0.275%.
At December 31, 2018, Cleco Holdings had a $300.0 million long-term variable rate bank term loan outstanding. Amounts outstanding under the bank term loan bear interest at LIBOR plus 1.625%. At December 31, 2018, the all-in rate was 3.08%. Each 1% increase in the interest rate applicable to such debt would result in a decrease in Cleco Holdings' pretax earnings of $3.0 million.
For information on variable-rate debt related to Cleco Power, see "— Cleco Power."

Commodity Price Risks
Management believes Cleco has controls in place to minimize the risks involved in its financial and energy commodity activities. Independent controls over energy commodity functions consist of a middle office (risk management), a back office (accounting), and regulatory compliance staff. All forward commodity positions have established risk limits and are monitored through a daily market report that identifies the VaR, current market conditions, and concentration of energy market positions.
Cleco Power provides fuel for generation and purchases power to meet the power demands of customers. Cleco Power may enter into positions to mitigate the volatility in customer fuel costs, as encouraged by various LPSC orders. These positions would be marked-to-market with the resulting gain or loss recorded on the balance sheet as a component of the accumulated deferred fuel asset or liability and a component of the energy risk management assets or liabilities. When these positions close, actual gains or losses would be included in the FAC and reflected in customers' bills as a component of the fuel charge. There were no open natural gas positions at December 31, 2018. Cleco Power is currently working with the LPSC to establish a natural gas hedging pilot program. For more information on the program, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 2 — Summary of Significant Accounting Policies — Risk Management."
Cleco Power purchases FTRs in auctions facilitated by MISO. The majority of its FTRs are purchased in annual auctions during the second quarter, but Cleco Power may purchase additional FTRs in monthly auctions. FTRs are derivative instruments which represent economic hedges of future congestion charges that will be incurred in serving Cleco Power's customer load. FTRs are not designated as hedging instruments for accounting purposes. Cleco Power records FTRs at their estimated fair value when purchased. Each accounting period, Cleco Power adjusts the carrying value of FTRs to their estimated fair value based on the most recent MISO FTR auction prices. Unrealized gains or losses on FTRs held by Cleco Power are included in Accumulated deferred fuel on Cleco Power's Consolidated Balance Sheets.

Realized gains or losses on settled FTRs are recorded in Fuel used for electric generation on Cleco Power's Consolidated Statements of Income. At December 31, 2018, Cleco Power's Consolidated Balance Sheets reflected open FTR positions of
$23.4 million in Energy risk management assets and $0.5 million in Energy risk management liabilities. For more information on FTRs, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 7 — Fair Value Accounting — Commodity Contracts."

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

Cleco Power may enter into various fixed- and variable-rate debt obligations. Please refer to "— Interest Rate Risks" for a discussion of how Cleco Power monitors its mix of fixed-

and variable-rate debt obligations and the manner of
calculating changes in fair market value and interest expense of its debt obligations.

At December 31, 2018, Cleco Power had no variable-rate debt outstanding.

At December 31, 2018, Cleco Power had no debt outstanding under its $300.0 million credit facility. The borrowing costs under the Cleco Power credit facility are equal to LIBOR plus 1.125% or ABR plus 0.125%, plus commitment fees of 0.125%.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Board of Managers and Member of
Cleco Corporate Holdings LLC

Opinion on the Financial Statements
We have audited the accompanying consolidated balance sheets of Cleco Corporate Holdings LLC and its subsidiaries (Successor and "the Company") as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the years ended December 31, 2018 and 2017 and for the period April 13, 2016 to December 31, 2016, including the related notes and financial statement schedules listed in the index appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years ended December 31, 2018 and 2017 and for the period April 13, 2016 to December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion
These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.
We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to

obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.
Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that

our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
New Orleans, Louisiana
February 26, 2019

We have served as the Company's auditor since 2016.

Report of Independent Registered Public Accounting Firm

To the Board of Managers and Member of
Cleco Corporate Holdings LLC

In our opinion, the accompanying consolidated statements of income, comprehensive income, changes in equity and cash flows present fairly, in all material respects, the results of operations and cash flows of Cleco Corporation and its subsidiaries (Predecessor) for the period January 1, 2016 to April 12, 2016 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15(a)(2) for the period January 1, 2016 to April 12, 2016 present fairly, in all material respects, the information set forth therein when read in conjunction with the consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audit. We conducted our audit of these financial statements in

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

/s/ PricewaterhouseCoopers LLP
New Orleans, Louisiana
February 22, 2017

CLECO

Consolidated Statements of Income

(THOUSANDS)	SUCCESSOR FOR THE YEAR ENDED DEC. 31, 2018	FOR THE YEAR ENDED DEC. 31, 2017	APR. 13, 2016 - DEC. 31, 2016	PREDECESSOR JAN. 1, 2016 - APR. 12, 2016
Operating revenue				
Electric operations	$1,181,907	$1,097,632	$802,592	$ 281,154
Other operations	82,332	79,580	51,562	19,080
Gross operating revenue	1,264,239	1,177,212	854,154	300,234
Electric customer credits	(33,195)	(1,566)	(1,149)	(364)
Operating revenue, net	1,231,044	1,175,646	853,005	299,870
Operating expenses				
Fuel used for electric generation	382,556	339,346	250,142	96,378
Power purchased for utility customers	168,180	152,913	92,337	27,249
Other operations and maintenance	197,038	197,610	138,298	59,929
Depreciation and amortization	170,414	166,854	116,990	44,076
Taxes other than income taxes	48,791	48,546	35,543	14,611
Merger transaction and commitment costs	19,514	5,152	174,786	34,912
Gain on sale of assets	(6)	(2)	—	(1,095)
Total operating expenses	986,487	910,419	808,096	276,060
Operating income	244,557	265,227	44,909	23,810
Interest income	6,073	1,424	840	265
Allowance for equity funds used during construction	14,159	8,320	3,735	723
Other income	1,515	6,474	3,350	870
Other expense	(15,843)	(13,373)	(10,003)	(4,037)
Interest charges				
Interest charges, including amortization of debt issuance costs, premiums, and discounts, net	131,348	125,200	90,852	22,330
Allowance for borrowed funds used during construction	(4,706)	(2,287)	(1,086)	(207)
Total interest charges	126,642	122,913	89,766	22,123
Income (loss) before income taxes	123,819	145,159	(46,935)	(492)
Federal and state income tax expense (benefit)	29,382	7,079	(22,822)	3,468
Net income (loss)	$94,437	$138,080	$(24,113)	$ (3,960)

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

CLECO

Consolidated Statements of Comprehensive Income

	SUCCESSOR			PREDECESSOR
(THOUSANDS)	FOR THE YEAR ENDED DEC. 31, 2018	FOR THE YEAR ENDED DEC. 31, 2017	APR. 13, 2016 - DEC. 31, 2016	JAN. 1, 2016 - APR. 12, 2016
Net income (loss)	$94,437	$138,080	$(24,113)	$ (3,960)
Other comprehensive income (loss), net of tax				
Postretirement benefits gain (loss) (net of tax expense of $1,868, tax benefit of $2,764, and tax expense of $938 and $367, respectively)	5,296	(4,421)	1,500	587
Amortization of interest rate derivatives to earnings (net of tax expense of $0, $0, $0, and $37, respectively)	—	—	—	60
Total other comprehensive income (loss), net of tax	5,296	(4,421)	1,500	647
Comprehensive income (loss), net of tax	$99,733	$133,659	$(22,613)	$ (3,313)

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

CLECO

Consolidated Balance Sheets

(THOUSANDS)	AT DEC. 31, 2018	2017
Assets		
Current assets		
Cash and cash equivalents	$110,175	$119,040
Restricted cash and cash equivalents	11,241	13,081
Customer accounts receivable (less allowance for doubtful accounts of $814 in 2018 and $1,457 in 2017)	50,043	60,117
Other accounts receivable	27,196	30,806
Unbilled revenue	35,314	36,398
Fuel inventory, at average cost	82,836	87,520
Materials and supplies, at average cost	92,671	85,404
Energy risk management assets	23,355	7,396
Accumulated deferred fuel	20,112	13,980
Cash surrender value of company-/trust-owned life insurance policies	80,391	83,117
Prepayments	7,911	9,050
Regulatory assets	22,461	24,670
Other current assets	1,256	1,146
Total current assets	564,962	571,725
Property, plant, and equipment		
Property, plant, and equipment	3,728,477	3,594,525
Accumulated depreciation	(303,727)	(192,348)
Net property, plant, and equipment	3,424,750	3,402,177
Construction work in progress	354,045	186,629
Total property, plant, and equipment, net	3,778,795	3,588,806
Equity investment in investee	18,172	18,172
Goodwill	1,490,797	1,490,797
Prepayments	2,251	1,887
Restricted cash and cash equivalents	18,670	20,081
Note receivable	15,829	—
Regulatory assets	425,330	432,358
Intangible assets	84,307	114,850
Tax credit fund investment, net	—	4,355
Other deferred charges	37,701	35,351
Total assets	$6,436,814	$6,278,382

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

(Continued on next page)

CLECO

Consolidated Balance Sheets

(THOUSANDS)	AT DEC. 31, 2018	2017
Liabilities and member's equity		
Liabilities		
Current liabilities		
Long-term debt and capital leases due within one year	$21,128	$19,193
Accounts payable	156,589	147,562
Customer deposits	61,736	58,582
Provision for rate refund	35,842	4,206
Taxes payable, net	43,674	22,698
Interest accrued	15,828	14,703
Energy risk management liabilities	468	352
Regulatory liabilities - other	2,496	—
Deferred compensation	10,753	12,132
Other current liabilities	30,536	20,926
Total current liabilities	379,050	300,354
Long-term liabilities and deferred credits		
Accumulated deferred federal and state income taxes, net	608,030	614,812
Accumulated deferred investment tax credits	1,853	2,089
Postretirement benefit obligations	249,264	242,135
Regulatory liabilities - other	2,496	—
Regulatory liabilities - deferred taxes, net	155,537	140,426
Restricted storm reserve	15,485	14,469
Other deferred credits	25,874	31,635
Total long-term liabilities and deferred credits	1,058,539	1,045,566
Long-term debt and capital leases, net	2,874,485	2,836,105
Total liabilities	4,312,074	4,182,025
Commitments and contingencies (Note 16)		
Member's equity		
Membership interest	2,069,376	2,069,376
Retained earnings	53,578	29,902
Accumulated other comprehensive income (loss)	1,786	(2,921)
Total member's equity	2,124,740	2,096,357
Total liabilities and member's equity	$6,436,814	$6,278,382

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

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Consolidated Statements of Cash Flows

(THOUSANDS)	SUCCESSOR FOR THE YEAR ENDED DEC. 31, 2018	FOR THE YEAR ENDED DEC. 31, 2017	APR. 13, 2016 - DEC. 31, 2016	PREDECESSOR JAN. 1, 2016 - APR. 12, 2016
Operating activities				
Net income (loss)	$94,437	$138,080	$(24,113)	$ (3,960)
Adjustments to reconcile net income (loss) to net cash provided by operating activities				
Depreciation and amortization	187,426	186,326	141,544	45,869
Gain on sales of assets	(6)	(2)	—	(1,095)
Provision for doubtful accounts	797	2,778	4,473	1,212
Unearned compensation expense	5,837	3,745	1,147	3,276
Allowance for equity funds used during construction	(14,159)	(8,320)	(3,735)	(723)
Deferred income taxes	6,543	(41,966)	(21,053)	2,219
Deferred fuel costs	(18,549)	11,909	(8,192)	977
Cash surrender value of company-/trust-owned life insurance	2,726	(5,892)	(2,561)	(840)
Changes in assets and liabilities				
Accounts receivable	3,123	(25,584)	(21,537)	(1,865)
Unbilled revenue	1,084	(2,129)	(837)	563
Fuel inventory and materials and supplies	(2,981)	(44,995)	2,880	19,312
Prepayments	153	2,852	(2,514)	2,395
Accounts payable	18,898	14,705	5,183	8,348
Customer deposits	13,757	12,381	7,333	3,342
Provision for merger commitments	(3,273)	(12,971)	21,964	—
Postretirement benefit obligations	4,646	4,884	3,750	9,746
Regulatory assets and liabilities, net	3,032	12,531	13,750	5,178
Other deferred accounts	(9,748)	(8,380)	(9,441)	6,878
Taxes accrued	20,976	23,118	(24,210)	10,820
Interest accrued	1,124	(582)	(11,104)	17,909
Deferred compensation	(1,521)	308	(799)	(793)
Other operating	3,439	2,632	(2,038)	1,012
Net cash provided by operating activities	317,761	265,428	69,890	129,780
Investing activities				
Additions to property, plant, and equipment	(291,061)	(236,932)	(144,444)	(42,392)
Allowance for equity funds used during construction	14,159	8,320	3,735	723
Proceeds from sale of property, plant, and equipment	995	17,499	766	1,932
Reimbursement for property loss	1,375	187	3,159	53
Contributions to equity investment in investee	—	—	—	(2,450)
Return of equity investment in tax credit fund	2,775	7,502	901	476

Issuance of note receivable	(16,800)	—	—	—
Other investing	397	(130)	622	—
Net cash used in investing activities	(288,160)	(203,554)	(135,261)	(41,658)

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

(Continued on next page)

CLECO

Consolidated Statements of Cash Flows

(THOUSANDS)	SUCCESSOR FOR THE YEAR ENDED DEC. 31, 2018		SUCCESSOR FOR THE YEAR ENDED DEC. 31, 2017		SUCCESSOR APR. 13, 2016 - DEC. 31, 2016	PREDECESSOR JAN. 1, 2016 - APR. 12, 2016
Financing activities						
Draws on credit facilities	—		179,000		15,000	3,000
Payments on credit facilities	—		(179,000)		(15,000)	(10,000)
Issuances of long-term debt	50,000		125,000		1,680,000	—
Repayments of long-term debt	(19,193)		(17,896)		(1,668,268)	(8,546)
Payments for long-term debt prepayment costs	—		—		(18,569)	—
Payment of financing costs	(791)		(463)		(8,655)	(43)
Dividends paid on common stock	—		—		(572)	(24,579)
Contribution from member	—		—		100,720	—
Distributions to member	(71,350)		(84,065)		(88,765)	—
Other financing	(383)		(1,819)		(1,890)	(717)
Net cash (used in) provided by financing activities	(41,717)		20,757		(5,999)	(40,885)
Net (decrease) increase in cash, cash equivalents, restricted cash, and restricted cash equivalents	(12,116)		82,631		(71,370)	47,237
Cash, cash equivalents, restricted cash, and restricted cash equivalents at beginning of period	152,202	(1)	69,571		140,941	93,704
Cash, cash equivalents, restricted cash, and restricted cash equivalents at end of period	$140,086	(2)	$152,202	(1)	$69,571	$ 140,941
Supplementary cash flow information						
Interest paid, net of amount capitalized	$124,154		$118,009		$97,927	$ 2,478
Income taxes paid (refunded), net	$272		$(6)		$4,263	$ (481)
Supplementary non-cash investing and financing activities						
Accrued additions to property, plant, and equipment	$56,450		$31,083		$17,599	$ 10,619
Non-cash additions to property, plant, and equipment	$1,224		$3,015		$—	$ —
Incurrence of capital lease obligation - barges	$16,800		$—		$—	$ —

(1) Includes cash and cash equivalents of $119,040, current restricted cash and cash equivalents of $13,081, and non-current restricted cash and cash equivalents of $20,081.
(2) Includes cash and cash equivalents of $110,175, current restricted cash and cash equivalents of $11,241, and non-current restricted cash and cash equivalents of $18,670.

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

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CLECO

Consolidated Statements of Changes in Equity

(THOUSANDS)	COMMON STOCK[1]/ MEMBERSHIP INTEREST	RETAINED EARNINGS/ (ACCUMULATED DEFICIT)	AOCI	TOTAL SHAREHOLDERS'/ MEMBER'S EQUITY
PREDECESSOR				
Balances, Dec. 31, 2015	$ 456,412	$ 1,245,014	$ (26,585)	$ 1,674,841
Common stock issued for compensatory plans	(1,277)	—	—	(1,277)
Dividends on common stock, $0.40 per share	—	(24,190)	—	(24,190)
Net loss	—	(3,960)	—	(3,960)
Other comprehensive income, net of tax	—	—	647	647
Balances, Apr. 12, 2016	$ 455,135	$ 1,216,864	$ (25,938)	$ 1,646,061
SUCCESSOR				
Balances, Apr. 13, 2016[2]	$ 2,158,141	$ —	$ —	$ 2,158,141
Distributions to member	(88,765)	—	—	(88,765)
Net loss	—	(24,113)	—	(24,113)
Other comprehensive income, net of tax	—	—	1,500	1,500
Balances, Dec. 31, 2016	$ 2,069,376	$ (24,113)	$ 1,500	$ 2,046,763
Distributions to member	—	(84,065)	—	(84,065)
Net income	—	138,080	—	138,080
Other comprehensive loss, net of tax	—	—	(4,421)	(4,421)
Balances, Dec. 31, 2017	$ 2,069,376	$ 29,902	$ (2,921)	$ 2,096,357
Distributions to member	—	(71,350)	—	(71,350)
Net income	—	94,437	—	94,437
Other comprehensive income, net of tax	—	—	5,296	5,296
Reclassification of effect of tax rate change	—	589	(589)	—
Balances, Dec. 31, 2018	$ 2,069,376	$ 53,578	$ 1,786	$ 2,124,740

[1]At April 12, 2016, and December 31, 2015, shareholders' equity of the predecessor company included $61.1 million of common stock. At April 12, 2016, and December 31, 2015, shareholders' equity of the predecessor company included premium on common stock of $414.6 million and $418.5 million, respectively. At April 12, 2016, and December 31, 2015, shareholders' equity of the predecessor company included treasury stock of $20.5 million and $23.2 million, respectively.
[2]The April 13, 2016, beginning balance of the successor company differs from the April 12, 2016, ending balances of the predecessor company due to acquisition accounting adjustments related to the 2016 Merger.
The accompanying notes are an integral part of the
Consolidated Financial Statements.

Report of Independent Registered Public Accounting Firm

To the Board of Managers and Member of
Cleco Power LLC

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Cleco Power LLC and its subsidiaries ("the Company") as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, changes in member's equity, and cash flows for each of the three years ended December 31, 2018, including the related notes and financial statement schedules listed in the index appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated

financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
New Orleans, Louisiana
February 26, 2019

We have served as the Company’s auditor since 2016.

CLECO POWER

Consolidated Statements of Income

	FOR THE YEAR ENDED DEC. 31,		
(THOUSANDS)	2018	2017	2016
Operating revenue			
Electric operations	$1,191,587	$1,108,389	$1,091,229
Other operations	82,330	77,522	68,573
Affiliate revenue	874	851	884
Gross operating revenue	1,274,791	1,186,762	1,160,686
Electric customer credits	(33,195)	(1,566)	(1,513)
Operating revenue, net	1,241,596	1,185,196	1,159,173
Operating expenses			
Fuel used for electric generation	382,556	339,346	346,520
Power purchased for utility customers	168,180	152,913	119,586
Other operations and maintenance	202,556	202,738	203,452
Depreciation and amortization	162,069	158,415	153,393
Taxes other than income taxes	47,267	46,539	48,287
Merger commitment costs	—	—	151,501
Gain on sale of asset	(4)	—	(1,095)
Total operating expenses	962,624	899,951	1,021,644
Operating income	278,972	285,245	137,529
Interest income	5,052	1,283	860
Allowance for equity funds used during construction	14,159	8,320	4,458
Other income	2,742	2,990	1,601
Other expense	(11,441)	(10,407)	(10,505)
Interest charges			
Interest charges, including amortization of debt issuance costs, premiums, and discounts, net	76,009	71,649	77,739
Allowance for borrowed funds used during construction	(4,706)	(2,287)	(1,293)
Total interest charges	71,303	69,362	76,446
Income before income taxes	218,181	218,069	57,497
Federal and state income tax expense	55,924	67,331	18,369
Net income	$162,257	$150,738	$39,128

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

CLECO POWER

Consolidated Statements of Comprehensive Income

	FOR THE YEAR ENDED DEC. 31,		
(THOUSANDS)	2018	2017	2016
Net income	$162,257	$150,738	$39,128
Other comprehensive (loss) income, net of tax:			
Postretirement benefits gain (loss) (net of tax expense of $968, tax benefit of $296, and tax expense of $2,163, respectively)	2,743	(472)	3,459
Amortization of interest rate derivatives to earnings (net of tax expense of $90, $132, and $132, respectively)	254	211	211
Total other comprehensive (loss) income, net of tax	2,997	(261)	3,670
Comprehensive income, net of tax	$165,254	$150,477	$42,798

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

CLECO POWER

Consolidated Balance Sheets

	AT DEC. 31,	
(THOUSANDS)	2018	2017
Assets		
Utility plant and equipment		
Property, plant, and equipment	$5,015,004	$4,893,484
Accumulated depreciation	(1,804,563)	(1,712,590)
Net property, plant, and equipment	3,210,441	3,180,894
Construction work in progress	351,828	185,507
Total utility plant and equipment, net	3,562,269	3,366,401
Current assets		
Cash and cash equivalents	31,987	69,816
Restricted cash and cash equivalents	11,241	13,081
Customer accounts receivable (less allowance for doubtful accounts of $814 in 2018 and $1,457 in 2017)	50,043	60,117
Accounts receivable - affiliate	3,318	1,355
Other accounts receivable	24,523	30,680
Unbilled revenue	35,314	36,398
Fuel inventory, at average cost	82,836	87,520
Materials and supplies, at average cost	92,671	85,404
Energy risk management assets	23,355	7,396
Accumulated deferred fuel	20,112	13,980
Cash surrender value of company-owned life insurance policies	20,497	20,278
Prepayments	6,143	7,236
Regulatory assets	13,603	15,812
Other current assets	1,162	475
Total current assets	416,805	449,548
Equity investment in investee	18,172	18,172
Prepayments	2,251	1,887
Restricted cash and cash equivalents	18,649	20,060
Note receivable	15,829	—
Regulatory assets	261,569	257,408
Intangible asset	21,093	41,701
Other deferred charges	32,419	33,564
Total assets	$4,349,056	$4,188,741

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

(Continued on next page)

CLECO POWER

Consolidated Balance Sheets

	AT DEC. 31,	
(THOUSANDS)	2018	2017
Liabilities and member's equity		
Member's equity	$1,594,533	$1,550,679
Long-term debt and capital leases, net	1,387,774	1,341,475
Total capitalization	2,982,307	2,892,154
Current liabilities		
Long-term debt and capital leases due within one year	21,128	19,193
Accounts payable	146,314	134,374
Accounts payable - affiliate	7,843	8,697
Customer deposits	61,736	58,582
Provision for rate refund	35,842	4,206
Taxes payable, net	48,177	31,611
Interest accrued	8,252	7,083
Energy risk management liabilities	468	352
Regulatory liabilities - other	2,496	—
Other current liabilities	22,263	15,820
Total current liabilities	354,519	279,918
Commitments and contingencies (Note 16)		
Long-term liabilities and deferred credits		
Accumulated deferred federal and state income taxes, net	630,765	656,362
Accumulated deferred investment tax credits	1,853	2,089
Postretirement benefit obligations	182,721	173,747
Regulatory liabilities - other	2,496	—
Regulatory liabilities - deferred taxes, net	155,537	140,426
Restricted storm reserve	15,485	14,469
Other deferred credits	23,373	29,576
Total long-term liabilities and deferred credits	1,012,230	1,016,669
Total liabilities and member's equity	$4,349,056	$4,188,741

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

CLECO POWER

Consolidated Statements of Cash Flows

	FOR THE YEAR ENDED DEC. 31,		
(THOUSANDS)	2018	2017	2016
Operating activities			
Net income	$162,257	$150,738	$39,128
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	168,248	165,200	152,978
Gain on sales of asset	(4)	—	(1,095)
Provision for doubtful accounts	797	2,677	5,512
Unearned compensation expense	1,873	1,972	1,572
Allowance for equity funds used during construction	(14,159)	(8,320)	(4,458)
Deferred income taxes	(11,545)	(34,191)	20,492
Deferred fuel costs	(18,549)	11,909	(7,215)
Changes in assets and liabilities			
Accounts receivable	3,967	(25,696)	(23,306)
Accounts receivable, affiliate	426	1,865	2,612
Unbilled revenue	1,084	(2,129)	(274)
Fuel inventory and materials and supplies	(2,981)	(44,995)	22,192
Prepayments	107	2,745	228
Accounts payable	22,419	11,005	9,140
Accounts payable, affiliate	(4,700)	1,349	(3,639)
Customer deposits	13,757	12,381	10,675
Provision for merger commitments	(3,273)	(12,971)	21,964
Postretirement benefit obligations	4,252	4,849	5,076
Regulatory assets and liabilities, net	1,044	10,544	17,506
Other deferred accounts	(5,421)	(8,137)	(3,249)
Taxes accrued	16,566	44,101	(29,535)
Interest accrued	1,169	(59)	(671)
Other operating	2,354	2,241	(1,308)
Net cash provided by operating activities	339,688	287,078	234,325
Investing activities			
Additions to property, plant, and equipment	(289,153)	(235,252)	(186,143)
Allowance for equity funds used during construction	14,159	8,320	4,458
Proceeds from sale of property, plant, and equipment	995	4,078	2,698
Reimbursement for property loss	1,375	187	3,212
Issuance of note receivable	(16,800)	—	—
Contributions to equity investment in investee	—	—	(2,450)
Other investing	397	500	622
Net cash used in investing activities	(289,027)	(222,167)	(177,603)

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

(Continued on next page)

CLECO POWER

Consolidated Statements of Cash Flows

	FOR THE YEAR ENDED DEC. 31,		
(THOUSANDS)	2018	2017	2016
Financing activities			
Draws on credit facility	—	106,000	15,000
Payments on credit facility	—	(106,000)	(15,000)
Issuances of long-term debt	50,000	125,000	330,000
Repayments of long-term debt	(19,193)	(17,896)	(326,814)
Payments for long-term debt prepayment costs	—	—	(18,569)
Contribution from member	—	—	50,000
Distributions to member	(121,400)	(135,000)	(110,000)
Other financing	(1,148)	(2,013)	(4,526)
Net cash used in financing activities	(91,741)	(29,909)	(79,909)
Net (decrease) increase in cash, cash equivalents, restricted cash, and restricted cash equivalents	(41,080)	35,002	(23,187)
Cash, cash equivalents, restricted cash, and restricted cash equivalents at beginning of period	102,957 [1]	67,955	91,142
Cash, cash equivalents, restricted cash, and restricted cash equivalents at end of period	$61,877 [2]	$102,957 [1]	$67,955
Supplementary cash flow information			
Interest paid, net of amount capitalized	$70,357	$65,984	$74,016
Income taxes refunded, net	$—	$—	$(485)
Supplementary non-cash investing and financing activities			
Accrued additions to property, plant, and equipment	$55,718	$30,883	$16,755
Non-cash additions to property, plant, and equipment	$1,224	$3,015	$—
Incurrence of capital lease obligation - barges	$16,800	$—	$—

[1] Includes cash and cash equivalents of $69,816, current restricted cash and cash equivalents of $13,081, and non-current restricted cash and cash equivalents of $20,060.
[2] Includes cash and cash equivalents of $31,987, current restricted cash and cash equivalents of $11,241, and non-current restricted cash and cash equivalents of $18,649.

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

CLECO POWER

Consolidated Statements of Changes in Member's Equity

(THOUSANDS)	MEMBER'S EQUITY	AOCI	TOTAL MEMBER'S EQUITY
Balances, Dec. 31, 2015	$1,569,496	$(17,092)	$1,552,404
Contribution from member	50,000	—	50,000
Distributions to member	(110,000)	—	(110,000)
Net income	39,128	—	39,128
Other comprehensive income, net of tax	—	3,670	3,670
Balances, Dec. 31, 2016	$1,548,624	$(13,422)	$1,535,202
Distributions to member	(135,000)	—	(135,000)
Net income	150,738	—	150,738
Other comprehensive loss, net of tax	—	(261)	(261)
Balances, Dec. 31, 2017	$1,564,362	$(13,683)	$1,550,679
Distributions to member	(121,400)	—	(121,400)
Net income	162,257	—	162,257
Other comprehensive income, net of tax	—	2,997	2,997
Reclassification of effect of tax rate change	2,496	(2,496)	—
Balances, Dec. 31, 2018	$1,607,715	$(13,182)	$1,594,533

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

Index to Applicable Notes to the Financial Statements of Registrants

Notes to the Financial Statements

Note 1 — The Company

Cleco is composed of the following:

- Cleco Power, a regulated electric utility subsidiary, which owns nine generating units with a total nameplate capacity of 3,310 MW and serves approximately 291,000 customers in Louisiana through its retail business and supplies wholesale power in Louisiana and Mississippi. Cleco Power also owns a 50% interest in an entity that owns lignite reserves. Cleco Power owns all of the outstanding membership interests in Cleco Katrina/Rita, a special purpose entity that is consolidated with Cleco Power in its financial statements.
- Cleco's other operations consist of the following:
  Cleco Holdings, a holding company,
  Support Group, a shared services subsidiary,

- Diversified Lands, an investment subsidiary, and
- Attala and Perryville, two subsidiaries that owned and operated transmission interconnection facilities prior to the assets being sold by Cleco on December 29, 2017.
- Cleco Cajun, a subsidiary formed to facilitate the Cleco Cajun Transaction. For more information on the transaction, see Note 21 — “Cleco Cajun Transaction.”

On April 13, 2016, Cleco Holdings completed its merger with Merger Sub whereby Merger Sub merged with and into Cleco Corporation, with Cleco Corporation surviving the 2016 Merger, and Cleco Corporation converting to a limited liability company and changing its name to Cleco Holdings, as a direct, wholly owned subsidiary of Cleco Group and an indirect, wholly owned subsidiary of Cleco Partners. As a result, Cleco Corporation is presented as the predecessor entity and Cleco Holdings is presented as the successor entity.

Note 2 — Summary of Significant Accounting Policies

Use of Estimates

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

Principles of Consolidation

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

Reclassifications

Certain reclassifications have been made to the 2017 and 2016 financial statements to conform to the presentation used in the 2018 financial statements. These reclassifications had no effect on Cleco and Cleco Power’s net income, financial condition, or cash flows.

Cleco and Cleco Power’s Consolidated Statements of Income for the years ended December 31, 2017, and 2016, have been retrospectively adjusted by $0.4 million and $7.3 million, respectively, for the reclassification of deferred expenses from Depreciation and amortization to Other operations and maintenance.

Goodwill

Goodwill is the excess of the purchase price (consideration transferred and liabilities assumed) over the estimated fair value of net assets of the acquired business and is not subject to amortization. Goodwill is assessed annually or more often if an event occurs or circumstances change that would indicate the carrying amount may be impaired. For more information on goodwill, see Note 18 — "Intangible Assets and Goodwill."

Intangible Assets
Intangible assets include Cleco Katrina/Rita's right to bill and collect storm recovery charges, fair value adjustments for long-term wholesale power supply agreements, and a fair value adjustment for the valuation of the Cleco trade name. The intangible assets are being amortized over their estimated useful lives in a manner that best reflects the economic benefits derived from such assets. Impairment will be tested if there are events or circumstances that indicate that an impairment analysis should be performed. If such an event or circumstance occurs, intangible impairment testing will be performed prior to goodwill impairment testing. Impairment is calculated as the excess of the asset's carrying amount over its fair value. For more information on intangible assets, see Note 18 — "Intangible Assets and Goodwill."

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

Regulation
Cleco Power is subject to regulation by FERC and the LPSC. Cleco Power complies with the accounting policies and practices prescribed by its regulatory commissions. Cleco Power's retail rates are regulated by the LPSC and its tariffs for transmission services are regulated by FERC. Rates for wholesale power sales are based on market-based rates, pending FERC review of Cleco Power's generation market power analysis. Cleco Power capitalizes or defers certain costs for recovery from customers and recognizes a liability for amounts expected to be returned to customers based on regulatory approval and management's ongoing assessment that it is probable these items will be recovered through the ratemaking process. Regulatory assets and liabilities are amortized consistent with the treatment of the related cost in the ratemaking process. Pursuant to this regulatory approval, Cleco has recorded regulatory assets and liabilities. Any future plan adopted by the LPSC for purposes of transitioning utilities from LPSC regulation to retail competition may affect the regulatory assets and liabilities recorded by Cleco if the criteria for the application of the authoritative guidelines for industry regulated operations cannot continue to be met. At this time, Cleco cannot predict whether any legislation or regulation affecting Cleco will be enacted or adopted and, if enacted, what form such legislation or regulation may take.
For more information regarding the regulatory assets and liabilities recorded by Cleco Power, see Note 5 — "Regulatory Assets and Liabilities."

AROs
Cleco Power recognizes an ARO when there is a legal obligation under existing or enacted law, statute, written or oral contract, or by legal construction under the doctrine of

promissory estoppel to incur costs to remove an asset when the asset is retired. These guidelines also require an ARO which is conditional on a future event to be recorded even if the event has not yet occurred.
Cleco Power recognizes AROs at the present value of the projected liability in the period in which it is incurred, if a reasonable estimate of fair value can be made. The liability is accreted to its present value each accounting period. Cleco Power defers this accretion as a regulatory asset based on its determination that these costs can be collected from customers. Concurrent with the recognition of the liability, these costs are capitalized to the related property,

plant, and equipment asset. These capitalized costs are depreciated over the same period as the related property asset. Cleco Power also defers the current depreciation of the asset retirement cost as a regulatory asset.
In March 2018, Cleco Power recorded a $1.5 million decrease to its ARO related to the retirement of certain ash management areas. Cleco Power will continue to gather additional data in future periods and will make decisions about compliance strategies and the timing of closure activities. As this additional information becomes available, Cleco Power will update the ARO balance for these changes in estimates. At December 31, 2018, management's analysis confirmed that no additional adjustments were needed to update Cleco Power's ARO balance. For more information on Cleco Power's current AROs, see Note 5 — "Regulatory Assets and Liabilities — AROs."

Property, Plant, and Equipment
Property, plant, and equipment consists primarily of regulated utility generation and energy transmission and distribution assets. Regulated assets, utilized primarily for retail operations and electric transmission and distribution, are stated at the cost of construction, which includes certain materials, labor, payroll taxes and benefits, administrative and general costs, and the estimated cost of funds used during construction. Jointly owned assets are reflected in property, plant, and equipment at Cleco Power's share of the cost to construct or purchase the assets. For information on jointly owned assets, see Note 6 — "Jointly Owned Generation Units."
Most of the carrying values of Cleco's assets were determined to be stated at fair value at the 2016 Merger date, considering that most of these assets are subject to regulation by the LPSC and FERC. A fair value adjustment was made to record the stepped-up basis for the Coughlin assets, because Cleco Power is able to earn a return on and recover these costs from customers. At the date of the 2016 Merger, the gross balance of fixed depreciable assets at Cleco was adjusted to be net of accumulated depreciation, as no accumulated depreciation existed on the date of the 2016 Merger. Since pushdown accounting was not elected at the Cleco Power level, Cleco Power retained its accumulated depreciation. For more information about 2016 Merger related adjustments to property, plant, and equipment, see Note 4 — "Business Combinations."
Cleco's cost of improvements to property, plant, and equipment is capitalized. Costs associated with repairs and major maintenance projects are expensed as incurred. Cleco capitalizes the cost to purchase or develop software for internal use. The amounts of unamortized computer software costs on Cleco's Consolidated Balance Sheets at December 31, 2018, and 2017 were $7.2 million and $7.9 million, respectively. The amounts of unamortized computer

software costs on Cleco Power's Consolidated Balance Sheets at December 31, 2018, and 2017 were $5.8 million and $6.6 million, respectively. Amortization of capitalized computer software costs charged to expense in Cleco and Cleco Power's Consolidated Statements of Income for the years ending December 31, 2018, 2017, and 2016 is shown in the following tables:

Cleco

	SUCCESSOR			PREDECESSOR
(THOUSANDS)	FOR THE YEAR ENDED DEC. 31, 2018	FOR THE YEAR ENDED DEC. 31, 2017	APR. 13, 2016 - DEC. 31, 2016	JAN. 1, 2016 - APR. 12, 2016
Amortization	$2,154	$ 2,367	$2,351	$ 921

Cleco Power

	FOR THE YEAR ENDED DEC. 31,		
(THOUSANDS)	2018	2017	2016
Amortization	$1,607	$1,887	$2,405

Upon retirement or disposition, the cost of Cleco Power's depreciable plant and the cost of removal, net of salvage value, are charged to accumulated depreciation. For Cleco's other depreciable assets, upon disposition or retirement, the difference between the net book value of the property and any proceeds received for the property is recorded as a gain or loss on asset disposition on Cleco's Consolidated Statements of Income. Any cost incurred to remove the asset is charged to expense. Annual depreciation provisions expressed as a percentage of average depreciable property for Cleco Power for 2018, 2017, and 2016 was 2.80%, 2.72%, and 2.68%, respectively.

Depreciation on property, plant, and equipment is calculated primarily on a straight-line basis over the useful lives of the assets, as follows:

CATEGORY	YEARS
Utility Plants	
Generation	10 –95
Distribution	15 –50
Transmission	5 –55
Other utility plant	5 –45
Other property, plant, and equipment	5 –45

At December 31, 2018, and 2017, Cleco and Cleco Power's property, plant, and equipment consisted of the following:

Cleco

	AT DEC. 31,	
(THOUSANDS)	2018	2017
Utility plants		
Generation	$1,949,042	$1,908,344
Distribution	1,081,650	1,015,472
Transmission	519,269	512,428
Other utility plant	174,010	153,900
Other property, plant, and equipment	4,506	4,381

Total property, plant, and equipment	3,728,477	3,594,525
Accumulated depreciation	(303,727)	(192,348)
Net property, plant, and equipment	$3,424,750	$3,402,177

Cleco Power

	AT DEC. 31,	
(THOUSANDS)	2018	2017
Regulated utility plants		
Generation	$2,476,733	$2,442,987
Distribution	1,523,885	1,462,193
Transmission	731,432	725,199
Other utility plant	282,954	263,105
Total property, plant, and equipment	5,015,004	4,893,484
Accumulated depreciation	(1,804,563)	(1,712,590)
Net property, plant, and equipment	$3,210,441	$3,180,894

During 2018, Cleco Power's regulated utility property, plant, and equipment increased primarily due to general installation and rehabilitation of transmission, distribution, and generation assets.

Deferred Project Costs

Cleco Power defers costs related to the initial stage of a construction project during which time the feasibility of the construction of property, plant, and equipment is being investigated. At December 31, 2018, and 2017, Cleco Power had deferred $1.4 million and $3.2 million, respectively, for projects that are in the initial stages of development. These amounts are classified as Other deferred charges on Cleco Power's Consolidated Balance Sheets.

Fuel Inventory and Materials and Supplies

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

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

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

Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. It is the policy of management to review the outstanding accounts receivable monthly, as well as the bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts. Account balances are charged off against the allowance when management determines it is probable the receivable will not be recovered.

Reserves

Cleco maintains property insurance on generating stations, buildings and contents, and substations. Cleco is self-insured for any damage to transmission and distribution lines. To mitigate the exposure to potential financial loss for damage to lines, Cleco maintains an LPSC-approved funded storm reserve.

Cleco Power also maintains liability and workers' compensation insurance to mitigate financial losses due to injuries and damages to the property of others. Cleco's insurance covers claims that exceed certain self-insured limits. For claims that do not meet the limits to be covered by

insurance, Cleco Power maintains reserves. At December 31, 2018, and 2017, the general liability and workers compensation reserves together were $4.8 million and $4.5 million, respectively.
Additionally, Cleco maintains directors and officers insurance to protect managers from claims which may arise from their decisions and actions taken within the scope of their regular duties.

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

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

	AT DEC. 31,	
(THOUSANDS)	2018	2017
Current		
Cleco Katrina/Rita's storm recovery bonds	$9,505	$8,597
Cleco Power's charitable contributions	1,200	1,200
Cleco Power's rate credit escrow	536	3,284
Total current	11,241	13,081
Non-current		
Diversified Lands' mitigation escrow	21	21
Cleco Power's future storm restoration costs	15,391	14,456
Cleco Power's charitable contributions	2,753	3,575
Cleco Power's rate credit escrow	505	2,029
Total non-current	18,670	20,081
Total restricted cash and cash equivalents	$29,911	$33,162

Cleco Power

	AT DEC. 31,	
(THOUSANDS)	2018	2017
Current		
Cleco Katrina/Rita's storm recovery bonds	$9,505	$8,597
Charitable contributions	1,200	1,200
Rate credit escrow	536	3,284
Total current	11,241	13,081
Non-current		
Future storm restoration costs	15,391	14,456
Charitable contributions	2,753	3,575
Rate credit escrow	505	2,029
Total non-current	18,649	20,060
Total restricted cash and cash equivalents	$29,890	$33,141

Cleco Katrina/Rita has the right to bill and collect storm restoration costs from Cleco Power's customers. As cash is collected, it is restricted for payment of administration fees, interest, and principal on storm recovery bonds. The change from December 31, 2017, to December 31, 2018, was due to Cleco Katrina/Rita collecting $22.7 million net of administration fees, partially offset by $19.2 million for scheduled storm recovery bond principal payments and $2.6 million for related interest payments.

Equity Investments
Cleco and Cleco Power account for investments in unconsolidated affiliated companies using the equity method of accounting. The amounts reported on Cleco and Cleco Power's Consolidated Balance Sheets represent assets contributed by Cleco or Cleco Power, plus their share of the net income of the affiliate, less any distributions of earnings (dividends) received from the affiliate. The revenues and expenses (excluding income taxes) of these affiliates are netted and reported on one line item as equity income from investees on Cleco and Cleco Power's Consolidated Statements of Income.
Cleco evaluates for impairments of equity method investments at each balance sheet date to determine if events and circumstances have occurred that indicate a possible other-than-temporary decline in the fair value of the investment and the possible inability to recover the carrying value through operations. Cleco uses estimates of the future cash flows from the investee and observable market transactions in order to calculate fair value and recoverability. An impairment is recognized when an other-than-temporary decline in market value occurs and recovery of the carrying value is not probable. There were no impairments recorded for 2018, 2017, or 2016. For more information on Cleco's equity investments, see Note 14 — "Variable Interest Entities."

Income Taxes
Cleco accounts for income taxes under the asset and liability method. Cleco provides for federal and state income taxes currently payable, as well as for those deferred due to timing differences between reporting income and expenses for financial statement purposes versus tax purposes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted income tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets and liabilities are classified as non-current on Cleco and Cleco Power's Consolidated Balance Sheets. Cleco's income tax expense and related regulatory assets and liabilities could be affected by changes in its assumptions and estimates and by ultimate resolution of assumptions and estimates with taxing authorities. Cleco Group files a federal income tax return for all wholly owned subsidiaries. Cleco Power computes its federal and state income taxes as if it were a stand-alone taxpayer. The LPSC generally requires Cleco Power to flow the effects of state income taxes to customers immediately. The LPSC specifically requires that the state tax benefits associated with the deductions related to certain storm damages be normalized. For more information on income taxes, see Note 11 — "Income Taxes."

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

NMTC Fund
In 2008, Cleco Holdings and the USBCDC formed the NMTC Fund. The purpose of the NMTC Fund was to invest in projects

located in qualified active low-income communities that are underserved by typical debt capital markets. These investments were designed to generate NMTCs and Historical Rehabilitation tax credits. The NMTC Fund was later amended to include renewable energy investments. The majority of the energy investments qualified for grants under Section 1603 of the ARRA. By using the cost method for investments, the gross investment amortization expense of the NMTC Fund was recognized over a ten-year period, which ended in 2018. The grants received under Section 1603, which allowed certain projects to receive a federal grant in lieu of tax credits, and other cash reduced the basis of the investment. Periodic amortization of the investment and the deferred taxes generated by the basis reduction temporary difference were included as components of income tax expense.
For more information, see Note 16 — "Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Other Commitments — NMTC Fund."

Accounting for Renewable Energy Tax Credits and Grants Under the ARRA
Cleco and the NMTC Fund elected to receive cash grants under the ARRA for investments in various projects. Cleco elected to reduce the carrying value of the qualifying assets as cash grants were received, which reduced the amount of depreciation expense recognized after the underlying assets were placed in service. Certain cash grants also reduced the tax basis of the underlying assets. Grants received via the NMTC Fund reduced the carrying value of the investment for GAAP, but did not reduce the income tax basis of the investment.

Debt Issuance Costs, Premiums, and Discounts
Issuance costs, premiums, and discounts applicable to debt securities are amortized to interest expense ratably over the lives of the related issuances. Expenses and call premiums related to refinanced Cleco Power debt are deferred and amortized over the life of the new issuance. Debt issuance costs, premiums, and discounts are presented as a direct deduction from the carrying value of the related debt liability.

Revenue and Fuel Costs

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

Unbilled Revenue
Cleco Power accrues estimated revenue monthly for energy used by customers but not yet billed. The monthly estimated unbilled revenue amounts are recorded as unbilled revenue and a receivable. Cleco Power uses actual customer energy consumption data available from AMI to calculate unbilled revenues.

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

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

income statement.

Franchise Fees

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

AFUDC

The capitalization of AFUDC by Cleco Power is a utility accounting practice prescribed by FERC and the LPSC. AFUDC represents the estimated debt and equity costs of capital funds that are necessary to finance construction of new and existing facilities. While cash is not realized currently from such allowance, AFUDC increases the revenue requirement over the same life of the plant through a higher rate base and higher depreciation. Under regulatory practices, a return on and recovery of AFUDC is permitted in setting rates charged for utility services. The composite AFUDC rate, including borrowed and other funds, was 9.58% on a pretax basis (7.08% net of tax) for 2018, 11.07% on a pretax basis (6.81% net of tax) for 2017, and 11.94% on a pretax basis (7.39% net of tax) for 2016.

Fair Value Measurements and Disclosures

Various accounting pronouncements require certain assets and liabilities to be measured at their fair values. Some assets and liabilities are required to be measured at their fair value each reporting period, while others are required to be measured only one time, generally the date of acquisition or debt issuance. Cleco and Cleco Power disclose the fair value of certain assets and liabilities by one of three levels when required for recognition purposes. For more information about fair value levels, see Note 7 — “Fair Value Accounting.”

Risk Management

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

Cleco Power may also enter into risk mitigating positions that would not meet the requirements of a normal-purchase, normal-sale transaction in order to attempt to mitigate the volatility in customer fuel costs. These positions would be marked-to-market with the resulting gain or loss recorded on Cleco and Cleco Power’s Consolidated Balance Sheets as a component of energy risk management assets or liabilities. Such gain or loss would be deferred as a component of deferred fuel assets or liabilities in accordance with regulatory policy. When these positions close, actual gains or losses would be included in the FAC and reflected on customers’ bills as a component of the fuel charge. There were no open natural gas positions at December 31, 2018, or 2017.

In 2015, the LPSC approved a long-term natural gas hedging pilot program that required Cleco Power to establish a proposal for a program that is designed to provide gas price stability for a minimum of five years. This proposal was submitted to the LPSC in July 2017. An ALJ was assigned to the docket and a status conference was held in October 2017. In February 2018, Cleco Power responded to LPSC data requests for the gas hedging docket. Cleco Power is currently awaiting a new procedural schedule to be established for the gas hedging docket.

Cleco Power purchases FTRs in auctions facilitated by MISO. The majority of its FTRs are purchased in annual auctions during the second quarter, but Cleco Power may purchase additional FTRs in monthly auctions. FTRs are derivative instruments which represent economic hedges of future congestion charges that will be incurred in serving Cleco Power’s customer load. FTRs are not designated as hedging instruments for accounting purposes.

Cleco Power records FTRs at their estimated fair value when purchased. Each accounting period, Cleco Power adjusts the carrying value of FTRs to their estimated fair value based on the most recent MISO FTR auction prices. Unrealized gains or losses on FTRs held by Cleco Power are included in Accumulated deferred fuel on Cleco Power’s Consolidated Balance Sheets. Realized gains or losses on settled FTRs are recorded in Fuel used for electric generation on Cleco Power’s Consolidated Statements of Income. For more information on FTRs, see Note 7 — “Fair Value Accounting — Commodity Contracts.”

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

Cleco and Cleco Power may enter into contracts to mitigate the volatility in interest rate risk. These contracts include, but are not limited to, interest rate swaps and treasury rate locks. For the years ended December 31, 2018, and 2017, Cleco did not enter into any contracts to mitigate the volatility in interest rate risk.

Accounting for MISO Transactions

Cleco Power participates in MISO’s Energy and Operating Reserve market where sales and purchases are netted hourly. If the hourly activity nets to sales, the result is reported in Electric operations on Cleco and Cleco Power’s Consolidated Statements of Income. If the hourly activity nets to purchases, the result is reported in Power purchased for utility customers on Cleco and Cleco Power’s Consolidated Statements of Income.

Recent Authoritative Guidance

In February 2016, FASB amended the guidance to account for leases. This guidance is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The adoption of this guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those years. Cleco adopted this new standard on January 1, 2019, using the optional transition method, which allows an entity to recognize a cumulative-effect adjustment to the opening balance of retained earnings at the date of adoption and apply the new disclosure requirements beginning in the period of adoption. The new standard provides a number of optional practical expedients. Cleco has elected the following:

- Transition Elections - Cleco elected the package of practical expedients that permits entities to not reassess prior conclusions about lease identification, lease classification, and initial direct costs under the new standard, as well as the practical expedient that permits entities to not assess existing land easements under the new standard;
- Lessee Accounting Policy Elections - Cleco elected the short-term lease recognition exemption whereby right-of-use (ROU) assets and lease liabilities will not be recognized for leasing arrangements with terms one year or less, and the practical expedient to not separate lease and non-lease components for all classes of underlying assets other than the marine transportation asset class, which includes barges and towboats; and
- Lessor Accounting Policy Election - Cleco elected the practical expedient to account for lease and non-lease components in a contract as a single lease component for all classes of underlying assets. Cleco does not currently have lessor marine transportation agreements, but if any are entered into in the future then the practical expedient to not separate lease and non-lease components will not be elected for this class of underlying asset.

Adoption of this standard resulted in the recognition of ROU assets and lease liabilities for operating leases of $16.6 million and $16.0 million, respectively, as of January 1, 2019. There was no impact to retained earnings as a result of adopting this standard. Adoption of this standard did not materially impact the results of operations, financial condition, or cash flows of the Registrants.

In August 2016, FASB amended the guidance for certain cash flow issues with the objective of reducing existing diversity in practice. This guidance affects the cash flow classification related to certain types of transactions including debt, contingent consideration, proceeds from the settlement of insurance claims, and distributions from equity method investees. The amended guidance was adopted by the Registrants at January 1, 2018. This amendment was applied using a retrospective transition method to each period presented. This guidance impacted the presentation of Cleco and Cleco Power’s cash flow statements for the year ended December 31, 2016, by moving make-whole payments of $18.6 million, which were made in connection with the redemption of $250.0 million of 6.65% senior notes in 2016, from Other deferred accounts to Payments for long-term debt prepayment costs. Also, this amount was removed from Interest paid, net of amount capitalized, in the supplementary cash flow information. This guidance did not impact the results of operations or financial condition of the Registrants.

In November 2016, FASB amended guidance for certain cash flow issues. The amended guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash. Therefore, amounts generally described as restricted cash and cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amended guidance was adopted by the Registrants at January 1, 2018, by moving the presentation of restricted cash and restricted cash equivalents in the statement of cash flows to net cash flows of total cash, cash equivalents, restricted cash, and restricted cash equivalents. This amendment was applied using a retrospective transition method to each period presented. This guidance impacted the presentation of the cash flows statement, as noted above, but did not have an impact on the results of operations or financial condition of the Registrants.

In January 2017, FASB amended the accounting guidance to simplify the measurement of a goodwill impairment loss. The amended guidance eliminates step two of the goodwill impairment test, which requires a hypothetical purchase price allocation to measure goodwill impairment. Under the new guidance, a goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. Cleco elected to early adopt this guidance effective January 1, 2018. Adoption of this guidance did not impact the results of operations, financial condition, or cash flows of the Registrants.

In March 2017, FASB amended guidance related to defined benefit pension and other postretirement benefit plans. The new amendment requires an entity to present service cost in the same line item as other current employee compensation costs and to present the remaining components of net benefit cost in a separate line item outside of operating items. The amendment also allows only the service cost component of net benefit cost to be eligible for capitalization within property, plant, and equipment. The non-service costs capitalized for ratemaking purposes will be reflected as a regulatory asset or liability for GAAP. Cleco adopted this guidance as of January 1, 2018. This amendment was applied retrospectively for the presentation of the service cost in the income statement while the capitalization of the service cost was applied prospectively. This guidance did not have a significant impact on the results of operations, financial condition, or cash flows of the Registrants. The change in presentation for Cleco and Cleco Power was as follows:

Cleco

	SUCCESSOR		PREDECESSOR
(THOUSANDS)	FOR THE YEAR ENDED DEC. 31, 2017	APR. 13, 2016 - DEC. 31, 2016	JAN. 1, 2016 - APR. 12, 2016
Other operations and maintenance	$(11,071)	$(8,618)	$ (3,447)
Other expense	$11,071	$8,618	$ 3,447

Cleco Power

(THOUSANDS)	FOR THE YEAR ENDED DEC. 31, 2017	2016
Other operations and maintenance	$(7,612)	$(8,529)

Other expense	$7,612	$8,529

In February 2018, FASB amended guidance that permits, but does not require, companies to reclassify stranded tax effects from the TCJA from AOCI to retained earnings. The adoption of this guidance is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those years. Management has elected to early adopt. On December 31, 2018, Cleco and Cleco Power reclassed $0.6 million and $2.5 million, respectively, of stranded tax effects associated with the TCJA from AOCI to retained earnings.
In March 2018, FASB issued clarifying guidance regarding a company’s ability to comply with the accounting requirements for the income tax effects of the TCJA in the period of enactment. The guidance clarifies accounting for income taxes if information is not yet available or complete. In December 2018, Cleco recorded its final adjustments related to the TCJA.
In August 2018, FASB issued guidance that allows for the deferral of certain implementation costs incurred in a cloud computing arrangement. The adoption of this guidance is effective for annual reporting periods beginning after December 15, 2019, including interim periods within those years. Early adoption is permitted. Management does not expect this guidance to have significant impact on the results of operations, financial condition, or cash flows of the Registrants.
In August 2018, FASB issued guidance updating the disclosure framework for Defined Benefit Plans. Under the new guidance, entities will no longer be required to disclose the amount in other comprehensive income expected to be recognized as a component of net periodic benefit cost of the next fiscal year or the impact of a one-percentage point increase and a one-percentage point decrease in the assumed health care cost trend. The new framework will require additional disclosure including a narrative description of the reasons for significant gains/losses affecting the benefit obligation. The adoption of this guidance is effective for fiscal years ending after December 15, 2020. Early adoption is permitted. Management does not expect this guidance to have a significant impact on the result of operations, financial condition, or cash flows of Registrants.
In August 2018, FASB issued guidance updating the disclosure framework for Fair Value Measurement. Under the new guidance, entities will no longer be required to disclose the amount of and reasons for transfers between level 1 and level 2 of the fair value hierarchy, the policy of timing of transfers between levels, or the valuation policies and procedures for level 3 fair value measurements. The new framework will require additional disclosures around level 3 fair value measurements, including the range, weighted average, and time period used to develop significant unobservable inputs. The adoption of this guidance is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. Management does not expect this guidance to have a significant impact on the results of operations, financial condition, or cash flows of the Registrants.

In October 2018, FASB issued guidance that requires indirect interest held through related parties under common control to be considered on a proportional basis when determining whether fees paid to decision makers and service providers are variable interest. The adoption of this guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those years. Early adoption is permitted. Management does not expect this guidance to have a significant impact on the results of operations, financial condition, or cash flows of the Registrants.
In November 2018, FASB issued amendments clarifying that transactions in a collaborative arrangement should be accounted for using the Revenue Recognition standards when the counterparty is a customer for a direct good or service. The guidance precludes an entity from presenting consideration from a transaction in a collaborative arrangement as revenue from contracts with customers if the counterparty is not a customer for that transaction. The adoption of this guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those years. Early adoption is permitted. Management does not expect this guidance to have a significant impact on the results of operations, financials condition, or cash flows of the registrants.

Note 3 — Revenue Recognition

Cleco adopted the accounting guidance for revenue recognition and all related amendments on January 1, 2018, using the modified retrospective method. The guidance affects entities that enter into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The core principle of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Application of the new revenue standard did not result in a cumulative effect adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The impact of the adoption of the new standard is not material to the results of operations, financial condition, or cash flows of the Registrants.

Revenue from Contracts with Customers

Retail Revenue

Cleco’s revenue from contracts with customers is generated primarily from Cleco Power’s regulated revenue to retail residential, commercial, and industrial customers. Cleco recognizes retail revenue from these contracts as a series, and progress towards satisfaction of the performance obligation is measured using an output method based on kWh delivered. Accordingly, revenue from electricity sales is recognized as energy is delivered to the customer. Cleco bills retail customers, based on rates regulated by the LPSC, on a monthly basis with payments generally due within 20 days of the invoice date. Cleco records retail revenue under the invoice practical expedient, which states that if an entity has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity’s performance completed to date, the entity may recognize revenue in the amount that the entity has a right to invoice.

Included in Cleco’s retail revenue is unbilled electric revenue, which represents the amount customers will be billed for services rendered from the last meter reading to the end of the respective accounting period. Cleco uses actual customer energy consumption data available from AMI to calculate unbilled revenue. Also included in Cleco’s retail revenue is electric customer credits, which primarily represents the accrued estimated refunds for the tax-related benefits of the TCJA.

Wholesale Revenue

Wholesale revenue is generated primarily through the sale of energy and capacity to cooperatives, municipalities, and the MISO transmission provider. Cleco also enters into transactions through MISO for spot energy sales which are transacted in the Day-Ahead Energy and Operating Reserves Market and the Real-Time Energy and Operating Reserves Market. The electricity revenue performance obligations, representing both energy and capacity, are satisfied as a series of performance obligations, and progress towards satisfaction of the performance obligations are measured using an output method. The energy performance obligation measure of progress is based on kWh delivered. The capacity performance obligation measure of progress is based on time elapsed and will be recognized each month as Cleco's generating units stand ready to deliver electricity to the customer. Cleco charges its wholesale customers market based rates that are subject to FERC's triennial market power analysis. Cleco recognizes wholesale revenue, inclusive of both performance obligations, under the invoice practical expedient for the amount Cleco has the right to invoice.

Transmission Revenue

Transmission revenue is earned under a tariff with MISO. The performance obligation of transmission service is satisfied as service is provided. Revenue is recognized upon delivery of the transmission service. Cleco's revenue from the transmission of electricity is recorded based on a FERC-approved annual formula rate mechanism. This mechanism provides for an annual filing of revenue requirements with rates effective June 1 of each year.

Other Revenue

Other revenue from contracts with customers, which is not a significant source of Cleco's revenue, includes Teche Unit 3 SSR revenue and connection or other fees. The performance obligation under these contracts is satisfied and revenue is recognized as control of the products is delivered or services are rendered.

Revenue Unrelated to Contracts with Customers

Cleco Power's energy-related transactions with the following characteristics, qualify as derivative contracts and are recorded pursuant to derivatives and hedging accounting guidance: a) their value is based on the notional amount or payment provisions of an underlying asset; b) they require no or a diminutive initial net investment; and c) their terms require or permit net settlement.

Pursuant to the rules of the Energy Efficiency General Order issued by the LPSC, Cleco Power intends to recover from customers the accumulated decrease in revenues associated with energy efficiency programs, also known as the Lost Contribution to Fixed Cost (LCFC). This revenue is recorded in accordance with accounting guidance for alternative revenue programs.

Disaggregated Revenue
Operating revenue, net for the year ended December 31, 2018, was as follows:

	FOR THE TWELVE MONTHS ENDED DEC. 31, 2018			
(THOUSANDS)	CLECO POWER	OTHER	ELIMINATIONS	TOTAL
Revenue from contracts with customers				
Retail revenue				
Residential [1]	$435,610	$—	$ —	$435,610
Commercial [1]	288,791	—	—	288,791
Industrial [1]	167,001	—	—	167,001
Other retail [1]	15,582	—	—	15,582
Surcharge	23,138	—	—	23,138
Electric customer credits	(33,195)	—	—	(33,195)
Total retail revenue	896,927	—	—	896,927
Wholesale, net [1]	219,598	(9,680) [2]	—	209,918
Transmission	54,531	—	—	54,531
Other [3]	27,800	2	—	27,802
Affiliate [4]	874	74,591	(75,465)	—
Total revenue from contracts with customers	1,199,730	64,913	(75,465)	1,189,178
Revenue unrelated to contracts with customers				
Other [5]	41,866	—	—	41,866
Total revenue unrelated to contracts with customers	41,866	—	—	41,866
Operating revenue, net	$1,241,596	$64,913	$ (75,465)	$1,231,044

[1] Includes fuel recovery revenue.
[2] Amortization of intangible assets related to wholesale power supply agreements.
[3] Other revenue from contracts with customers includes $18.2 million of other miscellaneous fee revenue and $9.6 million of Teche Unit 3 SSR revenue.
[4] Affiliate revenue from contracts with customers includes interdepartmental rents and support services. This revenue is eliminated upon consolidation.
[5] Includes realized gains associated with FTRs of $39.3 million and LCFC of $2.6 million.

Transaction Price Allocated to Remaining Performance Obligations
For contracts that are greater than one year, the following table discloses (1) the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) as of December 31, 2018, and (2) when Cleco expects to recognize this revenue:

REMAINING PERFORMANCE OBLIGATIONS (THOUSANDS)	
Years ending Dec. 31,	
2019	$ 35,970
2020	7,068
2021	7,068
2022	6,468
2023	5,268
Thereafter	4,942
Total remaining performance obligations	$ 66,784

Unsatisfied performance obligations primarily relate to stand-ready obligations as part of fixed capacity minimums.

Note 4 — Business Combinations

On April 13, 2016, Cleco Holdings completed its merger with Merger Sub whereby Merger Sub merged with and into Cleco Corporation, with Cleco Corporation surviving the 2016 Merger, and Cleco Corporation converting to a limited liability company and changing its name to Cleco Holdings, as a direct, wholly owned subsidiary of Cleco Group and an indirect, wholly owned subsidiary of Cleco Partners. At the effective time of the 2016 Merger, each outstanding share of Cleco Corporation common stock, par value $1.00 per share (other than shares that were owned by Cleco Corporation, Cleco Partners, Merger Sub, or any other direct or indirect wholly owned subsidiary of Cleco Partners or Cleco Corporation), were cancelled and converted into the right to receive $55.37 per share in cash,

without interest, with all dividends payable before the effective time of the 2016 Merger.

Regulatory Matters

On March 28, 2016, the LPSC approved the 2016 Merger. The LPSC's written order approving the 2016 Merger was issued on April 7, 2016. Approval of the 2016 Merger was conditioned upon certain commitments, including $136.0 million of customer rate credits, a $7.0 million one-time contribution for economic development in Cleco Power's service territory to be administered by the LED, $6.0 million of charitable contributions to be disbursed over five years, and $2.5 million of contributions for economic development for Louisiana state and local organizations to be disbursed over five years. These commitment costs were accrued on April 13, 2016, and are included in Merger transaction and commitment costs and Merger commitment costs on Cleco and Cleco Power's Consolidated Statements of Income, respectively. In addition, the 2016 Merger Commitments also included $1.2 million of annual refunds to customers representing cost savings due to the 2016 Merger. For more information, see Note 13 — "Regulation and Rates."

Accounting for the 2016 Merger Transaction

The total purchase price consideration was approximately $3.36 billion, which consisted of cash paid to Cleco Corporation shareholders of $3.35 billion and cash paid for Cleco LTIP equity awards of $9.5 million. There were no remaining LTIP equity awards as of the close of the 2016 Merger.

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

Purchase Price Allocation

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

Cleco Power's assets and liabilities were recorded at historical cost since Cleco did not elect pushdown accounting at the Cleco Power level.
The following tables present the fair value adjustments to Cleco's balance sheet and recognition of goodwill:

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

Most of the carrying values of Cleco's assets and liabilities were determined to be stated at fair value at the 2016 Merger date, considering that most of these assets are subject to regulation by the LPSC and FERC. Under such regulation, rates charged to customers are established by a regulator to provide for recovery of costs and a fair return on rate base and are generally measured at historical cost. As such, a market participant would not expect to recover any more or less than the carrying value of the assets. Prior to the 2016 Merger, the Coughlin step-up value was not recorded on Cleco's Consolidated Balance Sheet due to the accounting treatment for the transfer of that asset in March 2014. However, the recovery of the step-up value of the Coughlin asset was approved by the LPSC for recovery in base rates, including a return on rate base. On the date of the 2016 Merger, the step-up value for the Coughlin asset was recognized on Cleco's Consolidated Balance Sheet since Cleco Power is able to earn a return on and recover these costs from its customers. The beginning balance of fixed depreciable assets was shown net at the date of the 2016 Merger, as no accumulated depreciation existed on the date of the 2016 Merger.
The excess of the purchase price over the estimated fair value of assets acquired and the liabilities assumed was $1.49 billion, which was recognized as goodwill by Cleco at the 2016 Merger date. The goodwill represents the potential long-term return of Cleco to its member. Management has assigned goodwill to Cleco's reportable segment, Cleco Power.
A fair value adjustment was recorded on Cleco's Consolidated Balance Sheet to reflect the valuation of the Cleco trade name. This adjustment is included in Intangible assets on Cleco's Consolidated Balance Sheet. The valuation of the trade name was estimated by applying the relief-from-royalty method under the income approach. This valuation

method is based on the premise that, in lieu of ownership of

the asset, a company would be willing to pay a royalty to a third-party for the use of that asset. The owner of the asset is spared this cost, and the value of the asset is estimated by the cost savings. The projected revenue attributed to the trade name was based on projections of the value of Cleco's wholesale contracts. The trade name is being amortized over 20 years. The amortization of the Cleco trade name is included in Depreciation and amortization on Cleco's Consolidated Statement of Income.

On the date of the 2016 Merger, fair value adjustments were recorded on Cleco's Consolidated Balance Sheet for the difference between the contract price and the market price of long-term wholesale power supply agreements. These adjustments are classified as Intangible assets on Cleco's Consolidated Balance Sheet. The valuation of the power supply agreements was estimated using the income approach. The income approach is based upon discounted projected future cash flows associated with the underlying contracts. The intangible assets for the power supply agreements will be amortized over the remaining term of the applicable contract. The amortization of the power supply agreements is included in Electric operations on Cleco's Consolidated Statement of Income.

The net increase in deferred tax liabilities on Cleco's Consolidated Balance Sheet represents the differences between the assigned fair values of assets acquired and their related income tax basis, net of a deferred tax asset representing the net operating loss carryforward that will be utilized in future periods. As the underlying asset assigned fair values are amortized, the related deferred tax liabilities will be included in income tax expense. Goodwill is not deductible for income tax purposes; therefore, no deferred income tax assets or liabilities were recognized for goodwill.

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

The valuations performed in the second quarter of 2016 to estimate the fair value of assets acquired and liabilities assumed were considered preliminary as a result of the short time period between the closing of the 2016 Merger and the end of the second quarter of 2016. During the third quarter of 2016, valuations were performed for the valuation and assessment of the postretirement benefit plans as of April 13, 2016, and the economic useful life of the Cleco trade name. Cleco completed its evaluation and determination of the fair value of certain assets and liabilities acquired as of December 31, 2016. There were no adjustments to those amounts during the year ended December 31, 2017.

While management believes the positions reflected on the income tax returns are reasonable, see Note 11 — "Income Taxes — Uncertain Tax Positions" for a discussion on the status of tax audits.

Note 5 — Regulatory Assets and Liabilities

Cleco capitalizes or defers certain costs for recovery from customers and recognizes a liability for amounts expected to

be returned to customers based on regulatory approval and management's ongoing assessment that it is probable these items will be recovered or refunded through the ratemaking process.
Under the current regulatory environment, Cleco believes these regulatory assets will be fully recoverable; however, if in the future, as a result of regulatory changes or competition, Cleco's ability to recover these regulatory assets would no longer be probable, then to the extent that such regulatory assets were determined not to be recoverable, Cleco would be required to write-down such assets. In addition, potential deregulation of the industry or possible future changes in the method of rate regulation of Cleco could require discontinuance of the application of the authoritative guidance of regulated operations.
The following table summarizes Cleco Power's regulatory assets and liabilities:
Cleco Power

	AT DEC. 31,		REMAINING
(THOUSANDS)	2018	2017	RECOVERY PERIOD (YRS.)
Regulatory (liabilities) assets - deferred taxes, net			
Total federal regulatory liability — income taxes	$(55,922)	$(64,205)	
Total state regulatory asset — income taxes	141,136	142,788	
TCJA	(374,961)	(348,590)	
AFUDC	134,369	129,953	
Total investment tax credit	(159)	(372)	
Total regulatory (liabilities) assets — deferred taxes, net	$(155,537)	$(140,426)	*
Regulatory liabilities - other	(4,992)	—	*
Regulatory Assets			
Mining costs	1,274	3,823	0.5
Interest costs	4,208	4,499	*
AROs [1]	3,099	2,762	*
Postretirement costs [1]	140,245	142,764	*
Tree trimming costs	9,069	7,193	*
Training costs	6,396	6,552	41
Surcredits, net [2]	289	2,173	*
AMI deferred revenue requirement	3,681	4,227	7
Emergency declarations	2,980	4,131	1.5
Production operations and maintenance expenses	12,245	8,625	*
AFUDC equity gross-up [2]	71,952	71,205	*
Acadia Unit 1 acquisition costs	2,230	2,336	21
Financing costs	7,923	8,293	*
MISO integration costs	—	468	—
Coughlin transaction costs	938	968	30.5
Corporate franchise tax, net	1,416	153	*
MATS Costs	—	2,564	—
Non-service cost of postretirement benefits	4,629	—	*
Energy Efficiency	2,585	—	*
Other	13	484	*
Total regulatory assets	275,172	273,220	
Accumulated deferred fuel	20,112	13,980	*
Total regulatory assets, net	$134,755	$146,774	

[1] Represents regulatory assets in which cash has not yet been expended and the assets are offset by liabilities that do not incur a carrying cost.

(2)Represents regulatory assets for past expenditures that were not earning a return on investment at December 31, 2018, and 2017, respectively. All other assets are earning a return on investment.
* For information related to the remaining recovery periods, refer to the following disclosures for each specific regulatory asset.

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

	AT DEC. 31,	
(THOUSANDS)	2018	2017
Total Cleco Power regulatory assets, net	$134,755	$146,774
Cleco 2016 Merger adjustments (1)		
Fair value of long-term debt	138,701	147,145
Postretirement costs	19,387	21,375
Financing costs	8,279	8,623
Debt issuance costs	6,252	6,665
Total Cleco regulatory assets, net	$307,374	$330,582

(1)Cleco regulatory assets include acquisition accounting adjustments as a result of the 2016 Merger.

Income Taxes
The regulatory assets and liabilities recorded for deferred income taxes represent the effect of tax benefits or detriments that must be flowed through to customers as they are received or paid. The amounts deferred are attributable to differences between book and tax recovery periods. On December 22, 2017, the President signed the TCJA. Changes in the IRC, as amended, from the TCJA, had a material impact on the Registrants' financial statements in 2017. Tax effects of changes in tax laws must be recognized in the period in which the law is enacted. Also, deferred tax assets and liabilities must be measured at the enacted tax rate expected to apply when temporary differences are to be realized or settled. At December 31, 2017, Cleco and Cleco Power made an estimate for the remeasurement of ADIT based upon the new tax rate, which resulted in a provisional regulatory liability of $348.6 million. During the fourth quarter of 2018, Cleco Power recorded the final remeasurements, which resulted in an additional regulatory liability of $26.4 million. At December 31, 2018, the final regulatory liability for the remeasurement of accumulated deferred income taxes was $375.0 million. For more information on the TCJA, see Note 11 — "Income Taxes."

Regulatory Liabilities - Other
On July 1, 2018, Cleco Power began collecting the revenue requirement related to the St. Mary Clean Energy Center project based on an expected commercial operation date in the third quarter of 2018. The project is now expected to be commercially operational in the second quarter of 2019. Cleco Power recorded a regulatory liability for the over collections and will continue to increase the regulatory liability until the project is in service. Cleco Power expects to return the total over collection as part of the July 1, 2019, FRP rate adjustment.

Mining Costs
Cleco Power operates a generating unit jointly owned with SWEPCO that uses lignite as its primary fuel source. Cleco Power, along with SWEPCO, maintains a lignite mining agreement with DHLC, the operator of the Dolet Hills Mine. As ordered by the LPSC, Cleco Power's retail customers received fuel cost savings through the year 2011, while actual mining costs above a certain percentage of the benchmark price were deferred. These deferred costs could be recovered from retail customers through the FAC only when the actual mining costs were below a certain percentage of the benchmark price.
In 2006, Cleco Power recognized that there was a possibility it may not recover all or part of the lignite mining

costs it had deferred and sought relief from the LPSC. In December 2007, the LPSC approved a settlement agreement between Cleco Power, SWEPCO, and the LPSC Staff authorizing Cleco Power to recover the existing deferred mining cost balance, including interest, over 11.5 years. In connection with its 2009 approval of the Oxbow Lignite Mine acquisition, the LPSC agreed to discontinue benchmarking and the corresponding potential to defer future lignite mining costs while preserving the previously authorized recovery of the legacy deferred fuel balance.

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

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

Postretirement Costs
Cleco Power recognizes the funded status of its postretirement benefit plans as a net liability or asset. The net liability or asset is defined as the difference between the benefit obligation and the fair market value of plan assets. For defined benefit pension plans, the benefit obligation is the projected benefit obligation. Historically, the LPSC has allowed Cleco Power to recover pension plan expense. Cleco Power, therefore, recognizes a regulatory asset based on its determination that these costs can be collected from customers. These costs are amortized to pension expense over the average service life of the remaining plan participants (approximately nine years as of December 31, 2018, for Cleco's plan) when it exceeds certain thresholds. The amount and timing of the recovery will be based on the changing funded status of the pension plan in future periods. For more information on Cleco's pension plan and adoption of these authoritative guidelines, see Note 10 — "Pension Plan and Employee Benefits."

Tree Trimming Costs
In April 2013, the LPSC approved Cleco Power's request to expend and defer up to $8.0 million in tree management costs. Cleco Power requested authorization to defer actual expenditures as a regulatory asset through the completion date of the tree extraction effort. In February 2015, Cleco Power completed the tree extraction and began amortizing the additional charges over a 3.5-year period. As of April 30, 2018, these costs were fully amortized.
As a result of increased vegetation growth and to remain in compliance with regulatory requirements, Cleco Power anticipates the need to spend $20.8 million through December 2020 in tree and vegetation management costs. In September 2016, Cleco Power requested approval from the LPSC to defer a portion of these costs utilizing the same accounting treatment of similar costs approved in previous dockets. In October 2016, the LPSC approved Cleco Power to defer an additional amount up to $10.9 million. Of the remaining costs, $4.0 million will be expensed to Operations and maintenance on Cleco Power's Consolidated Statements of Income, and

$5.9 million will be deferred and recovered in current base rates through June 2020.

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

Surcredits, Net

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

Cleco Power recorded a true-up to the surcredits to reflect the actual tax deductions allowed by the IRS for storm damages and uncertain tax positions. As a result of the true-ups, Cleco Power recorded a regulatory asset that represents excess surcredits refunded to customers that were collected from ratepayers and amortized over a four-year period, through June 2018. Cleco Power expects to collect the balance as part of the July 1, 2019, FRP rate adjustment.

AMI Deferred Revenue Requirement

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

Emergency Declarations

In August 2016, the LPSC issued emergency declaration executive orders following flooding events in south Louisiana which prohibited public utilities from disconnecting or charging late fees to customers for non-payment in affected parishes. In January 2017, the LPSC issued an order terminating those executive orders effective March 1, 2017. The January 2017 order also provided that public utilities were entitled to formally petition the LPSC to recover lost revenues as a result of the executive orders issued in August 2016. Beginning in July 2017, Cleco Power's lost revenues are being recovered and amortized over a three-year period.

Production Operations and Maintenance Expenses

Annually, Cleco Power is allowed to defer, as a regulatory asset, production operations and maintenance expenses, net of fuel and payroll, above the retail jurisdictional portion of $45.0 million, adjusted annually for a growth factor (deferral threshold). The amount of the regulatory asset is capped at $23.0 million. The LPSC allows Cleco Power to recover the amount deferred in any calendar year over the following three year regulatory period, beginning on July 1, when the annual rates are set. In December 2018 and 2017, Cleco Power deferred $8.0 million and $0.4 million, respectively, as a regulatory asset.

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

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

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

MISO Integration Costs
In June 2014, the LPSC approved Cleco Power's request to recover the non-capital integration costs associated with Cleco Power joining MISO. In July 2014, Cleco Power began recovering these MISO integration costs over a four-year period. As of June 30, 2018, these costs were fully recovered.

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

Corporate Franchise Tax, Net
As part of the FRP extension approved by the LPSC in June 2014, Cleco Power was authorized to recover through a rider the retail portion of state corporate franchise taxes paid. The retail portion of state corporate franchise taxes paid each year will be recovered over 12 months beginning July 1 of the following year.

MATS Costs
In February 2016, the LPSC approved Cleco Power's request to recover the revenue requirements associated with the installation of MATS equipment. The MATS rule required affected EGUs to meet specific emission standards and work practice standards to address hazardous air pollutants by April 2015. The LPSC approval also allowed Cleco Power to record a regulatory asset of $7.1 million representing the unrecovered revenue requirements of MATS equipment placed in service in

the years prior to the LPSC review and approval. As of June 30, 2018, these costs were fully amortized.

Non-service Cost of Postretirement Benefits

On January 1, 2018, FASB's amended guidance related to defined benefit pension and other postretirement plans became effective. The amendment allows only the service cost component of net benefit cost to be eligible for capitalization within property, plant, and equipment. Beginning January 1, 2018, the non-service cost previously eligible for capitalization into property, plant, and equipment are being deferred to a regulatory asset and will be amortized over the estimated lives of the respective assets. For more information on FASB's guidance related to defined benefit pension and other postretirement plans, see Note 2 — "Summary of Significant Accounting Policies — Recent Authoritative Guidance."

Energy Efficiency

In 2013, the LPSC issued a General Order adopting rules promoting energy efficiency programs. Cleco Power participated in the Phase I program beginning in November 2014. Pursuant to the rules of the Energy Efficiency General Order, utility companies are allowed to recover from customers the accumulated decrease in revenues associated with the energy efficiency programs. In December 2018, Cleco Power filed a letter of intent with the LPSC to recover the accumulated decrease in revenues, also known as the Lost Contribution to Fixed Cost (LCFC). Beginning March 1, 2019, this amount will be recovered over approximately four years, subject to LPSC review and approval.

Other

In 2015, the LPSC approved the recovery of costs incurred as a result of Cleco Power's 2009 through 2013 fuel audit. The 2009 through 2013 fuel audit costs and the IRP costs are being recovered over a three-year period beginning July 2016.

In March 2016, flooding occurred at the Toledo Bend Dam where Cleco Power receives capacity from the hydroelectric generators through a long-term contract. As part of the contract, Cleco Power is responsible for its allocated portion of the insurance deductible for flood damages. In July 2017, Cleco Power began amortizing the retail portion of $0.9 million over a 12-month period. As of June 30, 2018, these costs were fully amortized.

Accumulated Deferred Fuel

The cost of fuel used for electric generation and power purchased for utility customers are recovered through the LPSC-established FAC or related wholesale contract provisions, which enable Cleco Power to pass on to its customers substantially all such charges. For 2018, approximately 76% of Cleco Power's total fuel cost was regulated by the LPSC.

Accumulated deferred fuel increased $6.1 million from December 31, 2017. This increase was primarily due to $22.4 million for fuel surcharges, partially offset by $13.3 million for the mark-to-market value on FTRs and $4.3 million due to the timing of collections.

Cleco Holdings' 2016 Merger Adjustments

As a result of the 2016 Merger, Cleco implemented acquisition accounting, which eliminated AOCI at the Cleco consolidated level on the date of the 2016 Merger. Cleco will continue to recover expenses related to certain postretirement costs;

therefore, Cleco recognized a regulatory asset based on its determination that these costs can continue to be collected from customers. These costs will be amortized to Other operations expense over the average remaining service period of participating employees. Cleco will also continue to recover financing costs associated with the settlement of two treasury rate locks and a forward starting swap contract that were previously recognized in AOCI. Additionally, as a result of the 2016 Merger, a regulatory asset was recorded for debt issuance costs that were eliminated at Cleco and a regulatory asset was recorded for the difference between the carrying value and the fair value of long-term debt. These regulatory assets are being amortized over the terms of the related debt issuances, unless the debt is redeemed prior to maturity, at which time any unamortized related regulatory asset will be derecognized.

Note 6 — Jointly Owned Generation Units

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

At the date of the 2016 Merger, the gross balance of jointly owned generation units at Cleco was adjusted to be net of accumulated depreciation, as no accumulated depreciation existed on the date of the 2016 Merger. Since pushdown accounting was not elected at the Cleco Power level, Cleco Power retained its accumulated depreciation. For more information about merger related adjustments, see Note 4 — "Business Combinations."

At December 31, 2018, the investment in and accumulated depreciation for each generating unit on Cleco and Cleco Power's Consolidated Balance Sheets were as follows:

Cleco

	AT DEC. 31, 2018		
(THOUSANDS, EXCEPT PERCENTAGES AND MW)	RODEMACHER UNIT 2	DOLET HILLS	TOTAL
Utility plant in service	$ 71,962	$176,935	$248,897
Accumulated depreciation	$ 5,309	$12,385	$17,694
Construction work in progress	$ 317	$5,463	$5,780
Ownership interest percentage	30 %	50 %	
Nameplate capacity (MW)	523	650	
Ownership interest (MW)	157	325	

Cleco Power

	AT DEC. 31, 2018		
(THOUSANDS, EXCEPT PERCENTAGES AND MW)	RODEMACHER UNIT 2	DOLET HILLS	TOTAL
Utility plant in service	$ 146,142	$394,431	$540,573
Accumulated depreciation	$ 79,489	$229,882	$309,371
Construction work in progress	$ 317	$5,463	$5,780
Ownership interest percentage	30 %	50 %	
Nameplate capacity (MW)	523	650	
Ownership interest (MW)	157	325	

Note 7 — Fair Value

Accounting

The amounts reflected in Cleco and Cleco Power's Consolidated Balance Sheets at December 31, 2018, and 2017, for cash equivalents, restricted cash equivalents, accounts receivable, other accounts receivable, short-term debt, and accounts payable approximate fair value because of their short-term nature. Cleco applies the provisions of the fair value measurement standard to its non-recurring, non-financial measurements including business combinations as well as impairment related to goodwill and other long-lived assets.

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

Cleco

	AT DEC. 31,			
	2018		2017	
(THOUSANDS)	CARRYING VALUE*	FAIR VALUE	CARRYING VALUE*	FAIR VALUE
Long-term debt	$2,889,631	$2,859,924	$2,866,955	$2,921,325

* The carrying value of long-term debt does not include deferred issuance costs of $10.3 million in 2018 and $11.6 million in 2017.

Cleco Power

	AT DEC. 31,			
	2018		2017	
(THOUSANDS)	CARRYING VALUE*	FAIR VALUE	CARRYING VALUE*	FAIR VALUE
Long-term debt	$1,400,930	$1,517,152	$1,369,810	$1,535,234

* The carrying value of long-term debt does not include deferred issuance costs of $8.3 million in 2018 and $9.1 million in 2017.

Long-term debt liability consists of a single class. In order to fund capital requirements, Cleco issues fixed and variable rate long-term debt with various tenors. The fair value of this class fluctuates as the market interest rates for fixed and variable rate debt with similar tenors and credit ratings change. The fair value of the debt could also change from period to period due to changes in credit rating of the Cleco entity by which the debt was issued. The fair value of long-term debt is classified as Level 2 in the fair value hierarchy.

Fair Value Measurements and Disclosures

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

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

Cleco

(THOUSANDS)	AT DEC. 31, 2018	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	AT DEC. 31, 2017	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
	FAIR VALUE MEASUREMENTS AT REPORTING DATE							
Asset Description								
Institutional money market funds	$133,722	$ —	$ 133,722	$ —	$144,302	$ —	$ 144,302	$ —
FTRs	23,355	—	—	23,355	7,396	—	—	7,396
Total assets	$157,077	$ —	$ 133,722	$ 23,355	$151,698	$ —	$ 144,302	$ 7,396
Liability Description								
FTRs	$468	$ —	$ —	$ 468	$352	$ —	$ —	$ 352
Total liabilities	$468	$ —	$ —	$ 468	$352	$ —	$ —	$ 352

Cleco Power

(THOUSANDS)	AT DEC. 31, 2018	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	AT DEC. 31, 2017	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
	FAIR VALUE MEASUREMENTS AT REPORTING DATE:							
Asset Description								
Institutional money market funds	$55,900	$ —	$ 55,900	$ —	$95,681	$ —	$ 95,681	$ —
FTRs	23,355	—	—	23,355	7,396	—	—	7,396
Total assets	$79,255	$ —	$ 55,900	$ 23,355	$103,077	$ —	$ 95,681	$ 7,396
Liability Description								
FTRs	$468	$ —	$ —	$ 468	$352	$ —	$ —	$ 352
Total liabilities	$468	$ —	$ —	$ 468	$352	$ —	$ —	$ 352

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

FOR THE YEAR ENDED DEC. 31,

(THOUSANDS)	2018	2017
Beginning balance	$7,044	$7,683
Unrealized gains (losses)*	11,865	(1,392)
Purchases	28,185	23,941
Settlements	(24,207)	(23,188)
Ending balance	$22,887	$7,044

* Unrealized gains (losses) are reported through Accumulated deferred fuel on Cleco and Cleco Power's Consolidated Balance Sheets.

The following table quantifies the significant unobservable inputs used in developing the fair value of Level 3 positions for Cleco and Cleco Power as of December 31, 2018:

	FAIR VALUE		VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUTS	FORWARD PRICE RANGE	
(THOUSANDS, EXCEPT DOLLAR PER MWh)	Assets	Liabilities			Low	High
FTRs at December 31, 2018	$23,355	$ 468	RTO auction pricing	FTR price - per MWh	$(4.40)	$15.10
FTRs at December 31, 2017	$7,396	$ 352	RTO auction pricing	FTR price - per MWh	$(2.95)	$6.33

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

isolation would result in a significantly different fair value measurement.

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

At December 31, 2018, Cleco and Cleco Power were exposed to concentrations of credit risk through their short-term investments classified as cash equivalents and restricted cash equivalents. The institutional money market funds were reported on Cleco’s Consolidated Balance Sheets in cash and cash equivalents, current restricted cash and cash equivalents, and non-current restricted cash and cash equivalents of $103.8 million, $11.2 million, and $18.7 million, respectively, at December 31, 2018, and $111.1 million, $13.1 million, and $20.1 million, respectively, at December 31, 2017. At Cleco Power, the institutional money market funds were

reported on Cleco Power's Consolidated Balance Sheets in cash and cash equivalents, current restricted cash and cash equivalents, and non-current restricted cash and cash equivalents of $26.1 million, $11.2 million, and $18.6 million, respectively, at December 31, 2018, and $62.5 million, $13.1 million, and $20.1 million, respectively, at December 31, 2017. If the money market funds failed to perform under the terms of the investments, Cleco and Cleco Power would be exposed to a loss of the invested amounts. Collateral on these types of investments is not required by either Cleco or Cleco Power. The Level 2 institutional money market funds asset consists of a single class. In order to capture interest income and minimize risk, cash is invested in money market funds that invest primarily in short-term securities issued by the U. S. Treasury to maintain liquidity and achieve the goal of a net asset value of a dollar. The risks associated with this class are counterparty risk of the fund manager and risk of price volatility associated with the underlying securities of the fund.
Cleco Power's FTRs were priced using MISO's monthly auction prices. Forward seasonal periods are not included in every monthly auction; therefore, the average of the most recent seasonal auction prices is used for monthly valuation. FTRs are categorized as Level 3 fair value measurements because the only relevant pricing available comes from MISO auctions, which occur monthly in the Multi-Period Monthly Auction.

During the years ended December 31, 2018, and 2017, Cleco did not experience any transfers between levels within the fair value hierarchy.

Commodity Contracts
The following table presents the fair values of derivative instruments and their respective line items as recorded on Cleco and Cleco Power's Consolidated Balance Sheets at December 31, 2018, and 2017:

	DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS		
(THOUSANDS)	BALANCE SHEET LINE ITEM	AT DEC. 31, 2018	AT DEC. 31, 2017
Commodity-related contracts			
FTRs:			
Current	Energy risk management assets	$23,355	$7,396
Current	Energy risk management liabilities	468	352
Commodity-related contracts, net		$22,887	$7,044

The following table presents the effect of derivatives not designated as hedging instruments on Cleco and Cleco Power's Consolidated Statements of Income for the years December 31, 2018, 2017, and 2016:
Cleco

	AMOUNT OF GAIN/(LOSS) RECOGNIZED IN INCOME ON DERIVATIVES				
		SUCCESSOR			PREDECESSOR
(THOUSANDS)	DERIVATIVES LINE ITEM	FOR THE YEAR ENDED DEC. 31, 2018	FOR THE YEAR ENDED DEC. 31, 2017	APR. 13, 2016 - DEC. 31, 2016	JAN. 1, 2016 - APR. 12, 2016
Commodity contracts					

FTRs[1]	Electric operations	$39,659	$23,826	$17,506	$ 3,012
FTRs[1]	Power purchased for utility customers	(4,566)	(5,509)	(2,112)	(582)
Total		$35,093	$18,317	$15,394	$ 2,430

[1] For the years ended December 31, 2018 and 2017, unrealized gains (losses) associated with FTRs of $11.9 million and $(1.4) million, respectively, were reported through Accumulated deferred fuel on the balance sheet. For the predecessor period January 1, 2016 - April 12, 2016, and the successor period April 13, 2016 - December 31, 2016, unrealized (losses) gains associated with FTRs of $(1.0) million and $3.1 million, respectively, were reported through Accumulated deferred fuel on the balance sheet.

Cleco Power

		AMOUNT OF GAIN/(LOSS) RECOGNIZED IN INCOME ON DERIVATIVES FOR THE YEAR ENDED DEC. 31,		
(THOUSANDS)	DERIVATIVES LINE ITEM	2018	2017	2016
Commodity contracts				
FTRs[1]	Electric operations	$39,659	$23,826	$20,518
FTRs[1]	Power purchased for utility customers	(4,566)	(5,509)	(2,694)
Total		$35,093	$18,317	$17,824

[1] For the years ended December 31, 2018, 2017, and 2016, unrealized gains (losses) associated with FTRs of $11.9 million, $(1.4) million, and $2.1 million, respectively, were reported through Accumulated deferred fuel on the balance sheet.

The total volume of FTRs that Cleco Power had outstanding at December 31, 2018, and 2017 was 8.7 million MWh and 9.0 million MWh, respectively.

Note
8 —
Debt

Cleco Power’s total indebtedness as of December 31, 2018, and 2017 was as follows:

Cleco Power

(THOUSANDS)	AT DEC. 31, 2018	2017
Bonds		
Senior notes, 2.94%, due 2022	$25,000	$25,000
Senior notes, 3.08%, due 2023	100,000	100,000
Senior notes, 3.17%, due 2024	50,000	—
Senior notes, 3.68%, due 2025	75,000	75,000
Senior notes, 3.47%, due 2026	130,000	130,000
Senior notes, 4.33%, due 2027	50,000	50,000
Senior notes, 3.57%, due 2028	200,000	200,000
Senior notes, 6.50%, due 2035	295,000	295,000
Senior notes, 6.00%, due 2040	250,000	250,000
Senior notes, 5.12%, due 2041	100,000	100,000
Series A GO Zone bonds, 2.00%, due 2038, mandatory tender in 2020	50,000	50,000
Series B GO Zone bonds, 4.25%, due 2038	50,000	50,000
Cleco Katrina/Rita’s storm recovery bonds, 5.61%, due 2023	31,625	50,819
Total bonds	1,406,625	1,375,819
Other long-term debt		
Barge lease obligations	16,418	—
Gross amount of long-term debt	1,423,043	1,375,819
Less: long-term debt due within one year	20,571	19,193
Less: capital lease obligations classified as long-term debt due within one year	557	—
Unamortized debt discount	(5,695)	(6,010)
Unamortized debt issuance costs	(8,446)	(9,141)
Total long-term debt and capital leases, net	$1,387,774	$1,341,475

Cleco’s total indebtedness as of December 31, 2018, and 2017 was as follows:

Cleco

(THOUSANDS)	AT DEC. 31, 2018	2017
Total Cleco Power long-term debt and capital leases, net	$1,387,774	$1,341,475
Cleco Holdings’ long-term debt, net		
Senior notes, 3.250%, due 2023	165,000	165,000
Senior notes, 3.743%, due 2026	535,000	535,000
Senior notes, 4.973%, due 2046	350,000	350,000
Bank term loan, variable rate, due 2021	300,000	300,000
Unamortized debt issuance costs[1]	(1,989)	(2,516)
Fair value adjustment	138,700	147,146
Total Cleco long-term debt and capital leases, net	$2,874,485	$2,836,105

[1]For December 31, 2018, and 2017, this amount includes unamortized debt issuance costs for Cleco Holdings of $8.2 million and $9.2 million, respectively, partially offset by deferred debt issuance costs eliminated as a result of the

2016 Merger of $6.3 million and $6.7 million, respectively. For more information, see Note 5 — "Regulatory Assets and Liabilities — Cleco Holdings' 2016 Merger Adjustments."

The principal amounts payable under long-term debt agreements for each year through 2023 and thereafter are as follows:

(THOUSANDS)	CLECO	CLECO POWER
For the year ending Dec. 31,		
2019	$20,571	$20,571
2020	$11,054	$11,054
2021	$300,000	$—
2022	$25,000	$25,000
2023	$265,000	$100,000
Thereafter	$2,135,000	$1,250,000

The amounts payable under the capital lease agreements for each year through 2023 and thereafter are as follows:

(THOUSANDS)	CLECO	CLECO POWER
For the year ending Dec. 31,		
2019	$557	$557
2020	$617	$617
2021	$682	$682
2022	$755	$755
2023	$836	$836
Thereafter	$12,971	$12,971

Cleco Power Debt

Cleco Power had no short-term debt outstanding at December 31, 2018, and 2017.

At December 31, 2018, Cleco Power's long-term debt outstanding was $1.41 billion, of which $21.1 million was due within one year. The long-term debt due within one year at December 31, 2018, represents $20.6 million of principal payments for the Cleco Katrina/Rita storm recovery bonds and $0.5 million of capital lease payments.

On December 18, 2017, Cleco Power entered into an agreement for the issuance and sale in a private placement of an aggregate principal amount of $175.0 million of senior notes. The senior notes were issued in two tranches. The first tranche was issued on December 18, 2017, with a principal amount of $25.0 million at an interest rate of 2.94% and $100.0 million at an interest rate of 3.08%, with final maturity dates in December 2022 and 2023, respectively. The second tranche was issued on March 26, 2018, with a principal amount of $50.0 million at an interest rate of 3.17%, with a final maturity date in December 2024. The proceeds from the issuance and sale were used for capital investments and general utility purposes.

On April 2, 2018, Cleco Power entered into a capital lease agreement for use of 42 dedicated barges to transport petroleum coke and limestone to Madison Unit 3. For more information on the capital lease agreement, see Note 16 — "Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Other Commitments — Fuel Transportation Agreement."

Cleco Debt

Cleco had no short-term debt outstanding at December 31, 2018, and 2017.

At December 31, 2018, Cleco's long-term debt outstanding was $2.90 billion, of which $21.1 million was due within one year. The long-term debt due within one year at December 31, 2018, represents $20.6 million of principal payments for the Cleco Katrina/Rita storm recovery bonds and $0.5 million of capital lease payments.

On July 31, 2018, Cleco Holdings amended its $300.0 million bank term loan agreement and its $100.0 million revolving credit facility agreement to release any and all collateral from all of its debt obligations under those agreements. As a result of the release of collateral, Moody's and Fitch replaced Cleco Holdings' senior secured debt rating with a senior unsecured debt rating. For more information on Cleco's credit ratings and their impacts, see Note 16 — "Litigation, Other Commitment and Contingencies, and Disclosures about Guarantees — Risks and Uncertainties."
In connection with the Cleco Cajun Transaction on February 4, 2019, Cleco Holdings issued $300.0 million under a new bridge loan agreement and $100.0 million under a new term loan agreement. Both loan agreements are variable rate debt and have a three-year term. Both loan agreements contain certain financial covenants, including requiring Cleco Holdings to maintain (i) a debt to capital ratio (as defined in the applicable agreement) below 65% and (ii) a rating applicable to the Company's senior debt rating (as defined in the applicable agreement). Cleco Holdings anticipates that some or all of the variable rate debt may be replaced or repaid with long-term financing, markets permitting, within 12 months of the closing of the Cleco Cajun Transaction.
In connection with Cleco Cajun Transaction, Cleco Holdings, on behalf of Cleco Cajun, issued three letters of credit totaling $1.1 million to a capacity agreement customer and a gas transport company. These letters of credit automatically renew each year and have no impact on the Cleco Holdings' credit facility.

Credit Facilities
At December 31, 2018, Cleco Holdings had a $100.0 million credit facility. The credit facility includes restrictive financial covenants and expires in 2021. The borrowing costs under Cleco Holdings' credit facility are equal to LIBOR plus 1.75% or ABR plus 0.75%, plus commitment fees of 0.275%. If Cleco Holding's credit ratings were to be downgraded one level, Cleco Holdings could be required to pay higher fees and additional interest of 0.075% and 0.50%, respectively, under the pricing levels of its credit facility. Under covenants contained in Cleco Holdings' credit facility, Cleco is required to maintain total indebtedness less than or equal to 65% of total capitalization. At December 31, 2018, $655.0 million of Cleco's member's equity was unrestricted. At December 31, 2018, Cleco Holdings was in compliance with the covenants of its credit facility. In connection with the Cleco Cajun Transaction, Cleco Holdings increased its credit facility capacity by $75.0 million, for a total credit facility of $175.0 million. All other terms remained the same. Also in connection with the Cleco Cajun Transaction on February 4, 2019, Cleco Holdings made a $75.0 million draw on its credit facility, which was repaid on February 5, 2019.
At December 31, 2018, Cleco Power had a $300.0 million credit facility. The credit facility includes restrictive financial covenants and expires in 2021. The borrowing costs under Cleco Power's credit facility are equal to LIBOR plus 1.125% or ABR plus 0.125%, plus commitment fees of 0.125%. If Cleco Power's credit ratings were to be downgraded one level, Cleco Power could be required to pay higher fees and additional interest of 0.05% and 0.125%, respectively, under the pricing levels of its credit facility. Under covenants contained in Cleco Power's credit facility, Cleco Power is required to maintain total indebtedness less than or equal to 65% of total capitalization. At December 31, 2018, $831.9 million of Cleco Power's member's equity was unrestricted. If Cleco Power were to default under its credit facility or any other debt agreements, Cleco Holdings would be considered to be in default under its facility. At December 31, 2018, Cleco Power was in compliance with the covenants in its credit facility.

Note 9 — Common Stock

Stock-Based Plan Descriptions and Share Information
Prior to the completion of the 2016 Merger, Cleco had two stock-based compensation plans: the ESPP and the LTIP. As a result of the completion of the 2016 Merger, the ESPP and the LTIP were terminated. For more information

about the 2016 Merger, see Note 4 — "Business Combinations."

LTIP

Prior to the completion of the 2016 Merger, stock options, restricted stock, also known as non-vested stock, common stock equivalent units, and stock appreciation rights were available to be granted or awarded to certain officers, key employees, or directors of Cleco Corporation and its affiliates under the LTIP. Because it was only to be settled in shares of Cleco Corporation common stock, non-vested stock was classified as equity. Recipients of non-vested stock had full voting rights of a stockholder. At the time restrictions lapsed, the accrued dividend equivalent units were paid to the recipient only to the extent that target shares vested.

In order to vest, the non-vested stock required the satisfaction of a service requirement and a market-based requirement. Recipients of non-vested stock were eligible to receive opportunity instruments if certain market-based measures were exceeded. Cleco also awarded non-vested stock with only a service period requirement to certain employees and directors. These awards required the satisfaction of a predetermined service period in order for the shares to vest.

During the predecessor period January 1, 2016, through April 12, 2016, Cleco granted no shares of non-vested stock pursuant to the LTIP. As a result of the 2016 Merger on April 13, 2016, all unvested shares outstanding under the LTIP that were granted prior to January 1, 2015, vested at target and were paid out in cash to plan participants. Unvested shares that were granted during 2015 were prorated to the target amount and paid out in cash to plan participants in accordance with the terms of the Merger Agreement.

The fair value of shares of non-vested stock that vested during the predecessor period January 1, 2016, through April 12, 2016, was $10.1 million.

Stock-Based Compensation

During 2016, Cleco did not modify any of the terms of outstanding awards. Cleco recognized stock-based compensation expense for these provisions in accordance with the non-substantive vesting period approach.

Prior to the completion of the 2016 Merger, Cleco recorded compensation expense for all non-vested stock. Assuming achievement of vesting requirements was probable, stock-based compensation expense of non-vested stock was recorded during the service periods, which were generally three years. All stock-based compensation cost was measured at the grant date based on the fair value of the award and was recognized as an expense in the income statement over the requisite service period of the award. Awards that vest pro rata during the requisite service period that contain only a service

condition were defined as having a graded vesting schedule and could have been treated as multiple awards with separate vesting schedules. However, Cleco elected to treat grants with graded vesting schedules as one award and recognized the related compensation expense on a straight-line basis over the requisite service period.
During the predecessor period January 1, 2016, through April 12, 2016, Cleco reported pretax compensation expense of $3.2 million on non-vested stock with a related tax benefit of $1.2 million. In April 2016, Cleco incurred $2.3 million of merger expense due to accelerated vesting of the LTIP shares.
For the predecessor period January 1, 2016, through April 12, 2016, compensation expense included in Cleco's Consolidated Statements of Income related to non-forfeitable dividends paid on non-vested stock that was not expected to vest was less than $0.1 million.
During the year ended December 31, 2016, Cleco Power reported pretax compensation expense of $1.0 million on non-vested stock with a related tax benefit of $0.4 million.
The amount of stock-based compensation capitalized in property, plant, and equipment on Cleco's Consolidated Balance Sheets for the predecessor period January 1, 2016, through April 12, 2016, was $0.6 million. The amount of stock-based compensation capitalized in property, plant, and equipment on Cleco Power's Consolidated Balance Sheets for the year ended December 31, 2016, was $0.6 million.
The ESPP did not contain optionality features beyond those listed by the authoritative guidance on stock-based compensation. Therefore, Cleco was not required to recognize a fair-value expense related to the ESPP.

Note 10 — Pension Plan and Employee Benefits

Pension Plan and Other Benefits Plan

Employees hired before August 1, 2007, are covered by a non-contributory, defined benefit pension plan. Benefits under the

plan reflect an employee's years of service, age at retirement, and highest total average compensation for any consecutive five calendar years during the last ten years of employment with Cleco. Cleco's policy is to base its contributions to the employee pension plan upon actuarial computations utilizing the projected unit credit method, subject to the IRS's full funding limitation. Cleco did not make any required or discretionary contributions to the pension plan in 2018 and 2017, nor does it expect to make any in 2019. The required contributions are driven by liability funding target percentages set by law which could cause the required contributions to be uneven among the years. Based on funding assumptions at December 31, 2018, management estimates that $95.5 million in pension contributions will be required through 2023. Future discretionary contributions may be made depending on changes in assumptions, the ability to utilize the contribution as a tax deduction, and requirements concerning recognizing a minimum pension liability. Adverse changes in assumptions or adverse actual events could cause additional minimum contributions. The ultimate amount and timing of the contributions may be affected by changes in the discount rate, changes in the funding regulations, and actual returns on fund assets. Cleco Power is the plan sponsor and Support Group is the plan administrator.
Cleco's retirees may be eligible to receive Other Benefits. Dependents of Cleco's retirees may also be eligible to receive Other Benefits with the exception of life insurance benefits. Cleco recognizes the expected cost of Other Benefits during the periods in which the benefits are earned.
The employee pension plan and other benefits plan obligation, plan assets, and funded status at December 31, 2018, and 2017 are presented in the following table:

	PENSION BENEFITS	OTHER BENEFITS

(THOUSANDS)	FOR THE YEAR ENDED DEC. 31, 2018	2017	FOR THE YEAR ENDED DEC. 31, 2018	2017
Change in benefit obligation				
Benefit obligation at beginning of period	$567,215	$512,785	$43,203	$44,136
Service cost	9,507	9,039	1,320	1,446
Interest cost	20,860	21,648	1,465	1,569
Plan participants’ contributions	—	—	1,224	1,149
Actuarial (gain) loss	(42,935)	46,686	(1,106)	437
Expenses paid	(2,786)	(3,020)	—	—
Benefits paid	(20,925)	(19,923)	(5,651)	(5,534)
Benefit obligation at end of period	530,936	567,215	40,455	43,203
Change in plan assets				
Fair value of plan assets at beginning of period	444,089	403,715	—	—
Actual return on plan assets	(28,884)	63,317	—	—
Expenses paid	(2,786)	(3,020)	—	—
Adjustment	439	—	—	—
Benefits paid	(20,925)	(19,923)	—	—
Fair value of plan assets at end of period	391,933	444,089	—	—
Unfunded status	$(139,003)	$(123,126)	$(40,455)	$(43,203)

The employee pension plan accumulated benefit obligation at December 31, 2018, and 2017 is presented in the following table:

	PENSION BENEFITS AT DEC. 31,	
(THOUSANDS)	2018	2017
Accumulated benefit obligation	$491,522	$520,612

The following table presents the net actuarial gains/losses and prior service costs/credits included in other comprehensive income for other benefits and in regulatory assets for pension related to current year gains and losses as a result of being included in net periodic benefit costs for the employee pension plan and other benefits plan for December 31, 2018, and 2017:

	PENSION BENEFITS FOR THE YEAR ENDED DEC. 31,		OTHER BENEFITS FOR THE YEAR ENDED DEC. 31,	
(THOUSANDS)	2018	2017	2018	2017
Net actuarial loss (gain) occurring during period	$9,722	$7,434	$(1,106)	$437
Net actuarial loss (gain) amortized during period	$12,313	$10,008	$135	$(50)
Prior service (credit) cost amortized during period	$(71)	$(71)	$—	$—

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

components of net periodic benefit costs and the amounts expected to be recognized in 2019 for the employee pension plan and other benefits plans at December 31, 2019, 2018, and 2017:

	PENSION BENEFITS AT DEC. 31,			OTHER BENEFITS AT DEC. 31,		
(THOUSANDS)	2019	2018	2017	2019	2018	2017
Net actuarial loss (gain)	$7,496	$140,377	$142,967	$(151)	$1,814	$2,779
Prior service credit	$(71)	$(131)	$(203)	$—	$—	$—

The non-service components of net periodic pension and Other Benefits cost are included in Other expense within Cleco and Cleco Power's Consolidated Statements of Income. The

components of net periodic pension and other benefits costs for 2018, 2017, and 2016 are as follows:

	PENSION BENEFITS				OTHER BENEFITS			
	SUCCESSOR			PREDECESSOR	SUCCESSOR			PREDECESSOR
(THOUSANDS)	FOR THE YEAR ENDED	FOR THE YEAR ENDED	APR. 13, 2016 - DEC. 31,	JAN. 1, 2016 - APR. 12, 2016	FOR THE YEAR ENDED	FOR THE YEAR ENDED	APR. 13, 2016 - DEC. 31,	JAN. 1, 2016 - APR. 12, 2016

	DEC. 31, 2018	DEC. 31, 2017	2016		DEC. 31, 2018	DEC. 31, 2017	2016	
Components of periodic benefit costs								
Service cost	$9,507	$9,039	$6,909	$ 2,563	$1,320	$1,446	$1,112	$ 431
Interest cost	20,860	21,648	15,088	6,242	1,465	1,569	1,237	476
Expected return on plan assets	(23,773)	(24,064)	(17,310)	(6,812)	—	—	—	—
Amortizations								
Prior service (credit) cost	(71)	(71)	(51)	(20)	—	—	—	34
Net loss (gain)	12,312	10,008	8,138	2,798	135	(50)	—	181
Net periodic benefit cost	$18,835	$16,560	$12,774	$ 4,771	$2,920	$2,965	$2,349	$ 1,122

During the third quarter of 2016, management finalized its remeasurement of the pension plan as of April 13, 2016, associated with the 2016 Merger. On the date of the remeasurement, the discount rate decreased from 4.62% to 4.21%. Prior to the remeasurement, Cleco's 2016 net periodic benefit cost for the pension plan was expected to be $15.9 million. Due to the remeasurement of the pension plan, Cleco's 2016 net periodic benefit cost increased to $17.5 million.

Because Cleco Power is the pension plan sponsor and the related trust holds the assets, the net unfunded status of the pension plan is reflected at Cleco Power. The liability of Cleco's other subsidiaries is transferred with a like amount of assets to Cleco Power monthly. The expense of the pension plan related to Cleco's other subsidiaries for the years ended December 31, 2018, and 2017 was $2.0 million and $1.8 million, respectively. The expense of the pension plan related to Cleco's other subsidiaries for the predecessor period January 1, 2016, through April 12, 2016, was $0.5 million. The expense of the pension plan related to Cleco's other subsidiaries for the

successor period April 13, 2016, through December 31, 2016, was $1.3 million.

Cleco Holdings is the plan sponsor for the other benefit plans. There are no assets set aside in a trust and the liabilities are reported on the individual subsidiaries' financial statements. The expense related to other benefits reflected in Cleco Power's Consolidated Statements of Income for the years ended December 31, 2018, 2017, and 2016 was $3.3 million, $3.3 million, and $3.5 million, respectively. The current and non-current portions of the other benefits liability for Cleco and Cleco Power at December 31, 2018, and 2017 are as follows:

Cleco

	AT DEC. 31,	
(THOUSANDS)	2018	2017
Current	$4,130	$4,061
Non-current	$36,325	$39,142

Cleco Power

	AT DEC. 31,	
(THOUSANDS)	2018	2017
Current	$3,584	$3,525
Non-current	$31,694	$34,033

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

	PENSION BENEFITS AT DEC. 31,		OTHER BENEFITS AT DEC. 31,	
	2018	2017	2018	2017
Weighted-average assumptions used to determine the benefit obligation				
Discount rate	4.35 %	3.73 %	4.16 %	3.47 %
Rate of compensation increase	2.93 %	2.98 %	N/A	N/A

	PENSION BENEFITS				OTHER BENEFITS			
	SUCCESSOR			PREDECESSOR	SUCCESSOR			PREDECESSOR
	FOR THE YEAR ENDED DEC. 31, 2018	FOR THE YEAR ENDED DEC. 31, 2017	APR. 13, 2016 - DEC. 31, 2016	JAN. 1, 2016 - APR. 12, 2016	FOR THE YEAR ENDED DEC. 31, 2018	FOR THE YEAR ENDED DEC. 31, 2017	APR. 13, 2016 - DEC. 31, 2016	JAN. 1, 2016 - APR. 12, 2016
Weighted-average assumptions used to determine the net benefit cost								
Discount rate	3.73 %	4.27 %	4.21 %	4.62 %	3.47 %	3.81 %	4.08 %	4.08 %
Expected return on plan assets	5.86 %	6.08 %	6.21 %	6.21 %	N/A	N/A	N/A	N/A
Rate of compensation increase	2.93 %	2.98 %	3.03 %	3.03 %	N/A	N/A	N/A	N/A

The expected return on plan assets was determined by examining the risk profile of each target category as compared to the expected return on that risk, within the parameters determined by the retirement committee. The result was also compared to the expected rate of return of other comparable plans. In assessing the risk as compared to return profile, historical returns as compared to risk were considered. The historical risk compared to returns was adjusted for the expected future long-term relationship between risk and return. The adjustment for the future risk compared to returns was, in part, subjective and not based on any measurable or observable events. For the calculation of the 2019 periodic expense, Cleco increased the expected long-term return on plan assets to 6.55%. Cleco expects pension expense to decrease in 2019 by approximately $7.2 million due to an increase in the discount rate and an increase in expected return on plan assets.

Employee pension plan assets are invested in accordance with the Pension Plan's Investment Policy Statement. At December 31, 2018, allowable investments included U.S. Equity Portfolios, International Equity - Developed Markets

Portfolios, Emerging Markets Equity Portfolios, Multi-Asset Credits, Treasury Separate Trading of Registered Interest and Principal of Securities (STRIPS), Fixed Income Portfolios, Fixed Income Portfolios - Long Credit, and Real Estate Portfolios.

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

Fair Value Disclosures

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

- Level 1 – unadjusted quoted prices in active, liquid markets for the identical asset or liability,
- Level 2 – quoted prices for similar assets and liabilities in active markets or other inputs that are observable for the asset or liability, including inputs that can be corroborated by observable market data, observable interest rate yield curves and volatilities, and
- Level 3 – unobservable inputs based upon the entities' own assumptions.

There have been no changes in the methodologies for determining fair value at December 31, 2018, and 2017. The following tables disclose the pension plan's fair value of financial assets measured on a recurring basis:

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CLECO POWER 2018 FORM 10-K

(THOUSANDS)	AT DEC. 31, 2018	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Asset Description				
Cash equivalents	$2,471	$ —	$ 2,471	$ —
Common stock	13,111	13,111	—	—
Obligations of Government, Government Agencies, and state and local governments	19,831	—	19,831	—
Mutual funds				
Domestic	79,210	79,210	—	—
International	43,418	43,418	—	—
Real estate funds	20,298	—	—	20,298
Corporate debt	138,391	—	138,391	—
Total	$316,730	$ 135,739	$ 160,693	$ 20,298
Investments measured at net asset value*	73,100			
Interest accrual	2,103			
Total net assets	$391,933			

*Investments measured at net asset value consist of Common/collective trust.

(THOUSANDS)	AT DEC. 31, 2017	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Asset Description				
Cash equivalents	$4,825	$ —	$ 4,825	$ —
Common stock	17,655	17,655	—	—
Obligations of Government, Government Agencies, and state and local governments	50,852	—	50,852	—
Mutual funds				
Domestic	58,617	58,617	—	—
International	36,970	36,970	—	—
Real estate funds	19,195	—	—	19,195
Corporate debt	204,835	—	204,835	—
Total	$392,949	$ 113,242	$ 260,512	$ 19,195
	48,103			

Investments measured at net asset value*	
Interest accrual	3,037
Total net assets	$444,089

*Investments measured at net asset value consist of Common/collective trust.

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

The following is a reconciliation of the beginning and ending balances of the pension plan's real estate funds measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended December 31, 2018, and 2017:

(THOUSANDS)	
Balance, Dec. 31, 2016	$18,668
Realized losses	(2,365)
Unrealized gains	2,674
Purchases	649
Sales	(431)
Balance, Dec. 31, 2017	$19,195
Realized gains	29
Unrealized gains	391
Purchases	710
Sales	(27)
Balance, Dec. 31, 2018	$20,298

The market-related value of plan assets differs from the fair value of plan assets by the amount of deferred asset gains or losses. Actual asset returns that differ from the expected return on plan assets are deferred and recognized in the market-related value of assets on a straight-line basis over a five-year period. For 2018, the return on plan assets was (7.31)% compared to an expected long-term return of 5.86%. The 2017 return on pension plan assets was 16.32% compared to an expected long-term return of 6.08%. As of

December 31, 2018, none of the pension plan participants' future annual benefits are covered by insurance contracts.

Pension Plan Investment Objectives

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

- Exceed the (FAS) actuarial assumed rate of return on plan assets, and
- Exceed the annualized total return of the following customized index (based on the target allocation in the glide path) consisting of a mixture of S&P 500 Index, Russell 2500 Index, Morgan Stanley Capital International All Country World ex U.S. Index, Morgan Stanley Capital International Emerging Markets Index, Customer Index related to Multi-Asset Credit asset class, Bloomberg Barclays Capital Long Credit Index, Bloomberg Barclays 15+ Year Treasury Separate Trading of Registered Interest and Principal of Securities (STRIPS), and National Council of Real Estate Investment Fiduciaries Index.

Risk characteristics of the portfolio (annualized standard deviation of returns) should be similar to or less than the custom index.

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

U.S. Domestic Equity Portfolios

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