CLECO POWER LLC
Form 10-K
February 26, 2009

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, 2008

Or

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

Commission file number 1-15759

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

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

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

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

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

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

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

Commission file number 1-05663

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

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

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

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

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

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

Title of each class
Membership Interests

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

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

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

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

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

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

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

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

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

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

The aggregate market value of the Cleco Corporation voting stock held by non-affiliates was $1,373,458,984 as of the last business day of Cleco Corporation’s most recently completed second fiscal quarter, based on a price of $23.33 per common share, the closing price of Cleco Corporation’s common stock as reported on the New York Stock Exchange on such date. Cleco Corporation’s Cumulative Preferred Stock is not listed on any national securities exchange, nor are prices for the Cumulative Preferred Stock quoted on any national automated quotation system; therefore, its market value is not readily determinable and is not included in the foregoing amount.

CLECO CORPORATION
CLECO POWER 2008 FORM 10-K

(Continuation of cover page)

As of February 2, 2009, there were 60,232,833 outstanding shares of Cleco Corporation's Common Stock, par value $1.00 per share. As of February 2, 2009, all of Cleco Power's Membership Interests were owned by Cleco Corporation.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Cleco Corporation's definitive Proxy Statement relating to its Annual Meeting of Shareholders to be held on April 24, 2009, are incorporated by reference into Part III herein.

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

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

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GLOSSARY OF TERMS

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

ABBREVIATION OR ACRONYM	DEFINITION
401(k) Plan	Cleco Power 401(k) Savings and Investment Plan
Acadia	Acadia Power Partners, LLC and its combined-cycle, natural gas-fired power plant near Eunice, Louisiana, 50% owned by APH and 50% owned by Cajun. Prior to September 13, 2007, Acadia was 50% owned by APH and 50% owned by Calpine Acadia Holdings, LLC.
AFUDC	Allowance for Funds Used During Construction
AICPA	American Institute of Certified Public Accountants
Amended EPC Contract	Amended and Restated EPC Contract between Cleco Power and Shaw, executed on May 12, 2006, for engineering, procurement, and construction of Rodemacher Unit 3, as amended by Amendment No. 1 thereto effective March 9, 2007, and Amendment No. 2 thereto dated as of July 2, 2008
APB	Accounting Principles Board
APB Opinion No. 10	Consolidated Financial Statements, Poolings of Interest, Convertible Debt and Debt Issued with Stock Warrants Installment Method of Accounting
APB Opinion No. 18	The Equity Method of Accounting for Investments in Common Stock
APB Opinion No. 21	Interest on Receivables and Payables
APB Opinion No. 25	Accounting for Stock Issued to Employees
APH	Acadia Power Holdings LLC, a wholly owned subsidiary of Midstream
ARB	Accounting Research Bulletin
ARB No. 51	Consolidated Financial Statements
ARO	Asset Retirement Obligation
Attala	Attala Transmission LLC, a wholly owned subsidiary of Cleco Corporation. Prior to February 1, 2007, Attala was a wholly owned subsidiary of Midstream.
Bear Energy	BE Louisiana LLC, an indirect wholly owned subsidiary of JPMorgan Chase & Co.
Bear Stearns Companies Inc.	The parent company of Bear, Stearns & Co. Inc.
Bidding Procedures Order	Bidding Procedures Order, in connection with the sale of CAH's interest in Acadia, approved by the Calpine Debtors Bankruptcy Court by order dated May 9, 2007
CAA	Clean Air Act
CAH	Calpine Acadia Holdings, LLC
CAH Assets	CAH's interest in Acadia and certain related assets
Cajun	Cajun Gas Energy L.L.C., an affiliate of pooled investment funds managed by King Street Capital Management, L.P.
Calpine	Calpine Corporation
Calpine Debtors	Calpine, CES, and certain other Calpine subsidiaries
Calpine Debtors Bankruptcy Court	U.S. Bankruptcy Court for the Southern District of New York

Calpine Tolling Agreements	Capacity Sale and Tolling Agreements between Acadia and CES which were suspended in March 2006
CCN	Certificate of Public Convenience and Necessity
CES	Calpine Energy Services, L.P.
Claims Settlement Agreement	Claims Settlement Agreement, dated April 23, 2007, by and among Calpine, CAH, CES, Acadia, and APH
CLE Intrastate	CLE Intrastate Pipeline Company LLC, a wholly owned subsidiary of Midstream
Cleco Energy	Cleco Energy LLC, a wholly owned subsidiary of Midstream
Cleco Innovations LLC	A wholly owned subsidiary of Cleco Corporation
Cleco Katrina/Rita	Cleco Katrina/Rita Hurricane Recovery Funding LLC, a wholly owned subsidiary of Cleco Power
CO2	Carbon dioxide
Compliance Plan	The one-year plan included in the Stipulation and Consent Agreement (Docket No. IN07-28-00), effective June 12, 2007
Consent Agreement	Stipulation and Consent Agreement, dated as of July 25, 2003, between Cleco and the FERC Staff
DHLC	Dolet Hills Lignite Company, LLC, a wholly owned subsidiary of SWEPCO
Diversified Lands	Diversified Lands LLC, a wholly owned subsidiary of Cleco Innovations LLC, a wholly owned subsidiary of Cleco Corporation
EITF	Emerging Issues Task Force of the FASB
EITF No. 06-11	Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards
EITF No. 07-1	Accounting for Collaborative Arrangements Related to the Development and Commercialization of Intellectual Property
EITF No. 07-3	Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities
EITF No. 08-5	Issuer's Accounting for Liabilities Measured at Fair Value with a Third Party Credit Enhancement
EITF No. 08-6	Equity Method Investment Accounting Considerations
EITF No. 94-1	Accounting for Tax Benefits Resulting from Investments in Affordable Housing Projects
Entergy	Entergy Corporation
Entergy Gulf States	Entergy Gulf States, Inc.
Entergy Louisiana	Entergy Louisiana, Inc.
Entergy Mississippi	Entergy Mississippi, Inc.
Entergy Services	Entergy Services, Inc., as agent for Entergy Louisiana and Entergy Gulf States
EPA	United States Environmental Protection Agency
EPC	Engineering, Procurement, and Construction
ERO	Electric Reliability Organization

ABBREVIATION OR ACRONYM	DEFINITION
ESOP	Cleco Corporation Employee Stock Ownership Plan
ESPP	Cleco Corporation Employee Stock Purchase Plan
Evangeline	Cleco Evangeline LLC, a wholly owned subsidiary of Midstream, and its combined-cycle, natural gas-fired power plant located in Evangeline Parish, Louisiana
Evangeline Tolling Agreement	Capacity Sale and Tolling Agreement between Evangeline and BE Louisiana LLC (as successor to Williams Power Company, Inc. (formerly known as Williams Energy Marketing & Trading Company)) which expires in 2020
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIN	FASB Interpretation No.
FIN 39	Offsetting of Amounts Related to Certain Contracts – an interpretation of APB Opinion No. 10 and FASB Statement No. 105
FIN 45	Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others
FIN 46R	Consolidation of Variable Interest Entities – an Interpretation of Accounting Research Bulletin No. 51 (revised December 2003)
FIN 47	Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143
FIN 48	Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109
FSP	FASB Staff Position
FSP EITF No. 03-6-1	Determining Whether Instruments Granted in Shared Based Payment Transactions Are Participating Securities
FSP No. FAS 132(R)-1	Employers' Disclosures about Postretirement Benefit Plan Assets
FSP No. FAS 133-1 and FIN 45-4	Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FSB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161
FSP No. FAS 140-4 and FIN 46(R)-8	Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities
FSP No. FAS 142-3	Determining the Useful Life of Intangible Assets
FSP No. FAS 157-1	Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13
FSP No. FAS 157-2	Effective date of FASB Statement No. 157
FSP No. FAS 157-3	Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active
FSP No. FIN 39-1	Amendment of FASB Interpretation No. 39
FSP SFAS No. 106-2	Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003
GAAP	Generally Accepted Accounting Principles in the United States
GDP-IPD	Gross Domestic Product – Implicit Price Deflator
Generation Services	Cleco Generation Services LLC, a wholly owned subsidiary of Midstream

GO Zone	Gulf Opportunity Zone Act of 2005 (Public Law 109-135)
ICT	Independent Coordinator of Transmission
Interconnection Agreement	One of two Interconnection Agreement and Real Estate Agreements, one between Attala and Entergy Mississippi, and the other between Perryville and Entergy Louisiana
IRP	Integrated Resource Planning
IRS	Internal Revenue Service
kWh	Kilowatt-hour(s) as applicable
LDEQ	Louisiana Department of Environmental Quality
LIBOR	London Inter-Bank Offer Rate
Lignite Mining Agreement	Dolet Hills Mine Lignite Mining Agreement, dated as of May 31, 2001
LPSC	Louisiana Public Service Commission
LTICP	Cleco Corporation Long-Term Incentive Compensation Plan
Midstream	Cleco Midstream Resources LLC, a wholly owned subsidiary of Cleco Corporation
MMBtu	Million British thermal units
Moody's	Moody's Investors Service
MW	Megawatt(s) as applicable
MWh	Megawatt-hour(s) as applicable
NERC	North American Electric Reliability Corporation
Not meaningful	A percentage comparison of these items is not statistically meaningful because the percentage difference is greater than 1,000%.
NOx	Nitrogen oxides
PCAOB	Public Company Accounting Oversight Board
PCB	Polychlorinated biphenyls
PEH	Perryville Energy Holdings LLC, a wholly owned subsidiary of Midstream.
Perryville	Perryville Energy Partners, L.L.C., a wholly owned subsidiary of Cleco Corporation. Prior to February 1, 2007, Perryville was a wholly owned subsidiary of Perryville Energy Holdings LLC, a wholly owned subsidiary of Midstream.
Perryville and PEH Bankruptcy Court	U.S. Bankruptcy Court for the Western District of Louisiana, Alexandria Division
Power Purchase Agreement	Power Purchase Agreement, dated as of January 28, 2004, between Perryville and Entergy Services
PRP	Potentially responsible party
Registrant(s)	Cleco Corporation and Cleco Power
RFP	Request for Proposal
Rodemacher Unit 3	A 600-MW solid-fuel generating unit under construction by Cleco Power at its existing Rodemacher plant site in Boyce, Louisiana
RSP	Rate Stabilization Plan
RTO	Regional Transmission Organization
Sale Agreement	Purchase and Sale Agreement, dated as of January 28, 2004, between Perryville and Entergy Louisiana

ABBREVIATION OR ACRONYM	DEFINITION
SEC	Securities and Exchange Commission
SERP	Cleco Corporation Supplemental Executive Retirement Plan
SFAS	Statement of Financial Accounting Standards
SFAS No. 5	Accounting for Contingencies
SFAS No. 13	Accounting for Leases
SFAS No. 29	Determining Contingent Rentals
SFAS No. 71	Accounting for the Effects of Certain Types of Regulation
SFAS No. 87	Employers' Accounting for Pensions
SFAS No. 94	Consolidation of All Majority Owned Subsidiaries
SFAS No. 95	Statement of Cash Flows
SFAS No. 106	Employers' Accounting for Postretirement Benefits Other Than Pensions
SFAS No. 109	Accounting for Income Taxes
SFAS No. 123	Accounting for Stock-Based Compensation
SFAS No. 123(R)	Share-Based Payment
SFAS No. 131	Disclosures about Segments of an Enterprise and Related Information
SFAS No. 132(R)	Employers' Disclosures about Postretirement Benefit Plan Assets
SFAS No. 133	Accounting for Derivative Instruments and Hedging Activities
SFAS No. 140	Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities
SFAS No. 140 and FIN 46(R)	Disclosures about Transfers of Financial Assets and Interests in Variable Interest Entities
SFAS No. 141(R)	Business Combinations
SFAS No. 142	Goodwill and Other Intangible Assets
SFAS No. 143	Accounting for Asset Retirement Obligations
SFAS No. 149	Amendment of Statement 133 on Derivative Instruments and Hedging Activities
SFAS No. 157	Fair Value Measurements
SFAS No. 158	Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)
SFAS No. 159	The Fair Value Option For Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115
SFAS No. 160	Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51
SFAS No. 161	Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133
SFAS No. 162	The Hierarchy of Generally Accepted Accounting Principles
Shaw	Shaw Contractors, Inc., a subsidiary of The Shaw Group Inc.
SO2	Sulfur dioxide
SPP	Southwest Power Pool
Support Group	Cleco Support Group LLC, a wholly owned subsidiary of Cleco Corporation
SWEPCO	Southwestern Electric Power Company, a wholly owned subsidiary of American Electric Power Company, Inc.
Teche	Teche Electric Cooperative, Inc.
VaR	Value-at-risk
Williams	Williams Power Company, Inc.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

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

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

§ The current global financial crisis and U.S. recession;

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

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

§ Acts of terrorism;

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

§ Uncertain tax positions;

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

§ Legal, environmental, and regulatory delays and other obstacles associated with mergers, acquisitions, reorganizations, investments in joint ventures, or other capital projects, including Rodemacher Unit 3 and the joint project to upgrade the Acadiana Load Pocket transmission system;

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

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

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

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

PART I

ITEM 1. BUSINESS

GENERAL

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

Cleco Power's predecessor was incorporated on January 2, 1935, under the laws of the State of Louisiana. Cleco Power was organized on December 12, 2000. Cleco Power is an electric utility engaged principally in the generation, transmission, distribution and sale of electricity within Louisiana. Cleco Power is regulated by the LPSC and FERC, which determine the rates Cleco Power can charge its customers, as well as other regulators. Cleco Power serves approximately 276,000 customers in 107 communities in central and southeastern Louisiana. Cleco Power's operations are described below in the consolidated description of Cleco's business segments.

Midstream, organized effective September 1, 1998, under the laws of the State of Louisiana, is a merchant energy subsidiary that owns and operates a merchant power plant (Evangeline). Midstream also owns a 50 percent interest in a merchant power plant (Acadia) and operates the plant on behalf of its partner.

At December 31, 2008, Cleco employed 1,320 people. Cleco's mailing address is P.O. Box 5000, Pineville, Louisiana 71361-5000, and its telephone number is (318) 484-7400. Cleco's homepage on the Internet is located at http://www.cleco.com. Cleco Corporation's and Cleco Power's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other filings with the SEC are available, free of charge, through Cleco's website after those reports or filings are filed electronically with or furnished to the SEC. Cleco's filings also can be obtained at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. Cleco's electronically filed reports also can be obtained on the SEC's Internet site located at http://www.sec.gov. Cleco's corporate governance guidelines, code of business conduct, ethics and business standards, and the charters of its board of directors' audit, compensation, executive, finance, nominating/governance and qualified legal compliance committees are available on its website and available in print to any shareholder upon request. Information on Cleco's website or any other website is not incorporated by reference into this Report and does not constitute a part of this Report.

At December 31, 2008, Cleco Power employed 1,023 people. Cleco Power's mailing address is P.O. Box 5000, Pineville, Louisiana, 71361-5000, and its telephone number is (318) 484-7400.

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

OPERATIONS

Cleco Power

Segment Financial Information

Summary financial results of the Cleco Power segment for years 2008, 2007, and 2006 are presented below.

(THOUSANDS)	2008	2007	2006
Revenue			
Electric operations	$ 1,032,970	$ 988,193	$ 959,393
Other operations	36,675	35,176	30,056
Electric customer credits	-	-	4,693
Affiliate revenue	29	42	49
Intercompany revenue	2,008	2,008	2,000
Operating revenue, net	$ 1,071,682	$ 1,025,419	$ 996,191
Depreciation expense	$ 76,420	$ 78,522	$ 73,360
Interest charges	$ 47,283	$ 29,565	$ 36,250
Interest income	$ 3,943	$ 5,422	$ 7,425
Federal and state income taxes	$ 27,956	$ 29,613	$ 33,059
Segment profit	$ 113,832	$ 84,673	$ 64,828
Additions to long-lived assets	$ 321,407	$ 492,445	$ 293,050
Segment assets	$ 3,041,597	$ 2,306,482	$ 2,010,815

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

Certain Factors Affecting Cleco Power

As an electric utility, Cleco Power is affected, to varying degrees, by a number of factors influencing the electric utility industry in general. These factors include, among others, fluctuations in the price of natural gas, an increasingly competitive business environment, the cost of compliance with environmental and reliability regulations, conditions in the credit markets and global economy and changes in the federal and state regulation of generation, transmission, and the sale of electricity. For a discussion of various regulatory changes and competitive forces affecting Cleco Power and other electric utilities, see "— Regulatory Matters, Industry Developments, and Franchises" and Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Market Restructuring." For a discussion of risk factors affecting Cleco Power's business, see Item 1A, "Risk Factors — Rodemacher Unit 3 Construction Costs," "— Rodemacher Unit 3 Technical Specifications," "— Cleco Power's Rates and Rate Case," "— Fuel Cost Audits," "— Hedging and Risk Management Activities," "— Future Electricity Sales," "— Purchased Power," "— Weather Sensitivity," "— Commodity Pric Power Generation Facilities," "— ERO," "— Environmental Compliance," "— Regulatory Compliance," "— Termination of t Rodemacher Unit 3 Project or the Amended EPC Contract," "— Retail Electric Service," "— Cleco Credit Ratings," "— Storn Restoration Costs," and "— Global Financial Crisis."

Power Generation

Cleco Power operates and either owns or has an ownership interest in three steam electric generating stations and one gas turbine. As of December 31, 2008, Cleco Power's aggregate net electric generating capacity was 1,318 MW. This amount reflects the maximum production capacity these units can sustain over a specified period of time. The following table sets forth certain information with respect to Cleco Power's generating facilities:

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

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

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

PERIOD	THOUSAND MWh	PERCENT OF TOTAL ENERGY REQUIREMENTS
2008	4,747	44.3
2007	4,504	42.0
2006	4,691	44.0
2005	5,284	51.2

2004	4,820	46.3

In May 2006, Cleco Power began construction of Rodemacher Unit 3, a 600-MW solid-fuel power plant at its Rodemacher facility, which will provide a portion of the utility's power supply needs. Rodemacher Unit 3 will be capable of burning various solid fuels, but primarily is expected to burn petroleum coke produced by several refineries throughout the Gulf Coast region. The total capital cost of the project, including AFUDC, Amended EPC Contract costs, and other development expenses, is estimated at $1.0 billion. Cleco Power anticipates the plant will be substantially complete and operational in the second half of 2009. For additional information on Rodemacher Unit 3, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Liquidity and Capital Resources — Regulatory Matters — Rodemacher Unit 3."

Fuel and Purchased Power

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

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

		LIGNITE		COAL		NATURAL GAS		FUEL OIL
YEAR	COST PER MWh	PERCENT OFGENERATION	COST PER MWh	PERCENT OF GENERATION	COST PER MWh	PERCENT OF GENERATION	COST PER MWh	PERCENT GENERAT
2008	$24.09	51.3	$27.50	18.4	$108.48	30.3	$ -	-
2007	$ 19.80	42.2	$ 26.07	24.8	$ 129.80	33.0	$ -	-
2006	$ 18.20	50.0	$ 22.81	20.8	$ 125.07	29.1	$ 107.65	0.1
2005	$ 17.44	45.7	$ 19.44	20.6	$ 85.72	27.3	$ 83.08	6.4
2004	$ 17.19	48.5	$ 17.45	19.8	$ 72.33	30.3	$ 72.13	1.4

Power Purchases

When the market price of power is more economical than self-generation of power or when Cleco Power needs power to supplement its own electric generation, and when transmission capacity is available, Cleco Power purchases power from energy marketing companies or neighboring utilities. These purchases are made from the wholesale power market in the form of generation capacity and/or energy. During 2008, portions of Cleco Power's capacity and power purchases were made at contract prices, and the remainder were made at prevailing market prices.

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

PERIOD	COST PER MWh	THOUSAND MWh	PERCENT OF TOTAL ENERGY REQUIREMENTS
2008	$ 73.72	5,959	55.7
2007	$ 58.08	6,221	58.0
2006	$ 59.50	5,968	56.0
2005	$ 69.84	5,028	48.8
2004	$ 42.36	5,592	53.7

During 2008, 55.7% of Cleco Power's energy requirements were met with purchased power, down from 58.0% in 2007. The primary factor causing the decrease was the increased generation from Cleco Power's own facilities as a result of less maintenance work performed during 2008. For information on Cleco Power's ability to pass on to its customers substantially all of its fuel and purchased power expenses, see "— Regulatory Matters, Industry Developments, and Franchises — Rates."

During 2008, Cleco Power obtained approximately 40.4% of its annual capacity from short- and long-term power purchase agreements. One agreement is with Bear Energy for 500 MW of annual capacity through 2009. The second agreement was with NRG Power Marketing, Inc. (NRG). The term of this agreement was one year during which Cleco Power purchased 115 MW from May through October and 100 MW during the remainder of 2008. A third capacity and energy agreement with Union Power Partners, L.P. (UPP) supplied a 218-MW next day call from May through September 2008. Cleco Power also has a long-term contract, which expires in April 2018, for the purchase of 20 MW of power from the Sabine River Authority, which operates a hydroelectric generating plant. In addition, Cleco Power has a wholesale power contract with the city of Natchitoches, which provided 42 MW of capacity in 2008. The current contract expires in December 2009.

As a result of its 2008 short-term RFP for 2009 resources, Cleco Power successfully negotiated a power purchase agreement with Acadia for 235 MW of capacity and energy for 2009. Cleco Power has received approval for the power purchase agreement from the LPSC and FERC.

Management expects to meet its native load demand in 2009 with Cleco Power's own generation capacity, wholesale power market purchases, and power purchase agreements with Bear Energy and Acadia, in addition to capacity requested in a RFP that was issued on January 6, 2009 for a minimum capacity amount of 50 MW up to 200 MW in order to serve additional load. On February 9, 2009, a winning bidder was selected. Cleco Power is currently negotiating the terms of the contract and anticipates signing a power purchase agreement by the end of the first quarter of 2009. The requested products for supply will start April 1, 2009 and continue through October 31, 2009. For additional information on Cleco Power's risks associated with purchased power contracts, see Item 1A, "Risk Factors — Purchased Power."

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

§ new plant construction;
§ fuel conversion projects;

§ repowering projects;
§ renewable resource projects; and
§ demand-side management.

The process considers both operational and economic features, such as construction, operating and fuel costs, fuel diversity, reliability, deliverability, ease of dispatch, environmental impact, and other risk factors. The IRP team has developed a framework for evaluating proposed options to optimize service for Cleco Power's customers' needs and to reduce and stabilize their fuel cost without sacrificing reliability. Any viable generation alternative must then be validated through an LPSC-sanctioned RFP process. The resource planning effort employs software to model complex factors including the need for energy, market conditions, commodity pricing, new legislation and regulations, plant output, weather and other factors expected to impact the electric industry in future years. Cleco Power released a RFP in October 2007 seeking long-term resources to fill the needs identified by the latest IRP. Bids for this RFP were received in December 2007 and Cleco Power notified bidders that were selected for the short list. On February 26, 2009, Cleco Power announced that it had chosen the acquisition of 50 percent of the Acadia power station, or one of its two 580-MW units, as the lowest bid in its 2007 long-term RFP for capacity beginning in 2010. Cleco Power will own and operate one unit and operate the other 580-MW unit on behalf of Acadia. Prior to closing the transaction, valued at approximately $300.0 million, Cleco Power must complete its due diligence, finalize and execute definitive agreements, and receive approvals from the LPSC and FERC. Cleco Power and Acadia plan to complete the transaction by the end of 2009 in a process that remains under the supervision of an independent monitor appointed by the LPSC. For additional information on Cleco Power's power supply, see Item 1A, "Risk Factors — Rodemacher Unit 3 Construction Costs" and "— Purchased Power."
Because of its location on the transmission grid, Cleco Power relies on two main suppliers of electric transmission when accessing external power markets. At times, constraints limit the amount of purchased power these transmission providers can deliver into Cleco Power's service territory. Cleco

Power's power contracts, as well as spot market power purchases, may be affected by these transmission constraints. For information on the Acadiana Load Pocket project and how transmission constraints in this area are expected to be reduced, see Part II, Item 7A, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Regulatory Matters — Acadiana Load Pocket."

Coal and Lignite Supply

Cleco Power uses coal for generation at Rodemacher Unit 2. In 2007, Cleco Power entered into agreements with Rio Tinto Energy America and Peabody Energy which will provide the majority of coal needs through 2014. The coal supply agreements are fixed-price (without reopeners) and together provide for the full requirements to support Cleco Power's minimum case planned dispatch of Rodemacher Unit 2 (4 million tons total over the 7-year period). To the extent that the actual dispatch of the unit exceeds the minimum case model, Cleco Power expects to make additional spot purchases to maintain inventory within targeted levels. The volume commitment was designed to reasonably assure that excess inventory will not accumulate during the term of the agreement. With respect to transportation of coal, Cleco Power had a three-year agreement with Union Pacific Railroad Company (UP) for transportation of coal from the Powder River Basin to Rodemacher Unit 2 through 2008. A new three-year agreement with UP was entered into in June 2008, providing rail transportation to the facility through 2011. Cleco Power leases approximately 241 railcars to transport its coal under two long-term leases. One of the railcar leases expires in March 2017, and the other expires in March 2021.

Cleco Power uses lignite for generation at the Dolet Hills power station. Substantially all of the lignite used to fuel Dolet Hills is obtained under two long-term agreements. One of the agreements expires on December 31, 2010. The other agreement has no specific expiration date. Factors that could cause the agreement to expire are the depletion of all economically surface mineable lignite reserves or the closing of the mine and the completion of reclamation work. Cleco Power and SWEPCO, each a 50% owner of Dolet Hills, have acquired an undivided 50% interest in the other's leased and owned lignite reserves in northwestern Louisiana. In May 2001, Cleco Power and SWEPCO entered into a long-term agreement with DHLC for the mining and delivery of such lignite reserves. These reserves are expected to provide a substantial portion of the Dolet Hills' unit's fuel requirements throughout the life of the contract with DHLC. The term of this contract runs until all economically mineable lignite has been mined, which is currently estimated to be around 2016.

Additionally, Cleco Power and SWEPCO have entered into an agreement which expires in 2010 with Red River Mining Company to purchase lignite. Cleco Power's minimum annual purchase requirement of lignite under this agreement is 550,000 tons. The lignite price under the contract is a base price per MMBtu, subject to escalation, plus certain "pass-through" costs. DHLC provides all of the lignite in excess of the 550,000 tons base commitment. For information regarding deferred mining costs and obligations associated with the DHLC mining agreement see, Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 3 — Regulatory Assets and Liabilities — Deferred Mining Costs" and Note 15 — "Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees — Off-Balance Sheet Commitments and Disclosures about Guarantees."

The continuous supply of coal and lignite may be subject to interruption due to adverse weather conditions or other factors that may disrupt mining operations or transportation to the plant site. At December 31, 2008, Cleco Power's coal inventory at Rodemacher Unit 2 was approximately 302,000 tons (about a 137-day supply), and Cleco Power's lignite inventory at Dolet Hills was approximately 227,000 tons (about a 37-day supply).

Natural Gas Supply

During 2008, Cleco Power purchased a total of 17,087,000 MMBtu of natural gas for the generation of electricity. The annual and average per-day quantities of gas purchased by Cleco Power from each supplier are shown in the table below.

NATURAL GAS SUPPLIER	2008 PURCHASES	AVERAGE AMOUNT	PERCENT OF

	(MMBtu)	PURCHASED PER DAY (MMBtu)	TOTAL NATURAL GAS USED
Crosstex Gulf Coast Marketing	5,104,000	14,000	29.9%
Chevron Texaco	1,930,000	5,300	11.3%
Citigroup Energy	1,746,000	4,800	10.2%
Sequent Energy	1,745,000	4,800	10.2%
Noble Gas	1,737,000	4,800	10.2%
ONEOK Energy Services	1,179,000	3,200	6.9%
Others	3,646,000	10,000	21.3%
Total	17,087,000	46,900	100.0%

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

Natural gas was available without interruption throughout 2008. Cleco Power expects to continue to meet its natural gas requirements with purchases on the spot market through daily, monthly, and seasonal contracts with various natural gas suppliers. However, future supplies to Cleco Power remain vulnerable to disruptions due to weather events and transportation delays. Large industrial users of natural gas, including electric utilities, generally have low priority among gas users in the event pipeline suppliers are forced to curtail deliveries due to inadequate supplies. As a result, prices may increase rapidly in response to temporary supply interruptions. Although prices may increase rapidly, Cleco Power enters into economic hedge positions to mitigate the volatility in fuel costs as encouraged by an LPSC order. For additional information on these economic hedge positions, see Item 1A, "Risk Factors — Hedging and Risk Management Activities" and Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk — Commodity Price Risks." Currently, Cleco Power anticipates that its diverse supply options and alternative fuel capability, combined with its solid-fuel generation resources, are adequate to meet its fuel needs during any temporary interruption of natural gas supplies.

Fuel Oil Supply
Cleco Power stores fuel oil as an alternative fuel source at its Rodemacher and Teche power stations. The Rodemacher power station has storage capacity for an approximate 95-day supply, and the Teche power station has storage capacity for an approximate 28-day supply. However, in accordance with Cleco Power's current fuel oil inventory practices, Cleco Power had approximately an 89-day supply of fuel oil stored at its Rodemacher facility and a 16-day supply at its Teche facility at December 31, 2008. During 2008, no fuel oil was purchased or burned.

Sales
Cleco Power's 2008 and 2007 system peak demands, which occurred on July 28, 2008, and August 14, 2007, were 2,113 MW and 2,216 MW, respectively. Sales and system peak demand are affected by weather and are highest during the summer air-conditioning season. In 2008, Cleco Power experienced above-normal summer weather. In 2007, Cleco Power experienced above-normal summer weather and a mild winter. For information on the effects of future energy sales on Cleco Power's financial condition, results of operations, and cash flows, see Item 1A, "Risk Factors — Weather Sensitivity" and "— Future Electricity Sales." For information on the financial effects of seasonal demand on Cleco Power's quarterly operating results, see Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 22 — Miscellaneous Financial Information (Unaudited)."
Capacity margin is the net capacity resources (either owned or purchased) less native load demand divided by net capacity resources. Each year, members of the SPP submit forecasted native load demand and the forecasted mix of net capacity resources to meet this demand. Cleco Power's actual capacity margin of 12.8% in 2008 was slightly above the SPP's capacity benchmark of 12%. During 2007, Cleco Power's capacity margin was 6.2%, primarily due to higher than expected native load demand. Cleco Power anticipates a 12.0% capacity margin for 2009 which includes power purchase agreements with Acadia and Bear Energy. For additional information on Cleco Power's power contracts and its evaluation of other supply options, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Regulatory Matters — Generation RFP."

Midstream
Summary financial results of the Midstream segment for 2008, 2007, and 2006 are presented below.

(THOUSANDS)	2008	2007	2006
Revenue			
Other operations	$ 1	$ 16	$ 42
Affiliate revenue	7,920	5,050	4,358
Operating revenue, net	$ 7,921	$ 5,066	$ 4,400
Depreciation expense	$ 307	$ 306	$ 307
Interest charges	$ 6,978	$ 19,053	$ 18,918
Interest income	$ -	$ 1,047	$ -
Equity (loss) income from investees	$ (7,037)	$ 91,581	$ 21,346
Federal and state income tax (benefit) expense	$ (7,182)	$ 36,585	$ 3,220
Segment (loss) profit from continuing operations, net	$ (10,017)	$ 59,317	$ (3,748)
Loss from discontinued operations, including gain on disposal, net of tax	$ -	$ -	$ (79)
Segment (loss) profit	$ (10,017)	$ 59,317	$ (3,827)
Additions to long-lived assets	$ 64	$ 10	$ 13
Equity investment in investees	$ 234,273	$ 249,758	$ 302,167
Total segment assets	$ 250,882	$ 265,918	$ 325,157

As of December 31, 2008, Midstream wholly and directly owned four active limited liability companies that operated mainly in Louisiana.

- § Evangeline, which owns and operates a combined-cycle natural gas-fired power plant.
- § APH, which owns 50% of Acadia, a combined-cycle natural gas-fired power plant.
- § Generation Services, which offers power station operations and maintenance services. Its customers are Evangeline and Acadia.
- § CLE Intrastate, which owns a natural gas interconnection that allows Evangeline to access the natural gas supply market.

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

GENERATING STATION	GENERATING UNIT #	COMMENCEMENT OF COMMERCIAL OPERATION	NAME PLATE CAPACITY (MW)	NET CAPACITY(MW)	TYPE OF FUEL USED FOR GENERATION
Evangeline	6	2000	264	265(1)	natural gas
	7	2000	511	490(1)	natural gas
Acadia	1	2002	290(2)	293(3)	natural gas
	2	2002	290(2)	293(3)	natural gas
Total generating capability			1,355	1,341	

(1) Based on capacity testing of generating units performed in June 2008.
(2) Represents APH's 50% ownership interest in the capacity of Acadia.
(3) Based on SPP rated condition factors in November 2007.

Midstream competes against regional and national companies that own and operate merchant power stations.

Prior to November 2007, Evangeline's capacity was dedicated to one customer, Williams, which was the counterparty to the Evangeline Tolling Agreement. In November 2007, Williams completed the assignment of its interest in the Evangeline Tolling Agreement to Bear Energy. The terms of the Evangeline Tolling Agreement, set to expire in 2020, were unchanged. The Evangeline Tolling Agreement gives the tolling counterparty the right to own, dispatch, and market all of the electric generation capacity of the respective facility. Under a tolling agreement, the tolling counterparty is responsible for providing its own natural gas to the facility and pays a fixed fee and a variable fee for operating and maintaining the respective facility. In May 2008, JPMorgan Chase & Co. acquired Bear Stearns Companies Inc. In connection with the acquisition, JPMorgan Chase & Co. has guaranteed certain obligations of Bear Stearns Companies Inc.'s subsidiaries, including Bear Energy's obligations under the Evangeline Tolling Agreement.

Prior to March 2006, Acadia's capacity also was dedicated to one customer, CES, which was the counterparty to the Calpine Tolling Agreements. In December 2005, the Calpine Debtors filed for protection under Chapter 11 of the Bankruptcy Code and subsequently filed a motion with the Calpine Debtors Bankruptcy Court to reject the Calpine Tolling Agreements. In March 2006, Acadia and CES executed amendments to the Calpine Tolling Agreements, which were approved by the Calpine Debtors Bankruptcy Court, permitting Acadia to suspend its obligations under the agreements. Currently, Acadia's output is sold through an energy management services agreement with a third party marketer. For additional information on the above tolling agreements and related transactions, risks and uncertainties, see Item 1A, "Risk Factors — Evangeline Plant Performance" and "— Evangeline Tolling Agreement," and Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Midstream — Significant Factors Affecting Midstream — Earnings are primarily affected by the following factors." For additional information on the Calpine bankruptcy and the suspension of the Calpine Tolling Agreements, see Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 20 — Calpine Bankruptcy Settlement."

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

At December 31, 2008, Midstream and its subsidiaries employed 65 people: 62 within Generation Services and 3 at Midstream.

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

Customers

No single customer accounted for 10% or more of Cleco's consolidated revenue or Cleco Power's revenue in 2008, 2007, or 2006. For additional information regarding Cleco's sales and revenue, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations."

Construction and Financing

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

REGULATORY MATTERS, INDUSTRY DEVELOPMENTS, AND FRANCHISES

Rates

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

Cleco Power's electric rates include a fuel and purchased power cost adjustment clause that enables it to adjust rates for monthly fluctuations in the cost of fuel and purchased power. Revenue from certain off-system sales to other utilities and energy marketing companies is passed on to customers through a reduction in fuel cost adjustment billing factors. Recovery of fuel adjustment clause costs is subject to refund until monthly approval is received from the LPSC; however, all amounts are subject to a periodic fuel audit by the LPSC. Cleco Power currently has fuel adjustment filings for 2003 through 2008 subject to review. In July 2006, the LPSC began an audit of Cleco Power's fuel adjustment clause filings for the period January 2003 through December 2004. This review is pending and Cleco Power does not anticipate the LPSC to proceed until the third quarter of 2009. Management is currently unable to predict the timing of the fuel cost audits for the open years 2005 through 2008. Cleco Power could be required to make a refund of previously recorded revenue as a result of these audits, and such refund could result in a material adverse effect on the Registrants' results of operations, financial condition, and cash flows.

In July 2006, Cleco Power's current RSP with the LPSC, which governs its retail regulatory return on equity, was extended with modifications to certain terms until the in-service date of Rodemacher Unit 3, which is expected to be operational in the second half of 2009. During 2006, the LPSC approved the recovery of a portion of the carrying costs of capital associated with the construction of Rodemacher Unit

3. Also during 2006, the LPSC approved an interim rate increase to recover storm restoration costs incurred by Cleco Power relating to Hurricanes Katrina and Rita. In March 2007, after completing a review of the restoration costs, Cleco Power and the LPSC Staff filed a settlement agreement allowing recovery of $158.0 million, essentially all of Cleco Power's Hurricanes Katrina and Rita storm costs. The agreement also authorized the issuance of securitized bonds to finance the restoration costs. The collection of a special storm recovery charge from Cleco Power's customers will securitize the bonds. The LPSC approved the settlement agreement and issued a securitization financing order in September 2007. In March 2008, the securitization financing was completed, collection of the interim surcharge ceased and the right to bill and collect unamortized storm damage costs from customers was sold to Cleco Katrina/Rita, a special purpose, wholly-owned subsidiary of Cleco Power. For additional information about the recovery of storm restoration costs, see Part II, Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 3 — Regulatory Assets and Liabilities — Deferred Storm Restoration Costs - Katrina/Rita."
For additional information on Cleco Power's retail and wholesale rates, including Cleco Power's RSP, see Item 1A, "Risk Factors — Retail Electric Service" and — "Fuel Cost Audits" and Part II, Item 7, "Management's Discussion and Analy of Financial Condition and Results of Operations — Financial Condition — Regulatory Matters — Retail Rates of Cleco Power," and — "Wholesale Rates of Cleco."

Cleco Power's Rate Case
The LPSC directed Cleco Power to file a full base rate case at least 12 months prior to the expected in-service date of Rodemacher Unit 3. On July 14, 2008, Cleco Power filed a request for a new rate plan with the LPSC to increase its base rates for electricity. Cleco Power is seeking recovery of revenues sufficient to cover the addition of Rodemacher Unit 3 to its existing expense and rate base levels. Although base revenues will increase under Cleco Power's proposed rate plan, fuel costs and collection of financing charges are expected to decrease. Seven industrial customers have filed interventions in the rate case, which is currently in the discovery phase. At this time, Cleco Power anticipates a settlement of the rate case in the second quarter of 2009. The new rates are expected to be effective upon the commercial operation date of Rodemacher Unit 3.

Franchises
Cleco Power operates under nonexclusive franchise rights granted by governmental units, such as municipalities and parishes (counties), and enforced by state regulation. These franchises are for fixed terms, which may vary from 10 years to 50 years or more. In the past, Cleco Power has been substantially successful in the timely renewal of franchises as each reached the end of its term. Cleco Power's next municipal franchise expires in 2011.

Renewed Franchises
Cleco Power renewed the following franchise agreements during 2007. No franchises were renewed in 2008.

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

Other Franchise Matters

On February 13, 2007, the City Council of Eunice voted to accept a city-wide franchise proposal with South Louisiana Electric Membership Cooperative (SLEMCO) a local electric cooperative. The cooperative will now have the opportunity to serve customers city-wide. However, both utilities are required to follow the LPSC 300-foot rule regulation to determine which utility can provide electricity to the customer. In general, if a utility's distribution system is within 300 feet of the new customer's meter point, that utility automatically serves the customer. Otherwise, the customer may choose the electricity provider. The LPSC is currently reviewing its "300-foot rule" (Docket No. R-28955). Management is unable to predict the time of completion of this review. This decision is not expected to have a material impact on Cleco Power's results of operations or financial condition, but may reduce future customer and load growth as both utilities compete for new customers.

In June 2007, SLEMCO entered into a limited franchise agreement with the City of Crowley. Cleco Power also provides electric service to Crowley under an existing franchise agreement. The new agreement allows SLEMCO to compete for new customers in areas of the city that have been annexed by Crowley since 2003. This decision does not have a material impact on Cleco Power's results of operations or financial condition, but could reduce customer and load growth as both utilities compete for new customers. Cleco Power has not experienced any reduction in customers or load growth since the signing of the limited franchise by SLEMCO.

Historically, Cleco Power has been allowed to recover municipal franchise fees as part of the base rates it charges retail customers. Consequently, franchise fees are recovered from customers both inside and outside a franchised area. In October 2007, the LPSC ordered the billing of franchise fees as a separate line item on customer bills. The decision provided that 50% of the franchise fee would continue to be included in base rates charged to retail customers and 50% of the franchise fee would be included on customer bills as a separate line item, billed only to customers within the franchised area. This decision is not expected to have a material impact on Cleco Power's results of operations or financial condition.

On May 14, 2008, the Town of Elizabeth entered into a lease/franchise agreement with Cleco Power under which its electrical system will be leased to Cleco Power. The agreement is for 10 years with two 10-year renewal terms. Approximately 225 Cleco Power customers are located in Elizabeth.

On January 13, 2009, the Coushatta City Council voted to accept the early renewal of its franchise agreement with Cleco Power. The Coushatta agreement was set to expire in November 2010. The renewal term is set for 30 years. Approximately 1,400 Cleco Power customers are located in Coushatta.

Industry Developments

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

Wholesale Electric Competition

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

Retail Electric Competition

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

Legislative and Regulatory Changes and Matters

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

- passage of the Energy Independence and Security Act of 2007;
- regulation of previously deregulated retail electric markets;
- the ability of electric utilities to recover stranded costs;
- the role of electric utilities, independent power producers and competitive bidding in the purchase, construction and operation of new generating capacity;
- the pricing of transmission service on an electric utility's transmission system;
- FERC's assessment of market power and utilities' ability to buy generation assets;
- mandatory transmission reliability standards;
- the authority of FERC to grant utilities the power of eminent domain;
- increasing requirements for renewable energy sources;
- comprehensive multi-emissions environmental legislation;
- regulation of greenhouse gas emissions;
- FERC's increased ability to impose financial penalties; and
- the American Recovery and Reinvestment Act of 2009.

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

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

ENVIRONMENTAL MATTERS

Environmental Quality

Cleco is subject to federal, state, and local laws and regulations governing the protection of the environment. Violations of these laws and regulations may result in substantial fines and penalties. Cleco has obtained the environmental permits necessary for its operations, and management believes Cleco is in compliance in all material respects with these permits, as well as all applicable environmental laws and regulations. Environmental requirements continue to increase as a result of new legislation, administrative actions, and judicial interpretations. Therefore, the future effects of existing and potential requirements are difficult to determine. Cleco Power may request recovery from its retail customers of its costs to comply with environmental laws and regulations. If revenue relief were to be approved by the LPSC, then Cleco Power's retail rates could increase. If the LPSC were to deny Cleco Power's request to recover all or part of its environmental compliance costs, such a decision could have a material adverse effect on the Registrants' results of operations, financial condition, and cash flows. Cleco's capital expenditures related to environmental compliance were $4.6 million during 2008 and are estimated to total $5.1 million in 2009. The following table lists capital expenditures for environmental matters by subsidiary.

SUBSIDIARY (THOUSANDS)	ENVIRONMENTAL CAPITAL EXPENDITURES FOR 2008		PROJECTED ENVIRONMENTAL CAPITAL EXPENDITURES FOR 2009	
Cleco Power	$	4,417	$	3,877
Evangeline		78		1,072
Acadia		64[1]		136(1)
Total	$	4,559	$	5,085
(1) Represents APH's 50% portion of Acadia				

The decrease in projected environmental capital expenditures at Cleco Power from 2008 to 2009 primarily relates to the installation of new low NOx burners at the Rodemacher Unit 2 Power Station during 2008. The increase in projected capital expenditures at Evangeline from 2008 to 2009 primarily relates to the installation of a system to remove aquatic vegetation in the lake which cools the circulating water from the generating units at the plant. The installation of this system is expected to be completed during 2009.

Air Quality

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

The federal CAA established a regulatory program to address the effects of acid rain and imposed restrictions on SO2 emissions from certain generating units. The federal CAA requires these generating stations to possess a regulatory "allowance" for each ton of SO2 emitted beginning in the year 2000. The EPA allocates a set number of allowances to each affected unit based on its historic emissions. As of December 31, 2008, Cleco Power and Midstream had sufficient allowances for 2008 operations and expect to have sufficient allowances for 2009 operations under the Acid Rain Program.

The federal CAA required the EPA to revise NOx emission limits for existing coal-fired boilers. In November 1996, the EPA finalized rules lowering the NOx emission rate for certain boilers, which apply to Rodemacher Unit 2 and Dolet Hills. The rules also allowed an "early elect" option to achieve compliance with a less restrictive NOx limit beginning no later than January 1, 1997. Cleco Power exercised this option in December 1996. Early election protected Cleco Power from any further reductions in the NOx permitted emission rate until 2008 when the limit was lowered by 8%. Rodemacher Unit 2 and Dolet Hills have been in compliance with the NOx early election limits since their inception and also were in compliance with the reduced limit in 2008. Cleco Power's Phase I low NOx burner project was permitted by the LDEQ and installed in 2006 to achieve compliance with the reduced 2008 acid rain permit limits for NOx at Dolet Hills. Rodemacher Unit 2 has achieved compliance with these reduced acid rain NOx limits in its current configuration. With its low NOx burner project completed, Rodemacher Unit 2 is able to achieve compliance by an even greater margin. The additional NOx reductions achieved by the low NOx burner projects may qualify for early reduction credits under the federal Clean Air Interstate Rule (CAIR), which was recently reinstated as discussed below. Significant future reductions in NOx emissions limits may require other capital improvements at one or both of the units.

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

On March 10, 2005, CAIR was finalized by the EPA. CAIR covered the District of Columbia and 28 eastern states, including Louisiana, and provides a federal framework requiring states to reduce emissions of SO2 and NOx. CAIR called for NOx reductions to begin in the year 2009 and SO2 reductions in 2010. Louisiana promulgated state regulations to incorporate these requirements. The LDEQ chose to remain under the Federal Implementation Plan (FIP) for compliance with CAIR SO2 provisions. It also proposed to follow the FIP for the Annual NOx and Ozone Season NOx trading programs with the exception of the NOx allowance allocation methodology. This rule has been heavily litigated by multiple parties in the case known as North Carolina vs. EPA. On July 11, 2008, the U.S. Court of Appeals for the D.C. Circuit vacated CAIR. On September 24, 2008, the EPA, industry groups and environmental groups filed petitions with the D.C. Circuit Court, requesting a rehearing of North Carolina vs. EPA. On December 23, 2008, the U.S. Court of Appeals for the D.C. Circuit ruled on these petitions filed by the EPA and industry intervenors. The Court granted the EPA's petition to the extent that the case be remanded without vacature for the agency to conduct further proceedings consistent with the Court's opinion in the case, and denied the remaining petitions. The Court determined that, notwithstanding the flaws of CAIR, remanding it without vacature was preferable in that it preserved the environmental benefits of the rule. As a result, CAIR went into effect in its entirety on January 1, 2009 and will remain in effect until the EPA re-writes the rule to address the flaws identified by the Court in the initial CAIR rule. The EPA does not have a specified timeframe to complete the new rule, however, Cleco expects it to take from one to two years to complete. At this time, Cleco cannot determine what the new rule requirements will entail. Cleco had previously evaluated potential compliance strategies to meet the emission reductions contemplated by the CAIR regulations. The installation of new low NOx burners and enhancements to the SO2 scrubber at Dolet Hills were expected to be an integral part of meeting the CAIR NOx and SO2 reduction provisions. Likewise, the installation of the new low NOx burners at Rodemacher Unit 2 in 2008 will help meet CAIR NOx reduction requirements. Cleco will rely on its previous compliance strategy to meet the CAIR requirements and also may include additional emission controls, purchase of allowances, or fuel changes to enhance its compliance.

On March 15, 2005, the EPA issued final rules regarding mercury emissions from electric utility boilers. The federal Clean Air Mercury Rule (CAMR) established "standards of performance" limiting mercury emissions from new and existing coal-fired power plants and created a market-based cap-and-trade program. CAMR emissions reductions were to take effect in January 2010. Louisiana adopted the EPA's federal CAMR regulations by reference and incorporated these requirements in Louisiana's state regulations. Cleco owns units that would have been subject to CAMR, namely Dolet Hills and Rodemacher Unit 2. However, on February 8, 2008, the U.S. Court of Appeals for the D.C. Circuit in New Jersey v. EPA, vacated both the EPA's rule delisting coal- and oil-fired electric generating units (EGUs) from regulation under Section 112 of the CAA and the entire CAMR rule. As a result of the court's action, EGUs are subject to regulation under Section 112, which will require the EPA to promulgate maximum achievable control technology (MACT) standards for hazardous air pollutants for coal- and oil-fired EGUs.

Similar to the CAIR rule, the EPA and other petitioners asked the U.S. Court of Appeals for the D.C. Circuit to rehear the case of New Jersey vs. EPA. On May 20, 2008, the D.C. Circuit court denied the EPA's and industry intervenors' petitions for rehearing. On October 17, 2008, the EPA petitioned the Supreme Court for a writ of certiorari to review the judgment of the D.C. Circuit Court of Appeals in the New Jersey case. Among the reasons cited for filing the petition are that the Court of Appeals' decision effectively divests the EPA of the discretion that Congress conferred on the agency to consider alternative regulatory approaches to combating air pollution from power plants and prevents the EPA from reconsidering a listing decision that, under the plain terms of the Act, is not yet a final agency action subject to judicial review. In September 2008, industry intervenors also petitioned the Supreme Court to review the case. On February 6, 2009, the EPA moved to dismiss their motion for Supreme Court review of the New Jersey vs. EPA case. On February 23, 2009, the Supreme Court denied the industry petitioners' request for a review of the lower court's decision of the case. As such, CAMR is vacated.

The EPA will have to move forward to set MACT standards for coal- and oil-fired EGUs under Section 112 of the CAA which requires that: 1) new sources must adopt at minimum "the emission control that is achieved in practice by the best controlled similar source, as determined by the Administrator" and 2) existing sources must adopt emission controls equal to the "average emission limitation achieved by the best performing 12 percent of the existing source." At this time, Cleco anticipates that the EPA would take approximately two years to gather new data and promulgate an updated MACT standard for EGUs and another three years for the regulations to become effective.

On January 7, 2009, the EPA issued guidance directing state permitting authorities to make case-by-case MACT determinations, consistent with the requirements of Section 112(g) of the CAA, for coal- and oil-fired EGUs that began actual construction or reconstruction between March 29, 2005 and March 14, 2008. The EPA issued the guidance in response to the New Jersey decision which left unresolved the question of whether EGUs that began actual construction or reconstruction between March 2005 and March 2008 were subject to case-by-case MACT pursuant to Section 112(g). Rodemacher Unit 3 is a unit that began construction between the dates in question, and was permitted as a "minor source" within the context of what constitutes hazardous air pollutants under Section 112(g) rules. Cleco does not currently believe that case-by-case MACT applies to Rodemacher Unit 3. The LDEQ is ultimately responsible for making a determination regarding the applicability of case-by-case MACT to Rodemacher Unit 3. Should case-by-case MACT apply to Rodemacher Unit 3, there could be impacts on the final capital cost of the unit and/or delays in the construction schedule. Cleco is not able to quantify the potential impact to capital investment, operating costs or construction delay associated with the application of case-by-case MACT standards to Rodemacher Unit 3 at this time.

Congress may consider bills related to climate change during upcoming sessions, such as bills related to mandatory cuts in CO_2 and other greenhouse gas (GHG) emissions, renewable portfolio standards, and energy efficiency. All of these types of climate change proposals may potentially affect the electric generating industry. On April 2, 2007, the Supreme Court ruled in Massachusetts v. EPA that CO_2 and three other GHGs are air pollutants under the federal CAA. As air pollutants, the Supreme Court's decision would require the EPA to regulate GHG emissions from new motor vehicles if, in the EPA's judgment, such GHG emissions may reasonably be anticipated to endanger public health or welfare. Based on the Supreme Court's decision that GHGs are "air pollutants," the EPA could decide to use its authority under the CAA to regulate GHGs, including CO_2, from motor vehicles and stationary sources such as power plants. Thus, the Supreme Court ruling could possibly lead to the federal regulation of CO_2 and other GHG emissions in the upcoming years independent of any climate change bill being considered by Congress. On July 11, 2008, the EPA released an Advance Notice of Proposed Rulemaking (ANPR) discussing the EPA's efforts with respect to the endangerment determination concerning motor vehicle GHG emissions in light of the Supreme Court's Massachusetts v. EPA decision. The ANPR also considered how GHG emissions from stationary sources might be regulated under various provisions of the CAA and the potential impacts and effects of doing so. The new presidential administration has indicated that addressing climate change is a high priority and may consider regulating GHGs under the CAA. Cleco will continue to monitor the development of new legislative and regulatory initiatives and requirements relating to climate change and the potential impacts of such developments. At this time, Cleco cannot predict the outcome of the ANPR process, whether the new administration will regulate GHGs under the CAA, any resulting changes to federal regulations, or the impact on Cleco's operations from any climate change initiatives.

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

On March 12, 2008, the EPA set new National Ambient Air Quality Standards (NAAQS) for Ozone; the new primary 8-hour ozone standard is set at 0.075 parts per million (ppm) and the new secondary standard at a form and level identical to the primary standard. The previous primary and secondary standards were each effectively set at 0.084 ppm. The previous standard was set in 1997 and Louisiana had five parishes in the Baton Rouge area that had not yet attained compliance with the standards. The LDEQ estimates that 21 additional parishes could be in violation of the new standard, including DeSoto Parish, the location of Cleco's Dolet Hills Power Station. Cleco cannot determine at this time whether DeSoto Parish will ultimately be listed as non-attainment because much work must be done by the LDEQ to make those non-attainment designations. The state must make the initial designations by June 2009, final designations by 2010 and by 2012-2013 promulgate regulations on how Louisiana will comply. Since NOx emissions are a precursor to ozone formation, existing fossil fuel fired units located in or near these newly designated ozone non-attainment areas that do not currently utilize best available control technology could be targeted for installation of additional NOx emission controls.

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

On March 19, 2008, Cleco Power received a consolidated compliance order and notice of potential penalty (CO/NOPP) from the LDEQ for alleged violations of the air quality rules at its Dolet Hills and Rodemacher Power Stations. For Dolet Hills, the CO/NOPP alleges that upon a file review conducted on or about February 26, 2008, the LDEQ found that Cleco Power was in violation of conditions in its Title V permit regarding compliance assurance tests to be conducted upon its continuous monitoring systems. Upon review of the LDEQ findings and the Part 75 regulations, Cleco Power contends that the actions taken were allowed under the Part 75 regulations, as well as the Title V permit. In regard to the Rodemacher Power Station violations, the CO/NOPP states that a file review of the Rodemacher facility was conducted on or about September 14, 2007, and that upon the agency's review of the Quarterly Stack Emissions Reports required under 40 CFR Part 60 submitted by Cleco Power, the LDEQ found that Rodemacher Unit 2 exceeded opacity limits at various times during the second, third and fourth quarters of 2007. On May 15, 2008, Cleco Power and the LDEQ entered into a dispute resolution agreement to give the parties additional time to discuss resolution of this CO/NOPP. On August 18, 2008, Cleco offered to resolve the matter in a settlement agreement. On December 12, 2008, the parties extended the dispute resolution agreement to March 16, 2009. Cleco continues to negotiate a settlement with the LDEQ and anticipates reaching a final agreement by the new deadline. Cleco is unable to determine what the final settlement with the LDEQ will entail.

Water Quality

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

The LDEQ issued a Louisiana Pollutant Discharge Elimination System (LPDES) waste water permit renewal for Evangeline Power Station on June 22, 2006. This waste water permit contains certain additional Copper and Total Dissolved Solids (TDS) permit limitations that Cleco contends are beyond the legal authority of LDEQ to include in the waste water permit. Cleco challenged these permit provisions by filing a de novo review judicial appeal on September 26, 2006, in district court in East Baton Rouge Parish, Louisiana. While litigation has been filed, Cleco actively is engaged with the LDEQ in settlement discussions regarding the appealed provisions of the waste water permit. In December 2008, Cleco filed an application with the LDEQ modifying its LPDES permit to incorporate new Copper and TDS discharge limitations that were agreed to by both parties. Cleco expects to receive the modified water permit with new Copper and TDS limits in the third or fourth quarter of 2009, provided no adverse public comments are received. Until the final permit is received, the filed litigation is still pending and the appealed Copper and TDS permit limitations are stayed. The uncontested portions of the Evangeline waste water permit were effective January 1, 2007.

Section 316(b) of the Clean Water Act regulates potential adverse environmental impacts to all aquatic species due to water intake structures. These regulations establish requirements applicable to the location, design, construction, and capacity of cooling water intake structures. Section 316(b) is applicable to Cleco's Teche Power Station and Evangeline Power Station. On July 2, 2007, the EPA officially suspended the Phase II, 316(b) rule as a result of a January 2007 decision by the U.S. Court of Appeals for the Second Circuit which largely overturned the EPA's final Phase II 316(b) rule. The appeals court decision limits or rejects the use of cost effectiveness and cost benefit tests historically recognized by other federal courts. Due to the suspension of the rule, mandatory compliance dates for the completion of studies and assessments will likely be delayed for some time until the EPA can re-write a new rule for Phase II facilities which addresses the court's concerns. Until the EPA promulgates a replacement Phase II rule, the EPA has indicated that it will ask permit writers to use "Best Professional Judgment" in evaluating permit renewals until a new 316(b) rule is promulgated. In April 2008, the U.S. Supreme Court agreed to hear an appeal of the case with regard to a single issue: whether Section 316(b) of the Clean Water Act, 33 U.S.C. 1326(b), authorizes the EPA to compare costs with benefits in determining the best technology available for minimizing adverse environmental impact at cooling water intake structures. Unless the Second Circuit's decision is overturned by the Supreme Court, the EPA and the LDEQ could mandate that the next generation of permit renewals, which for applicable Cleco facilities will occur in the 2010-2011 timeframe, include a more expensive, technology-based approach (i.e., modifications to existing intake structures or conversion to cooling tower systems). At this time, it is uncertain which technology option, if any, will be required to be installed on Cleco's intake structures and the associated costs of those modifications. Cleco anticipates that any new requirements for its affected facilities would be established as the facilities go through the water discharge permit renewal process.

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

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

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

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

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

Other
On October 8, 2007, Cleco received a Special Notice for Remedial Investigation and Feasibility Study from the EPA. The special notice requested that Cleco Corporation and Cleco Power, along with many other listed PRPs, enter into negotiations with the EPA for the performance of a Remedial Investigation and Feasibility Study at an area known as the Devil's Swamp Lake just northwest of Baton Rouge, Louisiana. The EPA has identified Cleco as one of many companies sending PCB wastes for disposal to the site. The Devil's Swamp Lake site has been proposed to be added to the National Priorities List (NPL) based on the release of PCBs to fisheries and wetlands located on the site. The EPA has yet to make a final determination on whether to add Devil's Swamp Lake to the NPL. The EPA and a number of PRPs met on January 31, 2008, for an organizational meeting to discuss the background of the site. The PRPs began discussing a potential proposal to the EPA on February 19, 2008. Negotiations among the PRPs and the EPA are ongoing in regard to the remedial investigation and feasibility study at the Devil's Swamp site, with little

progress having been made since the January 2008 meeting. The PRPs alleged to have disposed PCBs at the site have proposed a tentative cost sharing formula with the facility owner to fund the remedial investigation. The response to the proposal has been pending for months. Since this investigation is in the preliminary stages, management is unable to determine whether the costs associated with possible remediation of the facility site will have a material adverse effect on the Registrants' results of operations, financial condition, and cash flows.

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ITEM 1A. RISK FACTORS

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

Cleco Power's Rates and Rate Case

The LPSC and FERC regulate the rates that Cleco Power can charge its customers. On July 14, 2008, Cleco Power filed a new rate plan for its retail rates that is expected to go into effect when Rodemacher Unit 3 begins commercial operations. The LPSC could disallow the recovery of material costs or an adequate return on capital.

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

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

Cleco Power's current base rates have been extended through the start of Rodemacher Unit 3. On July 14, 2008, Cleco Power filed a rate plan to establish new rates to be effective upon commercial operation of the Rodemacher Unit 3. As part of the new rate plan, Cleco Power has requested a return on equity of 12.25%. Cleco Power's current base rates allow it the opportunity to earn a maximum regulated return on equity of 11.65%, which is based on a return on equity of 11.25%, with any regulated earnings between 11.25% and 12.25% shared between shareholders and customers in a 40/60 ratio. Seven industrial customers have filed interventions in the rate case, which is currently in the discovery phase. At this time, Cleco Power anticipates a settlement of the rate case in the second quarter of 2009, with new rates effective upon commercial operation of Rodemacher Unit 3. Cleco Power is currently recording AFUDC associated with construction of Rodemacher Unit 3. Once the plant begins commercial operations, Cleco Power will no longer record AFUDC related to Rodemacher Unit 3. Recovery of the Rodemacher Unit 3 investment is the largest component in Cleco Power's general rate plan that was filed with the LPSC. If the LPSC does not increase Cleco Power's base rates or denies Cleco Power's request to recover material costs, including those incurred in the construction of Rodemacher Unit 3, Cleco Power's results of operations, financial condition, and cash flows could be materially adversely affected. For additional information on Cleco Power's rate case, see Item 1, "Business — Regulatory Matters, Industry Developments, and Franchises — Rates — Cleco Power's Rate Case."

Storm Restoration Costs

The recovery of costs resulting from Hurricanes Gustav and Ike is subject to LPSC review and approval, and recovery of some of the costs could be disallowed.

Restoration costs incurred by Cleco Power from damage caused by Hurricanes Gustav and Ike during the third quarter of 2008 are subject to a prudency review by the LPSC in which Cleco Power will be required to demonstrate that the

costs were prudently incurred. Accordingly, Cleco Power may not be able to recover some of the storm costs incurred, which could be material.
The costs will be reviewed by the LPSC as part of Cleco's pending rate case. If the LPSC were to deny Cleco Power's request to recover substantial restoration costs incurred, such a decision could have a material adverse effect on the Registrants' results of operations, financial condition, and cash flows.

Rodemacher Unit 3 Construction Costs

The recovery of costs incurred to construct Rodemacher Unit 3 is subject to LPSC review and approval, and some of the costs could be disallowed.
Costs incurred in the construction of Rodemacher Unit 3 are subject to a prudency review by the LPSC. Cleco Power filed a new rate plan with the LPSC on July 14, 2008, seeking to recover the construction costs through its base rates. Cleco Power will be required to demonstrate that the costs incurred to construct Rodemacher Unit 3 are prudently incurred and demonstrate the impact of the operation of the facility on its customers. Accordingly, Cleco Power may not be able to recover some of the costs incurred to construct the facility, which could be substantial.
Furthermore, although the Amended EPC Contract is generally a fixed-price agreement, unforeseen events could result in changes in the scope of the project that may result in a

delay in the completion of Rodemacher Unit 3 or result in additional costs. It may be more difficult to obtain LPSC approval to recover such additional costs. If the LPSC were to deny Cleco Power's request to recover substantial costs incurred in the construction of the facility, such a decision could have a material adverse effect on the Registrants' results of operations, financial condition, and cash flows.

Rodemacher Unit 3 Technical Specifications

Cleco Power is exposed to certain risks related to the design, construction and operation of Rodemacher Unit 3. This project has technology risk, fuel supply risk, and general contractor and certain material subcontractor performance risk.
Rodemacher Unit 3 is designed to utilize circulating fluidized bed (CFB) generating technology. Under the Amended EPC Contract, Shaw is liable for liquidated damages for non-performance. However, Cleco Power's ability to collect any damages for breach is contingent on the demonstration of such damages and on Shaw's financial abilities. Failure by Shaw to meet its obligations under the Amended EPC Contract could have a material adverse impact on the plant's efficiency, in-service date, and final cost. The Amended EPC Contract does not protect Cleco Power against force majeure events or design/specification oversight which may result in increased and potentially unrecoverable costs to Cleco Power. Although Cleco Power currently delivers coal via rail to the Rodemacher facility, plans are for Rodemacher Unit 3 to primarily use petroleum coke, which can be delivered most economically via barges on the Mississippi and Red Rivers, requiring a conveyor system which crosses an interstate and local highways. Navigable waterway events such as blockages or low water, or conveyor outages could impact Cleco Power's ability to transport and deliver fuel to Rodemacher Unit 3.

Global Financial Crisis

The global financial crisis may negatively impact Cleco's business and financial condition.
The continued credit crisis and related turmoil in the global financial system may have an impact on Cleco's business and financial condition. Cleco may face significant challenges if conditions in the financial markets do not improve. Cleco's ability to access the capital markets may be severely restricted at a time when Cleco would like, or need, to do so, which could have a material impact on its ability to fund capital expenditures or debt service or on Cleco's flexibility to react to changing economic and business conditions. If Cleco Corporation's or Cleco Power's credit ratings were to be downgraded by Moody's or by Standard & Poor's, Cleco Corporation or Cleco Power, as the case may be, would be required to pay additional fees and higher interest rates under its bank credit and other debt agreements. During 2008, Cleco's pension plan portfolio experienced significant losses and may experience further losses in the future. The losses, in conjunction with plan funding requirements, could result in required pension plan contributions significantly higher and earlier than previously anticipated, which could have a material negative impact on Cleco's results of operations and financial condition. Further, the credit crisis could have a material negative impact on Cleco's lenders or its customers causing them to fail to meet their obligations to Cleco or to delay payment of such obligations. Additionally, the crisis could lead to reduced electricity usage, which could have a material negative impact on Cleco's results of operations and financial condition.

Future Electricity Sales

Cleco Power's future electricity sales and corresponding base revenue and cash flows could be adversely affected by general economic conditions.
General market conditions can negatively impact the businesses of Cleco Power's industrial customers, resulting in decreased power purchases and lower base revenue. The current U. S. recession could lead to reduced power usage by Cleco Power's customers. Cleco Power's largest industrial customers, specifically those who manufacture wood and

paper products (who generated base revenue of approximately $24.6 million in 2008), have experienced a downturn in their respective markets. The downturn in residential home construction has caused a significant reduction in the demand and prices for lumber and other wood products. The paper industry has been vulnerable in recent years as a result of a mature market with pressures from overseas manufacturers. Reduced production or the shut down of any of these customers' facilities could substantially reduce Cleco Power's base revenue.
The high cost of energy, in general, has become problematic in many industries and has increased interest by industrial customers in switching to alternative sources of energy, including on-site power generation. Also, retail customers may consume less electricity due to increased conservation efforts or increased electric usage efficiency.

Fuel Cost Audits

The LPSC conducts fuel audits that could result in Cleco Power making substantial refunds of previously recorded revenue.
Generally, fuel and purchased power expenses are recovered through the LPSC-established fuel adjustment clause, which enables Cleco Power to pass on to its customers substantially all such charges. Recovery of fuel adjustment clause costs is subject to a periodic fuel audit by the LPSC.
Cleco Power currently has fuel adjustment clause filings for 2003 through 2008 subject to review. In July 2006, the LPSC commenced a periodic fuel audit of Cleco Power's fuel adjustment clause filings for January 2003 through December 2004. This review is pending and Cleco Power does not anticipate the LPSC to proceed until the third quarter of 2009. Management is currently unable to predict the timing of the fuel cost audits for the open years 2005 through 2008. Cleco Power could be required to make a substantial refund of

previously recorded revenue as a result of these audits, and such refund could result in a material adverse effect on the Registrants' results of operations, financial condition, and cash flows. The most recent audit completed by the LPSC covered 2001 and 2002 and resulted in a refund of $16.0 million to Cleco Power's retail customers in the first quarter of 2005.

Hedging and Risk Management Activities

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

Purchased Power

Nonperformance of Cleco Power's power purchase agreements and transmission constraints could have a material adverse effect on the Registrants' results of operations, financial condition, and cash flows.
Cleco Power does not supply all of its customers' power from the generation facilities it owns and must purchase additional energy and capacity from the wholesale power market in order to meet customers' demands. During 2008, Cleco Power met approximately 55.7% of its energy needs with purchased power. A 500-MW power purchase agreement with Bear Energy, which expires in 2009, and other short- and long-term power purchase agreements provided approximately 40.4% of Cleco Power's capacity needs in 2008. Cleco Power plans to meet its 2009 energy and capacity needs with the Bear Energy 500-MW contract; a 235-MW contract with Acadia Power Partners; a 20-MW long-term contract with Sabine River Authority; and a 41-MW wholesale power contract with the city of Natchitoches. On January 6, 2009, Cleco issued a RFP for a minimum capacity amount of 50 MW up to 200 MW in order to serve additional load. On February 9, 2009, a winning bidder was selected. Cleco Power is currently negotiating the terms of the contract and anticipates signing a power purchase agreement by the end of the first quarter of 2009. The requested products for supply will start April 1, 2009 and continue through October 31, 2009. If any provider of additional energy or capacity does not perform under their respective contracts, Cleco Power would have to replace these supply sources with alternative market sources, the terms of which may not be as favorable and could increase the ultimate cost of power to Cleco Power's customers.
Because of Cleco Power's location on the transmission grid, Cleco Power relies on two main suppliers of electric transmission when accessing external power markets. At times, physical constraints limit the amount of purchased power these transmission providers can deliver into Cleco Power's service territory, which in turn can affect capacity or power purchases under long-term contracts, as well as spot market power purchases. If the amount of purchased power actually delivered into Cleco's transmission system were less than the amount of power contracted for delivery, Cleco Power may rely on its own generation facilities to meet customer demand. Cleco Power's incremental generation cost at that time could be higher than the cost to purchase power from the wholesale power market, thereby increasing its customers' ultimate cost. In addition, the LPSC may not allow Cleco Power to recover part or all of its

incremental generation cost, which could be substantial.

Commodity Prices

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

Evangeline Plant Performance

Evangeline has certain plant performance obligations defined in its tolling agreement. Failure to perform these obligations could expose Evangeline to adverse financial penalties.
Performance requirements in the Evangeline tolling agreement include, but are not limited to, maintaining plant performance characteristics such as heat rate and demonstrated generation capacity and maintaining specified availability levels with a combination of plant availability and replacement power.

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

Cleco Power Generation Facilities

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

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

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

ERO

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

The Energy Policy Act of 2005 authorizes the creation of an ERO with authority to establish and enforce mandatory reliability standards, subject to FERC approval, for users of the nation's transmission system. In July 2006, FERC named NERC as the ERO. FERC has approved more than 95 reliability standards developed by NERC. A final order was issued by FERC in March 2007, and in June 2007, FERC began enforcing compliance with these standards. New standards are continually being developed and existing standards will be modified as needed.

As these standards continue to be adopted and modified, they may impose additional compliance requirements on Cleco Power, Acadia, and Evangeline operations which may result in an increase in capital expenditures and operating expenses. Failure to comply with the reliability standards approved by FERC can result in the imposition of fines and civil penalties.

Environmental Compliance

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

Cleco is subject to extensive environmental oversight by federal, state, and local authorities and is required to comply with numerous environmental laws and regulations related to air quality, water quality, waste management, natural resources, and health and safety. Cleco also is required to obtain and comply with numerous governmental permits in operating its facilities. Existing environmental laws, regulations and permits could be revised or reinterpreted, and new laws and regulations could be adopted or become applicable to Cleco. For example, Congress is considering climate change legislation that, if ultimately enacted, could impose a cap on CO2 emissions by electric generating units such as Cleco and subject electric generating units to an emissions allowance-based trading system. Cleco may incur significant capital expenditures or additional operating costs to comply with these revisions, reinterpretations, and new requirements. If Cleco fails to comply with these revisions, reinterpretations, and requirements, it could be subject to civil or criminal liabilities and fines or may be forced to shut down or reduce productions from its facilities.

Environmental advocacy groups, states, other organizations, some government agencies, and the new presidential administration are focusing considerable attention on CO2 emissions from power generation facilities and their potential role in climate change. Future changes in environmental regulations governing CO2 could make some of Cleco’s electric generating units uneconomical to maintain or operate. In addition, any legal obligation that would require Cleco to substantially reduce its CO2 emissions beyond present levels could require extensive mitigation efforts and could raise uncertainty about the future viability of fossil fuels as an energy source for new and existing electric generation facilities.

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

Regulatory Compliance

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

Weather Sensitivity

The operating results of Cleco Power are affected by weather conditions and may fluctuate on a seasonal and quarterly basis.
Weather conditions directly influence the demand for electricity, particularly kWh sales to residential customers. In Cleco Power's service territory, demand for power 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 adversely impact the Registrants' results of operations, financial condition, and cash flows.
Severe weather, including hurricanes and winter storms, can be destructive, causing outages and property damage that can potentially result in additional expenses and lower revenue.

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

The abandonment of the Rodemacher Unit 3 project or termination of the Amended EPC Contract could result in unrecoverable costs.
Cleco Power may determine that its decision to construct, own and operate Rodemacher Unit 3 is no longer justified due to changes in circumstances or for other reasons. If Cleco Power decided to abandon the project, the LPSC may not allow Cleco Power to recover some or all of its incurred costs. The Amended EPC Contract allows Cleco Power to terminate the agreement at its sole discretion, but exercise of this termination right would require Cleco Power to pay termination costs, subject to specified limitations. At December 31, 2008, the maximum termination costs would have been $761.7 million payable to Shaw. Termination costs under the Amended EPC Contract could result in a

material adverse effect on the Registrants' results of operations, financial condition, and cash flows.

Retail Electric Service

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

Cleco Credit Ratings

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

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

Holding Company

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

Evangeline Tolling Agreement

Failure by JPMorgan Chase & Co. to fulfill its guarantee obligations under the Evangeline Tolling Agreement could have a material adverse effect on Cleco's results of operations, financial condition, and cash flows.
In May 2008, JPMorgan Chase & Co. acquired Bear Stearns Companies Inc. In connection with the acquisition, JPMorgan Chase & Co. has guaranteed certain obligations of Bear Stearns Companies Inc.'s subsidiaries, including Bear Energy's obligations under the Evangeline Tolling Agreement. If JPMorgan Chase & Co. or any successor or assignee were to fail to perform its payment obligations, such failure could have a material adverse effect on Cleco Corporation's results of operations, financial condition, and cash flows for the following reasons, among others:

§ If such failure to perform constituted a default under the tolling agreement, the holders of the Evangeline bonds would have the right to declare the outstanding principal amount ($168.9 million at December 31, 2008) and interest to be immediately due and payable, which could result in:
  o Cleco's seeking to refinance the bonds, the terms of which may be less favorable than existing terms;
  o Cleco's causing Evangeline to seek protection under federal bankruptcy laws; or
  o the trustee of the bonds foreclosing on the mortgage and assuming ownership of the Evangeline plant;
§ Cleco may not be able to enter into agreements in replacement of the Evangeline Tolling Agreement on terms as favorable as that agreement or at all;
§ Cleco's equity investment in Evangeline may be impaired, requiring a write-down to its fair market value, which could be substantial; and
§ Cleco's credit ratings could be downgraded, which would increase borrowing costs and limit sources of financing.

Evangeline and Acadia Generation Facilities

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

opportunities.

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

CLECO

Electric Transmission Substations
As of December 31, 2008, Cleco Corporation owned one active transmission substation in Louisiana and one active transmission substation in Mississippi.

CLECO POWER

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

Electric Generating Stations
As of December 31, 2008, Cleco Power either owned or had an ownership interest in three steam electric generating stations and one gas turbine with a combined name plate capacity of 1,359 MW, and a combined electric net generating capacity of 1,318 MW. The net generating capacity is the result of capacity testing performed between June and September 2007, as required by NERC. This amount reflects the maximum production capacity these units can sustain over a specified period of time. For additional information on Cleco Power's generating facilities, see Item 1, "Business — Operations — Cleco Power — Power Generation."

Electric Substations
As of December 31, 2008, Cleco Power owned 71 active transmission substations and 223 active distribution substations.

Electric Lines
As of December 31, 2008, Cleco Power's transmission system consisted of approximately 67 circuit miles of 500-kiloVolt (kV) lines; 464 circuit miles of 230-kV lines; 662 circuit miles of 138 kV lines; and 21 circuit miles of 69-kV lines. Cleco Power's distribution system consisted of approximately 3,446 circuit miles of 34.5-kV lines and 8,043 circuit miles of other lines.

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

Title
Cleco Power's electric generating plants and certain other principal properties are owned in fee. Electric transmission and distribution lines are located either on private rights-of-way or along streets or highways by public consent. Substantially all of Cleco Power's property, plant and equipment is subject to a lien of Cleco Power's Indenture of

Mortgage, which does not impair the use of such properties in the operation of its business. As of December 31, 2008, no obligations were outstanding under the Indenture of Mortgage.

MIDSTREAM

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

Electric Generation

As of December 31, 2008, Midstream owned one steam electric generating station, Evangeline, and had a 50% ownership interest in an additional station, Acadia, both located in Louisiana. For additional information on Midstream's generating facilities, see Item 1, "Business — Operations — Midstream."

Title

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

ITEM 3. LEGAL PROCEEDINGS

CLECO

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

CLECO POWER

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

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

CLECO

There were no matters submitted to a vote of security holders of Cleco Corporation during the fourth quarter of 2008.

CLECO POWER

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

Board of Directors of Cleco

The names of the members of the Board of Directors of Cleco, their ages, dates of election, employment history and committee assignments as of December 31, 2008, are included below. The term of each directorship is three years, and directors are divided among three classes. The terms of the three classes are staggered in a manner so that only one class is elected by the shareholders annually.

NAME OF DIRECTOR	AGES AS OF DECEMBER 31, 2008
Sherian G. Cadoria	Age 68; Elected 1993 Brigadier General, U.S. Army (retired) Retired President, Cadoria Speaker and Consultancy Service, Mansura, LA Member of the Audit, Nominating/Governance and Qualified Legal Compliance committees
Richard B. Crowell	Age 70; Elected 1997 Partner, law firm of Crowell & Owens, Alexandria, LA Member of the Audit, Nominating/Governance and Qualified Legal Compliance committees
J. Patrick Garrett	Age 65; Elected 1981 Retired President and Chief Executive Officer, Windsor Food Company, Ltd., Houston, TX Chairman of the Board and chairman of the Executive, Nominating/Governance and Qualified Legal Compliance committees
Elton R. King	Age 62; Elected 1999 Retired President of network and carrier services group, BellSouth Telecommunications, Inc., Atlanta, GA. Also retired president and Chief Executive Officer of Visual Networks, Inc. Member of the Compensation and Finance committees
Logan W. Kruger	Age 58; Elected 2008 President, Chief Executive Officer and Director of Century Aluminum Company, Monterey, CA since December 2005. Executive Vice President of Technical Services, Inco Limited from September 2003 to September 2005; President, Inco Asia Pacific from September 2005 to November 2005. Member of the Audit and Compensation committees
Michael H. Madison	Age 60; Elected 2005 President and Chief Executive Officer, Cleco Corporation, Pineville, LA Member of the Executive Committee
William L. Marks	Age 65; Elected 2001 Retired Chairman and Chief Executive Officer, Whitney Holding Corporation and Whitney National Bank, New Orleans, LA Chairman of the Finance Committee and member of the Compensation and Executive committees
Robert T. Ratcliff Sr.	Age 66; Elected 1993 Chairman, President and Chief Executive Officer, Ratcliff Construction Company, LLC, Alexandria, LA Member of the Audit and Finance committees

William H. Walker Jr.	Age 63; Elected 1996 Retired Chairman, Howard Weil, Inc., New Orleans, LA Chairman of the Compensation Committee and member of the Executive and Finance committees
W. Larry Westbrook	Age 69; Elected 2003 Retired Chief Financial Officer and Senior Risk Officer of Southern Company, Atlanta, GA Chairman of the Audit Committee and member of the Compensation, Executive and Finance committees

Executive Officers of Cleco

The names of the executive officers of Cleco and certain subsidiaries, their positions held, five-year employment history, ages, and years of service as of December 31, 2008, are presented below. Executive officers are appointed annually to serve for the ensuing year or until their successors have been appointed.

NAME OF EXECUTIVE	POSITION AND FIVE-YEAR EMPLOYMENT HISTORY
Michael H. Madison	President and Chief Executive Officer since May 2005.
Cleco Corporation	Chief Executive Officer since May 2005; President and Chief Operating Officer from October 2003 to May 2005.
Cleco Power	(Age 60; 5 years of service)
Dilek Samil	
Cleco Corporation	Executive Vice President and Chief Financial Officer from April 2004 to May 2005; Senior Vice President Finance and Chief Financial Officer from October 2001 to April 2004.
Cleco Power	President and Chief Operating Officer since May 2005; Executive Vice President and Chief Financial Officer from April 2004 to May 2005; Senior Vice President Finance and Chief Financial Officer from October 2001 to April 2004. (Age 53; 7 years of service)
George W. Bausewine Cleco Corporation Cleco Power	Senior Vice President Corporate Services since May 2005; Vice President Regulatory and Rates from October 2002 to May 2005. (Age 53; 23 years of service)
Jeffrey W. Hall	
Cleco Corporation	Senior Vice President Governmental Affairs and Chief Diversity Officer since July 2006; Vice President Governmental and Community Affairs from July 2005 to July 2006.
Cleco Power	Senior Vice President Governmental Affairs and Chief Diversity Officer since July 2006; Vice President Governmental and Community Affairs from October 2004 to July 2006; Vice President Customer Services from August 2000 to October 2004. (Age 57; 28 years of service)
Wade A. Hoefling Cleco Corporation Cleco Power	Senior Vice President, General Counsel & Director – Regulatory Compliance since April 2008; Senior Vice President, General Counsel, Director - Regulatory Compliance and Assistant Corporate Secretary from January 2007 to April 2008; General Counsel, Northeast Utilities Enterprises, Inc. from July 2004 to January 2007; Vice President and General Counsel, Energy Trading, Reliant Resources, Inc. from August 2000 to February 2004. (Age 53; 2 years of service)

Darren J. Olagues Midstream	Senior Vice President since July 2007; Vice President, Power – Asset Management and Development, Exelon Corporation from November 2006 to July 2007; Director – Corporate Development, Exelon Corporation from March 2005 to November 2006; Senior Vice President and Chief Financial Officer, Sithe Energies from October 2002 to February 2005. (Age 38; 1 year of service)
Anthony L. Bunting Cleco Power	Vice President Customer Services and Energy Delivery since October 2004; acting General Manager Human Resources from August 2003 to October 2004. (Age 49; 17 years of service)
Stephen M. Carter Cleco Power	Vice President Regulated Generation since April 2003. (Age 49; 20 years of service)

NAME OF EXECUTIVE	POSITION AND FIVE-YEAR EMPLOYMENT HISTORY
Keith D. Crump	
Cleco Corporation	Treasurer from May 2005 to March 2007; Manager Forecasting and Analytics, Budgeting from December 2004 to May 2005; Manager Forecasting and Analytics from October 2002 to December 2004.
Cleco Power	Vice President – Regulatory, Retail Operations and Resource Planning since March 2007. (Age 47; 19 years of service)
R. Russell Davis	
Cleco Corporation Cleco Power	Vice President, Chief Accounting Officer & Interim CFO since June 2008; Vice President and Chief Accounting Officer from May 2005 to June 2008; Vice President and Controller from July 2000 to May 2005. (Age 52; 9 years of service)
William G. Fontenot	
Cleco Power	Vice President Regulated Generation Development since July 2005.
Midstream	Chief Restructuring Officer of Perryville from April 2004 to July 2005.
Cleco Corporation	General Manager Contracts and Analysis from December 2002 to April 2004. (Age 45; 23 years of service)
Charles A. Mannix	
Cleco Corporation Cleco Power	Vice President - Tax & Treasurer since March 2008; Manager of Income Taxes, Treasurer of Energy Risk Assurance Co., Ameren Corporation from October 2004 to March 2008; Director of Taxes, Director of Tax Planning, Exelon Generation Company, LLC from December 2000 to September 2004. (Age 50; less than 1 year of service)
Judy P. Miller	
Cleco Corporation Cleco Power	Corporate Secretary since January 2004; Assistant Controller from June 2000 to January 2004. (Age 51; 24 years of service)
Terry L. Taylor	
Cleco Corporation Cleco Power	Assistant Controller since August 2006; Director of Accounting Services and Affiliate Compliance from January 2004 to August 2006; Manager Systems Support and Affiliate Compliance from October 2002 to January 2004. (Age 53; 8 years of service)

On January 28, 2004, Perryville entered into an agreement to sell its 718-MW power plant to Entergy Louisiana. As part of the sales process, Perryville and PEH filed voluntary petitions in the Perryville and PEH Bankruptcy Court for protection under Chapter 11 of the U.S. Bankruptcy Code. Ms. Samil and Mr. Fontenot were managers of Perryville and/or PEH within the two years preceding the voluntary bankruptcy filing.

PART II

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

CLECO CORPORATION

Cleco Corporation's common stock is listed for trading on the New York Stock Exchange (NYSE). For information on the high and low sales prices for Cleco Corporation's common stock as reported on the NYSE Composite Tape and dividends paid per share during each calendar quarter of 2008 and 2007, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 22 — Miscellaneous Financial Information (Unaudited)." During the year ended December 31, 2008, none of Cleco Corporation's equity securities registered pursuant to Section 12 of the Securities Exchange Act of 1934 were purchased by or on behalf of Cleco Corporation or any of its "affiliated purchasers," as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934. For information on Cleco Corporation's common stock repurchase program, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 7 — Common Stock — Common Stock Repurchase Program."

Subject to the prior rights of the holders of the respective series of Cleco Corporation's preferred stock, such dividends as determined by the Board of Directors of Cleco Corporation may be declared and paid on the common stock from time to time out of funds legally available. The provisions of Cleco Corporation's charter applicable to preferred stock and certain provisions contained in the debt instruments of Cleco under certain circumstances restrict the amount of retained earnings available for the payment of dividends by Cleco Corporation. The most restrictive covenant, which is in Cleco Corporation's credit facility, requires Cleco Corporation's total indebtedness to be less than or equal to 65% of total capitalization. At December 31, 2008, approximately $431.2 million of retained earnings were unrestricted.

On January 30, 2009, Cleco Corporation's Board of Directors declared a quarterly dividend of $0.225 per share payable on February 16, 2009, to common shareholders of record on February 9, 2009.

As of January 30, 2009, there were 6,929 holders of record of Cleco Corporation's common stock, and the closing price of Cleco Corporation's common stock as reported on the NYSE Composite Tape was $22.85 per share.

CLECO POWER

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

Some provisions in Cleco Power's debt instruments restrict the amount of equity available for distribution to Cleco Corporation by Cleco Power under specified circumstances. The most restrictive covenant requires Cleco Power's total indebtedness to be less than or equal to 65% of total capitalization. At December 31, 2008, approximately $320.3 million of member's equity was unrestricted.

There were no distributions from Cleco Power to Cleco Corporation during 2007 and 2008.

Cleco Corporation made no equity contributions to Cleco Power in 2008. During 2007, Cleco Corporation made $85.0 million of equity contributions to Cleco Power.

ITEM 6. SELECTED FINANCIAL DATA

CLECO

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

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

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

Cleco's adoption of SFAS No. 123(R) on January 1, 2006, impacted Cleco's consolidated financial results for 2008, 2007, and 2006 as compared to prior years. Cleco's adoption of SFAS No. 158 on December 31, 2006, impacted Cleco's consolidated financial position as of December 31, 2008, 2007, and 2006 as compared to prior years. For additional information regarding the adoption of SFAS No. 123(R) and SFAS No. 158, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 2 — Summary of Significant Accounting Policies — Recent Accounting Standards."

Cleco's consolidated financial results for 2007 included the settlement of Acadia's pre-petition unsecured claims against CES and Calpine and amounts received by APH relating to Cajun's purchase of CAH's 50% equity ownership interest in Acadia, offset by a pre-tax impairment loss. For additional information, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 20 — Calpine Bankruptcy Settlement."

Cleco's adoption of FIN 48 on January 1, 2007, impacted Cleco's consolidated financial results for 2008 and 2007 as compared to prior years. For additional information regarding the adoption of FIN 48, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 2 — Summary of Significant Accounting Policies — Recent Accounting Standards."

Five-Year Selected Financial Data (THOUSANDS, EXCEPT PER SHARE AND PERCENTAGES)	2008	2007	2006	2005	2004
Operating revenue, net (excluding intercompany revenue)					
Cleco Power	$ 1,069,674	$ 1,023,411	$ 994,191	$ 911,971	$ 727,449
Midstream	7,921	5,066	4,400	4,984	14,844
Other	2,603	2,139	2,084	3,199	3,524
Total	$ 1,080,198	$ 1,030,616	$ 1,000,675	$ 920,154	$ 745,817
Income from continuing operations before income taxes	$ 120,598	$ 222,561	$ 116,719	$ 298,929	$ 101,983
Net income applicable to common stock	$ 102,095	$ 151,331	$ 72,856	$ 180,779	$ 63,973
Basic earnings per share from continuing operations	$ 1.70	$ 2.55	$ 1.36	$ 3.54	$ 1.33
Basic earnings per share applicable to common stock	$ 1.70	$ 2.55	$ 1.36	$ 3.54	$ 1.33
Diluted earnings per share from continuing operations	$ 1.70	$ 2.54	$ 1.36	$ 3.53	$ 1.32
Diluted earnings per share applicable to common stock	$ 1.70	$ 2.54	$ 1.36	$ 3.53	$ 1.32
Capitalization					
Common shareholders' equity	48.89%	56.75%	57.81%	52.15%	53.56%
Preferred stock	0.05%	0.06%	1.32%	1.52%	1.90%
Long-term debt	51.06%	43.20%	40.87%	46.33%	44.54%
Common shareholders' equity	$ 1,059,836	$ 1,010,340	$ 876,129	$ 686,229	$ 541,838
Preferred stock	$ 1,029	$ 1,029	$ 20,092	$ 20,034	$ 19,226
Long-term debt, net	$ 1,106,819	$ 769,103	$ 619,341	$ 609,643	$ 450,552
Total assets	$ 3,341,204	$ 2,706,623	$ 2,448,067	$ 2,149,488	$ 1,837,063
	$ 0.900	$ 0.900	$ 0.900	$ 0.900	$ 0.900

Cash dividends declared per common share

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).

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

OVERVIEW

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

- § Cleco Power, an integrated electric utility services company regulated by the LPSC, FERC, and other regulators, which serves approximately 276,000 customers across Louisiana and also engages in energy management activities; and
- § Midstream, a merchant energy company regulated by FERC, which owns and operates a merchant power plant (Evangeline). Midstream also owns a 50 percent interest in a merchant power plant (Acadia) and operates the plant on behalf of its partner.

For information on Cleco's affiliated companies and the services each company provides to other affiliates, see Item 8, "Financial Statements and Supplementary Data — Notes to the Financial Statements — Note 17 — Affiliate Transactions."
Recent market conditions have limited the availability and have increased the costs of capital for many companies. The inability to raise capital on favorable terms could negatively affect Cleco Corporation's and Cleco Power's ability to maintain and expand its businesses. After assessing the current operating performance, liquidity, and credit ratings of Cleco, management believes that it will have access to the capital markets at prevailing market rates for companies with comparable credit ratings.
While management believes that Cleco remains a strong company, Cleco continues to focus on several challenges and factors that could affect its results of operations and financial condition in the near term.

Cleco Power

Many factors affect Cleco Power's primary business of selling electricity. These factors include the presence of a stable regulatory environment, which can impact cost recovery and return on equity, as well as the recovery of costs related to growing energy demand and rising fuel prices; the ability to increase energy sales while containing costs; and the ability to meet increasingly stringent regulatory and environmental standards.
As part of a plan to diversify its fuel mix, combat rising fuel prices and resolve its long-term generation capacity needs, Cleco Power began constructing a 600-MW solid-fuel generating unit at its Rodemacher power plant in May 2006. When complete, Rodemacher Unit 3 will meet a portion of the utility's power supply needs and help stabilize customer fuel costs. The project's capital cost, including carrying costs during construction, is estimated at $1.0 billion. Cleco Power anticipates the plant will be substantially complete and operational in the second half of 2009. Cleco Power's current base rates have been extended through the commercial operation of Rodemacher Unit 3. On July 14, 2008, Cleco Power filed a rate plan to establish new rates to be effective upon commercial operation of Rodemacher Unit 3. As part of the new rate plan, Cleco Power has requested a return on equity of 12.25%. Cleco Power's current base rates allow it the opportunity to earn a maximum regulated return on equity of 11.65%, which is based on a return on equity of 11.25%, with any regulated earnings between 11.25% and 12.25% shared between shareholders and customers in a 40/60 ratio. Cleco Power is currently recording AFUDC associated with construction of Rodemacher Unit 3. Once the unit begins commercial operations, Cleco Power will no longer record AFUDC related to Rodemacher Unit 3. Recovery of the Rodemacher Unit 3 investment is the largest component in Cleco Power's new rate plan proposal. If the LPSC does not increase Cleco Power's base rates or denies Cleco Power's request to recover costs incurred in the construction of Rodemacher Unit 3, Cleco Power's results of operations, financial condition, and cash flows could be materially adversely affected. For additional information, see Part I, Item 1, Business — Regulatory Matters, Industry Developments, and Franchises — Rates — Cleco Power's Rate Case," and "— Financial Condition — Liquidity and Capital Resources — Regulatory Matters —"Rodemacher Unit 3."

Cleco Power continues to evaluate a range of other power supply options for 2009 and beyond. As such, Cleco Power is continuing to update its IRP to look at future sources of supply. Cleco Power released a RFP in October 2007 seeking long-term resources to fill the needs identified by the latest IRP. Bids were received in December 2007 and Cleco Power notified bidders if their bids were selected for the short list. On February 26, 2009, Cleco Power announced that it had chosen the acquisition of 50 percent of the Acadia power station, or one of its two 580-MW units, as the lowest bid in its 2007 long-term RFP for capacity beginning in 2010. Cleco Power will own and