CLECO CORP
Form 10-Q
November 05, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 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

Commission file number 1-05663

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

Louisiana (State or other jurisdiction of incorporation or organization)	72-0244480 (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

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

Indicate by check mark whether Cleco Corporation 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 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

Number of shares outstanding of each of Cleco Corporation’s classes of Common Stock, as of the latest practicable date.

Registrant	Description of Class	Shares Outstanding at October 31, 2008
Cleco Corporation	Common Stock, $1.00 Par Value	60,229,221

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

CLECO CORPORATION
CLECO POWER 2008 3RD QUARTER FORM 10-Q

This combined Form 10-Q 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 Unaudited Condensed Consolidated Financial Statements are combined.

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CLECO CORPORATION
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GLOSSARY OF TERMS

References in this filing, including all items in Parts I and II, to “Cleco” mean Cleco Corporation and its subsidiaries, including Cleco Power, and references to “Cleco Power” mean Cleco Power LLC and its subsidiary, unless the context clearly indicates otherwise. Additional abbreviations or acronyms used in this filing, including all items in Parts I and II 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
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
APH	Acadia Power Holdings LLC, a wholly owned subsidiary of Midstream
ARB	Accounting Research Bulletin
ARB No. 51	Consolidated Financial Statements
Attala	Attala Transmission LLC, a wholly owned subsidiary of Cleco Corporation. Prior to February 1, 2007, Attala was a wholly owned subsidiary of Midstream.
Attala Interconnection Agreement	Interconnection Agreement and Real Estate Agreements between Attala and Entergy Mississippi
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.
CAH	Calpine Acadia Holdings, LLC
Cajun	Cajun Gas Energy L.L.C., an affiliate of pooled investment funds managed by King Street Capital Management, L.L.C.
Calpine	Calpine Corporation
CCN	Certificate of Public Convenience and Necessity
CES	Calpine Energy Services, L.P.
Cleco Energy	Cleco Energy LLC, a wholly owned subsidiary of Midstream
Cleco Katrina/Rita	Cleco Katrina/Rita Hurricane Recovery Funding LLC, a wholly owned subsidiary of Cleco Power
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. 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
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

CLECO CORPORATION
CLECO POWER 2008 3RD QUARTER FORM 10-Q

ABBREVIATION OR ACRONYM	DEFINITION
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 ARB No. 51 (revised December 2003)
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 Share-Based Payment Transactions Are Participating Securities
FSP No. FAS 133-1 and FIN 45-4	Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161
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
GAAP	Generally Accepted Accounting Principles
ICT	Independent Coordinator of Transmission
IRP	Integrated Resource Planning
IRS	Internal Revenue Service
kWh	Kilowatt-hour(s) as applicable
LDEQ	Louisiana Department of Environmental Quality
LIBOR	London Interbank Offered 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
Moody's	Moody's Investors Service
MW	Megawatt(s) as applicable
PCAOB	Public Company Accounting Oversight Board
PCB	Polychlorinated biphenyls
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 Interconnection Agreement	Interconnection Agreement and Real Estate Agreements between Perryville and Entergy Louisiana

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
RTO	Regional Transmission Organization
Sale Agreement	Purchase and Sale Agreement, dated as of January 28, 2004, between Perryville and Entergy Louisiana
SEC	Securities and Exchange Commission
SERP	Cleco Corporation Supplemental Executive Retirement Plan
SFAS	Statement of Financial Accounting Standards
SFAS No. 13	Accounting for Leases
SFAS No. 71	Accounting for the Effects of Certain Types of Regulation
SFAS No. 109	Accounting for Income Taxes
SFAS No. 123(R)	Share-Based Payment
SFAS No. 131	Disclosures about Segments of an Enterprise and Related Information
SFAS No. 133	Accounting for Derivative Instruments and Hedging Activities
SFAS No. 141(R)	Business Combinations
SFAS No. 142	Goodwill and Other Intangible Assets
SFAS No. 149	Amendment of Statement 133 on Derivative Instruments and Hedging Activities
SFAS No. 157	Fair Value Measurements
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.
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.
VaR	Value-at-risk

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes "forward-looking statements" about future events, circumstances, and results. All statements other than statements of historical fact included in this Quarterly 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, Attala, Evangeline, and Perryville;

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

§

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

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

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

§ Acts of terrorism;

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

§ The amount of 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;

§ 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 "Risk Factors" in this report and in the Registrants' second quarter Form 10-Q for the quarterly period ended June 30, 2008, and the Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
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 — FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Cleco Corporation
These unaudited condensed consolidated financial statements should be read in conjunction with Cleco Corporation's Consolidated Financial Statements and Notes included in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2007. For more information on the basis of presentation, see "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 1 — Summary of Significant Accounting Policies — Basis of Presentation."

CLECO CORPORATION

Condensed Consolidated Statements of Income (Unaudited)

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,	
(THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	2008	2007
Operating revenue		
Electric operations	$ 333,936	$ 300,862
Other operations	7,004	9,238
Affiliate revenue	2,735	1,591
Operating revenue	343,675	311,691
Operating expenses		
Fuel used for electric generation	93,717	97,863
Power purchased for utility customers	150,502	108,649
Other operations	24,822	23,454
Maintenance	10,754	10,205
Depreciation	19,283	19,739
Taxes other than income taxes	9,033	10,620
Total operating expenses	308,111	270,530
Operating income	35,564	41,161
Interest income	1,669	2,873
Allowance for other funds used during construction	17,786	9,552
Equity income from investees	9,662	27,726
Other income	937	28,402
Other expense	(2,276)	(1,284)
Interest charges		
Interest charges, including amortization of debt expenses, premium and discount, net of capitalized interest	20,619	13,752
Allowance for borrowed funds used during construction	(4,923)	(3,444)
Total interest charges	15,696	10,308
Income before income taxes	47,646	98,122
Federal and state income tax expense	10,513	30,077
Net income	37,133	68,045
Preferred dividends requirements, net of tax	12	12
Net income applicable to common stock	$ 37,121	$ 68,033
Average shares of common stock outstanding		
Basic	60,031,962	59,669,692
Diluted	60,291,616	59,947,916
Basic earnings per share		
From continuing operations	$ 0.62	$ 1.14
Net income applicable to common stock	$ 0.62	$ 1.14
Diluted earnings per share		
From continuing operations	$ 0.62	$ 1.13
Net income applicable to common stock	$ 0.62	$ 1.13

Cash dividends paid per share of common stock	$	0.225	$	0.225

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

CLECO CORPORATION

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,	
(THOUSANDS)	2008	2007
Net income	$ 37,133	$ 68,045
Other comprehensive income (loss), net of tax:		
Net unrealized (loss) income from available-for-sale securities (net of tax (benefit) expense of $(11) in 2008 and $11 in 2007)	(24)	18
Amortization of post-retirement benefit net losses (net of tax benefit of $130 in 2008 and $16 in 2007)	(153)	(9)
Other comprehensive (loss) income	(177)	9
Comprehensive income, net of tax	$ 36,956	$ 68,054

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

CLECO CORPORATION

Condensed Consolidated Statements of Income (Unaudited)

(THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008	2007
Operating revenue		
Electric operations	$ 803,397	$ 765,791
Other operations	29,826	26,478
Affiliate revenue	7,790	4,673
Operating revenue	841,013	796,942
Operating expenses		
Fuel used for electric generation	162,140	204,671
Power purchased for utility customers	392,245	308,388
Other operations	69,958	74,493
Maintenance	35,456	35,386
Depreciation	57,970	59,827
Taxes other than income taxes	27,320	30,286
Gain on sales of assets	(99)	-
Total operating expenses	744,990	713,051
Operating income	96,023	83,891
Interest income	4,544	8,030
Allowance for other funds used during construction	46,462	21,715
Equity income from investees	2,723	97,608
Other income	1,094	28,644
Other expense	(4,322)	(2,536)
Interest charges		
Interest charges, including amortization of debt expenses, premium and discount, net of capitalized interest	49,884	41,786
Allowance for borrowed funds used during construction	(14,526)	(7,502)
Total interest charges	35,358	34,284
Income before income taxes	111,166	203,068
Federal and state income tax expense	22,573	63,187
Net income	88,593	139,881
Preferred dividends requirements, net of tax	35	446
Net income applicable to common stock	$ 88,558	$ 139,435
Average shares of common stock outstanding		
Basic	59,975,190	58,914,141
Diluted	60,146,501	59,717,636
Basic earnings per share		
From continuing operations	$ 1.48	$ 2.35
Net income applicable to common stock	$ 1.48	$ 2.35
Diluted earnings per share		
From continuing operations	$ 1.47	$ 2.34
Net income applicable to common stock	$ 1.47	$ 2.34

Cash dividends paid per share of common stock	$	0.675	$	0.675

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

CLECO CORPORATION

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(THOUSANDS)	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008	2007
Net income	$ 88,593	$ 139,881
Other comprehensive loss, net of tax:		
Net unrealized loss from available-for-sale securities (net of tax benefit of $38 in 2008 and $11 in 2007)	(68)	(17)
Amortization of post-retirement benefit net losses (net of tax benefit of $145 in 2008 and $ 22 in 2007)	(161)	(13)
Other comprehensive loss	(229)	(30)
Comprehensive income, net of tax	$ 88,364	$ 139,851

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

CLECO CORPORATION

Condensed Consolidated Balance Sheets (Unaudited)

(THOUSANDS)		AT SEPTEMBER 30, 2008		AT DECEMBER 31, 2007
Assets				
Current assets				
Cash and cash equivalents	$	77,392	$	129,013
Restricted cash		43,779		17,866
Customer accounts receivable (less allowance for doubtful accounts of $2,182 in 2008 and $1,028 in 2007)		58,127		39,587
Accounts receivable – affiliate		3,297		9,367
Other accounts receivable		39,566		39,029
Unbilled revenue		19,342		17,759
Fuel inventory, at average cost		49,267		43,291
Material and supplies inventory, at average cost		37,556		39,195
Risk management assets, net		2,954		7,201
Accumulated deferred fuel		43,921		9,398
Cash surrender value of company-/trust-owned life insurance policies		25,588		28,857
Prepayments		3,061		3,661
Regulatory assets – other		2,553		20,194
Other current assets		758		1,098
Total current assets		407,161		405,516
Property, plant and equipment				
Property, plant and equipment		1,997,485		1,926,848
Accumulated depreciation		(938,621)		(917,043)
Net property, plant and equipment		1,058,864		1,009,805
Construction work in progress		923,144		716,075
Total property, plant and equipment, net		1,982,008		1,725,880
Equity investment in investees		257,613		258,101
Prepayments		6,082		6,783
Restricted cash, less current portion		18,807		95
Regulatory assets and liabilities – deferred taxes, net		162,319		126,686
Regulatory assets – other		55,616		158,268
Intangible asset		171,179		-
Other deferred charges		35,036		25,294
Total assets	$	3,095,821	$	2,706,623

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

(Continued on next page)

CLECO CORPORATION

Condensed Consolidated Balance Sheets (Unaudited) (Continued)

(THOUSANDS)	AT SEPTEMBER 30, 2008	AT DECEMBER 31, 2007
Liabilities and shareholders’ equity		
Liabilities		
Current liabilities		
Long-term debt due within one year	$ 63,546	$ 100,000
Accounts payable	151,549	123,061
Retainage	10,577	25
Accounts payable – affiliate	4,017	6,860
Customer deposits	26,886	25,989
Taxes accrued	7,228	12,411
Interest accrued	18,937	21,933
Accumulated deferred taxes, net	43,935	43,055
Risk management liability, net	15,486	3,881
Regulatory liabilities – other	523	538
Deferred compensation	5,935	6,366
Other current liabilities	14,833	13,348
Total current liabilities	363,452	357,467
Deferred credits		
Accumulated deferred federal and state income taxes, net	384,695	366,305
Accumulated deferred investment tax credits	11,631	12,665
Regulatory liabilities – other	71,630	31,855
Restricted storm reserve	18,865	-
Uncertain tax positions	65,474	68,369
Other deferred credits	125,620	89,490
Total deferred credits	677,915	568,684
Long-term debt, net	992,869	769,103
Total liabilities	2,034,236	1,695,254
Commitments and Contingencies (Note 11)		
Shareholders’ equity		
Preferred stock		
Not subject to mandatory redemption, $100 par value, authorized 1,491,900 shares, issued 10,288 shares at September 30, 2008 and December 31, 2007	1,029	1,029
Common shareholders’ equity		
Common stock, $1 par value, authorized 100,000,000 shares, issued 60,063,711 and 59,971,945 shares and outstanding 60,038,688 and 59,943,589 shares at September 30, 2008 and December 31, 2007, respectively	60,064	59,972
Premium on common stock	394,002	391,565
Retained earnings	615,562	567,724
	(452)	(530)

Treasury stock, at cost, 25,023 and 28,356 shares at September 30, 2008 and December 31, 2007, respectively				
Accumulated other comprehensive loss		(8,620)		(8,391)
Total common shareholders’ equity		1,060,556		1,010,340
Total shareholders’ equity		1,061,585		1,011,369
Total liabilities and shareholders’ equity	$	3,095,821	$	2,706,623

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

CLECO CORPORATION

Condensed Consolidated Statements of Cash Flows (Unaudited)

(THOUSANDS)	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008	2007
Operating activities		
Net income	$ 88,593	$ 139,881
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	81,335	61,492
Gain on sales of assets	(99)	-
Proceeds from sale of bankruptcy claims	-	78,200
Provision for doubtful accounts	2,906	1,799
Return on equity investment in investees	8,690	60,023
Income from equity investments	(2,723)	(97,608)
Unearned compensation expense	2,994	6,507
ESOP expense	-	2,140
Allowance for other funds used during construction	(46,462)	(21,715)
Amortization of investment tax credits	(1,035)	(1,076)
Net deferred income taxes	(10,098)	10,295
Deferred fuel costs	(25)	400
Loss (gain) on economic hedges	434	(706)
Cash surrender value of company-/trust-owned life insurance	2,603	(1,486)
Changes in assets and liabilities:		
Accounts receivable	(24,414)	(36,644)
Accounts and notes receivable, affiliate	14,373	8,943
Unbilled revenue	(1,583)	(2,288)
Fuel, materials and supplies inventory	(4,336)	(2,153)
Prepayments	1,725	1,629
Accounts payable	6,456	(12,281)
Accounts and notes payable, affiliate	(38,472)	(7,415)
Customer deposits	4,396	4,166
Regulatory assets and liabilities, net	32,119	17,156
Other deferred accounts	(63,971)	(13,618)
Retainage payable	10,551	(12,384)
Taxes accrued	22,874	15,738
Interest accrued	(2,289)	8,272
Risk management assets and liabilities, net	(8,827)	14,814
Other, net	1,387	3,459
Net cash provided by operating activities	77,102	225,540
Investing activities		
Additions to property, plant and equipment	(264,303)	(343,458)
Allowance for other funds used during construction	46,462	21,715
Proceeds from sale of property, plant and equipment	99	422

Return of equity investment in investee		95		-
Equity investment in investees		(14,697)		(2,220)
Premiums paid on company-/trust-owned life insurance		(629)		(2,017)
Settlements received from insurance policies		941		-
Transfer of cash (to) from restricted accounts		(44,625)		24,358
Other investing		599		96
Net cash used in investing activities		(276,058)		(301,104)
Financing activities				
Retirement of long-term obligations		(350,318)		(25,290)
Issuance of long-term debt		537,541		135,000
Deferred financing costs		(315)		(876)
Dividends paid on preferred stock		(35)		(446)
Dividends paid on common stock		(40,521)		(39,805)
Other financing		983		9,872
Net cash provided by financing activities		147,335		78,455
Net (decrease) increase in cash and cash equivalents		(51,621)		2,891
Cash and cash equivalents at beginning of period		129,013		192,471
Cash and cash equivalents at end of period	$	77,392	$	195,362
Supplementary cash flow information				
Interest paid (net of amount capitalized)	$	33,950	$	33,504
Income taxes paid	$	40,180	$	48,000
Supplementary non-cash investing and financing activities				
Issuance of treasury stock – LTICP and ESOP plans	$	79	$	67
Issuance of common stock – LTICP/ESOP/ESPP 1	$	93	$	21,501
Accrued additions to property, plant and equipment not reported above	$	10,868	$	92,789

1 Includes conversion of preferred stock to common stock ($19,063/2007)

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

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PART I — FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Cleco Power

These unaudited condensed consolidated financial statements should be read in conjunction with Cleco Power's Consolidated Financial Statements and Notes included in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2007. For more information on the basis of presentation, see "Notes to the Unaudited Condensed Consolidated Financial Statements — Note 1 — Summary of Significant Accounting Policies — Basis of Presentation."

CLECO POWER

Condensed Consolidated Statements of Income (Unaudited)

(THOUSANDS)	FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008	2007
Operating revenue		
Electric operations	$ 333,936	$ 300,862
Other operations	6,981	9,231
Affiliate revenue	425	511
Operating revenue	341,342	310,604
Operating expenses		
Fuel used for electric generation	93,717	97,863
Power purchased for utility customers	150,502	108,649
Other operations	23,242	22,739
Maintenance	9,719	9,590
Depreciation	18,861	19,401
Taxes other than income taxes	8,732	10,053
Total operating expenses	304,773	268,295
Operating income	36,569	42,309
Interest income	1,545	1,082
Allowance for other funds used during construction	17,786	9,552
Other income	956	528
Other expense	(779)	(189)
Interest charges		
Interest charges, including amortization of debt expenses, premium and discount	19,896	11,657
Allowance for borrowed funds used during construction	(4,923)	(3,444)
Total interest charges	14,973	8,213
Income before income taxes	41,104	45,069
Federal and state income taxes	10,566	10,871
Net income	$ 30,538	$ 34,198

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

CLECO POWER

Condensed Consolidated Statements of Income (Unaudited)

(THOUSANDS)	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008	2007
Operating revenue		
Electric operations	$ 803,397	$ 765,791
Other operations	29,757	26,413
Affiliate revenue	1,527	1,540
Operating revenue	834,681	793,744
Operating expenses		
Fuel used for electric generation	162,140	204,671
Power purchased for utility customers	392,245	308,388
Other operations	65,862	71,318
Maintenance	32,556	33,587
Depreciation	56,886	58,784
Taxes other than income taxes	24,727	28,540
Total operating expenses	734,416	705,288
Operating income	100,265	88,456
Interest income	3,121	3,548
Allowance for other funds used during construction	46,462	21,715
Other income	1,172	812
Other expense	(1,643)	(985)
Interest charges		
Interest charges, including amortization of debt expenses, premium and discount	45,961	35,385
Allowance for borrowed funds used during construction	(14,526)	(7,502)
Total interest charges	31,435	27,883
Income before income taxes	117,942	85,663
Federal and state income taxes	27,135	20,517
Net income	$ 90,807	$ 65,146

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

CLECO POWER

Condensed Consolidated Balance Sheets (Unaudited)

(THOUSANDS)	AT SEPTEMBER 30, 2008	AT DECEMBER 31, 2007
Assets		
Utility plant and equipment		
Property, plant and equipment	$ 1,981,568	$ 1,911,626
Accumulated depreciation	(927,968)	(907,434)
Net property, plant and equipment	1,053,600	1,004,192
Construction work in progress	921,934	714,978
Total utility plant, net	1,975,534	1,719,170
Current assets		
Cash and cash equivalents	67,979	11,944
Restricted cash	43,779	17,866
Customer accounts receivable (less allowance for doubtful accounts of $2,182 in 2008 and $1,028 in 2007)	58,127	39,587
Other accounts receivable	39,414	38,527
Accounts receivable – affiliate	2,257	17,425
Unbilled revenue	19,342	17,759
Fuel inventory, at average cost	49,267	43,291
Material and supplies inventory, at average cost	37,556	39,195
Risk management assets, net	2,954	7,201
Prepayments	2,389	2,900
Regulatory assets – other	2,553	20,194
Accumulated deferred fuel	43,921	9,398
Cash surrender value of company-owned life insurance policies	5,453	5,333
Other current assets	275	439
Total current assets	375,266	271,059
Prepayments	6,082	6,783
Restricted cash, less current portion	18,711	-
Regulatory assets and liabilities – deferred taxes, net	162,319	126,686
Regulatory assets – other	55,616	158,268
Intangible asset	171,179	-
Other deferred charges	24,533	24,516
Total assets	$ 2,789,240	$ 2,306,482
Liabilities and member’s equity		
Member’s equity	$ 906,592	$ 816,110
Long-term debt, net	944,869	769,103
Total capitalization	1,851,461	1,585,213
Current liabilities		
Long-term debt due within one year	63,546	-
Accounts payable	147,945	117,640
Accounts payable – affiliate	6,242	18,881

Retainage		10,577		25
Customer deposits		26,886		25,989
Taxes accrued		24,830		6,958
Interest accrued		18,872		17,536
Accumulated deferred taxes, net		45,590		45,205
Risk management liability, net		15,486		3,881
Regulatory liabilities – other		523		538
Other current liabilities		11,634		9,690
Total current liabilities		372,131		246,343
Deferred credits				
Accumulated deferred federal and state income taxes, net		344,939		321,747
Accumulated deferred investment tax credits		11,631		12,665
Regulatory liabilities – other		71,630		31,855
Restricted storm reserve		18,865		-
Uncertain tax positions		43,223		44,960
Other deferred credits		75,360		63,699
Total deferred credits		565,648		474,926
Total liabilities and member’s equity	$	2,789,240	$	2,306,482
The accompanying notes are an integral part of the condensed consolidated financial statements.				

CLECO POWER

Condensed Consolidated Statements of Cash Flows (Unaudited)

(THOUSANDS)	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008	2007
Operating activities		
Net income	$ 90,807	$ 65,146
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	63,543	60,019
Provision for doubtful accounts	2,901	1,799
Unearned compensation expense	867	3,044
Allowance for other funds used during construction	(46,462)	(21,715)
Amortization of investment tax credits	(1,035)	(1,076)
Net deferred income taxes	(4,577)	(11,952)
Deferred fuel costs	(25)	400
Loss (gain) on economic hedges	434	(706)
Cash surrender value of company-owned life insurance	(317)	(221)
Changes in assets and liabilities:		
Accounts receivable	(24,760)	(36,424)
Accounts and notes receivable, affiliate	15,209	(10,693)
Unbilled revenue	(1,583)	(2,288)
Fuel, materials and supplies inventory	(4,336)	(2,153)
Prepayments	1,636	1,440
Accounts payable	8,947	(10,753)
Accounts and notes payable, affiliate	(12,990)	(24,726)
Customer deposits	4,396	4,166
Regulatory assets and liabilities, net	32,119	17,156
Other deferred accounts	(69,536)	(14,468)
Retainage payable	10,551	(12,384)
Taxes accrued	17,872	13,592
Interest accrued	2,043	5,981
Risk management assets and liabilities, net	(8,827)	14,814
Other, net	2,191	3,188
Net cash provided by operating activities	79,068	41,186
Investing activities		
Additions to property, plant and equipment	(263,454)	(342,688)
Allowance for other funds used during construction	46,462	21,715
Proceeds from sale of property, plant and equipment	99	422
Premiums paid on company-owned life insurance	(424)	(470)
Transfer of cash (to) from restricted accounts	(44,624)	24,361
Net cash used in investing activities	(261,941)	(296,660)
Financing activities		
Retirement of long-term obligations	(250,318)	(25,290)

Issuance of long-term debt		489,541		135,000
Deferred financing costs		(315)		(873)
Contribution from parent		-		60,000
Net cash provided by financing activities		238,908		168,837
Net increase (decrease) in cash and cash equivalents		56,035		(86,637)
Cash and cash equivalents at beginning of period		11,944		101,878
Cash and cash equivalents at end of period	$	67,979	$	15,241
Supplementary cash flow information				
Interest paid (net of amount capitalized)	$	29,531	$	29,985
Income taxes paid		2,100		-
Supplementary non-cash investing and financing activities				
Accrued additions to property, plant and equipment not reported above	$	10,868	$	92,789
The accompanying notes are an integral part of the condensed consolidated financial statements.				

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Index to Applicable Notes to the Unaudited Condensed Consolidated Financial Statements of Registrants

Note 1	Summary of Significant Accounting Policies	Cleco Corporation and Cleco Power
Note 2	Recent Accounting Standards	Cleco Corporation and Cleco Power
Note 3	Fair Value Measurement Disclosures	Cleco Corporation and Cleco Power
Note 4	Regulatory Assets and Liabilities	Cleco Corporation and Cleco Power
Note 5	Restricted Cash	Cleco Corporation and Cleco Power
Note 6	Debt	Cleco Corporation and Cleco Power
Note 7	Pension Plan and Employee Benefits	Cleco Corporation and Cleco Power
Note 8	Income Taxes	Cleco Corporation and Cleco Power
Note 9	Disclosures about Segments	Cleco Corporation
Note 10	Equity Investment in Investees	Cleco Corporation
Note 11	Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees	Cleco Corporation and Cleco Power
Note 12	Affiliate Transactions	Cleco Corporation and Cleco Power
Note 13	Intangible Asset	Cleco Corporation and Cleco Power
Note 14	Storm Restoration	Cleco Corporation and Cleco Power

Notes to the Unaudited Condensed Consolidated Financial Statements

Note 1 — Summary of Significant Accounting Policies

Principles of Consolidation

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

Cleco has adopted the provisions of FIN 46R on its scheduled effective dates. Through a review of equity interests and other contractual relationships, Cleco has determined that it is not the primary beneficiary of Evangeline, Perryville, Attala, and Acadia. These are considered variable interest entities. In accordance with FIN 46R, Cleco reports its investment in these entities on the equity method of accounting. As a result, the assets and liabilities of these entities are represented by one line item corresponding to Cleco's equity investment in these entities. The pre-tax results of operations of these entities are reported as equity income from investees on Cleco Corporation's Condensed Consolidated Statements of Income. For additional information on the operations of these entities, see Note 10 — "Equity Investment in Investees."

In March 2008, in connection with the closing of the securitization transaction, Cleco Power sold the right to bill and collect from customers unamortized storm damage costs to Cleco Katrina/Rita, a special purpose, wholly owned subsidiary of Cleco Power. Cleco Power, through a review of its relationships with Cleco Katrina/Rita, has determined the entity should be consolidated with Cleco Power. For additional information about Cleco Katrina/Rita, see Note 4 — "Regulatory Assets and Liabilities — Deferred Storm Restoration Costs - Katrina/Rita."
In August 2008, Cleco Corporation acquired an equity interest in a limited liability company. Cleco will not be affected by the performance of the investment. The investment is reported at the cost of the investment net of the liability incurred. For additional information about this transaction, see Note 11 — "Litigation, Other Commitments and Contingencies, and Disclosures about Guarantees."

Basis of Presentation
The condensed consolidated financial statements of Cleco Corporation and Cleco Power have been prepared pursuant to the rules and regulations of the SEC. Accordingly, certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted, although Cleco believes that the disclosures are adequate to make the information presented not misleading. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles. The unaudited financial information included in the condensed consolidated financial statements of Cleco Corporation and Cleco Power reflects all adjustments of a normal recurring nature which are, in the opinion of the management of Cleco Corporation and Cleco Power, necessary for a fair statement of the financial position and the results of operations for the interim periods. Information for interim periods is affected by seasonal variations in sales, rate changes, timing of fuel expense recovery and other factors, and is not indicative necessarily of the results that may be expected for the full fiscal year. For more information on recent accounting standards and their effect on financial results, see Note 2 — "Recent Accounting Standards."

Reclassifications
Certain reclassifications have been made to prior period financial statements to conform them to the presentation used in the current year's financial statements. These reclassifications had no effect on Cleco Corporation's net income

applicable to common stock or total common shareholders' equity or Cleco Power's net income or total member's equity.

Fair Value Measurements
Various accounting pronouncements require certain assets and liabilities to be measured at their fair values. Certain assets and liabilities are required to be measured at their fair value each reporting period, while others are required to be measured only one time, generally the date of acquisition or issuance. Beginning with reporting periods ending after January 1, 2008, Cleco and Cleco Power are required to disclose the fair value of financial assets and liabilities by one of three levels. For more information about fair value levels, see Note 3 — "Fair Value Measurement Disclosures."

Risk Management
Market risk inherent in Cleco's market risk-sensitive instruments and positions includes potential changes arising from changes in interest rates and the commodity market prices of power and natural gas. Cleco's Energy Risk Management Policy authorizes the use of various derivative instruments, including exchange traded futures and option contracts, forward purchase and sales contracts, and swap transactions to reduce exposure to fluctuations in the price of power and natural gas. Cleco uses SFAS No. 133 to determine whether the market risk-sensitive instruments and positions are required to be marked-to-market. Generally, Cleco Power's market risk-sensitive instruments and positions qualify for the normal-purchase, normal-sale exception to mark-to-market accounting of SFAS No. 133, as modified by SFAS No. 149, since Cleco Power takes physical delivery and the instruments and positions are used to satisfy customer requirements.
Cleco Power has entered into certain financial transactions it considers economic hedges to mitigate the risk associated with the fixed-price power to be provided to a wholesale customer through December 2010. The economic hedges cover approximately 92% of the estimated daily peak-hour power sales to the wholesale customer. These transactions are derivatives as defined by SFAS No. 133 but do not meet the accounting criteria to be considered hedges. These transactions are marked-to-market with the resulting gain or loss recorded on the income statement as a component of operating revenue, net. For the three and nine months ended September 30, 2008, and 2007, the following gains and losses related to these economic hedge transactions were recorded in other operations revenue.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
(THOUSANDS)	2008	2007	2008	2007
Realized gain (loss)	$ 163	$ (189)	$ 950	$ (205)
Mark-to-market (loss) gain	(4,940)	(522)	(433)	706
Total (loss) gain	$ (4,777)	$ (711)	$ 517	$ 501

Cleco Power has entered into other positions to mitigate the volatility in customer fuel costs. These positions are recorded as risk management assets or liabilities with the corresponding mark-to-market gain or loss recorded on the balance sheet as a component of accumulated deferred fuel. When these positions close, actual gains or losses will be included in the fuel adjustment clause and reflected on customers' bills as a component of the fuel cost adjustment. Based on market prices at September 30, 2008, and December 31, 2007, the net mark-to-market impacts relating to these positions were losses of $31.8 million and $7.0 million, respectively. The increase in losses is due to the decline in natural gas prices at September 30, 2008, compared to December 31, 2007. Deferred losses relating to closed natural gas positions at September 30, 2008, and December 31, 2007, totaled $4.0 million and $3.1 million, respectively.

Cleco Power maintains margin accounts with commodity brokers used to partially fund the acquisition of natural gas futures, options and swap contracts. These contracts/positions are used to mitigate the risks associated with the fixed-price power sales and volatility in customer fuel costs noted above. At September 30, 2008, and December 31, 2007, Cleco Power had paid collateral of $11.8 million and $3.0 million, respectively, to cover margin requirements relating to open natural gas futures, options and swap positions. These margin requirements are netted with the mark-to-market positions recorded in the risk management asset or liability and other deferred charges or credits on the balance sheet.

Cleco Power's economic hedge positions and the positions used to mitigate the volatility in customer fuel costs are transacted through the use of futures positions on the NYMEX (New York Mercantile Exchange) and with OTC (over the counter) swap and option positions traded with major banks. Exchange traded positions (NYMEX) mitigate counterparty risk; however, the positions require more liquidity due to the daily settlement provision. OTC positions are executed under International Swap Dealers Association (ISDA) agreements.

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

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Earnings per Average Common Share
The following tables show the calculation of basic and diluted earnings per share.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,					
(THOUSANDS, EXCEPT SHARES AND PER SHARE AMOUNTS)	INCOME	SHARES	2008 PER SHARE AMOUNT	INCOME	SHARES	2007 PER SHARE AMOUNT
Income from continuing operations	$ 37,133			$ 68,045		
Deduct: non-participating stock dividends (4.5% preferred stock)	12			12		
Basic earnings per share						
Income from continuing operations	$ 37,121		$ 0.62	$ 68,033		$ 1.14
Total basic net income applicable to common stock	$ 37,121	60,031,962	$ 0.62	$ 68,033	59,669,692	$ 1.14
Effect of dilutive securities						
Add: stock option grants	-	62,289		-	73,517	
Add: restricted stock (LTICP)	-	197,365		6	204,707	
Diluted earnings per share						
Income from continuing operations plus assumed conversions	$ 37,121		$ 0.62	$ 68,039		$ 1.13
Total diluted net income applicable to common stock	$ 37,121	60,291,616	$ 0.62	$ 68,039	59,947,916	$ 1.13

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,					
(THOUSANDS, EXCEPT SHARES AND PER SHARE AMOUNTS)	INCOME	SHARES	2008 PER SHARE AMOUNT	INCOME	SHARES	2007 PER SHARE AMOUNT
Income from continuing operations	$ 88,593			$ 139,881		
Deduct: non-participating stock dividends (4.5% preferred stock)	35			34		
Deduct: participating preferred stock dividends	-			412		
Deduct: amount allocated to participating preferred	-			921		
Basic earnings per share						

Income from continuing operations	$	88,558		$	1.48	$	138,514		$	2.35
Total basic net income applicable to common stock	$	88,558	59,975,190	$	1.48	$	138,514	58,914,141	$	2.35
Effect of dilutive securities										
Add: stock option grants		-	63,833				-	114,088		
Add: restricted stock (LTICP)		-	107,478				21	140,382		
Add: convertible ESOP preferred stock		-	-				1,333	549,025		
Diluted earnings per share										
Income from continuing operations plus assumed conversions	$	88,558		$	1.47	$	139,868		$	2.34
Total diluted net income applicable to common stock	$	88,558	60,146,501	$	1.47	$	139,868	59,717,636	$	2.34

Stock option grants are excluded from the computation of diluted earnings per share if the exercise price is higher than the average market price.

There were no stock option grants excluded from the computation for the three and nine months ended September 30, 2008, or nine months ended September 30, 2007. Stock option grants excluded from the computation for the three months ended September 30, 2007, are presented in the table below.

	FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2007		
	STRIKE PRICE	AVERAGE MARKET PRICE	SHARES
Stock option grants excluded	$ 24.25	$ 24.14	37,433

Stock-Based Compensation

At September 30, 2008, Cleco had one share-based compensation plan: the LTICP. Options or restricted shares of stock, known as non-vested stock as defined by SFAS No. 123(R), common stock equivalents, and stock appreciation rights may be granted to certain officers, key employees, or directors of Cleco Corporation and its subsidiaries pursuant to the LTICP.

On January 25, 2008, Cleco granted 82,993 shares of non-vested stock and 63,733 of common stock equivalent units to certain officers, key employees and directors of Cleco Corporation and its subsidiaries pursuant to the LTICP.

Cleco and Cleco Power reported pre-tax compensation expense for their share-based compensation plans as shown in the following table:

	CLECO CORPORATION		CLECO POWER		CLECO CORPORATION		CLECO POWER	
	FOR THE THREE MONTHS ENDED SEPTEMBER 30,				FOR THE NINE MONTHS ENDED SEPTEMBER 30,			
(THOUSANDS)	2008	2007	2008	2007	2008	2007	2008	2007
Equity classification								
Non-vested stock	$ 396	$ 594	$ 113	$ 219	$ 1,179	$ 1,666	$ 310	$ 656
Stock options	14	14	-	1	42	23	-	(4)
Non-forfeitable dividends	-	6	-	4	-	21	-	12
Total	$ 410	$ 614	$ 113	$ 224	$ 1,221	$ 1,710	$ 310	$ 664
Liability classification								
Common stock equivalent units	$ 827	$ 516	$ 308	$ 208	$ 1,504	$ 949	$ 557	$ 381
Company-funded participants income tax obligations	-	274	-	202	-	3,629	-	2,001
Total	$ 827	$ 790	$ 308	$ 410	$ 1,504	$ 4,578	$ 557	$ 2,382
Total pre-tax compensation expense	$ 1,237	$ 1,404	$ 421	$ 634	$ 2,725	$ 6,288	$ 867	$ 3,046
Tax benefit	$ 476	$ 435	$ 162	$ 166	$ 1,049	$ 1,023	$ 334	$ 402

Note 2 — Recent Accounting Standards

The Registrants adopted, or will adopt, the recent accounting standards listed below on their respective effective dates.
In September 2006, the FASB issued SFAS No. 157, which provides guidance on how companies should measure fair value when required for recognition or disclosure purposes under generally accepted accounting principles. Specifically, SFAS No. 157 creates a common definition of fair value throughout generally accepted accounting principles, establishes a fair value hierarchy, and requires companies to make expanded disclosures about fair value measurements. This statement is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB amended SFAS No. 157. FSP No. FAS 157-1 excludes fair value lease calculations pursuant to SFAS No. 13, as amended, from SFAS No. 157, but does not exclude assets and liabilities acquired pursuant to SFAS No. 141(R). FSP No. FAS 157-2 defers the effective date of SFAS No. 157 by one year for non-financial assets and liabilities that are not recognized or disclosed at fair value on a recurring basis. The adoption of SFAS No. 157 and the related FSPs did not have a material impact on the financial condition or results of operations of the Registrants. For more information regarding SFAS No. 157 related disclosures, see Note 3 — "Fair Value Measurement Disclosures."
In February 2007, the FASB issued SFAS No. 159, which allows entities to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Registrants did not elect

the fair value option for eligible items existing at the effective date. The adoption of SFAS No. 159 did not have an impact on the financial condition or results of operations of the Registrants.

In April 2007, the FASB issued FSP No. FIN 39-1, which amends FIN 39. The new guidance permits companies to offset fair value amounts recognized for derivative instruments executed with the same counterparty under a master netting arrangement and fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) arising from the same master netting arrangement as the derivative instruments. FSP No. FIN 39-1 is effective for fiscal years beginning after November 15, 2007. Upon the adoption of FSP No. FIN 39-1, Cleco Corporation and Cleco Power adopted the policy to net the fair value of derivative instruments along with the right to reclaim cash collateral or obligation to return cash collateral. In accordance with the provisions of this FSP, the netting was applied retrospectively to the prior balance sheet presented as a change to an accounting principle. The following table represents the right to reclaim cash collateral netted against the fair value of derivative instruments for both Cleco Corporation and Cleco Power.

(THOUSANDS)	AT SEPTEMBER 30, 2008	AT DECEMBER 31, 2007
Cash collateral		
Right to reclaim	$ 11,793	$ 2,966

Cleco Corporation and Cleco Power's Condensed Consolidated Balance Sheets at December 31, 2007, have been retrospectively adjusted due to the adoption of FSP No. FIN 39-1. The retrospective adjustments to the December 31, 2007, balance sheets are described in the following tables.

(THOUSANDS)	AS REPORTED	AS ADJUSTED
Cleco Corporation		
Current assets – margin deposits	$ 2,966	$ -
Current assets – risk management asset	$ 7,396	$ 7,201
Assets – other deferred charges	$ 26,245	$ 25,294
Current liabilities – risk management liability	$ 7,993	$ 3,881

(THOUSANDS)	AS REPORTED	AS ADJUSTED
Cleco Power		
Current assets – margin deposits	$ 2,966	$ -
Current assets – risk management asset	$ 7,396	$ 7,201
Assets – other deferred charges	$ 25,467	$ 24,516
Current liabilities – risk management liability	$ 7,993	$ 3,881

The retrospective adoption of FSP No. FIN 39-1 had no effect on net income, earnings per share, shareholders' equity or member's equity.

In June 2007, the FASB ratified EITF No. 06-11. This consensus requires companies to record the realized income tax benefits from dividends or dividend equivalents that are charged to retained earnings and are paid to employees to the additional paid-in capital pool. This consensus is effective prospectively for dividends declared in fiscal years beginning after September 15, 2007. This consensus may be adopted early in financial periods for which financial statements have not been issued. Entities shall disclose the nature of any change in their accounting policy for income tax benefits of dividends on share-based payment awards resulting from the adoption of this guidance. The adoption of this EITF did not have an impact on the financial condition or results of operations of the Registrants.

In June 2007, the FASB ratified EITF No. 07-3. This consensus requires companies that make non-refundable advance payments for future research and development activities to capitalize the payments until the goods have been delivered or the related services performed. This consensus is effective for financial statements issued for fiscal years beginning after December 15, 2007. Earlier application is not permitted. The adoption of this EITF did not have an impact on the financial condition or results of operations of the Registrants.

In December 2007, the FASB released SFAS No. 141(R). This revision requires the acquirer of a business to recognize assets acquired, liabilities assumed, and any non-controlling interests at their fair market values. The statement gives guidance on the calculation of goodwill or gain from a bargain purchase and expands the required disclosures. The provisions of this statement are applicable to acquisitions either through one transaction or through a step acquisition. This SFAS is applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. This statement may not be adopted early. The adoption of this statement will only impact the financial condition and results of operations of the Registrants, if they are involved in transactions within the scope of this statement after its effective date.

In December 2007, the FASB released SFAS No. 160. This statement gives guidance on the presentation and disclosure of noncontrolling interests (currently known as minority interests) of consolidated subsidiaries. This statement requires the noncontrolling interest to be included in the equity section of the balance sheet, requires disclosure on the face of the consolidated income statement of the amounts of consolidated net income attributable to the consolidated parent and the noncontrolling interest, and expands disclosures. The provisions of this statement are to be applied prospectively to fiscal years beginning on or after December 15, 2008. Early adoption is prohibited. The adoption of SFAS No. 160 is not expected to have an impact on the financial condition or results of operations of the Registrants.

In December 2007, the FASB ratified EITF No. 07-1. This EITF prescribes the income statement presentation and disclosures for participants in collaborative arrangements. A collaborative arrangement is defined as a contractual arrangement that involves a joint operating activity, usually outside of a legal entity. The provisions of this EITF are effective for fiscal years beginning after December 15, 2008, and shall be applied retrospectively for all collaborative arrangements existing as of the effective date. Management currently is evaluating the impact this EITF will have on the financial condition or results of operations of the Registrants.

In March 2008, the FASB issued SFAS No. 161 which enhances the disclosures about an entity's derivative and hedging activities. The disclosures include how and why a derivative instrument is used, how the derivative instrument and the hedged item are related, and the impact of the derivative instrument and the hedged item on the entity's financial statements. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. Since this SFAS is only a change in disclosure, the adoption will not have an impact on the financial condition or results of operations of the Registrants.

In April 2008, the FASB issued FSP No. FAS 142-3 which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. This FSP amends SFAS No. 142 to allow an entity's own experience in renewing arrangements or to use market assumptions about renewal in determining the useful life of a recognized intangible asset. This FSP also requires additional disclosure about the renewal costs. FSP No. FAS 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. Early adoption is prohibited. The adoption of FSP No. FAS 142-3 is not expected to have an impact on the financial condition or results of operations of the

Registrants.

In May 2008, the FASB issued SFAS No. 162 which identifies, categorizes and ranks sources of GAAP. This SFAS has four broad categories, with “a” being the highest source of GAAP, descending to category “d.” An entity is required to use the highest category of GAAP specified by a pronouncement. If a particular transaction is not specified by a pronouncement within the categories, an entity can then apply accounting pronouncements for similar transactions (unless such analogy is prohibited by a particular pronouncement) followed by other accounting literature. This SFAS is effective 60 days following the SEC’s approval of the PCAOB’s amendments to Auditing Standard Section 411, “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.” The adoption of SFAS No. 162 is not expected to have an impact on the financial condition or results of operations of the Registrants.

In June 2008, the FASB issued FSP EITF 03-6-1 which gives guidance on determining whether non-vested instruments issued in share-based payment transactions are participating securities when calculating earnings per share. This FSP states that non-vested share-based instruments that contain nonforfeitable rights to dividends or dividend equivalents are participating securities and are required to be included in the computation of earnings per share pursuant to the two-class method. This FSP is effective for fiscal years and interim periods beginning after December 15, 2008. Earnings per share for prior periods presented are required to be adjusted retrospectively to conform to this FSP. Early adoption of this FSP is prohibited. Management currently is evaluating the impact this FSP will have on the financial condition and results of operations of the Registrants.

In September 2008, the FASB issued FSP No. FAS 133-1 and FIN 45-4 which amends SFAS No. 133 and FIN 45 by expanding disclosure requirements for entities selling credit derivatives. The disclosures include the nature of the derivative, the maximum potential amount of future payments, the fair value, the nature of any recourse or collateral, and the current status of the payment/performance risk. The provisions of this FSP are effective for interim and annual periods ending after November 15, 2008. Since this FSP is only a change in disclosure, the adoption will not have an impact on the financial condition or results of operations of the Registrants.

In September 2008, the FASB ratified EITF No. 08-5 which provides guidance on issuer's accounting and disclosure at fair value for liabilities that contain inseparable third-party credit enhancements. The EITF requires issuers of liabilities to exclude the third-party credit enhancement when calculating the fair value of the liability for both recognition and disclosure purposes. Also, proceeds received by the issuer for liabilities within the scope of the EITF represent consideration for both the liability and the credit enhancement and shall be allocated to both the liability and the premium for the credit enhancement. The provisions of this EITF are effective on a prospective basis in the first reporting period beginning on or after December 15, 2008. Earlier application is permitted. Management currently is evaluating the impact this FSP will have on the financial condition and results of operations of the Registrants.

On September 30, 2008, the SEC and the FASB issued a joint release clarifying fair value accounting. The clarifications cover topics such as inactive markets, broker quotes, disorderly sales, internally generated assumptions and other-than-temporary impairment. This joint release does not have a stated effective date, but its guidance should be considered for valuations made on or after its release date. The application of this release did not have an impact on the financial condition and results of operations of the Registrants.

On October 10, 2008, the FASB issued FSP No. FAS 157-3 which provides guidance on calculating fair value in an inactive market. This FSP is effective upon issuance, including prior periods for which financial statements have not been issued. The adoption of this FSP did not have an impact on the financial condition or results of operations of the Registrants.

Note 3 — Fair Value Measurement Disclosures

SFAS No. 157 requires entities to classify assets and liabilities measured at their fair value according to three different levels, depending on the inputs used in determining fair value.

§ Level 1 – unadjusted quoted prices in active, liquid markets for the identical asset or liability;

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

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

The tables below disclose for Cleco and Cleco Power the fair value of financial assets and liabilities measured on a recurring basis and within the scope of SFAS No. 157.

		CLECO CONSOLIDATED FAIR VALUE MEASUREMENTS AT REPORTING DATE USING:		
(THOUSANDS)	AT SEPTEMBER 30, 2008	QUOTED PRICES IN ACTIVE MARKETS	SIGNIFICANT OTHER OBSERVABLE INPUTS	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)

		FOR IDENTICAL ASSETS (LEVEL 1)	(LEVEL 2)	
Asset Description				
Derivatives	$ 174,256	$ 1,542	$ 172,714	$ -
Institutional money market funds	113,753	-	113,753	-
Total	$ 288,009	$ 1,542	$ 286,467	$ -

	CLECO CONSOLIDATED FAIR VALUE MEASUREMENTS AT REPORTING DATE USING:			
(THOUSANDS)	AT SEPTEMBER 30, 2008	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL LIABILITIES (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Liability Description				
Derivatives	$ 204,475	$ 5,368	$ 199,107	$ -

	CLECO POWER FAIR VALUE MEASUREMENTS AT REPORTING DATE USING:			
(THOUSANDS)	AT SEPTEMBER 30, 2008	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Asset Description				
Derivatives	$ 174,256	$ 1,542	$ 172,714	$ -
Institutional money market funds	104,453	-	104,453	-
Total	$ 278,709	$ 1,542	$ 277,167	$ -

	CLECO POWER FAIR VALUE MEASUREMENTS AT REPORTING DATE USING:			
(THOUSANDS)	AT SEPTEMBER 30, 2008	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL LIABILITIES (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Liability Description				
Derivatives	$ 204,475	$ 5,368	$ 199,107	$ -

Cleco chose to defer for one year the provisions of SFAS No. 157 for non-financial assets and liabilities in accordance with FSP No. FAS 157-2.

The derivative assets and liabilities are classified as either current or non-current depending on when the positions close. All derivative current assets and current liabilities are reported as a net current risk management asset or liability. All derivative non-current assets and non-current liabilities are reported net in other deferred charges or other deferred credits. Net presentation is appropriate due to the right of offset included in the master netting agreements. In accordance with FSP No. FIN 39-1, the net current and net non-current derivative positions are netted with the applicable margin deposits. At September 30, 2008, a net current risk management asset of

$2.9 million represented current derivative positions of $0.5 million reduced by current margin deposits of $0.2 million, and deferred option premiums of $2.6 million. Non-current derivative asset positions were $1.0 million, reduced by non-current margin deposits of $0.4 million which was recorded in other deferred charges on the balance sheet. At September 30, 2008, a net current risk management liability of $15.5 million represented the current derivative positions of $25.4 million reduced by current margin deposits of $9.9 million. The non-current liability derivative positions of $6.4 million, reduced by non-current margin deposits of $2.5 million were recorded in other deferred charges. The $113.8 million in institutional money market funds was reported on the Cleco Consolidated balance sheet in cash and cash equivalents, current restricted cash, and restricted non-current cash in the amounts of $51.3 million, $43.7 million, and $18.8 million, respectively. At Cleco Power, cash and cash equivalents, current restricted cash, and restricted non-current cash contained $42.0 million, $43.7 million, and $18.7 million, respectively.

Cleco utilizes different valuation techniques for fair value calculations. In order to measure the fair value for Level 1 assets and liabilities, Cleco obtains the closing price from published indices in active markets for the various instruments and multiplies by the appropriate number of instruments held. Level 2 fair values for assets and liabilities are determined by obtaining the closing price from published indices in active markets for instruments that are similar to Cleco's assets and liabilities. The fair value obtained is then discounted to the current period using a U.S. Treasury published interest rate as a proxy for a risk-free rate of return. For some options, Cleco uses the Black-Scholes model using observable and available inputs to calculate the fair value, consistent with the income approach. These techniques have been applied consistently from fiscal period to fiscal period. Level 3 fair values allow for situations in which there is little, if any, market activity for the asset or liability at the measurement date. Cleco had no Level 3 assets or liabilities at September 30, 2008.

Note 4 — Regulatory Assets and Liabilities

Cleco Power follows SFAS No. 71, which allows utilities to capitalize or defer certain costs based on regulatory approval and management's ongoing assessment that it is probable these items will be recovered through the ratemaking process.

The following chart summarizes Cleco Power's regulatory assets and liabilities at September 30, 2008, and December 31, 2007.

(THOUSANDS)	AT SEPTEMBER 30, 2008	AT DECEMBER 31, 2007
Regulatory assets and liabilities – deferred taxes, net	$ 162,319	$ 126,686
Deferred mining costs	$ 27,449	$ 29,364
Deferred storm restoration costs - Katrina/Rita	-	127,578
Deferred interest costs	7,874	9,389
Deferred asset removal costs	646	608
Deferred postretirement plan costs	11,576	11,523
Deferred tree trimming costs	4,231	-
Deferred training costs	1,814	-
Deferred storm surcredit, net	4,579	-
Regulatory assets – other	$ 58,169	$ 178,462
Deferred fuel transportation revenue	$ (523)	$ (930)
Deferred construction carrying costs	(71,630)	(31,463)

Regulatory liabilities - other	$	(72,153)	$	(32,393)
Deferred fuel and purchased power		43,921		9,398
Total regulatory assets and liabilities, net	$	192,256	$	282,153

Deferred Taxes

Cleco Power has recorded a net regulatory asset related to deferred income taxes in accordance with SFAS No. 109. The regulatory asset or liability is recorded under SFAS No. 71 and represents the effect of tax benefits or detriments that must be flowed through to customers as they are received or paid. For the most part, the recovery periods for regulatory assets and liabilities are based on assets' lives, which are typically 30 years or greater. The amounts deferred are attributable to differences between book and tax recovery periods. The $35.6 million increase in regulatory assets and liabilities – deferred taxes, net is primarily the result of AFUDC equity for Cleco Power's construction of Rodemacher Unit 3.

Deferred Storm Restoration Costs - Katrina/Rita

At December 31, 2007, Cleco Power had approximately $127.6 million of unamortized storm restoration costs deferred as regulatory assets relating to damage caused by Hurricanes Katrina and Rita. The restoration costs relating to Hurricanes Katrina and Rita were amortized to depreciation expense based on amounts collected monthly from customers through a surcharge, according to the terms of an interim storm recovery plan approved by the LPSC in February 2006. In March 2007, after completing a review of the restoration costs, Cleco Power and the LPSC Staff filed a settlement agreement allowing recovery of essentially all of Cleco Power's Hurricanes Katrina and Rita storm costs. The agreement authorized the issuance of securitized storm recovery bonds to finance the restoration costs from Hurricanes Katrina and Rita and the collection of a special storm recovery charge from Cleco Power's customers to pay principal, interest and other amounts related to 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 from customers unamortized storm damage costs was sold to Cleco Katrina/Rita, a special purpose, wholly owned subsidiary of Cleco Power.

Cleco Katrina/Rita issued $180.6 million aggregate principal amount of senior secured storm recovery bonds. A portion of the net proceeds of $176.0 million from the issuance of the bonds was used to pay Cleco Power the purchase price of its right to bill and collect from customers unamortized storm damage costs by Hurricanes Katrina and Rita reducing Cleco Power's regulatory asset established for this purpose. Cleco Power used $50.8 million of such proceeds to establish a storm reserve fund for future storm damage, with the remaining portion of the proceeds, which is reimbursement of previously unrecovered storm costs from Hurricanes Katrina and Rita, to be used for working capital and other general corporate purposes. As of September 30, 2008, Cleco Power had earned $1.2 million in interest on the storm reserve balance. Cleco received approval from the LPSC to offset $33.1 million of operations and maintenance costs related to Hurricanes Gustav and Ike against Cleco Power's restricted storm reserves, leaving a balance of $18.9 million of storm reserve reflected on the balance sheet at September 30, 2008. For additional information on storm costs, see Note 6 — "Debt" and Note 14 — "Storm Restoration."

Deferred Fuel and Purchased Power Costs
The cost of fuel used for electric generation and the cost of power purchased for utility customers are recovered through the LPSC-established fuel adjustment clause, which enables Cleco Power to pass on to its customers substantially all such charges. For the three months ended September 30, 2008, approximately 96% of Cleco Power's total fuel cost was regulated by the LPSC, while the remainder was regulated by the FERC. Deferred fuel and purchased power costs recorded at September 30, 2008, and December 31, 2007, were under-recoveries of $43.9 million and $9.4 million, respectively. The $34.5 million increase in the unrecovered costs was primarily the result of a $24.8 million decrease in the market value of open natural gas positions and a $0.9 million loss on closed natural gas positions, both due to the decrease in natural gas prices since December 31, 2007, and deferral of $8.5 million in additional fuel and purchased power costs.
For additional information on Cleco Power's treatment of natural gas positions, see Note 1 — "Summary of Significant Accounting Policies — Risk Management."

Deferred Construction Carrying Costs
In February 2006, the LPSC approved Cleco Power's plans to build Rodemacher Unit 3. Terms of the approval included authorization for Cleco Power to collect from customers an amount equal to 75% of the LPSC-jurisdictional portion of the carrying costs of capital during the construction phase of the unit. In any calendar year during the construction period, the amount collected from customers is not to exceed 6.5% of Cleco Power's projected retail revenues. Cleco Power began collection of the carrying costs in May 2006. For the three- and nine-month periods ended September 30, 2008, Cleco Power collected $12.1 million and $40.2 million, respectively, compared to $7.5 million and $18.3 million for the three and nine months ended September 30, 2007, respectively. A regulatory liability was established for the carrying costs due to the terms of the LPSC order which requires Cleco Power, as part of its base rate application to recover Rodemacher Unit 3 ownership costs, to submit a plan to return to customers the carrying costs over a shorter period than the life of the Rodemacher Unit 3 asset.

Deferred Tree Trimming Costs
In January 2008, the LPSC approved Cleco Power's request to establish a regulatory asset which is being charged with actual expenditures at Cleco Power's grossed-up rate of return for costs incurred to trim, cut or remove trees that were damaged by Hurricanes Katrina and Rita, but were not addressed as part of the restoration efforts. The amount of expenditures subject to deferral as a regulatory asset was limited to $12.0 million by the LPSC. Recovery of these expenditures was requested as part of Cleco Power's base rate application filed July 14, 2008. At September 30, 2008, Cleco Power had deferred $4.2 million in tree trimming expenditures.

Deferred Training Costs

In February 2008, the LPSC approved Cleco Power's request to establish a regulatory asset which is being charged with training costs associated with existing processes and technology for new employees at Rodemacher Unit 3. Normally these types of training costs would be expensed as incurred; however, this order by the LPSC allows Cleco Power to defer the training costs and seek recovery in rates when Rodemacher Unit 3 goes into service. At September 30, 2008, Cleco Power had deferred $1.8 million of Rodemacher Unit 3 training costs.

Deferred Storm Surcredit, net

Cleco Power has recorded a storm surcredit as the result of a settlement with the LPSC that addressed, among other things, the recovery of the storm damages related to Hurricanes Katrina and Rita. In the settlement, Cleco Power was required to implement a surcredit to provide the ratepayers the economic benefit of the carrying charges of all accumulated deferred income tax liabilities due to the storm damage costs at a 12.2% rate of return. The accumulated deferred income tax liability includes deductions for operation and maintenance expense, casualty loss, and depreciation against taxable income in the year incurred and all subsequent periods. The settlement, through a true-up mechanism, allows the surcredit to be adjusted to reflect the actual tax deductions allowed by the IRS. During the second quarter of 2008, the regulatory liability was reduced by $4.2 million through this true-up mechanism to reflect the expected amounts to be refunded through the surcredit to ratepayers. During the third quarter of 2008, the regulatory liability was reduced by an additional $0.4 million to represent the economic benefit of a reduction in the regulatory liability when the underlying tax positions are settled.

Cleco Power was also allowed to record a corresponding regulatory asset in an amount representing the flow back of the carrying charges to ratepayers. This amount is being amortized over the life of the securitized storm recovery bonds. The corresponding regulatory asset will be adjusted through the same surcredit true-up mechanism at the time of a final determination of the tax benefit for storm damage costs by the IRS.

Note 5 — Restricted Cash

Various agreements to which Cleco is subject contain covenants that restrict its use of cash. As certain provisions under these agreements are met, cash is transferred out of related escrow accounts and becomes available for general corporate purposes. At September 30, 2008, and December 31, 2007, $62.6 million and $18.0 million of cash, respectively, were restricted. At September 30, 2008, restricted cash consisted of $0.1 million under the Diversified Lands mitigation escrow agreement, $51.9 million reserved at Cleco Power for future storm restoration costs, and $10.6 million at Cleco Katrina/Rita restricted for payment of operating expenses, and interest and principal on the Cleco Katrina/Rita storm recovery bonds. On October 9, 2008, Cleco Power received approval from the LPSC to utilize a portion of the $51.9 million storm reserve to fund operations and maintenance expenses related to damage caused by Hurricanes Gustav and Ike.

Note 6 — Debt

Long-term Debt

At September 30, 2008, Cleco's long-term debt outstanding was $1.1 billion, of which $63.5 million was long-term debt due within one year, compared to $869.1 million at December 31, 2007, which included $100.0 million of long-term debt due within one year. At September 30, 2008, Cleco Power's long-term debt outstanding was $1.0 billion, of which $63.5 million was long-term debt due within one year, compared to $769.1 million at December 31, 2007, none of which was due within one year. The long-term debt due within one year represents $50.0 million of medium-term notes and a $13.5 million principal payment on the Cleco Katrina/Rita storm recovery bonds scheduled to be paid in the next twelve months.

For Cleco, the $187.3 million increase in long-term debt from December 31, 2007, was primarily due to $180.6 million of storm recovery bonds issued by Cleco Katrina/Rita in March 2008, the issuance by Cleco Power of $250.0 million aggregate principal amount of 6.65% notes due 2018 in June 2008, and $48.0 million in draws on Cleco's $150.0 million, five-year credit facility. These issuances were partially offset by a reduction of $190.0 million in draws against Cleco Power's credit facility, which was classified as long-term debt, and the repayment at maturity of $100.0 million of 7% senior notes in May 2008, which was classified as long-term debt due within one year.

For Cleco Power, the $239.3 million increase in long-term debt from December 31, 2007, was primarily due to $180.6 million of storm recovery bonds issued by Cleco Katrina/Rita in March 2008 and the issuance by Cleco Power of $250.0 million of 6.65% notes due 2018 in June 2008. These issuances were partially offset by a reduction of $190.0 million in draws against Cleco Power's credit facility, which was classified as long-term debt.

On June 3, 2008, Cleco Power issued $250.0 million aggregate principal amount of senior unsecured notes at an interest rate of 6.65%. The notes mature on June 15, 2018. The proceeds from this offering were used for general corporate purposes, including financing a portion of the construction costs of Rodemacher Unit 3 and repaying borrowings under Cleco Power's $275.0 million, five-year credit facility, some of which were used to fund a portion of the construction costs of Rodemacher Unit 3.

The Cleco Katrina/Rita storm recovery bonds were issued in two tranches. One tranche of $113.0 million initial principal amount of bonds with an expected average life of five years was issued with an interest rate of 4.41%, and one tranche of $67.6 million initial principal amount of bonds with an expected average life of 10.58 years was issued with an interest rate of 5.61%. The resulting weighted average interest rate of both tranches is 4.86%, and the effective weighted average life is seven years.

The solid waste disposal bonds in the amount of $60.0 million that were issued in 2007 initially had a variable interest rate which was reset weekly via an auction agent. In March 2008, Cleco Power exercised a provision in the bond indenture to change the method of interest through a reoffering of the bonds. As a part of the reoffering, the holders of the original auction rate bonds were required to tender them. The reoffered bonds have a five-year term with a fixed rate of 5.25% per annum, with the option to redeem the bonds or require that they be mandatorily tendered at the end of the five years. If Cleco Power does not cause the bonds to be optionally redeemed or mandatorily tendered at the end of the five years, the bonds will become variable rate. Cleco Power plans to remarket the bonds at the end of the five-year period. The maturity date of the 2007 bonds is November 1, 2037.

In October 2008, Cleco Power applied to the Louisiana State Bond Commission for $32.0 million of volume cap allocation, which is the remainder of the $152.9 million of qualifying costs of the solid waste disposal facilities at Rodemacher Unit 3 that have been identified. In July 2008, the Governor signed an order granting the $32.0 million of volume cap allocation. On October 2, 2008, the Rapides Finance Authority issued for the benefit of Cleco Power $32.0 million of its revenue bonds with a maturity date of October 1, 2038. The bonds bear interest at 6.0% per annum until October 1, 2011, at which time they are subject to mandatory tender for purchase at par. Cleco Power plans to remarket the bonds at the end of the three-year period.

Note 7 — Pension Plan and Employee Benefits

Pension Plan and Other Benefits Plan

Most employees are covered by a noncontributory, defined benefit pension plan. Benefits under the plan reflect an employee's years of service, age at retirement, and highest total average compensation for any consecutive five calendar years during the last 10 years of employment with Cleco

Corporation. Cleco Corporation's policy is to base its contributions to the employee pension plan upon actuarial computations utilizing the projected unit credit method, subject to the IRS's full funding limitation. Funding regulations do not require a contribution for 2008. No discretionary contributions were made during the nine months ended September 30, 2008. A discretionary contribution may be made during 2008; however, the decision by management to make a contribution in 2008 and the amount, if any, have not been determined. Due to current market conditions, the plan's assets have been negatively affected and Cleco Corporation may potentially have a required payment after 2008. Cleco Power is considered the plan sponsor, and Support Group is considered the plan administrator. In July 2007, Cleco Corporation's Board of Directors and Cleco Power's Board of Managers approved an amendment to the pension plan to provide that all employees hired on or after August 1, 2007, are not eligible for benefits under the pension plan.

Cleco Corporation's retirees and their dependents are eligible to receive medical, dental, vision, and life insurance benefits (other benefits). Cleco Corporation recognizes the expected cost of these other benefits during the periods in which the benefits are earned.

The components of net periodic pension and other benefit cost for the three and nine months ended September 30, 2008, and 2007, are as follows:

	PENSION BENEFITS		OTHER BENEFITS	
	FOR THE THREE MONTHS ENDED SEPTEMBER 30,			
(THOUSANDS)	2008	2007	2008	2007
Components of periodic benefit costs				
Service cost	$ 1,470	$ 1,990	$ 359	$ 339
Interest cost	3,964	3,919	570	454
Expected return on plan assets	(5,044)	(4,740)	-	-
Transition obligation	-	-	5	5
Prior period service cost	(18)	209	(480)	(518)
Net loss	-	536	195	196
Net periodic benefit cost	$ 372	$ 1,914	$ 649	$ 476

	PENSION BENEFITS		OTHER BENEFITS	
	FOR THE NINE MONTHS ENDED SEPTEMBER 30,			
(THOUSANDS)	2008	2007	2008	2007
Components of periodic benefit costs				
Service cost	$ 4,409	$ 5,810	$ 1,059	$ 1,049
Interest cost	11,892	11,644	1,486	1,374
Expected return on plan assets	(15,133)	(14,235)	-	-
Transition obligation	-	-	15	15
Prior period service cost	(53)	634	(1,549)	(1,548)
Net loss	-	1,471	695	696
Net periodic benefit cost	$ 1,115	$ 5,324	$ 1,706	$ 1,586

Since Cleco Power is the pension plan sponsor and the related trust holds the assets, the prepaid benefit cost of the pension plan is reflected at Cleco Power. The liability of Cleco Corporation's other subsidiaries is transferred, with a like amount of assets, to Cleco Power monthly. The expense of the pension plan related to Cleco Corporation's other subsidiaries for the three and nine months ended September 30, 2008, was $0.4 million and $1.1 million, respectively, compared to $0.4 million and $1.5 million for the same periods in 2007.

Cleco Corporation is the plan sponsor for the other benefit plans. There are no assets set aside in a trust, and the liabilities are reported on the individual subsidiaries' financial statements. The expense related to other benefits reflected on Cleco Power's Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2008, was $0.5 million and $1.4 million, respectively, compared to $0.4 million and $1.4 million for the same periods in 2007.

SERP

Certain key executives and key managers of Cleco are covered by the SERP. The SERP is a non-qualified, non-contributory, defined benefit pension plan. Benefits under the plan reflect an employee's years of service, age at retirement, and the sum of the highest base salary paid out of the last five calendar years and the average of the three highest bonuses paid during the last 60 months prior to retirement, reduced by benefits received from any other defined benefit pension plan. Cleco Corporation does not fund the SERP liability, but instead pays for current benefits out of the general funds available. Cleco Power has formed a rabbi trust designated as the beneficiary for life insurance policies issued on the SERP participants. Proceeds from the life insurance policies are expected to be used to pay SERP participants' life insurance benefits, as well as future SERP payments. However, because this is a non-qualified plan, the assets of the trust could be used to satisfy general creditors of Cleco Power in the event of insolvency. No contributions to the SERP were made during the nine months ended September 30, 2008, and 2007. Cleco Power is considered the plan sponsor, and Support Group is considered the plan administrator.

The components of the net SERP cost are as follows:

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,