

CLECO POWER LLC
Form 10-Q
May 05, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2010

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

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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 No

Indicate by check mark whether the Registrants have submitted electronically and posted on their corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrants were required to submit and post such files). Yes No

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

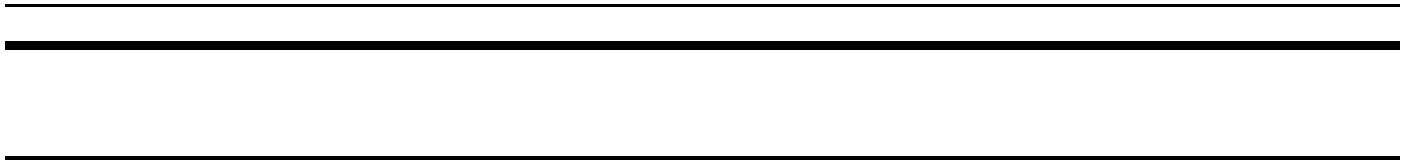
Indicate by check mark whether Cleco Power LLC is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):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

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

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 April 30, 2010 |
|-------------------|--------------------------------|--------------------------------------|
| Cleco Corporation | Common Stock, \$1.00 Par Value | 60,686,394 |

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.



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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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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 subsidiaries, 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, which is 100% owned by Cajun and consists of one 580-MW unit. Prior to February 23, 2010, Acadia was 50% owned by APH and 50% by Cajun and consisted of two 580-MW units. |
| Acadiana Load Pocket | An area in south central Louisiana that has experienced transmission constraints caused by local load and lack of generation. Transmission within the Acadiana Load Pocket is owned by several entities, including Cleco Power. |
| AFUDC | Allowance for Funds Used During Construction |
| Amended EPC Contract | Amended and Restated EPC Contract between Cleco Power and Shaw, executed on May 12, 2006, for engineering, procurement, and construction of Rodemacher Unit 3, as amended by Amendment No. 1 thereto effective March 9, 2007, Amendment No. 2 thereto dated as of July 2, 2008, Amendment No. 3 thereto dated as of July 22, 2009, and Amendment No. 4 thereto dated October 19, 2009. |
| APH | Acadia Power Holdings LLC, a wholly owned subsidiary of Midstream |
| Attala | Attala Transmission LLC, a wholly owned subsidiary of Cleco Corporation. |
| Cajun | Cajun Gas Energy L.L.C., 50% owned by APH and 50% owned by third parties. Prior to February 23, 2010, Cajun was 100% owned by third parties. |
| CES | Calpine Energy Services, L.P. |
| CLE Intrastate | CLE Intrastate Pipeline Company LLC, a wholly owned subsidiary of Midstream |
| Cleco Innovations LLC | A wholly owned subsidiary of Cleco Corporation |
| Cleco Katrina/Rita | Cleco Katrina/Rita Hurricane Recovery Funding LLC, a wholly owned subsidiary of Cleco Power |
| DHLC | Dolet Hills Lignite Company, LLC, a wholly owned subsidiary of SWEPCO |
| Diversified Lands | Diversified Lands LLC, a wholly owned subsidiary of Cleco Innovations LLC |
| DOE | United States Department of Energy |
| Entergy | Entergy Corporation |
| Entergy Gulf States | Entergy Gulf States Louisiana, L.L.C., formerly Entergy Gulf States, Inc. |
| Entergy Louisiana | Entergy Louisiana, LLC |
| Entergy Mississippi | Entergy Mississippi, Inc. |
| Entergy Services | Entergy Services, Inc., as agent for Entergy Louisiana and Entergy Gulf States |
| EPA | United States Environmental Protection Agency |
| EPC | Engineering, Procurement, and Construction |

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| | |
|------------------------------------|---|
| ERO | Electric Reliability Organization |
| ESPP | Cleco Corporation Employee Stock Purchase Plan |
| Evangeline | Cleco Evangeline LLC, a wholly owned subsidiary of Midstream, and its combined-cycle, natural gas-fired power plant located in Evangeline Parish, Louisiana |
| Evangeline 2010 Tolling Agreement | Capacity Sale and Tolling Agreement between Evangeline and JPMVEC, which was entered into in February 2010. |
| Evangeline Restructuring Agreement | Purchase, Sale and Restructuring Agreement entered into on February 22, 2010, by Evangeline and JPMVEC. |
| Evangeline Tolling Agreement | Capacity Sale and Tolling Agreement between Evangeline and BE Louisiana LLC (as successor to Williams Power Company, Inc.) which was set to expire in 2020 and was terminated in February 2010. In September 2008, BE Louisiana LLC was merged into JPMVEC. |
| FASB | Financial Accounting Standards Board |
| FERC | Federal Energy Regulatory Commission |
| GAAP | Generally Accepted Accounting Principles in the United States |
| GO Zone | Gulf Opportunity Zone Act of 2005 (Public Law 109-135) |
| ICT | Independent Coordinator of Transmission |
| Interconnection Agreement | One of two Interconnection Agreement and Real Estate Agreements, one between Attala and Entergy Mississippi, and the other between Perryville and Entergy Louisiana |
| IRP | Integrated Resource Planning |
| IRS | Internal Revenue Service |
| JPMVEC | J.P. Morgan Ventures Energy Corporation. In September 2008, BE Louisiana LLC was merged into JPMVEC. |
| kWh | Kilowatt-hour(s) as applicable |
| LDEQ | Louisiana Department of Environmental Quality |
| LIBOR | London Inter-Bank Offer Rate |
| LPSC | Louisiana Public Service Commission |
| LTICP | Cleco Corporation Long-Term Incentive Compensation Plan |
| Midstream | Cleco Midstream Resources LLC, a wholly owned subsidiary of Cleco Corporation |
| MMBtu | Million British thermal units |
| Moody's | Moody's Investors Service |
| MW | Megawatt(s) as applicable |
| NERC | North American Electric Reliability Corporation |
| OCI | Other Comprehensive Income |
| Oxbow | Oxbow Lignite Company, LLC, 50% owned by Cleco Power and 50% owned by SWEPCO |

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| ABBREVIATION OR ACRONYM | DEFINITION |
|----------------------------|---|
| PCAOB | Public Company Accounting Oversight Board |
| PCB | Polychlorinated biphenyl |
| Perryville | Perryville Energy Partners, L.L.C., a wholly owned subsidiary of Cleco Corporation. |
| PPACA | Patient Protection and Affordable Care Act (HR 3590) |
| 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 at Cleco Power's Rodemacher plant site in Boyce, Louisiana that commenced commercial operations on February 12, 2010. |
| Sale Agreement | Purchase and Sale Agreement, dated as of January 28, 2004, between Perryville and Entergy Louisiana |
| SEC | Securities and Exchange Commission |
| SERP | Cleco Corporation Supplemental Executive Retirement Plan |
| Shaw | Shaw Contractors, Inc., a subsidiary of The Shaw Group Inc. |
| SPP | Southwest Power Pool |
| Support Group | Cleco Support Group LLC, a wholly owned subsidiary of Cleco Corporation |
| SWEPCO | Southwestern Electric Power Company, a wholly owned subsidiary of American Electric Power Company, Inc. |
| Teche | Teche Electric Cooperative, Inc. |
| VaR | Value-at-risk |
| VIE | Variable Interest Entity |

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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 Rodemacher Unit 3; JPMVEC’s performance under the Evangeline 2010 Tolling Agreement; future capital expenditures; projections, including with respect to base revenue; business strategies; goals, beliefs, plans and objectives; market developments; development and operation of facilities; future environmental regulations and remediation liabilities; and the anticipated outcome of various regulatory and legal proceedings. Although the Registrants believe that the expectations reflected in such forward-looking statements are reasonable, such forward-looking statements are based on numerous assumptions (some of which may prove to be incorrect) and are subject to risks and uncertainties that could cause the actual results to differ materially from the Registrants’ expectations. In addition to any assumptions and other factors referred to specifically in connection with these forward-looking statements, the following list identifies some of the factors that could cause the Registrants’ actual results to differ materially from those contemplated in any of the Registrants’ forward-looking statements:

- § Factors affecting utility operations, such as unusual weather conditions or other natural phenomena; catastrophic weather-related damage (such as hurricanes and other storms); unscheduled generation outages; unanticipated maintenance or repairs; unanticipated changes to fuel costs; cost of and reliance on natural gas as a component of Cleco’s generation fuel mix and their impact on competition and franchises, fuel supply costs or availability constraints due to higher demand, shortages, transportation problems or other developments; decreased customer load; environmental incidents; environmental compliance costs; or power transmission system constraints;
- § Cleco Corporation’s holding company structure and its dependence on the earnings, dividends, or distributions from its subsidiaries to meet its debt obligations and pay dividends on its common stock;
- § Cleco Power’s ability to operate and maintain, within its projected costs, any self-build projects identified in future IRP and RFP processes and its participation in any government grants;
- § Dependence of Cleco Power for energy from sources other than its facilities and the uncertainty of future sources of such additional energy;
- § Nonperformance by and creditworthiness of counterparties under tolling, power purchase, and energy service agreements, or the restructuring of those agreements, including possible termination;
- § Regulatory factors such as changes in rate-setting policies, recovery of investments made under traditional regulation, recovery of storm restoration costs, the frequency and timing of rate increases or decreases, the results of periodic NERC audits and fuel audits, the formation of ICTs, and the compliance with the ERO reliability standards for bulk power systems by Cleco Power, Acadia, and Evangeline;
- § Financial or regulatory accounting principles or policies imposed by FASB, the SEC, the PCAOB, FERC, the LPSC or similar entities with regulatory or accounting oversight;

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

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

§ Credit ratings of Cleco Corporation and Cleco Power;

§ Ability to remain in compliance with debt covenants;

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

§ The availability and use of alternative sources of energy and technologies;

§ Impact of the imposition of energy efficiency requirements or of increased conservation efforts of customers;

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

§ Acts of terrorism;

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

§ Uncertain tax positions;

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

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

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

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

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- § Ability of Cleco Power to recover, from its retail customers, the costs of compliance with environmental laws and regulations; and
- § Ability of the Dolet Hills lignite reserve to provide sufficient fuel to the Dolet Hills Power Station until at least 2026.

For additional discussion of these factors and other factors that could cause actual results to differ materially from those contemplated in the Registrants' forward-looking statements, please read "Risk Factors" in this report and the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2009. All subsequent written and oral forward-looking statements attributable to the Registrants or persons acting on their behalf are expressly qualified in their entirety by the factors identified above.

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

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PART I — 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, 2009. 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."

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CLECO CORPORATION

Condensed Consolidated Statements of Income (Unaudited)

| (THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS) | FOR THE THREE MONTHS ENDED MARCH 31, | |
|---|--------------------------------------|------------|
| | 2010 | 2009 |
| Operating revenue | | |
| Electric operations | \$252,798 | \$202,865 |
| Tolling operations | 7,464 | - |
| Other operations | 10,876 | 7,109 |
| Affiliate revenue | 1,149 | 2,962 |
| Total operating revenue | 272,287 | 212,936 |
| Operating expenses | | |
| Fuel used for electric generation | 94,582 | 88,303 |
| Power purchased for utility customers | 48,219 | 45,718 |
| Other operations | 26,654 | 24,951 |
| Maintenance | 13,837 | 10,559 |
| Depreciation | 24,253 | 19,134 |
| Taxes other than income taxes | 8,802 | 7,033 |
| Loss on sales of assets | 39 | - |
| Total operating expenses | 216,386 | 195,698 |
| Operating income | 55,901 | 17,238 |
| Interest income | 162 | 411 |
| Allowance for other funds used during construction | 9,805 | 16,991 |
| Equity income (loss) from investees | 37,847 | (11,751) |
| Gain on toll settlement | 148,402 | - |
| Other income | 1,079 | 1,285 |
| Other expense | (925) | (1,095) |
| Interest charges | | |
| Interest charges, including amortization of debt expenses, premium, and discount, net of capitalized interest | 26,007 | 21,316 |
| Allowance for borrowed funds used during construction | (3,572) | (6,213) |
| Total interest charges | 22,435 | 15,103 |
| Income before income taxes | 229,836 | 7,976 |
| Federal and state income tax expense | 79,866 | 1,326 |
| Net income | 149,970 | 6,650 |
| Preferred dividends requirements, net of tax | 12 | 12 |
| Net income applicable to common stock | \$149,958 | \$6,638 |
| Average shares of common stock outstanding | | |
| Basic | 60,326,020 | 60,097,929 |
| Diluted | 60,581,060 | 60,366,170 |
| Basic earnings per share | | |

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| | | |
|---|---------|---------|
| Net income applicable to common stock | \$2.49 | \$0.11 |
| Diluted earnings per share | | |
| Net income applicable to common stock | \$2.48 | \$0.11 |
| Cash dividends declared per share of common stock | \$0.225 | \$0.225 |
| The accompanying notes are an integral part of the condensed consolidated financial statements. | | |

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Condensed Consolidated Statements of Comprehensive Income (Unaudited)

| (THOUSANDS) | FOR THE THREE MONTHS ENDED MARCH 31, | |
|--|--|----------|
| | 2010 | 2009 |
| Net income | \$ 149,970 | \$ 6,650 |
| Other comprehensive (loss) income, net of tax: | | |
| Amortization of post-retirement benefit net (loss) income (net of tax benefit of \$6 in 2010 and \$14 in 2009) | (10) | 1 |
| Cash flow hedges: | | |
| Net derivatives loss on interest rate swap arising during the period (net of tax benefit of \$108 in 2010) | (173) | - |
| Reclassification of interest expense on interest rate swap (net of tax expense of \$78 in 2010) | 124 | - |
| Reclassification of interest expense on treasury rate lock (net of tax benefit of \$16 in 2010) | (25) | - |
| Other comprehensive (loss) income | (84) | 1 |
| Comprehensive income, net of tax | \$ 149,886 | \$ 6,651 |

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

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Condensed Consolidated Balance Sheets (Unaudited)

| (THOUSANDS) | AT MARCH 31, 2010 | AT DECEMBER 31, 2009 |
|--|-------------------------|----------------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$92,222 | \$ 145,193 |
| Restricted cash | 22,462 | 29,941 |
| Customer accounts receivable (less allowance for doubtful accounts of \$754 in 2010 and \$1,173 in 2009) | 42,112 | 29,550 |