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Cleco Corporate Holdings LLC
Form 10-Q
November 02, 2016

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 September 30, 2016

Or

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

Commission file number 1-15759

CLECO CORPORATE HOLDINGS LLC

(Exact name of registrant as specified in its charter)

Louisiana

(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 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

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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 Corporate Holdings 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 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

As of November 2, 2016, Cleco Corporate Holdings LLC has no common stock outstanding. All of the outstanding interest of Cleco Corporate Holdings LLC is held by Cleco Group LLC, a wholly owned subsidiary of Cleco Partners L.P.

Cleco Power LLC, a wholly owned subsidiary of Cleco Corporate Holdings LLC, 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 Quarterly Report on Form 10-Q is separately filed by Cleco Corporate Holdings LLC and Cleco Power LLC. Information in this filing relating to Cleco Power LLC is filed by Cleco Corporate Holdings LLC and separately by Cleco Power LLC on its own behalf. Cleco Power LLC makes no representation as to information relating to Cleco Corporate Holdings LLC (except as it may relate to Cleco Power LLC) or any other affiliate or subsidiary of Cleco Corporate Holdings LLC.

This 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 Corporate Holdings LLC (Cleco Holdings) 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 |
| ABR | Alternate Base Rate which is the greater of the prime rate, the federal funds effective rate plus 0.50%, or the LIBOR plus 1.0% |
| Acadia | Acadia Power Partners, LLC, previously a wholly owned subsidiary of Midstream. Acadia Power Partners, LLC was dissolved effective August 29, 2014. |
| Acadia Unit 1 | Cleco Power’s 580-MW, combined cycle power plant located at the Acadia Power Station in Eunice, Louisiana |
| Acadia Unit 2 | Entergy Louisiana’s 580-MW, combined cycle power plant located at the Acadia Power Station in Eunice, Louisiana, which is operated by Cleco Power |
| AFUDC | Allowance for Funds Used During Construction |
| ALJ | Administrative Law Judge |
| Amended Lignite Mining Agreement | Amended and restated lignite mining agreement effective December 29, 2009 |
| AMI | Advanced Metering Infrastructure |
| AOCI | Accumulated Other Comprehensive Income (Loss) |
| ARO | Asset Retirement Obligation |
| Attala | Attala Transmission LLC, a wholly owned subsidiary of Cleco Holdings |
| CCR | Coal combustion by-products or residual |
| CPP | Clean Power Plan |
| Cleco Group | Cleco Group LLC, a wholly owned subsidiary of Cleco Partners |
| Cleco Katrina/Rita | Cleco Katrina/Rita Hurricane Recovery Funding LLC, a wholly owned subsidiary of Cleco Power |
| Cleco Partners | Cleco Partners L.P., a Delaware limited partnership that is owned by a consortium of investors, including funds or investment vehicles managed by Macquarie Infrastructure and Real Assets, British Columbia Investment Management Corporation, John Hancock Financial, and other infrastructure investors. |
| CO ₂ | Carbon dioxide |
| Coughlin | Cleco Power’s 775-MW, combined-cycle power plant located in St. Landry, Louisiana |
| DHLC | Dolet Hills Lignite Company, LLC, a wholly owned subsidiary of SWEPCO |
| Diversified Lands | Diversified Lands LLC, a wholly owned subsidiary of Cleco Holdings |
| Dolet Hills | A 650-MW generating unit at Cleco Power’s plant site in Mansfield, Louisiana. Cleco Power has a 50% ownership interest in the capacity of Dolet Hills. |
| EAC | Environmental Adjustment Clause |
| EGU | Electric Generating Unit |
| Entergy Gulf States | Entergy Gulf States Louisiana, L.L.C. |
| Entergy Louisiana | Entergy Louisiana, LLC |
| EPA | U.S. Environmental Protection Agency |
| ERO | Electric Reliability Organization |
| ESPP | Employee Stock Purchase Plan |
| Evangeline | Cleco Evangeline LLC, a wholly owned subsidiary of Midstream |

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| | |
|--------------------|---|
| FAC | Fuel Adjustment Clause |
| FASB | Financial Accounting Standards Board |
| FERC | Federal Energy Regulatory Commission |
| FTR | Financial Transmission Right |
| FRP | Formula Rate Plan |
| GAAP | Generally Accepted Accounting Principles in the U.S. |
| IRP | Integrated Resource Plan |
| IRS | Internal Revenue Service |
| kWh | Kilowatt-hour(s) |
| LED | Louisiana Economic Development |
| LIBOR | London Interbank Offered Rate |
| LPSC | Louisiana Public Service Commission |
| LTIP | Long-Term Incentive Compensation Plan |
| Madison Unit 3 | A 641-MW generating unit at Cleco Power's plant site in Boyce, Louisiana |
| MATS | Mercury and Air Toxics Standards |
| Merger | Merger of Merger Sub with and into Cleco Corporation pursuant to the terms of the Merger Agreement which was completed on April 13, 2016 |
| Merger Agreement | Agreement and Plan of Merger, dated as of October 17, 2014, by and among Cleco Partners, Merger Sub, and Cleco Corporation |
| Merger Commitments | Cleco Partners', Cleco Holdings', and Cleco Power's 77 commitments to the LPSC as defined in Docket No. U-33434 of which a performance report must be filed annually by October 31 for the 12 months ending June 30 |

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ABBREVIATION OR
ACRONYM

DEFINITION

| | |
|-------------------|--|
| Merger Sub | Cleco MergerSub Inc., previously an indirect wholly owned subsidiary of Cleco Partners that was merged with and into Cleco Corporation, with Cleco Corporation surviving the Merger, and Cleco Corporation converting to a limited liability company and changing its name to Cleco Holdings |
| Midstream | Cleco Midstream Resources LLC, a wholly owned subsidiary of Cleco Holdings |
| MISO | Midcontinent Independent System Operator, Inc. |
| Moody's | Moody's Investors Service, a credit rating agency |
| MW | Megawatt(s) |
| MWh | Megawatt-hour(s) |
| NAAQS | National Ambient Air Quality Standards |
| NERC | North American Electric Reliability Corporation |
| NMTC | New Markets Tax Credit |
| NMTC Fund | USB NMTC Fund 2008-1 LLC was formed to invest in projects qualifying for New Markets Tax Credits and Solar Projects |
| NO _x | Nitrogen oxides |
| Oxbow | Oxbow Lignite Company, LLC, 50% owned by Cleco Power and 50% owned by SWEPCO |
| Perryville | Perryville Energy Partners, L.L.C., a wholly owned subsidiary of Cleco Holdings |
| Registrant(s) | Cleco Holdings and/or Cleco Power |
| Rodemacher Unit 2 | A 523-MW generating unit at Cleco Power's plant site in Boyce, Louisiana. Cleco Power has a 30% ownership interest in the capacity of Rodemacher Unit 2. |
| ROE | Return on equity |
| RTO | Regional Transmission Organization |
| S&P | Standard & Poor's Ratings Services, a credit rating agency |
| SEC | U.S. Securities and Exchange Commission |
| SERP | Supplemental Executive Retirement Plan |
| SO ₂ | Sulfur dioxide |
| Support Group | Cleco Support Group LLC, a wholly owned subsidiary of Cleco Holdings |
| SWEPCO | Southwestern Electric Power Company, an electric utility subsidiary of American Electric Power Company, Inc. |
| VaR | Value-at-Risk |

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

the effects of the Merger on Cleco Holdings’ and Cleco Power’s business relationships, operating results, and business generally,

- regulatory factors such as changes in rate-setting practices or policies; the unpredictability in political actions of governmental regulatory bodies; adverse regulatory ratemaking actions; recovery of investments made under traditional regulation; recovery of storm restoration costs; the frequency, timing, and amount of rate increases or decreases; the impact that rate cases or requests for FRP extensions may have on operating decisions of Cleco Power; the results of periodic NERC, LPSC, and FERC audits; participation in MISO and the related operating challenges and uncertainties, including increased wholesale competition relative to more suppliers; and compliance with the ERO reliability standards for bulk power systems by Cleco Power,

the ability to recover fuel costs through the FAC,

factors affecting utility operations, such as unusual weather conditions or other natural phenomena; catastrophic weather-related damage caused by hurricanes and other storms or severe drought conditions; unscheduled generation outages; unanticipated maintenance or repairs; unanticipated changes to fuel costs or fuel supply costs, fuel shortages, transportation problems, or other developments; fuel mix of Cleco’s generating facilities; decreased customer load; environmental incidents and compliance costs; and power transmission system constraints,

reliance on third parties for determination of Cleco Power’s commitments and obligations to markets for generation resources and reliance on third-party transmission services,

global and domestic economic conditions, including the ability of customers to continue paying utility bills, related growth and/or downsizing of businesses in Cleco’s service area, monetary fluctuations, changes in commodity prices, and inflation rates,

the ability of the lignite reserves at Dolet Hills to provide sufficient fuel to the Dolet Hills Power Station until at least 2036,

Cleco Power’s ability to maintain its right to sell wholesale power at market-based rates within its control area,

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

reliability of Cleco Power’s generating facilities,

the imposition of energy efficiency requirements or increased conservation efforts of customers,

the impact of current or future environmental laws and regulations, including those related to CCRs, greenhouse gases, and energy efficiency that could limit or terminate the operation of certain generating units, increase costs, or reduce customer demand for electricity,

the ability to recover costs of compliance with environmental laws and regulations, including those through the EAC, financial or regulatory accounting principles or policies imposed by FASB, the SEC, FERC, the LPSC, or similar entities with regulatory or accounting oversight, changing market conditions and a variety of other factors associated with physical energy, financial transactions, and energy service activities, including, but not limited to, price, basis, credit, liquidity, volatility, capacity, transmission, interest rates, and warranty risks, legal, environmental, and regulatory delays and other obstacles associated with acquisitions, reorganizations, investments in joint ventures, or other capital projects, costs and other effects of legal and administrative proceedings, settlements, investigations, claims, and other matters, the availability and use of alternative sources of energy and technologies, such as wind, solar, battery storage, and distributed generation, changes in federal, state, or local laws (including tax laws), changes in tax rates, disallowances of tax positions, or changes in other regulating policies that may result in a change to tax benefits or expenses, the restriction on the ability of Cleco Power to make distributions to Cleco Holdings in certain instances, as a result of the Merger Commitments, Cleco Holdings' dependence on the earnings, dividends, or distributions from its subsidiaries to meet its debt obligations,

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

For more discussion of these factors and other factors that could cause actual results to differ materially from those contemplated in the Registrants' forward-looking statements, please see "Risk Factors" in the Registrants' Combined Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, and in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

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 (UNAUDITED)

Cleco Holdings

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, 2015. 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 HOLDINGS

Condensed Consolidated Statements of Income (Unaudited)

| (THOUSANDS) | SUCCESSOR FOR THE THREE MONTHS ENDED SEPT. 30, 2016 | PREDECESSOR FOR THE THREE MONTHS ENDED SEPT. 30, 2015 | |
|---|---|---|---|
| Operating revenue | | | |
| Electric operations | \$ 323,707 | \$ 325,994 | |
| Other operations | 18,976 | 19,937 | |
| Gross operating revenue | 342,683 | 345,931 | |
| Electric customer credits | 177 | (463 |) |
| Operating revenue, net | 342,860 | 345,468 | |
| Operating expenses | | | |
| Fuel used for electric generation | 101,908 | 105,052 | |
| Power purchased for utility customers | 36,058 | 31,544 | |
| Other operations | 35,361 | 33,021 | |
| Maintenance | 19,412 | 20,183 | |
| Depreciation and amortization | 42,535 | 39,120 | |
| Taxes other than income taxes | 12,574 | 13,145 | |
| Merger transaction and commitment costs | 1,869 | 831 | |
| Total operating expenses | 249,717 | 242,896 | |
| Operating income | 93,143 | 102,572 | |
| Interest income | 318 | 346 | |
| Allowance for equity funds used during construction | 1,308 | 660 | |
| Other income | 658 | 162 | |
| Other expense | (248 |) (2,723 |) |
| Interest charges | | | |
| Interest charges, including amortization of debt issuance costs, premiums, and discounts, net | 32,233 | 18,781 | |
| Allowance for borrowed funds used during construction | (375 |) (188 |) |
| Total interest charges | 31,858 | 18,593 | |
| Income before income taxes | 63,321 | 82,424 | |
| Federal and state income tax expense | 23,700 | 27,761 | |
| Net income | \$ 39,621 | \$ 54,663 | |

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

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CLECO HOLDINGS

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

| (THOUSANDS) | SUCCESSOR PREDECESSOR | |
|--|--|---|
| | FOR THE THREE MONTHS ENDED SEPT. 30, 2016 | FOR THE THREE MONTHS ENDED SEPT. 30, 2015 |
| Net income | \$ 39,621 | \$ 54,663 |
| Other comprehensive (loss) income, net of tax | | |
| Postretirement benefits (loss) gain (net of tax benefit of \$1,442 and tax expense of \$366, respectively) | (2,305 |) 586 |
| Net gain on cash flow hedges (net of tax expense of \$0 and \$33, respectively) | — | 53 |
| Total other comprehensive (loss) income, net of tax | (2,305 |) 639 |
| Comprehensive income, net of tax | \$ 37,316 | \$ 55,302 |

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

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Condensed Consolidated Statements of Income (Unaudited)

| (THOUSANDS) | SUCCESSOR PREDECESSOR | | |
|---|---|---------------------------------------|--|
| | APR. 13, 2016 - SEPT. 30, 2016 | JAN. 1, 2016 - APR. 12, 2016 | FOR THE NINE MONTHS ENDED SEPT. 30, 2015 |
| Operating revenue | | | |
| Electric operations | \$ 553,634 | \$281,154 | \$880,169 |
| Other operations | 33,110 | 19,080 | 53,472 |
| Gross operating revenue | 586,744 | 300,234 | 933,641 |
| Electric customer credits | (381 |) (364 |) (3,642 |
| Operating revenue, net | 586,363 | 299,870 | 929,999 |
| Operating expenses | | | |
| Fuel used for electric generation | 168,159 | 96,378 | 277,187 |
| Power purchased for utility customers | 60,439 | 27,249 | 109,758 |
| Other operations | 59,633 | 33,563 | 93,018 |
| Maintenance | 42,317 | 29,813 | 60,700 |
| Depreciation and amortization | 76,695 | 44,076 | 112,866 |
| Taxes other than income taxes | 22,953 | 14,611 | 38,734 |
| Merger transaction and commitment costs | 173,172 | 34,912 | 2,561 |
| Gain on sale of asset | — | (1,095 |) — |
| Total operating expenses | 603,368 | 279,507 | 694,824 |
| Operating (loss) income | (17,005 |) 20,363 | 235,175 |
| Interest income | 515 | 265 | 734 |
| Allowance for equity funds used during construction | 2,057 | 723 | 2,197 |
| Other income | 2,395 | 870 | 1,279 |
| Other expense | (435 |) (590 |) (3,494 |
| Interest charges | | | |
| Interest charges, including amortization of debt issuance costs, premiums, and discounts, net | 58,926 | 22,330 | 59,264 |
| Allowance for borrowed funds used during construction | (603 |) (207 |) (640 |
| Total interest charges | | | |