

CLECO CORP  
Form 10-Q  
July 31, 2013

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 June 30, 2013

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  No

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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 July 26, 2013
Cleco Corporation	Common Stock, \$1.00 Par Value	60,449,895

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 Quarterly Report on 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 to “Cleco”, including all items in Parts I and II, 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
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, a wholly owned subsidiary of APH
Acadia Unit 1	Cleco Power’s 580-MW unit, combined cycle, natural gas-fired power plant located at the Acadia Power Station in Eunice, Louisiana
Acadia Unit 2	Entergy Louisiana’s 580-MW unit, combined cycle, natural gas-fired power plant located at the Acadia Power Station in Eunice, Louisiana
AFUDC	Allowance for Funds Used During Construction
Amended Lignite Mining Agreement	Amended and restated lignite mining agreement effective December 29, 2009
AMI	Advanced Metering Infrastructure
APH	Acadia Power Holdings LLC, a wholly owned subsidiary of Midstream
Attala	Attala Transmission LLC, a wholly owned subsidiary of Cleco Corporation
CERCLA	The Comprehensive Environmental Response, Compensation, and Liability Act of 1980
Cleco Katrina/Rita	Cleco Katrina/Rita Hurricane Recovery Funding LLC, a wholly owned subsidiary of Cleco Power
Coughlin	Coughlin Power Station, a combined-cycle, natural gas-fired 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 Corporation
Dodd-Frank Act	The Dodd-Frank Wall Street Reform and Consumer Protection Act, signed into law on July 21, 2010
DOE	United States Department of Energy
Entergy	Entergy Corporation
Entergy Gulf States	Entergy Gulf States Louisiana, L.L.C.
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
ERO	Electric Reliability Organization
ESPP	Cleco Corporation Employee Stock Purchase Plan
Evangeline	Cleco Evangeline LLC, a wholly owned subsidiary of Midstream
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FRP	Formula Rate Plan
GAAP	Generally Accepted Accounting Principles in the United States
GO Zone	Gulf Opportunity Zone Act of 2005 (Public Law 109-135)
Interconnection Agreement	One of two Interconnection and Real Estate Agreements, one between Attala and Entergy Mississippi, and the other between Perryville and Entergy Louisiana

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IRP	Integrated Resource Planning
IRS	Internal Revenue Service
kWh	Kilowatt-hour(s) as applicable
LDEQ	Louisiana Department of Environmental Quality
LIBOR	London Inter-Bank Offer Rate
Lignite Mining Agreement	Dolet Hills Mine Lignite Mining Agreement, dated as of May 31, 2001
LPSC	Louisiana Public Service Commission
LTICP	Cleco Corporation Long-Term Incentive Compensation Plans
Madison Unit 3	A 600-MW solid-fuel generating unit at Cleco Power's plant site in Boyce, Louisiana
MATS	Mercury and Air Toxics Standards
Midstream	Cleco Midstream Resources LLC, a wholly owned subsidiary of Cleco Corporation
MISO	Midcontinent Independent System Operator, Inc.
Moody's	Moody's Investors Service
MW	Megawatt(s) as applicable
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
Not Meaningful	A percentage comparison of these items is not statistically meaningful because the percentage difference is greater than 1,000%
OATT	Open Access Transmission Tariff

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ABBREVIATION OR ACRONYM	DEFINITION
OCI	Other Comprehensive Income
Oxbow	Oxbow Lignite Company, LLC, 50% owned by Cleco Power and 50% owned by SWEPCO
PCAOB	Public Company Accounting Oversight Board
PCB	Polychlorinated biphenyl
Perryville	Perryville Energy Partners, L.L.C., a wholly owned subsidiary of Cleco Corporation
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
RTO	Regional Transmission Organization
Sale Agreement	Purchase and Sale Agreement, dated as of January 28, 2004, between Perryville and Entergy Louisiana
S&P	Standard & Poor's Ratings Services, a credit rating agency
SEC	Securities and Exchange Commission
SERP	Cleco Corporation Supplemental Executive Retirement Plan
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
VIE	Variable Interest Entity

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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; projections, including with respect to base revenue; business strategies; goals, beliefs, plans, and objectives; competitive strengths; market developments; development and operation of facilities; growth in sales volume; meeting capacity requirements, including through RFPs; expansion of service to certain 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:

factors affecting utility operations, such as unusual weather conditions or other natural phenomena, catastrophic weather-related damage (such as hurricanes and other storms or severe drought conditions), unscheduled generation outages, unanticipated maintenance or repairs, unanticipated changes to fuel costs, fuel supply costs or availability constraints due to higher demand, shortages, transportation problems, or other developments, fuel mix of Cleco’s generation facilities, decreased customer load, environmental incidents, environmental compliance costs, and 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 maintain its right to sell wholesale generation 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,
- nonperformance by and creditworthiness of counterparties under power purchase agreements, or the restructuring of those agreements, including possible termination,
- nonperformance by and creditworthiness of the guarantor counterparty of the NMTC Fund,
- 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 and LPSC audits, participation in an RTO and Cleco Power’s ability to recover related transmission upgrade costs, the

compliance with the ERO reliability standards for bulk power systems by Cleco Power and Evangeline, and the change in market conditions resulting from MISO that could affect Cleco’s ability to create, maintain, and renew energy sales contracts with new and existing customers,

- 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,
- 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 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 and U.S. economic environment,
- 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,  
the imposition of energy efficiency requirements or increased conservation efforts of customers,  
reliability of Cleco Power's and Midstream's generating facilities,  
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,  
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,  
changes in tax laws or disallowances of uncertain tax positions that may result in a change to tax benefits or expenses,  
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 the AMI project and the transfer of Coughlin to  
Cleco Power,  
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, or regulating policies,



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the impact of current or future environmental laws and regulations, including those related to 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 of Cleco Power to recover from its customers the costs of compliance with environmental laws and regulations, including capital expenditures associated with MATS, and
- the ability of Dolet Hills lignite reserve to provide sufficient fuel to the Dolet Hills Power Station until at least 2026.

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 read "Risk Factors" in the Registrants' Combined Annual Report on Form 10-K for the fiscal year ended December 31, 2012. 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, 2012. 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 JUNE 30,	
	2013	2012
Operating revenue		
Electric operations	\$252,765	\$228,293
Other operations	11,531	12,111
Gross operating revenue	264,296	240,404
Electric customer credits	(402 )	(281 )
Operating revenue, net	263,894	240,123
Operating expenses		
Fuel used for electric generation	72,611	54,999
Power purchased for utility customers	13,940	16,068
Other operations	31,442	28,688
Maintenance	26,310	24,184
Depreciation	34,740	32,250
Taxes other than income taxes	10,285	9,713
Gain on sale of assets	(188 )	(22 )
Total operating expenses	189,140	165,880
Operating income	74,754	74,243
Interest income	257	(3 )
Allowance for other funds used during construction	413	1,399
Other income	8,165	13,014
Other expense	(1,247 )	(831 )
Interest charges		
Interest charges, including amortization of debt expense and premium, net	21,017	21,094
Allowance for borrowed funds used during construction	(129 )	(478 )
Total interest charges	20,888	20,616
Income before income taxes	61,454	67,206
Federal and state income tax expense	19,422	20,520
Net income applicable to common stock	\$42,032	\$46,686
Average number of basic common shares outstanding	60,445,617	60,421,028
Average number of diluted common shares outstanding	60,713,374	60,660,702
Basic earnings per share		
Net income applicable to common stock	\$0.70	\$0.77
Diluted earnings per share		
Net income applicable to common stock	\$0.69	\$0.77
Cash dividends paid per share of common stock	\$0.3625	\$0.3125

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

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CLECO CORPORATION

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(THOUSANDS)	FOR THE THREE MONTHS ENDED JUNE 30,	
	2013	2012
Net income	\$42,032	\$46,686
Other comprehensive income (loss), net of tax:		
Amortization of postretirement benefits (net of tax expense of \$366 in 2013 and \$266 in 2012)	586	525
Net gain (loss) on cash flow hedges (net of tax expense of \$23 in 2013 and tax benefit of \$2,360 in 2012)	36	(3,774 )
Total other comprehensive income (loss), net of tax	622	(3,249 )
Comprehensive income, net of tax	\$42,654	\$43,437

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

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## CLECO CORPORATION

## Condensed Consolidated Statements of Income (Unaudited)

(THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	FOR THE SIX MONTHS ENDED JUNE 30,	
	2013	2012
Operating revenue		
Electric operations	\$482,191	\$437,883
Other operations	23,074	23,056
Gross operating revenue	505,265	460,939
Electric customer credits	(424	) 1,955
Operating revenue, net	504,841	462,894
Operating expenses		
Fuel used for electric generation	157,976	128,063
Power purchased for utility customers	18,796	24,705
Other operations	58,363	56,385
Maintenance	43,944	41,419
Depreciation	68,773	64,097
Taxes other than income taxes	22,919	19,743
Loss (gain) on sale of assets	846	(55
Total operating expenses	371,617	334,357
Operating income	133,224	128,537
Interest income	457	31
Allowance for other funds used during construction	1,577	2,416
Equity income from investees, before tax	—	1
Other income	10,438	22,389
Other expense	(1,683	) (1,486
Interest charges		
Interest charges, including amortization of debt expense and premium, net	42,848	42,062
Allowance for borrowed funds used during construction	(504	) (822
Total interest charges	42,344	41,240
Income before income taxes	101,669	110,648
Federal and state income tax expense	32,503	33,930
Net income applicable to common stock	\$69,166	\$76,718
Average number of basic common shares outstanding	60,419,588	60,387,388
Average number of diluted common shares outstanding	60,670,112	60,625,377
Basic earnings per share		
Net income applicable to common stock	\$1.15	\$1.27
Diluted earnings per share		
Net income applicable to common stock	\$1.14	\$1.27
Cash dividends paid per share of common stock	\$0.70	\$0.625

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

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CLECO CORPORATION

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(THOUSANDS)	FOR THE SIX MONTHS ENDED JUNE 30,	
	2013	2012
Net income	\$69,166	\$76,718
Other comprehensive income, net of tax:		
Amortization of postretirement benefits (net of tax expense of \$702 in 2013 and \$431 in 2012)	1,122	888
Net gain on cash flow hedges (net of tax expense of \$859 in 2013 and \$413 in 2012)	1,373	661
Total other comprehensive income, net of tax	2,495	1,549
Comprehensive income, net of tax	\$71,661	\$78,267

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

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## CLECO CORPORATION

## Condensed Consolidated Balance Sheets (Unaudited)

(THOUSANDS)	AT JUNE 30, 2013	AT DEC. 31, 2012
Assets		
Current assets		
Cash and cash equivalents	\$7,567	\$31,020
Restricted cash and cash equivalents	8,067	8,781
Customer accounts receivable (less allowance for doubtful accounts of \$862 in 2013 and \$1,105 in 2012)	48,732	39,293
Other accounts receivable	40,693	37,741
Taxes receivable, net	—	34,612
Unbilled revenue	36,012	28,662
Fuel inventory, at average cost	53,220	46,867
Material and supplies inventory, at average cost	61,671	58,232
Accumulated deferred federal and state income taxes, net	46,443	79,353
Accumulated deferred fuel	9,593	7,833
Cash surrender value of company-/trust-owned life insurance policies	60,006	57,346
Prepayments	6,111	5,951
Regulatory assets - other	7,803	11,095
Other current assets	17	552
Total current assets	385,935	447,338
Property, plant, and equipment		
Property, plant, and equipment	4,233,991	4,140,194
Accumulated depreciation	(1,350,533 )	(1,311,273 )
Net property, plant, and equipment	2,883,458	2,828,921
Construction work in progress	158,763	180,540
Total property, plant, and equipment, net	3,042,221	3,009,461
Equity investment in investees	14,541	14,540
Prepayments	4,143	4,261
Restricted cash and cash equivalents	4,423	5,440
Restricted investments	12,548	10,852
Regulatory assets - deferred taxes, net	213,061	210,445
Regulatory assets - other	290,764	289,570
Net investment in direct financing lease	13,533	13,542
Intangible asset	113,720	120,545
Other deferred charges	21,247	21,355
Total assets	\$4,116,136	\$4,147,349

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

(Continued on next page)

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## CLECO CORPORATION

## Condensed Consolidated Balance Sheets (Unaudited)

(THOUSANDS)	AT JUNE 30, 2013	AT DEC. 31, 2012
Liabilities and shareholders' equity		
Liabilities		
Current liabilities		
Short-term debt	\$3,000	\$—
Long-term debt due within one year	16,658	91,140
Accounts payable	93,981	102,695
Customer deposits	47,546	45,553
Provision for rate refund	4,589	4,165
Taxes payable	29,856	—
Interest accrued	12,115	12,957
Interest rate risk management liability	—	2,627
Regulatory liabilities - other	—	8,255
Deferred compensation	10,148	9,626
Uncertain tax positions	686	686
Other current liabilities	15,237	16,926
Total current liabilities	233,816	294,630
Deferred credits		
Accumulated deferred federal and state income taxes, net	762,173	762,992
Accumulated deferred investment tax credits	5,698	6,252
Postretirement benefit obligations	155,490	186,746
Restricted storm reserve	16,952	16,285
Uncertain tax positions	2,184	2,184
Tax credit fund investment, net	60,016	78,840
Contingent sale obligations	950	8,150
Other deferred credits	23,758	34,799
Total deferred credits	1,027,221	1,096,248
Long-term debt, net	1,323,765	1,257,258
Total liabilities	2,584,802	2,648,136
Commitments and Contingencies (Note 11)		
Shareholders' equity		
Common shareholders' equity		
Common stock, \$1 par value, authorized 100,000,000 shares, issued 61,047,006 and 60,961,570 shares and outstanding 60,449,214 and 60,355,545 shares at June 30, 2013 and 61,047 December 31, 2012, respectively		60,962
Premium on common stock	419,322	416,619
Retained earnings	1,101,626	