



CE GENERATION<sub>LLC</sub>

**Consolidated Financial Statements**  
**For the Quarterly Period Ended March 31, 2010**

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**CE GENERATION, LLC AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS (Unaudited)**

(In thousands)

	As of	
	March 31, 2010	December 31, 2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 53,966	\$ 54,705
Trade receivables	27,940	32,754
Income tax receivable	1,202	2,613
Inventories	32,496	32,672
Deferred income taxes	75	75
Other current assets	4,196	2,801
Total current assets	119,875	125,620
Property, plant and equipment, net	706,137	705,772
Goodwill	265,897	265,897
Intangible assets, net	54,432	55,869
Other assets	3,094	3,205
<b>Total assets</b>	<b>\$ 1,149,435</b>	<b>\$ 1,156,363</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 7,895	\$ 1,612
Accrued interest	8,915	1,722
Due to affiliates	1,127	946
Current portion of long-term debt	40,941	40,941
Other current liabilities	13,519	13,139
Total current liabilities	72,397	58,360
Parent senior secured bonds	204,800	204,800
Subsidiary debt	137,734	137,734
Due to affiliates	4,912	4,893
Deferred income taxes	212,336	212,778
Other long-term liabilities	16,471	18,250
Total liabilities	648,650	636,815
Commitments and contingencies (Note 4)		
Equity:		
CE Generation members' equity	482,677	500,823
Noncontrolling interests	18,108	18,725
Total equity	500,785	519,548
<b>Total liabilities and equity</b>	<b>\$ 1,149,435</b>	<b>\$ 1,156,363</b>

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

**CE GENERATION, LLC AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**AND COMPREHENSIVE (LOSS) INCOME (Unaudited)**  
(In thousands)

	<b>Three-Month Periods</b>	
	<b>Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Operating revenue</b>	<u>\$ 51,307</u>	<u>\$ 119,968</u>
<b>Operating costs and expenses:</b>		
Fuel	2,739	27,511
Plant operations	36,851	32,058
General and administrative	1,263	1,128
Depreciation and amortization	<u>19,221</u>	<u>26,596</u>
Total operating costs and expenses	<u>60,074</u>	<u>87,293</u>
<b>Operating (loss) income</b>	<u>(8,767)</u>	<u>32,675</u>
<b>Other income (expense):</b>		
Interest expense	(7,565)	(8,391)
Interest and other income	<u>165</u>	<u>183</u>
Total other income (expense)	<u>(7,400)</u>	<u>(8,208)</u>
<b>(Loss) income before income tax expense</b>	(16,167)	24,467
Income tax expense	<u>2,214</u>	<u>1,026</u>
<b>Net (loss) income</b>	(18,381)	23,441
Net (loss) income attributable to noncontrolling interests	<u>(244)</u>	<u>17,739</u>
<b>Net (loss) income attributable to CE Generation</b>	(18,137)	5,702
<b>Other comprehensive (loss) income attributable to CE Generation, net of tax-</b>		
Unrecognized amounts on retirement benefits, net of tax of \$(7) and \$8	<u>(9)</u>	<u>12</u>
<b>Comprehensive (loss) income attributable to CE Generation</b>	<u>\$ (18,146)</u>	<u>\$ 5,714</u>

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

**CE GENERATION, LLC AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**  
(In thousands)

	<b>Three-Month Periods</b>	
	<b>Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
Net (loss) income	\$ (18,381)	\$ 23,441
Adjustments to reconcile net (loss) income to net cash flows from operating activities:		
Depreciation and amortization	19,221	26,596
Provision for deferred income taxes	(435)	(1,652)
Amortization of deferred financing costs	111	137
Changes in operating assets and liabilities:		
Trade receivables	4,814	806
Inventories	176	322
Due to affiliates, net	181	118
Other current assets	16	(1,793)
Accounts payable and other current liabilities	<u>14,764</u>	<u>8,167</u>
Net cash flows from operating activities	<u>20,467</u>	<u>56,142</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(20,837)	(28,565)
Decrease in restricted cash	<u>4</u>	<u>13</u>
Net cash flows from investing activities	<u>(20,833)</u>	<u>(28,552)</u>
<b>Cash flows from financing activities:</b>		
Distributions to noncontrolling interests	<u>(373)</u>	<u>(20,599)</u>
Net cash flows from financing activities	<u>(373)</u>	<u>(20,599)</u>
<b>Net change in cash and cash equivalents</b>	(739)	6,991
<b>Cash and cash equivalents at beginning of period</b>	<u>54,705</u>	<u>44,364</u>
<b>Cash and cash equivalents at end of period</b>	<u>\$ 53,966</u>	<u>\$ 51,355</u>

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

**CE GENERATION, LLC AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Unaudited)**  
(In thousands)

	<u>CE Generation Member's Equity</u>			<u>Total Equity</u>
	<u>Members' Equity</u>	<u>Accumulated Other Comprehensive Loss, Net</u>	<u>Noncontrolling Interests</u>	
<b>Balance, January 1, 2009</b>	\$ 466,201	\$ (3,597)	\$ 26,097	\$ 488,701
Net income	5,702	-	17,739	23,441
Other comprehensive income	-	12	-	12
Distributions	-	-	(20,599)	(20,599)
<b>Balance, March 31, 2009</b>	<u>\$ 471,903</u>	<u>\$ (3,585)</u>	<u>\$ 23,237</u>	<u>\$ 491,555</u>
<b>Balance, January 1, 2010</b>	\$ 502,230	\$ (1,407)	\$ 18,725	\$ 519,548
Net loss	(18,137)	-	(244)	(18,381)
Other comprehensive loss	-	(9)	-	(9)
Distributions	-	-	(373)	(373)
<b>Balance, March 31, 2010</b>	<u>\$ 484,093</u>	<u>\$ (1,416)</u>	<u>\$ 18,108</u>	<u>\$ 500,785</u>

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

**CE GENERATION, LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. General**

CE Generation, LLC (“CE Generation”) is engaged in the independent power business and through its subsidiaries (together with CE Generation, the “Company”) owns and operates ten geothermal facilities in the Imperial Valley of California (the “Imperial Valley Projects”) and three natural gas-fired combined cycle cogeneration facilities located in New York, Texas and Arizona. The Company is equally owned by MidAmerican Energy Holdings Company (“MEHC”), a consolidated subsidiary of Berkshire Hathaway Inc., and TransAlta USA, Inc. (“TransAlta”), a wholly-owned subsidiary of TransAlta Corporation.

The unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements. Management believes the unaudited Consolidated Financial Statements contain all adjustments (consisting only of normal recurring adjustments) considered necessary for the fair presentation of the Consolidated Financial Statements as of March 31, 2010 and for the three-month periods ended March 31, 2010 and 2009. The results of operations for the three-month period ended March 31, 2010 are not necessarily indicative of the results to be expected for the full year. The Company has evaluated subsequent events through May 14, 2010, which is the date the unaudited Consolidated Financial Statements were available to be issued.

The unaudited Consolidated Financial Statements include the accounts of CE Generation, its wholly-owned subsidiaries and a majority-owned limited partnership, Saranac Power Partners L.P. (the “Saranac Partnership” or the “Saranac Project”), in which the Company indirectly holds a 1% general partnership and 74% limited partnership ownership interest. The remaining interests in the Saranac Partnership are owned by three limited partners. Net income and distributions from the Saranac Partnership are allocated to the partners based on allocation percentages that vary through the life of the partnership, as specified in the partnership agreement. These allocation percentages will differ from the stated ownership percentages until certain limited partners achieve fixed rates of returns. As of March 31, 2010, the Company’s economic interest in the partnership was 75%, while the noncontrolling interest holders had a combined economic interest in the partnership of 25%. The equity interest of the other partners is recorded as a noncontrolling interest on the unaudited Consolidated Financial Statements. Intercompany accounts and transactions have been eliminated.

The preparation of the unaudited Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results may differ from the estimates used in preparing the unaudited Consolidated Financial Statements. Note 2 of Notes to Consolidated Financial Statements included in the Company’s audited Consolidated Financial Statements for the year ended December 31, 2009 describes the most significant accounting policies used in the preparation of the Consolidated Financial Statements. Effective January 1, 2010, the Saranac Project switched from a units of production methodology to a straight line methodology in calculating depreciation expense. This prospective accounting change was treated as a change in estimate and was made to be more reflective of the economic use of the Saranac Project’s assets. There have been no other significant changes in the Company’s assumptions regarding significant accounting estimates and policies during the three-month period ended March 31, 2010.

## 2. Property, Plant and Equipment, Net

Property, plant and equipment, net consists of the following (in thousands):

	Depreciable Life	As of	
		March 31, 2010	December 31, 2009
Power plants	5 to 30 years	\$ 1,284,199	\$ 1,281,462
Wells and resource development	2 to 30 years	254,793	241,481
Equipment	3 to 30 years	<u>6,275</u>	<u>6,273</u>
Total operating assets		1,545,267	1,529,216
Accumulated depreciation		<u>(839,130)</u>	<u>(823,444)</u>
Property, plant and equipment, net		<u>\$ 706,137</u>	<u>\$ 705,772</u>

The Company replaced certain pipe and equipment with a remaining net book value of \$1.3 million and \$0.7 million during the three-month periods ended March 31, 2010 and 2009, respectively, which was charged to depreciation expense on the Consolidated Statements of Operations.

## 3. Intangible Assets, Net

Intangible assets, net consists of the following (in thousands):

	Amortization Life	As of March 31, 2010		As of December 31, 2009	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Power purchase and royalty contracts	4 to 30 years	\$ 315,434	\$ 277,744	\$ 315,434	\$ 276,789
Patented technology	24 years	<u>46,290</u>	<u>29,548</u>	<u>46,290</u>	<u>29,066</u>
Intangible assets, net		<u>\$ 361,724</u>	<u>\$ 307,292</u>	<u>\$ 361,724</u>	<u>\$ 305,855</u>

Amortization expense on acquired intangible assets was \$1.4 million and \$4.5 million during the three-month periods ended March 31, 2010 and 2009, respectively. CE Generation expects amortization expense on acquired intangible assets to be \$4.3 million for the remaining nine months in 2010, and \$5.7 million in 2011 through 2014.

## 4. Commitments and Contingencies

### *The California Power Exchange*

In January 2001, the California Power Exchange declared bankruptcy. As a result, Salton Sea Power LLC (“Salton Sea Power”) and CE Turbo, LLC (“CE Turbo”) did not receive payment for power sold to El Paso Merchant Energy Company (“EPME”) under certain transaction agreements during December 2000 and January 2001 of \$3.8 million (the “PX Receivable”). Salton Sea Power and CE Turbo established an allowance for doubtful accounts for this balance as of December 31, 2003. On September 29, 2004, Salton Sea Power and CE Turbo entered into separate Transfer of Claims Agreements (the “Transfer of Claims Agreements”), pursuant to which Salton Sea Power and CE Turbo received an aggregate of \$3.7 million in exchange for transferring the rights to receive payment on the PX Receivable to TransAlta and MEHC. As a result of the transaction, Salton Sea Power and CE Turbo wrote-off the PX Receivable and the related allowance for doubtful accounts and recorded a \$3.8 million current liability to reflect the collection risk retained under the Transfer of Claims Agreements. Pursuant to the Transfer of Claims Agreements, to the extent that the PX Receivable becomes uncollectible, Salton Sea Power and CE Turbo can be required to pay the PX Receivable, plus interest, to MEHC and TransAlta. EPME informed Salton Sea Power and CE Turbo that, on July 6, 2007, it received a distribution in connection with a settlement involving its claims in the California Power Exchange bankruptcy proceeding. In August 2007, EPME paid \$2.4 million, or \$1.2 million each to MEHC and TransAlta, in connection with the bankruptcy proceeding distribution that EPME received on their behalf. Accordingly, Salton Sea Power and CE Turbo reduced their collective liability by \$2.4 million to \$1.4 million.

### *Environmental Laws and Regulations*

The Company is subject to federal, state, and local laws and regulations regarding air and water quality, climate change, hazardous and solid waste disposal and other environmental matters that have the potential to impact the Company's current and future operations. The Company believes it is in material compliance all applicable laws and regulations.

### *Accrued Environmental Costs*

The Company is fully or partly responsible for environmental remediation at various contaminated sites, including sites that are or were part of the Company's operations and sites owned by third parties. The Company accrues environmental remediation expenses when the expenses are believed to be probable and can be reasonably estimated. The quantification of environmental exposures is based on many factors, including changing laws and regulations, advancements in environmental technologies, the quality of available site-specific information, site investigation results, expected remediation or settlement timelines, the Company's proportionate responsibility, contractual indemnities and coverage provided by insurance policies. The liability recorded as of March 31, 2010 and December 31, 2009 was \$0.8 million and \$0.9 million, respectively, and is included in other current liabilities on the Consolidated Balance Sheets. Environmental remediation liabilities that separately result from the normal operation of long-lived assets and that are legal obligations associated with the retirement of those assets are separately accounted for as asset retirement obligations.

## **5. Related Party Transactions**

Pursuant to an administrative services agreement between CalEnergy Generation Operating Company ("CGOC"), a subsidiary of MEHC, and CE Generation (the "Administrative Services Agreement"), CGOC provides certain administrative and management services to CE Generation. The Administrative Services Agreement between CGOC and CE Generation provides for a fixed fee through December 31, 2010. The expense pursuant to the Administrative Services Agreement was \$0.8 million for each of the three-month periods ended March 31, 2010 and 2009. Such amounts are included in general and administrative costs and expenses on the Consolidated Statements of Operations.

The Company participates in multi-employer pension plans sponsored by MidAmerican Energy Company ("MEC"), an indirect wholly-owned subsidiary of MEHC. The Company's contributions to the various plans were \$0.7 million and \$0.6 million for the three-month periods ended March 31, 2010 and 2009, respectively. The portion of accumulated other comprehensive loss attributable to the Company has been allocated from MEC in accordance with intercompany service agreements.

Pursuant to a transaction agreement dated January 29, 2003 (the "TransAlta Transaction Agreement"), Salton Sea Power and CE Turbo began selling available power from their geothermal facilities in the Imperial Valley of California (the "Salton Sea V Project" and the "CE Turbo Project", respectively) to TransAlta on February 12, 2003, based on percentages of the Dow Jones SP-15 Index. Effective August 7, 2006 through May 31, 2009, up to 26 megawatts ("MW") of available power from the Salton Sea V Project was sold to TransAlta under the TransAlta Transaction Agreement at a fixed price. The TransAlta Transaction Agreement expired on May 31, 2009. Pursuant to this agreement, sales to TransAlta totaled \$2.8 million for the three-month period ended March 31, 2009.

On November 7, 2008, the Yuma Project entered into a Master Power Purchase and Sale Agreement ("Master Agreement") with TransAlta Marketing. The Master Agreement allows the Yuma Project to utilize TransAlta Marketing to market electricity sales during curtailment periods initiated by SDG&E. No transactions were entered into under the Master Agreement for the three-month periods ended March 31, 2010 and 2009, respectively.

## **6. Components of Accumulated Other Comprehensive Loss, Net**

Accumulated other comprehensive loss, net consists of unrecognized amounts on retirement benefits of \$1.4 million, net of tax of \$1.0 million, as of March 31, 2010 and December 31, 2009.

## **7. New Accounting Pronouncements**

In June 2009, the Financial Accounting Standards Board (“FASB”) issued authoritative guidance (which was codified into FASB Accounting Standards Codification Topic 810, “Consolidation,” with the issuance of Accounting Standards Update No. 2009-17) that requires a primarily qualitative analysis to determine if an enterprise is the primary beneficiary of a variable interest entity. This analysis is based on whether the enterprise has (a) the power to direct the activities of the variable interest entity that most significantly impact the entity’s economic performance and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. In addition, enterprises are required to more frequently reassess whether an entity is a variable interest entity and whether the enterprise is the primary beneficiary of the variable interest entity. Finally, the guidance for consolidation or deconsolidation of a variable interest entity is amended and disclosure requirements about an enterprise’s involvement with a variable interest entity are enhanced. The Company adopted this guidance as of January 1, 2010 and the adoption had no impact on the Company’s consolidated financial results and disclosures included within Notes to Consolidated Financial Statements.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is management's discussion and analysis of certain significant factors that have affected the consolidated financial condition and results of operations of CE Generation, LLC ("CE Generation") and its subsidiaries (collectively, the "Company") during the periods included herein. Explanations include management's best estimate of the impact of weather and other factors. This discussion should be read in conjunction with the Company's historical unaudited Consolidated Financial Statements and Notes to Consolidated Financial Statements included elsewhere in this report. The Company's actual results in the future could differ significantly from the historical results.

### Forward-Looking Statements

From time to time, CE Generation may make forward-looking statements that involve judgments, assumptions and other uncertainties beyond the control of the Company or any of its subsidiaries individually. These forward-looking statements may include, among others, statements concerning revenue and cost trends, cost reduction strategies and anticipated outcomes, pricing strategies, changes in the utility industry, planned capital expenditures, financing needs and availability, statements of CE Generation's expectations, beliefs, future plans and strategies, anticipated events or trends and similar comments concerning matters that are not historical facts. These types of forward-looking statements are based on current expectations and involve a number of known and unknown risks and uncertainties that could cause the actual results and performance of the Company to differ materially from any expected future results or performance, expressed or implied, by the forward-looking statements. CE Generation has identified important factors that could cause actual results to differ materially from those expectations, including weather effects on revenues and other operating uncertainties, uncertainties relating to economic and political conditions and uncertainties regarding the impact of regulations, changes in government policy and competition. The Company undertakes no obligation to update forward-looking statements, whether as a result of new information, future events or otherwise. The foregoing review of factors should not be construed as exclusive.

### Results of Operations

#### *Operating Revenue*

The capacity factor for a particular project is determined by dividing the total quantity of electricity sold by the product of the project's capacity and the total hours in the year. Refer to Note 1 of Notes to Consolidated Financial Statements included in the Company's audited Consolidated Financial Statements for the year ended December 31, 2009 for the net capacity of each facility. Each plant possesses an operating margin, which allows for production in excess of a facility's net capacity. Utilization of this operating margin is based upon a variety of factors and can be expected to vary throughout the year under normal operating conditions. The amount of revenues received by the projects is affected by the extent to which they are able to operate and generate electricity. Accordingly, the capacity and capacity factor figures provide information on operating performance that has affected the revenues received by the projects.

CE Generation's operating revenue is summarized as follows (in millions):

	<b>Three-Month Periods</b>	
	<b>Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Natural gas-fired facilities	\$ 9.5	\$ 73.6
Geothermal facilities	<u>41.8</u>	<u>46.4</u>
Total operating revenue	<u>\$ 51.3</u>	<u>\$ 120.0</u>

### *Natural Gas-Fired Facilities*

The following operating data represents the aggregate capacity and electricity production at the natural gas-fired facilities:

	<b>Three-Month Periods</b>	
	<b>Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Overall capacity factor	20.5%	60.3%
Megawatt hours (“MWh”) produced	222,600	653,700
Facility net capacity megawatts (“MW”) (weighted average)	502.0	502.0

Operating revenue at the natural gas-fired facilities decreased \$64.1 million, or 87.1%, for the first quarter of 2010 compared to 2009 primarily due to the following:

- \$62.1 million decrease at the Company’s natural gas-fired facility in Plattsburgh, New York (“the Saranac Project”) due to differences between the terms of its two-year energy management agreement with Shell Energy North America (US) L.P. (the “Shell Agreement”) and the 15-year power purchase agreement with New York State Electric & Gas Corporation (“NYSE&G” or the “NYSE&G Agreement”), which expired on June 21, 2009. Under the Shell Agreement, effective July 1, 2009, the Saranac Project receives a fixed price per month for plant capacity as well as a percentage of net margins associated with the sale of energy and ancillary services. As a result, the Saranac Project’s revenues, fuel costs, operating income and cash flows from operating activities decreased materially compared to the NYSE&G Agreement.
- \$2.7 million decrease at the Company’s natural gas-fired facility in Yuma, Arizona (the “Yuma Project”) of which \$2.5 million was due to a 54.0% decrease in production over 2009. An additional \$0.2 million decrease was due to lower prices. The Yuma Project sells energy at a regulatory determined avoided cost of energy, which decreased to 5.7 cents per kilowatt hour (“kWh”) in the first quarter of 2010 from 5.9 cents per kWh in the first quarter of 2009.
- \$0.9 million increase at the Company’s natural gas-fired facility in Big Spring, Texas (“the Power Resources Project”) primarily due to the nature of its two-year energy management agreement EDF Trading North America LLC (the “EDF Agreement”). Under the EDF Agreement, which was effective January 1, 2010, the Power Resources Project receives a percentage of net margins associated with the sale of energy and ancillary services

### *Geothermal Facilities*

The following operating data represents the aggregate capacity and electricity production at the geothermal facilities:

	<b>Three-Month Periods</b>	
	<b>Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Overall capacity factor	80.9%	90.1%
MWh produced	570,300	635,600
Facility net capacity (MW) (weighted average)	326.4	326.4

Operating revenue at the geothermal facilities decreased \$4.6 million, or 9.9%, for the first quarter of 2010 compared to 2009 primarily due to the following:

- \$4.1 million decrease due to a 10.3% decrease in energy production. The energy production decrease includes a \$2.9 million decrease related to the timing of scheduled maintenance at certain Imperial Valley Projects and a \$1.2 million decrease related to equipment repairs at the CE Turbo Project.
- \$0.5 million decrease due to lower energy rates at certain Imperial Valley Projects.

#### *Fuel*

The Yuma Project purchases the natural gas used by its facility to produce energy under its existing power purchase agreement. At the Saranac and Power Resources Project, Shell and EDF, respectively, are required to purchase the natural gas supply. Prior to the June 2009 expiration of the NYSE&G Agreement, the Saranac Project purchased the natural gas used by its facility to produce energy.

Fuel expense decreased \$24.8 million, or 90.2%, to \$2.7 million for the first quarter of 2010 from \$27.5 million for the comparable period in 2009. During 2010, the Company incurred lower fuel expense of \$23.6 million due to the expiration of the NYSE&G Agreement on June 21, 2009 and \$2.1 million due to decreased production at the Yuma Project. These decreases were partially offset by a \$0.9 million increase due to higher unit costs paid for natural gas at the Yuma Project.

#### *Plant Operations*

Plant operations increased \$4.8 million, or 15.0%, to \$36.9 million for the first quarter of 2010 from \$32.1 million for the comparable period in 2009 due to the timing of scheduled maintenance at certain Imperial Valley Projects.

#### *Depreciation and Amortization*

Depreciation and amortization decreased \$7.4 million, or 27.8%, to \$19.2 million for the first quarter of 2010 from \$26.6 million for the comparable period in 2009. The decrease was primarily due to the Saranac project's change to the straight line methodology in calculating depreciation expense from the units of production methodology. This prospective accounting change, effective January 1, 2010, was treated as a change in estimate and was made to be more reflective of the economic use of the Saranac Project's assets.

#### *Interest Expense*

Interest expense decreased \$0.8 million to \$7.6 million for the first quarter of 2010 from \$8.4 million for the comparable period in 2009 due to lower outstanding debt balances.

#### *Income Tax Expense*

Income tax expense increased \$1.2 million to \$2.2 million for the first quarter of 2010 from \$1.0 million for the comparable period in 2009 primarily due to the timing of recognition of tax benefits associated with depletion and energy tax credits.

#### *Net (Loss) Income Attributable to Noncontrolling Interests*

Net income attributable to noncontrolling interests decreased \$17.9 million to \$(0.2) million for the first quarter of 2010 from \$17.7 million for the comparable period in 2009. The decrease was primarily due to the expiration of the NYSE&G Agreement on June 21, 2009.

#### Liquidity and Capital Resources

CE Generation's direct or indirect subsidiaries are organized as a legal entity separate and apart from CE Generation and its other subsidiaries. Pursuant to separate financing agreements applicable to the Imperial Valley Projects, the assets of each subsidiary with a direct or indirect ownership interest in the Imperial Valley Projects other than Magma Power Company and Salton Sea Power Company are pledged or encumbered to support or otherwise provide the security for their own subsidiary debt. It should not be assumed that the assets of any subsidiary will be available to satisfy CE Generation's obligations or the obligations of its other subsidiaries. However, unrestricted cash or other assets which are available for distribution may,

subject to applicable law and the terms of financing and ring-fencing arrangements for such parties, be advanced, loaned, paid as dividends or otherwise distributed or contributed to CE Generation or affiliates thereof.

The Company's cash and cash equivalents were \$54.0 million as of March 31, 2010, compared to \$54.7 million as of December 31, 2009.

Net cash flows from operating activities were \$20.5 million for the first quarter of 2010 compared with \$56.1 million for the comparable period in 2009. The decrease was primarily due to lower margins following the expiration of the NYSE&G Agreement on June 21, 2009 and timing of scheduled maintenance at certain Imperial Valley Projects.

Cash flows from investing activities were \$(20.8) million for the first quarter of 2010 compared with \$(28.6) million for the comparable period in 2009. The decrease was due to higher capital expenditures in 2009 at the Imperial Valley Projects related to the Company's pipeline replacement program.

Forecasted capital expenditures for 2010 are approximately \$39 million. Capital expenditure needs are reviewed regularly by management and may change significantly as a result of such reviews. The Company expects to meet these capital expenditures with cash flows from operations.

Cash flows from financing activities were \$(0.4) million for the first quarter of 2010 compared with \$(20.6) million for the comparable period in 2009. The decrease was due to lower distributions to noncontrolling interests following the expiration of the NYSE&G Agreement on June 21, 2009.

#### Environmental Laws and Regulations

The Company is subject to federal, state and local laws and regulations regarding air and water quality, climate change, hazardous and solid waste disposal and other environmental matters that have the potential to impact the Company's current and future operations. In addition to imposing continuing compliance obligations, these laws and regulations provide authority to levy substantial penalties for noncompliance including fines, injunctive relief and other sanctions. These laws and regulations are administered by the EPA and various other state and local agencies. All such laws and regulations are subject to a range of interpretation, which may ultimately be resolved by the courts. Environmental laws and regulations continue to evolve, and the Company is unable to predict the impact of the changing laws and regulations on its operations and consolidated financial results. The Company believes it is in material compliance with all applicable laws and regulations.

There have no material changes to environmental laws and regulations subsequent to those disclosed in the "Environmental Laws and Regulations" section of Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's annual report for the year ended December 31, 2009. Refer to Note 4 of Notes to Consolidated Financial Statements included elsewhere in this report and the "Environmental Laws and Regulations" section of Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's annual report for the year ended December 31, 2009 for additional information regarding certain environmental laws and regulations affecting the Company's operations.

#### Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about market risk affecting the Company, see the "Quantitative and Qualitative Disclosures About Market Risk" section of Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's annual report for the year ended December 31, 2009. The Company's exposure to market risk and its management of such risk has not changed materially since December 31, 2009.

## CERTIFICATION

I, Stephen A. Larsen, certify that:

1. I have reviewed this Quarterly Report of CE Generation, LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures for CE Generation, LLC and we have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: May 14, 2010

/s/ Stephen A. Larsen  
Stephen A. Larsen  
President  
(principal executive officer)

## CERTIFICATION

I, Stephen D. Dickas, certify that:

1. I have reviewed this Quarterly Report of CE Generation, LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures for CE Generation, LLC and we have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: May 14, 2010

/s/ Stephen D. Dickas  
Stephen D. Dickas  
Vice President & Controller  
(principal financial officer)