



CE GENERATION_{LLC}

Consolidated Financial Statements
For the Quarterly Period Ended September 30, 2011

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

(In thousands)

	As of	
	September 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 90,318	\$ 44,580
Restricted cash	8,897	-
Trade receivables	27,173	34,035
Income tax receivable	-	1,738
Inventories	38,020	33,240
Other current assets	588	3,730
Total current assets	164,996	117,323
Property, plant and equipment, net	642,444	672,461
Goodwill	265,897	265,897
Intangible assets, net	45,797	50,122
Other assets	2,574	2,807
Total assets	\$ 1,121,708	\$ 1,108,610
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 628	\$ 2,724
Accrued interest	7,307	1,499
Due to affiliates	1,263	1,193
Current portion of long-term debt	30,481	35,190
Deferred income taxes	1,287	1,287
Other current liabilities	14,404	6,734
Total current liabilities	55,370	48,627
Parent senior secured bonds	179,360	189,600
Subsidiary debt	109,436	117,744
Due to affiliates	2,885	2,828
Deferred income taxes	206,740	207,752
Other long-term liabilities	11,805	17,801
Total liabilities	565,596	584,352
Commitments and contingencies (Note 4)		
Equity:		
CE Generation members' equity	540,292	507,201
Noncontrolling interests	15,820	17,057
Total equity	556,112	524,258
Total liabilities and equity	\$ 1,121,708	\$ 1,108,610

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

CE GENERATION, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In thousands)

	Three-Month Periods		Nine-Month Periods	
	Ended September 30,		Ended September 30,	
	2011	2010	2011	2010
Operating revenue	<u>\$ 91,297</u>	<u>\$ 86,867</u>	<u>\$ 210,104</u>	<u>\$ 202,252</u>
Operating costs and expenses:				
Fuel	1,589	2,840	4,728	7,911
Plant operations	30,336	27,137	100,314	95,901
General and administrative	962	943	3,043	3,166
Depreciation and amortization	<u>18,399</u>	<u>17,909</u>	<u>57,015</u>	<u>55,904</u>
Total operating costs and expenses	<u>51,286</u>	<u>48,829</u>	<u>165,100</u>	<u>162,882</u>
Operating income	<u>40,011</u>	<u>38,038</u>	<u>45,004</u>	<u>39,370</u>
Other income (expense):				
Interest expense	(6,173)	(6,963)	(19,325)	(21,856)
Gain on sale of land	-	-	4,667	-
Interest and other income	<u>136</u>	<u>238</u>	<u>371</u>	<u>581</u>
Total other income (expense)	<u>(6,037)</u>	<u>(6,725)</u>	<u>(14,287)</u>	<u>(21,275)</u>
Income before income tax (benefit) expense	33,974	31,313	30,717	18,095
Income tax (benefit) expense	<u>(1,944)</u>	<u>(1,252)</u>	<u>(2,190)</u>	<u>696</u>
Net income	35,918	32,565	32,907	17,399
Net loss attributable to noncontrolling interests	<u>(382)</u>	<u>(50)</u>	<u>(217)</u>	<u>(811)</u>
Net income attributable to CE Generation	<u>\$ 36,300</u>	<u>\$ 32,615</u>	<u>\$ 33,124</u>	<u>\$ 18,210</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)

	Nine-Month Periods Ended September 30,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 32,907	\$ 17,399
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	57,015	55,904
Gain on sale of land	(4,667)	-
Deferred income taxes	(989)	(2,188)
Amortization of deferred financing costs	233	306
Changes in other operating assets and liabilities:		
Trade receivables	6,862	(19,962)
Inventories	(4,780)	(422)
Due to affiliates, net	71	143
Other assets	3,797	2,673
Accounts payable and other liabilities	5,246	10,041
Net cash flows from operating activities	95,695	63,894
Cash flows from investing activities:		
Capital expenditures	(22,533)	(33,823)
Proceeds from sale of land	5,750	-
Increase in restricted cash	(8,897)	(14,094)
Net cash flows from investing activities	(25,680)	(47,917)
Cash flows from financing activities:		
Repayment of subsidiary debt	(15,657)	(18,186)
Repayment of parent senior secured bonds	(7,600)	(7,100)
Distributions to noncontrolling interests	(1,020)	(617)
Net cash flows from financing activities	(24,277)	(25,903)
Net change in cash and cash equivalents	45,738	(9,926)
Cash and cash equivalents at beginning of period	44,580	54,705
Cash and cash equivalents at end of period	\$ 90,318	\$ 44,779

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 Members' Equity</u>			<u>Total Equity</u>
	<u>Members' Equity</u>	<u>Accumulated Other Comprehensive Loss, Net</u>	<u>Noncontrolling Interests</u>	
Balance, December 31, 2009	\$ 502,230	\$ (1,407)	\$ 18,725	\$ 519,548
Net income (loss)	18,210	-	(811)	17,399
Other comprehensive loss	-	(27)	-	(27)
Distributions	-	-	(617)	(617)
Balance, September 30, 2010	<u>\$ 520,440</u>	<u>\$ (1,434)</u>	<u>\$ 17,297</u>	<u>\$ 536,303</u>
Balance, December 31, 2010	\$ 507,486	\$ (285)	\$ 17,057	\$ 524,258
Net income (loss)	33,124	-	(217)	32,907
Other comprehensive loss	-	(33)	-	(33)
Distributions	-	-	(1,020)	(1,020)
Balance, September 30, 2011	<u>\$ 540,610</u>	<u>\$ (318)</u>	<u>\$ 15,820</u>	<u>\$ 556,112</u>

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

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

	Three-Month Periods		Nine-Month Periods	
	Ended September 30,		Ended September 30,	
	2011	2010	2011	2010
Net income	\$ 35,918	\$ 32,565	\$ 32,907	\$ 17,399
Other comprehensive loss, net of tax-				
Unrecognized amounts on retirement benefits, net of tax of				
\$(8), \$(5), \$(23) and \$(17)	<u>(11)</u>	<u>(8)</u>	<u>(33)</u>	<u>(27)</u>
Comprehensive income	35,907	32,557	32,874	17,372
Comprehensive loss attributable to noncontrolling interests	<u>(382)</u>	<u>(50)</u>	<u>(217)</u>	<u>(811)</u>
Comprehensive income attributable to CE Generation	<u>\$ 36,289</u>	<u>\$ 32,607</u>	<u>\$ 33,091</u>	<u>\$ 18,183</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 (CE GEN) 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 September 30, 2011 and for the three- and nine-month periods ended September 30, 2011 and 2010. The results of operations for the three- and nine-month periods ended September 30, 2011 are not necessarily indicative of the results to be expected for the full year. The Company has evaluated subsequent events through November 11, 2011, 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. As of September 30, 2011, 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 Consolidated Financial Statements and the reported amounts of revenue 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, 2010 describes the most significant accounting policies used in the preparation of the Consolidated Financial Statements. There have been no significant changes in the Company’s assumptions regarding significant accounting estimates and policies during the nine-month period ended September 30, 2011.

2. Property, Plant and Equipment, Net

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

	Depreciable Life	As of	
		September 30, 2011	December 31, 2010
Power plants	5 to 30 years	\$ 1,286,707	\$ 1,293,702
Wells and resource development	2 to 30 years	270,245	260,318
Equipment	3 to 30 years	<u>6,372</u>	<u>6,345</u>
Total operating assets		1,563,324	1,560,365
Accumulated depreciation		<u>(920,880)</u>	<u>(887,904)</u>
Property, plant and equipment, net		<u>\$ 642,444</u>	<u>\$ 672,461</u>

The Company replaced certain pipe and equipment with a remaining net book value of \$0.7 million and \$- million during the three-month periods ended September 30, 2011 and 2010, respectively, and \$2.9 million and \$2.0 million during the nine-month periods ended September 30, 2011 and 2010, 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 September 30, 2011		As of December 31, 2010	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Power purchase and royalty contracts	4 to 30 years	\$ 315,434	\$ 283,486	\$ 315,434	\$ 280,607
Patented technology	24 years	<u>46,290</u>	<u>32,442</u>	<u>46,290</u>	<u>30,995</u>
Intangible assets, net		<u>\$ 361,724</u>	<u>\$ 315,928</u>	<u>\$ 361,724</u>	<u>\$ 311,602</u>

Amortization expense on acquired intangible assets was \$1.4 million for each of the three-month periods ended September 30, 2011 and 2010 and \$4.3 million for each of the nine-month periods ended September 30, 2011 and 2010. CE Generation expects amortization expense on acquired intangible assets to be \$1.4 million for the remaining three months in 2011, and \$5.7 million in 2012 through 2015.

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, emissions performance standards, 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 with 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 September 30, 2011 and December 31, 2010 was \$0.7 million and \$0.6 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, 2013. The expense pursuant to the Administrative Services Agreement was \$0.9 million for each of the three-month periods ended September 30, 2011 and 2010, and \$2.7 million and \$2.6 million for the nine-month periods ended September 30, 2011 and 2010, respectively. Such amounts are included in general and administrative on the Consolidated Statements of Operations.

The Company participates in pension and other postretirement benefit plans sponsored by MidAmerican Energy Company ("MEC"), an indirect wholly-owned subsidiary of MEHC. The Company's contributions to the various plans were \$0.4 million for each of the three-month periods ended September 30, 2011 and 2010, and \$1.5 million for each of the nine-month periods ended September 30, 2011 and 2010. The portion of accumulated other comprehensive loss attributable to the Company has been allocated from MEC in accordance with intercompany service agreements.

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- and nine-month periods ended September 30, 2011 and 2010.

6. Components of Accumulated Other Comprehensive Loss, Net

Accumulated other comprehensive loss, net consists of unrecognized amounts on retirement benefits of \$0.3 million, net of tax of \$0.4 million, as of September 30, 2011 and December 31, 2010.

7. New Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-05, which amends FASB Accounting Standards Codification (“ASC”) Topic 220, “Comprehensive Income.” ASU No. 2011-05 provides an entity with the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Regardless of the option chosen, this guidance also requires presentation of items on the face of the financial statements that are reclassified from other comprehensive income to net income. This guidance does not change the items that must be reported in other comprehensive income, when an item of other comprehensive income must be reclassified to net income or how tax effects of each item of other comprehensive income are presented. This guidance is effective for reporting periods ending after December 15, 2012. The Company is currently evaluating which presentation option will be implemented.

In May 2011, the FASB issued ASU No. 2011-04, which amends FASB ASC Topic 820, “Fair Value Measurements and Disclosures.” The amendments in this guidance are not intended to result in a change in current accounting. ASU No. 2011-04 requires additional disclosures relating to fair value measurements categorized within Level 3 of the fair value hierarchy, including quantitative information about unobservable inputs, the valuation process used by the entity and the sensitivity of unobservable input measurements. Additionally, entities are required to disclose the level of the fair value hierarchy for assets and liabilities that are not measured at fair value in the balance sheet, but for which disclosure of the fair value is required. This guidance is effective for reporting periods beginning after December 15, 2011. The Company is currently evaluating the impact of adopting this guidance on its 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 period. 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, 2010 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):

	<u>Third Quarter</u>		<u>First Nine Months</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Geothermal facilities	\$ 76.8	\$ 76.6	\$ 175.8	\$ 174.4
Natural gas-fired facilities	<u>14.5</u>	<u>10.3</u>	<u>34.3</u>	<u>27.9</u>
Total operating revenue	<u>\$ 91.3</u>	<u>\$ 86.9</u>	<u>\$ 210.1</u>	<u>\$ 202.3</u>

Geothermal Facilities

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

	Third Quarter		First Nine Months	
	2011	2010	2011	2010
Overall capacity factor	94.6%	95.3%	89.9%	89.1%
Megawatt hours (“MWh”) produced	681,600	687,100	1,922,300	1,905,000
Facility net capacity megawatts (“MW”) (weighted average)	326.4	326.4	326.4	326.4

Operating revenue increased \$0.2 million, or 0.3%, for the third quarter of 2011 compared to 2010 primarily due to the following:

- \$0.3 million increase due to higher energy rates at certain Imperial Valley Projects.
- \$0.1 million decrease due to a 0.8% decrease in energy production. The energy production decrease primarily resulted from equipment repairs at the Salton Sea Projects in 2011.

Operating revenue increased \$1.4 million, or 0.8%, for the first nine months of 2011 compared to 2010 primarily due to the following:

- \$0.9 million increase due to a 0.9% increase in energy production. The energy production increase primarily resulted from equipment repairs at the CE Turbo Project in 2010.
- \$0.5 million increase due to higher energy rates at certain Imperial Valley Projects.

Natural Gas-Fired Facilities

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

	Third Quarter		First Nine Months	
	2011	2010	2011	2010
Overall capacity factor	16.1%	24.5%	16.8%	18.0%
MWh produced	178,200	272,000	552,600	592,900
Facility net capacity MW (weighted average)	502.0	502.0	502.0	502.0

Operating revenue increased \$4.2 million, or 40.8%, for the third quarter of 2011 compared to 2010 primarily due to the following:

- \$6.9 million increase at the Company’s natural gas fired facility in Big Spring, Texas (“the Power Resources Project”) of which \$8.3 million was due to higher prices. This increase was partially offset by a \$1.4 million decrease due to a 13.5% decrease in production from 2010.
- \$1.3 million decrease at the Company’s natural gas-fired facility in Plattsburgh, New York (“the Saranac Project”) of which \$2.0 million was due to a 54.7% decrease in production from 2010. This decrease was partially offset by a \$0.7 million increase due to higher prices.
- \$1.2 million decrease at the Company’s natural gas-fired facility in Yuma, Arizona (the “Yuma Project”) due to a 51.4% decrease in production from 2010.

Operating revenue increased \$6.4 million, or 22.9%, for the first nine months of 2011 compared to 2010 primarily due to the following:

- \$8.5 million increase at the Power Resources Project of which \$9.4 million was due to higher prices. The price increase was primarily due to weather. This increase was partially offset by a \$0.9 million decrease due to a 5.7% decrease in production from 2010.
- \$2.8 million decrease at the Yuma Project of which \$2.4 million was due to a 40.6% decrease in production from 2010 and \$0.4 million was due to lower prices. The Yuma Project sells energy at a regulatory determined avoided cost of energy, which decreased to 4.5 cents per kWh in the first nine months of 2011 from 4.6 cents per kWh in the first nine months of 2010.
- \$0.7 million increase at the Saranac Project of which \$0.5 million was due to an 8.3% increase in production from 2010 and \$0.2 million due to higher prices.

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, the counterparties are required to purchase the natural gas supply.

Fuel expense decreased \$1.2 million, or 42.9%, to \$1.6 million for the third quarter of 2011 from \$2.8 million for the comparable period in 2010. During the third quarter of 2011, the Company incurred \$1.4 million in lower fuel expense due to lower production. This was partially offset by \$0.2 million due to higher unit costs.

Fuel expense decreased \$3.2 million, or 40.5%, to \$4.7 million for the first nine months of 2011 from \$7.9 million for the comparable period in 2010. During the first nine months of 2011, the Company incurred \$3.0 million in lower fuel expense due to lower production and \$0.2 million due to lower unit costs.

Plant Operations

Plant operations increased \$3.2 million, or 11.8%, to \$30.3 million for the third quarter of 2011 from \$27.1 million for the comparable period in 2010 due primarily to the timing of planned outages at certain Imperial Valley Projects.

Plant operations increased \$4.4 million, or 4.6%, to \$100.3 million for the first nine months of 2011 from \$95.9 million for the comparable period in 2010 due primarily to the timing of planned maintenance at certain Imperial Valley Projects.

Depreciation and Amortization

Depreciation and amortization increased \$0.5 million, or 2.8%, to \$18.4 million for the third quarter of 2011 from \$17.9 million for the comparable period in 2010. The increase was primarily due to the timing of capital replacement projects and related equipment disposals at certain Imperial Valley Projects in 2011.

Depreciation and amortization increased \$1.1 million, or 2.0%, to \$57.0 million for the first nine months of 2011 from \$55.9 million for the comparable period in 2010. The increase was primarily due to the timing of capital replacement projects and related equipment disposals at certain Imperial Valley Projects in 2011.

Interest Expense

Interest expense decreased \$0.8 million to \$6.2 million and \$2.6 million to \$19.3 million for the third quarter and first nine months of 2011, respectively, from \$7.0 million and \$21.9 million, respectively, for the comparable periods in 2010 due to lower outstanding debt balances.

Income Tax (Benefit) Expense

Income tax (benefit) expense increased \$(0.6) million to a tax benefit of \$(1.9) million and increased \$(2.9) million to a tax benefit of \$(2.2) million for the third quarter and for the first nine months of 2011, respectively, from \$(1.3) million and \$0.7 million for the comparable period in 2010. The changes were primarily due to the recognition of tax benefits received from the settlement of the 2005-2009 federal examination associated with energy tax credits and the qualified production activities deduction.

Net Loss Attributable to Noncontrolling Interests

Net loss attributable to noncontrolling interests increased \$(0.3) million to \$(0.4) million and decreased \$0.6 million to \$(0.2) million for the third quarter and first nine months of 2011, respectively, from the comparable periods in 2010. These changes were primarily due to changes in production at the Saranac Project.

Liquidity and Capital Resources

CE Generation's direct and indirect subsidiaries are organized as legal entities 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 \$90.3 million as of September 30, 2011 compared to \$44.6 million as of December 31, 2010.

Net cash flows from operating activities for the nine-month periods ended September 30, 2011 and 2010 were \$95.7 million and \$63.9 million, respectively. The increase was primarily due to higher revenues at the Power Resources Project and the timing of cash receipts from a customer on its outstanding trade receivable balance at certain Imperial Valley Projects.

Net cash flows from investing activities for the nine-month periods ended September 30, 2011 and 2010 were \$(25.7) million and \$(47.9) million, respectively. The decrease was due primarily to lower capital expenditures in 2011 at the Imperial Valley Projects related primarily to timing of drilling projects, proceeds from the sale of land in 2011 and changes in restricted cash related to scheduled subsidiary debt service payments.

Forecasted capital expenditures for 2011 are approximately \$40 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 expenditure requirements with cash flows from operations.

Net cash flows from financing activities for the nine-month periods ended September 30, 2011 and 2010 were \$(24.3) million and \$(25.9) million, respectively. The decrease was due primarily to lower scheduled debt repayments.

Environmental Laws and Regulations

The Company is subject to federal, state and local laws and regulations regarding air and water quality, emission performance standards, 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 Environmental Protection Agency ("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. Refer to Note 4 of Notes to Consolidated Financial Statements included elsewhere in this report for additional information regarding certain environmental laws and regulations affecting the Company. The discussion below contains material developments since those disclosed in the "Environmental

Laws and Regulations” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations in the Company’s Annual Report for the year ended December 31, 2010.

Clean Air Standards

In July 2011, the EPA issued a final rule, the Cross-State Air Pollution Rule (“CSAPR”), to address interstate transport of sulfur dioxide and nitrogen oxides emissions in 27 eastern and Midwestern states. The CSAPR originated as the Clean Air Interstate Rule, which was vacated by the United States Court of Appeals for the District of Columbia Circuit (“D.C. Circuit”). In response to the D.C. Circuit’s vacatur, the EPA issued the proposed Clean Air Transport Rule in July 2010, which has been renamed the CSAPR. Upon full implementation in 2014, the CSAPR will reduce sulfur dioxide emissions by 73% and nitrogen oxides emissions by 54% at electric generating plants as compared to 2005 levels. The Company’s natural gas generating facilities in Texas and New York are subject to the CSAPR. However, the provisions are not anticipated to have a material impact on the Company.

Climate Change

GHG Tailoring Rule

Effective January 2, 2011, power plants, among other facilities, were required to comply with the first phase of the greenhouse gases (“GHG”) Tailoring Rule, which provides that any source that already has a Title V operating permit is required to have GHG provisions added to its permits upon renewal. In addition, the GHG Tailoring Rule provides that if projects at existing major sources result in an increase in emissions of GHG of at least 75,000 tons per year, such projects could trigger permitting requirements and the application of best available control technology to address GHG emissions. The second phase of the GHG Tailoring Rule took effect July 1, 2011 and broadened the scope of the sources that are required to obtain federal permits to limit GHGs to any new or modified sources that emit more than 100,000 tons per year of GHG, regardless of whether a major source air permit is required for any other pollutant regulated under the Clean Air Act.

New major sources are also required to undergo permitting and install the best available control technology if their GHG emissions exceed the applicable threshold. Several legal challenges have been filed to the EPA’s final GHG tailoring rule in the D.C. Circuit. The EPA issued GHG best available control technology guidance documents in an effort to provide permitting authorities guidance on how to conduct a best available control technology review for GHG. Permitting authorities are beginning to implement the GHG Tailoring Rule and determine what constitutes best available control technology for GHG. The GHG Tailoring Rule will result in the imposition of a permit limit for GHG emissions at certain facilities, which management believes will not have a material impact on the Company.

GHG New Source Performance Standards

Under the Clean Air Act, the EPA may establish emissions standards that reflect the degree of emission reductions achievable through the best technology that has been demonstrated, taking into consideration the cost of achieving those reductions and any non-air quality health and environmental impact and energy requirements. The EPA entered into a settlement agreement with a number of parties, including certain state governments and environmental groups, in December 2010 to promulgate emissions standards covering GHG by September 30, 2011, as amended, and issue final regulations by May 26, 2012. However, in mid-September, the EPA indicated it would not meet the September 30, 2011 deadline to promulgate the standards and it has not yet established a new schedule for issuing the proposed rules. It is unclear what standards the EPA will establish for new and modified sources or what the guidelines will be for existing sources. Until the standards are proposed and finalized, the impact on the Company cannot be determined.

Regional and State Activities

The Regional Greenhouse Gas Initiative (“RGGI”) is a cooperative effort by ten Northeast and Mid-Atlantic States to limit carbon dioxide (“CO₂”) emissions. RGGI is the first mandatory, market-based CO₂ emissions reduction program in the United States. The states of Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, and Vermont are all signatory states to the RGGI agreement. These ten states have capped CO₂ emissions from the power sector at 188 million tons. The cap on emissions of CO₂ from power plants in the RGGI region will be 10 percent lower by 2018 than at the start of the RGGI program in 2009. The RGGI is composed of individual CO₂ Budget Trading Programs in each of the ten participating states. These ten individual programs will be implemented through state regulations, based on a RGGI Model Rule, and are linked through CO₂ allowance reciprocity. States will sell emission allowances through auctions and invest proceeds in consumer benefits such as energy efficiency, renewable energy, and other

clean energy technologies. Regulated power plants will be able to use a CO₂ allowance issued by any of the ten participating states to demonstrate compliance with the state program governing their facility. Taken together, the ten individual state programs will function as a single regional compliance market for carbon emissions. In May 2011, New Jersey withdrew from participation in the RGGI and in June 2011 a lawsuit filed in New York alleged that the state of New York unlawfully joined the RGGI without legislative approval.

The Saranac Project is required to purchase CO₂ allowances at prevailing market prices. Following the expiration of the NYSE&G agreement, the ultimate cost of any required CO₂ allowances will be recovered through prices paid by the power purchaser.

GHG Litigation

In September 2009, the United States Court of Appeals for the Second Circuit (“Second Circuit”) issued its opinion in the case of *Connecticut v. American Electric Power, et al*, which remanded to the lower court a nuisance action by eight states and the City of New York against five large utility emitters of CO₂. The United States District Court for the Southern District of New York (“Southern District of New York”) dismissed the case in 2005, holding that the claims that GHG emissions from the defendants’ coal-fueled generating facilities were causing harmful climate change and should be enjoined as a public nuisance under federal common law presented a “political question” that the court lacked jurisdiction to decide. The Second Circuit rejected this conclusion and stated the Southern District of New York was not precluded from determining the case on its merits. In December 2010, the United States Supreme Court agreed to hear the case on appeal from the Second Circuit. After oral arguments were heard by the United States Supreme Court in April 2011, the United States Supreme Court issued its decision in June 2011 dismissing the federal common law claim of nuisance and holding that the Clean Air Act provides a means to seek limits on emissions of CO₂ on power plants.

Reporting

In September 2009, the EPA issued its final rule regarding mandatory reporting of GHG (“GHG Reporting”) beginning January 1, 2010. Under GHG Reporting, suppliers of fossil fuels, manufacturers of vehicles and engines, and facilities that emit 25,000 metric tons or more per year of GHG are required to submit annual reports to the EPA. The Company is subject to this requirement and submitted its first report prior to September 30, 2011.

Federal Legislation

Legislation introduced in the 112th Congress has been focused on repeal or delay of the EPA’s ability to regulate GHG. There is currently no federal legislation pending to regulate GHG emissions.

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, 2010. The Company’s exposure to market risk and its management of such risk has not changed materially since December 31, 2010.

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: November 11, 2011

/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: November 11, 2011

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