



**CE GENERATION<sub>LLC</sub>**

**Consolidated Financial Statements (Unaudited)**

**For the Quarterly Period Ended September 30, 2015**

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

	As of	
	September 30, 2015	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 41,709	\$ 31,989
Restricted cash	2,151	260
Trade receivables	41,459	23,691
Income taxes receivable	915	9,478
Inventories	33,003	31,046
Deferred income taxes	4,710	11,443
Other current assets	923	1,494
Total current assets	124,870	109,401
Property, plant and equipment, net	521,479	537,811
Goodwill	139,539	139,539
Intangible assets, net	22,827	27,134
Deferred income taxes	501	494
Other assets	4,441	4,758
<b>Total assets</b>	<b>\$ 813,657</b>	<b>\$ 819,137</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 7,646	\$ 10,417
Major maintenance accruals	670	821
Accrued interest	3,853	810
Due to affiliates	1,742	650
Current portion of long-term debt	47,808	45,965
Other current liabilities	12,263	8,088
Total current liabilities	73,982	66,751
Parent senior secured bonds	81,240	95,880
Subsidiary debt	40,018	50,204
Deferred income taxes	145,989	164,537
Other long-term liabilities	16,081	15,553
Total liabilities	357,310	392,925
Commitments and contingencies (Note 5)		
Equity:		
CE Generation members' equity	446,781	416,046
Noncontrolling interests	9,566	10,166
Total equity	456,347	426,212
<b>Total liabilities and equity</b>	<b>\$ 813,657</b>	<b>\$ 819,137</b>

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

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

(In thousands)

	<b>Three-Month Periods</b>		<b>Nine-Month Periods</b>	
	<b>Ended September 30,</b>		<b>Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Operating revenue</b>	\$ 72,380	\$ 77,286	\$ 153,376	\$ 169,660
<b>Operating costs and expenses:</b>				
Fuel	330	1,141	1,197	3,205
Plant operations	30,871	34,275	111,688	109,600
General and administrative	1,215	1,059	3,476	3,318
Depreciation and amortization	17,058	18,474	51,799	54,999
Total operating costs and expenses	49,474	54,949	168,160	171,122
<b>Operating income (loss)</b>	22,906	22,337	(14,784)	(1,462)
<b>Other income (expense):</b>				
Interest expense	(3,309)	(4,160)	(10,676)	(13,185)
Interest and other	58	27	48	(67)
Total other income (expense)	(3,251)	(4,133)	(10,628)	(13,252)
<b>Income (loss) before income tax expense (benefit)</b>	19,655	18,204	(25,412)	(14,714)
Income tax expense (benefit)	10,572	7,612	(14,337)	(14,974)
<b>Net income (loss)</b>	9,083	10,592	(11,075)	260
Net income attributable to noncontrolling interests	270	164	651	1,558
<b>Net income (loss) attributable to CE Generation members</b>	\$ 8,813	\$ 10,428	\$ (11,726)	\$ (1,298)

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

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

	<b>Three-Month Periods</b>		<b>Nine-Month Periods</b>	
	<b>Ended September 30,</b>		<b>Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Net income (loss)	\$ 9,083	\$ 10,592	\$ (11,075)	\$ 260
Other comprehensive (loss) income, net of tax:				
Unrealized gains on cash flow hedges, net of tax of \$-, \$691, \$- and \$636	—	1,024	—	946
Unrecognized amounts on retirement benefits, net of tax of \$(9), \$(12), \$(26) and \$(37)	(14)	(18)	(39)	(54)
Total other comprehensive (loss) income, net of tax	(14)	1,006	(39)	892
Comprehensive income (loss)	9,069	11,598	(11,114)	1,152
Comprehensive income attributable to noncontrolling interests	270	164	651	1,558
Comprehensive income (loss) attributable to CE Generation members	\$ 8,799	\$ 11,434	\$ (11,765)	\$ (406)

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)

	<b>CE Generation Members' Equity</b>			
	<b>Members'</b>	<b>Accumulated Other Comprehensive</b>	<b>Noncontrolling</b>	<b>Total</b>
	<b>Equity</b>	<b>Income, Net</b>	<b>Interests</b>	<b>Equity</b>
<b>Balance, December 31, 2013</b>	\$ 370,665	\$ 252	\$ 11,934	\$ 382,851
Net (loss) income	(1,298)	—	1,558	260
Other comprehensive income	—	892	—	892
Contributions	42,000	—	—	42,000
Distributions	—	—	(2,410)	(2,410)
<b>Balance, September 30, 2014</b>	\$ 411,367	\$ 1,144	\$ 11,082	\$ 423,593
<b>Balance, December 31, 2014</b>	\$ 415,041	\$ 1,005	\$ 10,166	\$ 426,212
Net (loss) income	(11,726)	—	651	(11,075)
Other comprehensive loss	—	(39)	—	(39)
Contributions	42,500	—	—	42,500
Distributions	—	—	(1,251)	(1,251)
<b>Balance, September 30, 2015</b>	\$ 445,815	\$ 966	\$ 9,566	\$ 456,347

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>Nine-Month Periods</b>	
	<b>Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities:</b>		
Net (loss) income	\$ (11,075)	\$ 260
Adjustments to reconcile net (loss) income to net cash flows from operating activities:		
Depreciation and amortization	51,799	54,999
Deferred income taxes	(11,796)	(12,463)
Other, net	(614)	(57)
Changes in other operating assets and liabilities:		
Trade receivables	(17,768)	(29,936)
Inventories	(1,957)	(476)
Due to affiliates	1,099	(291)
Other assets	666	742
Accounts payable and other liabilities	11,783	4,738
Net cash flows from operating activities	<u>22,137</u>	<u>17,516</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(29,460)	(44,022)
Proceeds from sale of assets	668	—
Increase in restricted cash	(1,891)	(5,188)
Net cash flows from investing activities	<u>(30,683)</u>	<u>(49,210)</u>
<b>Cash flows from financing activities:</b>		
Repayment of subsidiary debt	(9,463)	(8,669)
Repayment of parent senior secured bonds	(13,520)	(12,900)
Contributions from members	42,500	42,000
Distributions to noncontrolling interests	(1,251)	(2,410)
Net cash flows from financing activities	<u>18,266</u>	<u>18,021</u>
<b>Net change in cash and cash equivalents</b>	9,720	(13,673)
<b>Cash and cash equivalents at beginning of period</b>	<u>31,989</u>	<u>44,804</u>
<b>Cash and cash equivalents at end of period</b>	<u>\$ 41,709</u>	<u>\$ 31,131</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-fueled combined cycle cogeneration facilities located in New York, Texas and Arizona. The Company is wholly-owned by BHE Geothermal, LLC ("BHE Geothermal"), an indirect wholly-owned subsidiary of Berkshire Hathaway Energy Company ("BHE"). BHE is a consolidated subsidiary of Berkshire Hathaway Inc.

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 unaudited Consolidated Financial Statements as of September 30, 2015 and for the three- and nine-month periods ended September 30, 2015 and 2014. The results of operations for the three- and nine-month periods ended September 30, 2015 are not necessarily indicative of the results to be expected for the full year. The Company has evaluated subsequent events through November 13, 2015, 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, 2015, 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 unaudited 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, 2014 describes the most significant accounting policies used in the preparation of the unaudited 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, 2015, other than the change in depreciable lives discussed in Note 2.



## 2. Property, Plant and Equipment, Net

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

	Depreciable Life	As of	
		September 30, 2015	December 31, 2014
Power plants	5 to 37 years	\$ 1,361,064	\$ 1,340,600
Wells and resource development	2 to 30 years	334,622	326,734
Equipment	3 to 30 years	6,619	6,619
Total operating assets		1,702,305	1,673,953
Accumulated depreciation		(1,180,826)	(1,136,142)
Property, plant and equipment, net		\$ 521,479	\$ 537,811

Effective January 1, 2015, the Company extended the useful depreciable lives for the Company's natural gas fueled facilities in Big Spring, Texas and Plattsburgh, New York. This prospective accounting change was treated as a change in estimate and was made to enable a consistent matching of expected future revenues and expenses of the two facilities. The effect of extending these useful depreciable lives reduced depreciation expense by \$1.1 million and \$3.4 million for the three- and nine-month periods ended September 30, 2015, respectively, and is estimated to reduce depreciation expense by \$4.6 million for the year ended December 31, 2015.

## 3. Goodwill and Intangible Assets, Net

Goodwill consists of the following (in thousands):

	As of September 30, 2015		As of December 31, 2014	
	Gross Carrying Amount	Accumulated Impairment Losses	Gross Carrying Amount	Accumulated Impairment Losses
Goodwill	\$ 265,897	\$ 126,358	\$ 265,897	\$ 126,358

The Company did not record any goodwill impairment for the three- and nine-month periods ended September 30, 2015 and 2014.

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

	Amortization Life	As of September 30, 2015		As of December 31, 2014	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Power purchase and royalty contracts	4 to 30 years	\$ 315,434	\$ 298,739	\$ 315,434	\$ 295,879
Patented technology	24 years	46,290	40,158	46,290	38,711
Intangible assets, net		\$ 361,724	\$ 338,897	\$ 361,724	\$ 334,590

Amortization expense on acquired intangible assets was \$1.4 million for each of the three-month periods ended September 30, 2015 and 2014 and \$4.3 million for each of the nine-month periods ended September 30, 2015 and 2014. CE Generation expects amortization expense on acquired intangible assets to be \$1.4 million for the remaining three months in 2015, \$5.7 million in 2016 and 2017, \$5.0 million in 2018 and \$1.0 million in 2019.

#### 4. Risk Management and Hedging Activities

Certain of the Company's Imperial Valley Projects have long-term power sales agreements with Southern California Edison Company ("Edison"). Beginning May 1, 2012, these long-term power sales agreements reverted back to Edison's avoided cost of energy, which is highly correlated to the cost of natural gas and was 4.6 cents per kilowatt-hour ("kWh") and 4.9 cents per kWh for the three- and nine-month periods ended September 30, 2014, respectively. In May 2012, the Company executed a natural gas swap with a creditworthy counterparty from June 1, 2012 through December 31, 2014. The natural gas swap hedged the price risk related to various percentages of the estimated energy deliveries associated with Edison's avoided cost of energy. The natural gas swap was designated as a hedging contract and accounted for as a cash flow hedge. There have been no significant changes in the Company's accounting policies related to derivatives. As of September 30, 2015 and December 31, 2014, the Company had no derivative contract assets or liabilities.

The following table reconciles the beginning and ending balances of the Company's accumulated other comprehensive loss (income) ("AOCI") (pre-tax) and summarizes pre-tax gains and losses on derivative contracts designated and qualifying as cash flow hedges recognized in other comprehensive income (loss) ("OCI"), as well as amounts reclassified to earnings (in thousands):

	Three-Month Periods		Nine-Month Periods	
	Ended September 30,		Ended September 30,	
	2015	2014	2015	2014
<b>Beginning balance</b>	\$ —	\$ 1,839	\$ —	\$ 1,706
Changes in fair value recognized in OCI	—	(1,362)	—	1,669
Net losses reclassified to operating revenue	—	(349)	—	(3,247)
<b>Ending balance</b>	<u>\$ —</u>	<u>\$ 128</u>	<u>\$ —</u>	<u>\$ 128</u>

#### 5. 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 BHE. 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 BHE 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 BHE 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, 2015 and December 31, 2014 was \$0.2 million 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.

## 6. Related Party Transactions

Pursuant to an administrative services agreement between CalEnergy Generation Operating Company ("CGOC"), a subsidiary of BHE Geothermal, 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, 2016. The expense pursuant to the Administrative Services Agreement was \$0.9 million and \$1.0 million for the three-month periods ended September 30, 2015 and 2014, respectively, and \$2.9 million for each of the nine-month periods ended September 30, 2015 and 2014. Such amounts are included in general and administrative on the Consolidated Statements of Operations.

The Company participates in the MidAmerican Energy Company Retirement Plan and the MidAmerican Energy Company Welfare Benefit Plan, each of which is sponsored by MidAmerican Energy Company ("MEC"), an indirect wholly-owned subsidiary of BHE. The Company's contributions to the various plans were \$0.3 million and \$0.4 million for the three-month periods ended September 30, 2015 and 2014, respectively, and \$1.4 million and \$1.5 million for the nine-month periods ended September 30, 2015 and 2014, respectively. The portion of accumulated other comprehensive loss attributable to the Company has been allocated from MEC in accordance with the intercompany administrative service agreement.

## 7. Components of Accumulated Other Comprehensive Income, Net

The following table shows the change in AOCI attributable to CE Generation members by each component of OCI, net of applicable income taxes, for the nine-month periods ended September 30, 2015 and 2014 (in thousands):

	Unrealized Losses on Cash Flow Hedges	Unrecognized Amounts on Retirement Benefits	AOCI Attributable to CE Generation Members, Net
<b>Balance, December 31, 2013</b>	\$ (1,018)	\$ 1,270	\$ 252
Other comprehensive income (loss)	946	(54)	892
<b>Balance, September 30, 2014</b>	<u>\$ (72)</u>	<u>\$ 1,216</u>	<u>\$ 1,144</u>
<b>Balance, December 31, 2014</b>	\$ —	\$ 1,005	\$ 1,005
Other comprehensive loss	—	(39)	(39)
<b>Balance, September 30, 2015</b>	<u>\$ —</u>	<u>\$ 966</u>	<u>\$ 966</u>

Reclassifications from AOCI to net income for the periods ended September 30, 2015 and 2014 were insignificant. For information regarding cash flow hedge reclassifications from AOCI to net income in their entirety, refer to Note 4.

## **8. New Accounting Pronouncements**

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-03, which amends FASB Accounting Standards Codification ("ASC") Subtopic 835-30, "Interest - Imputation of Interest." The amendments in this guidance require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability instead of as an asset. This guidance is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. This guidance must be adopted retrospectively, wherein the balance sheet of each period presented should be adjusted to reflect the new guidance. The Company is currently evaluating the impact of adopting this guidance on its Consolidated Financial Statements and disclosures included within Notes to Consolidated Financial Statements.

In May 2014, the FASB issued ASU No. 2014-09, which creates FASB ASC Topic 606, "Revenue from Contracts with Customers" and supersedes ASC Topic 605, "Revenue Recognition." The guidance replaces industry-specific guidance and establishes a single five-step model to identify and recognize revenue. The core principle of the guidance is that an entity should recognize revenue upon transfer of control of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. Additionally, the guidance requires the entity to disclose further quantitative and qualitative information regarding the nature and amount of revenues arising from contracts with customers, as well as other information about the significant judgments and estimates used in recognizing revenues from contracts with customers. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU 2014-09 one year to interim and annual reporting periods beginning after December 15, 2017. This guidance may be adopted retrospectively or under a modified retrospective method where the cumulative effect is recognized at the date of initial application. The Company is currently evaluating the impact of adopting this guidance on its Consolidated Financial Statements and disclosures included within Notes to Consolidated Financial Statements.

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## 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 publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The foregoing 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, 2014 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):

	Third Quarter		First Nine Months	
	2015	2014	2015	2014
Geothermal facilities	\$ 63.8	\$ 66.7	\$ 132.0	\$ 137.7
Natural gas-fueled facilities	8.6	10.6	21.4	32.0
Total operating revenue	<u>\$ 72.4</u>	<u>\$ 77.3</u>	<u>\$ 153.4</u>	<u>\$ 169.7</u>

### *Geothermal Facilities*

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

	<b>Third Quarter</b>		<b>First Nine Months</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Overall capacity factor	95.0%	92.7%	85.0%	80.0%
Megawatt hours ("MWh") produced	708,700	668,400	1,882,800	1,711,400
Facility net capacity megawatts ("MW") (weighted average)	338.0	326.4	338.0	326.4

Operating revenue decreased \$2.9 million, or 4.3%, for the third quarter of 2015 compared to 2014 due to the following:

- \$5.6 million decrease due to lower energy rates at certain facilities in the Imperial Valley of California (the "Imperial Valley Projects").
- \$2.4 million increase due primarily to an increase in production at certain Imperial Valley Projects.
- \$0.3 million increase due to net natural gas swap settlement losses in 2014.

Operating revenue decreased \$5.7 million, or 4.1%, for the first nine months of 2015 compared to 2014 due to the following:

- \$19.3 million decrease due to lower energy rates at certain Imperial Valley Projects.
- \$10.4 million increase due to an increase in production at certain Imperial Valley Projects.
- \$3.2 million increase due to net natural gas swap settlement losses in 2014.

### *Natural Gas-Fueled Facilities*

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

	<b>Third Quarter</b>		<b>First Nine Months</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Overall capacity factor	14.2%	11.7%	10.4%	13.4%
MWh produced	158,600	129,400	344,000	440,000
Facility net capacity MW (weighted average)	507.0	502.0	507.0	502.0

Operating revenue decreased \$2.0 million, or 18.9%, for the third quarter of 2015 compared to 2014 due to the following:

- \$1.2 million decrease at the Company's natural gas-fueled facility in Plattsburgh, New York (the "Saranac Project") due to \$3.2 million from lower prices, partially offset by \$2.0 million from an increase in production compared to 2014.
- \$1.0 million decrease at the Company's natural gas-fueled facility in Yuma, Arizona (the "Yuma Project") due to a 70.4% decrease in production compared to 2014.
- \$0.2 million increase at the Company's natural gas-fueled facility in Big Spring, Texas (the "Power Resources Project") due to \$0.4 million from a 22.1% increase in production compared to 2014, partially offset by a \$0.2 million decrease from lower prices.

Operating revenue decreased \$10.6 million, or 33.1%, for the first nine months of 2015 compared to 2014 due to the following:

- \$6.7 million decrease at the Saranac Project due to \$3.9 million from lower prices and \$2.8 million from a 27.9% decrease in production compared to 2014.
- \$2.0 million decrease at the Power Resources Project due to \$1.2 million from lower prices and \$0.8 million from a 10.1% decrease in production compared to 2014.
- \$1.9 million decrease at the Yuma Project due to \$1.5 million from a 41.1% decrease in production compared to 2014 and \$0.4 million from lower 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 Projects, TransAlta Energy Marketing (U.S.) Inc. and EDF Trading North America LLC, respectively, are required to purchase the natural gas supply.

Fuel expense decreased \$0.8 million, or 72.7%, to \$0.3 million for the third quarter of 2015 from \$1.1 million for the comparable period in 2014 due to \$0.7 million in lower production at the Yuma Project and \$0.1 million in lower unit costs paid for natural gas at the Yuma Project.

Fuel expense decreased \$2.0 million, or 62.5%, to \$1.2 million for the first nine months of 2015 from \$3.2 million for the comparable period in 2014 due to \$1.1 million in lower production at the Yuma Project and \$0.9 million of lower unit costs paid for natural gas at the Yuma Project.

#### *Plant Operations*

Plant operations decreased \$3.4 million, or 9.9%, to \$30.9 million for the third quarter of 2015 from \$34.3 million for the comparable period in 2014 due primarily to lower maintenance costs at certain Imperial Valley Projects.

Plant operations increased \$2.1 million, or 1.9%, to \$111.7 million for the first nine months of 2014 from \$109.6 million for the comparable period in 2014 due primarily to higher maintenance costs at certain Imperial Valley Projects, partially offset by lower maintenance costs at the Yuma Project.

#### *Depreciation and Amortization*

Depreciation and amortization expense decreased \$1.4 million to \$17.1 million and decreased \$3.2 million to \$51.8 million for the third quarter and for the first nine months of 2015, respectively, from \$18.5 million and \$55.0 million, respectively, for the comparable periods in 2014 due primarily to extended depreciable lives at the Saranac and Power Resources Projects.

#### *Interest Expense*

Interest expense decreased \$0.9 million to \$3.3 million and decreased \$2.5 million to \$10.7 million for the third quarter and for the first nine months of 2015, respectively, from \$4.2 million and \$13.2 million, respectively, for the comparable periods in 2014 due to lower outstanding debt balances.

#### *Income Tax Expense (Benefit)*

Income tax expense increased \$3.0 million to \$10.6 million and income tax benefit decreased \$0.7 million to \$(14.3) million for the third quarter and for the first nine months of 2015, respectively, from \$7.6 million and \$(15.0) million, respectively, for the comparable periods in 2014. The effective tax rate was 53.8% and 41.8% for the third quarters of 2015 and 2014, respectively, and 56.4% and 101.8% for the first nine months of 2015 and 2014, respectively. The changes in income tax expense (benefit) and effective tax rates were primarily due to the changes in pre-tax income (loss) and the timing of recognition of tax benefits associated with depletion.

### *Net Income Attributable to Noncontrolling Interests*

Net income attributable to noncontrolling interests increased \$0.1 million to \$0.3 million for the third quarter of 2015 from \$0.2 million for the comparable period in 2014 due primarily to the higher production at the Saranac Project.

Net income attributable to noncontrolling interests decreased \$0.9 million to \$0.7 million for the first nine months of 2015 from 1.6 million for the comparable period in 2014 due primarily to the lower 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 \$41.7 million as of September 30, 2015, compared to \$32.0 million as of December 31, 2014.

Net cash flows from operating activities for the nine-month periods ended September 30, 2015 and 2014 were \$22.1 million and \$17.5 million, respectively. The change was primarily due to income tax refunds and higher customer payments, partially offset by higher maintenance costs at certain Imperial Valley Projects.

Net cash flows from investing activities for the nine-month periods ended September 30, 2015 and 2014 were \$(30.7) million and \$(49.2) million, respectively. The change was primarily due to decreases in capital expenditures.

Forecasted capital expenditures for 2015 are approximately \$42 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 and member capital contributions.

Net cash flows from financing activities for the nine-month periods ended September 30, 2015 and 2014 were \$18.3 million and \$18.0 million, respectively. The change was primarily due to lower distributions to noncontrolling interests at the Saranac Project and higher member contributions, partially offset by higher scheduled debt service payments. The Company received member capital contributions in 2015 for the purpose of assisting with CE Generation's and Funding Corporation's scheduled 2015 debt service payments and a portion of the Company's 2015 capital expenditure needs.

### 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. In addition to imposing continuing compliance obligations, these laws and regulations provide regulators with the authority to levy substantial penalties for noncompliance including fines, injunctive relief and other sanctions. These laws and regulations are administered by the United States Environmental Protection Agency ("EPA") and various 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 5 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 included in the Company's Annual Report for the year ended December 31, 2014.



## *Clean Air Act Regulations*

### *National Ambient Air Quality Standards*

In October 2015, the EPA released revised ambient air quality standards for ground level ozone, lowering the standard from 75 parts per billion to 70 parts per billion. Under the Clean Air Act, the EPA is required to finalize a list of areas that are in "nonattainment" with the new standard by October 1, 2017. Given the level at which the standard was set in conjunction with retirements and the installation of controls, the new standard is not expected to have a significant impact on the Company.

## *Climate Change*

### *GHG Performance Standards*

Under the Clean Air Act, the EPA may establish emissions standards that reflect the degree of emissions 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. In April 2012, the EPA proposed new source performance standards for new fossil-fueled generating facilities that would limit emissions of carbon dioxide to 1,000 pounds per MWh. As part of his Climate Action Plan, President Obama announced a national climate change strategy and issued a presidential memorandum requiring the EPA to issue a re-proposed GHG new source performance standard for fossil-fueled generating facilities by September 2013. The September 2013 GHG new source performance standards released by the EPA set different standards for coal-fueled and natural gas-fueled generating facilities. The proposed standard for natural gas-fueled generating facilities considered the size of the unit and the electricity sent to the grid from the unit. The proposed standards were published in the Federal Register January 8, 2014, and the public comment period closed in May 2014. On August 3, 2015, the EPA issued the final new source performance standards, establishing a standard of 1,000 pounds of carbon dioxide per MWh for large natural gas-fueled generating facilities and 1,400 pounds of carbon dioxide per MWh for new coal-fueled generating facilities with the "Best System of Emission Reduction" for coal-fueled generating facilities reflecting highly efficient supercritical pulverized coal facilities with partial carbon capture and sequestration or integrated gasification combined-cycle units that are co-fired with natural gas or pre-combustion slipstream capture of carbon dioxide. Any new fossil-fueled generating facilities constructed by the Company will be required to meet the GHG new source performance standards.

### *Clean Power Plan*

In June 2014, the EPA released proposed regulations to address GHG emissions from existing fossil-fueled generating facilities, referred to as the Clean Power Plan, under Section 111(d) of the Clean Air Act. The EPA's proposal calculated state-specific emission rate targets to be achieved based on four building blocks that it determined were the "Best System of Emission Reduction." The four building blocks include: (a) a 6% heat rate improvement from coal-fueled generating facilities; (b) increased utilization of existing combined-cycle natural gas-fueled generating facilities to 70%; (c) increased deployment of renewable and non-carbon generating resources; and (d) increased energy efficiency. Under this proposal, states could have utilized any measure to achieve the specified emission reduction goals, with an initial implementation period of 2020-2029 and the final goal to be achieved by 2030. When fully implemented, the proposal was expected to reduce carbon dioxide emissions in the power sector to 30% below 2005 levels by 2030. The final Clean Power Plan was released August 3, 2015 and changed the methodology upon which the Best System of Emission Reduction is based to include: (a) heat rate improvements; (b) increased utilization of existing combined-cycle natural gas-fueled generating facilities; and (c) increased deployment of new and incremental non-carbon generation placed in-service after 2012. The EPA also changed the compliance period to begin in 2022, with three interim periods of compliance and with the final goal to be achieved by 2030. Based on changes to the state emission reduction targets, which are now all between 771 pounds per MWh and 1,305 pounds per MWh, the Clean Power Plan, when fully implemented, is expected to reduce carbon dioxide emissions in the power sector to 32% below 2005 levels by 2030. The EPA also released on August 3, 2015, a draft federal plan as an option or backstop for states to utilize in the event they do not submit approvable state plans. The draft federal plan is expected to be open for a 90-day public comment period after publication in the Federal Register. States are required to submit initial implementation plans by September 2016, and may request an extension to September 2018. The full impacts of the final rule or the federal plan on the Company cannot be determined until the states develop their implementation plans or the federal plan is finalized.

The GHG rules and the Company's compliance requirements are subject to potential outcomes from proceedings and litigation challenging the rules.

### *Renewable Portfolio Standards*

The California renewable portfolio standard ("RPS") required all California retail sellers to procure an average of 20% of retail load from renewable resources by December 31, 2013, 25% by December 31, 2016 and 33% by December 31, 2020. In October 2015, California Senate Bill No. 350 was signed into law, which increased the current RPS requirement to 40% by December 31, 2024, 45% by December 31, 2017 and 50% by December 31, 2030. The Company is not considered a retail seller in California and is not subject to the California RPS requirements. However, the Company's Imperial Valley Projects may find more favorable market conditions for their output as a result of the California RPS.

### 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, 2014. The Company's exposure to market risk and its management of such risk has not changed materially since December 31, 2014.

## CERTIFICATION

I, William J. Fehrman, 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 13, 2015

/s/ William J. Fehrman  
William J. Fehrman  
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 13, 2015

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