



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

**Consolidated Financial Statements and Independent Auditors' Report**

**As of December 31, 2015 and 2014 and for each of the**

**Three Years Ended December 31, 2015**

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors and Members of  
CE Generation, LLC  
Omaha, Nebraska

We have audited the accompanying consolidated financial statements of CE Generation, LLC and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive loss, changes in equity, and cash flows for each of the three years ended December 31, 2015, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CE Generation, LLC and its subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years ended December 31, 2015 in accordance with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Omaha, Nebraska  
March 30, 2016

**CE GENERATION, LLC AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

(In thousands)

	<b>As of December 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 35,308	\$ 31,989
Restricted cash	102	260
Trade receivables	19,518	23,691
Income taxes receivable	10,592	9,478
Inventories	32,669	31,046
Other current assets	1,941	1,494
Total current assets	100,130	97,958
Property, plant and equipment, net	509,040	537,811
Goodwill	139,539	139,539
Intangible assets, net	21,392	27,134
Deferred income taxes	405	494
Other assets	4,517	4,758
<b>Total assets</b>	<b>\$ 775,023</b>	<b>\$ 807,694</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 7,987	\$ 10,417
Accrued interest	609	810
Due to affiliates	1,608	650
Current portion of long-term debt	49,650	45,965
Other current liabilities	7,851	8,909
Total current liabilities	67,705	66,751
Parent senior secured bonds	66,600	95,880
Subsidiary debt	29,756	50,204
Deferred income taxes	137,413	153,094
Other long-term liabilities	15,155	15,553
Total liabilities	316,629	381,482
Commitments and contingencies (Note 11)		
Equity:		
CE Generation members' equity	449,316	416,046
Noncontrolling interests	9,078	10,166
Total equity	458,394	426,212
<b>Total liabilities and equity</b>	<b>\$ 775,023</b>	<b>\$ 807,694</b>

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

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

	<b>Years Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Operating revenue</b>	\$ 190,296	\$ 213,383	\$ 205,725
<b>Operating costs and expenses:</b>			
Fuel	1,310	4,082	9,078
Plant operations	142,904	140,992	141,798
General and administrative	4,492	4,357	4,314
Depreciation and amortization	69,422	73,420	70,934
Goodwill impairment	—	—	126,358
Total operating costs and expenses	<u>218,128</u>	<u>222,851</u>	<u>352,482</u>
<b>Operating loss</b>	<u>(27,832)</u>	<u>(9,468)</u>	<u>(146,757)</u>
<b>Other income (expense):</b>			
Interest expense	(13,884)	(17,250)	(20,072)
Interest and other	15	(60)	336
Total other income (expense)	<u>(13,869)</u>	<u>(17,310)</u>	<u>(19,736)</u>
<b>Loss before income tax benefit</b>	(41,701)	(26,778)	(166,493)
Income tax benefit	<u>(22,826)</u>	<u>(18,438)</u>	<u>(21,866)</u>
<b>Net loss</b>	<u>(18,875)</u>	<u>(8,340)</u>	<u>(144,627)</u>
Net income attributable to noncontrolling interests	451	1,284	588
<b>Net loss attributable to CE Generation members</b>	<u>\$ (19,326)</u>	<u>\$ (9,624)</u>	<u>\$ (145,215)</u>

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

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

	<b>Years Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Net loss	\$ (18,875)	\$ (8,340)	\$ (144,627)
Other comprehensive income, net of tax:			
Unrealized gains (losses) on cash flow hedges, net of tax of \$-, \$688 and \$(520)	—	1,018	(770)
Unrecognized amounts on retirement benefits, net of tax of \$66, \$(201) and \$839	96	(265)	1,239
Total other comprehensive income, net of tax	96	753	469
Comprehensive loss	(18,779)	(7,587)	(144,158)
Comprehensive income attributable to noncontrolling interests	451	1,284	588
Comprehensive loss attributable to CE Generation members	\$ (19,230)	\$ (8,871)	\$ (144,746)

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

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

	CE Generation Members' Equity			
	Accumulated			Total
	Members'	Comprehensive	Noncontrolling	
	Equity	(Loss) Income, Net	Interests	
<b>Balance, December 31, 2012</b>	\$ 481,880	\$ (217)	\$ 13,766	\$ 495,429
Net (loss) income	(145,215)	—	588	(144,627)
Other comprehensive income	—	469	—	469
Contributions	34,000	—	—	34,000
Distributions	—	—	(2,420)	(2,420)
<b>Balance, December 31, 2013</b>	370,665	252	11,934	382,851
Net (loss) income	(9,624)	—	1,284	(8,340)
Other comprehensive income	—	753	—	753
Contributions	54,000	—	—	54,000
Distributions	—	—	(3,052)	(3,052)
<b>Balance, December 31, 2014</b>	415,041	1,005	10,166	426,212
Net (loss) income	(19,326)	—	451	(18,875)
Other comprehensive income	—	96	—	96
Contributions	52,500	—	—	52,500
Distributions	—	—	(1,539)	(1,539)
<b>Balance, December 31, 2015</b>	\$ 448,215	\$ 1,101	\$ 9,078	\$ 458,394

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

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

	<b>Years Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities:</b>			
Net loss	\$ (18,875)	\$ (8,340)	\$ (144,627)
Adjustments to reconcile net loss to net cash flows from operating activities:			
Goodwill impairment	—	—	126,358
Depreciation and amortization	69,422	73,420	70,934
Deferred income taxes	(15,658)	(16,236)	(21,722)
Other, net	(596)	(34)	374
Changes in other operating assets and liabilities:			
Trade receivables	4,173	(7,392)	4,806
Inventories	(1,623)	(1,142)	2,575
Due to affiliates	958	(2,856)	20
Other assets	(319)	245	179
Accounts payable and other liabilities	(3,353)	(172)	56
Net cash flows from operating activities	<u>34,129</u>	<u>37,493</u>	<u>38,953</u>
<b>Cash flows from investing activities:</b>			
Capital expenditures	(36,622)	(59,424)	(15,246)
Proceeds from sale of assets	668	—	—
Decrease in restricted cash	148	1,305	1,621
Net cash flows from investing activities	<u>(35,806)</u>	<u>(58,119)</u>	<u>(13,625)</u>
<b>Cash flows from financing activities:</b>			
Repayment of subsidiary debt	(18,925)	(17,337)	(14,664)
Repayment of parent senior secured bonds	(27,040)	(25,800)	(20,400)
Contributions from members	52,500	54,000	34,000
Distributions to noncontrolling interests	(1,539)	(3,052)	(2,420)
Net cash flows from financing activities	<u>4,996</u>	<u>7,811</u>	<u>(3,484)</u>
<b>Net change in cash and cash equivalents</b>	3,319	(12,815)	21,844
<b>Cash and cash equivalents at beginning of period</b>	<u>31,989</u>	<u>44,804</u>	<u>22,960</u>
<b>Cash and cash equivalents at end of period</b>	<u>\$ 35,308</u>	<u>\$ 31,989</u>	<u>\$ 44,804</u>
<b>Supplemental disclosure:</b>			
Interest paid	<u>\$ 14,013</u>	<u>\$ 17,346</u>	<u>\$ 20,115</u>
Income taxes (refunded) paid	<u>\$ (4,934)</u>	<u>\$ 94</u>	<u>\$ 392</u>
Non-cash investing transactions -			
Accounts payable related to property, plant and equipment additions	<u>\$ 406</u>	<u>\$ 1,396</u>	<u>\$ 2,370</u>

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



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

**1. Organization and Operations**

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. ("Berkshire Hathaway").

The following table sets out information concerning CE Generation's projects:

Operating Project	Facility Net Capacity (MW) <sup>(1)</sup>	Net Owned Capacity (MW) <sup>(1)</sup>	Location	Power Purchase Agreement Expiration	Power Purchaser <sup>(2)</sup>
<u>Geothermal Facilities:</u>					
Salton Sea Projects -					
Salton Sea I Project <sup>(3)</sup>	10	10	California	2017	Edison
Salton Sea II Project <sup>(3)</sup>	16	16	California	2020	Edison
Salton Sea III Project <sup>(3)</sup>	50	50	California	2019	Edison
Salton Sea IV Project	42	42	California	2026	Edison
Salton Sea V Project <sup>(3)</sup>	<u>46</u>	<u>46</u>	California	2020	Riverside
Total Salton Sea Projects	<u>164</u>	<u>164</u>			
Partnership Projects -					
Vulcan Project <sup>(3)</sup>	38	38	California	2016	Edison
Elmore Project <sup>(3)</sup>	42	42	California	2018	Edison
Leathers Project	42	42	California	2019	Edison
Del Ranch Project <sup>(3)</sup>	42	42	California	2018	Edison
CE Turbo Project	<u>10</u>	<u>10</u>	California	2029	APS
Total Partnership Projects	<u>174</u>	<u>174</u>			
Total geothermal facilities	<u>338</u>	<u>338</u>			
<u>Natural Gas-Fueled Facilities:</u>					
Saranac Project	245	184	New York	2017	TEMUS
Power Resources Project	212	212	Texas	2018	EDF
Yuma Project	<u>50</u>	<u>50</u>	Arizona	2024	SDG&E
Total natural gas-fueled facilities	<u>507</u>	<u>446</u>			
Total operating projects	<u>845</u>	<u>784</u>			

(1) Facility Net Capacity represents the lesser of nominal ratings or any limitations under applicable interconnection, power purchase, or other agreements for intermittent resources and the total net dependable capability available during summer conditions for all other units. An intermittent resource's nominal rating is the manufacturer's contractually specified capability (in megawatts "MW") under specified conditions. Net Owned Capacity indicates CE Generation's ownership of Facility Net Capacity.

(2) Southern California Edison Company ("Edison"); Riverside Public Utilities ("Riverside"); Arizona Public Service ("APS"); TransAlta Energy Marketing U.S. ("TEMUS"); EDF Energy Services, LLC ("EDF"); and San Diego Gas & Electric Company ("SDG&E").

(3) Certain long-term power purchase agreement renewals have been entered into with an affiliate, CalEnergy, LLC, that expire in 2039.

## 2. Summary of Significant Accounting Policies

### *Basis of Consolidation and Presentation*

The 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 December 31, 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 Consolidated Financial Statements. Intercompany accounts and transactions have been eliminated. The Company has evaluated subsequent events through March 30, 2016, which is the date the Consolidated Financial Statements were available to be issued.

### *Use of Estimates in Preparation of Financial Statements*

The preparation of the Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. These estimates include, but are not limited to, recovery of long-lived assets; impairment of goodwill and intangible assets; accounting for contingencies; income taxes; and asset retirement obligations ("AROs"). Actual results may differ from the estimates used in preparing the Consolidated Financial Statements.

### *Fair Value Measurements*

As defined under GAAP, fair value is the price that would be received to sell an asset or paid to transfer a liability between market participants in the principal market or in the most advantageous market when no principal market exists. Adjustments to transaction prices or quoted market prices may be required in illiquid or disorderly markets in order to estimate fair value. Different valuation techniques may be appropriate under the circumstances to determine the value that would be received to sell an asset or paid to transfer a liability in an orderly transaction. Market participants are assumed to be independent, knowledgeable, able and willing to transact an exchange and not under duress. Nonperformance or credit risk is considered in determining fair value. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, estimates of fair value presented herein are not necessarily indicative of the amounts that could be realized in a current or future market exchange.

### *Cash Equivalents and Restricted Cash*

Cash equivalents consist of funds invested in money market accounts and other investments with a maturity of three months or less when purchased. Cash and cash equivalents exclude amounts where availability is restricted by legal requirements, loan agreements or other contractual provisions.

### *Derivatives*

Derivative contracts are recorded on the Consolidated Balance Sheets as either assets or liabilities and are stated at estimated fair value unless they are designated as normal purchases or normal sales and qualify for the exception as afforded by GAAP. Commodity derivatives used in normal business operations that are settled by physical delivery, among other criteria, are eligible for and may be designated as normal purchases or normal sales. Normal purchases or normal sales contracts are not marked-to-market and settled amounts are recognized as operating revenue on the Consolidated Statements of Operations.

For the Company's derivatives designated as hedging contracts, the Company formally assesses, at inception and thereafter, whether the hedging contract is highly effective in offsetting changes in the hedged item. The Company formally documents hedging activity by transaction type and risk management strategy. Changes in the estimated fair value of a derivative contract designated and qualified as a cash flow hedge, to the extent effective, are included on the Consolidated Statements of Changes in Equity as accumulated other comprehensive (loss) income ("AOCI"), net of tax, until the contract settles and the hedged item is recognized in earnings. The Company discontinues hedge accounting prospectively when it has determined that a derivative contract no longer qualifies as an effective hedge, or when it is no longer probable that the hedged forecasted transaction will occur. When hedge accounting is discontinued because the derivative contract no longer qualifies as an effective hedge, future changes in the estimated fair value of the derivative contract are charged to earnings. Gains and losses related to discontinued hedges that were previously recorded in AOCI will remain in AOCI until the contract settles and the hedged item is recognized in earnings, unless it becomes

probable that the hedged forecasted transaction will not occur at which time associated deferred amounts in AOCI are immediately recognized in earnings.

#### *Inventories*

Inventories consist of spare parts and supplies and are stated at cost. The cost of large replacement parts is determined using the specific identification method. The cost of the remaining spare parts and supplies is determined using the average cost method.

#### *Property, Plant and Equipment, Net*

##### *General*

The cost of additions and betterments are capitalized, while costs incurred for replacements, maintenance, overhaul and well rework and repairs that do not improve or extend the useful lives of the related assets are generally expensed. Depreciation is computed by applying the straight-line method based on estimated useful lives.

##### *Asset Retirement Obligations*

The Company recognizes AROs when it has a legal obligation to perform removal activities upon retirement of an asset. The Company's AROs are primarily related to the retirement of a landfill containing non-hazardous geothermal waste and natural gas-fueled generating facility assets that reside on leased land. The fair value of an ARO liability is recognized in the period in which it is incurred, if a reasonable estimate of fair value can be made, and is added to the carrying amount of the associated asset, which is then depreciated over the remaining useful life of the asset. Subsequent to the initial recognition, the ARO liability is adjusted for any revisions to the original estimate of undiscounted cash flows (with corresponding adjustments to property, plant, and equipment) and for accretion of the ARO liability due to the passage of time.

#### *Intangible Assets, Net*

The Company's intangible assets consist of acquired power purchase and royalty contracts and patented technology. Amortization is computed by applying the straight-line method based on the remaining contract periods.

#### *Impairment of Long-Lived Assets*

The Company evaluates long-lived assets for impairment, including property, plant and equipment and intangible assets, when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable or the assets are being held for sale. Upon the occurrence of a triggering event, the asset is reviewed to assess whether the estimated undiscounted cash flows expected from the use of the asset plus the residual value from the ultimate disposal exceeds the carrying value of the asset. If the carrying value exceeds the estimated recoverable amounts, the asset is written down to the estimated fair value and any resulting impairment loss is reflected on the Consolidated Statements of Operations.

#### *Goodwill*

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations. The Company evaluates goodwill for impairment at least annually and completed its annual review as of October 31. When evaluating goodwill for impairment, the Company estimates the fair value of the reporting unit. If the carrying amount of a reporting unit, including goodwill, exceeds the estimated fair value, then the identifiable assets, including identifiable intangible assets, and liabilities of the reporting unit are estimated at fair value as of the current testing date. The excess of the estimated fair value of the reporting unit over the current estimated fair value of net assets establishes the implied value of goodwill. The excess of the recorded goodwill over the implied goodwill value is charged to earnings as an impairment loss. Significant judgment is required in estimating the fair value of the reporting unit and performing goodwill impairment tests. The Company uses a variety of methods to estimate a reporting unit's fair value, principally discounted projected future net cash flows. Key assumptions used include, but are not limited to, the use of estimated future cash flows; multiples of earnings; and an appropriate discount rate. In estimating future cash flows, the Company incorporates current market information, as well as historical factors. As such, the determination of fair value incorporates significant unobservable inputs.

### *Revenue Recognition and Significant Customers*

Operating revenue is derived primarily from the sale of electricity and is recorded based upon energy delivered and capacity provided at rates specified under long-term power purchase contracts or at prevailing market rates for deliveries not under contract. The majority of the contracts contain both fixed, or scheduled, and variable price periods. During the scheduled period, energy revenue is recognized at the lower of (i) amounts billable under the contract or (ii) an amount equal to the kilowatt-hours ("kWh") made available during the period multiplied by the estimated average revenue per kWh over the term of the contract. Energy revenue during the variable period and capacity revenue in all periods are recognized as earned.

CE Generation's sales of electricity from the Imperial Valley Projects comprised 87%, 82%, and 80%, of 2015, 2014 and 2013 operating revenue, respectively. Of these sales, 82%, 86% and 86% were to Edison in 2015, 2014 and 2013, respectively. As of December 31, 2015 and 2014, trade receivables from Edison were \$16.0 million and \$19.5 million, respectively.

Trade receivables are primarily uncollateralized receivables from long-term power purchase contracts and are stated at the outstanding principal amount, net of an estimated allowance for doubtful accounts. The allowance for doubtful accounts is based on the Company's assessment of the collectibility of amounts owed to the Company by its customers. This assessment requires judgment regarding the ability of customers to pay or the outcome of any pending disputes. As of December 31, 2015 and 2014, there was no allowance for doubtful accounts.

### *Unamortized Debt Issuance Costs*

Debt issuance costs incurred for the issuance of long-term debt are amortized over the term of the related financing using the effective interest method.

### *Income Taxes*

CE Generation and its subsidiaries are included in the Berkshire Hathaway consolidated United States federal income tax return. Other state and federal jurisdictional returns are filed as required. The Company's provision for income taxes has been computed on a stand-alone basis.

Deferred income tax assets and liabilities are based on differences between the financial statement and income tax basis of assets and liabilities using estimated income tax rates expected to be in effect for the year in which the differences are expected to reverse. Changes in deferred income tax assets and liabilities that are associated with components of other comprehensive income ("OCI") are charged or credited directly to OCI. Other changes in deferred income tax assets and liabilities are included as a component of income tax expense. Valuation allowances are established when necessary to reduce deferred income tax assets to the amount that is more-likely-than-not to be realized. Investment tax credits are accounted for using the flow-through method whereby the credits are recognized in the year the assets are acquired.

In determining the Company's income taxes, management is required to interpret complex income tax laws and regulations. The Company's income tax returns are subject to continuous examinations by federal, state and local income tax authorities that may give rise to different interpretations of these complex laws and regulations. Due to the nature of the examination process, it generally takes years before these examinations are completed and these matters are resolved. The Company recognizes the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the Consolidated Financial Statements from such a position are measured based on the largest benefit that is more-likely-than-not to be realized upon ultimate settlement. Although the ultimate resolution of the Company's federal, state and local income tax examinations is uncertain, the Company believes it has made adequate provisions for these income tax positions. The aggregate amount of any additional income tax liabilities that may result from these examinations, if any, is not expected to have a material impact on the Company's consolidated financial results. The Company's unrecognized tax benefits are primarily included in other long-term liabilities on the Consolidated Balance Sheets. Estimated interest and penalties, if any, related to uncertain tax positions are included as a component of income tax expense on the Consolidated Statements of Operations.

### *New Accounting Pronouncements*

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, which creates FASB Accounting Standards Codification (“ASC”) Topic 842, “Leases” and supersedes Topic 840 “Leases.” This guidance increases transparency and comparability among entities by recording lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. A lessee should recognize in the balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous guidance. This guidance is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted, and is required to be adopted using a modified retrospective approach. 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 November 2015, the FASB issued ASU No. 2015-17, which amends FASB ASC Topic 740, "Income Taxes." The amendments in this guidance require that deferred income tax liabilities and assets be classified as noncurrent in the balance sheet. This guidance is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted, and may be adopted prospectively or retrospectively for each period presented to reflect the new guidance. The Company early adopted this guidance as of December 31, 2015 under a retrospective method, resulting in a decrease in other current assets of \$11.4 million and noncurrent deferred income tax liabilities of \$11.4 million as of December 31, 2014.

In April 2015, the FASB issued ASU No. 2015-03, which amends FASB 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 early adopted this guidance as of December 31, 2015 under a retrospective method, with the impact to the December 31, 2014 Consolidated Balance Sheet being immaterial.

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 No. 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.

### 3. Property, Plant and Equipment, Net

Property, plant and equipment, net consists of the following as of December 31 (in thousands):

	<b>Depreciable Life</b>	<b>2015</b>	<b>2014</b>
Power plants	5 to 37 years	\$ 1,364,507	\$ 1,340,600
Wells and resource development	2 to 30 years	334,803	326,734
Equipment	3 to 30 years	6,658	6,619
Total operating assets		<u>1,705,968</u>	<u>1,673,953</u>
Accumulated depreciation		(1,196,928)	(1,136,142)
Property, plant and equipment, net		<u>\$ 509,040</u>	<u>\$ 537,811</u>

### 4. Goodwill and Intangible Assets, Net

Goodwill consists of the following as of December 31 (in thousands):

	<b>2015</b>		<b>2014</b>	
	<b>Gross Carrying Amount</b>	<b>Accumulated Impairment Losses</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Impairment Losses</b>
Goodwill	\$ 265,897	\$ 126,358	\$ 265,897	\$ 126,358

In conjunction with the Company's 2013 annual goodwill review, a \$126.4 million impairment charge was recognized during the year ended December 31, 2013. The impairment charge was recognized in the geothermal power facilities reporting unit and was due primarily to changes in the Company's long-term revenue price and capital expenditure forecasts at the Imperial Valley Projects. The fair value of the geothermal power facilities reporting unit was determined using a discounted projected future net cash flows technique. During 2015 and 2014, the Company did not record any goodwill impairment.

Intangible assets, net consists of the following as of December 31 (in thousands):

		<b>2015</b>		<b>2014</b>	
	<b>Amortization Life</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>
Power purchase and royalty contracts	4 to 30 years	\$ 315,434	\$ 299,692	\$ 315,434	\$ 295,879
Patented technology	24 years	46,290	40,640	46,290	38,711
Intangible assets, net		<u>\$ 361,724</u>	<u>\$ 340,332</u>	<u>\$ 361,724</u>	<u>\$ 334,590</u>

Amortization expense on acquired intangible assets was \$5.7 million for each of the years ended December 31, 2015, 2014 and 2013. CE Generation expects amortization expense on acquired intangible assets to be \$5.7 million for each of the succeeding two fiscal years, \$5.0 million in 2018, \$1.0 million in 2019 and \$0.9 million in 2020.

## 5. Risk Management and Hedging Activities

Certain of the Company's Imperial Valley Projects have long-term power sales agreements with 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 4.8 cents per kWh and 4.3 cents per kWh for the years ended December 31, 2014 and 2013, 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 December 31, 2015 and 2014, the Company had no derivative contract assets or liabilities.

The following table reconciles the beginning and ending balances of the Company's AOCI (pre-tax) and summarizes pre-tax gains and losses on derivative contracts designated and qualifying as cash flow hedges recognized in OCI, as well as amounts reclassified to earnings for the years ended December 31 (in thousands):

	<u>2015</u>	<u>2014</u>
<b>Beginning balance</b>	\$ —	\$ 1,706
Changes in fair value recognized in OCI	—	1,494
Net losses reclassified to operating revenue	—	(3,200)
<b>Ending balance</b>	<u>\$ —</u>	<u>\$ —</u>

Realized gains and losses on hedges and hedge ineffectiveness are recognized in income as operating revenue. Hedge ineffectiveness totaled \$- million, \$- million and \$0.1 million for the years ended December 31, 2015, 2014 and 2013, respectively.

## 6. Fair Value Measurements

The carrying value of the Company's cash, certain cash equivalents, receivables, payables and accrued liabilities approximates fair value because of the short-term maturity of these instruments. The Company uses a three level hierarchy for determining fair value and a financial asset or liability classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The Company's long-term debt is carried at cost on the Consolidated Financial Statements. The fair value of the Company's long-term debt is a Level 2 fair value measurement and has been estimated based upon quoted market prices. The following table presents the carrying value and estimated fair value of the Company's long-term debt as of December 31 (in thousands):

	<u>2015</u>		<u>2014</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Long-term debt	\$ 146,006	\$ 143,206	\$ 192,049	\$ 193,909

## 7. Parent Senior Secured Bonds

On March 2, 1999, CE Generation issued \$400.0 million of 7.416% senior secured bonds due 2018 (the "Senior Secured Bonds"). These securities are senior secured debt which rank equally in right of payment and share equally in the collateral with CE Generation's other senior secured debt permitted under the indenture for the securities, and rank senior to any of CE Generation's subordinated debt permitted under the indenture for the securities. The Company is required to maintain certain covenants associated with the Senior Secured Bonds and was in compliance with these requirements at December 31, 2015. These securities are effectively subordinated to the existing project financing debt and all other debt of CE Generation's consolidated subsidiaries. The outstanding balance as of December 31, 2015 and 2014 was \$95.9 million and \$122.9 million, respectively.

The Senior Secured Bonds are primarily secured by the following collateral:

- all available cash flow, as defined in the indenture;

- a pledge of 99% of the equity interests in Salton Sea Power Company and all of CE Generation's equity interests in its other consolidated subsidiaries;
- a pledge of all of the capital stock of SECI Holdings Inc., an indirect wholly-owned subsidiary of the Company;
- a grant of a lien on and security interest in the depository accounts; and
- to the extent possible, a grant of a lien on and security interest in all of CE Generation's other tangible and intangible property, to the extent assignable.

In support of CE Generation's debt service requirements, a financial institution has issued a letter of credit for the account of BHE in the amount of \$19.5 million at December 31, 2015.

The annual repayments of CE Generation's debt for the years beginning January 1, 2016 and thereafter are as follows (in thousands):

2016	\$ 29,280
2017	30,240
2018	36,360
Total	<u>\$ 95,880</u>

## 8. Subsidiary Debt

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 long-term debt of subsidiaries may include provisions that allow CE Generation's subsidiaries to redeem it in whole or in part at any time. These provisions generally include make-whole premiums. Salton Sea Funding Corporation's ("Funding Corporation") long-term debt consists of 7.48% Series F Bonds due 2018 having an outstanding balance as of December 31, 2015 and 2014 of \$50.1 million and \$69.1 million, respectively.

The net revenues, equity distributions and royalties from the Imperial Valley Projects are used to pay principal and interest payments on outstanding senior secured bonds issued by Funding Corporation, the final series of which is scheduled to mature in November 2018. Funding Corporation debt is guaranteed by certain subsidiaries of Magma Power Company, a wholly-owned subsidiary of the Company, and secured by the capital stock of certain subsidiaries of CE Generation. The proceeds of Funding Corporation debt were loaned by Funding Corporation pursuant to loan agreements and notes (the "Imperial Valley Project Loans") to certain subsidiaries of Magma Power Company and used for the construction of certain Imperial Valley Projects, refinancing of certain indebtedness and other purposes. Debt service on the Imperial Valley Project Loans is used to repay debt service on Funding Corporation debt. The Imperial Valley Project Loans and the guarantees of Funding Corporation debt are secured by substantially all of the assets of the Guarantors, including the Imperial Valley Projects, and by the equity interests in the Guarantors. The Imperial Valley Project Loans also require Funding Corporation to maintain certain covenants. Funding Corporation was in compliance with these requirements at December 31, 2015.

In support of Funding Corporation's debt service requirements, a financial institution has issued a letter of credit for the account of BHE in the amount of \$23.7 million at December 31, 2015.

The annual repayments of Funding Corporation's debt for the years beginning January 1, 2016 and thereafter, excluding unamortized debt issuance costs, are as follows (in thousands):

2016	\$ 20,370
2017	19,865
2018	9,969
Total	<u>\$ 50,204</u>



Funding Corporation debt is non-recourse to CE Generation. CE Generation's ability to obtain distributions from its investment in the Imperial Valley Projects is subject to the following conditions:

- the depository accounts for Funding Corporation debt must be fully funded;
- there cannot have occurred and be continuing any default or event of default under Funding Corporation debt;
- the historical debt service coverage ratio of Funding Corporation for the prior four fiscal quarters must be at least 1.5 to 1.0; and
- there must be sufficient geothermal resources to operate the Imperial Valley Projects at their required levels.

**9. Asset Retirement Obligations**

The Company estimates its ARO liabilities based upon detailed engineering calculations of the amount and timing of the future cash spending for a third party to perform the required work. Spending estimates are escalated for inflation and then discounted at a credit-adjusted, risk-free rate. Changes in estimates could occur for a number of reasons, including plan revisions, inflation and changes in the amount and timing of the expected work.

The Company does not recognize liabilities for AROs for which the fair value cannot be reasonably estimated. Given the renewable nature of the geothermal resource, the geothermal power plants and wells could be maintained and remain in production indefinitely. Due to the indeterminate removal date, the fair value of the associated liabilities on geothermal assets cannot currently be estimated and no amounts are recognized on the Consolidated Financial Statements.

The following table reconciles the beginning and ending balances of the Company's ARO liabilities, which are included in other long-term liabilities on the Consolidated Balance Sheets, for the years ended December 31 (in thousands):

	<u>2015</u>	<u>2014</u>
<b>Beginning balance</b>	\$ 12,587	\$ 11,832
Retirements	(94)	—
Accretion	802	755
<b>Ending balance</b>	<u>\$ 13,295</u>	<u>\$ 12,587</u>

## 10. Income Taxes

Income tax benefit consists of the following for the years ended December 31 (in thousands):

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Current:</b>			
Federal	\$ (8,824)	\$ 1,146	\$ (132)
State	1,656	(3,348)	(12)
	<u>(7,168)</u>	<u>(2,202)</u>	<u>(144)</u>
<b>Deferred:</b>			
Federal	(11,529)	(13,133)	(17,260)
State	(4,129)	(3,103)	(4,462)
	<u>(15,658)</u>	<u>(16,236)</u>	<u>(21,722)</u>
Total	<u>\$ (22,826)</u>	<u>\$ (18,438)</u>	<u>\$ (21,866)</u>

A reconciliation of the federal statutory income tax rate to the effective income tax rate applicable to loss before income tax benefit is as follows for the years ended December 31:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Federal statutory income tax rate	35.0%	35.0%	35.0%
State income tax, net of federal income tax benefit	3.9	15.7	1.7
Energy tax credits	7.0	7.7	0.6
Percentage depletion	8.0	12.1	2.2
Production activities deduction	0.7	(3.7)	—
Noncontrolling interests	0.4	2.7	0.3
Goodwill impairment	—	—	(26.6)
Other, net	(0.3)	(0.6)	(0.1)
Effective income tax rate	<u>54.7%</u>	<u>68.9%</u>	<u>13.1%</u>

Income tax expense is only provided for the taxable earnings of the Company, including its partnership interests. No income tax expense is provided on the Consolidated Financial Statements for the noncontrolling interests' share of the partnership earnings.

The net deferred income tax liability consists of the following as of December 31 (in thousands):

	<u>2015</u>	<u>2014</u>
<b>Deferred income tax assets:</b>		
Net operating loss carryforwards	\$ 14,063	\$ 14,903
Tax credit carryforwards	14,545	15,633
Accruals not currently deductible for tax purposes	1,633	1,661
Other	405	737
Total deferred income tax assets	<u>30,646</u>	<u>32,934</u>
Valuation allowances	(1,218)	(1,321)
Total deferred income tax assets, net	<u>29,428</u>	<u>31,613</u>
<b>Deferred income tax liabilities:</b>		
Property-related items	(155,710)	(171,041)
Intangible assets	(8,716)	(11,056)
Employee benefits	(690)	(623)
Other	(1,320)	(1,493)
Total deferred income tax liabilities	<u>(166,436)</u>	<u>(184,213)</u>
Net deferred income tax liability	<u>\$ (137,008)</u>	<u>\$ (152,600)</u>
<b>Reflected as:</b>		
Noncurrent assets	\$ 405	\$ 494
Noncurrent liabilities	(137,413)	(153,094)
	<u>\$ (137,008)</u>	<u>\$ (152,600)</u>

The following table provides the Company's net operating loss and tax credit carryforwards and expiration dates as of December 31, 2015 (in thousands):

	<u>Federal</u>	<u>State</u>
Net operating loss carryforwards	\$ 22,316	\$ 114,373
Deferred income taxes on net operating loss carryforwards	\$ 7,804	\$ 6,259
Expiration dates	2032-2034	2031-2036
AMT and other tax credits <sup>(1)</sup>	\$ 8,686	\$ 5,859
Expiration dates	2030- indefinite	2023- indefinite

(1) The Alternative Minimum Tax ("AMT") and other tax credits relate principally to federal and state AMT credits.

The United States Internal Revenue Service has effectively settled its examination of the Company's income tax returns through December 31, 2009. In addition, state tax agencies have closed their examinations of the Company's income tax returns through at least December 31, 2007.

## **11. 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 December 31, 2015 and 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 AROs.

## **12. 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 \$3.9 million, \$3.8 million and \$3.7 million for the years ended December 31, 2015, 2014 and 2013, respectively. 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 \$1.8 million, \$2.0 million and \$1.7 million for the years ended December 31, 2015, 2014 and 2013, respectively. The portion of AOCI attributable to the Company has been allocated from MEC in accordance with the intercompany administrative service agreement.

### 13. Components of Accumulated Other Comprehensive (Loss) 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 year ended December 31 (in thousands):

	<b>Unrealized Gains (Losses) on Cash Flow Hedges</b>	<b>Unrecognized Amounts on Retirement Benefits</b>	<b>AOCI Attributable to CE Generation Members, Net</b>
<b>Balance, December 31, 2012</b>	\$ (248)	\$ 31	\$ (217)
OCI	(770)	1,239	469
<b>Balance, December 31, 2013</b>	(1,018)	1,270	252
OCI	1,018	(265)	753
<b>Balance, December 31, 2014</b>	—	1,005	1,005
OCI	—	96	96
<b>Balance, December 31, 2015</b>	\$ —	\$ 1,101	\$ 1,101

Reclassifications from AOCI to net income for the years ended December 31, 2015, 2014 and 2013, were insignificant. For information regarding cash flow hedge reclassifications from AOCI to net income in their entirety, refer to Note 5.

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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 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 factors should not be construed as exclusive.

### Results of Operations

#### *Operating Revenue*

The capacity factor for a particular project is determined by dividing the total quantity of electricity sold by the product of the project's capacity and the total hours in the year. Refer to Note 1 of Notes to Consolidated Financial Statements 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.

For discussion of the Company's long-term power sales agreement with Southern California Edison Company ("Edison"), refer to the "Price and Credit Risks" section included in this report.

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

	<b>Years Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Geothermal facilities	\$ 164.7	\$ 174.4	\$ 165.1
Natural gas-fueled facilities	25.6	39.0	40.6
Total operating revenue	<u>\$ 190.3</u>	<u>\$ 213.4</u>	<u>\$ 205.7</u>

### *Geothermal Facilities*

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

	<b>Years Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Overall capacity factor	86.8%	81.5%	82.8%
Megawatt hours ("MWh") produced	2,571,100	2,352,000	2,366,500
Facility net capacity megawatts ("MW") (weighted average)	338.0	329.3	326.4

Operating revenue for 2015 decreased \$9.7 million, or 5.6%, from 2014 primarily due to the following:

- \$25.4 million decrease due to lower energy rates at the Company's geothermal facilities in the Imperial Valley of California (the "Imperial Valley Projects").
- \$12.5 million increase due to a 9.3% increase in production at the Imperial Valley Projects.
- \$3.2 million increase due to net natural gas swap settlement losses in 2014.

Operating revenue for 2014 increased \$9.3 million, or 5.6%, from 2013 primarily due to the following:

- \$13.0 million increase due to higher energy rates at certain Imperial Valley Projects.
- \$2.1 million decrease due to an unfavorable change in the amount of natural gas swap settlement gains and losses.
- \$1.6 million decrease due to a 0.6% decrease in energy production at the Imperial Valley Projects.

### *Natural Gas-Fueled Facilities*

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

	<b>Years Ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Overall capacity factor	8.7%	11.5%	18.7%
MWh produced	386,100	505,000	820,400
Facility net capacity MW (weighted average)	507.0	503.3	502.0

Operating revenue for 2015 decreased \$13.4 million, or 34.4%, from 2014 primarily due to the following:

- \$7.7 million decrease at the Company's natural gas-fueled facility in Plattsburgh, New York (the "Saranac Project"). Lower revenues included a \$6.1 million decrease due to lower prices and a \$1.6 million decrease due to a 16.6% decrease in production from 2014.
- \$2.9 million decrease at the Company's natural gas fueled facility in Big Spring, Texas ("the Power Resources Project"). Lower revenues included a \$1.5 million decrease due to lower energy prices and a \$1.4 million decrease due to a 21.6% decrease in production from 2014.
- \$2.8 million decrease at the Company's natural gas-fueled facility in Yuma, Arizona (the "Yuma Project"). Lower revenues included a \$1.5 million decrease from lower prices and a \$1.3 million decrease due to a 55.9% decrease in production from 2014.

Operating revenue for 2014 decreased \$1.6 million, or 3.9%, from 2013 primarily due to the following:

- \$4.6 million decrease at the Yuma Project. A \$5.7 million decrease due to a 67.6% decrease in production from 2013 was partially offset by a \$1.1 million increase due to higher prices.
- \$1.6 million increase at the Power Resources Project. A \$2.6 million increase due to a 53.8% increase in production from 2013 was partially offset by a \$1.0 million decrease due to lower energy prices.
- \$1.4 million increase at the Saranac Project. A \$22.4 million increase due to higher prices was partially offset by a \$21.0 million decrease due to a 54.0% decrease in production from 2013.

#### *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 Energy Services, LLC, respectively, are required to purchase the natural gas supply.

Fuel expense decreased \$2.8 million, or 68.3%, to \$1.3 million for 2015 from \$4.1 million for 2014 due to lower production and lower unit costs paid at the Yuma Project.

Fuel expense decreased \$5.0 million, or 54.9%, to \$4.1 million for 2014 from \$9.1 million for 2013 due primarily to lower production at the Yuma Project, partially offset by higher unit costs paid at the Yuma Project.

#### *Plant Operations*

Plant operations increased \$1.9 million, or 1.3%, to \$142.9 million for 2015 from \$141.0 million for 2014 due primarily to higher maintenance costs at certain Imperial Valley Projects, partially offset by lower maintenance costs at the Yuma Project.

Plant operations decreased \$0.8 million, or 0.6%, to \$141.0 million for 2014 from \$141.8 million for 2013 due primarily to lower maintenance costs at certain Imperial Valley Projects, partially offset by higher maintenance costs at the Yuma Project.

#### *Depreciation and Amortization*

Depreciation and amortization decreased \$4.0 million, or 5.4%, to \$69.4 million for 2015 from \$73.4 million for 2014 due primarily to extended depreciable lives at the Saranac and Power Resources Projects.

Depreciation and amortization increased \$2.5 million, or 3.5%, to \$73.4 million for 2014 from \$70.9 million for 2013 due primarily to higher capital expenditures at the Imperial Valley Projects.

#### *Goodwill Impairment*

In conjunction with the Company's 2013 annual goodwill review, a \$126.4 million impairment charge was recognized during the year ended December 31, 2013. The impairment charge was recognized in the geothermal power facilities reporting unit and was due primarily to changes in the Company's long-term revenue price and capital expenditure forecasts at the Imperial Valley Projects.

#### *Interest Expense*

Interest expense decreased \$3.4 million to \$13.9 million for 2015 compared to 2014 and \$2.8 million to \$17.3 million for 2014 compared to 2013. The decreases were due to lower outstanding debt balances.

#### *Income Tax Benefit*

Income tax benefit increased \$4.4 million to \$22.8 million for 2015 compared to 2014. The effective tax rate was 54.7% and 68.9% in 2015 and 2014, respectively. The changes in income tax benefit and the effective tax rate were primarily due to a decrease in income before income tax benefit and the release of state obligation as a result of the acquisition of TransAlta's interest.

Income tax benefit decreased \$3.5 million to \$18.4 million for 2014 compared to 2013. The effective tax rate was 68.9% and 13.1% in 2014 and 2013, respectively. The changes in income tax benefit and the effective tax rate were primarily due to an increase in income before income tax benefit and the non-deductible goodwill impairment recognized in 2013.



### *Net Income Attributable to Noncontrolling Interests*

Net income attributable to noncontrolling interests decreased \$0.8 million to \$0.5 million for 2015 compared to 2014 due to lower revenues at the Saranac Project.

Net income attributable to noncontrolling interests increased \$0.7 million to \$1.3 million for 2014 compared to 2013 due to higher revenues 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 \$35.3 million as of December 31, 2015, compared to \$32.0 million as of December 31, 2014.

Net cash flows from operating activities for 2015 and 2014 were \$34.1 million and \$37.5 million, respectively. The decrease was primarily due to lower revenues, partially offset by lower income taxes paid.

Net cash flows from operating activities for 2014 and 2013 were \$37.5 million and \$39.0 million, respectively. The decrease was primarily due to the timing of customer revenue payments.

The timing of the Company's income tax cash flows from period to period can be significantly affected by the estimated federal income tax payment methods and assumptions for each payment date.

In December 2014, the Tax Increase Prevention Act of 2014 (the "Act") was signed into law, extending the 50% bonus depreciation for qualifying property purchased and placed in-service before January 1, 2015 and before January 1, 2016 for certain longer-lived assets. As a result of the Act, the Company's cash flows from operations benefited in 2015 due to bonus depreciation on qualifying assets placed in-service.

In December 2015, the Protecting Americans from Tax Hikes Act of 2015 ("PATH") was signed into law, extending bonus depreciation for qualifying property acquired and placed in-service before January 1, 2020 (bonus depreciation rates will be 50% in 2015-2017, 40% in 2018, and 30% in 2019), with an additional year for certain longer lived assets. As a result of PATH, the Company's cash flows from operations are expected to benefit in 2016 and beyond due to bonus depreciation on qualifying assets placed in-service.

Net cash flows from investing activities for 2015 and 2014 were \$(35.8) million and \$(58.1) million, respectively. The decrease was due to higher capital expenditures in 2014 at the Imperial Valley Projects.

Net cash flows from investing activities for 2014 and 2013 were \$(58.1) million and \$(13.6) million, respectively. The increase was due to higher capital expenditures in 2014 at the Imperial Valley Projects.

Forecasted capital expenditures for 2016 are approximately \$64 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 2015 and 2014 were \$5.0 million and \$7.8 million, respectively. The change was primarily due to higher scheduled 2015 debt service payments. The Company expects to receive owner capital contributions in 2016 for the purpose of assisting with CE Generation's and Funding Corporation's scheduled 2016 debt service payments and a portion of the Company's 2016 capital expenditure needs.

Net cash flows from financing activities for 2014 and 2013 were \$7.8 million and \$(3.5) million, respectively. The change was primarily due to higher contributions from members received during 2014 for the purpose of assisting with CE Generation's and Funding Corporation's scheduled 2014 debt service payments and a portion of the Company's 2014 capital expenditure needs.

### Contractual Obligations

The Company has contractual cash obligations that may affect its consolidated financial condition. The following table summarizes the Company's material contractual cash obligations as of December 31, 2015 (in thousands):

	<b>Payments Due by Period</b>			
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>Total</b>
Long-term debt, parent	\$ 29,280	\$ 30,240	\$ 36,360	\$ 95,880
Long-term debt, subsidiary	20,370	19,865	9,969	50,204
Interest payments on long-term debt <sup>(1)</sup>	9,940	6,237	2,581	18,758
Total contractual cash obligations	<u>\$ 59,590</u>	<u>\$ 56,342</u>	<u>\$ 48,910</u>	<u>\$ 164,842</u>

<sup>(1)</sup> Not reflected on the Consolidated Balance Sheets.

The Company has other types of commitments that arise primarily from letters of credit or relate to asset retirement obligations (Note 9), which have not been included in the above table because the amount and timing of the cash payments are not certain. Refer, where applicable, to the respective referenced note in Notes to Consolidated Financial Statements included elsewhere in this report for additional information.

In support of CE Generation's debt service requirements, a financial institution has issued a letter of credit for the account of Berkshire Hathaway Energy Company ("BHE") in the amount of \$19.5 million at December 31, 2015.

In support of Funding Corporation's debt service requirements, a financial institution has issued a letter of credit for the account of BHE in the amount of \$23.7 million at December 31, 2015.

### 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 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 11 of Notes to Consolidated Financial Statements included elsewhere in this report for additional information regarding certain environmental laws and regulations affecting the Company.

#### *Clean Air Act Regulations*

The Clean Air Act is a federal law administered by the EPA that provides a framework for protecting and improving the nation's air quality and controlling sources of air emissions. The implementation of new standards is generally outlined in State Implementation Plan's ("SIPs"), which are a collection of regulations, programs and policies to be followed. SIPs vary by state and are subject to public hearings and EPA approval. Some states may adopt additional or more stringent requirements than those implemented by the EPA. The major Clean Air Act programs most directly affecting the Company's operations are described below.

#### *National Ambient Air Quality Standards*

Under the authority of the Clean Air Act, the EPA sets minimum national ambient air quality standards for six principal pollutants, consisting of carbon monoxide, lead, nitrogen oxides, particulate matter, ozone and sulfur dioxide, considered harmful to public health and the environment. Areas that achieve the standards, as determined by ambient air quality monitoring, are characterized as

being in attainment, while those that fail to meet the standards are designated as being nonattainment areas. Generally, sources of emissions in a nonattainment area that are determined to contribute to the nonattainment are required to reduce emissions. Most air quality standards require measurement over a defined period of time to determine the average concentration of the pollutant present. Currently, with the exceptions described in the following paragraphs, air quality monitoring data indicates that all counties where the Company's major emission sources are located are in attainment of the current national ambient air quality standards.

In November 2014, the EPA released a new proposal to strengthen the national ambient air quality standard for ground level ozone from the current level of 75 parts per billion to a level between 65 and 70 parts per billion. In October 2015, the EPA set the standard at 70 parts per billion. The EPA anticipates making attainment/nonattainment designations for the revised standards by late 2017, which will likely be based on 2014-2016 air quality data. Nonattainment areas will have until 2020 to late 2037 to meet the standard. 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. Until the 2015 standard is fully implemented, the EPA continues to implement the 2008 ozone standards.

In January 2010, the EPA finalized a one-hour air quality standard for nitrogen dioxide at 100 parts per billion. In February 2012, the EPA published final designations indicating that based on air quality monitoring data, all areas of the country are designated as "unclassifiable/attainment" for the 2010 nitrogen dioxide national ambient air quality standard.

In June 2010, the EPA finalized a new national ambient air quality standard for sulfur dioxide. Under the 2010 rule, areas must meet a one-hour standard of 75 parts per billion utilizing a three-year average. The rule utilizes source modeling in addition to the installation of ambient monitors where sulfur dioxide emissions impact populated areas. Attainment designations were due by June 2012; however, citing a lack of sufficient information to make the designations, the EPA did not issue its final designations until July 2013 and the designations are not expected to impact the Company.

In December 2012, the EPA finalized more stringent fine particulate matter national ambient air quality standards, reducing the annual standard from 15 micrograms per cubic meter to 12 micrograms per cubic meter and retaining the 24-hour standard at 35 micrograms per cubic meter. The EPA did not set a separate secondary visibility standard, choosing to rely on the existing secondary 24-hour standard to protect against visibility impairment. In December 2014, the EPA issued final area designations for the 2012 fine particulate matter standard. Based on these designations, the areas in which the Company operates generating facilities have been classified as "unclassifiable/attainment." Unless additional monitoring suggests otherwise, the Company does not anticipate that any impacts of the revised standard will be significant.

As new, more stringent national ambient air quality standards are adopted, the number of counties designated as nonattainment areas is likely to increase. Businesses operating in newly designated nonattainment counties could face increased regulation and costs to monitor or reduce emissions. For instance, existing major emissions sources may have to install reasonably available control technologies to achieve certain reductions in emissions and undertake additional monitoring, recordkeeping and reporting. The construction or modification of facilities that are sources of emissions could also become more difficult in nonattainment areas. Until new requirements are promulgated and additional monitoring and modeling is conducted, the impacts on the Company cannot be determined.

#### *Cross-State Air Pollution Rule*

The EPA promulgated an initial rule in March 2005 to reduce emissions of nitrogen oxides and sulfur dioxide, precursors of ozone and particulate matter, from down-wind sources in the eastern United States, including Iowa, to reduce emissions by implementing a plan based on a market-based cap-and-trade system, emissions reductions, or both. After numerous appeals, the Cross-State Air Pollution Rule ("CSAPR") was promulgated to address interstate transport of sulfur dioxide and nitrogen oxides emissions in 27 eastern and Midwestern states.

The first phase of the rule was implemented January 1, 2015. In November 2015, the EPA released a proposed rule that would further reduce nitrogen oxides emissions in 2017. The public comment period closed on the proposal February 1, 2016.

The Company's natural-gas fueled 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*

In December 2015, an international agreement was negotiated by 195 nations to create a universal framework for coordinated action on climate change in what is referred to as the Paris Agreement. The Paris Agreement reaffirms the goal of limiting global temperature increase well below 2 degrees Celsius, while urging efforts to limit the increase to 1.5 degrees Celsius; establishes commitments by all parties to make nationally determined contributions and pursue domestic measures aimed at achieving the commitments; commits all countries to submit emissions inventories and report regularly on their emissions and progress made in implementing and achieving their nationally determined commitments; and commits all countries to submit new commitments every five years, with the expectation that the commitments will get more aggressive. In the context of the Paris Agreement, the United States agreed to reduce greenhouse gas emissions 26% to 28% by 2025 from 2005 levels. The cornerstone of the United States' commitment is the Clean Power Plan which was finalized by the EPA in 2015.

### *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. On August 3, 2015, the EPA issued final new source performance standards, establishing a standard of 1,000 pounds of carbon dioxide per MWh for large natural gas-fueled generating facilities with the "Best System of Emission Reduction" reflecting integrated gasification combined-cycle units that are co-fired with natural gas or pre-combustion slipstream capture of carbon dioxide. The new source performance standards have been appealed to the D.C. Circuit Court of Appeals. However, despite the pendency of the appeal, 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 the "Best System of Emission Reduction." In August 2015, the final Clean Power Plan was released, which established the Best System of Emission Reduction as including: (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 in August 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 public comment period on the draft federal plan and proposed model trading rules closed January 21, 2016. States were required to submit their initial implementation plans by September 2016 but could request an extension to September 2018. However, on February 9, 2016, the United States Supreme Court ordered that the EPA's emission guidelines for existing sources be stayed pending the disposition of the challenges to the rule in the D.C. Circuit Court of Appeals and any action on a writ of certiorari before the United States Supreme Court. The full impacts of the final rule or the federal plan on the Company cannot be determined until the outcome of the pending litigation and subsequent appeals, the development and implementation of state plans, and finalization of the federal plan.

### *Regional and State Activities*

The Regional Greenhouse Gas Initiative, a mandatory, market-based effort to reduce GHG emissions in ten Northeastern and Mid-Atlantic states, required, beginning in 2009, the reduction of carbon dioxide ("CO<sub>2</sub>") emissions from the power sector of 10% by 2018. In May 2011, New Jersey withdrew from participation in the Regional Greenhouse Gas Initiative. Following a program review in 2012, the nine Regional Greenhouse Gas Initiative states implemented a new 2014 cap which was approximately 45% lower than the 2012-2013 cap. The cap is reduced each year thereafter by 2.5%.

The Saranac Project is required to purchase CO<sub>2</sub> allowances at prevailing market prices. Following the expiration of the NYSE&G agreement, the ultimate cost of any required CO<sub>2</sub> allowances will be recovered through prices paid by the power purchaser.

### *GHG Litigation*

The Company closely monitors ongoing environmental litigation applicable to its operations. Numerous lawsuits have been unsuccessfully pursued against the industry that attempt to link GHG emissions to public or private harm. The lower courts initially refrained from adjudicating the cases under the "political question" doctrine, because of their inherently political nature. These cases

have typically been appealed to federal appellate courts and, in certain circumstances, to the United States Supreme Court. An adverse ruling in similar cases would likely result in increased regulation and costs for GHG emitters, including the Company's generating facilities.

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") requires 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, 2027 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.

### Inflation

Historically, overall inflation and changing prices have not had a significant impact on the Company's consolidated financial results.

### Off-Balance Sheet Arrangements

The Company does not have any obligations which meet the definition of an off-balance sheet arrangement and which have or are reasonably likely to have a material effect on the Consolidated Financial Statements.

### New Accounting Pronouncements

For a discussion of new accounting pronouncements affecting the Company, refer to Note 2 of Notes to Consolidated Financial Statements included elsewhere in this report.

### Critical Accounting Estimates

Certain accounting measurements require management to make estimates and judgments concerning transactions that will be settled several years in the future. Amounts recognized on the Consolidated Financial Statements based on such estimates involve numerous assumptions subject to varying and potentially significant degrees of judgment and uncertainty and will likely change in the future as additional information becomes available. The following critical accounting estimates are impacted significantly by the Company's methods, judgments and assumptions used in the preparation of the Consolidated Financial Statements and should be read in conjunction with the Company's Summary of Significant Accounting Policies included in Note 2 of Notes to Consolidated Financial Statements included elsewhere in this report.

### *Impairment of Long-Lived Assets and Goodwill*

The Company evaluates long-lived assets for impairment, including property, plant and equipment and intangible assets, when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable or the assets are being held for sale. Upon the occurrence of a triggering event, the asset is reviewed to assess whether the estimated undiscounted cash flows expected from the use of the asset plus the residual value from the ultimate disposal exceeds the carrying value of the asset. If the carrying value exceeds the estimated recoverable amounts, the asset is written down to the estimated fair value and any resulting impairment loss is reflected on the Consolidated Statements of Operations.

The estimate of cash flows arising from the future use of the asset that are used in the impairment analysis requires judgment regarding what the Company would expect to recover from the future use of the asset. Changes in judgment that could significantly alter the calculation of the fair value or the recoverable amount of the asset may result from significant changes in the business climate, management's plans, legal factors, market price of the asset, the use of the asset or the physical condition of the asset, future market prices, load growth, competition and many other factors over the life of the asset. Any resulting impairment loss is highly dependent on the underlying assumptions and could significantly affect the Company's results of operations.

The Company's Consolidated Balance Sheet as of December 31, 2015 includes goodwill of acquired businesses of \$139.5 million. The Company evaluates goodwill for impairment at least annually and completed its annual review as of October 31. The Company recognized a goodwill impairment of \$126.4 million during 2013. Refer to Note 4 for further information. A significant amount of

judgment is required in estimating the fair value of the reporting unit and performing goodwill impairment tests. The Company uses a variety of methods to estimate a reporting unit's fair value, principally discounted projected future net cash flows. Key assumptions used include, but are not limited to, the use of estimated future cash flows; multiples of earnings; and an appropriate discount rate. Estimated future cash flows are impacted by, among other factors, growth rates, changes in regulations and rates, ability to renew contracts and estimates of future commodity prices. In estimating future cash flows, the Company incorporates current market information, as well as historical factors.

#### *Income Taxes*

In determining the Company's income taxes, management is required to interpret complex income tax laws and regulations. The Company's income tax returns are subject to continuous examinations by federal, state and local income tax authorities that may give rise to different interpretations of these complex laws and regulations. Due to the nature of the examination process, it generally takes years before these examinations are completed and these matters are resolved. The Company recognizes the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the Consolidated Financial Statements from such a position are measured based on the largest benefit that is more likely-than-not to be realized upon ultimate settlement. Although the ultimate resolution of the Company's federal, state and local income tax examinations is uncertain, the Company believes it has made adequate provisions for these income tax positions. The aggregate amount of any additional income tax liabilities that may result from these examinations, if any, is not expected to have a material impact on the Company's consolidated financial results.

#### Quantitative and Qualitative Disclosures About Market Risk

##### *Interest Rate Risk*

The Company is exposed to interest rate risk on future debt issuances. The Company manages its interest rate risk by limiting its exposure to variable interest rates primarily through the issuance of fixed-rate long-term debt. As a result of the fixed interest rates, the Company's fixed-rate long-term debt does not expose the Company to the risk of loss due to changes in market interest rates. Additionally, because fixed-rate long-term debt is not carried at fair value on the Consolidated Balance Sheets, changes in fair value would impact earnings and cash flows only if the Company were to reacquire all or a portion of these instruments prior to their maturity.

##### *Price and Credit Risks*

The Company's and the Imperial Valley Project's primary source of electricity revenue is derived from payments received pursuant to long-term power sales agreements with Edison. Because of the Company's and the Imperial Valley Project's dependence on Edison, any material failure of Edison to fulfill its obligations would significantly impair the Company's ability to fund operating and maintenance expenses, payments of interest and principal on the debt securities, projected capital expenditures and debt service reserve fund requirements. Approximately 82% of the Imperial Valley Projects' electricity sales were to Edison in 2015.

In June and November 2001, the Salton Sea II, Salton Sea III, Vulcan, Elmore, Leathers and Del Ranch Projects and 16/36 of the Salton Sea IV Project (representing 72% of the Imperial Valley Projects' total net owned capacity), which were then receiving Edison's avoided cost of energy, entered into agreements that provided for amended energy payments. The amendments provided for fixed energy payments per kWh in lieu of Edison's avoided cost of energy of 3.25 cents per kWh from December 1, 2001, to April 30, 2002, increasing to 5.37 cents per kWh commencing May 1, 2002, through April 30, 2007. On May 30, 2006, the Imperial Valley Projects that received Edison's avoided cost of energy entered into amendments to their respective power purchase agreements with Edison which provided for a fixed energy price commencing May 1, 2007 and ending April 30, 2012. The energy price under the respective amended power purchase agreements during the fixed price period was 6.15 cents per kWh, escalated 1% annually beginning May 1, 2008. Beginning May 1, 2012, the projects subject to these amendments reverted back to Edison's avoided cost of energy, which is highly correlated to the cost of natural gas and was 3.1 cents per kWh, 4.8 cents per kWh and 4.3 cents per kWh for the years ended December 31, 2015, 2014 and 2013, respectively. There can be no assurances that Edison's avoided cost of energy after May 1, 2012 will result in revenues equivalent to the previous fixed energy payments received. Estimates of Edison's future avoided cost of energy could vary substantially from year to year primarily based on the future cost of natural gas and may be impacted by regulatory proceedings which may change the definition of the avoided cost of energy and other commodity factors.

## CERTIFICATION

I, William J. Fehrman, certify that:

1. I have reviewed this Annual 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: March 30, 2016

/s/ William J. Fehrman  
William J. Fehrman  
President  
(principal executive officer)

## CERTIFICATION

I, Stephen D. Dickas, certify that:

1. I have reviewed this Annual 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: March 30, 2016

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