



CE GENERATION<sub>LLC</sub>

**Consolidated Financial Statements**  
**For the Quarterly Period Ended September 30, 2012**

## **TABLE OF CONTENTS**

Consolidated Balance Sheets	3
Consolidated Statements of Operations	4
Consolidated Statements of Comprehensive (Loss) Income	5
Consolidated Statements of Changes in Equity	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8
Management's Discussion and Analysis of Financial Condition and Results of Operations	12

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

(In thousands)

	As of	
	September 30, 2012	December 31, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 28,369	\$ 43,581
Restricted cash	23,264	-
Trade receivables	38,794	33,375
Income tax receivable	4,476	2,340
Inventories	32,620	35,514
Other current assets	696	2,023
Total current assets	128,219	116,833
Property, plant and equipment, net	606,397	639,366
Goodwill	265,897	265,897
Intangible assets, net	40,054	44,361
Other assets	2,309	2,505
<b>Total assets</b>	<b>\$ 1,042,876</b>	<b>\$ 1,068,962</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 4,843	\$ 1,157
Accrued interest	6,607	1,322
Due to affiliates	2,239	1,688
Current portion of long-term debt	36,079	37,094
Deferred income taxes	1,490	1,490
Other current liabilities	15,613	8,388
Total current liabilities	66,871	51,139
Parent senior secured bonds	158,920	169,120
Subsidiary debt	93,797	101,130
Due to affiliates	4,297	3,948
Deferred income taxes	194,033	206,620
Other long-term liabilities	15,292	12,443
Total liabilities	533,210	544,400
Commitments and contingencies (Note 5)		
Equity:		
CE Generation members' equity	495,623	509,232
Noncontrolling interests	14,043	15,330
Total equity	509,666	524,562
<b>Total liabilities and equity</b>	<b>\$ 1,042,876</b>	<b>\$ 1,068,962</b>

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

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

(In thousands)

	<b>Three-Month Periods</b>		<b>Nine-Month Periods</b>	
	<b>Ended September 30,</b>		<b>Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Operating revenue</b>	<u>\$ 66,239</u>	<u>\$ 91,297</u>	<u>\$ 163,181</u>	<u>\$ 210,104</u>
<b>Operating costs and expenses:</b>				
Fuel	2,018	1,589	2,939	4,728
Plant operations	30,209	30,336	105,804	100,314
General and administrative	991	962	3,130	3,043
Depreciation and amortization	<u>20,085</u>	<u>18,399</u>	<u>56,932</u>	<u>57,015</u>
Total operating costs and expenses	<u>53,303</u>	<u>51,286</u>	<u>168,805</u>	<u>165,100</u>
<b>Operating income (loss)</b>	<u>12,936</u>	<u>40,011</u>	<u>(5,624)</u>	<u>45,004</u>
<b>Other income (expense):</b>				
Interest expense	(5,603)	(6,173)	(17,413)	(19,325)
Gain on sale of land	-	-	-	4,667
Interest and other income	<u>187</u>	<u>136</u>	<u>180</u>	<u>371</u>
Total other income (expense)	<u>(5,416)</u>	<u>(6,037)</u>	<u>(17,233)</u>	<u>(14,287)</u>
<b>Income (loss) before income tax expense (benefit)</b>	7,520	33,974	(22,857)	30,717
Income tax expense (benefit)	<u>5,397</u>	<u>(1,944)</u>	<u>(12,306)</u>	<u>(2,190)</u>
<b>Net income (loss)</b>	2,123	35,918	(10,551)	32,907
Net loss attributable to noncontrolling interests	<u>(54)</u>	<u>(382)</u>	<u>(480)</u>	<u>(217)</u>
<b>Net income (loss) attributable to CE Generation members</b>	<u>\$ 2,177</u>	<u>\$ 36,300</u>	<u>\$ (10,071)</u>	<u>\$ 33,124</u>

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

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

	<u>Three-Month Periods</u> <u>Ended September 30,</u>		<u>Nine-Month Periods</u> <u>Ended September 30,</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Net income (loss)	\$ 2,123	\$ 35,918	\$ (10,551)	\$ 32,907
Other comprehensive loss, net of tax:				
Unrealized losses on cash flow hedges, net of tax of \$(1,737), \$-, \$(2,307) and \$-	(2,623)	-	(3,484)	-
Unrecognized amounts on retirement benefits, net of tax of \$(12), \$(8), \$(37) and \$(23)	<u>(18)</u>	<u>(11)</u>	<u>(54)</u>	<u>(33)</u>
Total other comprehensive loss, net of tax	<u>(2,641)</u>	<u>(11)</u>	<u>(3,538)</u>	<u>(33)</u>
Comprehensive (loss) income	(518)	35,907	(14,089)	32,874
Comprehensive loss attributable to noncontrolling interests	<u>(54)</u>	<u>(382)</u>	<u>(480)</u>	<u>(217)</u>
Comprehensive (loss) income attributable to CE Generation members	<u>\$ (464)</u>	<u>\$ 36,289</u>	<u>\$ (13,609)</u>	<u>\$ 33,091</u>

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

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

	<u>CE Generation Members' Equity</u>			<u>Total Equity</u>
	<u>Members' Equity</u>	<u>Accumulated Other Comprehensive Loss, Net</u>	<u>Noncontrolling Interests</u>	
<b>Balance, December 31, 2010</b>	\$ 507,486	\$ (285)	\$ 17,057	\$ 524,258
Net income (loss)	33,124	-	(217)	32,907
Other comprehensive loss	-	(33)	-	(33)
Distributions	-	-	(1,020)	(1,020)
<b>Balance, September 30, 2011</b>	<u>\$ 540,610</u>	<u>\$ (318)</u>	<u>\$ 15,820</u>	<u>\$ 556,112</u>
<b>Balance, December 31, 2011</b>	\$ 510,341	\$ (1,109)	\$ 15,330	\$ 524,562
Net loss	(10,071)	-	(480)	(10,551)
Other comprehensive loss	-	(3,538)	-	(3,538)
Distributions	-	-	(807)	(807)
<b>Balance, September 30, 2012</b>	<u>\$ 500,270</u>	<u>\$ (4,647)</u>	<u>\$ 14,043</u>	<u>\$ 509,666</u>

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

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

	<b>Nine-Month Periods Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities:</b>		
Net (loss) income	\$ (10,551)	\$ 32,907
Adjustments to reconcile net (loss) income to net cash flows from operating activities:		
Depreciation and amortization	56,932	57,015
Gain on sale of land	-	(4,667)
Deferred income taxes	(10,243)	(989)
Amortization of deferred financing costs	196	233
Changes in other operating assets and liabilities:		
Trade receivables	(5,419)	6,862
Inventories	2,894	(4,780)
Due to affiliates, net	809	71
Other assets	(809)	3,797
Accounts payable and other liabilities	<u>13,611</u>	<u>5,246</u>
Net cash flows from operating activities	<u>47,420</u>	<u>95,695</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(20,013)	(22,533)
Proceeds from sale of land	-	5,750
Increase in restricted cash	<u>(23,264)</u>	<u>(8,897)</u>
Net cash flows from investing activities	<u>(43,277)</u>	<u>(25,680)</u>
<b>Cash flows from financing activities:</b>		
Repayment of subsidiary debt	(8,308)	(15,657)
Repayment of parent senior secured bonds	(10,240)	(7,600)
Distributions to noncontrolling interests	<u>(807)</u>	<u>(1,020)</u>
Net cash flows from financing activities	<u>(19,355)</u>	<u>(24,277)</u>
<b>Net change in cash and cash equivalents</b>	(15,212)	45,738
<b>Cash and cash equivalents at beginning of period</b>	<u>43,581</u>	<u>44,580</u>
<b>Cash and cash equivalents at end of period</b>	<u>\$ 28,369</u>	<u>\$ 90,318</u>

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

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

**1. General**

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

The unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements. Management believes the unaudited Consolidated Financial Statements contain all adjustments (consisting only of normal recurring adjustments) considered necessary for the fair presentation of the Consolidated Financial Statements as of September 30, 2012 and for the three- and nine-month periods ended September 30, 2012 and 2011. The results of operations for the three- and nine-month periods ended September 30, 2012 are not necessarily indicative of the results to be expected for the full year. The Company has evaluated subsequent events through November 13, 2012, which is the date the unaudited Consolidated Financial Statements were available to be issued.

The unaudited Consolidated Financial Statements include the accounts of CE Generation, its wholly-owned subsidiaries and a majority-owned limited partnership, Saranac Power Partners L.P. (the “Saranac Partnership” or the “Saranac Project”), in which the Company indirectly holds a 1% general partnership and 74% limited partnership ownership interest. The remaining interests in the Saranac Partnership are owned by three limited partners. Net income and distributions from the Saranac Partnership are allocated to the partners based on allocation percentages that vary through the life of the partnership, as specified in the partnership agreement. As of September 30, 2012, the Company’s economic interest in the partnership was 75%, while the noncontrolling interest holders had a combined economic interest in the partnership of 25%. The equity interest of the other partners is recorded as a noncontrolling interest on the unaudited Consolidated Financial Statements. Intercompany accounts and transactions have been eliminated.

The preparation of the unaudited Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenue and expenses during the period. Actual results may differ from the estimates used in preparing the unaudited Consolidated Financial Statements. Note 2 of Notes to Consolidated Financial Statements included in the Company’s audited Consolidated Financial Statements for the year ended December 31, 2011 describes the most significant accounting policies used in the preparation of the Consolidated Financial Statements. There have been no significant changes in the Company’s assumptions regarding significant accounting estimates and policies during the nine-month period ended September 30, 2012.

**2. Property, Plant and Equipment, Net**

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

	Depreciable Life	As of	
		September 30, 2012	December 31, 2011
Power plants	5 to 30 years	\$ 1,296,471	\$ 1,292,362
Wells and resource development	2 to 30 years	290,433	278,219
Equipment	3 to 30 years	<u>6,631</u>	<u>6,372</u>
Total operating assets		1,593,535	1,576,953
Accumulated depreciation		<u>(987,138)</u>	<u>(937,587)</u>
Property, plant and equipment, net		<u>\$ 606,397</u>	<u>\$ 639,366</u>

The Company replaced certain pipe and equipment with a remaining net book value of \$1.5 million and \$0.7 million during the three-month periods ended September 30, 2012 and 2011, respectively, and \$1.5 million and \$2.9 million during the nine-month periods ended September 30, 2012 and 2011, respectively, which was charged to depreciation expense on the Consolidated Statements of Operations.

### 3. Intangible Assets, Net

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

	Amortization Life	As of September 30, 2012		As of December 31, 2011	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Power purchase and royalty contracts	4 to 30 years	\$ 315,434	\$ 287,299	\$ 315,434	\$ 284,439
Patented technology	24 years	<u>46,290</u>	<u>34,371</u>	<u>46,290</u>	<u>32,924</u>
Intangible assets, net		<u>\$ 361,724</u>	<u>\$ 321,670</u>	<u>\$ 361,724</u>	<u>\$ 317,363</u>

Amortization expense on acquired intangible assets was \$1.4 million for each of the three-month periods ended September 30, 2012 and 2011 and \$4.3 million for each of the nine-month periods ended September 30, 2012 and 2011. CE Generation expects amortization expense on acquired intangible assets to be \$1.4 million for the remaining three months in 2012, and \$5.7 million in 2013 through 2016.

### 4. Derivative Contract

Certain of the Company's Imperial Valley Projects have long-term power sales agreements with Southern California Edison Company ("Edison"). Beginning May 1, 2012, these long-term power sales agreements are at Edison's avoided cost of energy, which is currently highly correlated to the cost of natural gas and was 3.0 cents per kilowatt hour ("kWh") and 4.2 cents per kWh for the three-month periods ended September 30, 2012 and 2011, respectively, and 2.8 cents per kWh and 4.1 cents per kWh for the nine-month periods ended September 30, 2012 and 2011, 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 is expected to hedge the price risk related to 80%, 65% and 40% of the estimated 2012, 2013 and 2014 energy deliveries, respectively, associated with Edison's avoided cost of energy. The natural gas swap is accounted for as a cash flow hedge and is recorded at fair value. As of September 30, 2012, the liability associated with this contract was \$5.8 million, which is included in other current liabilities and other long-term liabilities on the Consolidated Balance Sheet.

### 5. Commitments and Contingencies

#### *The California Power Exchange*

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

### *Environmental Laws and Regulations*

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

### *Accrued Environmental Costs*

The Company is fully or partly responsible for environmental remediation at various contaminated sites, including sites that are or were part of the Company's operations and sites owned by third parties. The Company accrues environmental remediation expenses when the expenses are believed to be probable and can be reasonably estimated. The quantification of environmental exposures is based on many factors, including changing laws and regulations, advancements in environmental technologies, the quality of available site-specific information, site investigation results, expected remediation or settlement timelines, the Company's proportionate responsibility, contractual indemnities and coverage provided by insurance policies. The liability recorded as of September 30, 2012 and December 31, 2011 was \$0.1 million and \$1.4 million, respectively, and is included in other current liabilities on the Consolidated Balance Sheets. Environmental remediation liabilities that separately result from the normal operation of long-lived assets and that are legal obligations associated with the retirement of those assets are separately accounted for as asset retirement obligations.

## **6. Related Party Transactions**

Pursuant to an administrative services agreement between CalEnergy Generation Operating Company ("CGOC"), a subsidiary of MidAmerican Geothermal, LLC, and CE Generation (the "Administrative Services Agreement"), CGOC provides certain administrative and management services to CE Generation. The Administrative Services Agreement between CGOC and CE Generation provides for a fixed fee through December 31, 2013. The expense pursuant to the Administrative Services Agreement was \$0.9 million for each of the three-month periods ended September 30, 2012 and 2011, and \$2.7 million for each of the nine-month periods ended September 30, 2012 and 2011. 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 MEHC. The Company's contributions to the various plans were \$0.1 million and \$0.4 million for the three-month periods ended September 30, 2012 and 2011, respectively, and \$1.2 million and \$1.5 million for the nine-month periods ended September 30, 2012 and 2011, respectively. The portion of accumulated other comprehensive loss attributable to the Company has been allocated from MEC in accordance with the intercompany administrative service agreement.

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

The following table shows the change in accumulated other comprehensive loss attributable to CE Generation members by each component of other comprehensive loss, net of applicable income taxes, for the nine-month period ended September 30, 2012 (in thousands):

	<b>Unrealized Losses on Cash Flow Hedges</b>	<b>Unrecognized Amounts on Retirement Benefits</b>	<b>Accumulated Other Comprehensive Loss Attributable to CE Generation Members, Net</b>
<b>Balance, December 31, 2011</b>	\$ -	\$ (1,109)	\$ (1,109)
Other comprehensive loss	(3,484)	(54)	(3,538)
<b>Balance, September 30, 2012</b>	<u>\$ (3,484)</u>	<u>\$ (1,163)</u>	<u>\$ (4,647)</u>

## **8. New Accounting Pronouncements**

In June 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-05, which amends FASB Accounting Standards Codification (“ASC”) Topic 220, “Comprehensive Income.” ASU No. 2011-05 provides an entity with the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Regardless of the option chosen, this guidance also requires presentation of items on the face of the financial statements that are reclassified from other comprehensive income to net income. This guidance does not change the items that must be reported in other comprehensive income, when an item of other comprehensive income must be reclassified to net income or how tax effects of each item of other comprehensive income are presented. This guidance is effective for reporting periods ending after December 15, 2012. In December 2011, the FASB issued ASU No. 2011-12, which also amends FASB ASC Topic 220 to defer indefinitely the ASU No. 2011-05 requirement to present items on the face of the financial statements that are reclassified from other comprehensive income to net income. ASU No. 2011-12 is also effective for reporting periods ending after December 15, 2012. The Company early adopted this guidance on January 1, 2012 and elected the two separate but consecutive statements option.

In May 2011, the FASB issued ASU No. 2011-04, which amends FASB ASC Topic 820, “Fair Value Measurements and Disclosures.” The amendments in this guidance are not intended to result in a change in current accounting. ASU No. 2011-04 requires additional disclosures relating to fair value measurements categorized within Level 3 of the fair value hierarchy, including quantitative information about unobservable inputs, the valuation process used by the entity and the sensitivity of unobservable input measurements. Additionally, entities are required to disclose the level of the fair value hierarchy for assets and liabilities that are not measured at fair value in the balance sheet, but for which disclosure of the fair value is required. This guidance is effective for reporting periods beginning after December 15, 2011. The Company adopted ASU No. 2011-04 on January 1, 2012. The adoption of this guidance did not have a material impact on the Company's disclosures included within Notes to Consolidated Financial Statements.

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

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

### Forward-Looking Statements

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

### Results of Operations

#### *Operating Revenue*

The capacity factor for a particular project is determined by dividing the total quantity of electricity sold by the product of the project’s capacity and the total hours in the period. Refer to Note 1 of Notes to Consolidated Financial Statements included in the Company’s audited Consolidated Financial Statements for the year ended December 31, 2011 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 quarterly report.

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

	<u>Third Quarter</u>		<u>First Nine Months</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Geothermal facilities	\$ 53.6	\$ 76.8	\$ 137.9	\$ 175.8
Natural gas-fueled facilities	<u>12.6</u>	<u>14.5</u>	<u>25.3</u>	<u>34.3</u>
Total operating revenue	<u>\$ 66.2</u>	<u>\$ 91.3</u>	<u>\$ 163.2</u>	<u>\$ 210.1</u>

### *Geothermal Facilities*

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

	<b>Third Quarter</b>		<b>First Nine Months</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Overall capacity factor	85.3%	94.6%	83.5%	89.9%
Megawatt hours (“MWh”) produced	614,800	681,600	1,793,000	1,922,300
Facility net capacity megawatts (“MW”) (weighted average)	326.4	326.4	326.4	326.4

Operating revenue decreased \$23.2 million, or 30.2%, for the third quarter of 2012 compared to 2011 primarily due to the following:

- \$17.6 million decrease due to lower energy rates at certain Imperial Valley Projects.
- \$5.6 million decrease due to a 9.8% decrease in energy production. The energy production decrease primarily resulted from equipment repairs at certain Imperial Valley Projects in 2012.

Operating revenue decreased \$37.9 million, or 21.6%, for the first nine months of 2012 compared to 2011 primarily due to the following:

- \$28.7 million decrease due to lower energy rates at certain Imperial Valley Projects.
- \$9.2 million decrease due to a 6.7% decrease in energy production. The energy production decrease primarily resulted from equipment repairs at certain Imperial Valley Projects in 2012.

### *Natural Gas-Fueled Facilities*

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

	<b>Third Quarter</b>		<b>First Nine Months</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Overall capacity factor	29.5%	16.1%	18.5%	16.8%
MWh produced	326,700	178,200	609,600	552,600
Facility net capacity (MW) (weighted average)	502.0	502.0	502.0	502.0

Operating revenue decreased \$1.9 million, or 13.1%, for the third quarter of 2012 compared to 2011 primarily due to the following:

- \$3.8 million decrease at the Company’s natural gas fueled facility in Big Spring, Texas (the “Power Resources Project”). A \$5.4 million decrease due to lower prices was partially offset by a \$1.6 million increase due to a 46.4% increase in production from 2011.
- \$1.2 million increase at the Company’s natural gas-fueled facility in Plattsburgh, New York (the “Saranac Project”) of which \$0.8 million was due to a 176.0% increase in production from 2011 and \$0.4 million was due to higher prices.
- \$0.7 million increase at the Company’s natural gas-fueled facility in Yuma, Arizona (the “Yuma Project”) of which \$0.9 million was due to a 96.9% increase in production over 2011. This was partially offset by a \$0.2 million decrease due to lower prices. The Yuma Project sells energy at a regulatory determined

avoided cost of energy, which decreased to 3.8 cents per kWh in the third quarter of 2012 from 4.5 cents per kilowatt hour (“kWh”) in the third quarter of 2011.

Operating revenue decreased \$9.0 million, or 26.2%, for the first nine months of 2012 compared to 2011 primarily due to the following:

- \$5.7 million decrease at the Power Resources Project of which \$7.4 million was due to lower prices, partially offset by a \$1.7 million increase due to a 36.9% increase in production from 2011.
- \$2.1 million decrease at the Saranac Project of which \$2.0 million was due to lower prices and \$0.1 million was due to a 2.4% increase in production from 2011.
- \$1.2 million decrease at the Yuma Project of which \$0.4 million was due to an 11.2% decrease in production from 2011 and \$0.8 million was due to lower prices. The Yuma Project sells energy at a regulatory determined avoided cost of energy, which decreased to 3.6 cents per kWh in the first nine months of 2012 from 4.5 cents per kWh in the first nine months of 2011.

#### *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, EDF Trading North America LLC is required to purchase the natural gas supply.

Fuel expense increased \$0.4 million, or 25.0%, to \$2.0 million for the third quarter of 2012 from \$1.6 million for the comparable period in 2011. During the third quarter of 2012, the Company incurred \$1.5 million in higher fuel expense due to higher production. This was partially offset by a \$1.1 million decrease due to lower unit costs paid for natural gas at the Yuma Project.

Fuel expense decreased \$1.8 million, or 38.3%, to \$2.9 million for the first nine months of 2012 from \$4.7 million for the comparable period in 2011. During the first nine months of 2012, the Company incurred \$1.3 million due to lower unit costs paid for natural gas and \$0.5 million in lower fuel expense due to lower production at the Yuma Project.

#### *Plant Operations*

Plant operations decreased \$0.1 million, or 0.3%, to \$30.2 million for the third quarter of 2012 from \$30.3 million for the comparable period in 2011 due primarily to lower royalty costs at certain Imperial Valley Projects.

Plant operations increased \$5.5 million, or 5.5%, to \$105.8 million for the first nine months of 2012 from \$100.3 million for the comparable period in 2011 due primarily to higher maintenance costs at certain Imperial Valley Projects.

#### *Depreciation and Amortization*

Depreciation and amortization increased \$1.7 million, or 9.2%, to \$20.1 million for the third quarter of 2012 from \$18.4 million for the comparable period in 2011. The increase was primarily due to equipment disposals at certain Imperial Valley Projects in 2012.

Depreciation and amortization decreased \$0.1 million, or 0.2%, to \$56.9 million for the first nine months of 2012 from \$57.0 million for the comparable period in 2011. The decrease was primarily due to timing of equipment disposals at certain Imperial Valley Projects in.

#### *Interest Expense*

Interest expense decreased \$0.6 million to \$5.6 million and \$1.9 million to \$17.4 million for the third quarter and first nine months of 2012, respectively, from \$6.2 million and \$19.3 million, respectively, for the comparable periods in 2011 due to lower outstanding debt balances.

### *Gain on sale of land*

A \$4.7 million gain on the sale of land was recognized in the first quarter of 2011. The land was previously held for investment purposes and was not used in the Company's operations.

### *Income Tax Expense (Benefit)*

Income tax expense increased \$7.3 million to \$5.4 million for the third quarter of 2012 from a benefit of \$(1.9) million for the comparable period in 2011 and income tax benefit increased \$10.1 million to \$(12.3) million for the first nine months of 2012 from \$(2.2) million for the comparable period in 2011. The changes were primarily due to the change in pre-tax income and the timing of recognition of tax benefits associated with depletion and energy tax credits.

### *Net Loss Attributable to Noncontrolling Interests*

Net loss attributable to noncontrolling interests decreased \$0.3 million to \$0.1 million and increased \$0.3 million to \$0.5 million for the third quarter and first nine months of 2012, respectively, from \$0.4 million and \$0.2 million, respectively, for the comparable periods in 2011 primarily due to decreased production at the Saranac Project.

### Liquidity and Capital Resources

CE Generation's direct and indirect subsidiaries are organized as legal entities separate and apart from CE Generation and its other subsidiaries. Pursuant to separate financing agreements applicable to the Imperial Valley Projects, the assets of each subsidiary with a direct or indirect ownership interest in the Imperial Valley Projects other than Magma Power Company and Salton Sea Power Company are pledged or encumbered to support or otherwise provide the security for their own subsidiary debt. It should not be assumed that the assets of any subsidiary will be available to satisfy CE Generation's obligations or the obligations of its other subsidiaries. However, unrestricted cash or other assets which are available for distribution may, subject to applicable law and the terms of financing and ring-fencing arrangements for such parties, be advanced, loaned, paid as dividends or otherwise distributed or contributed to CE Generation or affiliates thereof.

The Company's cash and cash equivalents were \$28.4 million as of September 30, 2012 compared to \$43.6 million as of December 31, 2011.

Net cash flows from operating activities for the nine-month periods ended September 30, 2012 and 2011 were \$47.4 million and \$95.7 million, respectively. The decrease was primarily due to decreased revenues from the Imperial Valley Projects.

Net cash flows from investing activities for the nine-month periods ended September 30, 2012 and 2011 were \$(43.3) million and \$(25.7) million, respectively. The increase was primarily due to an increase in restricted cash in 2012 related to scheduled subsidiary debt service payments and proceeds from the sale of land in 2011.

Forecasted capital expenditures for 2012 are approximately \$27 million. Capital expenditure needs are reviewed regularly by management and may change significantly as a result of such reviews. The Company expects to meet these capital expenditure requirements with cash flows from operations.

Net cash flows from financing activities for the nine-month periods ended September 30, 2012 and 2011 were \$(19.4) million and \$(24.3) million, respectively. The change was due primarily to lower scheduled debt repayments.

On October 17, 2012, the Company was notified of a transmission outage on Edison's Mirage-Ramon 220-kilovolt transmission line from October 22, 2012 through November 21, 2012 ("outage period") to relocate line position and replace relays at the Mirage and Ramon terminals. The Company has curtailed certain Imperial Valley Projects by approximately 80 megawatts during the outage period and estimates it will earn \$2.4 million in lower revenue. We are completing planned maintenance work during the outage period, which was originally planned to be completed in the first six-months of 2013, to mitigate the economic impact. The maintenance is expected to cost \$3.6 million.

## Environmental Laws and Regulations

The Company is subject to federal, state and local laws and regulations regarding air and water quality, emission performance standards, climate change, hazardous and solid waste disposal and other environmental matters that have the potential to impact the Company's current and future operations. In addition to imposing continuing compliance obligations, these laws and regulations provide 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 other state and local agencies. All such laws and regulations are subject to a range of interpretation, which may ultimately be resolved by the courts. Environmental laws and regulations continue to evolve, and the Company is unable to predict the impact of the changing laws and regulations on its operations and consolidated financial results. The Company believes it is in material compliance with all applicable laws and regulations. Refer to Note 4 of Notes to Consolidated Financial Statements included elsewhere in this report for additional information regarding certain environmental laws and regulations affecting the Company. The discussion below contains material developments since those disclosed in the "Environmental Laws and Regulations" section of Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report for the year ended December 31, 2011.

### *Clean Air Standards*

#### *National Ambient Air Quality Standards*

In June 2012, the EPA released a proposal to strengthen the fine particulate matter National Ambient Air Quality Standards, reducing the standard from 15 micrograms per cubic meter to a range of 12 to 13 micrograms per cubic meter while taking comment on a standard of 11 micrograms per cubic meter. The EPA is also proposing a new, separate fine particulate matter standard of either 28 or 30 deciviews or measure of haze, aimed at improving visibility. The public comment period closed August 31, 2012. The EPA is required to finalize the proposal by December 14, 2012. Until the standards are final and attainment designations made, the Company cannot determine the potential impacts of the standards; however, any impacts are not anticipated to be significant.

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

In August 2012, the United States Court of Appeals for the District of Columbia Circuit ("D.C. Circuit") vacated the Cross-State Air Pollution Rule ("CSAPR") in a 2-1 decision after it determined that the CSAPR exceeded the EPA's statutory authority. The CSAPR was promulgated by the EPA as the replacement rule for the Clean Air Interstate Rule after it was struck down by the D.C. Circuit in July 2008, and was designed to reduce interstate transport of emissions of ozone and fine particulate matter from downwind states in the eastern United States. In a petition filed in October 2012, the EPA sought a full review of the CSAPR ruling by the entire D.C. Circuit. Until such time as the challenges to the CSAPR are resolved or the EPA proposes and adopts a new rule, the Company will continue to operate in compliance with the Clean Air Interstate Rule, which has remained in effect since the D.C. Circuit stayed the CSAPR in December 2011.

#### *GHG New Source Performance Standards*

Under the Clean Air Act, the EPA may establish emissions standards that reflect the degree of emissions reductions achievable through the best technology that has been demonstrated, taking into consideration the cost of achieving those reductions and any non-air quality health and environmental impact and energy requirements. The EPA entered into a settlement agreement with a number of parties, including certain state governments and environmental groups, in December 2010 to promulgate emissions standards covering GHG. In April 2012, the EPA proposed new source performance standards for new fossil-fueled generating facilities that would limit emissions of carbon dioxide to 1,000 pounds per megawatt hour. The proposal exempts simple cycle combustion turbines from meeting the GHG standards. The public comment period closed in June 2012. The EPA indicated in the proposal that it does not have sufficient information to establish GHG new source performance standards for modified or reconstructed units and has not established a schedule for when these units, or other existing sources, will be regulated. Any new fossil-fueled generating facilities constructed by the Company will be required to meet the final GHG new source performance standards, which, if finalized as proposed, will preclude the construction of any coal-fueled generating facilities that do not have carbon capture and sequestration. Additionally, as proposed, it may be difficult even for combined cycle combustion turbines to meet the carbon dioxide emission standard under certain operating scenarios such as simple cycle or low-load operations on a sustained basis. Until any standards for existing, modified or reconstructed units are proposed and finalized, the impact on the Company's existing facilities cannot be determined.

## Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about market risk affecting the Company, see the “Quantitative and Qualitative Disclosures About Market Risk” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations included in the Company’s Annual Report for the year ended December 31, 2011. The Company’s exposure to market risk and its management of such risk has not changed materially since December 31, 2011, except as discussed below.

### *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, if Edison fails to fulfill its obligations to the Imperial Valley Projects, it could significantly impair the ability of the Company and the Imperial Valley Projects 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 89% of the Imperial Valley Projects’ electricity sales were to Edison in 2011.

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. The fixed energy price was 3.25 cents per kWh from December 1, 2001 to April 30, 2002 and increased 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 with Edison to their respective power purchase agreements which provided for a fixed energy price commencing May 1, 2007 and ending April 30, 2012. The amendments were approved by the California Public Utilities Commission and such approval became final on October 19, 2006. 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 currently highly correlated to the cost of natural gas and was 3.0 cents per kWh and 4.2 cents per kWh for the three-month periods ended September 30, 2012 and 2011, respectively, and 2.8 cents per kWh and 4.1 cents per kWh for the nine-month periods ended September 30, 2012 and 2011, 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. Due to continued falling natural gas prices, the Company believes that Edison’s avoided cost of energy for 2012 will likely continue to be below 2011 levels. 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. During the second quarter of 2012, the Company entered into a natural gas swap with a creditworthy counterparty from June 1, 2012 through December 31, 2014. The natural gas swap is expected to hedge the price risk related to 80%, 65% and 40% of the estimated 2012, 2013 and 2014 energy deliveries, respectively, associated with Edison’s avoided cost of energy.

## CERTIFICATION

I, Stephen A. Larsen, certify that:

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

Date: November 13, 2012

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

## CERTIFICATION

I, Stephen D. Dickas, certify that:

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

Date: November 13, 2012

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