CE GENERATION LLC

Consolidated Financial Statements and Independent Auditors' Report

As of December 31, 2012 and 2011 and for each of the

Three Years in the Period Ended December 31, 2012

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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, 2012 and 2011, and the related consolidated statements of operations, comprehensive (loss) income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2012, 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, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in accordance with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Omaha, Nebraska
March 26, 2013

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

	As of December 31, 2012	As of December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 22,960	$ 43,581
Restricted cash	3,186	-
Trade receivables	21,105	33,375
Income tax receivable	8,667	2,340
Inventories	32,479	35,514
Other current assets	2,188	2,023
Total current assets	90,585	116,833
Property, plant and equipment, net	595,423	639,366
Goodwill	265,897	265,897
Intangible assets, net	38,619	44,361
Other assets	3,786	2,505
Total assets	$ 994,310	$ 1,068,962
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 11,173	$ 1,157
Accrued interest	1,153	1,322
Due to affiliates	1,241	1,688
Current portion of long-term debt	35,064	37,094
Deferred income taxes	633	1,490
Other current liabilities	9,131	8,388
Total current liabilities	58,395	51,139
Parent senior secured bonds	148,720	169,120
Subsidiary debt	86,466	101,130
Due to affiliates	2,280	3,948
Deferred income taxes	189,119	206,620
Other long-term liabilities	13,901	12,443
Total liabilities	498,881	544,400
Commitments and contingencies (Note 11)		
Equity:		
CE Generation members' equity	481,663	509,232
Noncontrolling interests	13,766	15,330
Total equity	495,429	524,562
Total liabilities and equity	$ 994,310	$ 1,068,962

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

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

	Years Ended December 31,		
	2012	**2011**	**2010**
Operating revenue	$ 196,559	$ 265,103	$ 260,531
Operating costs and expenses:			
Fuel	3,490	4,931	10,252
Plant operations	145,349	131,432	123,934
General and administrative	4,117	4,068	4,178
Depreciation and amortization	75,218	75,159	73,576
Total operating costs and expenses	228,174	215,590	211,940
Operating (loss) income	(31,615)	49,513	48,591
Other income (expense):			
Interest expense	(22,933)	(25,447)	(28,733)
Gain on sale of land	-	4,667	-
Interest and other income	222	425	928
Total other income (expense)	(22,711)	(20,355)	(27,805)
(Loss) income before income tax benefit	(54,326)	29,158	20,786
Income tax benefit	(25,132)	(2,990)	(499)
Net (loss) income	(29,194)	32,148	21,285
Net loss attributable to noncontrolling interests	(733)	(707)	(971)
Net (loss) income attributable to CE Generation members	$ (28,461)	$ 32,855	$ 22,256

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

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

	Years Ended December 31,		
	2012	**2011**	**2010**
Net (loss) income	$ (29,194)	$ 32,148	$ 21,285
Other comprehensive income (loss), net of tax:			
Unrealized losses on cash flow hedges, net of tax of $(168), $- and $-	(248)	-	-
Unrecognized amounts on retirement benefits, net of tax of $785, $(550) and $610	1,140	(824)	1,122
Total other comprehensive income (loss), net of tax	892	(824)	1,122
Comprehensive (loss) income	(28,302)	31,324	22,407
Comprehensive loss attributable to noncontrolling interests	(733)	(707)	(971)
Comprehensive (loss) income attributable to CE Generation members	$ (27,569)	$ 32,031	$ 23,378

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			
	Members' Equity	Accumulated Other Comprehensive Loss, Net	Noncontrolling Interests	Total Equity
Balance, December 31, 2009	$ 502,230	$ (1,407)	$ 18,725	$ 519,548
Net income (loss)	22,256	-	(971)	21,285
Other comprehensive income	-	1,122	-	1,122
Distributions	(17,000)	-	(697)	(17,697)
Balance, December 31, 2010	507,486	(285)	17,057	524,258
Net income (loss)	32,855	-	(707)	32,148
Other comprehensive loss	-	(824)	-	(824)
Distributions	(30,000)	-	(1,020)	(31,020)
Balance, December 31, 2011	510,341	(1,109)	15,330	524,562
Net loss	(28,461)	-	(733)	(29,194)
Other comprehensive income	-	892	-	892
Distributions	-	-	(831)	(831)
Balance, December 31, 2012	$ 481,880	$ (217)	$ 13,766	$ 495,429

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

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

	Years Ended December 31,		
	2012	**2011**	**2010**
Cash flows from operating activities:			
Net (loss) income	$(29,194)	$ 32,148	$ 21,285
Adjustments to reconcile net (loss) income to net cash flows from operating activities:			
Depreciation and amortization	75,218	75,159	73,576
Gain on sale of land	-	(4,667)	-
Deferred income taxes	(18,975)	(379)	(4,274)
Amortization of deferred financing costs	261	301	396
Changes in other operating assets and liabilities:			
Trade receivables	12,270	660	(1,281)
Inventories	3,035	(2,274)	(568)
Due to affiliates, net	(190)	241	(84)
Other assets	(7,698)	22	(59)
Accounts payable and other liabilities	11,539	(6,437)	(2,030)
Net cash flows from operating activities	46,266	94,774	86,961
Cash flows from investing activities:			
Capital expenditures	(25,776)	(35,314)	(38,454)
Proceeds from sale of land	-	5,750	-
(Increase) decrease in restricted cash	(3,186)	1	6
Net cash flows from investing activities	(28,962)	(29,563)	(38,448)
Cash flows from financing activities:			
Repayment of subsidiary debt	(16,614)	(19,990)	(26,741)
Repayment of parent senior secured bonds	(20,480)	(15,200)	(14,200)
Distributions	(831)	(31,020)	(17,697)
Net cash flows from financing activities	(37,925)	(66,210)	(58,638)
Net change in cash and cash equivalents	(20,621)	(999)	(10,125)
Cash and cash equivalents at beginning of year	43,581	44,580	54,705
Cash and cash equivalents at end of year	$ 22,960	$ 43,581	$ 44,580
Supplemental disclosure:			
Interest paid	$ 22,841	$ 25,323	$ 28,560
Income taxes paid	$ 75	$ 3,895	$ 3,494
Non-cash investing transactions -			
Accounts payable related to property, plant and equipment additions	$ 434	$ 186	$ -

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 equally owned by MidAmerican Geothermal, LLC, an indirect wholly owned subsidiary of MidAmerican Energy Holdings Company ("MEHC"), and TransAlta (CE GEN) Investment USA Inc. ("TransAlta"), a wholly owned subsidiary of TransAlta Corporation. MEHC is a consolidated subsidiary of Berkshire Hathaway Inc.

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

Operating Project	Facility Net Capacity (MW)[1]	Net Owned Capacity (MW)[1]	Location	Power Purchase Agreement Expiration	Power Purchaser[2]
Geothermal Facilities:					
Salton Sea Projects -					
Salton Sea I Project	10	10	California	2017	Edison
Salton Sea II Project	20	20	California	2020	Edison
Salton Sea III Project	50	50	California	2019	Edison
Salton Sea IV Project	40	40	California	2026	Edison
Salton Sea V Project	49	49	California	2020	Riverside
Total Salton Sea Projects	169	169			
Partnership Projects -					
Vulcan Project	34	34	California	2016	Edison
Elmore Project	38	38	California	2018	Edison
Leathers Project	38	38	California	2019	Edison
Del Ranch Project	38	38	California	2018	Edison
CE Turbo Project	10	10	California	2029	APS
Total Partnership Projects	158	158			
Total geothermal facilities	327	327			
Natural Gas-Fueled Facilities:					
Saranac Project	240	180	New York	2013	EDF
Power Resources Project	212	212	Texas	2015	EDF
Yuma Project	50	50	Arizona	2024	SDG&E
Total natural gas-fueled facilites	502	442			
Total operating projects	829	769			

(1) Facility Net Capacity represents the nominal net megawatt ("MW") capacity for each facility. Actual MW may vary depending on operating and reservoir conditions and plant design. 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"); EDF Trading North America LLC ("EDF"); and San Diego Gas & Electric Company ("SDG&E").

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, 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 Consolidated Financial Statements. Intercompany accounts and transactions have been eliminated. The Company has evaluated subsequent events through March 26, 2013, 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, long-lived asset recovery; goodwill and intangible assets; accounting for contingencies; income taxes; and asset retirement obligations (“ARO”). Actual results may differ from the estimates used in preparing the Consolidated Financial Statements.

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.

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.

Derivatives

Derivative contracts are recorded on the Consolidated Balance Sheets as either assets or liabilities and are stated at estimated fair value. 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 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 for replacements, maintenance, overhaul and well rework and repairs that do not improve or extend the useful lives of the related assets are expensed as incurred. 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 which 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. 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. 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. 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. During 2012, 2011 and 2010, the Company did not record any goodwill impairment.

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 84%, 85%, and 86%, of 2012, 2011 and 2010 operating revenue, respectively. Of these sales, 87%, 89% and 90% were to Edison in 2012, 2011 and 2010, respectively. As of December 31, 2012 and 2011, trade receivables from Edison were $15.9 million and $28.9 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, 2012 and 2011, there was no allowance for doubtful accounts.

Unamortized Financing Costs

Financing 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 file a consolidated United States federal income tax return and other state and federal jurisdictional returns as required. 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 for certain deferred income tax assets where realization is not likely.

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 of being 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 adverse 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 2013, the Financial Accounting Standards Board ("FASB) issued Accounting Standards Update ("ASU") No. 2013-02, which amends FASB Accounting Standards Codification ("ASC") Topic 220, "Comprehensive Income." The amendments in this guidance require an entity to provide information about the amounts reclassified out of AOCI by component. In addition, an entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required by GAAP that provide additional detail about those amounts. This guidance is effective prospectively for annual reporting periods beginning after December 15, 2013. 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 December 2011, the FASB issued ASU No. 2011-11, which amends FASB ASC Topic 210, "Balance Sheet." The amendments in this guidance require an entity to provide quantitative disclosures about offsetting financial instruments and derivative instruments. Additionally, this guidance requires qualitative and quantitative disclosures about master netting agreements or similar agreements when the financial instruments and derivative instruments are not offset. This guidance is effective for fiscal years beginning on or after January 1, 2013, and for interim periods within those fiscal years. In January 2013, the FASB issued ASU No. 2013-01, which also amends FASB ASC Topic 210 to clarify that the scope of ASU No. 2011-11 only applies to derivative instruments, repurchase agreements, reverse purchase agreements and securities borrowing and securities lending transactions that are either being offset or are subject to an enforceable master netting arrangement or similar agreement. ASU No. 2013-01 is also effective for fiscal years beginning on or after January 1, 2013, and for interim periods within those fiscal years. The Company is currently evaluating the impact of adopting this guidance on its disclosures included within Notes to Consolidated Financial Statements.

In June 2011, the FASB issued ASU No. 2011-05, which amends FASB 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 interim and annual reporting periods beginning after December 15, 2011. 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 interim and annual reporting periods beginning after December 15, 2011. The Company 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 interim and annual 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.

3. Property, Plant and Equipment, Net

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

	Depreciable Life	2012	2011
Power plants	5 to 30 years	$ 1,302,262	$ 1,292,362
Wells and resource development	2 to 30 years	290,491	278,219
Equipment	3 to 30 years	6,658	6,372
Total operating assets		1,599,411	1,576,953
Accumulated depreciation		(1,003,988)	(937,587)
Property, plant and equipment, net		$ 595,423	$ 639,366

The Company replaced certain pipe and equipment with a remaining net book value of $1.5 million, $2.9 million and $2.3 million for the years ended December 31, 2012, 2011 and 2010, respectively, which was charged to depreciation expense on the Consolidated Statements of Operations.

4. Intangible Assets, Net

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

		2012		2011	
	Amortization Life	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Power purchase and royalty contracts	4 to 30 years	$ 315,434	$ 288,252	$ 315,434	$ 284,439
Patented technology	24 years	46,290	34,853	46,290	32,924
Intangible assets, net		$ 361,724	$ 323,105	$ 361,724	$ 317,363

Amortization expense on acquired intangible assets was $5.7 million, $5.8 million and $5.7 million for the years ended December 31, 2012, 2011 and 2010, respectively. CE Generation expects amortization expense on acquired intangible assets to be $5.7 million for each of the five succeeding fiscal years.

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 currently highly correlated to the cost of natural gas and was 3.0 cents per kWh, 4.0 cents per kWh and 4.3 cents per kWh for the years ended December 31, 2012, 2011 and 2010, respectively. In May 2012, the Company executed a series of natural gas swaps with a creditworthy counterparty from June 1, 2012 through December 31, 2014. The natural gas swaps are expected to hedge the price risk related to 65% and 40% of the estimated 2013 and 2014 energy deliveries, respectively, associated with Edison's avoided cost of energy. The natural gas swaps are designated as hedging contracts and are accounted for as cash flow hedges. Refer to Notes 2 and 6 for additional information on derivative contracts.

The following table summarizes the fair value of the Company's derivative contracts, on a gross basis, and reconciles those amounts to the amounts presented on a net basis on the Consolidated Balance Sheets as of December 31, 2012 (in thousands):

	Other Current Assets	Other Long-term Liabilities	Total
Assets	$ 356	$ 5	$ 361
Liabilities	(20)	(757)	(777)
Total derivatives – net basis[(1)]	$ 336	$ (752)	$ (416)

(1) The net notional amounts of outstanding derivative contracts with fixed price terms that comprise the mark-to-market values included above is 18.1 million British thermal units of natural gas purchases.

The following table reconciles the beginning and ending balances of the Company's accumulated other comprehensive loss (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 year ended December 31, 2012 (in thousands):

Beginning balance	$ -
Changes in fair value recognized in OCI	2,681
Net losses reclassified to operating revenue	(2,265)
Ending balance	$ 416

Realized gains and losses on hedges and hedge ineffectiveness are recognized in income as operating revenue. For the year ended December 31, 2012, there was no hedge ineffectiveness. As of December 31, 2012, the Company had cash flow hedges with expiration dates extending through December 2014 and $0.3 million of pre-tax net unrealized gains are forecasted to be reclassified from AOCI into earnings over the next twelve months as contracts settle.

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.

As of December 31, 2012, the Company has derivative contract assets totaling $0.4 million and derivative contract liabilities totaling $(0.8) million that are stated at estimated fair value. The Company's derivative contracts are valued using forward price curves, which represent the Company's estimates of the prices at which a buyer or seller could contract today for delivery or settlement at future dates. The Company bases its forward price curves upon market price quotations obtained from independent energy brokers, exchanges, direct communication with market participants and actual transactions executed by the Company. As such, the Company considers its derivative contracts to be valued using Level 2 inputs.

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):

	2012		2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	$ 270,250	$ 274,062	$ 307,344	$ 345,314

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, 2012. 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, 2012 and 2011 was $169.1 million and $189.6 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 TransAlta and a separate financial institution has issued a letter of credit for the account of MEHC. Each letter of credit was issued in the amount of $9.8 million at December 31, 2012.

The annual repayments of CE Generation's debt for the years beginning January 1, 2013 and thereafter are as follows (in thousands):

2013	$ 20,400
2014	25,800
2015	27,040
2016	29,280
2017	30,240
Thereafter	36,360
Total	$ 169,120

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, 2012 and 2011 of $101.1 million and $117.7 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, 2012.

In support of Funding Corporation's debt service requirements, a financial institution has issued a letter of credit for the account of TransAlta and a separate financial institution has issued a letter of credit for the account of MEHC. Each letter of credit was issued in the amount of $12.6 million at December 31, 2012.

The annual repayments of Funding Corporation's debt for the years beginning January 1, 2013 and thereafter are as follows (in thousands):

2013	$ 14,664
2014	17,337
2015	18,925
2016	20,370
2017	19,865
Thereafter	9,969
Total	$ 101,130

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):

	2012	2011
Beginning balance	$10,570	$ 9,981
Retirements	(64)	(39)
Accretion	668	628
Ending balance	$11,174	$10,570

10. Income Taxes

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

	2012	2011	2010
Current:			
Federal	$ (6,125)	$ (2,628)	$ 1,905
State	(32)	17	1,870
	(6,157)	(2,611)	3,775
Deferred:			
Federal	(17,264)	(3,601)	2,898
State	(1,711)	3,222	(7,172)
	(18,975)	(379)	(4,274)
Total	$ (25,132)	$ (2,990)	$ (499)

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

	2012	2011	2010
Federal statutory income tax rate	35.0%	35.0%	35.0%
State income tax, net of federal income tax benefit	2.1	7.2	(16.6)
Energy tax credits	2.0	(17.0)	5.3
Percentage depletion	7.1	(23.4)	(37.6)
Production activities deduction	0.3	(11.0)	(0.9)
Deferred income tax true up	-	-	8.5
Noncontrolling interests	(0.2)	(0.1)	2.0
Other, net	-	(1.0)	1.9
Effective income tax rate	46.3%	(10.3)%	(2.4)%

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):

	2012	2011
Deferred income tax assets:		
Federal and state carryforwards	$ 15,227	$ 8,638
Accruals not currently deductible for tax purposes	1,624	1,648
Employee benefits	14	799
Other	497	7
Total deferred income tax assets	17,362	11,092
Deferred income tax liabilities:		
Property related items	(189,525)	(199,616)
Intangible assets	(15,800)	(17,673)
Other	(1,789)	(1,913)
Total deferred income tax liabilities	(207,114)	(219,202)
Net deferred income tax liability	$ (189,752)	$ (208,110)
Reflected as:		
Current liability	$ (633)	$ (1,490)
Non-current liability	(189,119)	(206,620)
	$ (189,752)	$ (208,110)

As of December 31, 2012, the Company has available federal carryforwards, principally for alternative minimum tax credits, totaling $7.2 million and state carryforwards totaling $5.2 million, which do not expire and will carryforward indefinitely until utilized. As of December 31, 2012, the Company also has available state carryforwards, principally for net operating losses, totaling $2.2 million and federal carryforwards totaling $0.6 million, which expire in 2032.

The United States Internal Revenue Service has closed examination of the Company's income tax returns through 2009. In addition, state jurisdictions have closed examination of the Company's income tax returns through at least 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 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 December 31, 2012 and 2011 was $0.3 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.

12. 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 $3.6 million, $3.5 million and $3.4 million for the years ended December 31, 2012, 2011 and 2010, 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 MEHC. The Company's contributions to the various plans were $1.6 million, $1.9 million and $2.0 million for the years ended December 31, 2012, 2011 and 2010, 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.

13. 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) income, net of applicable income taxes, for the year ended December 31, 2012 (in thousands):

	Unrealized Losses on Cash Flow Hedges	Unrecognized Amounts on Retirement Benefits	Accumulated Other Comprehensive Loss Attributable to CE Generation Members, Net
Balance, December 31, 2011	$ -	$ (1,109)	$ (1,109)
Other comprehensive (loss) income	(248)	1,140	892
Balance, December 31, 2012	$ (248)	$ 31	$ (217)

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):

	Years Ended December 31		
	2012	**2011**	**2010**
Geothermal facilities	$ 165.0	$ 226.1	$ 224.6
Natural gas-fueled facilities	31.6	39.0	35.9
Total operating revenue	$ 196.6	$ 265.1	$ 260.5

Geothermal Facilities

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

	Years Ended December 31,		
	2012	**2011**	**2010**
Overall capacity factor	81.3%	91.2%	90.7%
Megawatt hours ("MWh") produced	2,330,500	2,606,800	2,593,200
Facility net capacity (MW) (weighted average)	326.4	326.4	326.4

Operating revenue for 2012 decreased $61.1 million, or 27.0%, from 2011 primarily due to the following:

- $43.8 million decrease due to lower energy rates at certain geothermal facilities in the Imperial Valley of California (the "Imperial Valley Projects").

- $17.3 million decrease due to a 10.6% decrease in energy production. The energy production decrease primarily resulted from equipment repairs and transmission line outages at certain Imperial Valley Projects in 2012.

Operating revenue for 2011 increased $1.5 million, or 0.7%, from 2010 primarily due to the following:

- $1.2 million increase due to higher energy rates at certain Imperial Valley Projects.

- $0.3 million increase due to a 0.5% increase in energy production. The energy production increase primarily resulted from less downtime for equipment repairs at the CE Turbo geothermal facility in the Imperial Valley of California (the "CE Turbo Project").

Natural Gas-Fueled Facilities

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

	Years Ended December 31		
	2012	**2011**	**2010**
Overall capacity factor	17.4%	13.9%	16.7%
MWh produced	766,700	613,000	736,800
Facility net capacity (MW) (weighted average)	502.0	502.0	502.0

Operating revenue at the natural gas-fueled facilities for 2012 decreased $7.4 million, or 19.0%, from 2011 primarily due to the following:

- $5.9 million decrease at the Company's natural gas fueled facility in Big Spring, Texas ("the Power Resources Project"). An $8.0 million decrease due to lower prices was partially offset by a $2.1 million increase due to a 44.9% increase in production from 2011.

- $0.9 million decrease at the Company's natural gas-fueled facility in Yuma, Arizona (the "Yuma Project") 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 for 2012 from 4.5 cents per kWh for 2011.

- $0.6 million decrease at the Company's natural gas-fueled facility in Plattsburgh, New York ("the Saranac Project"). A $1.4 million decrease due to lower prices was partially offset by a $0.8 million increase due to a 22.0% increase in production from 2011.

Operating revenue for 2011 increased $3.1 million, or 8.6%, from 2010 primarily due to the following:

- $8.6 million increase at the Power Resources Project. A $9.7 million increase due to higher prices was partially offset by a $1.1 million decrease due to a 5.8% decrease in production from 2010.
- $4.7 million decrease at the Yuma Project due to a 55.9% decrease in production from 2010.
- $0.8 million decrease at Saranac Project of which $0.6 million increase due to lower prices and $0.2 million was due to a 2.4% decrease in production from 2010.

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 decreased $1.4 million, or 28.6%, to $3.5 million for 2012 from $4.9 million for 2011 due primarily to lower unit costs paid for natural gas at the Yuma Project.

Fuel expense decreased $5.4 million, or 52.4%, to $4.9 million for 2011 from $10.3 million for 2010 due primarily to decreased production at the Yuma Project.

Plant Operations

Plant operations increased $13.9 million, or 10.6%, to $145.3 million for 2012 from $131.4 million for 2011 due primarily to higher maintenance costs at certain Imperial Valley Projects.

Plant operations increased $7.5 million, or 6.1%, to $131.4 million for 2011 from $123.9 million for 2010 due primarily to the scope and timing of scheduled maintenance at the Imperial Valley Projects.

Depreciation and Amortization

Depreciation and amortization was $75.2 million for both 2012 and 2011.

Depreciation and amortization increased $1.6 million, or 2.2%, to $75.2 million for 2011 from $73.6 million for 2010 due primarily to the timing of capital replacement projects and related asset abandonments at the Imperial Valley Projects.

Interest Expense

Interest expense decreased $2.5 million to $22.9 million for 2012 compared to 2011 and $3.3 million to $25.4 million for 2011 compared to 2010. The decreases were due to lower outstanding debt balances.

Gain on Sale of Land

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

Interest and Other Income

Interest and other income decreased $0.2 million to $0.2 million for 2012 compared to 2011 and $0.5 million to $0.4 million for 2011 compared to 2010. The decreases were due to lower rates on invested balances.

Income Tax Benefit

Income tax benefit increased $22.1 million to $25.1 million for 2012 compared to 2011. The effective tax rates were 46.3% and (10.3)% in 2012 and 2011, respectively. The changes in income tax benefit and the effective tax rate were primarily due to the change in pre-tax income, including the limitations on depletion, as well as the settlement of the 2005-2009 Federal income tax audit in 2011.

Income tax benefit increased $2.5 million to $3.0 million for 2011 compared to 2010. The effective tax rates were (10.3)% and (2.4)% in 2011 and 2010, respectively. The changes in income tax benefit and the effective tax rate were primarily due to the settlement of the 2005-2009 Federal income tax audit and the resolution of various state tax matters.

Net Loss Attributable to Noncontrolling Interests

Net loss attributable to noncontrolling interests was $0.7 million for both 2012 and 2011.

Net loss attributable to noncontrolling interests decreased $0.3 million to $0.7 million for 2011 compared to 2010 due to lower operating and maintenance fees.

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 $23.0 million as of December 31, 2012, compared to $43.6 million as of December 31, 2011.

Net cash flows from operating activities for 2012 and 2011 were $46.3 million and $94.8 million, respectively. The decrease was primarily due to decreased revenues and higher maintenance costs at certain Imperial Valley Projects.

Net cash flows from operating activities for 2011 and 2010 were $94.8 million and $87.0 million, respectively. The increase was primarily due to the scope and timing of scheduled maintenance activities at certain Imperial Valley Projects.

Net cash flows from investing activities for 2012 and 2011 were $(29.0) million and $(29.6) million, respectively. The decrease was due to lower capital expenditures in 2012 at the Imperial Valley Projects related primarily to the timing of drilling projects and an increase in restricted cash in 2012 related to scheduled subsidiary debt service payments, partially offset by proceeds from the sale of land in 2011.

Net cash flows from investing activities for 2011 and 2010 were $(29.6) million and $(38.4) million, respectively. The decrease was due to lower capital expenditures in 2011 at the Imperial Valley Projects related primarily to the timing of drilling projects and proceeds from the sale of land in 2011.

Forecasted capital expenditures for 2013 are approximately $35 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 2012 and 2011 were $(37.9) million and $(66.2) million, respectively. The decrease was primarily due to lower distributions to members.

Net cash flows from financing activities for 2011 and 2010 were $(66.2) million and $(58.6) million, respectively. The increase was due to higher distributions to members, partially offset by lower scheduled debt payments.

The Company has been informed by MidAmerican Geothermal, LLC and TransAlta of their intent to contribute capital for the purpose of assisting with CE Generation's and Funding Corporation's scheduled second quarter 2013 debt service payments.

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, 2012 (in thousands):

	Payments Due by Period				
	2013	**2014-2015**	**2016-2017**	**2018**	**Total**
Long-term debt, parent	$ 20,400	$ 52,840	$ 59,520	$ 36,360	$ 169,120
Long-term debt, subsidiary	14,664	36,262	40,235	9,969	101,130
Interest payments on long-term debt [1]	19,449	30,118	16,177	2,581	68,325
Total contractual cash obligations	$ 54,513	$ 119,220	$ 115,932	$ 48,910	$ 338,575

[1] 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 8), 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 TransAlta and a separate financial institution has issued a letter of credit for the account of MEHC. Each letter of credit was issued in the amount of $9.8 million at December 31, 2012.

In support of Funding Corporation's debt service requirements, a financial institution has issued a letter of credit for the account of TransAlta and a separate financial institution has issued a letter of credit for the account of MEHC. Each letter of credit was issued in the amount of $12.6 million at December 31, 2012.

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 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, 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 January 2010, the EPA proposed a rule to strengthen the national ambient air quality standard for ground level ozone. The proposed rule arose out of legal challenges claiming that a March 2008 rule that reduced the standard from 80 parts per billion to 75 parts per billion was not strict enough. The new rule proposed a standard between 60 and 70 parts per billion. In September 2011, the President requested that the EPA withdraw the proposed ozone standard and allow the review of the standards to proceed through the regularly scheduled review in 2013. The EPA is, therefore, proceeding with implementation of the March 2008 ozone standards and, in December 2011, issued its response to states' recommendations on area attainment designations.

In January 2010, the EPA finalized a one-hour air quality standard for nitrogen dioxide at 0.10 part per million. 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 new rule, the existing 24-hour and annual standards for sulfur dioxide, which were 140 parts per billion measured over 24 hours and 30 parts per billion measured over an entire year, were replaced with a new one-hour standard of 75 parts per billion. The new rule will utilize a three-year average to determine attainment. The rule will utilize source modeling, in addition to the installation of ambient monitors where sulfur dioxide emissions impact populated areas, with new monitors required to be placed in service no later than January 2013. Attainment designations were due by June 2012; however, due to the lack of sufficient information to make the designations, the EPA extended the deadline for area designations to June 2013.

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 also proposed a new, separate fine particulate matter standard of either 28 or 30 deciviews or measure of haze, aimed at improving visibility. The new standard was released in December 2012, setting 12 micrograms per cubic meter as the annual standard 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. The EPA anticipates making initial attainment designations by December 2014 that are likely to become effective in early 2015. States would have until 2020 to meet the revised annual standard. Until the attainment designations are made, the Company cannot determine the potential impacts of the standards; however, with the release of the final standards, the EPA indicated its projections show 99% of all counties in the United States with monitors would meet the revised standard. As a result, the Company does not anticipate that any impacts of the revised standard will be significant.

As new, more stringent 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 become more difficult in nonattainment areas. Until additional monitoring and modeling is conducted, the impacts on the Company cannot be determined.

Clean Air Interstate Rule, Clean Air Transport Rule and Cross-State Air Pollution Rule

The EPA promulgated the CAIR in March 2005 to reduce emissions of nitrogen oxides and sulfur dioxide, precursors of ozone and particulate matter, from down-wind sources. The CAIR required states in the eastern United States to reduce emissions by implementing a plan based on a market-based cap-and-trade system, emissions reductions, or both. The CAIR created separate trading programs for nitrogen oxides and sulfur dioxide emissions credits. The nitrogen oxides and sulfur dioxide emissions reductions were planned to be accomplished in two phases, in 2009-2010 and 2015.

In July 2008, a three-judge panel of the D.C. Circuit issued a unanimous decision vacating the CAIR. In December 2008, the D.C. Circuit issued an opinion remanding, without vacating, the CAIR back to the EPA to conduct proceedings to fix the flaws in CAIR consistent with the D.C. Circuit's July 2008 ruling. In response to the court's ruling on CAIR, in July 2010, the EPA proposed the Clean Air Transport Rule ("Transport Rule"), which required electric generating units in 31 states and the District of Columbia to reduce emissions of nitrogen oxides and sulfur dioxide on a state-by-state basis in accordance with each state's modeled contribution to nonattainment of the ozone and fine particulate standards in downwind states.

In July 2011, the EPA issued the final Transport Rule, renamed the Cross-State Air Pollution Rule ("CSAPR"), to address interstate transport of sulfur dioxide and nitrogen oxides emissions in 27 eastern and Midwestern states. Upon full implementation in 2014, the CSAPR would have reduced total sulfur dioxide emissions by 73% and nitrogen oxides emissions by 54% at electric generating facilities in the 27-state region as compared to 2005 levels.

In December 2011, the D.C. Circuit issued a stay on the implementation of the CSAPR pending consideration of several petitions for review before the court which were ultimately decided in August 2012, when the D.C. Circuit vacated the CSAPR in a 2-1 decision after it determined that the CSAPR exceeded the EPA's statutory authority. In a petition filed in October 2012, the EPA sought a full review of the CSAPR ruling by the entire D.C. Circuit. In January 2013, the D.C. Circuit denied the request. Until such time as the challenges to the CSAPR are resolved or the EPA proposes and adopts a new rule, the Company is required and will continue to operate in compliance with the Clean Air Interstate Rule, which has remained in effect since 2008.

The Company's natural-gas fueled facilities in Texas and New York are subject to the CAIR until a replacement rule is adopted. However, the provisions are not anticipated to have a material impact on the Company.

Climate Change

While significant measures to regulate greenhouse gas ("GHG") emissions at the federal level were considered by the United States Congress in 2010, comprehensive climate change legislation has not been adopted. Regulation of GHG emissions under various provisions of the Clean Air Act has continued since the EPA's December 2009 findings that GHG emissions threaten public health and welfare.

In May 2010, the EPA issued the GHG "Tailoring Rule" to address permitting requirements for GHG after determining that GHG are subject to regulation and would trigger Clean Air Act permitting requirements for stationary sources beginning in January 2011. Numerous lawsuits have been filed on both the EPA's endangerment finding and the Tailoring Rule in the D.C. Circuit. In June 2012, the D.C. Circuit dismissed the challenges to the rules and upheld the EPA's actions. Petitions for rehearing by the full D.C. Circuit were filed, which were denied in December 2012.

In April 2012, the EPA proposed New Source Performance Standards for GHG at new fossil-fueled generating facilities at an emissions rate of 1,000 pounds per MWh, which are expected to be finalized in the first half of 2013. The EPA is also under a consent decree to establish GHG emissions performance standards for existing and modified sources.

International discussions regarding climate change continue to be held periodically with the expiration of the Kyoto Protocol in December 2012. During the December 2012 18th Conference of the Parties in Doha, Qatar, the parties to the Kyoto Protocol agreed to a Kyoto Protocol 2 that will involve more than 25 nations (mainly the European Union and Australia), comprising about 15% of global GHG emissions, to run from 2013 to 2020.

While the debate continues at the federal and international level over the direction of climate change policy, several states have continued to implement state-specific laws or regional initiatives to report or mitigate GHG emissions. In addition, governmental, non-governmental and environmental organizations have become more active in pursuing climate change related litigation under existing laws.

In September 2009, the EPA issued its final rule regarding mandatory reporting of GHG ("GHG Reporting") beginning January 1, 2010. Under GHG Reporting, suppliers of fossil fuels, manufacturers of vehicles and engines, and facilities that emit 25,000 metric tons or more per year of GHG are required to submit annual reports to the EPA.

New federal, regional, state and international accords, legislation, regulation, or judicial proceedings limiting GHG emissions could have a material adverse impact on the Company, the United States and the global economy. Companies and industries with higher GHG emissions, such as utilities with significant coal-fueled generating facilities, will be subject to more direct impacts and greater financial and regulatory risks. The impact is dependent on numerous factors, none of which can be meaningfully quantified at this time. These factors include, but are not limited to, the magnitude and timing of GHG emissions reduction requirements; the design of the requirements; the cost, availability and effectiveness of emissions control technology; the price, distribution method and availability of offsets and allowances used for compliance; government-imposed compliance costs; and the existence and nature of incremental cost recovery mechanisms.

The impact of events or conditions caused by climate change, whether from natural processes or human activities, could vary widely, from highly localized to worldwide, and the extent to which a utility's operations may be affected is uncertain. Climate change may cause physical and financial risk through, among other things, sea level rise, changes in precipitation and extreme weather events. Consumer demand for energy may increase or decrease, based on overall changes in weather and as customers promote lower energy consumption through the continued use of energy efficiency programs or other means.

GHG Tailoring Rule

The EPA finalized the GHG "Tailoring Rule" in May 2010 requiring new or modified sources of GHG emissions with increases of 75,000 or more tons per year of total GHG to determine the best available control technology for their GHG emissions beginning in January 2011. New or existing major sources will also be subject to Title V operating permit requirements for GHG. Beginning July 1, 2011 through June 30, 2013, new construction projects that emit GHG emissions of at least 100,000 tons per year and modifications of existing facilities that increase GHG emissions by at least 75,000 tons per year will be subject to permitting requirements and facilities that were previously not subject to Title V permitting requirements will be required to obtain Title V permits if they emit at least 100,000 tons per year of carbon dioxide equivalents. The EPA issued a GHG best available control technology guidance document in November 2010 in an effort to provide permitting authorities guidance on how to conduct a best available control technology review for GHG.

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 and a final rule is expected by April 2013. 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. 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. However, the EPA is under a consent decree obligation to establish such standards. Until any standards for existing, modified or reconstructed units are proposed and finalized, the impact on the Company's existing facilities cannot be determined.

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_2") emissions from the power sector of 10% by 2018. In May 2011, New Jersey withdrew from participation in the Regional Greenhouse Gas Initiative. In February 2013, the Regional Greenhouse Gas Initiative states proposed to lower the previously established emission cap and to identify a policy on emissions associated with imported electricity.

The Saranac Project is required to purchase CO_2 allowances at prevailing market prices. Following the expiration of the NYSE&G agreement, the ultimate cost of any required CO_2 allowances will be recovered through prices paid by the power purchaser.

GHG Litigation

The Company closely monitors ongoing environmental litigation. Many of the pending cases relate to lawsuits against the industry that attempt to link GHG emissions to public or private harm. The Company believes the cases are without merit, despite decisions where United States Courts of Appeals reversed district court rulings dismissing the cases in 2009. The lower courts initially refrained from adjudicating the cases under the “political question” doctrine, because of their inherently political nature. Nevertheless, an adverse ruling in any of these cases would likely result in increased regulation and costs for GHG emitters, including the Company's generating facilities.

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 and each year thereafter. 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. 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, 2012 includes goodwill of acquired businesses of $265.9 million. The Company evaluates goodwill for impairment at least annually and completed its annual review as of October 31. Additionally, no indicators of impairment were identified as of December 31, 2012. 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 of being 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 adverse 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, 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 87% of the Imperial Valley Projects' electricity sales were to Edison in 2012.

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 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 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, 4.0 cents per kWh and 4.3 cents per kWh for the years ended December 31, 2012, 2011 and 2010, 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. 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 65% and 40% of the estimated 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 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 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 26, 2013

/s/ Stephen A. Larsen
Stephen A. Larsen
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 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 26, 2013

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