



CE GENERATION_{LLC}

**Consolidated Financial Statements
For the Quarterly Period Ended June 30, 2007**

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

(In thousands)

	As of	
	June 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 24,852	\$ 44,447
Short-term investments	9,000	-
Restricted cash	7,239	7,282
Trade accounts receivable	63,978	53,766
Trade accounts receivable from affiliate	1,822	2,417
Income tax receivable	-	3,923
Inventories	28,995	29,624
Deferred income taxes	3,679	3,679
Prepaid expenses and other current assets	7,802	5,460
Total current assets	<u>147,367</u>	<u>150,598</u>
Property, plant and equipment, net	798,806	824,748
Goodwill	265,897	265,897
Intangible assets, net	91,657	99,612
Deferred financing costs, net	4,459	4,895
Restricted cash	2,389	2,426
Total assets	<u>\$ 1,310,575</u>	<u>\$ 1,348,176</u>
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 12,196	\$ 9,182
Accrued interest	2,501	2,611
Income tax payable	3,694	-
Accrued natural gas liability	10,209	9,142
Due to affiliates	4,843	4,971
Interest rate swap liability	225	590
Other accrued liabilities	17,782	14,473
Current portion of long-term debt	75,666	77,467
Total current liabilities	<u>127,116</u>	<u>118,436</u>
Other long-term liabilities	12,703	10,940
Parent senior secured bonds	257,700	271,800
Subsidiary and project debt	204,717	227,550
Deferred income taxes	242,476	248,723
Total liabilities	<u>844,712</u>	<u>877,449</u>
Minority interest	42,108	43,244
Commitments and contingencies (Note 5)		
Members' equity	<u>423,755</u>	<u>427,483</u>
Total liabilities and members' equity	<u>\$ 1,310,575</u>	<u>\$ 1,348,176</u>

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

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

(In thousands)

	Three-Month Periods		Six-Month Periods	
	Ended June 30,		Ended June 30,	
	2007	2006	2007	2006
Operating revenue	<u>\$ 120,127</u>	<u>\$ 111,980</u>	<u>\$ 232,885</u>	<u>\$ 217,908</u>
Costs and expenses:				
Fuel	28,544	24,290	56,108	49,486
Plant operations	37,134	39,347	68,860	81,265
General and administrative	887	884	1,811	1,834
Depreciation and amortization	<u>29,824</u>	<u>23,723</u>	<u>58,679</u>	<u>45,847</u>
Total costs and expenses	<u>96,389</u>	<u>88,244</u>	<u>185,458</u>	<u>178,432</u>
Operating income	<u>23,738</u>	<u>23,736</u>	<u>47,427</u>	<u>39,476</u>
Other income (expense):				
Interest expense	(11,119)	(12,815)	(22,574)	(26,009)
Interest and other income	<u>1,309</u>	<u>1,538</u>	<u>2,538</u>	<u>2,937</u>
Total other income (expense)	<u>(9,810)</u>	<u>(11,277)</u>	<u>(20,036)</u>	<u>(23,072)</u>
Income before provision for income taxes and minority interest	13,928	12,459	27,391	16,404
Provision for income taxes	1,583	1,687	2,848	757
Minority interest	<u>7,016</u>	<u>5,723</u>	<u>14,908</u>	<u>13,363</u>
Net income	<u>5,329</u>	<u>5,049</u>	<u>9,635</u>	<u>2,284</u>
Other comprehensive income:				
Unrealized amounts on retirement benefits, net of tax of \$1, \$-, \$1 and \$-	3	-	3	-
Unrealized gain on cash flow hedges, net of tax of \$52, \$117, \$86 and \$379	<u>94</u>	<u>209</u>	<u>155</u>	<u>682</u>
Comprehensive income	<u>\$ 5,426</u>	<u>\$ 5,258</u>	<u>\$ 9,793</u>	<u>\$ 2,966</u>

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

CE GENERATION, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY (Unaudited)
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2007 AND 2006
(In thousands)

	Members' Equity	Accumulated Other Comprehensive Loss	Total
Balance, January 1, 2006	\$ 416,566	\$ (1,028)	\$ 415,538
Net income	2,284	-	2,284
Other comprehensive income	-	682	682
Distributions	(10,000)	-	(10,000)
Balance, June 30, 2006	\$ 408,850	\$ (346)	\$ 408,504
Balance, January 1, 2007	\$ 429,405	\$ (1,922)	\$ 427,483
Adoption of FASB Interpretation No. 48	(21)	-	(21)
Net income	9,635	-	9,635
Other comprehensive income	-	158	158
Distributions	(13,500)	-	(13,500)
Balance, June 30, 2007	\$ 425,519	\$ (1,764)	\$ 423,755

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

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

	Six-Month Periods	
	Ended June 30,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 9,635	\$ 2,284
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	58,679	45,847
Provision for deferred income taxes	(5,108)	(4,579)
Distributions to minority interest in excess of income	(1,230)	(1,075)
Amortization of deferred financing costs	436	515
Changes in other items:		
Trade accounts receivable	(9,617)	3,893
Inventories	629	1,067
Prepaid expenses and other current assets	1,581	(11)
Due from affiliates, net	(128)	(656)
Accounts payable and other accrued liabilities	9,547	3,405
Net cash flows from operating activities	64,424	50,690
Cash flows from investing activities:		
Capital expenditures	(22,865)	(16,782)
Purchases of available-for-sale securities	(146,500)	(129,000)
Proceeds from sales of available-for-sale securities	137,500	129,000
(Increase) decrease in restricted cash	80	(383)
Net cash flows from investing activities	(31,785)	(17,165)
Cash flows from financing activities:		
Repayment of subsidiary and project debt	(29,734)	(28,508)
Repayment of parent senior secured bonds	(9,000)	(9,600)
Cash distributions	(13,500)	(10,000)
Net cash flows from financing activities	(52,234)	(48,108)
Net decrease in cash and cash equivalents	(19,595)	(14,583)
Cash and cash equivalents at beginning of period	44,447	38,836
Cash and cash equivalents at end of period	\$ 24,852	\$ 24,253

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

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

1. General

CE Generation, LLC (“CE Generation”) is engaged in the independent power business and through its subsidiaries (together with CE Generation, the “Company”) owns and operates ten geothermal facilities in the Imperial Valley of California (the “Imperial Valley Projects”) and three natural gas-fired combined cycle cogeneration facilities located in New York, Arizona and Texas.

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements. Management believes the unaudited Consolidated Financial Statements contain all adjustments (consisting only of normal recurring adjustments) considered necessary for the fair presentation of the financial statements as of June 30, 2007, and for the three- and six-month periods ended June 30, 2007 and 2006. The results of operations for the three- and six-month periods ended June 30, 2007 are not necessarily indicative of the results to be expected for the full year.

The accompanying unaudited Consolidated Financial Statements include the accounts of CE Generation, its wholly-owned subsidiaries and a majority-owned limited partnership, Saranac Power Partners L.P. (the “Saranac Project”), in which the Company indirectly holds a 1% general partnership and 74% limited partnership ownership interest. The remaining interests in the Saranac Project are owned by three limited partners. Net income and distributions from the Saranac Project are allocated to the partners based on allocation percentages that vary through the life of the partnership, as specified in the partnership agreement. These allocation percentages will differ from the stated ownership percentages until certain limited partners achieve fixed rates of returns. As of June 30, 2007, the Company’s economic interest in the partnership was approximately 71%, while the minority interest holders had a combined economic interest in the partnership of approximately 29%. The equity interest of the other partners is recorded as a minority interest in the accompanying unaudited Consolidated Financial Statements. Intercompany accounts and transactions have been eliminated.

The preparation of the unaudited Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results may differ from the estimates used in preparing the unaudited Consolidated Financial Statements. Note 2 of Notes to Consolidated Financial Statements included in the Company’s audited Consolidated Financial Statements for the year ended December 31, 2006, describes the most significant accounting estimates and policies used in the preparation of the Consolidated Financial Statements. There have been no significant changes in the Company’s assumptions regarding significant accounting policies during the first six months of 2007, except as described in Note 2.

2. New Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109” (“FIN 48”). The Company adopted the provisions of FIN 48 effective January 1, 2007. Under FIN 48, tax benefits are recognized only for tax positions that are more likely than not to be sustained upon examination by tax authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50% likely to be realized upon ultimate settlement. Unrecognized tax benefits are tax benefits claimed in the Company’s tax returns that do not meet these recognition and measurement standards.

As of January 1, 2007, the Company had \$2.0 million of unrecognized tax benefits. Of this amount, the Company recognized a net increase in the liability for unrecognized tax benefits of \$1.2 million as a cumulative effect of adopting FIN 48, which was offset by a reduction in deferred income tax liabilities of \$1.2 million in the Consolidated Balance Sheet. The remaining \$0.8 million had been previously accrued under Statement of Financial Accounting Standard (“SFAS”) No. 5, “Accounting for Contingencies,” or SFAS No. 109, “Accounting for Income Taxes.” The entire \$2.0 million of unrecognized tax benefits as of January 1, 2007, is included in other long-term liabilities in the Consolidated Balance Sheet.

Included in the \$2.0 million is \$0.8 million of net unrecognized tax benefits that, if recognized, would have an impact on the effective tax rate. The remaining unrecognized tax benefits relate to tax positions for which ultimate deductibility is highly certain but for which there is uncertainty as to the timing of such deductibility. Recognition of these tax benefits, other than

applicable interest and penalties, would not affect the Company's effective tax rate. The Company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense. As of January 1, 2007, the Company had \$0.1 million accrued for the payment of interest, which is included in unrecognized tax benefits.

The Company files income tax returns in the U.S. federal jurisdiction, and various state jurisdictions. The U.S. Internal Revenue Service has closed examination of the Company's income tax returns through 2003. In addition, open tax years related to a number of state jurisdictions remain subject to examination. During the six-month period ended June 30, 2007, there were no material changes to the liability for uncertain tax positions.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statement No. 115" ("SFAS No. 159"). SFAS No. 159 permits entities to elect to measure many financial instruments and certain other items at fair value. Upon adoption of SFAS No. 159, an entity may elect the fair value option for eligible items that exist at the adoption date. Subsequent to the initial adoption, the election of the fair value option should only be made at initial recognition of the asset or liability or upon a remeasurement event that gives rise to new-basis accounting. The decision about whether to elect the fair value option is applied on an instrument-by-instrument basis, is irrevocable and is applied only to an entire instrument and not only to specified risks, cash flows or portions of that instrument. SFAS No. 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value nor does it eliminate disclosure requirements included in other accounting standards. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS No. 159 on its consolidated financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 does not impose fair value measurements on items not already accounted for at fair value; rather it applies, with certain exceptions, to other accounting pronouncements that either require or permit fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting SFAS No. 157 on its consolidated financial position and results of operations.

In September 2006, the FASB issued FASB Staff Position ("FSP") No. AUG AIR-1, "Accounting for Planned Major Maintenance Activities." This FSP addresses appropriate methods of accounting for planned major maintenance activities and specifically prohibits the use of the accrue-in-advance method. The Company currently expenses costs as incurred for major maintenance activities, which is permitted under this FSP. The FSP became effective on January 1, 2007 and had no impact on the Company's consolidated financial position and results of operations.

3. Property, Plant and Equipment, Net

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

	Estimated Useful Lives	As of	
		June 30, 2007	December 31, 2006
Power plants	5 to 30 years	\$ 1,207,304	\$ 1,196,148
Wells and resource development	2 to 30 years	227,448	226,171
Equipment	3 to 30 years	<u>6,166</u>	<u>6,118</u>
Total operating assets		1,440,918	1,428,437
Accumulated depreciation and amortization		<u>(642,112)</u>	<u>(603,689)</u>
Property, plant and equipment, net		<u>\$ 798,806</u>	<u>\$ 824,748</u>

During the three- and six-month periods ended June 30, 2007 and 2006, the Company replaced certain pipe and equipment with a remaining net book value of \$2.4 million and \$2.8 million, respectively, and \$3.1 million and \$4.4 million, respectively, which was charged to depreciation expense in the accompanying Consolidated Statements of Operations.

4. Intangible Assets, Net

Intangible assets comprise the following (in thousands):

	<u>Estimated Useful Lives</u>	<u>As of June 30, 2007</u>		<u>As of December 31, 2006</u>	
		<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Power Purchase and Royalty					
Contracts	4 to 30 years	\$ 315,434	\$ 245,825	\$ 315,434	\$ 238,834
Patented Technology	24 years	<u>46,290</u>	<u>24,242</u>	<u>46,290</u>	<u>23,278</u>
Total		<u>\$ 361,724</u>	<u>\$ 270,067</u>	<u>\$ 361,724</u>	<u>\$ 262,112</u>

Amortization expense on acquired intangible assets was \$4.0 million for each of the three-month periods ended June 30, 2007 and 2006, and \$8.0 million for each of the six-month periods ended June 30, 2007 and 2006, respectively. CE Generation expects amortization expense on acquired intangible assets to be \$8.0 million for the remaining six months in 2007, \$16.0 million in 2008, \$11.9 million in 2009, and \$5.7 million in 2010 and 2011.

5. Commitments and Contingencies

The California Power Exchange

In January 2001, the California Power Exchange declared bankruptcy. As a result, Salton Sea Power LLC (“Salton Sea Power”) and CE Turbo, LLC (“CE Turbo”) did not receive payment for power sold to El Paso Merchant Energy Company (“EPME”) under certain transaction agreements during December 2000 and January 2001 of \$3.8 million (the “PX Receivable”). Salton Sea Power and CE Turbo established an allowance for doubtful accounts for this balance as of December 31, 2003. On September 29, 2004, Salton Sea Power and CE Turbo entered into separate Transfer of Claims Agreements (the “Transfer of Claims Agreements”), pursuant to which Salton Sea Power and CE Turbo received an aggregate of \$3.7 million in exchange for transferring the rights to receive payment on the PX Receivable to TransAlta USA Inc. (“TransAlta”), a wholly-owned subsidiary of TransAlta Corporation and MidAmerican Energy Holdings Company (“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 has 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. Salton Sea Power and CE Turbo are currently having discussions with EPME regarding the amount of the payment to Salton Sea Power and CE Turbo.

Environmental Matters

The Company is subject to federal, state, and local laws and regulations regarding air and water quality, 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 current environmental requirements.

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 expense is 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 June 30, 2007 and December 31, 2006 was \$1.5 million and \$0.9 million, respectively, and is included in other accrued liabilities and other long-term liabilities on the accompanying Consolidated Balance Sheets. Environmental remediation liabilities that separately result from the normal operation of long-lived assets and that are associated with the retirement of those assets are separately accounted for as asset retirement obligations.

6. Related Party Transactions

Pursuant to an administrative services agreement between CalEnergy Generation Operating Company (“CGOC”), a subsidiary of MEHC, and CE Generation (the “Administrative Services Agreement”), CGOC provides certain administrative and management services to CE Generation. The Administrative Services Agreement between CGOC and CE Generation provides for a fixed fee through December 31, 2007. The expense pursuant to the Administrative Services Agreement for each of the three-month periods ended June 30, 2007 and 2006 was \$0.8 million and for each of the six-month periods ended June 30, 2007 and 2006 was \$1.5 million and is included in general and administrative costs and expenses in the accompanying Consolidated Statements of Operations.

The Company participates in multi-employer pension plans sponsored by MidAmerican Energy Company, an indirect wholly-owned subsidiary of MEHC. The Company’s contribution to the various plans was \$0.6 million and \$0.7 million for the three-month periods ended June 30, 2007 and 2006, respectively, and \$1.3 million for each of the six-month periods ended June 30, 2007 and 2006, respectively.

Pursuant to a transaction agreement dated January 29, 2003 (the “TransAlta Transaction Agreement”), Salton Sea Power and CE Turbo began selling available power from their geothermal facilities in the Imperial Valley of California (the “Salton Sea V Project” and the “CE Turbo Project”, respectively) to TransAlta on February 12, 2003, based on percentages of the Dow Jones SP-15 Index. The TransAlta Transaction Agreement shall continue until the earlier of (a) 30 days following a written notice of termination, or (b) any other termination date mutually agreed to by the parties. No such notice of termination has been given by either party. Pursuant to this agreement, sales to TransAlta totaled \$1.7 million and \$4.9 million, respectively, for the three- and six-month periods ended June 30, 2007, and \$1.4 million and \$4.2 million, respectively, for the three- and six month periods ended June 30, 2006. As of June 30, 2007 and December 31, 2006, accounts receivable balances from TransAlta were \$1.4 million and \$2.2 million, respectively. Effective August 7, 2006 through May 31, 2009, up to 26 megawatts (“MW”) of available power from the Salton Sea V Project will be sold to TransAlta under the TransAlta Transaction Agreement at a fixed price. Salton Sea Power, CE Turbo, and TransAlta each have agreed not to exercise their respective 30 day termination right described above with respect to such amount of available power through such period.

On January 21, 2004, Salton Sea Power and CE Turbo entered into a Green Energy Tag Purchase and Sale Agreement to sell the non-power attributes (the non-power attributes made available by one megawatt hour (“MWh”) of generation, a “Green Tag”) associated with up to 931,800 MWh of available generation of the Salton Sea V Project and the CE Turbo Project through December 31, 2008 to TransAlta Energy Marketing (US) Inc. (“TransAlta Marketing”) at a market price per Green Tag. Pursuant to this agreement, sales to TransAlta Marketing totaled \$0.6 million and \$1.1 million, respectively, for each of the three- and six month periods ended June 30, 2007 and 2006. As of June 30, 2007 and December 31, 2006, accounts receivable balances from TransAlta Marketing were \$0.4 million and \$0.2 million, respectively.

7. Components of Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss is included in the accompanying Consolidated Balance Sheets in the members’ equity section and consists of the following components, net of tax, as follows (in thousands):

	As of	
	June 30, 2007	December 31, 2006
Unrecognized amounts on retirement benefits, net of tax of \$(1,026) and \$(1,027)	\$ (1,637)	\$ (1,640)
Fair value adjustment on cash flow hedges, net of tax of \$(70) and \$(156)	(127)	(282)
Total accumulated other comprehensive loss	<u>\$ (1,764)</u>	<u>\$ (1,922)</u>

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is management's discussion and analysis of certain significant factors which have affected the financial condition and results of operations of CE Generation, LLC ("CE Generation") and its subsidiaries (collectively, the "Company") during the periods included herein. This discussion should be read in conjunction with the Company's historical unaudited Consolidated Financial Statements and the notes thereto 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 does not assume any responsibility to update forward-looking information contained herein.

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 included in the Company's audited Consolidated Financial Statements for the year ended December 31, 2006 for the net capacity of each facility. Each plant possesses an operating margin, which allows for production in excess of a facility's net capacity. Utilization of this operating margin is based upon a variety of factors and can be expected to vary throughout the year under normal operating conditions. The amount of revenues received by the projects is affected by the extent to which they are able to operate and generate electricity. Accordingly, the capacity and capacity factor figures provide information on operating performance that has affected the revenues received by the projects.

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

	Three-Month Periods		Six-Month Periods	
	Ended June 30,		Ended June 30,	
	2007	2006	2007	2006
Natural gas-fired facilities	\$ 71.0	\$ 65.5	\$ 140.5	\$ 129.8
Geothermal facilities	<u>49.1</u>	<u>46.5</u>	<u>92.4</u>	<u>88.1</u>
Total operating revenue	<u>\$ 120.1</u>	<u>\$ 112.0</u>	<u>\$ 232.9</u>	<u>\$ 217.9</u>

Natural Gas-Fired Facilities

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

	Three-Month Periods		Six-Month Periods	
	Ended June 30,		Ended June 30,	
	2007	2006	2007	2006
Overall capacity factor	65.9%	70.3%	63.9%	61.9%
Megawatt hour produced	722,700	770,600	1,393,700	1,349,100
Capacity (net MW) (weighted average)	502.0	502.0	502.0	502.0

Operating revenue at the natural gas-fired facilities for the second quarter of 2007 increased \$5.5 million, or 8.4%, from the comparable period in 2006 primarily due to the following:

- \$2.1 million increase at the Yuma Project due to a 43.6% increase in production over 2006. The Yuma Project's second quarter 2006 production was lower due to scheduled major maintenance beginning in March 2006 and an increase in flexible curtailments initiated by San Diego Gas & Electric Company ("SDG&E"), the purchaser of power generated by the Yuma Project. The Yuma Project also incurred increased fuel costs during the second quarter of 2007.
- \$2.5 million increase due to rate escalations under the 15-year power purchase agreement between New York State Electric & Gas Corporation ("NYSEG") and Saranac Power Partners L.P. at the Saranac Project.
- \$1.4 million increase at the Saranac Project due to a 2.5% increase in production over 2006.
- \$1.2 million decrease at the Power Resources Project due to a 43% decrease in production over 2006.

Operating revenue at the natural gas-fired facilities for the first six months of 2007 increased \$10.7 million, or 8.2%, from the comparable period in 2006 primarily due to the following:

- \$4.5 million increase at the Yuma Project due to a 51.6% increase in production over 2006. The Yuma Project's first six months of 2006 production was lower due to scheduled major maintenance beginning in March 2006 and an increase in flexible curtailments initiated by SDG&E, the purchaser of power generated by the Yuma Project. The Yuma Project also incurred increased fuel costs during the first six months of 2007.
- \$4.4 million increase due to rate escalations under the 15-year power purchase agreement between NYSEG and Saranac Power Partners L.P. at the Saranac Project.
- \$2.2 million increase at the Saranac Project due to a 1.9% increase in production over 2006.
- \$0.8 million decrease at the Power Resources Project due to a 15.3% decrease in production over 2006.

Geothermal Facilities

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

	Three-Month Periods		Six-Month Periods	
	Ended June 30,		Ended June 30,	
	2007	2006	2007	2006
Overall capacity factor	80.8%	81.7%	86.1%	85.7%
MWh produced	575,800	582,600	1,220,600	1,215,000
Capacity (net MW) (weighted average)	326.4	326.4	326.4	326.4

The \$2.6 million, or 5.6%, increase in operating revenue at the Imperial Valley Projects in the second quarter of 2007 from the comparable period in 2006 primarily reflects a \$2.9 million increase in operating revenue due to higher energy rates at certain Imperial Valley Projects partially offset by a \$0.3 million decrease from a 1.2% decrease in energy production. The Salton Sea V Project index energy price increased to a fixed energy price of \$6.05 per kilowatt hour (“kWh”) effective August 2, 2006 and the Imperial Valley Projects, which receive the avoided cost of energy from Southern California Edison (“Edison”), increased their fixed energy price from 5.37 cents per kWh to 6.15 cents per kWh beginning May 1, 2007. The energy production decrease primarily results from more extensive brine system and turbine overhaul outages and more curtailed production at certain Imperial Valley Projects.

The \$4.3 million, or 4.9%, increase in operating revenue at the Imperial Valley Projects in the first six months of 2007 from the comparable period in 2006 primarily reflects a \$3.4 million increase in operating revenue due to higher energy rates, mainly at the Salton Sea V Project and the Imperial Valley Projects as discussed above, and a \$0.9 million increase from a 0.5% increase in energy production. The energy production increase primarily results from less forced outage downtime at certain Imperial Valley Projects.

Fuel Expense

Both the Saranac and Yuma Projects purchase the natural gas used by their facilities to produce energy under their existing power purchase agreements. At the Power Resources Project, under both its former Energy Management Services Agreement, and its current tolling agreement with Constellation Energy Commodities Group, Inc., the marketer is required to purchase the natural gas supply.

Fuel expense increased \$4.2 million, or 17.3%, to \$28.5 million for the second quarter of 2007 from \$24.3 million for the comparable period in 2006. During 2007, the Company incurred higher fuel expense of \$2.2 million due to increased production and \$2.0 million due to higher prices at the Saranac and Yuma Projects.

Fuel expense increased \$6.6 million, or 13.3%, to \$56.1 million for the first six months of 2007 from \$49.5 million for the comparable period in 2006. During 2007, the Company incurred higher fuel expense of \$4.6 million due to increased production and \$2.0 million due to higher prices at the Saranac and Yuma Projects.

Plant Operations

Plant operations decreased \$2.2 million, or 5.6%, to \$37.1 million for the second quarter of 2007 from \$39.3 million for the comparable period in 2006. The decrease was primarily due to lower maintenance costs at the Saranac and Power Resources Projects and lower employee-related costs, partially offset by higher maintenance costs at the Imperial Valley Projects.

Plant operations decreased \$12.4 million, or 15.3%, to \$68.9 million for the first six months of 2007 from \$81.3 million for the comparable period in 2006. The decrease was primarily due to lower maintenance costs at the Saranac, Yuma and Power Resources Projects, which underwent extensive scheduled maintenance during the first six months of 2006.

Depreciation and Amortization

Depreciation and amortization increased \$6.1 million, or 25.7%, to \$29.8 million for the second quarter of 2007 from \$23.7 million for the comparable period in 2006. Effective October 1, 2006, the Saranac Project changed from a straight line

methodology to a units of production methodology in calculating depreciation expense. This change resulted in an additional \$5.5 million of depreciation expense, of which \$1.4 million was attributable to minority owners and accordingly reduced minority interest expense. This prospective accounting change was treated as a change in estimate and was made to enable a consistent matching of expected future revenues and expenses. The remaining increase was due primarily to a change in useful lives on brine production pipelines at certain Imperial Valley Projects.

Depreciation and amortization increased \$12.9 million, or 28.2%, to \$58.7 million for the first six months of 2007 from \$45.8 million for the comparable period in 2006. The Saranac Project's depreciation methodology change resulted in an additional \$11.3 million of depreciation expense, of which \$2.8 million was attributable to minority owners and accordingly reduced minority interest expense. The remaining increase was due primarily to a change in useful lives on brine production pipelines at certain Imperial Valley Projects.

Interest Expense

Interest expense for the second quarter and for the first six months of 2007 decreased \$1.7 million to \$11.1 million and \$3.4 million to \$22.6 million, respectively, from the comparable periods in 2006 due to lower outstanding debt balances.

Provision for Income Taxes

The provision for income taxes for the second quarter of 2007 decreased \$0.1 million to \$1.6 million from the comparable period in 2006. The provision for income taxes increased \$2.0 million to \$2.8 million for the first six months of 2007 from the comparable periods in 2006 due to an increase in pre-tax income. The higher effective tax rate in the first six months of 2007 is due primarily to the effects of minority interest representing a larger percentage of the income before income taxes for 2007 compared to the same period in 2006.

Liquidity and Capital Resources

Each of CE Generation's direct or indirect subsidiaries is organized as a legal entity separate and apart from CE Generation and its other subsidiaries. Pursuant to separate project financing agreements applicable to the Imperial Valley Projects and the Saranac Project, 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 and each subsidiary with a direct ownership interest in the subsidiary that owns interests in the Saranac Project are pledged or encumbered to support or otherwise provide the security for their own project or subsidiary debt, therefore it should not be assumed that any of these assets will be available to satisfy the obligations of CE Generation or any of its other subsidiaries; provided, however, that unrestricted cash or other assets which are available for distribution may, subject to applicable law and the terms of financing arrangements for such parties, be advanced, loaned, paid as dividends or otherwise distributed or contributed to CE Generation or affiliates thereof.

The Company generated cash flows from operations of \$64.4 million for the six-month period ended June 30, 2007 compared with \$50.7 million for the same period in 2006. The increase was due primarily to the decrease in maintenance expense due to less extensive brine system overhauls, turbine overhauls and maintenance repairs at the Imperial Valley Projects as well as the decrease in maintenance expense due to scheduled outages at the Saranac, Yuma and Power Resources Projects in 2006.

Cash flows used in investing activities were \$31.8 million for the six month period ended June 30, 2007 compared with \$17.2 million for the same period in 2006 due to the timing of purchases and sales of available-for-sale securities used in the Company's cash management program and an increase in capital expenditures.

Forecasted capital expenditures for 2007 are \$36.8 million. Capital expenditure needs are reviewed regularly by management and may change significantly as a result of such reviews. The Company has decided to purchase pipeline replacement materials which are expected to have a longer useful life than the material currently used. The new material is expected to result in higher capital expenditures than historical expenditures in 2008 and 2009. The Company expects to meet these capital expenditure needs with cash flows from operations.

Cash flows used in financing activities were \$52.2 million for the six-month period ended June 30, 2007 compared with \$48.1 million for the same period in 2006 due to increased cash distributions.

Environmental Matters

In addition to the discussion contained herein, refer to Note 5 of Notes to Consolidated Financial Statements included elsewhere in this report and the Company's annual report for the year ended December 31, 2006 for additional information regarding certain environmental matters affecting the Company's operations.

As a result of increased attention to climate change in the United States, numerous bills have been introduced in the current session of the United States Congress that would reduce greenhouse gas emissions in the United States. Congressional leadership has made climate change legislation a priority and many congressional observers expect to see the passage of climate change legislation within the next several years. In April 2007, a United States Supreme Court decision concluded that the Environmental Protection Agency ("EPA") has the authority under the Clean Air Act to regulate emissions of greenhouse gases from motor vehicles. In addition, pending cases that address the potential public nuisance from greenhouse gas emissions from electricity generators and the EPA's failure to regulate greenhouse gas emissions from new and existing coal-fired plants are expected to become active. Furthermore, while debate continues at the national level over the direction of domestic climate policy, several states have developed state-specific laws or regional legislative initiatives to reduce greenhouse gas emissions, including California and several Northeastern states, and individual state actions to regulate greenhouse gas emissions are likely to increase. The impact of any pending judicial proceedings and any pending or enacted federal and state climate change legislation and regulation cannot be determined at this time; however, adoption of stringent limits on greenhouse gas emissions could significantly impact the Company's natural gas-fired facilities, and, therefore, its financial results.

Commodity and Credit Risks

The Imperial Valley Projects' primary source of electricity revenue is derived from payments received pursuant to long-term power sales agreements with Edison. Because of the Imperial Valley Projects' dependence on Edison, if Edison fails to fulfill its obligations to the Imperial Valley Projects, it could significantly impair the ability of 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 86% of the Imperial Valley Projects' electricity sales were to Edison for the six-month period ended June 30, 2007.

In June and November 2001, the Salton Sea II, Salton Sea III, Vulcan, Elmore, Leathers and Del Ranch Projects 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 receive Edison's avoided cost of energy entered into amendments with Edison to their respective power purchase agreements which provide 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 will be 6.15 cents per kWh, escalated 1% annually beginning May 1, 2008. Beginning May 1, 2012, the projects subject to these amendments will revert back to Edison's avoided cost of energy. There can be no assurances that Edison's avoided cost of energy after May 1, 2012 will result in revenues equivalent to the current fixed energy payments being received. For the years ended December 31, 2006, 2005 and 2004, Edison's average avoided cost of energy was 6.9 cents per kWh, 7.7 cents per kWh and 5.9 cents per kWh, respectively. Estimates of Edison's future avoided cost of energy 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.

Approximately 84% of the natural gas-fired facilities electricity sales were to NYSEG for the six-month period ended June 30, 2007.

CERTIFICATION

I, Stephen A. Larsen, certify that:

1. I have reviewed this quarterly report of CE Generation, LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures for CE Generation, LLC and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of 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: August 13, 2007

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

CERTIFICATION

I, Stephen D. Dickas, certify that:

1. I have reviewed this quarterly report of CE Generation, LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures for CE Generation, LLC and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of 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: August 13, 2007

/s/ Stephen D. Dickas
Stephen D. Dickas
Controller
(chief financial officer)