



CE GENERATION_{LLC}

Financial Statements

For the Quarterly Period Ended September 30, 2005

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CE GENERATION, LLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands)

	As of	
	September 30, 2005 (Unaudited)	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 35,840	\$ 27,540
Short-term investments	-	5,000
Restricted cash	21,289	7,252
Trade accounts receivable, net	69,018	49,800
Trade accounts receivable from affiliate	1,681	1,285
Inventories	28,922	26,604
Prepaid expenses and other current assets	6,868	6,088
Due from affiliates	-	1,165
Total current assets	<u>163,618</u>	<u>124,734</u>
Restricted cash	1,953	1,732
Properties, plants and equipment, net	891,871	916,419
Goodwill	265,897	265,897
Intangible assets, net	119,638	131,482
Deferred financing charges and other assets	6,226	7,124
Total assets	<u>\$ 1,449,203</u>	<u>\$ 1,447,388</u>
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 6,186	\$ 1,990
Accrued interest	13,878	2,915
Interest rate swap liability	2,657	6,391
Accrued natural gas liability	9,808	7,590
Other accrued liabilities	22,890	24,706
Income tax payable	12,474	1,949
Due to affiliates	914	-
Current portion of long-term debt	63,392	69,612
Total current liabilities	<u>132,199</u>	<u>115,153</u>
Project loans	50,953	74,281
Salton Sea notes and bonds	256,799	269,757
Senior secured bonds	299,400	309,000
Deferred income taxes	249,900	247,978
Other long-term liabilities	9,438	8,220
Total liabilities	<u>998,689</u>	<u>1,024,389</u>
Minority interest	44,743	45,658
Commitments and contingencies (Note 5)		
Members' equity:		
Members' equity	406,998	380,238
Accumulated other comprehensive loss	(1,227)	(2,897)
Total members' equity	<u>405,771</u>	<u>377,341</u>
Total liabilities and members' equity	<u>\$ 1,449,203</u>	<u>\$ 1,447,388</u>

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

CE GENERATION, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
AND OTHER COMPREHENSIVE INCOME

(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(Unaudited)			
Operating revenue	\$ 139,640	\$ 134,685	\$ 361,244	\$ 336,806
Costs and expenses:				
Fuel	28,748	25,841	76,236	69,273
Plant operations	28,028	28,223	92,468	100,260
General and administrative	855	1,173	2,450	3,202
Depreciation and amortization	<u>20,391</u>	<u>21,737</u>	<u>65,529</u>	<u>65,189</u>
Total costs and expenses	<u>78,022</u>	<u>76,974</u>	<u>236,683</u>	<u>237,924</u>
Operating income	<u>61,618</u>	<u>57,711</u>	<u>124,561</u>	<u>98,882</u>
Other income (expense):				
Interest expense	(13,633)	(15,184)	(42,300)	(46,502)
Interest and other income	<u>1,221</u>	<u>1,779</u>	<u>3,381</u>	<u>3,996</u>
Total other income (expense)	<u>(12,412)</u>	<u>(13,405)</u>	<u>(38,919)</u>	<u>(42,506)</u>
Income before provision for income taxes and minority interest	49,206	44,306	85,642	56,376
Provision for income taxes	11,174	10,470	17,939	10,940
Minority interest	<u>7,451</u>	<u>6,788</u>	<u>19,444</u>	<u>18,576</u>
Net income	<u>\$ 30,581</u>	<u>\$ 27,048</u>	<u>\$ 48,259</u>	<u>\$ 26,860</u>
Other comprehensive income:				
Unrealized gain on cash flow hedges, net of tax of \$363, \$339, \$929 and \$1,272	<u>653</u>	<u>500</u>	<u>1,670</u>	<u>2,285</u>
Comprehensive income	<u>\$ 31,234</u>	<u>\$ 27,548</u>	<u>\$ 49,929</u>	<u>\$ 29,145</u>

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

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

	Nine Months	
	Ended September 30,	
	2005	2004
	(Unaudited)	
Cash flows from operating activities:		
Net income	\$ 48,259	\$ 26,860
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	65,529	65,189
Provision for deferred income taxes	991	10,960
Distributions to minority interest in excess of income	(2,049)	(2,617)
Amortization of deferred financing costs	898	936
Changes in other items:		
Trade accounts receivable, net	(19,614)	(14,979)
Inventories	(2,318)	(469)
Due from affiliates, net	2,079	913
Other assets	(784)	(4,724)
Accounts payable and other accrued liabilities	<u>26,265</u>	<u>17,659</u>
Net cash flows from operating activities	<u>119,256</u>	<u>99,728</u>
Cash flows from investing activities:		
Capital expenditures	(28,091)	(18,454)
Proceeds from related party note receivable	-	136,383
Purchases of available-for-sale securities	(78,500)	(177,000)
Proceeds from sales of available-for-sale securities	83,500	168,350
(Increase) decrease in restricted cash	<u>(14,258)</u>	<u>3,480</u>
Net cash flows from investing activities	<u>(37,349)</u>	<u>112,759</u>
Cash flows from financing activities:		
Repayment of project loans	(19,644)	(16,575)
Repayment of Salton Sea notes and bonds	(25,063)	(150,797)
Repayment of Senior Secured bonds	(7,400)	(7,300)
Distributions	<u>(21,500)</u>	<u>(7,000)</u>
Net cash flows from financing activities	<u>(73,607)</u>	<u>(181,672)</u>
Net increase in cash and cash equivalents	8,300	30,815
Cash and cash equivalents at beginning of period	<u>27,540</u>	<u>30,003</u>
Cash and cash equivalents at end of period	<u>\$ 35,840</u>	<u>\$ 60,818</u>
Supplemental Disclosure:		
Interest paid	<u>\$ 29,369</u>	<u>\$ 36,711</u>
Income taxes paid	<u>\$ 6,384</u>	<u>\$ 485</u>

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

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

1. General

In the opinion of the management of CE Generation, LLC (“CE Generation” or the “Company”), the accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position as of September 30, 2005, the results of operations for the three-month and nine-month periods ended September 30, 2005 and 2004, and the cash flows for the nine-month periods ended September 30, 2005 and 2004. The results of operations for the three-month and nine-month periods ended September 30, 2005 are not necessarily indicative of the results to be expected for the full year.

The unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2004. In particular, the Company’s significant accounting policies are presented in Note 2 to the consolidated financial statements included therein. Additionally, the provisions of Statement of Financial Accounting Standards No. 143, “Accounting for Asset Retirement Obligations” (“SFAS 143”) provide accounting and disclosure requirements for retirement obligations associated with long-lived assets. The Company’s review identified legal obligations for power plant and well abandonment costs. Due to the renewable nature of the geothermal resource, the power plants and wells could be maintained and remain in production indefinitely. Accordingly, because the date on which such asset retirement obligation expenditures will be made is indeterminate, the fair value of the asset retirement obligation cannot be reasonably estimated.

Certain amounts in the prior period consolidated financial statements and supporting note disclosures have been reclassified to conform to the current period presentation, including the reclassification of auction rate securities and changes in restricted cash balances.

The accompanying consolidated balance sheet as of December 31, 2004, reflects a reclassification of instruments used in the Company’s cash management program from cash and cash equivalents to short-term investments of \$5.0 million. This reclassification is to present certain auction rate securities as short-term investments rather than as cash equivalents due to the stated maturities of these investments. These instruments are classified as available-for-sale securities as management does not intend to hold them to maturity nor are they bought and sold with the objective of generating profits on short-term differences in price. The carrying value of these instruments approximates their fair value. Additionally, in the accompanying consolidated statements of cash flows, cash and cash equivalents were reduced by \$5.0 million, \$12.5 million and \$3.9 million at December 31, 2004, September 30, 2004 and December 31, 2003, respectively, to reflect the reclassification of these instruments from cash and cash equivalents to short-term investments.

2. New Accounting Pronouncements

In March 2005, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 47, “Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143” (“FIN 47”). FIN 47 clarifies that the term *conditional asset retirement obligation* as used in SFAS 143 refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The Company is required to adopt the provisions of FIN 47 by December 2005. Adoption of FIN 47 is not expected to have a material effect on the Company’s financial position, results of operations or cash flows.

3. Properties, Plants and Equipment, Net

Properties, plants and equipment comprise the following at September 30, 2005 and December 31, 2004, respectively (in thousands):

	<u>Estimated Useful Lives</u>	<u>September 30, 2005</u>	<u>December 31, 2004</u>
Properties, plants and equipment, net:			
Power plants	25 to 30 years	\$ 1,199,466	\$ 1,189,443
Wells and resource development	2 to 30 years	207,762	198,395
Equipment	3 to 30 years	<u>5,332</u>	<u>4,210</u>
Total operating assets		1,412,560	1,392,048
Accumulated depreciation and amortization		<u>(520,689)</u>	<u>(475,629)</u>
Properties, plants and equipment, net		<u>\$ 891,871</u>	<u>\$ 916,419</u>

During the three-month and nine-month periods ended September 30, 2005, the Company replaced certain pipe with a remaining net book value of \$- million and \$4.3 million, respectively, which was charged to depreciation expense in the accompanying consolidated statements of operations. The Company replaced certain pipe with a remaining net book value of \$0.2 million and \$2.1 million in the three-month and nine-month periods ended September 30, 2004, respectively, which was charged to depreciation expense in the accompanying consolidated statements of operations.

4. Intangible Assets, Net

Intangible assets comprise the following at September 30, 2005 and December 31, 2004, respectively (in thousands):

	<u>September 30, 2005</u>		<u>December 31, 2004</u>	
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Power Purchase Contracts	\$ 315,434	\$ 221,395	\$ 315,434	\$ 210,999
Patented Technology	<u>46,290</u>	<u>20,691</u>	<u>46,290</u>	<u>19,243</u>
Total	<u>\$ 361,724</u>	<u>\$ 242,086</u>	<u>\$ 361,724</u>	<u>\$ 230,242</u>

Amortization expense on acquired intangible assets was \$3.9 million for each of the three-month periods ended September 30, 2005 and 2004 and \$11.8 million for each of the nine-month periods ended September 30, 2005 and 2004, respectively. CE Generation expects amortization expense on acquired intangible assets to be \$3.9 million for the remaining three months in 2005 and \$15.8 million for each of the three succeeding fiscal years and \$11.1 million in 2009.

5. Commitments and Contingencies

Southern California Edison ("Edison") and the California Power Exchange

On July 10, 2003, the Salton Sea IV Project's 40 megawatt turbine went out of service due to an uncontrollable force event. Such uncontrollable force event ended, and the Salton Sea IV Project's turbine returned to service, on September 17, 2003. Edison failed to recognize the uncontrollable force event and, as such, has not paid amounts otherwise due and owing under the Salton Sea IV power purchase agreement totaling \$2.5 million. Salton Sea Power Generation, L.P., with Fish Lake Power LLC, owner of the Salton Sea IV Project, served notices of error on Edison for such unpaid amounts. As a result, the Company had established an allowance for doubtful accounts of \$1.7 million for capacity payments as of December 31, 2003. In December 2004, as a result of a Settlement Agreement dated December 7, 2004 resolving the dispute, the allowance was released and the associated receivable was written off. Under the terms of the Settlement Agreement, the settlement would become effective 30 days after approval by the California Public Utility Commission. On July 21, 2005 the California Public Utilities Commission approved the settlement, and therefore the settlement became effective on August 20, 2005.

In January 2001, the California Power Exchange declared bankruptcy. As a result, Salton Sea Power L.L.C. ("Salton Sea Power") and CE Turbo LLC ("CE Turbo") had not received payment for power sold to El Paso Merchant Energy Company

under certain transaction agreements during December 2000 and January 2001 of \$3.8 million (the "PX Receivable"). Salton Sea Power and CE Turbo had 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 with TransAlta USA Inc. ("TransAlta") and MidAmerican Energy Holdings Company ("MEHC") (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. As of September 30, 2005, the California Power Exchange has not made any payments in connection with the PX Receivable.

Environmental

The Company is subject to numerous legislative and regulatory environmental protection requirements involving air and water pollution, waste management, hazardous chemical use, noise abatement, and land use aesthetics. State and federal environmental laws and regulations currently have, and future modifications may have, the effect of (i) increasing the lead time for the construction of new facilities, (ii) significantly increasing the total cost of new facilities, (iii) requiring modification of the Company's existing facilities, (iv) increasing the risk of delay on construction projects, (v) increasing the Company's cost of waste disposal and (vi) reducing the reliability of service provided by the Company and the amount of energy available from the Company's facilities. Any of such items could have a substantial impact on amounts required to be expended by the Company in the future. Expenditures for ongoing compliance with environmental regulations that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments indicate that remediation efforts are probable and the costs can be reasonably estimated. Estimates of the liability are based upon currently available facts, existing technology and presently enacted laws and regulations taking into consideration the likely effects of inflation and other social and economic factors, and include estimates of associated legal costs. These amounts also consider prior experience in remediation of sites, other companies' clean-up experience and data released by the Environmental Protection Agency ("EPA") or other organizations. These estimated liabilities are subject to revision in future periods based on actual costs or new circumstances, and are included in the accompanying consolidated balance sheets at their undiscounted amounts. As of September 30, 2005 and December 31, 2004, the environmental liabilities recorded on the consolidated balance sheets were \$3.5 million and \$4.2 million, respectively.

On March 10, 2005, the EPA released the final Clean Air Interstate Rule ("CAIR"), calling for reductions of sulfur dioxide and nitrogen oxides emissions ("NO_x") in the eastern United States through a market-based cap and trade system. The State of New York, where the Saranac Project is located, has been determined by the EPA to significantly contribute to nonattainment of the fine particulate standard in Pennsylvania, New Jersey, Connecticut and Delaware and to nonattainment of the ozone standard in Connecticut, New Jersey and Rhode Island. Similarly, Texas, where the Power Resources Project is located, has been determined by the EPA to significantly contribute to nonattainment of the fine particulate standard in Illinois. Under the final CAIR, the first phase reductions of NO_x emissions are effective on January 1, 2009, with the second phase reductions effective January 1, 2015. Depending on the outcome of CAIR litigation and implementation of the CAIR by New York and Texas, the CAIR emission reduction requirements could impact the Saranac and Power Resources Projects. The CAIR could, in whole or in part, be superseded or made more stringent by one of a number of multi-pollutant emission reduction proposals currently under consideration at the federal level as well as possible new federal regulation of carbon dioxide and other gases that may affect global climate change.

6. Related Party Transactions

Pursuant to an administrative services agreement between MEHC and CE Generation (the “Administrative Services Agreement”), MEHC provides certain administrative and management services to CE Generation. The expense for each of the three-month periods ended September 30, 2005 and 2004 was \$0.8 million and the expense for the nine-month periods ended September 30, 2005 and 2004 was \$2.2 million and \$2.3 million, respectively, and is included in plant operations and general and administrative costs and expenses. The Administrative Services Agreement between MEHC and CE Generation provided for a fixed fee of \$3.1 million annually through December 31, 2004 and provides for a fixed fee of \$3.0 million annually from January 1, 2005 through December 31, 2007.

The Company participates in multi-employer pension plans sponsored by MidAmerican Energy Company. The Company’s contribution to the various plans was \$0.4 million and \$0.6 million for the three-month periods ended September 30, 2005 and 2004, respectively, and \$1.2 million and \$1.6 million for the nine-month periods ended September 30, 2005 and 2004, 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 the Salton Sea V Project and CE Turbo Project 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 \$4.3 million and \$10.1 million during the three-month and nine-month periods ended September 30, 2005, respectively, and \$2.9 million and \$7.0 million during the three-month and nine-month periods ended September 30, 2004, respectively. As of September 30, 2005 and December 31, 2004, accounts receivable balances from TransAlta were \$1.5 million and \$1.3 million, respectively.

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 of generation, a “Green Tag”) associated with up to 931,800 megawatt hours of available generation at the Salton Sea V and CE Turbo Projects 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 \$0.5 million and \$1.6 million for the three-month and nine-month periods ended September 30, 2005, respectively, and \$0.5 million for each of the three-month and nine-month periods ended September 30, 2004. As of September 30, 2005 and December 31, 2004, accounts receivable balances from TransAlta Marketing were \$0.2 million and \$- million, respectively.

Pursuant to November 1, 1998 Amended and Restated Power Sales Agreements, Salton Sea Power and CE Turbo provided CalEnergy Minerals LLC (“CalEnergy Minerals”) with its zinc recovery facility’s (the “Zinc Recovery Project”) electrical energy requirements at the market rates available to them, less wheeling costs. Pursuant to these agreements, sales to CalEnergy Minerals from Salton Sea Power were not material for the three-month and nine-month periods ended September 30, 2005. Sales to CalEnergy Minerals from Salton Sea Power totaled \$0.5 million and \$1.3 million for the three-month and nine-month periods ended September 30, 2004, respectively. There were no sales to CalEnergy Minerals from CE Turbo for the three-month or nine-month periods ended September 30, 2005 or 2004. On September 10, 2004, CalEnergy Minerals ceased operations of its Zinc Recovery Project. Accordingly, except for sales during the dismantling and decommissioning phases of the Zinc Recovery Project, no further sales to CalEnergy Minerals are expected. There were no material accounts receivable balances as of September 30, 2005 and December 31, 2004, respectively.

In connection with the dismantling and decommissioning of the Zinc Recovery Project, approximately \$0.5 million of remaining inventory and equipment (including a portable generator and portable office trailer) has been sold and approximately \$0.1 million of other remaining assets (including the cellhouse building, a resin trailer, bridge cranes and lighting columns) is anticipated to be sold on or prior to December 31, 2005, by CalEnergy Minerals to certain of the CE Generation subsidiaries that either own or operate power generation facilities adjacent to the Zinc Recovery Project.

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" or the "Company"), during the periods included in the accompanying financial statements. This discussion should be read in conjunction with the Company's historical financial statements and the notes to those statements. 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 recovery, 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.

Executive Summary

The following significant events and changes, as discussed in more detail herein, highlight the factors that affect the comparability of our financial results for the three-month and nine-month periods ended September 30, 2005 and 2004:

- The redemption by Salton Sea Funding Corporation ("Funding Corporation") of \$136.4 million of its 7.475% Senior Secured Series F Bonds ("Series F Bonds") on March 1, 2004 and the related collection of the \$136.4 million under Funding Corporation's demand on MidAmerican Energy Holdings Company ("MEHC").
- In January 2004, the Saranac Project reduced production and attendant fuel consumption in order to remarket the unused fuel pursuant to a gas remarketing transaction under the Gas Remarketing Agreement between the Saranac Project, its power purchaser and fuel supplier.
- The Imperial Valley Projects had more major brine system and turbine overhauls in 2004 compared to more mini-brine system overhauls and minor turbine overhauls in 2005. The major overhauls are longer in duration and have higher associated repair and maintenance costs. The overhaul schedules vary from year to year and are scheduled at intervals based on plant operating hours.

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 reporting period. At September 30, 2005, the capacity factors for the Company's facilities commonly known as the Salton Sea I Project, Salton Sea II Project, Salton Sea III Project, Salton Sea IV Project and Salton Sea V Project (collectively, the "Salton Sea Projects") plants were based on capacity amounts of approximately 10, 20, 50, 40, and 49 net megawatts ("MW"), respectively. At September 30, 2005, the capacity factors for the Company's geothermal power generation facilities commonly known as the Vulcan Project, Elmore Project, Leathers Project, Del Ranch Project and CE Turbo Project (collectively, the "Partnership Projects" and, together with the Salton Sea Projects, the "Imperial Valley Projects") plants were based on capacity amounts of approximately 34, 38, 38, 38 and 10 net MW, respectively. At September 30, 2005, the capacity factors for the Company's natural gas fired power generation facilities commonly known as the Saranac Project, Power Resources Project and Yuma Project (collectively, the "Gas Projects") were based on capacity amounts of approximately 240, 212 and 50 net MW, respectively. Each plant possesses an operating margin, which allows for production in excess of the amount listed above. 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 these 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 these projects.

The following operating data represents the aggregate capacity and electricity production of the Imperial Valley Projects:

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2005	2004	2005	2004
Overall capacity factor	97.3%	96.9%	94.8%	88.3%
Megawatt hours (“MWh”) produced	701,000	698,400	2,027,800	1,895,900
Capacity (net MW) (weighted average)	326.4	326.4	326.4	326.4
Operating revenue (in millions)	\$ 73.0	\$ 72.1	\$ 171.3	\$ 158.5

The increases in the overall capacity factor and MWh produced in the three-month and nine-month periods ended September 30, 2005, as compared to the same periods in 2004, resulted from more scheduled major brine system and turbine overhaul outages in 2004 compared to mini-brine system overhauls and minor turbine overhauls in 2005. The major overhauls consist of more extensive repairs and are longer in duration. The overhaul schedules vary from year to year and are generally scheduled at intervals based on plant operating hours.

The following operating data represents the aggregate capacity and electricity production of the Gas Projects:

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2005	2004	2005	2004
Overall capacity factor	83.8%	82.3%	70.2%	66.5%
MWh produced	928,700	912,400	2,309,800	2,196,000
Capacity (net MW) (weighted average)	502.0	502.0	502.0	502.0
Operating revenue (in millions)	\$ 66.7	\$ 62.6	\$ 189.9	\$ 178.3

The increases in the overall capacity factor and MWh produced in the three-month period ended September 30, 2005, as compared to the same period in 2004, are a result of increased production demands from the Power Resources Project’s tolling customer in 2005, partially offset by decreased production at the Saranac Project due to a gas turbine inspection in the second and third quarter of 2005. The increases in the overall capacity factor and MWh produced in the nine-month period ended September 30, 2005, as compared to the same period in 2004, are a result of increased production at the Saranac Project in 2005 due to reduced production during the January 2004 gas remarketing transaction and increased production demands from the Power Resources Project’s tolling customer in 2005, partially offset by higher utility curtailment at the Yuma Project in 2005.

Results of Operations for the Three-Month Periods Ended September 30, 2005 and 2004

Operating revenue increased \$4.9 million, or 3.6%, to \$139.6 million for the three-month period ended September 30, 2005, from \$134.7 million for the same period in 2004. The increase included \$2.3 million of favorable pricing at the Imperial Valley Projects and \$4.6 million of favorable pricing at the Yuma and Saranac Projects, partially offset by a reduction of \$1.4 million due to the expiration of AB1890 revenue at the Salton Sea Unit V Project and \$0.5 million due to reduced production at the Saranac Project due to the 2005 gas turbine inspection.

Fuel expense increased \$2.9 million, or 11.2%, to \$28.7 million for the three-month period ended September 30, 2005, from \$25.8 million for the same period in 2004. The increase included \$3.4 million of higher unit costs at the Saranac and Yuma Projects, partially offset by \$0.5 million of reduced costs due to decreased production at the Saranac Project.

Plant operations decreased \$0.2 million, or 0.7%, to \$28.0 million for the three-month period ended September 30, 2005, from \$28.2 million for the same period in 2004. The decrease was due to a \$0.5 million reduction of maintenance and well workover costs at the Imperial Valley Projects, partially offset by increased maintenance and costs at the Saranac Project.

Depreciation and amortization decreased \$1.3 million to \$20.4 million for the three-month period ended September 30, 2005, from \$21.7 million for the same period in 2004. The decrease reflects \$1.1 million of reduced depreciation at the Power Resources Project resulting from the partial impairment of Power Resources' long-lived assets and the full amortization of Power Resources long-term contract in 2004.

Interest expense decreased \$1.6 million to \$13.6 million for the three-month period ended September 30, 2005, from \$15.2 million for the same period in 2004. The decrease is due to lower outstanding debt balances.

Interest and other income decreased \$0.6 million to \$1.2 million for the three-month period ended September 30, 2005, from \$1.8 million for the same period in 2004. The decrease is due to lower scrap sales at the Imperial Valley Projects in 2005.

The provision for income taxes increased \$0.7 million to \$11.2 million for the three-month period ended September 30, 2005, from \$10.5 million for the same period in 2004. Income tax expense increased due to the increase in pre-tax income.

Minority interest increased \$0.7 million to \$7.5 million for the three-month period ended September 30, 2005, from \$6.8 million for the same period in 2004. The increase was due to increased income at the Saranac Project due to contract pricing escalations.

Results of Operations for the Nine-Month Periods Ended September 30, 2005 and 2004

Operating revenue increased \$24.4 million, or 7.2%, to \$361.2 million for the nine-month period ended September 30, 2005, from \$336.8 million for the same period in 2004. The increase reflects \$9.4 million of higher revenue resulting from increased production at the Imperial Valley Projects due to the timing and length of scheduled outages, a \$4.7 million increase due to the Saranac January 2004 gas remarketing transaction, which reduced production in 2004, and a \$11.8 million increase due to higher prices at the Yuma, Saranac and Imperial Valley Projects, partially offset by \$1.8 million of reduced revenue due to lower production at the Yuma Project resulting from increased utility curtailment in 2005.

Fuel expense increased \$6.9 million, or 10.0%, to \$76.2 million for the nine-month period ended September 30, 2005, from \$69.3 million for the same period in 2004. The increase reflected a \$7.7 million increase of unit costs at the Saranac and Yuma Projects and a \$0.6 million increase resulting from increased production at the Saranac Project, partially offset by a \$1.5 million reduction in fuel expense resulting from lower production at the Yuma Project due to the increased utility curtailment in 2005.

Plant operations decreased \$7.8 million, or 7.8%, to \$92.5 million for the nine-month period ended September 30, 2005, from \$100.3 million for the same period in 2004. The decrease was due to a \$15.7 million reduction in maintenance expense due to the timing and scope of scheduled outages, which included less extensive maintenance repairs at the Imperial Valley Projects in 2005. The decrease was partially offset by a \$3.1 million increase in Imperial Valley Project well workover expense in 2005, a \$2.2 million increase in maintenance costs related to the second and third quarter 2005 Saranac Project gas turbine inspection, a \$0.9 million increase in Imperial Valley royalty expense due to higher revenues, and smaller increases relating to brine disposal costs, acid costs and other chemical costs all due to increased plant operations due to less extensive scheduled maintenance in 2005.

Depreciation and amortization increased \$0.3 million to \$65.5 million for the nine-month period ended September 30, 2005, from \$65.2 million for the same period in 2004. The increase was due to a \$2.2 million increase in disposals of certain replaced pipe at the Imperial Valley Projects in 2005 and a \$1.0 million increase related to capital additions, partially offset by a \$2.8 million decrease in Power Resources' depreciation as the result of the partial impairment of long-lived assets and full amortization of the long-term contract in 2004.

Interest expense decreased \$4.2 million to \$42.3 million for the nine-month period ended September 30, 2005, from \$46.5 million for the same period in 2004. The decrease is due to lower outstanding debt balances.

Interest and other income decreased \$0.6 million to \$3.4 million for the nine-month period ended September 30, 2005, from \$4.0 million for the same period in 2004. The decrease is due to lower scrap sales at the Imperial Valley Projects in 2005.

The provision for income taxes increased \$7.0 million to \$17.9 million for the nine-month period ended September 30, 2005, from \$10.9 million for the same period in 2004. Income tax expense increased due to the increase in pre-tax income. The effective tax rate was 20.9% for the nine-month period ended September 30, 2005, as compared to 19.4% for the same period in 2004.

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 and the Saranac Project are pledged or encumbered to support or otherwise provide the security for their own project or subsidiary debt. It should not be assumed that any asset of any subsidiary of CE Generation 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. For the purposes of the immediately preceding two sentences, the term "subsidiary" means all of CE Generation's direct or indirect subsidiaries: (1) owning direct or indirect interests in the Imperial Valley Projects other than Magma Power Company and Salton Sea Power Company; or (2) owning direct interests in the subsidiary that owns interest in the Saranac Project.

CE Generation generated cash flows from operations of \$119.3 million for the nine-month period ended September 30, 2005 compared with \$99.7 million for the same period in 2004. The increase was due to the favorable operating results previously discussed and the timing of working capital uses including a \$5.0 million prepayment under the Saranac Project long-term maintenance agreement in 2004.

The Imperial Valley Projects' primary source of electricity revenue is derived from payments received pursuant to long-term power sales agreements with Southern California Edison ("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.

In June and November 2001, the Imperial Valley 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 5.27 cents per kWh commencing May 1, 2002 through April 30, 2007. After April 30, 2007, the Imperial Valley Projects subject to these amendments will revert to Edison's avoided cost of energy. Proceedings are currently pending before the California Public Utilities Commission to review, and potentially modify or change, the current methodology use to determine Edison's avoided cost of energy that will be applicable to sales of energy after April 30, 2007. There can be no assurances that such new Edison avoided cost of energy will result in revenues equivalent to the current fixed energy payments being received.

Cash flows used in investing activities was \$37.3 million for the nine-month period ended September 30, 2005 compared with cash flows generated of \$112.8 million for the same period in 2004. The change is primarily due to the concurrent payment in 2004 under the MEHC guarantee related to the redemption of a portion of the Series F Bonds and increased capital expenditures, as described below. Restricted cash increased due to the timing of distributions and deposits into the Salton Sea Funding debt service reserve account.

Capital expenditures increased to \$28.1 million for the nine-month period ended September 30, 2005 from \$18.5 million for the same period in 2004. Capital expenditures increased in 2005 due to a warranty settlement in 2004, which was recorded as a \$4.5 million reduction to capital equipment, the expansion of the Imperial Valley Project's landfill in 2005 and increased capital pipe replacement in 2005. Forecasted capital expenditures for 2005 are \$32.7 million. Capital expenditure needs are reviewed regularly by management and may change significantly as a result of such reviews. CE Generation expects to meet these capital expenditures with cash flows from operations.

Cash flows used in financing activities decreased to \$73.6 million for the nine-month period ended September 30, 2005 compared with \$181.7 million for the same period in 2004. The decrease is primarily due to the 2004 redemption of a portion of the Series F Bonds, as described below.

On March 1, 2004, Funding Corporation completed the redemption of an aggregate principal amount of \$136.4 million of the Series F Bonds, pro rata, at a redemption price of 100% of such aggregate outstanding principal amount, plus accrued interest to the date of redemption. Funding Corporation also made a demand on MEHC, and MEHC performed under that demand, for the full amount remaining on MEHC's guarantee of the Series F Bonds in order to fund the redemption. Given the payment under MEHC's guarantee, MEHC no longer has any liability with respect to its guarantee.

Edison and the California Power Exchange

On July 10, 2003, the Salton Sea IV Project's 40 MW turbine went out of service due to an uncontrollable force event. Such uncontrollable force event ended, and the Salton Sea IV Project's turbine returned to service, on September 17, 2003. Edison failed to recognize the uncontrollable force event and, as such, has not paid amounts otherwise due and owing under the Salton Sea IV power purchase agreement totaling \$2.5 million. Salton Sea Power Generation, L.P., with Fish Lake Power LLC, owner of the Salton Sea IV Project, served notices of error on Edison for such unpaid amounts. As a result, the Company had established an allowance for doubtful accounts of \$1.7 million for capacity payments as of December 31, 2003. In December 2004, as a result of a Settlement Agreement dated December 7, 2004 resolving the dispute, the allowance was released and the associated receivable was written off. Under the terms of the Settlement Agreement, the settlement would become effective 30 days after approval by the California Public Utility Commission. On July 21, 2005 the California Public Utilities Commission approved the settlement, and therefore the settlement became effective on August 20, 2005.

In January 2001, the California Power Exchange declared bankruptcy. As a result, Salton Sea Power L.L.C. ("Salton Sea Power") and CE Turbo LLC ("CE Turbo") had not received payment for power sold to El Paso Merchant Energy Company under certain transaction agreements during December 2000 and January 2001 of \$3.8 million (the "PX Receivable"). Salton Sea Power and CE Turbo had 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 with TransAlta USA, Inc. ("TransAlta") and MEHC (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. As of September 30, 2005, the California Power Exchange has not made any payments in connection with the PX Receivable.

Environmental Liabilities

The Company is subject to numerous legislative and regulatory environmental protection requirements involving air and water pollution, waste management, hazardous chemical use, noise abatement, and land use aesthetics. State and federal environmental laws and regulations currently have, and future modifications may have, the effect of (i) increasing the lead time for the construction of new facilities, (ii) significantly increasing the total cost of new facilities, (iii) requiring modification of the Company's existing facilities, (iv) increasing the risk of delay on construction projects, (v) increasing the Company's cost of waste disposal and (vi) reducing the reliability of service provided by the Company and the amount of energy available from the Company's facilities. Any of such items could have a substantial impact on amounts required to be expended by the Company in the future. Expenditures for ongoing compliance with environmental regulations that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments indicate that remediation efforts are probable and the costs can be reasonably estimated. Estimates of the liability are based upon currently available facts, existing technology and presently enacted laws and regulations taking into consideration the likely effects of inflation and other social and economic factors, and include estimates of associated legal costs. These amounts also consider prior experience in remediation of sites, other companies' clean-up experience and data released by the Environmental Protection Agency ("EPA") or other organizations. These estimated liabilities are subject to revision in future periods based on actual costs or new circumstances, and are included in the accompanying consolidated balance sheets at their undiscounted amounts. As of September 30, 2005 and December 31, 2004, the environmental liabilities recorded on the consolidated balance sheets were \$3.5 million and \$4.2 million, respectively.

On March 10, 2005, the EPA released the final Clean Air Interstate Rule (“CAIR”), calling for reductions of sulfur dioxide and nitrogen oxides emissions (NO_x) in the eastern United States through a market-based cap and trade system. The State of New York, where the Saranac Project is located, has been determined by the EPA to significantly contribute to nonattainment of the fine particulate standard in Pennsylvania, New Jersey, Connecticut and Delaware and to nonattainment of the ozone standard in Connecticut, New Jersey and Rhode Island. Similarly, the state of Texas, where the Power Resources Project is located, has been determined by the EPA to significantly contribute to nonattainment of the fine particulate standard in Illinois. Under the final CAIR, the first phase reductions of NO_x emissions are effective on January 1, 2009, with the second phase reductions effective January 1, 2015. Depending on the outcome of CAIR litigation and implementation of the CAIR by New York and Texas, the CAIR emission reduction requirements could impact the Saranac and Power Resources. The CAIR could, in whole or in part, be superseded or made more stringent by one of a number of multi-pollutant emission reduction proposals currently under consideration at the federal level as well as possible new federal regulation of carbon dioxide and other gases that may affect global climate change.

CERTIFICATION

I, Stefan A. Bird, 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 registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers 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 registrant, 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 registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: November 14, 2005

/s/ Stefan A. Bird
Stefan A. Bird
President
(chief executive officer)

CERTIFICATION

I, Andrea R. Scheidel, 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 registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers 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 registrant, 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 registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: November 14, 2005

/s/ Andrea R. Scheidel
Andrea R. Scheidel
Vice President and Controller
(chief accounting officer)