CE GENERATION LLC

Consolidated Financial Statements

As of December 31, 2005 and 2004 and for each of the

Three Years in the Period Ended December 31, 2005

TABLE OF CONTENTS

Independent Auditors' Report	3
Consolidated Balance Sheets	4
Consolidated Statements of Operations and Other Comprehensive Income	5
Consolidated Statements of Members' Equity	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8
Management's Discussion and Analysis of Financial Condition and Results of Operations	21

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of CE Generation, LLC and subsidiaries (the "Company") as of December 31, 2005 and 2004, and the related consolidated statements of operations and other comprehensive income, of members' equity, and of cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of CE Generation, LLC and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 7 to the consolidated financial statements, the Company changed its accounting policy for asset retirement obligations in 2003.

/s/ Deloitte & Touche LLP

Omaha, Nebraska
March 31, 2006

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

	As of December 31,	
	2005	**2004**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 38,836	$ 30,659
Short-term investments	6,000	5,000
Restricted cash	7,203	7,252
Trade accounts receivable	59,338	49,800
Trade accounts receivable from affiliate	4,244	1,285
Inventories	28,515	26,604
Prepaid expenses and other current assets	7,227	6,088
Due from affiliates	-	1,165
Total current assets	151,363	127,853
Restricted cash	2,212	1,732
Properties, plants and equipment, net	877,012	916,419
Intangible assets, net	115,690	131,482
Goodwill	265,897	265,897
Deferred financing charges and other assets	5,925	7,124
Total assets	$ 1,418,099	$ 1,450,507
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities:		
Accounts payable	$ 7,162	$ 5,109
Accrued interest	2,736	2,915
Interest rate swap liability	2,252	6,391
Accrued natural gas liability	10,720	7,590
Other accrued liabilities	18,373	24,706
Income tax payable	2,699	2,300
Due to affiliates	726	-
Current portion of long-term debt	76,220	69,612
Total current liabilities	120,888	118,623
Parent senior secured bonds	289,800	309,000
Subsidiary and project debt	287,017	344,038
Deferred income taxes	249,885	245,195
Other long-term liabilities	10,002	10,652
Total liabilities	957,592	1,027,508
Minority interest	44,969	45,658
Commitments and contingencies (Note 10)		
Members' equity:		
Members' equity	416,566	380,238
Accumulated other comprehensive loss	(1,028)	(2,897)
Total members' equity	415,538	377,341
Total liabilities and members' equity	$ 1,418,099	$ 1,450,507

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)

	Year Ended December 31,		
	2005	**2004**	**2003**
Operating revenue	$ 483,956	$ 439,866	$ 483,397
Costs and expenses:			
Fuel	108,635	92,065	118,334
Plant operations	120,010	133,939	129,815
General and administrative	3,350	3,983	4,416
Depreciation and amortization	87,973	90,855	91,527
Asset impairment (Note 3)	-	54,537	-
Total costs and expenses	319,968	375,379	344,092
Operating income	163,988	64,487	139,305
Other income (expense):			
Interest expense	(55,771)	(61,468)	(69,421)
Interest and other income	4,931	4,362	4,025
Total other income (expense)	(50,840)	(57,106)	(65,396)
Income before provision (benefit) for income taxes and minority interest	113,148	7,381	73,909
Provision (benefit) for income taxes	21,288	(11,570)	15,721
Minority interest	27,234	22,035	20,847
Income (loss) before cumulative effect of change in accounting principle	64,626	(3,084)	37,341
Cumulative effect of change in accounting principle, net of tax (Note 7)	-	-	(2,467)
Net income (loss)	$ 64,626	$ (3,084)	$ 34,874
Other comprehensive income:			
Unrealized gain on cash flow hedges, net of tax of $1,043, $1,857 and $1,999	1,869	3,340	3,616
Comprehensive income	$ 66,495	$ 256	$ 38,490

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

CE GENERATION, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
FOR THE THREE YEARS ENDED DECEMBER 31, 2005
(In thousands)

	Members' Equity	Accumulated Other Comprehensive Loss	Total
Balance, January 1, 2003	$ 499,748	$ (9,853)	$ 489,895
Distributions	(109,500)	-	(109,500)
Net income	34,874	-	34,874
Other comprehensive income - Fair value adjustment on cash flow hedges, net of tax of $1,999	-	3,616	3,616
Balance, December 31, 2003	425,122	(6,237)	418,885
Distributions	(41,800)	-	(41,800)
Net loss	(3,084)	-	(3,084)
Other comprehensive income - Fair value adjustment on cash flow hedges, net of tax of $1,857	-	3,340	3,340
Balance, December 31, 2004	380,238	(2,897)	377,341
Distributions	(28,298)	-	(28,298)
Net income	64,626	-	64,626
Other comprehensive income - Fair value adjustment on cash flow hedges, net of tax of $1,043	-	1,869	1,869
Balance, December 31, 2005	$ 416,566	$ (1,028)	$ 415,538

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

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

	Year Ended December 31,		
	2005	**2004**	**2003**
Cash flows from operating activities:			
Net income (loss)	$ 64,626	$ (3,084)	$ 34,874
Adjustments to reconcile net income (loss) to cash flows from operating activities:			
Depreciation and amortization	87,973	90,855	91,527
Provision for deferred income taxes	3,647	(10,924)	8,657
Distributions to minority interest in excess of income	(1,916)	(5,515)	(5,029)
Cumulative effect of change in accounting principle, net of tax	-	-	2,467
Asset impairment	-	54,537	-
Amortization of deferred financing costs	1,199	1,248	1,488
Changes in other items:			
Trade accounts receivable, net	(12,497)	(87)	12,556
Inventories	(1,911)	(1,339)	(216)
Due from affiliates, net	1,891	488	(1,057)
Accounts payable and other accrued liabilities	(3,562)	4,695	(2,577)
Other assets	(1,139)	186	3,926
Net cash flows from operating activities	138,311	131,060	146,616
Cash flows from investing activities:			
Capital expenditures, net of warranty settlement	(30,792)	(26,654)	(22,541)
Proceeds from related party note receivable	-	136,383	1,406
Purchases of available-for-sale securities	(99,500)	(249,000)	(219,300)
Proceeds from sales of available-for-sale securities	98,500	247,850	230,450
(Increase) decrease in restricted cash	(431)	4,732	60,821
Net cash flows from investing activities	(32,223)	113,311	50,836
Cash flows from financing activities:			
Repayment of project loans	(26,193)	(22,100)	(40,568)
Repayment of Salton Sea notes and bonds	(28,620)	(165,215)	(28,087)
Repayment of Senior secured bonds	(14,800)	(14,600)	(18,000)
Distributions	(28,298)	(41,800)	(109,500)
Net cash flows from financing activities	(97,911)	(243,715)	(196,155)
Net change in cash and cash equivalents	8,177	656	1,297
Cash and cash equivalents at beginning of year	30,659	30,003	28,706
Cash and cash equivalents at end of year	$ 38,836	$ 30,659	$ 30,003
Supplemental disclosure:			
Interest paid	$ 54,751	$ 58,898	$ 66,653
Income taxes paid (refunded)	$ 19,418	$ (1,356)	$ 1,614

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

CE GENERATION, LLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Operations

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

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

Operating Project	Facility Net Capacity (MW)(1)	Net MW Owned(1)	Location	Purchase Power Agreement Expiration	Power Purchaser(2)
Geothermal Facilities:					
Salton Sea Projects -					
Salton Sea I Project	10	10	California	2017	Edison
Salton Sea II Project	20	20	California	2020	Edison
Salton Sea III Project	50	50	California	2019	Edison
Salton Sea IV Project	40	40	California	2026	Edison
Salton Sea V Project	49	49	California	Varies(3)	Various(3)
Total Salton Sea Projects	169	169			
Partnership Projects -					
Vulcan Project	34	34	California	2016	Edison
Elmore Project	38	38	California	2018	Edison
Leathers Project	38	38	California	2019	Edison
Del Ranch Project	38	38	California	2019	Edison
CE Turbo Project	10	10	California	2029	APS
Total Partnership Projects	158	158			
Total geothermal facilities	327	327			
Natural Gas-Fired Facilities:					
Saranac Project	240	180	New York	2009	NYSE&G
Power Resources Project	212	212	Texas	N/A	Market sales
Yuma Project	50	50	Arizona	2024	SDG&E
Total natural gas-fired facilites	502	442			
Total operating projects	829	769			

(1) Represents the nominal net megawatt ("MW") generating capability. Actual MW may vary depending on operating and reservoir conditions and plant design. Net MW Owned indicates current legal ownership, but, in the case of the Saranac Project, does not reflect the current allocation of partnership distributions.

(2) Southern California Edison Company ("Edison"); Arizona Public Service ("APS"); New York State Electric & Gas Corporation ("NYSE&G"); and San Diego Gas & Electric Company ("SDG&E").

(3) The Salton Sea V Project provides 20 MWs to Riverside Public Utilities ("Riverside") and the remaining capacity to TransAlta. Riverside has agreed to purchase all available capacity from the Salton Sea V Project beginning June 1, 2013.

Prior to March 3, 1999, CE Generation was wholly-owned by MidAmerican Energy Holdings Company ("MEHC"). On March 3, 1999, MEHC sold 50% of its ownership interests in CE Generation to El Paso CE Generation Holding Company ("El Paso"). On January 29, 2003, TransAlta USA Inc. ("TransAlta"), a wholly-owned subsidiary of TransAlta Corporation, purchased El Paso's 50% interest in CE Generation. As of May 31, 2005, TransAlta transferred all its rights and interests in CE Generation to TransAlta (CE GEN) Investments USA, Inc., which is also a wholly-owned subsidiary of TransAlta Corporation.

2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of CE Generation, its wholly-owned subsidiaries and a majority-owned limited partnership, Saranac Power Partners L.P. (the "Saranac Partnership"), in which the Company indirectly holds a 1% general partnership and 74% limited partnership ownership interest. The remaining interests in the Saranac Partnership are owned by three limited partners. Net income and distributions from the Saranac Partnership are allocated to the partners based on allocation percentages that vary through the life of the partnership, as specified in the partnership agreement. These allocation percentages will differ from the stated ownership percentages until certain limited partners achieve fixed rates of returns. As of December 31, 2005, the Company's economic interest in the partnership was approximately 60%, while the minority interest holders had a combined economic interest in the partnership of approximately 40%. The equity interest of the other partners is recorded as a minority interest in the accompanying consolidated financial statements. All inter-enterprise transactions and accounts have been eliminated.

Reclassifications

Certain amounts in the fiscal 2004 and 2003 consolidated financial statements and supporting note disclosures have been reclassified to conform to the fiscal 2005 presentation, including the reclassification of changes in restricted cash and auction rate securities. Such reclassifications did not impact previously reported net income or retained earnings.

The accompanying combined 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 combined statements of cash flows, cash and cash equivalents were reduced by $5.0 million at December 31, 2004, to reflect the reclassification of these instruments from cash and cash equivalents to short-term investments.

The accompanying consolidated statements of cash flows at December 31, 2003, reflect the reclassification of restricted cash from financing activities to investing activities of $52.9 million.

Use of Estimates

Preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ materially from management's estimates.

Cash and Cash Equivalents

CE Generation considers all investment instruments purchased with an original maturity of three months or less to be cash equivalents. Restricted cash is not considered a cash equivalent.

Short-term Investments

As of December 31, 2005 and 2004, the Company had $6.0 million and $5.0 million, respectively, of short-term investments consisting of auction rate securities. 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.

Restricted Cash

The current restricted cash balance consists of debt service funds that are legally restricted as to their use and require the maintenance of specific minimum balances equal to the next respective debt service payment. The non-current restricted cash balance consists of funds restricted for capital and major maintenance expenditures.

Inventories

Inventories consist of spare parts and supplies and are valued at the lower of cost or market. Cost for large replacement parts is determined using the specific identification method. For the remaining supplies, cost is determined using the weighted average cost method.

Properties, Plants and Equipment, Net

Properties, plants and equipment are recorded at historical cost. The cost of major additions and betterments are capitalized, while replacements, maintenance, overhaul and well rework and repairs that do not improve or extend the lives of the respective assets are expensed. Depreciation is generally computed using the straight-line method based on economic lives. The Company believes the useful lives assigned to the depreciable assets, which generally range from 2 to 30 years, are reasonable.

The Company recognizes an asset retirement obligation ("ARO") in accordance with Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"), for legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. SFAS 143 requires that the fair value of a liability for an ARO be recognized in the period in which it is incurred, if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset, which is then depreciated over the remaining useful life of the asset.

Intangible Assets, Net

The Company's intangible assets consist of acquired power sales agreements and are amortized using the straight-line method over the remaining contract periods, which have ranged from 4 to 30 years.

Impairment of Long-Lived Assets

The Company periodically evaluates long-lived assets, including properties, plants and equipment, and intangible assets when events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Upon the occurrence of a triggering event, the carrying amount of a long-lived asset or intangible asset is reviewed to assess whether the recoverable amount has declined below its carrying amount. The recoverable amount is the estimated net future cash flows that the Company expects to recover from the future use of the asset, undiscounted and without interest, plus the asset's residual value on disposal. Where the recoverable amount of the long-lived asset or intangible asset is less than the carrying value, an impairment loss is recognized to write down the asset to its fair value that is based on discounted estimated cash flows from the future use of the asset.

Goodwill

The provisions of SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), which establishes the accounting for acquired goodwill and other intangible assets, and provides that goodwill and indefinite-lived intangible assets will not be amortized, requires allocating goodwill to each reporting unit and testing for impairment using a two step approach. The goodwill impairment test is performed annually or whenever an event has occurred that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company completed its annual review pursuant to SFAS 142 as of October 31, 2005, using a discounted cash flow methodology. No impairment was indicated as a result of the assessment.

Revenue Recognition and Significant Customers

Operating revenue is derived primarily from the sale of electricity and is recorded based upon energy delivered and capacity provided at rates specified under long-term power purchase contracts or at prevailing market rates. The majority of the contracts contain both fixed, or scheduled, and variable price periods. During the fixed, or scheduled, period, energy revenue is recognized

at the lower of (i) amounts billable under the contract or (ii) an amount equal to the kilowatt-hour ("kWh") made available during the period multiplied by the estimated average revenue per kWh over the term of the contract. Energy revenue during the variable period and capacity revenue in all periods are recognized as billed.

CE Generation's sales of electricity from the Imperial Valley Projects comprised approximately 46%, 47%, and 39%, of 2005, 2004, and 2003 operating revenue, respectively. Of these sales, approximately 86%, 87% and 90% were to Edison in 2005, 2004 and 2003, respectively. Sales of electricity from the Saranac Project comprised approximately 44%, 44% and 39%, of 2005, 2004 and 2003 operating revenue, respectively. Of these sales, all were to NYSE&G. Sales of electricity from the Power Resources Project comprised approximately 1%, 1% and 16%, of 2005, 2004 and 2003 operating revenue, respectively. In 2003, approximately 97% of these sales were to the TXU Power Generation Company LP under a power purchase agreement that expired September 30, 2003.

The trade accounts receivable balances are primarily uncollateralized receivables from long-term power purchase contracts. At December 31, 2005 and 2004, the trade accounts receivable balance from Edison was $27.0 million and $26.6 million, respectively, and from NYSE&G was $18.4 million and $17.2 million, respectively. The allowance for doubtful accounts is based on the Company's assessment of the collectibility of specific customer accounts and the aging of its accounts receivable. Additionally, an allowance is established when disputes under power purchase agreements arise. The outcomes of these disputes are subject to significant uncertainty. The Company recognizes an estimated loss if it is probable that the disputed amounts billed will not be collected and the loss can be reasonably estimated. The Company uses judgment and evaluates, with the assistance of legal counsel, whether a loss should be disclosed or recognized as an adjustment to operating revenue. Historically, excluding contract disputes, the Company's trade accounts receivable balances have been collectible and no significant bad debt expense has been recognized. However, if there is a deterioration of a significant customer's credit worthiness, estimates of recoverability of the trade accounts receivable balances could be adversely affected. At December 31, 2005 and 2004, there was no allowance for doubtful accounts recorded.

Income Taxes

CE Generation and its subsidiaries file a consolidated U.S. federal income tax return and other state and federal jurisdictional returns as required. Deferred tax assets and liabilities are recognized based on the difference between the financial statement and tax basis of assets and liabilities using estimated tax rates in effect for the year in which the differences are expected to reverse.

In preparing the Company's tax returns, management is required to interpret complex tax laws and regulations. The Company is subject to continuous examinations by federal, state and local tax authorities that may give rise to different interpretations of these complex laws and regulations. Due to the nature of the examination process, it generally takes years before these examinations are completed and these matters are resolved. The Internal Revenue Service has closed examination of the Company's income tax returns for 2002 and 2003, while the 1999 through 2001 tax years remain open. Although the ultimate resolution of the Company's tax examinations is uncertain, the Company believes it has made adequate provisions for income tax payables and the aggregate amount of any additional tax liabilities that may result from these examinations, if any, will not have a material adverse affect on the Company's financial condition, results of operations or cash flows. Tax contingency reserves are included in income tax payable and other long-term liabilities, as appropriate, in the accompanying consolidated balance sheets.

Risk Management and Hedging Activities

The Company utilizes swap agreements to manage market risks and to reduce its exposure resulting from fluctuations in interest rates. The Company follows SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, and records all of its derivative instruments in the accompanying consolidated balance sheets at their fair values as either assets or liabilities. The Company's practice is not to hold or issue derivative instruments for trading purposes.

The interest rate swap agreements are considered cash flow hedges and, therefore, changes in the fair value of these derivative instruments are included in the accompanying consolidated statements of members' equity and other comprehensive income as accumulated other comprehensive income until the hedged item is realized, at which time they are recorded as adjustments to interest expense over the term of the related debt issuance. These instruments are either exchange traded or with counterparties of high credit quality; therefore, the risk of nonperformance by the counterparties is considered to be negligible. Fair values of financial instruments are estimated based on quoted market prices for debt issues actively traded or on market prices of similar instruments.

3. Properties, Plants and Equipment, Net

Properties, plants and equipment comprise the following at December 31 (in thousands):

	Estimated Useful Lives	2005	2004
Power plants	25 to 30 years	$1,205,860	$1,189,443
Wells and resource development	2 to 30 years	204,255	198,395
Equipment	3 to 30 years	6,055	4,210
Total operating assets		1,416,170	1,392,048
Accumulated depreciation and amortization		(539,158)	(475,629)
Properties, plants and equipment, net		$ 877,012	$ 916,419

Asset Impairments

On August 5, 2003, Power Resources, Ltd. ("Power Resources"), an indirect wholly-owned sub of the Company, entered into a Tolling Agreement with ONEOK Energy, Marketing and Trading Company, L.P. ("ONEOK"). The agreement commenced October 1, 2003 and expired December 31, 2005. Under the terms of the agreement, Power Resources, as an exempt wholesale generator, sold its electricity and capacity to ONEOK for a fixed price per kilowatt-month plus variable operating and maintenance recovery fees.

Given the December 31, 2005, expiration of the Tolling Agreement with ONEOK and the surplus of generation capacity and energy prices in the Electric Reliability Council of Texas markets, the Company evaluated Power Resources' long-lived assets to assess whether the carrying value of the assets was recoverable and, during the fourth quarter of 2004, management determined that a portion of the carrying value of the Power Resources long-lived assets was no longer recoverable. As a result, the Company recognized a non-cash impairment charge of $54.5 million, $33.5 million after-tax, in accordance with SFAS No. 144, "Accounting for the Impairment of Long-Lived Assets," to write down the long-lived assets to their fair value. The fair value was determined based on discounted estimated cash flows from the future use of the long-lived assets. The impairment charge will not result in any current or future cash expenditures.

The Company has efforts underway to evaluate and execute long-term business strategies for the Power Resources Project, which is currently being operated as a merchant power plant and is subject to electricity and gas markets to economically dispatch its output. Power Resources entered into a one-year Energy Management Services Agreement with Mpower Trade and Marketing, LP ("Mpower") effective January 1, 2006. Mpower is engaged to manage the electrical generation, steam, and ancillary services capacity and related natural gas requirements of the plant. Mpower is due 10% of all net margins generated and Mpower's credit is used in all transactions with no credit assurance required from Power Resources or the Company.

Additionally, the Company replaced certain pipe in 2005, 2004 and 2003 with a remaining net book value of $4.3 million, $6.7 million and $3.9 million, respectively, which was charged to depreciation expense in the accompanying consolidated statements of operations.

Stone & Webster, Inc. ("Stone & Webster")

The Salton Sea V Project was constructed by Stone & Webster, pursuant to a date certain, fixed-price, turnkey engineering, procure, construct and manage contract (the "Salton Sea V Project EPC Contract"). On March 7, 2002, Salton Sea Power LLC ("Salton Sea Power"), the owner of the Salton Sea V Project, filed a Demand for Arbitration against Stone & Webster for breach of contract and breach of warranty arising from deficiencies in Stone & Webster's design, engineering, construction and procurement of equipment for the Salton Sea V Project pursuant to the Salton Sea V Project EPC Contract. On April 25, 2003, Salton Sea Power entered into a settlement agreement with Stone & Webster. The Settlement Agreement resulted in a total payment of $12.1 million from Stone & Webster in the second quarter 2003 and the arbitration was dismissed. The settlement was recorded in 2003 as a $4.5 million reduction of incremental capital expenditures and a $7.6 million reduction of incremental operating expenses related to legal, other expenses and equipment write-offs.

4. Intangible Assets, Net

Intangible assets comprise the following at December 31 (in thousands):

		2005		2004	
	Estimated Useful Lives	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Power Purchase Contracts	4 to 30 years	$ 315,434	$ 224,861	$ 315,434	$ 210,999
Patented Technology	24 years	46,290	21,173	46,290	19,243
Total		$ 361,724	$ 246,034	$ 361,724	$ 230,242

Amortization expense on acquired intangible assets was $15.8 million, $15.8 million and $18.7 million for the years ended December 31, 2005, 2004 and 2003, respectively. CE Generation expects amortization expense on acquired intangible assets to be $15.8 million for each of the three succeeding fiscal years, $11.1 million in 2009, and $5.7 million in 2010.

5. Subsidiary and Project Debt

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.
Subsidiary and project debt consists of the following at December 31 (in thousands):

	2005	2004
Saranac Note Payable	$ 74,280	$100,473
Salton Sea Notes and Bonds	269,757	298,377
Total Subsidiary and Project Debt	344,037	398,850
Less current portion	(57,020)	(54,812)
Total Long-Term Subsidiary and Project Debt	$ 287,017	$344,038

Saranac Note Payable

On October 7, 1994, the Saranac Partnership signed a 14-year note payable agreement with a lender for an initial principal amount of $204.6 million. Under the terms of the note payable agreement, interest rate alternatives include an option to use a Eurodollar rate or the lender’s base rate. Each option includes an interest margin in addition to the applicable rate selected. The outstanding balance at December 31, 2005 and 2004 was $74.3 million and $100.5 million, respectively. The selected interest rate, plus interest margin, at December 31, 2005 and 2004 was 5.40% and 3.10%, respectively.

Effective October 7, 1994, the Saranac Partnership entered into an interest rate swap agreement with the lender as a means of hedging floating interest rate exposure related to its 14-year note payable. The swap agreement was an initial notional amount of $204.6 million and effectively fixes the interest rate at 8.31% from October 2001 through October 2005 and at 8.56% thereafter. The Saranac Partnership may be exposed to credit loss in the event of nonperformance by the lender under the interest rate swap agreement. However, the Saranac Partnership does not anticipate nonperformance by the lender. The fair value of the swap as of December 31, 2005 and 2004 was $2.3 million and $6.4 million, respectively, and is included in interest rate swap liability in the accompanying consolidated balance sheets.

Annual repayments of the note payable for the years ending December 31 are as follows (in thousands):

2006	$ 31,104
2007	34,378
2008	8,798
Total	$ 74,280

The note agreements are collateralized by all of the Saranac Partnership's assets. The Saranac Partnership is restricted by the terms of the note payable agreement from making distributions or withdrawing any capital accounts without the consent of the lender. Under the terms of the note payable agreement, distributions may be made to the partners in accordance with the terms of the Saranac Partnership Agreement. The note payable agreement also requires the Saranac Partnership to maintain certain covenants. The Saranac Partnership was in compliance with these requirements at December 31, 2005.

General Electric Capital Corporation ("GECC"), an indirect minority owner of the Saranac Partnership, has issued an irrevocable letter of credit for the account of the Saranac Partnership to its gas supplier in the amount of $16.6 million. Under the credit facility pursuant to which GECC issued such letter of credit, the Saranac Partnership has additional availability of $3.9 million for additional letters of credit. Annual fees related to these letters of credit are calculated as 1.75% of the issued balance and 0.5% of the unissued balance.

Salton Sea Notes and Bonds

Salton Sea Funding Corporation ("Funding Corporation"), a wholly-owned indirect subsidiary of CE Generation, has issued debt securities as follows (in thousands):

Issued Date	Senior Secured Series	Final Maturity Date	Rate	December 31, 2005	December 31, 2004
July 21, 1995	B Bonds	May 30, 2005	7.37%	$ -	$ 21,504
July 21, 1995	C Bonds	May 30, 2010	7.84%	96,586	98,396
June 20, 1996	E Bonds	May 30, 2011	8.30%	36,572	40,072
October 13, 1998	F Bonds	November 30, 2018	7.48%	136,599	138,405
				$ 269,757	$ 298,377

Principal and interest payments are made in semi-annual installments. Funding Corporation debt is non-recourse to CE Generation.

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

In support of Funding Corporation's debt service requirements, a financial institution has issued a letter of credit for the account of TransAlta and a separate financial institution has issued a letter of credit for the account of MEHC. Each letter of credit was issued in the amount of $23.1 million at December 31, 2005.

Annual repayments of Funding Corporation debt for the years ending December 31 are as follows (in thousands):

2006	$ 25,916
2007	25,091
2008	28,065
2009	26,210
2010	26,741
Thereafter	137,734
Total	$ 269,757

CE Generation's ability to obtain distributions from its investment in the Salton Sea Projects and the Partnership Projects is subject to the following conditions:

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

6. Parent Senior Secured Bonds

On March 2, 1999, CE Generation issued $400.0 million of 7.416% senior secured bonds due 2018 (the "Senior Secured Bonds"). These securities are senior secured debt which rank equally in right of payment with CE Generation's other senior secured debt permitted under the indenture for the securities, share equally in the collateral with CE Generation's other senior secured debt permitted under the indenture for the securities, and rank senior to any of CE Generation's subordinated debt permitted under the indenture for the securities. These securities are effectively subordinated to the existing project financing debt and all other debt of CE Generation's consolidated subsidiaries. The outstanding balance as of December 31, 2005 and 2004 was $309.0 million and $323.8 million, respectively.

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

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

A financial institution had issued for the account of CE Generation a debt service reserve letter of credit in the amount of $24.2 million in favor of the holders of the Senior Secured Bonds. On February 9, 2006, the previous $24.2 million debt service reserve letter of credit was replaced by a letter of credit issued by a financial institution for the account of TransAlta and by a letter of credit issued by a separate financial institution for the account of MEHC. Each letter of credit is currently issued in the amount of $12.1 million.

Annual repayments of the Senior Secured Bonds for the years ending December 31 are as follows (in thousands):

2006	$ 19,200
2007	18,000
2008	28,200
2009	24,600
2010	14,200
Thereafter	204,800
Total	$ 309,000

7. Asset Retirement Obligations

On January 1, 2003, the Company adopted SFAS 143, which provides accounting and disclosure requirements for retirement obligations associated with long-lived assets. The effect of initially applying this statement was recognized as a cumulative effect of a change in accounting principle of $2.5 million, net of tax of $1.6 million, as of January 1, 2003.

On December 31, 2005, the Company adopted Financial Accounting Standards Board ("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, the Company is required to recognize a liability for the fair value of a conditional ARO if the fair value of the liability can be reasonably estimated. Uncertainty about the timing or method of settlement of a conditional ARO should be factored into the measurement of the liability when sufficient information exists. Adoption of FIN 47 had no effect on the Company's financial position, results of operations or cash flows.

In adopting both SFAS 143 and FIN 47, the Company's review identified legal retirement obligations for power plant and well abandonment costs. The Company used an expected cash flow approach to measure the obligations. 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 ARO expenditures will be made is indeterminate, the fair value of the ARO cannot be reasonably estimated. Gas plants which reside on owned land have no legal retirement obligation.

The change in the balance of the ARO liability, which is included in other long-term liabilities in the accompanying consolidated balance sheets, for the years ended December 31 is summarized as follows (in thousands):

	2005	**2004**
Balance, January 1	$ 8,220	$ 8,039
Revisions	1,040	-
Accretion	263	181
Balance, December 31	$ 9,523	$ 8,220

8. Income Taxes

The provision (benefit) for income taxes consists of the following for the years ended December 31 (in thousands):

	2005	**2004**	**2003**
Current:			
Federal	$ 14,639	$ (807)	$ 5,161
State	3,002	161	1,903
	17,641	(646)	7,064
Deferred:			
Federal	3,812	(9,431)	6,410
State	(165)	(1,493)	2,247
	3,647	(10,924)	8,657
Total	$ 21,288	$ (11,570)	$ 15,721

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

	2005	2004	2003
Federal statutory rate	35.0%	35.0%	35.0%
Percentage depletion	(6.4)	(57.8)	(3.7)
Energy tax credits	(1.4)	(13.2)	(1.3)
Domestic production deduction	(0.6)	-	-
State taxes, net of federal benefit	2.0	(11.7)	3.6
Minority interest	(8.4)	(104.5)	(9.9)
Other items, net	(1.4)	(4.6)	(2.4)
Effective tax rate	18.8%	(156.8)%	21.3%

Income tax expense is only provided for the taxable earnings of the Company, including its partnership interests. No provision for income taxes is provided in the accompanying consolidated financial statements for the minority interests' share of the partnership earnings.

CE Generation has a federal energy tax credit carryforward of $2.5 million that begins to expire in 2025 unless previously utilized. CE Generation has federal and state alternative minimum tax credit carryforwards of $1.0 million that do not expire and will carryforward indefinitely until utilized. CE Generation has a $0.8 million deferred tax asset related to California net operating loss carryforwards ("NOL") that begin to expire in 2013 unless previously utilized.

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

	2005	2004
Deferred tax assets:		
Accruals not currently deductible for tax purposes	$ 4,357	$ 4,723
NOL and credit carryforwards	4,287	10,096
Total deferred tax assets	8,644	14,819
Deferred tax liabilities:		
Properties, plants, contracts and equipment	253,506	255,248
Other	5,023	4,766
Total deferred tax liabilities	258,529	260,014
Net deferred tax liability	$ 249,885	$ 245,195

9. Fair Value of Financial Instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. Although management uses its best judgment in estimating the fair value of these financial instruments, there are inherent limitations in any estimation technique. Therefore, the fair value estimates presented herein are not necessarily indicative of the amounts which CE Generation could realize in a current transaction.

The methods and assumptions used to estimate fair value are as follows:

Interest rate swap agreements - Interest rate swap agreements are recorded at fair value, which is determined based on quoted market prices for debt issues actively traded or on market prices of similar instruments.

Debt instruments - The fair value of all debt instruments other than project loans has been estimated based upon quoted market prices as supplied by third-party broker dealers. Fair value of the project loans approximates carrying value as shown in the table below.

The carrying amounts in the table below are included in the accompanying consolidated balance sheets under the indicated captions at December 31 (in thousands):

	2005		2004	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Interest rate swap liability	$ 2,252	$ 2,252	$ 6,391	$ 6,391
Project loans	74,280	74,280	100,473	100,473
Salton Sea notes and bonds	269,757	292,458	298,377	327,756
Parent senior secured bonds	309,000	328,529	323,800	336,752

10. Commitments and Contingencies

The California Power Exchange

In January 2001, the California Power Exchange declared bankruptcy. As a result, 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 with 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 December 31, 2005, EPME had 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 consolidated balance sheets at their undiscounted amounts. As of December 31, 2005 and 2004, the environmental liabilities recorded in the accompanying consolidated balance sheets as current liabilities were $2.8 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, at each state's option, a market-based cap and trade system, emission reductions, or both. 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, and the second phase reductions are 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, including pending legislative proposals that contemplate 70% to 90% reductions of NO_X, as well as possible new federal regulation of carbon dioxide and other gases that may affect global climate change. In addition to any federal legislation that could be enacted by Congress to supersede the CAIR, the rules could be changed or overturned as a result of litigation. The sufficiency of the standards established by the CAIR has been legally challenged in the United States District Court for the District of Columbia. Until the court makes a determination regarding the merits of the challenges to the CAIR, the full impact of the rules on the Company cannot be determined.

Other

The Saranac Partnership has a contract to purchase natural gas from a third party for its cogeneration facility for a period of 15 years for an amount up to 51,000 MMBtus per day which expires in 2009. The price for such deliveries is a stated rate, escalated annually at a rate of 4%. The minimum volumes under the agreement for the years ending December 31 are included in the future minimum payments under the contract as follows (in thousands):

2006	$ 71,286
2007	74,137
2008	77,313
2009	37,536
Total	$ 260,272

11. 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 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 expense pursuant to the Administrative Services Agreement for 2005, 2004 and 2003 totaled $3.0 million, $3.1 million and $3.1 million, respectively, and is included in plant operations and 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 approximately $1.8 million, $2.1 million and $2.3 million in 2005, 2004 and 2003, respectively.

Commencing on March 27, 2001, Salton Sea Power and CE Turbo entered into a series of transaction agreements to sell available power from the Salton Sea V Project and the CE Turbo Project to EPME based on percentages of the Dow Jones SP-15 Index. On February 11, 2003, Salton Sea Power and CE Turbo ceased selling available power to EPME. Pursuant to these transaction agreements, sales to EPME totaled $1.2 million in 2003.

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 $16.4 million, $10.5 million and $9.9 million in 2005, 2004 and 2003, respectively. As of December 31, 2005 and 2004, accounts receivable balances from TransAlta were $4.1 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 ("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 commenced in July 2004 and totaled $2.2 million and $0.5 million in 2005 and 2004, respectively. Effective January 27, 2006, CE Turbo has terminated the TransAlta Transaction Agreement and begun deliveries to APS under a power sales agreement through December 31, 2029. CE Turbo will provide 10 MW to APS at an initial energy rate of $80 per MWh for on-peak hours during summer months (June - September) and $55.55 per MWh for all other hours. The energy rates are increased throughout the term of the agreement, reaching a high on June 1, 2024 of $110 per MWh for on-peak hours during summer months and $77.83 per MWh for all other hours. As of December 31, 2005 and 2004, accounts receivable balances from TransAlta were $4.1 million and $1.3 million, respectively. Salton Sea Power has notified TransAlta that the TransAlta Transaction Agreement will terminate on June 1, 2013, at which point all available power will be available to Riverside.

Pursuant to the Amended and Restated Power Sales Agreements dated November 1, 1998, Salton Sea Power and CE Turbo provided CalEnergy Minerals LLC, an indirect wholly-owned subsidiary of MEHC, electric energy at market rates. The Company no longer provides energy under the agreement. Sales totaled $- million, $1.3 million and $0.9 million for 2005, 2004 and 2003, respectively.

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 (together with CE Generation, the "Company") during the periods included in the accompanying consolidated financial statements. This discussion should be read in conjunction with the Company's historical consolidated financial statements and the related notes thereto. 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 occurred during the years ended December 31, 2005, 2004 and 2003, respectively, as discussed in more detail herein, that highlight some of the factors which affected, or may affect in the future, the Company's financial condition, results of operations and liquidity:

- The Company's ten geothermal facilities in the Imperial Valley of California (the "Imperial Valley Projects") had more extensive brine system and turbine overhauls in 2004 compared to less extensive brine system and turbine overhauls in 2005. The more extensive 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 long-term power purchase agreement between Power Resources and TXU Power Generation Company, LP ("TXU") expired in September 2003. A portion of this lost revenue was replaced with the October 1, 2003 tolling agreement between Power Resources and ONEOK Energy, Marketing and Trading Company, L.P. ("ONEOK"). The ONEOK contract expired on December 31, 2005. Power Resources entered into a one-year Energy Management Service Agreement with Mpower Trade and Marketing, LP ("Mpower") effective January 1, 2006.

- The Company recognized a partial impairment of Power Resources' long-lived assets resulting in a non-cash after-tax charge of $33.5 million in 2004.

- 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 Salton Sea III and Salton Sea IV Projects had uncontrollable force events in 2003.

- On March 1, 2004, Salton Sea Funding Corporation ("Funding Corporation") redeemed $136.4 million of its 7.475% Senior Secured Series F Bonds ("Series F Bonds") on March 1, 2004, and collected $136.4 million under Funding Corporation's demand on MEHC.

- The Salton Sea V Project reached a settlement agreement in April 2003 with Stone & Webster Inc. ("Stone & Webster"), which resulted in the receipt of $12.1 million from Stone & Webster. The settlement was recorded in 2003 as a $4.5 million reduction of incremental capital expenditures and a $7.6 million reduction of incremental operation expenditures.

Results of Operations

Operating Revenue

The capacity factor for a particular project is determined by dividing the total quantity of electricity sold by the product of the project's capacity and the total hours in the year. Refer to Note 1 of Notes to Consolidated Financial Statements for the net capacity of each facility. Each plant possesses an operating margin, which allows for production in excess of a facilities 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 thousands):

	Year Ended December 31		
	2005	**2004**	**2003**
Natural gas-fired facilities	$ 262,378	$ 232,996	$ 297,046
Geothermal facilities	221,578	206,870	186,351
Total operating revenue	$ 483,956	$ 439,866	$ 483,397

Natural Gas-Fired Facilities

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

	Year Ended December 31		
	2005	**2004**	**2003**
Overall capacity factor	71.9%	62.9%	77.9%
Megawatt hours ("MWh") produced	3,162,600	2,775,600	3,364,479
Capacity (net MW) (weighted average)	502.0	502.0	493.0

Operating revenue at the natural gas-fired facilities increased $29.4 million, or 12.6%, in 2005 versus 2004 primarily due to the following:

- $12.8 million increase at the Saranac Project due to a 6.4% increase in production over 2004. Maintenance was completed on the Saranac Project's turbine during the fourth quarter of 2004 resulting in lower production during that period.
- $6.8 million due to rate escalations under the Saranac Project's 15-year power purchase agreement.
- The Yuma Project sells energy to San Diego Gas & Electric Company at its avoided cost of energy, which increased to 8.8 cents per kilowatt hour ("kWh") in 2005 from 6.6 cents per kWh in 2004, resulting in a $7.4 million increase in revenue. The Yuma Project also incurred increased fuel costs.

The increases in the overall capacity factor and MWh produced in 2005 versus 2004 was due to an increase in dispatch at the Power Resources Project under the tolling agreement with ONEOK and the 6.4% increase at the Saranac Project discussed above. The majority of the revenue under the tolling agreement with ONEOK was for fixed capacity fees.

Operating revenue at the natural gas-fired facilities decreased $64.0 million, or 21.5%, in 2004 versus 2003 primarily due to the following:

- $70.7 million decrease in operating revenue from the Power Resources Project resulting from the expiration of the TXU contract at the Power Resources Project in September 2003. The Power Resources Project received revenue, primarily a fixed capacity fee, under its tolling agreement with ONEOK beginning in October 2003.
- $9.9 million increase due to rate escalations under the Saranac Project's 15-year power purchase agreement.
- $4.1 million lower revenue at the Saranac Project due to a decrease in production over 2003. Maintenance was completed on the Saranac Project's turbine during the fourth quarter of 2004 resulting in lower production during that period.

Geothermal Facilities

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

	Year Ended December 31,		
	2005	2004	2003
Overall capacity factor	96.0%	91.6%	84.6%
MWh produced	2,745,900	2,625,100	2,417,700
Capacity (net MW) (weighted average)	326.4	326.4	326.4

The $14.7 million, or 7.1%, increase in operating revenue at the geothermal facilities in 2005 primarily reflects $7.4 million of higher revenue from a 4.6% increase in energy production and a $8.4 million increase due to favorable energy rates mainly at the Salton Sea IV and V Projects. The improvement in the overall capacity factor and MWh production resulted from more scheduled extensive brine system and turbine overhaul outages in 2004 compared to less extensive brine system and 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 $20.5 million, or 11.0%, increase in operating revenue at the geothermal facilities in 2004 primarily reflects $14.3 million of higher revenue from a 8.6% increase in energy production and a $6.4 million increase due to favorable market energy rates mainly at Salton Sea V Project. The improvement in the overall capacity factor and MWh production resulted from uncontrollable force events at the Salton Sea III Project and the Salton Sea IV Project and other extended scheduled maintenance outages which resulted in lower energy production in 2003. The Salton Sea IV Project's 40 MW turbine went out of service beginning July 10, 2003 and returned to service on September 17, 2003. The Salton Sea III Project's 50 MW turbine went out of service beginning October 9, 2003 and returned to service on December 12, 2003.

Fuel Expense

Both the Saranac and Yuma Projects supply the natural gas used by their facilities to produce energy under their existing power purchase agreements. Until its contract expired with TXU in September 2003, the Power Resources Project was also required to supply the natural gas to run its facility. Under both its contract with ONEOK and, now, its one-year Energy Management Services Agreement with Mpower, which was effective January 1, 2006, the marketer is required to procure the natural gas supply.

Fuel expense increased $16.5 million, or 17.9%, to $108.6 million for the year ended December 31, 2005 from $92.1 million for the same period in 2004. During 2005, the Company incurred $12.6 million more in fuel expense due to higher unit costs paid for natural gas, while the remaining $3.9 million increase resulted from higher production at both the Saranac and Yuma Projects.

Fuel expense decreased $26.2 million, or 22.1%, to $92.1 million for the year ended December 31, 2004 from $118.3 million for the same period in 2003. The decrease reflects $28.6 million in lower fuel costs at the Power Resources Project due to the expiration of the TXU contract and $2.4 million due to lower production at the Saranac Project during the year. These increases were partially offset by $3.9 million in higher unit costs paid for natural gas in 2004.

Plant Operations

Plant operations decreased $13.9 million, or 10.4%, to $120.0 million for the year ended December 31, 2005 from $133.9 million for the same period in 2004. The decrease was primarily due to a $14.9 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 and the Saranac Project in 2005. That decrease was partially offset by a $2.0 million increase in Imperial Valley Project well workover expense in 2005, a $1.0 million increase in Imperial Valley Project royalty expense due to higher 2005 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.

Plant operations increased $4.1 million, or 3.2%, to $133.9 million for the year ended December 31, 2004 from $129.8 million for the same period in 2003. The increase was primarily due to the $7.6 million settlement of a warranty claim with Stone & Webster received in 2003, partially offset by increased well workover and overhaul costs of $2.9 million at the Imperial Valley Projects in 2004.

Depreciation and Amortization

Depreciation and amortization decreased $2.9 million to $88.0 million for the year ended December 31, 2005 from $90.9 million for the same period in 2004. The decrease was due to a $2.4 million decrease in disposals of certain replaced pipe at the Imperial Valley Projects in 2005 and a $3.3 million decrease in Power Resources' depreciation as a result of the partial impairment of long-lived assets and full amortization of the long-term contract in 2004, partially offset by a $1.0 million increase related to capital additions.

Depreciation and amortization decreased $0.6 million to $90.9 million for the year ended December 31, 2004 from $91.5 million for the same period in 2003. The decrease was due to the full amortization of the long-term power purchase agreement between Power Resources and TXU in 2003, partially offset by a $2.8 million increase in disposals of certain replaced pipe at the Imperial Valley Projects in 2004.

Asset Impairment

During 2004, management determined that a portion of the carrying value of the Power Resources long-lived assets was no longer recoverable. As a result, the Company recognized a non-cash impairment charge of $54.5 million, $33.5 million after-tax, to write down the long-lived assets to their fair value. The fair value was determined based on discounted estimated cash flows from the future use of the long-lived assets. The impairment charge will not result in any current or future cash expenditures.

Interest Expense

Interest expense decreased $5.7 million to $55.8 million for the year ended December 31, 2005 and $7.9 million to $61.5 million for the year ended December 31, 2004. The decrease is due to lower outstanding debt balances.

Provision (Benefit) for Income Taxes

The provision for income taxes increased $32.9 million to $21.3 million for the year ended December 31, 2005, from a benefit of $11.6 million for the same period in 2004. Income tax expense increased due to the increase in pre-tax income. The effective tax rate was 18.8% and (156.8)% in 2005 and 2004, respectively. The energy tax credits were $1.6 million and $1.0 million for 2005 and 2004, respectively, and the depletion deductions were $20.6 million and $12.2 million for 2005 and 2004, respectively. The income before income taxes for 2005 and 2004 was $113.1 million and $7.4 million, respectively. Therefore, the permanent depletion and energy tax credits represented a smaller percentage of the income before income taxes for 2005 compared to the same period in 2004.

The benefit for income taxes was $11.6 million for the year ended December 31, 2004 compared to a provision for income taxes of $15.7 million for the same period in 2003. The effective tax rate was (156.8)% and 21.3% in 2004 and 2003, respectively. Changes in the effective rate primarily reflect lower pre-tax income in 2004 and the corresponding effect of minority interest, depletion and energy tax credits as a percentage of pre-tax income.

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 $138.3 million for the year ended December 31, 2005 compared with $131.1 million for the same period in 2004. The increase was due primarily to the favorable operating results previously discussed and the timing of working capital uses including a $7.2 million prepayment under the Saranac Project long-term maintenance agreement in 2004.

Cash flows used in investing activities were $32.2 million for the year ended December 31, 2005 compared with cash flows generated of $113.3 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.

Capital expenditures increased to $30.8 million for the year ended December 31, 2005 from $26.7 million for the same period in 2004. Capital expenditures increased in 2005 due to the expansion of the Desert Valley Landfill and increased capital pipe replacement in 2005. Forecasted capital expenditures for 2006 are $32.3 million. Capital expenditure needs are reviewed regularly by management and may change significantly as a result of such reviews. The Company expects to meet these capital expenditures with cash flows from operations.

Cash flows used in financing activities were $97.9 million for the year ended December 31, 2005 compared with $243.7 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.

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 consolidated balance sheets at their undiscounted amounts. As of December 31, 2005 and 2004, the environmental

liabilities recorded in the accompanying consolidated balance sheets as current liabilities were $2.8 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, at each state's option, a market-based cap and trade system, emission reductions, or both. 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, and the second phase reductions are 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, including pending legislative proposals that contemplate 70% to 90% reductions of NO_X, as well as possible new federal regulation of carbon dioxide and other gases that may affect global climate change. In addition to any federal legislation that could be enacted by Congress to supersede the CAIR, the rules could be changed or overturned as a result of litigation. The sufficiency of the standards established by the CAIR has been legally challenged in the United States District Court for the District of Columbia. Until the court makes a determination regarding the merits of the challenges to the CAIR, the full impact of the rules on the Company cannot be determined.

On February 16, 2005, the Kyoto Protocol became effective, requiring 35 developed countries to reduce greenhouse gas emissions by approximately 5% between 2008 and 2012. While the United States did not ratify the protocol, the ratification and implementation of its requirements in other countries has resulted in increased attention to the climate change issue in the United States. In 2005, the Senate adopted a "sense of the Senate" resolution that puts the Senate on record that Congress should enact a comprehensive and effective national program of mandatory, market-based limits and incentives on emissions of greenhouse gases that slow, stop, and reverse the growth of such emissions at a rate and in a manner that will not significantly harm the United States economy; and will encourage comparable action by other nations that are major trading partners and key contributors to global emissions. It is anticipated that the resolution may be further addressed by Congress in 2006. While debate continues at the national level over the direction of domestic climate policy, several states are developing state-specific or regional legislative initiatives to reduce greenhouse gas emissions. In December 2005, the states of Connecticut, Delaware, Maine, New Hampshire, New Jersey, New York and Vermont signed a mandatory regional pact to reduce greenhouse gas emissions. Litigation was filed in the federal district court for the southern district of New York seeking to require reductions of carbon dioxide emissions from generating facilities of five large electric utilities. The court dismissed the public nuisance suit, holding that such critical issues affecting the United States such as greenhouse gas emissions reductions are not the domain of the court and should be resolved by the Executive Branch and the U.S. Congress. This ruling has been appealed to the Second Circuit Court of Appeals. The outcome of climate change litigation and federal and state initiatives cannot be determined at this time; however, adoption of stringent limits on greenhouse gas emissions could significantly impact the Company's fossil-fueled facilities and, therefore, its results of operations.

Inflation

Inflation has not had a significant impact on CE Generation's cost structure.

Obligations and Commitments

The Company has contractual obligations and commercial commitments that may affect its financial condition. Contractual obligations to make future payments arise from long-term debt and fuel purchase contracts. Other obligations and commitments arise from standby letters of credit. Material obligations and commitments as of December 31, 2005, are as follows (in thousands):

	Payments Due by Period				
	Total	< 1 Year	2-3 Years	4-5 Years	>5 Years
Contractual Cash Obligations:					
Long-term debt	$ 653,037	$ 76,220	$ 142,532	$ 91,751	$ 342,534
Interest payments on long-term debt	301,091	48,289	78,162	59,480	115,160
Natural gas contract commitments [1]	260,272	71,286	151,450	37,536	-
Total contractual cash obligations	$1,214,400	$ 195,795	$ 372,144	$ 188,767	$ 457,694

(1) The natural gas contract commitments are not reflected in the accompanying consolidated balance sheets.

General Electric Capital Corporation ("GECC"), an indirect minority owner of Saranac Power Partners L.P. (the “Saranac Partnership”), has issued an irrevocable letter of credit for the account of the Saranac Partnership to its gas supplier in the amount of $16.6 million. Under the credit facility pursuant to which GECC issued such letter of credit, the Saranac Partnership has additional availability of $3.9 million for additional letters of credit. Annual fees related to these letters of credit are calculated as 1.75% of the issued balance and 0.5% of the unissued balance.

A financial institution had issued for the account of CE Generation a debt service reserve letter of credit in the amount of $24.2 million in favor of the holders of the senior secured bonds. On February 9, 2006, the previous $24.2 million debt service reserve letter of credit was replaced by a letter of credit issued by a financial institution for the account of TransAlta USA Inc. and by a letter of credit issued by a separate financial institution for the account of MEHC. Each letter of credit is currently issued in the amount of $12.1 million.

Off Balance Sheet Arrangements

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

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make judgments, assumptions and estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. Note 2 to the consolidated financial statements for the year ended December 31, 2005 in this annual report describes the significant accounting policies and methods used in the preparation of the consolidated financial statements. Estimates are used for, but not limited to, the accounting for the allowance for doubtful accounts, impairment of long-lived assets and goodwill and income taxes. Actual results could differ from these estimates. The following critical accounting policies are impacted significantly by judgments, assumptions and estimates used in the preparation of the consolidated financial statements.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is based on the Company’s assessment of the collectibility of specific customer accounts and the aging of its accounts receivable. Additionally, an allowance is established when disputes under power purchase agreements arise. The outcomes of these disputes are subject to significant uncertainty. The Company recognizes an estimated loss if it is probable that the disputed amounts billed will not be collected and the loss can be reasonably estimated. The Company uses judgment and evaluates, with the assistance of legal counsel, whether a loss should be disclosed or recognized as an adjustment to operating revenue. Historically, excluding contract disputes, the Company’s trade accounts receivable balances have been collectible and no significant bad debt expense has been recognized. However, if there is a deterioration of a significant customer's credit worthiness, estimates of recoverability of the trade accounts receivable balances could be adversely affected.

Impairment of Long-Lived Assets and Goodwill

The Company's long-lived assets consist primarily of properties, plants and equipment. Depreciation is generally computed using the straight-line method based on economic lives. The Company periodically evaluates long-lived assets, including properties, plants and equipment, when events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Upon the occurrence of a triggering event, the carrying amount of a long-lived asset or intangible asset is reviewed to assess whether the recoverable amount has declined below its carrying amount. The recoverable amount is the estimated net future cash flows that the Company expects to recover from the future use of the asset, undiscounted and without interest, plus the asset's residual value on disposal. Where the recoverable amount of the long-lived asset or intangible asset is less than the carrying value, an impairment loss is recognized to write down the asset to its fair value that is based on discounted estimated cash flows from the future use of the asset.

The estimate of cash flows arising from future use of the asset that are used in the impairment analysis requires judgment regarding what the Company would expect to recover from future use of the asset. Any changes in the estimates of cash flows arising from future use of the asset or the residual value of the asset on disposal based on changes in the market conditions, changes in the use of the asset, management's plans, the determination of the useful life of the asset and technology changes in the industry could significantly change the calculation of the fair value or recoverable amount of the asset and the resulting impairment loss, which could significantly affect the results of operations. The determination of whether impairment has occurred is primarily based on an estimate of undiscounted cash flows attributable to the assets, as compared to the carrying value of the assets. An impairment analysis of generating facilities requires estimates of possible future market prices, load growth, competition and many other factors over the lives of the facilities. A resulting impairment loss is highly dependent on these underlying assumptions.

The Company evaluates the impairment of goodwill under Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets." The Company performs an annual goodwill impairment test and updates the test if events or circumstances occur that would more likely than not reduce the fair value of a reporting unit below its carrying value. Key assumptions used in the analysis include, but are not limited to, the use of an appropriate discount rate and estimated future cash flows. Estimated future cash flows are impacted by, among other factors, assumptions regarding comprehensive energy regulation, changes in regulations and rates, and estimates of future commodity prices. In estimating cash flows, the Company incorporates current market information, as well as, historical factors.

Income Taxes

Deferred tax assets and liabilities are recognized based on the difference between the financial statement and tax basis of assets and liabilities using estimated tax rates in effect for the year in which the differences are expected to reverse. In preparing the Company's tax returns, management is required to interpret complex tax laws and regulations. The Company is subject to continuous examinations by federal, state and local tax authorities that may give rise to different interpretations of these complex laws and regulations. Due to the nature of the examination process, it generally takes years before these examinations are completed and these matters are resolved. The Internal Revenue Service has closed examination of the Company's income tax returns for 2002 and 2003, while the 1999 through 2001 tax years remain open. Although the ultimate resolution of the Company's tax examinations is uncertain, the Company believes it has made adequate provisions for income tax payables and the aggregate amount of any additional tax liabilities that may result from these examinations, if any, will not have a material adverse affect on the Company's financial condition, results of operations or cash flows. Tax contingency reserves are included in income tax payable and other long-term liabilities, as appropriate, in the accompanying consolidated balance sheets.

Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

At December 31, 2005 and 2004, the Company had fixed-rate long-term debt of $578.8 million and $622.2 million, respectively, in aggregate principal amount and having a fair value of $621.0 million and $669.5 million, respectively. These instruments are fixed-rate and therefore do not expose the Company to the risk of earnings loss due to changes in market interest rates. However, the fair value of these instruments would decrease by $12.0 million and $20.1 million, respectively, if interest rates were to increase by 10% from their levels at December 31, 2005 and 2004. In general, a decrease in fair value would impact earnings and cash flows only if the Company were to reacquire all or a portion of these instruments prior to their maturity.

At December 31, 2005 and 2004, the Company had floating-rate obligations of $74.3 million and $100.5 million, respectively, which exposed the Company to the risk of increased interest expense in the event of increases in short-term interest rates. The Company has entered into interest rate swap agreements for the purpose of completely offsetting these interest rate fluctuations. The interest rate differential is reflected as an adjustment to interest expense over the life of the instruments. At December 31, 2005 and 2004, these interest rate swaps had an aggregate notional amount of $74.3 million and $100.5 million, respectively, which the Company could terminate at a cost of $2.3 million and $6.4 million. A decrease of 10% in the December 31, 2005 and 2004 level of interest rates would increase the cost of terminating the swap agreements by $0.5 million and $1.2 million, respectively. These termination costs would impact the Company's earnings and cash flows only if all or a portion of the swap agreements were terminated prior to their expiration.

Market 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 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 is 5.37 cents per kWh from May 1, 2002 through April 30, 2007. Proceedings are currently pending before the California Public Utilities Commission to review, and potentially modify or change, the current methodology used to determine Edison's avoided cost of energy that will be applicable to sales of energy after April 30, 2007. Beginning May 1, 2007, the Imperial Valley Projects subject to these amendments will revert back to Edison's avoided cost of energy. There can be no assurances that the new Edison avoided cost of energy will result in revenues equivalent to the current fixed energy payments being received. For the years ended December 31, 2005, 2004 and 2003, Edison's average avoided cost of energy was 7.7 cents per kWh, 5.9 cents per kWh and 5.4 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 and other commodity factors.

The Company has efforts underway to evaluate and execute long-term business strategies for the Power Resources Project, which is currently being operated as a merchant power plant and is subject to electricity and gas markets to economically dispatch its output. Power Resources entered into a one-year Energy Management Services Agreement with Mpower effective January 1, 2006. Mpower is engaged to provide energy service required to manage the electrical generation, steam, and ancillary services capacity and related natural gas requirements of the plant. Mpower is due 10% of all net margins generated and Mpower's credit is used in all transactions with no credit assurance required from Power Resources.

Other

On August 12, 2005, the Company filed a Form 15 with the U.S. Securities and Exchange Commission and immediately ceased it public filings of financial reports.

CERTIFICATION

I, Stefan A. Bird, certify that:

1. I have reviewed this annual report of CE Generation, LLC;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company's other certifying 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 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 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 officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of Company's board of directors (or persons performing the equivalent function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: March 31, 2006

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

CERTIFICATION

I, Stephen D. Dickas, certify that:

1. I have reviewed this annual report of CE Generation, LLC;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company's other certifying 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 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 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 officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of Company's board of directors (or persons performing the equivalent function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: March 31, 2006

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