



CE GENERATION_{LLC}

Consolidated Financial Statements

**As of December 31, 2007 and 2006 and for each of the
Three Years in the Period Ended December 31, 2007**

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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, 2007 and 2006, and the related consolidated statements of operations and comprehensive income, of members' equity, and of cash flows for each of the three years in the period ended December 31, 2007. 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, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Omaha, Nebraska
March 28, 2008

CE GENERATION, LLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands)

	As of December 31,	
	2007	2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 35,239	\$ 44,447
Restricted cash	7,187	7,282
Trade accounts receivable	57,173	53,766
Trade accounts receivable from affiliate	1,272	2,417
Income tax receivable	1,479	3,923
Inventories	29,433	29,624
Deferred income taxes	1,120	3,679
Prepaid expenses and other current assets	5,343	5,460
Total current assets	<u>138,246</u>	<u>150,598</u>
Property, plant and equipment, net	775,576	824,748
Goodwill	265,897	265,897
Intangible assets, net	83,702	99,612
Other	6,351	7,321
Total assets	<u>\$ 1,269,772</u>	<u>\$ 1,348,176</u>
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 12,881	\$ 9,182
Accrued interest	2,241	2,611
Accrued natural gas liability	9,743	9,142
Due to affiliates	6,122	4,971
Other accrued liabilities	10,570	15,063
Current portion of long-term debt	65,065	77,467
Total current liabilities	<u>106,622</u>	<u>118,436</u>
Other long-term liabilities	14,486	10,940
Parent senior secured bonds	243,600	271,800
Subsidiary and project debt	190,685	227,550
Deferred income taxes	240,619	248,723
Total liabilities	<u>796,012</u>	<u>877,449</u>
Minority interest	41,746	43,244
Commitments and contingencies (Note 10)		
Total members' equity	<u>432,014</u>	<u>427,483</u>
Total liabilities and members' equity	<u>\$ 1,269,772</u>	<u>\$ 1,348,176</u>

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

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

(In thousands)

	Years Ended December 31,		
	2007	2006	2005
Operating revenue	\$ 504,287	\$ 476,603	\$ 483,956
Costs and expenses:			
Fuel	112,087	103,817	108,635
Plant operations	132,988	135,619	120,010
General and administrative	3,555	3,569	3,350
Depreciation and amortization	<u>114,514</u>	<u>96,447</u>	<u>87,973</u>
Total costs and expenses	<u>363,144</u>	<u>339,452</u>	<u>319,968</u>
Operating income	<u>141,143</u>	<u>137,151</u>	<u>163,988</u>
Other income (expense):			
Interest expense	(43,521)	(50,458)	(55,771)
Interest and other income	<u>4,886</u>	<u>6,684</u>	<u>4,931</u>
Total other income (expense)	<u>(38,635)</u>	<u>(43,774)</u>	<u>(50,840)</u>
Income before provision for income taxes and minority interest	102,508	93,377	113,148
Provision for income taxes	17,880	11,084	21,288
Minority interest	<u>35,070</u>	<u>28,454</u>	<u>27,234</u>
Net income	<u>49,558</u>	<u>53,839</u>	<u>64,626</u>
Other comprehensive income (loss):			
Unrecognized amounts on retirement benefits, net of tax of (\$584), \$- and \$-	(521)	-	-
Fair value adjustment on cash flow hedges, net of tax of \$141, \$414 and \$1,043	<u>255</u>	<u>746</u>	<u>1,869</u>
Comprehensive income	<u>\$ 49,292</u>	<u>\$ 54,585</u>	<u>\$ 66,495</u>

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, 2007
(In thousands)

	Members'	Accumulated Other Comprehensive	Total
	Equity	Loss, net	
Balance, January 1, 2005	\$ 380,238	\$ (2,897)	\$ 377,341
Net income	64,626	-	64,626
Other comprehensive income	-	1,869	1,869
Distributions	(28,298)	-	(28,298)
Balance, December 31, 2005	416,566	(1,028)	415,538
Net income	53,839	-	53,839
Other comprehensive income	-	746	746
Adjustment for plan sponsor adoption of FASB Statement No. 158, net of tax of \$(1,027)	-	(1,640)	(1,640)
Distributions	(41,000)	-	(41,000)
Balance, December 31, 2006	429,405	(1,922)	427,483
Adoption of FASB Interpretation No. 48	(21)	-	(21)
Net income	49,558	-	49,558
Other comprehensive loss	-	(266)	(266)
Distributions	(44,750)	-	(44,750)
Other equity transactions	10	-	10
Balance, December 31, 2007	\$ 434,202	\$ (2,188)	\$ 432,014

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

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

	Years Ended December 31,		
	2007	2006	2005
Cash flows from operating activities:			
Net income	\$ 49,558	\$ 53,839	\$ 64,626
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization	114,514	96,447	87,973
Provision for deferred income taxes	(3,876)	(4,228)	3,647
Distributions to minority interest in excess of income	(1,608)	(2,228)	(1,916)
Amortization of deferred financing costs	872	1,030	1,199
Changes in other items:			
Trade and affiliate accounts receivable	(2,262)	7,399	(12,497)
Inventories	191	631	(1,911)
Prepaid expenses and other current assets	2,561	(2,156)	(1,139)
Due to affiliates	34	1,578	1,891
Accounts payable and other accrued liabilities	(10,874)	(7,852)	(3,562)
Net cash flows from operating activities	<u>149,110</u>	<u>144,460</u>	<u>138,311</u>
Cash flows from investing activities:			
Capital expenditures	(36,294)	(27,336)	(30,792)
Purchases of available-for-sale securities	(155,500)	(267,000)	(99,500)
Proceeds from sales of available-for-sale securities	155,500	273,000	98,500
Decrease (increase) in restricted cash	<u>193</u>	<u>(293)</u>	<u>(431)</u>
Net cash flows from investing activities	<u>(36,101)</u>	<u>(21,629)</u>	<u>(32,223)</u>
Cash flows from financing activities:			
Repayment of subsidiary and project debt	(59,467)	(57,020)	(54,813)
Repayment of parent senior secured bonds	(18,000)	(19,200)	(14,800)
Cash distributions	(44,750)	(41,000)	(28,298)
Net cash flows from financing activities	<u>(122,217)</u>	<u>(117,220)</u>	<u>(97,911)</u>
Net change in cash and cash equivalents	(9,208)	5,611	8,177
Cash and cash equivalents at beginning of year	<u>44,447</u>	<u>38,836</u>	<u>30,659</u>
Cash and cash equivalents at end of year	<u>\$ 35,239</u>	<u>\$ 44,447</u>	<u>\$ 38,836</u>
Supplemental disclosure:			
Interest paid	<u>\$ 42,989</u>	<u>\$ 49,553</u>	<u>\$ 54,751</u>
Accrued capital expenditures included in accounts payable	<u>\$ 12,579</u>	<u>\$ 197</u>	<u>\$ 941</u>
Income taxes paid	<u>\$ 18,721</u>	<u>\$ 19,619</u>	<u>\$ 19,418</u>

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, Texas and Arizona. The Company is equally owned by MidAmerican Energy Holdings Company (“MEHC”) and TransAlta USA, Inc. (“TransAlta”), a wholly-owned subsidiary of TransAlta Corporation.

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

<u>Operating Project</u>	<u>Facility Net Capacity (MW)⁽¹⁾</u>	<u>Net MW Owned⁽¹⁾</u>	<u>Location</u>	<u>Power Purchase Agreement Expiration</u>	<u>Power Purchaser⁽²⁾</u>
<u>Geothermal Facilities:</u>					
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	<u>49</u>	<u>49</u>	California	Varies ⁽³⁾	Various ⁽³⁾
Total Salton Sea Projects	<u>169</u>	<u>169</u>			
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	<u>10</u>	<u>10</u>	California	2029	APS
Total Partnership Projects	<u>158</u>	<u>158</u>			
Total geothermal facilities	<u>327</u>	<u>327</u>			
<u>Natural Gas-Fired Facilities:</u>					
Saranac Project	240	180	New York	2009	NYSE&G
Power Resources Project	212	212	Texas	2009	Constellation
Yuma Project	<u>50</u>	<u>50</u>	Arizona	2024	SDG&E
Total natural gas-fired facilities	<u>502</u>	<u>442</u>			
Total operating projects	<u>829</u>	<u>769</u>			

- (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”); Constellation Energy Commodities Group, Inc. (“Constellation”); and San Diego Gas & Electric Company (“SDG&E”).
- (3) The Salton Sea V Project provides 20 MW to Riverside Public Utilities (“Riverside”) and up to 26 MW to TransAlta. Riverside has agreed to purchase 46 MW from the Salton Sea V Project beginning June 1, 2009.

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” or the “Saranac Project”), in which the Company indirectly holds a 1% general partnership and 74% limited partnership ownership interest. The remaining interests in the Saranac Partnership are owned by three limited partners. Net income and distributions from the Saranac Partnership are allocated to the partners based on allocation percentages that vary through the life of the partnership, as specified in the partnership agreement. These allocation percentages will differ from the stated ownership percentages until certain limited partners achieve fixed rates of returns. As of December 31, 2007, the Company’s economic interest in the partnership was approximately 71%, while the minority interest holders had a combined economic interest in the partnership of approximately 29%. The equity interest of the other partners is recorded as a minority interest in the Consolidated Financial Statements.

Intercompany accounts and transactions have been eliminated.

Use of Estimates in Preparation of Financial Statements

The preparation of the Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. These estimates include, but are not limited to, long-lived asset recovery, goodwill and intangible impairment and the accounting for contingencies, including environmental and income tax matters. Actual results may differ from the estimates used in preparing the Consolidated Financial Statements.

Cash Equivalents and Restricted Cash

Cash equivalents consist of funds invested in commercial paper, money market securities and in other investments with a maturity of three months or less when purchased. Cash and cash equivalents exclude amounts where the availability is restricted by legal requirements, loan agreements or other contractual provisions. The current restricted cash balance consists of debt service funds that require the maintenance of specific minimum balances equal to the next respective debt service payment. Non-current restricted cash consists of funds restricted for capital and major maintenance expenditures, and is included in other assets in the Consolidated Balance Sheets.

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.

Property, Plant and Equipment, Net

Property, plant and equipment is recorded at historical cost. The cost of major additions and betterments are capitalized, while costs for replacements, maintenance, overhaul and well rework and repairs that do not improve or extend the lives of the respective assets are charged to plant operations. Depreciation is generally computed by applying the straight-line method based on estimated economic lives. Effective October 1, 2006, the Saranac Project switched from a straight line methodology to a units of production methodology in calculating depreciation expense. This prospective accounting change was treated as a change in estimate and was made to be more reflective of the economic use of the assets. During 2006, this change resulted in an additional \$5.4 million of depreciation expense, of which \$1.4 million was attributable to minority owners and was allocated according to their respective ownership percentages. During 2007, this change resulted in an additional \$16.5 million of depreciation expense, of which \$4.1 million was attributable to minority owners and was allocated according to their respective ownership percentages. The Company believes the useful lives assigned to the depreciable assets, which range from 2 to 30 years, are reasonable.

The Company recognizes legal asset retirement obligations (“ARO”) mainly related to the obligations associated with the retirement of a landfill containing non hazardous geothermal waste and natural gas fired plant assets which reside on leased

land. The fair value of a liability for a legal ARO is 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. Subsequent to the initial recognition, the liability is adjusted for any material revisions to the expected value of the retirement obligation (with corresponding adjustments to property, plant, and equipment) and for accretion of the liability due to the passage of time.

Intangible Assets, Net

The Company's intangible assets consist of acquired power purchase and royalty contracts and patented technology. These items are amortized by applying the straight-line method over the remaining contract periods, which range from 4 to 30 years.

Impairment of Long-Lived Assets

The Company evaluates long-lived assets for impairment, including property, plant and equipment and intangible assets, when events or changes in circumstances indicate that the carrying value of these assets may not be recoverable or the assets meet the criteria of held for sale. Upon the occurrence of a triggering event, the asset is reviewed to assess whether the estimated undiscounted cash flows expected from the use of the asset plus residual value from the ultimate disposal exceeds the carrying value of the asset. If the carrying value exceeds the estimated recoverable amounts, the asset is written down to the estimated discounted present value of the expected future cash flows from using the asset. Any resulting impairment loss is reflected in the Consolidated Statement of Operations.

Goodwill

Goodwill represents the difference between purchase cost and the fair value of net assets acquired in business acquisitions. Goodwill is allocated to each reporting unit and is tested for impairment using a discounted projected future net cash flow methodology, at least annually and impairments, if any, are charged to earnings. The Company completed its annual review as of October 31. Key assumptions used in the testing include, but are not limited to, the use of an appropriate discount rate and estimated future cash flows. In estimating cash flows, the Company incorporates current market information as well as historical factors. During 2007, 2006 and 2005, the Company did not record any goodwill impairments.

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-hours ("kWh") made available during the period multiplied by the estimated average revenue per kWh over the term of the contract. Energy revenue during the variable period and capacity revenue in all periods are recognized as billed.

CE Generation's sales of electricity from the Imperial Valley Projects comprised approximately 44%, 44%, and 46%, of 2007, 2006, and 2005 operating revenue, respectively. Of these sales, approximately 86%, 87% and 86% were to Edison in 2007, 2006 and 2005, respectively. Sales of electricity from the Saranac Project comprised approximately 46%, 46% and 44% of 2007, 2006 and 2005 operating revenue, respectively. Of these sales, all were to NYSE&G.

The trade accounts receivable balances are primarily uncollateralized receivables from long-term power purchase contracts. At December 31, 2007 and 2006, the trade accounts receivable balance from Edison was \$28.3 million and \$26.6 million, respectively, and from NYSE&G was \$20.3 million and \$18.9 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, 2007 and 2006, there was no allowance for doubtful accounts recorded.

Deferred Financing Costs

Premiums, discounts, and financing costs incurred during the issuance of long-term debt are amortized over the term of the related financing using the effective interest method.

Income Taxes

CE Generation and its subsidiaries file a consolidated U.S. federal income tax return and other state and federal jurisdictional returns as required. Deferred tax assets and liabilities are based on differences between the financial statements and tax bases of assets and liabilities using the estimated tax rates in effect for the year in which the differences are expected to reverse. Changes in deferred income tax assets and liabilities that are associated with components of other comprehensive income are charged or credited directly to other comprehensive income. Otherwise, changes in deferred income tax assets and liabilities are included as a component of income tax expense. Valuation allowances are established for certain deferred tax assets when management has judged that realization is not likely.

In determining the Company's tax liabilities, management is required to interpret complex tax laws and regulations. In preparing tax returns, 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 U.S. Internal Revenue Service has closed examination of the Company's income tax returns through 2003. In addition, open tax years related to a number of state jurisdictions remain subject to examination. Although the ultimate resolution of the Company's federal and state tax examinations is uncertain, the Company believes it has made adequate provisions for these tax positions 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 results. The Company's unrecognized tax benefits are included in other long-term liabilities in the Consolidated Balance Sheets. The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense in the Consolidated Statements of Operations.

Risk Management and Hedging Activities

The Company utilizes swap agreements to manage interest rate risks and to reduce its exposure resulting from fluctuations in interest rates. Derivative instruments are recorded in the Consolidated Balance Sheets at fair value 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, to the extent effective, of these derivative instruments are included in the Consolidated Statements of Members' Equity as accumulated other comprehensive loss, net of tax, until the hedged item is recognized in earnings. 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.

New Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"). The Company adopted the provisions of FIN 48 effective January 1, 2007. Under FIN 48, tax benefits are recognized only for tax positions that are more likely than not to be sustained upon examination by tax authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50% likely to be realized upon ultimate settlement. Unrecognized tax benefits are tax benefits claimed in the Company's tax returns that do not meet these recognition and measurement standards. Refer to Note 8 for additional discussion.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51" ("SFAS No. 160"). SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 requires entities to report noncontrolling interests as a separate component of shareholders' equity in the consolidated financial statements. The amount of earnings attributable to the parent and to the noncontrolling interests should be clearly identified and presented on the face of the consolidated statements of operations. Additionally, SFAS No. 160 requires any changes in a parent's ownership interest of its subsidiary, while retaining its control, to be accounted for as equity transactions. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008 and interim periods within those fiscal years. The Company is currently

evaluating the impact of adopting SFAS No. 160 on its consolidated financial position and results of operations.

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

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 does not impose fair value measurements on items not already accounted for at fair value; rather it applies, with certain exceptions, to other accounting pronouncements that either require or permit fair value measurements. Under SFAS No. 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market. The standard clarifies that fair value should be based on the assumptions market participants would use when pricing the asset or liability. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting SFAS No. 157 on its consolidated financial position and results of operations.

3. Property, Plant and Equipment, Net

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

	Estimated Useful Lives	As of December 31,	
		2007	2006
Power plants	5 to 30 years	\$1,220,315	\$1,196,148
Wells and resource development	2 to 30 years	228,833	226,171
Equipment	3 to 30 years	<u>6,150</u>	<u>6,118</u>
Total operating assets		1,455,298	1,428,437
Accumulated depreciation		<u>(679,722)</u>	<u>(603,689)</u>
Property, plant and equipment, net		<u>\$ 775,576</u>	<u>\$ 824,748</u>

The Company replaced certain pipe and other assets in 2007, 2006 and 2005 with a remaining net book value of \$3.8 million, \$4.7 million and \$4.3 million, respectively, which was charged to depreciation expense in the Consolidated Statements of Operations.

4. Intangible Assets, Net

Intangible assets, net comprise the following (in thousands):

	Estimated Useful Lives	As of December 31,			
		2007		2006	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Power Purchase and Royalty					
Contracts	4 to 30 years	\$ 315,434	\$ 252,815	\$ 315,434	\$ 238,834
Patented Technology	24 years	46,290	25,207	46,290	23,278
Total		<u>\$ 361,724</u>	<u>\$ 278,022</u>	<u>\$ 361,724</u>	<u>\$ 262,112</u>

Amortization expense on acquired intangible assets was \$15.9 million, \$16.1 million and \$15.8 million for the years ended December 31, 2007, 2006 and 2005, respectively. CE Generation expects amortization expense on acquired intangible assets to be \$16.0 million in 2008, \$11.9 million in 2009 and \$5.7 million in 2010 through 2012.

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 (in thousands):

	As of December 31,	
	2007	2006
Salton Sea Bonds	\$ 218,750	\$ 243,841
Saranac Note Payable	8,800	43,176
Total Subsidiary and Project Debt	227,550	287,017
Less current portion	(36,865)	(59,467)
Total Long-Term Subsidiary and Project Debt	<u>\$ 190,685</u>	<u>\$ 227,550</u>

Salton Sea 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	As of December 31,	
				2007	2006
July 21, 1995	C Bonds	May 30, 2010	7.84%	\$ 53,542	\$ 75,048
June 20, 1996	E Bonds	May 30, 2011	8.30%	31,572	34,072
October 13, 1998	F Bonds	November 30, 2018	7.48%	133,636	134,721
				<u>\$ 218,750</u>	<u>\$ 243,841</u>

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 Imperial Valley Projects are used to pay principal and interest payments on outstanding senior secured bonds issued by Funding Corporation, the final series of which is scheduled to mature in November 2018. Funding Corporation debt is guaranteed by certain subsidiaries of Magma Power Company, a wholly-owned subsidiary of the Company, and secured by the capital stock of certain subsidiaries of CE Generation. The proceeds of Funding Corporation debt were loaned by Funding Corporation pursuant to loan agreements and notes (the "Imperial Valley Project Loans") to certain subsidiaries of Magma Power Company and used for 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 \$22.2 million at December 31, 2007.

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

2008	\$ 28,065
2009	26,210
2010	26,741
2011	19,990
2012	16,614
2013 and thereafter	<u>101,130</u>
Total	<u>\$ 218,750</u>

CE Generation's ability to obtain distributions from its investment in the Imperial Valley Projects is subject to the following conditions:

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

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. The \$8.8 million balance of the Saranac Note Payable at December 31, 2007, is scheduled to be repaid in full during 2008. 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 selected interest rate, plus interest margin, at December 31, 2007 and 2006 was 6.57% and 6.74%, 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 that effectively fixes the interest rate at 8.56% and expires on March 31, 2008. 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, 2007 and 2006 was a liability of \$0.1 million and \$0.6 million, respectively, and is included in other accrued liabilities in the Consolidated Balance Sheets.

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's limited 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, 2007.

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. The Company is required to maintain certain covenants associated with the Senior Secured Bonds and was in compliance with these requirements at December 31, 2007. 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, 2007 and 2006 was \$271.8 million and \$289.8 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 Company 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 of the two letters of credit are 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):

2008	\$ 28,200
2009	24,600
2010	14,200
2011	15,200
2012	20,480
2013 and thereafter	<u>169,120</u>
Total	<u>\$ 271,800</u>

7. Asset Retirement Obligations

The Company has identified and recorded legal retirement obligations for the Power Resources Project and a geothermal landfill. The Company used an expected cash flow approach to measure the obligations. Due to the renewable nature of the geothermal resource, the geothermal 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 geothermal ARO cannot be reasonably estimated. The Yuma and Saranac projects' natural gas-fired plants reside on owned land have no legal retirement obligation.

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

	<u>2007</u>	<u>2006</u>
Balance, January 1	\$10,180	\$ 9,523
Retirements	(816)	-
Accretion	<u>493</u>	<u>657</u>
Balance, December 31	<u>\$ 9,857</u>	<u>\$10,180</u>

8. Income Taxes

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current:			
Federal	\$ 17,729	\$ 11,583	\$ 14,639
State	<u>4,027</u>	<u>3,729</u>	<u>3,002</u>
	<u>21,756</u>	<u>15,312</u>	<u>17,641</u>
Deferred:			
Federal	(6,059)	(2,264)	3,812
State	<u>2,183</u>	<u>(1,964)</u>	<u>(165)</u>
	<u>(3,876)</u>	<u>(4,228)</u>	<u>3,647</u>
Total	<u>\$ 17,880</u>	<u>\$ 11,084</u>	<u>\$ 21,288</u>

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Federal statutory rate	35.0%	35.0%	35.0%
Percentage depletion	(7.6)	(9.3)	(6.4)
Energy tax credits	(1.6)	(2.9)	(1.4)
Production activities deduction	(1.4)	(0.6)	(0.6)
State taxes, net of federal benefit	1.9	1.9	2.0
Minority interest	(12.0)	(10.7)	(8.4)
Deferred tax adjustment due to tax rate change	3.3	-	-
Other items, net	<u>(0.2)</u>	<u>(1.5)</u>	<u>(1.4)</u>
Effective tax rate	<u>17.4%</u>	<u>11.9%</u>	<u>18.8%</u>

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 Consolidated Financial Statements for the minority interests' share of the partnership earnings.

In 2007, the Company recognized \$3.4 million of deferred income tax expense due to adjusted apportionment factors for state income tax rates.

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

	<u>2007</u>	<u>2006</u>
Deferred tax assets:		
Accruals not currently deductible for tax purposes	\$ 2,859	\$ 3,411
Employee benefits	1,633	1,027
Credit carryforwards	4,086	6,432
Other	<u>231</u>	<u>-</u>
Total deferred tax assets	<u>8,809</u>	<u>10,870</u>
Deferred tax liabilities:		
Property, plant, and equipment and intangible assets, net	(243,258)	(250,759)
Other	<u>(5,050)</u>	<u>(5,155)</u>
Total deferred tax liabilities	<u>(248,308)</u>	<u>(255,914)</u>
Net deferred tax liability	<u>\$ (239,499)</u>	<u>\$ (245,044)</u>
Reflected as:		
Deferred income taxes - current asset	\$ 1,120	\$ 3,679
Deferred income taxes - non-current liability	<u>(240,619)</u>	<u>(248,723)</u>
	<u>\$ (239,499)</u>	<u>\$ (245,044)</u>

CE Generation has federal and state alternative minimum tax credit carryforwards of \$4.1 million as of December 31, 2007 that do not expire and will carryforward indefinitely until utilized.

The Company adopted FIN 48 effective January 1, 2007 and had \$2.0 million of unrecognized tax benefits. Of this amount, the Company recognized a net increase in the liability for unrecognized tax benefits of \$1.2 million as a cumulative effect of adopting FIN 48, which was offset by a reduction in deferred income tax liabilities of \$1.2 million in the Consolidated Balance Sheet. The remaining \$0.8 million had been previously accrued under SFAS No. 5, "Accounting for Contingencies," or SFAS No. 109, "Accounting for Income Taxes."

As of December 31, 2007, net unrecognized tax benefits totaled \$2.7 million which included \$1.1 million of tax positions that, if recognized, would have an impact on the effective tax rate. The remaining unrecognized tax benefits relate to positions for which ultimate deductibility is highly certain but for which there is uncertainty as to the timing of such deductibility and tax positions related to acquired companies. Recognition of these tax benefits, other than applicable interest and penalties, would not affect the Company's effective tax rate.

9. Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, receivables, payables and accrued liabilities approximates fair value because of the short-term maturity or frequent remarketing of these instruments. Derivative instruments are recorded at their fair values, which are based upon quoted market prices for debt issues actively traded or on market prices of similar instruments.

The fair value of the Company's long-term debt has been estimated based upon quoted market prices. The carrying amount of variable-rate long-term debt approximates fair value because of the frequent repricing of these instruments at market rates. The following table presents the carrying amount and estimated fair value of the Company's long-term debt, including the current portion, as of December 31 (in thousands):

	<u>2007</u>		<u>2006</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Long-term debt	<u>\$ 499,350</u>	<u>\$ 524,466</u>	<u>\$ 576,817</u>	<u>\$ 596,814</u>

10. Commitments and Contingencies

The California Power Exchange

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

Environmental Matters

The Company is subject to federal, state, and local laws and regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters that have the potential to impact the Company’s current and future operations. The Company believes it is in material compliance with current environmental requirements.

Accrued Environmental Costs

The Company is fully or partly responsible for environmental remediation that results from other than normal operations at various contaminated sites, including sites that are or were part of the Company’s operations and sites owned by third parties. The Company accrues environmental remediation expenses when the expense is believed to be probable and can be reasonably estimated. The quantification of environmental exposures is based on many factors, including changing laws and regulations, advancements in environmental technologies, the quality of available site-specific information, site investigation results, expected remediation or settlement timelines, the Company’s proportionate responsibility, contractual indemnities and coverage provided by insurance policies. The liability recorded as of December 31, 2007 and 2006 was \$1.1 million and \$0.9 million, respectively, and is included in other accrued liabilities and other long-term accrued liabilities on the Consolidated Balance Sheets. Environmental remediation liabilities that result from the normal operation of a long-lived asset and that are associated with the retirement of those assets are accounted for as an asset retirement obligation.

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):

2008	\$ 77,313
2009	<u>37,536</u>
Total	<u>\$ 114,849</u>

11. Related Party Transactions

Pursuant to an administrative services agreement between CalEnergy Generation Operating Company (“CGOC”), a subsidiary of MEHC, and CE Generation (the “Administrative Services Agreement”), CGOC provides certain administrative and management services to CE Generation. The Administrative Services Agreement between CGOC and CE Generation provided for a fixed fee through December 31, 2007. The expense pursuant to the Administrative Services Agreement was \$3.0 million for each of the years ended December 31, 2007, 2006 and 2005, respectively, and is included in general and administrative costs and expenses in the Consolidated Statements of Operations. In November 2007, the Administrative Services Agreement between CGOC and CE Generation was extended from January 1, 2008 through December 31, 2010 at an annual rate of \$3.2 million, \$3.3 million and \$3.4 million for the calendar years ended 2008, 2009 and 2010, respectively.

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 \$2.4 million, \$2.5 million and \$2.4 million in 2007, 2006 and 2005, respectively. The portion of accumulated other comprehensive income attributable to the Company has been allocated from MEC in accordance with intercompany service agreements.

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 \$11.6 million, \$11.1 million and \$16.4 million in 2007, 2006 and 2005, respectively. As of December 31, 2007 and 2006, accounts receivable balances from TransAlta were \$1.1 million and \$2.2 million, respectively. Effective August 7, 2006 through May 31, 2009, up to 26 MW of available power from the Salton Sea V Project will be sold to TransAlta under the TransAlta Transaction Agreement at a fixed price. Each of Salton Sea Power, CE Turbo, and TransAlta have agreed not to exercise their respective 30 day termination right described above with respect to such amount of available power through such period.

On January 21, 2004, Salton Sea Power and CE Turbo entered into a Green Energy Tag Purchase and Sale Agreement to sell the non-power attributes (the non-power attributes made available by one megawatt hour (“MWh”) of generation, a “Green Tag”) associated with up to 931,800 MWh of available generation of the Salton Sea V Project and the CE Turbo Project through December 31, 2008 to TransAlta Energy Marketing (US) Inc. (“TransAlta Marketing”) at a market price per Green Tag. Pursuant to this agreement, green tag sales to TransAlta Marketing totaled \$2.2 million in each of 2007, 2006 and 2005. As of December 31, 2007 and 2006, accounts receivable balances from TransAlta Marketing were \$0.2 million and \$0.2 million, respectively.

12. Components of Accumulated Other Comprehensive Loss

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

	As of December 31,	
	2007	2006
Unrecognized amounts on retirement benefits, net of tax of \$(1,611) and \$(1,027)	\$ (2,161)	\$ (1,640)
Fair value adjustment on cash flow hedges, net of tax of \$(15) and \$(156)	<u>(27)</u>	<u>(282)</u>
Total accumulated other comprehensive loss, net	<u>\$ (2,188)</u>	<u>\$ (1,922)</u>

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

The following is management's discussion and analysis of certain significant factors that have affected the financial condition and results of operations of CE Generation, LLC ("CE Generation") and its subsidiaries (collectively, the "Company") during the periods included herein. This discussion should be read in conjunction with the Company's historical Consolidated Financial Statements and the notes thereto included elsewhere in this report. The Company's actual results in the future could differ significantly from the historical results.

Forward-Looking Statements

From time to time, CE Generation may make forward-looking statements that involve judgments, assumptions and other uncertainties beyond the control of the Company or any of its subsidiaries individually. These forward-looking statements may include, among others, statements concerning revenue and cost trends, cost reduction strategies and anticipated outcomes, pricing strategies, changes in the utility industry, planned capital expenditures, financing needs and availability, statements of CE Generation's expectations, beliefs, future plans and strategies, anticipated events or trends and similar comments concerning matters that are not historical facts. These types of forward-looking statements are based on current expectations and involve a number of known and unknown risks and uncertainties that could cause the actual results and performance of the Company to differ materially from any expected future results or performance, expressed or implied, by the forward-looking statements. CE Generation has identified important factors that could cause actual results to differ materially from those expectations, including weather effects on revenues and other operating uncertainties, uncertainties relating to economic and political conditions and uncertainties regarding the impact of regulations, changes in government policy and competition. The Company does not assume any responsibility to update forward-looking information contained herein.

Results of Operations

Operating Revenue

The capacity factor for a particular project is determined by dividing the total quantity of electricity sold by the product of the project's capacity and the total hours in the year. Refer to Note 1 of Notes to Consolidated Financial Statements for the net capacity of each facility. Each plant possesses an operating margin, which allows for production in excess of a facility's net capacity. Utilization of this operating margin is based upon a variety of factors and can be expected to vary throughout the year under normal operating conditions. The amount of revenues received by the projects is affected by the extent to which they are able to operate and generate electricity. Accordingly, the capacity and capacity factor figures provide information on operating performance that has affected the revenues received by the projects.

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

	Years Ended December 31		
	2007	2006	2005
Natural gas-fired facilities	\$ 283.5	\$ 267.9	\$ 262.4
Geothermal facilities	<u>220.8</u>	<u>208.7</u>	<u>221.6</u>
Total operating revenue	<u>\$ 504.3</u>	<u>\$ 476.6</u>	<u>\$ 484.0</u>

Natural Gas-Fired Facilities

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

	Years Ended December 31		
	2007	2006	2005
Overall capacity factor	69.7%	68.1%	71.9%
Megawatt hours ("MWh") produced	3,063,900	2,993,200	3,162,600
Capacity (net MW) (weighted average)	502.0	502.0	502.0

Operating revenue at the natural gas-fired facilities increased \$15.6 million, or 5.8%, in 2007 versus 2006 primarily due to the following:

- \$9.8 million increase due to rate escalations under the Saranac Project's 15-year power purchase agreement.
- \$3.6 million increase at the Yuma Project due primarily to a 15.8% increase in production over 2006. Maintenance was completed on the Yuma Project's turbine during the first half of 2006 resulting in lower production during that period.

The increases in the overall capacity factor and MWh produced in 2007 versus 2006 were due to an increase in dispatch at the Power Resources and Yuma Projects due to scheduled major maintenance activity in 2006.

Operating revenue at the natural gas-fired facilities increased \$5.5 million, or 2.1%, in 2006 versus 2005 primarily due to the following:

- \$7.6 million increase due to rate escalations under the Saranac Project's 15-year power purchase agreement.
- \$3.8 million increase associated with the Power Resources Project's merchant plant operation.
- The Yuma Project sells energy to San Diego Gas & Electric Company at its avoided cost of energy, which decreased to 7.2 cents per kWh in 2006 from 8.8 cents per kWh in 2005, resulting in a \$5.5 million decrease in operating revenue.

The decreases in the overall capacity factor and MWh produced in 2006 versus 2005 were due to a decrease in dispatch at the Power Resources and Yuma Projects due to scheduled major maintenance activity in 2006.

Geothermal Facilities

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

	Year Ended December 31,		
	2007	2006	2005
Overall capacity factor	91.2%	92.7%	96.0%
MWh produced	2,607,000	2,651,200	2,745,900
Capacity (net MW) (weighted average)	326.4	326.4	326.4

Operating revenue at the Imperial Valley Projects increased \$12.1 million, or 5.8%, in 2007 versus 2006 primarily due to the following:

- \$11.8 million increase in operating revenue due to higher energy rates at certain Imperial Valley Projects. The Imperial Valley Projects that receive the avoided cost of energy from Southern California Edison ("Edison") increased their fixed energy price from 5.37 cents per kWh to 6.15 cents per kWh beginning May 1, 2007.
- \$2.4 million recovery from the PX Receivable as discussed in Note 10 of Notes to Consolidated Financial Statements included elsewhere in this report.
- \$2.1 million decrease from a 1.7% decrease in energy production. The energy production decrease primarily results from equipment and brine production limitations at the Vulcan, Elmore, Salton Sea III, Salton Sea IV and CE Turbo Projects.

Operating revenue at the Imperial Valley Projects decreased \$12.9 million, or 5.8%, in 2006 versus 2005 primarily due to the following:

- \$7.5 million decrease due to lower energy rates from lower index pricing mainly at the Salton Sea IV and V Projects.
- \$5.4 million decrease from a 3.4% decrease in energy production. The energy production decrease primarily resulted from more extensive brine system and turbine overhaul outages and a wind storm event that caused downed power poles and lines, which are not owned or maintained by the Imperial Valley Projects. This wind storm event caused forced downtime of approximately 3 days at certain Imperial Valley Projects.

Fuel Expense

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

Fuel expense increased \$8.3 million, or 8.0%, to \$112.1 million for the year ended December 31, 2007 from \$103.8 million for the same period in 2006. During 2007, the Company incurred \$5.0 million more in fuel expense due to higher unit costs paid for natural gas. The Company also incurred \$3.2 million more in fuel expense due to higher production at the Yuma and Saranac Projects.

Fuel expense decreased \$4.8 million, or 4.4%, to \$103.8 million for the year ended December 31, 2006 from \$108.6 million for the same period in 2005. During 2006, the Company incurred \$3.2 million less in fuel expense due to the scheduled maintenance event at the Yuma Project and \$2.5 million less in fuel expense due to lower unit costs paid for natural gas. These 2006 decreases were offset partially by a \$0.9 million increase in fuel expense resulting from higher production at the Saranac Project.

Plant Operations

Plant operations decreased \$2.6 million, or 1.9%, to \$133.0 million for the year ended December 31, 2007 from \$135.6 million for the same period in 2006. The decrease was primarily due to an \$8.2 million decrease in maintenance expense due to scheduled 2006 outages at the Yuma and Power Resources Projects. These decreases were partially offset by a \$3.6 million decrease in hazardous waste expense in 2006 due to the enactment of Senate Bill 1294 - Geothermal Waste Exemption ("SB 1294") and higher maintenance costs at the Imperial Valley projects totaling \$3.8 million. With the enactment of SB 1294, the Imperial Valley Projects' brine ponds are not subject to regulation by the California Department of Toxic Substances Control as hazardous waste treatment, storage and disposal facilities.

Plant operations increased \$15.6 million, or 13.0%, to \$135.6 million for the year ended December 31, 2006 from \$120.0 million for the same period in 2005. The increase was primarily due to an \$18.8 million increase in maintenance expense due to scheduled outages at the Yuma and Power Resources Projects as well as more extensive brine system overhauls, turbine overhauls and maintenance repairs at the Imperial Valley Projects and the Saranac Project in 2006. These increases were partially offset by a \$3.6 million decrease in hazardous waste expense due to the enactment of SB 1294.

Depreciation and Amortization

Depreciation and amortization increased \$18.1 million, or 18.8%, to \$114.5 million for the year ended December 31, 2007 from \$96.4 million for the same period in 2006. Effective October 1, 2006, the Saranac Project changed from a straight line methodology to a units of production methodology in calculating depreciation expense. This change resulted in an additional \$16.5 million of depreciation expense, of which \$4.1 million was attributable to minority owners and accordingly reduced minority interest expense. This prospective accounting change was treated as a change in estimate and was made to be more reflective of the economic use of the assets. The remaining increase was due primarily to higher capital expenditures at certain Imperial Valley Projects.

Depreciation and amortization increased \$8.4 million, or 9.5%, to \$96.4 million for the year ended December 31, 2006 from \$88.0 million for the same period in 2005. The Saranac Project's depreciation methodology change resulted in an additional \$5.4 million of depreciation expense, of which \$1.4 million was attributable to minority owners and accordingly reduced minority interest expense. The remaining increase was due to a change in useful lives on brine production pipelines at certain Imperial Valley Projects.

Interest Expense

Interest expense decreased \$7.0 million to \$43.5 million for the year ended December 31, 2007 and \$5.3 million to \$50.5 million for the year ended December 31, 2006. The decreases were due to lower outstanding debt balances.

Provision for Income Taxes

The provision for income taxes increased \$6.8 million to \$17.9 million for the year ended December 31, 2007 from \$11.1 million for the same period in 2006. The effective tax rates were 17.4% and 11.9% in 2007 and 2006, respectively. The higher effective tax rate in 2007 was due primarily to the effects of higher consolidated state tax rates due to adjusted apportionment factors and its impact on cumulative deferred taxes, as well as the effects of various permanent items representing a smaller percentage of income before income taxes for 2007 compared to the same period in 2006.

The provision for income taxes decreased \$10.2 million to \$11.1 million for the year ended December 31, 2006 from \$21.3 million for the same period in 2005. The effective tax rates were 11.9% and 18.8% in 2006 and 2005, respectively. The lower effective tax rate in 2006 was due primarily to the effects of the permanent depletion and energy tax credits representing a larger percentage of the income before income taxes for 2006 compared to the same period in 2005.

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.

Cash flows from operations were \$149.1 million for the year ended December 31, 2007 compared with \$144.5 million for the same period in 2006. The increase was due primarily to higher pricing at the Saranac Project and certain Imperial Valley Projects and lower cash outlays associated with maintenance at the Yuma and Power Resources Projects.

Cash flows used in investing activities were \$36.1 million for the year ended December 31, 2007 compared with \$21.6 million for the same period in 2006. The change is primarily due to increased capital expenditures and the timing of purchases and sales of available-for-sale securities used in the Company's cash management program. Capital expenditures increased to \$36.3 million for the year ended December 31, 2007 from \$27.3 million for the same period in 2006 due primarily to increased spending related to pipeline replacement materials.

Forecasted capital expenditures for 2008 are approximately \$60 million. Capital expenditure needs are reviewed regularly by management and may change significantly as a result of such reviews. The Company is purchasing pipeline replacement materials which are expected to have a longer useful life than the material currently used. The new material will result in higher capital expenditures than historical expenditures in 2008 and 2009. The Company expects to meet these capital expenditures with cash flows from operations.

Cash flows used in financing activities were \$122.2 million for the year ended December 31, 2007 compared with \$117.2 million for the same period in 2006. The increase is primarily due to increased cash distributions to owners and scheduled debt repayments.

Environmental Matters

The Company is subject to federal, state and local laws and regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters and believes it is in material compliance with current environmental requirements.

Air Quality

In March 2005, the United States Environmental Protection Agency (the “EPA”), released the final Clean Air Interstate Rule (“CAIR”), calling for reductions of sulfur dioxide (“SO₂”) 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 CAIR, the first phase of NO_x emissions reductions are effective January 1, 2009, and the first phase of SO₂ emissions reductions are effective January 1, 2010. For both NO_x and SO₂, 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 current or future regulatory and legislative proposals at the federal or state levels that would result in significant reductions of SO₂ and NO_x, as well as carbon dioxide and other gases that may affect global climate change. In addition to any federal rules or legislation that could be enacted, the CAIR 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 Circuit Court of Appeals for the District of Columbia.

As a result of increased attention to global climate change in the United States, numerous bills have been introduced in the current session of the United States Congress that would reduce greenhouse gas emissions in the United States. Congressional leadership has made climate change legislation a priority and many congressional observers expect to see the passage of climate change legislation within the next several years. The Lieberman-Warner Climate Security Act of 2007 (S. 2191), was passed by the United States Senate Environment and Public Works Committee on December 5, 2007. The bill would impose an economy-wide cap on greenhouse gas emissions to reduce emissions 70% from 2005 levels by 2050. Included within the bill’s definition of a covered facility is any facility that uses more than 5,000 tons of coal in a calendar year, which does not apply to the Company’s generating plants. In addition, nongovernmental organizations have become more active in initiating citizen suits under existing environmental and other laws. In April 2007, a United States Supreme Court decision concluded that the EPA has the authority under the Clean Air Act to regulate emissions of greenhouse gases from motor vehicles. Furthermore, pending cases that address the potential public nuisance from greenhouse gas emissions from electricity generators and the EPA’s failure to regulate greenhouse gas emissions from new and existing coal-fired plants are expected to become active. While debate continues at the national level over the direction of domestic climate policy, several states have developed state-specific or regional legislative initiatives to reduce greenhouse gas emissions. For example, the states of Connecticut, Delaware, Maine, New Hampshire, New Jersey, New York and Vermont have signed a mandatory regional pact to reduce greenhouse gas emissions by ten percent from 1990 levels that would become effective in 2009. An executive order signed by California’s governor in 2005 would reduce greenhouse gas emissions in that state to 2000 levels by 2010, to 1990 levels by 2020 and 80% below 1990 levels by 2050. In addition, California adopted legislation that imposes a greenhouse gas emission performance standard applicable to all electricity generated within the state or delivered from outside the state that is no higher than the greenhouse gas emission levels of a state-of-the-art combined-cycle natural gas generation facility, as well as legislation that adopts an economy-wide cap on greenhouse gas emissions to 1990 levels by 2020. California also adopted a statewide greenhouse gas emission cap to reduce greenhouse gas emissions by approximately 25% from 1990 levels by 2020. The outcome of federal and state climate legislation cannot be determined at this time; however, adoption of stringent limits on greenhouse gas emissions could significantly impact the Company’s natural gas-fired facilities, and, therefore, its financial results.

Refer to Note 10 of the Notes to Consolidated Financial Statements for additional information regarding commitments and litigation related to environmental remediation for contaminated sites.

Inflation

Inflation has not had a significant impact on CE Generation’s costs.

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, 2007, 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	\$ 499,350	\$ 65,065	\$ 91,751	\$ 72,284	\$ 270,250
Interest payments on long-term debt	210,722	36,082	59,480	46,835	68,325
Natural gas contract commitments ⁽¹⁾	<u>114,849</u>	<u>77,313</u>	<u>37,536</u>	-	-
Total contractual cash obligations	<u>\$ 824,921</u>	<u>\$ 178,460</u>	<u>\$ 188,767</u>	<u>\$ 119,119</u>	<u>\$ 338,575</u>

⁽¹⁾ The natural gas contract commitments are not reflected in the Consolidated Balance Sheets.

The Company has other types of commitments that relate primarily to asset retirement obligations (Note 7) and uncertain tax positions (Note 8) which have not been included in the above tables because the amount and timing of the cash payments are not certain. Refer to the respective referenced note in Notes to Consolidated Financial Statements included elsewhere in this report for additional information.

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 Parent 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.

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 \$22.2 million at December 31, 2007.

In 2007, the North American Electric Reliability Corporation finalized certain rules that require the owners and/or operators of electric generating facilities to register and undertake certain obligations to ensure the reliability of the North American bulk electric system. Subsidiaries of the Company that own generating facilities have registered as generator-owners under these rules and certain of such subsidiaries have been designated as generator-operators under such rules. The company does not anticipate a material financial impact resulting from these obligations.

Related Party Transactions

Refer to Note 11 of the Notes to Consolidated Financial Statements for additional information regarding related party transactions.

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

Certain accounting policies require management to make estimates and judgments concerning transactions that will be settled in the future. Amounts recognized in the Consolidated Financial Statements from such estimates are necessarily based on numerous assumptions involving varying and potentially significant degrees of judgment and uncertainty. Accordingly, the amounts currently reflected in the Consolidated Financial Statements will likely increase or decrease in the future as additional information becomes available. The following critical accounting policies are impacted significantly by judgments, assumptions and estimates used in the preparation of the Consolidated Financial Statements.

Impairment of Long-Lived Assets and Goodwill

The Company evaluates long-lived assets for impairment, including property, plant and equipment and intangible assets, when events or changes in circumstances indicate that the carrying value of these assets may not be recoverable or the assets meet the criteria of held for sale. Upon the occurrence of a triggering event, the asset is reviewed to assess whether the estimated undiscounted cash flows expected from the use of the asset plus the residual value from the ultimate disposal exceeds the carrying value of the asset. If the carrying value exceeds the estimated recoverable amounts, the asset is written down to the estimated discounted present value of the expected future cash flows from using the asset. Any resulting impairment loss is reflected in the Consolidated Statement of Operations.

The estimate of cash flows arising from the future use of the asset that are used in the impairment analysis requires judgment regarding what the Company would expect to recover from the future use of the asset. Changes in judgment that could significantly alter the calculation of the fair value or the recoverable amount of the asset may result from, but are not limited to, significant changes in the market price of the asset, the use of the asset, management's plans, legal factors, the business climate or the physical condition of the asset. 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. Any resulting impairment loss is highly dependent on those underlying assumptions and could significantly affect the Company's results of operations.

The Company's Consolidated Balance Sheet as of December 31, 2007 includes goodwill of acquired businesses of \$265.9 million. Goodwill is allocated to each reporting unit and is tested for impairment using a variety of methods, principally discounted projected future net cash flows, at least annually and impairments, if any, are charged to earnings. The Company completed its annual review as of October 31. A significant amount of judgment is required in performing goodwill impairment tests. Key assumptions used in the testing include, but are not limited to, the use of estimated future cash flows, earnings multiples and an appropriate discount rate. Estimated future cash flows are impacted by, among other factors, growth rates, changes in regulations and rates, ability to renew contracts and estimates of future commodity prices. In estimating cash flows, the Company incorporates current market information as well as historical factors.

Income Taxes

In determining the Company's tax liabilities, management is required to interpret complex tax laws and regulations. In preparing tax returns, 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 U.S. Internal Revenue Service has closed examination of the Company's income tax returns through 2003. In addition, open tax years related to a number of state jurisdictions remain subject to examination. Although the ultimate resolution of the Company's federal and state tax examinations is uncertain, the Company believes it has made adequate provisions for these tax positions 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 results.

Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

At December 31, 2007 and 2006, the Company had fixed-rate long-term debt of \$490.6 million and \$533.6 million, respectively, with a total fair value of \$515.7 million and \$553.6 million, respectively. Because of their fixed interest rates, these instruments 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 approximately \$8 million and \$17 million if interest rates were to increase by 10% from their levels at December 31, 2007 and 2006, respectively. In general, such 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, 2007 and 2006, the Company had floating-rate obligations of \$8.8 million and \$43.2 million, respectively, that expose 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, 2007 and 2006, these interest rate swaps had an aggregate notional amount of \$8.8 million and \$43.2 million, respectively, which the

Company could terminate at a cost of \$0.1 million and \$0.6 million. A decrease of 10% in the December 31, 2007 and 2006 level of interest rates would increase the cost of terminating the swap agreements by \$- million and \$0.1 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.

Commodity and Credit Risks

The Imperial Valley Projects' primary source of electricity revenue is derived from payments received pursuant to long-term power sales agreements with Edison. Because of the Imperial Valley Projects' dependence on Edison, if Edison fails to fulfill its obligations to the Imperial Valley Projects, it could significantly impair the ability of the Imperial Valley Projects to fund operating and maintenance expenses, payments of interest and principal on the debt securities, projected capital expenditures and debt service reserve fund requirements. Approximately 86% of the Imperial Valley Projects' electricity sales were to Edison in 2007.

In June and November 2001, Salton Sea II, Salton Sea III, Vulcan, Elmore, Leathers and Del Ranch, the Imperial Valley Projects which were then receiving Edison's avoided cost of energy, entered into agreements that provided for amended energy payments. The amendments provided for fixed energy payments per kWh in lieu of Edison's avoided cost of energy. The fixed energy price was 3.25 cents per kWh from December 1, 2001 to April 30, 2002 and increased to 5.37 cents per kWh commencing May 1, 2002 through April 30, 2007. On May 30, 2006, the Imperial Valley Projects that receive Edison's avoided cost of energy entered into amendments with Edison to their respective power purchase agreements which provide for a fixed energy price commencing May 1, 2007, and ending April 30, 2012. The amendments were approved by the CPUC and such approval became final on October 19, 2006. The energy price under the respective amended power purchase agreements during the fixed price period will be 6.15 cents per kWh, escalated 1% annually beginning May 1, 2008. Beginning May 1, 2012, the 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, 2007, 2006 and 2005, Edison's average avoided cost of energy was 6.9 cents per kWh, 6.9 cents per kWh and 7.7 cents per kWh, respectively. Estimates of Edison's future avoided cost of energy vary substantially from year to year primarily based on the future cost of natural gas and may be impacted by regulatory proceedings which may change the definition of the avoided cost of energy and other commodity factors.

Approximately 82% of the natural gas-fired facilities electricity sales were to NYSEG in 2007. The Saranac Project's revenues and operating income as a percentage of CE Generation's total revenue and operating income were 46% and 62%, respectively, in 2007. The Saranac Project's contract with NYSEG expires in June 2009.

Other

On December 14, 2007, the Yuma Project received authority from the Federal Energy Regulatory Commission to sell excess energy to parties other than San Diego Gas & Electric Company at market-based rates.

CERTIFICATION

I, Stephen A. Larsen, certify that:

1. I have reviewed this annual report of CE Generation, LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying 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 (the Company's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying 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 28, 2008

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

CERTIFICATION

I, Stephen D. Dickas, certify that:

1. I have reviewed this annual report of CE Generation, LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying 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 (the Company's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying 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 28, 2008

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