



CE GENERATION<sub>LLC</sub>

**Consolidated Financial Statements and Independent Auditors' Report**

**As of December 31, 2008 and 2007 and for each of the**

**Three Years in the Period Ended December 31, 2008**

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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, 2008 and 2007, 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, 2008. 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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. An audit includes 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 financial statements present fairly, in all material respects, the consolidated financial position of CE Generation, LLC and subsidiaries as of December 31, 2008 and 2007, and the results of their consolidated operations and their consolidated cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

/s/ Delloite & Touche LLP

Omaha, Nebraska  
March 30, 2009

**CE GENERATION, LLC AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

(In thousands)

	<b>As of December 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 44,364	\$ 35,239
Restricted cash	16	7,187
Trade receivables	56,632	57,173
Trade receivables from affiliate	1,163	1,272
Income tax receivable	3,038	1,479
Inventories	28,626	29,433
Deferred income taxes	283	1,120
Other current assets	5,247	5,343
Total current assets	139,369	138,246
Property, plant and equipment, net	745,090	775,576
Goodwill	265,897	265,897
Intangible assets, net	67,704	83,702
Other assets	3,753	6,351
<b>Total assets</b>	<b>\$ 1,221,813</b>	<b>\$ 1,269,772</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 23,542	\$ 12,881
Accrued interest	2,057	2,241
Accrued natural gas liability	10,317	9,743
Due to affiliates	2,181	1,686
Other current liabilities	11,137	9,162
Current portion of long-term debt	50,810	65,065
Total current liabilities	100,044	100,778
Parent senior secured bonds	219,000	243,600
Subsidiary and project debt	164,475	190,685
Due to affiliates	8,020	5,844
Deferred income taxes	226,496	240,619
Other long-term liabilities	15,077	14,486
Total liabilities	733,112	796,012
Minority interest	26,097	41,746
Commitments and contingencies (Note 10)		
Total members' equity	462,604	432,014
<b>Total liabilities and members' equity</b>	<b>\$ 1,221,813</b>	<b>\$ 1,269,772</b>

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,		
	2008	2007	2006
<b>Operating revenue</b>	\$ 530,831	\$ 504,287	\$ 476,603
<b>Operating costs and expenses:</b>			
Fuel	121,814	112,087	103,817
Plant operations	133,936	132,988	135,619
General and administrative	3,721	3,555	3,569
Depreciation and amortization	<u>114,371</u>	<u>114,514</u>	<u>96,447</u>
Total operating costs and expenses	<u>373,842</u>	<u>363,144</u>	<u>339,452</u>
<b>Operating income</b>	<u>156,989</u>	<u>141,143</u>	<u>137,151</u>
<b>Other income (expense):</b>			
Interest expense	(37,479)	(43,521)	(50,458)
Interest and other income	<u>2,676</u>	<u>4,886</u>	<u>6,684</u>
Total other income (expense)	<u>(34,803)</u>	<u>(38,635)</u>	<u>(43,774)</u>
<b>Income before income tax expense and minority interest</b>	122,186	102,508	93,377
Income tax expense	14,303	17,880	11,084
Minority interest	<u>54,184</u>	<u>35,070</u>	<u>28,454</u>
<b>Net income</b>	<u>53,699</u>	<u>49,558</u>	<u>53,839</u>
<b>Other comprehensive (loss) income:</b>			
Unrecognized amounts on retirement benefits, net of tax of \$(740), \$(584) and \$-	(1,436)	(521)	-
Fair value adjustment on cash flow hedges, net of tax of \$15, \$141 and \$414	<u>27</u>	<u>255</u>	<u>746</u>
Total other comprehensive (loss) income	<u>(1,409)</u>	<u>(266)</u>	<u>746</u>
<b>Comprehensive income</b>	<u>\$ 52,290</u>	<u>\$ 49,292</u>	<u>\$ 54,585</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, 2008**

(In thousands)

	<b>Members' Equity</b>	<b>Accumulated Other Comprehensive Loss, net</b>	<b>Total</b>
<b>Balance, January 1, 2006</b>	\$ 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)
<b>Balance, December 31, 2006</b>	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
<b>Balance, December 31, 2007</b>	434,202	(2,188)	432,014
Net income	53,699	-	53,699
Other comprehensive loss	-	(1,409)	(1,409)
Distributions	(21,700)	-	(21,700)
<b>Balance, December 31, 2008</b>	<b>\$ 466,201</b>	<b>\$ (3,597)</b>	<b>\$ 462,604</b>

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

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

	<b>Years Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities:</b>			
Net income	\$ 53,699	\$ 49,558	\$ 53,839
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization	114,371	114,514	96,447
Provision for deferred income taxes	(12,582)	(3,876)	(4,228)
Distributions to minority interest in excess of income	(15,658)	(1,608)	(2,228)
Amortization of deferred financing costs	688	872	1,030
Changes in other items:			
Trade receivables	650	(2,262)	7,399
Inventories	807	191	631
Due to affiliates, net	495	34	1,578
Other current assets	(1,463)	2,561	(2,156)
Accounts payable and other current liabilities	<u>5,056</u>	<u>(10,874)</u>	<u>(7,852)</u>
Net cash flows from operating activities	<u>146,063</u>	<u>149,110</u>	<u>144,460</u>
<b>Cash flows from investing activities:</b>			
Capital expenditures	(59,254)	(36,294)	(27,336)
Purchases of available-for-sale securities	-	(155,500)	(267,000)
Proceeds from sales of available-for-sale securities	-	155,500	273,000
Decrease (increase) in restricted cash	<u>9,081</u>	<u>193</u>	<u>(293)</u>
Net cash flows from investing activities	<u>(50,173)</u>	<u>(36,101)</u>	<u>(21,629)</u>
<b>Cash flows from financing activities:</b>			
Repayment of subsidiary and project debt	(36,865)	(59,467)	(57,020)
Repayment of parent senior secured bonds	(28,200)	(18,000)	(19,200)
Distributions	<u>(21,700)</u>	<u>(44,750)</u>	<u>(41,000)</u>
Net cash flows from financing activities	<u>(86,765)</u>	<u>(122,217)</u>	<u>(117,220)</u>
<b>Net change in cash and cash equivalents</b>	9,125	(9,208)	5,611
<b>Cash and cash equivalents at beginning of year</b>	<u>35,239</u>	<u>44,447</u>	<u>38,836</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 44,364</u>	<u>\$ 35,239</u>	<u>\$ 44,447</u>
<b>Supplemental disclosure:</b>			
Interest paid	<u>\$ 36,975</u>	<u>\$ 42,989</u>	<u>\$ 49,553</u>
Income taxes paid	<u>\$ 27,170</u>	<u>\$ 18,721</u>	<u>\$ 19,619</u>
Non-cash investing transactions -			
Property, plant, and equipment additions in accounts payable	<u>\$ 8,043</u>	<u>\$ 12,579</u>	<u>\$ 197</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”), a consolidated subsidiary of Berkshire Hathaway Inc., 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)<sup>(1)</sup></u>	<u>Net MW Owned<sup>(1)</sup></u>	<u>Location</u>	<u>Power Purchase Agreement Expiration</u>	<u>Power Purchaser<sup>(2)</sup></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 <sup>(3)</sup>	Various <sup>(3)</sup>
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	CECG
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>			

<sup>(1)</sup> Represents the nominal net megawatt (“MW”) facility net capacity. Actual MW may vary depending on operating and reservoir conditions and plant design. Net MW Owned indicates legal ownership, but, in the case of the Saranac Project, does not reflect the current allocation of partnership distributions.

<sup>(2)</sup> Southern California Edison Company (“Edison”); Arizona Public Service (“APS”); New York State Electric & Gas Corporation (“NYSE&G”); Constellation Energy Commodities Group, Inc. (“CECG”); and San Diego Gas & Electric Company (“SDG&E”).

<sup>(3)</sup> 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 Consolidation*

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, 2008, the Company’s economic interest in the partnership was approximately 76%, while the minority interest holders had a combined economic interest in the partnership of approximately 24%. 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.

### *Reclassifications*

Certain amounts in the prior year Consolidated Financial Statements have been reclassified to conform to the current year presentation. Amounts included reclassifications for certain retirement benefits and tax liabilities from current due to affiliates to long term due to affiliates of \$3.7 million and \$2.1 million, respectively. An additional amount included a reclassification of \$1.4 million from other current liabilities to current due to affiliates related to the California Power Exchange (Note 10). Such reclassifications did not impact previously reported operating income, net income or members’ equity.

### *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 assets impairment, accounting for contingencies, including environmental and income tax matters, and asset retirement obligations. 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 accounts and in other highly liquid investments with an original maturity of three months or less when purchased. Cash and cash equivalents exclude amounts where availability is restricted by legal requirements, loan agreements or other contractual provisions. 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 stated at the lower of cost or market. The cost of large replacement parts is determined using the specific identification method. The cost of the remaining spare parts and supplies is determined using average cost.

### *Property, Plant and Equipment, Net*

#### *General*

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.

#### *Asset Retirement Obligations*

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 facility assets which reside on leased land. The fair value of an ARO liability is recognized in the period in which it is incurred, if a reasonable estimate of fair value can be made, and is added to the carrying amount of the associated asset, which is then depreciated over the remaining useful life of the asset. Subsequent to the initial recognition, the ARO liability is adjusted for any revisions to the expected value of the retirement obligation (with corresponding adjustments to property, plant, and equipment) and for accretion of the ARO liability due to the passage of time.

#### *Intangible Assets, Net*

The Company’s intangible assets consist of acquired power purchase and royalty contracts and patented technology. These items are amortized by applying the straight-line method over the remaining contract periods.

#### *Impairment of Long-Lived Assets*

The Company evaluates long-lived assets for impairment, including property, plant and equipment and intangible assets, when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable, or the assets 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. During 2008, 2007 and 2006, the Company did not record any impairment of long-lived assets.

#### *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 at least annually, for impairment using a variety of methods, principally discounted projected future net cash flows with any impairments 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 estimated future cash flows, earnings before interest, taxes, depreciation and amortization multiples and an appropriate discount rate. In estimating cash flows, the Company incorporates current market information as well as historical factors. During 2008, 2007 and 2006, 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 for deliveries not under contract. The majority of the contracts contain both fixed, or scheduled, and variable price periods. During the scheduled period, energy revenue is recognized at the lower of (i) amounts billable under the contract or (ii) an amount equal to the kilowatt-hours (“kWh”) made available during the period multiplied by the estimated average revenue per kWh over the term of the contract. Energy revenue during the variable period and capacity revenue in all periods are recognized as billed.

CE Generation’s sales of electricity from the Imperial Valley Projects comprised 43%, 44%, and 44%, of 2008, 2007 and 2006 operating revenue, respectively. Of these sales, 88%, 86% and 87% were to Edison in 2008, 2007 and 2006, respectively. Sales of electricity from the Saranac Project comprised 46% of operating revenue in each of 2008, 2007 and 2006. Of these sales, all were to NYSE&G.

Trade receivables are primarily uncollateralized receivables from long-term power purchase contracts. At December 31, 2008 and 2007, trade receivables from Edison were \$29.7 million and \$28.3 million, respectively, and from NYSE&G were \$21.1 million and \$20.3 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 receivables 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 receivable balances could be adversely affected. At December 31, 2008 and 2007, there was no allowance for doubtful accounts recorded.

#### *Unamortized Financing Costs*

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. Other changes in deferred income tax assets and liabilities are included as a component of income tax expense. Valuation allowances are established for certain deferred tax assets when management has judged that realization is not likely.

In determining the Company's income taxes, 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, state jurisdictions have closed examination of the Company's income tax returns through at least 2002. 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. Assets and liabilities are established for uncertain tax positions taken or positions expected to be taken in income tax returns when such positions are judged to not meet the "more-likely-than-not" threshold based on the technical merits of the position. The Company's unrecognized tax benefits are primarily included in other long-term liabilities in the Consolidated Balance Sheets. The Company recognizes interest and penalties, if any, related to income taxes in income tax expense in the Consolidated Statements of Operations.

#### *New Accounting Pronouncements*

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("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 members' 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 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. In February 2008, the FASB issued Staff Position No. 157-2, "Effective Date of FASB Statement No. 157" ("FSP FAS 157-2"), which delays the effective date of SFAS No. 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis, until fiscal years beginning after November 15, 2008. These non-financial items include assets and liabilities such as non-financial assets and liabilities assumed in a business combination, reporting units measured at fair value in a goodwill impairment test and AROs initially measured at fair value. In October 2008, the FASB issued FSP No. 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" ("FSP FAS 157-3"), which clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP FAS 157-3 was effective upon issuance, including prior periods for which financial statements had not been issued. The Company adopted the provisions of SFAS No. 157 for assets and liabilities recognized at fair value on a recurring basis effective January 1, 2008. The partial adoption of SFAS No. 157 did not have a material impact on the Company's Consolidated Financial Statements.

### 3. Property, Plant and Equipment, Net

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

	<b>Depreciation Life</b>	<b>2008</b>	<b>2007</b>
Power plants	5 to 30 years	\$1,265,831	\$1,220,315
Wells and resource development	2 to 30 years	236,102	228,833
Equipment	3 to 30 years	<u>6,150</u>	<u>6,150</u>
Total operating assets		1,508,083	1,455,298
Accumulated depreciation		<u>(762,993)</u>	<u>(679,722)</u>
Property, plant and equipment, net		<u>\$ 745,090</u>	<u>\$ 775,576</u>

The Company replaced certain pipe and equipment with a remaining net book value of \$4.7 million, \$3.8 million and \$4.7 million for the years ended December 31, 2008, 2007 and 2006, respectively, which was charged to depreciation expense in the Consolidated Statements of Operations.

### 4. Intangible Assets, Net

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

		<b>2008</b>		<b>2007</b>	
	<b>Amortization Life</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>
Power purchase and royalty contracts	4 to 30 years	\$ 315,434	\$ 266,884	\$ 315,434	\$ 252,815
Patented technology	24 years	<u>46,290</u>	<u>27,136</u>	<u>46,290</u>	<u>25,207</u>
Intangible assets, net		<u>\$ 361,724</u>	<u>\$ 294,020</u>	<u>\$ 361,724</u>	<u>\$ 278,022</u>

Amortization expense on acquired intangible assets was \$16.0 million, \$15.9 million and \$16.1 million for the years ended December 31, 2008, 2007 and 2006, respectively. CE Generation expects amortization expense on acquired intangible assets to be \$11.9 million in 2009, and \$5.7 million in 2010 through 2013.

### 5. 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, 2008. 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, 2008 and 2007 was \$243.6 million and \$271.8 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.

In support of CE Generation's debt service requirements, a financial institution has issued a letter of credit for the account of TransAlta and a separate financial institution has issued a letter of credit for the account of MEHC. Each letter of credit was issued in the amount of \$11.8 million at December 31, 2008.

The annual repayments of CE Generation's debt for the years beginning January 1, 2009 and thereafter are as follows (in thousands):

2009	\$ 24,600
2010	14,200
2011	15,200
2012	20,480
2013	20,400
Thereafter	<u>148,720</u>
Total	<u>\$ 243,600</u>

## 6. Subsidiary and Project Debt

CE Generation's direct and indirect subsidiaries are organized as legal entities separate and apart from CE Generation and its other subsidiaries. Pursuant to separate project financing agreements applicable to the Imperial Valley Projects, the assets of each subsidiary with a direct or indirect ownership interest in the Imperial Valley Projects other than Magma Power Company and Salton Sea Power Company are pledged or encumbered to support or otherwise provide the security for their own project or subsidiary debt. It should not be assumed that the assets of any subsidiary will be available to satisfy CE Generation's obligations or the obligations of its other subsidiaries. However, unrestricted cash or other assets which are available for distribution may, subject to applicable law and the terms of financing and ring-fencing arrangements for such parties, be advanced, loaned, paid as dividends or otherwise distributed or contributed to CE Generation or affiliates thereof. Subsidiary and project debt may include provisions that allow CE Generation's subsidiaries to redeem it in whole or in part at any time. These provisions generally include make-whole premiums.

Long-term subsidiary and project debt consists of the following as of December 31 (in thousands):

	<u>2008</u>	<u>2007</u>
Salton Sea Bonds	\$ 190,685	\$218,750
Saranac Note Payable	<u>-</u>	<u>8,800</u>
Total Subsidiary and Project Debt	<u>\$ 190,685</u>	<u>\$ 227,750</u>

The components of Salton Sea Funding Corporation’s (“Funding Corporation”) long-term debt consist of the following as of December 31 (in thousands):

	<u>2008</u>	<u>2007</u>
7.84% Series C Bonds, due 2010	\$ 31,506	\$ 53,542
8.30% Series E Bonds, due 2011	28,072	31,572
7.48% Series F Bonds, due 2018	<u>131,107</u>	<u>133,636</u>
	<u>\$ 190,685</u>	<u>\$ 218,750</u>

The net revenues, equity distributions and royalties from the Imperial Valley Projects are used to pay principal and interest payments on outstanding senior secured bonds issued by Funding Corporation, the final series of which is scheduled to mature in November 2018. Funding Corporation debt is guaranteed by certain subsidiaries of Magma Power Company, a wholly-owned subsidiary of the Company, and secured by the capital stock of certain subsidiaries of CE Generation. The proceeds of Funding Corporation debt were loaned by Funding Corporation pursuant to loan agreements and notes (the “Imperial Valley Project Loans”) to certain subsidiaries of Magma Power Company and used for the construction of certain Imperial Valley Projects, refinancing of certain indebtedness and other purposes. Debt service on the Imperial Valley Project Loans is used to repay debt service on Funding Corporation debt. The Imperial Valley Project Loans and the guarantees of Funding Corporation debt are secured by substantially all of the assets of the Guarantors, including the Imperial Valley Projects, and by the equity interests in the Guarantors. The Imperial Valley Project Loans also require Funding Corporation to maintain certain covenants. Funding Corporation was in compliance with these requirements at December 31, 2008.

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 \$20.1 million at December 31, 2008.

The annual repayments of Funding Corporation debt for the years beginning January 1, 2009 and thereafter are as follows (in thousands):

2009	\$ 26,210
2010	26,741
2011	19,990
2012	16,614
2013	14,664
Thereafter	<u>86,466</u>
Total	<u>\$ 190,685</u>

Funding Corporation debt is non-recourse to CE Generation. CE Generation's ability to obtain distributions from its investment in the Imperial Valley Projects is subject to the following conditions:

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

## 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 and 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, is summarized as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Balance, January 1	\$ 9,857	\$10,180
Retirements	(1,415)	(816)
Accretion	<u>523</u>	<u>493</u>
Balance, December 31	<u>\$ 8,965</u>	<u>\$ 9,857</u>

## 8. Income Taxes

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>Current:</b>			
Federal	\$ 24,401	\$ 17,729	\$ 11,583
State	<u>2,484</u>	<u>4,027</u>	<u>3,729</u>
	<u>26,885</u>	<u>21,756</u>	<u>15,312</u>
<b>Deferred:</b>			
Federal	(10,474)	(6,059)	(2,264)
State	<u>(2,108)</u>	<u>2,183</u>	<u>(1,964)</u>
	<u>(12,582)</u>	<u>(3,876)</u>	<u>(4,228)</u>
Total	<u>\$ 14,303</u>	<u>\$ 17,880</u>	<u>\$ 11,084</u>

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Federal statutory income tax rate	35.0%	35.0%	35.0%
Percentage depletion	(5.5)	(7.6)	(9.3)
Energy tax credits	(2.9)	(1.6)	(2.9)
Production activities deduction	(0.7)	(1.4)	(0.6)
State taxes, net of federal tax effect	0.6	1.9	1.9
Minority interest	(15.3)	(12.0)	(10.7)
Deferred tax adjustment due to tax rate change	-	3.3	-
Other items, net	<u>0.5</u>	<u>(0.2)</u>	<u>(1.5)</u>
Effective income tax rate	<u>11.7%</u>	<u>17.4%</u>	<u>11.9%</u>

Income tax expense is only provided for the taxable earnings of the Company, including its partnership interests. No income tax expense 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 as of December 31 (in thousands):

	<u>2008</u>	<u>2007</u>
<b>Deferred tax assets:</b>		
Accruals not currently deductible for tax purposes	\$ 2,096	\$ 2,859
Employee benefits	2,351	1,611
Credit carryforwards	3,507	4,086
Other	<u>302</u>	<u>253</u>
Total deferred tax assets	<u>8,256</u>	<u>8,809</u>
<b>Deferred tax liabilities:</b>		
Property, plant, and equipment and intangible assets, net	(229,611)	(243,258)
Other	<u>(4,858)</u>	<u>(5,050)</u>
Total deferred tax liabilities	<u>(234,469)</u>	<u>(248,308)</u>
Net deferred tax liability	<u>\$ (226,213)</u>	<u>\$ (239,499)</u>
<b>Reflected as:</b>		
Current asset	\$ 283	\$ 1,120
Non-current liability	<u>(226,496)</u>	<u>(240,619)</u>
	<u>\$ (226,213)</u>	<u>\$ (239,499)</u>

As of December 31, 2008, the Company has available \$3.5 million of state tax credit carryforwards, principally for state alternative minimum tax credit carryforwards, that do not expire and will carryforward indefinitely until utilized.

The Company adopted Financial Accounting Standards Board (“FASB”) Interpretation No. 48, “Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109” (“FIN 48”) effective January 1, 2007 and had \$2.0 million of net 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, 2008 and 2007, net unrecognized tax benefits totaled \$3.5 million and \$2.7 million, respectively, which included \$2.0 million and \$1.1 million, respectively, 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. 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 of these instruments. The Company’s long-term debt and current portion of long-term debt are carried at cost in the Consolidated Financial Statements. The fair value of the Company’s long-term debt has been estimated based upon quoted market prices. 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>2008</u>		<u>2007</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Long-term debt	<u>\$ 434,285</u>	<u>\$ 405,988</u>	<u>\$ 499,350</u>	<u>\$ 524,466</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 at various contaminated sites, including sites that are or were part of the Company’s operations and sites owned by third parties. The Company accrues environmental remediation expenses when the expenses are believed to be probable and can be reasonably estimated. The quantification of environmental exposures is based on many factors, including changing laws and regulations, advancements in environmental technologies, the quality of available site-specific information, site investigation results, expected remediation or settlement timelines, the Company’s proportionate responsibility, contractual indemnities and coverage provided by insurance policies. The liability recorded as of December 31, 2008 and 2007 was \$1.0 million and \$1.1 million, respectively, and is included in other current liabilities on the Consolidated Balance Sheets. Environmental remediation liabilities that separately result from the normal operation of long-lived assets and that are associated with the retirement of those assets are separately accounted for as asset retirement obligations.

### *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 year ended December 31, 2009 represent future minimum payments totaling \$37.5 million.

## 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 \$3.2 million, \$3.0 million and \$3.0 million for the years ended December 31, 2008, 2007 and 2006, respectively. Such amounts are 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. The annual rates for the remainder of the contract period are \$3.3 million and \$3.4 million for the calendar years ended 2009 and 2010, respectively.

The Company participates in multi-employer pension plans sponsored by MidAmerican Energy Company (“MEC”), an indirect wholly-owned subsidiary of MEHC. The Company’s contribution to the various plans was \$2.3 million, \$2.4 million and \$2.5 million for the years ended December 31, 2008, 2007 and 2006, respectively. The portion of accumulated other comprehensive loss 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 their geothermal facilities in the Imperial Valley of California (“the Salton Sea V Project” and the “CE Turbo Project”, respectively) to TransAlta on February 12, 2003, based on percentages of the Dow Jones SP-15 Index. The TransAlta Transaction Agreement shall continue until the earlier of (a) 30 days following a written notice of termination, or (b) any other termination date mutually agreed to by the parties. No such notice of termination has been given by either party. Pursuant to this agreement, sales to TransAlta totaled \$11.7 million, \$11.6 million and \$11.1 million for the years ended December 31, 2008, 2007 and 2006, respectively. As of December 31, 2008 and 2007, trade receivable balances from TransAlta were \$1.0 million and \$1.1 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. Salton Sea Power, CE Turbo and TransAlta each have agreed not to exercise their respective 30 day termination right described above with respect to such amount of available power through such period.

On January 21, 2004, Salton Sea Power and CE Turbo entered into a Green Energy Tag Purchase and Sale Agreement to sell the non-power attributes (the non-power attributes made available by one megawatt hour (“MWh”) of generation, a “Green Tag”) associated with up to 931,800 MWh of available generation of the Salton Sea V Project and the CE Turbo Project through December 31, 2008 to TransAlta Energy Marketing (US) Inc. (“TransAlta Marketing”) at a market price per Green Tag. Pursuant to this agreement, sales to TransAlta Marketing totaled \$2.1 million, \$2.2 million and \$2.2 million for the years ended December 31, 2008, 2007 and 2006, respectively. As of December 31, 2008 and 2007, trade receivable balances from TransAlta Marketing were \$0.2 million.

On November 7, 2008, the Yuma Project entered into a Master Power Purchase and Sale Agreement (“Master Agreement”) with TransAlta Marketing. The Master Agreement allows the Yuma Project to utilize TransAlta Marketing to market electricity sales during curtailment periods initiated by SDG&E. No transactions were entered into under the Master Agreement for the period ended December 31, 2008.

## 12. Components of Accumulated Other Comprehensive Loss, Net

Accumulated other comprehensive loss, net is included in the Consolidated Balance Sheets in total members’ equity, and consists of the following components as of December 31 (in thousands):

	<u>2008</u>	<u>2007</u>
Unrecognized amounts on retirement benefits, net of tax of \$(2,351) and \$(1,611)	\$ (3,597)	\$ (2,161)
Fair value adjustment on cash flow hedges, net of tax of \$- and \$(15)	<u>-</u>	<u>(27)</u>
Total accumulated other comprehensive loss, net	<u>\$ (3,597)</u>	<u>\$ (2,188)</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. Explanations include management's best estimate of the impact of weather and other factors. This discussion should be read in conjunction with the Company's historical Consolidated Financial Statements and 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 undertakes no obligation to update forward-looking statements, whether as a result of new information, future events or otherwise. The foregoing review of factors should not be construed as exclusive.

### Results of Operations

#### *Operating Revenue*

The capacity factor for a particular project is determined by dividing the total quantity of electricity sold by the product of the projects capacity and the total hours in the year. Refer to Note 1 of Notes to Consolidated Financial Statements for the facility 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):

	<b>Years Ended December 31</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Natural gas-fired facilities	\$ 303.1	\$ 283.5	\$ 267.9
Geothermal facilities	<u>227.7</u>	<u>220.8</u>	<u>208.7</u>
Total operating revenue	<u>\$ 530.8</u>	<u>\$ 504.3</u>	<u>\$ 476.6</u>

#### *Natural Gas-Fired Facilities*

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

	<b>Years Ended December 31</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Overall capacity factor	64.8%	69.7%	68.1%
Megawatt hours ("MWh") produced	2,857,700	3,063,900	2,993,200
Facility net capacity ( MW) (weighted average)	502.0	502.0	502.0

Operating revenue at the natural gas-fired facilities increased \$19.6 million, or 6.9%, for 2008 compared to 2007 primarily due to the following:

- \$9.2 million increase due to rate escalations under the 15-year power purchase agreement between New York State Electric & Gas Corporation (“NYSE&G”) and the Saranac Project.
- The Company’s natural gas-fired facility in Yuma, Arizona (the “Yuma Project”) sells energy at a regulatory determined avoided cost of energy, which increased to 9.0 cents per kilowatt hour (“kWh”) in 2008 from 7.4 cents per kWh in 2007. This price increase resulted in a \$5.7 million increase in operating revenue.
- \$4.7 million increase at the Saranac Project due to a 2.0% increase in production over 2007. The production increase is attributable primarily to the timing of scheduled utility curtailments.

Total MWh produced in 2008 were lower than total MWh produced in 2007 by 6.7% due primarily to lower production at the Company’s natural gas-fired facility in Big Spring, Texas (“the Power Resources Project”). Lower 2008 production at the Power Resources Project had no impact on operating revenue due to the nature of its tolling agreement with Constellation Energy Commodities Group, Inc. (“CECG”).

Operating revenue at the natural gas-fired facilities increased \$15.6 million, or 5.8%, for 2007 compared to 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.

#### *Geothermal Facilities*

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

	<b>Years Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Overall capacity factor	91.9%	91.2%	92.7%
MWh produced	2,635,400	2,607,000	2,651,200
Facility net capacity (MW) (weighted average)	326.4	326.4	326.4

Operating revenue at the Imperial Valley Projects increased \$6.9 million, or 3.1%, for 2008 compared to 2007 primarily due to the following:

- \$6.5 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.
- \$2.8 million increase from a 1.1% increase in energy production. The energy production increase primarily results from the timing of scheduled maintenance.
- \$2.4 million decrease due to timing of the recovery from the PX Receivable as discussed in Note 10 of Notes to Consolidated Financial Statements included elsewhere in this report.

Operating revenue at the Imperial Valley Projects increased \$12.1 million, or 5.8%, for 2007 compared to 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 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.

#### *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, CECG is required to purchase the natural gas supply.

Fuel expense increased \$9.7 million, or 8.7%, to \$121.8 million for 2008 from \$112.1 million for 2007. During 2008, the Company incurred \$8.9 million more in fuel expense due to higher unit costs paid for natural gas. The Company also incurred \$0.8 million more in fuel expense due to higher production at the Yuma Project.

Fuel expense increased \$8.3 million, or 8.0%, to \$112.1 million for 2007 from \$103.8 million for 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.

#### *Plant Operations*

Plant operations increased \$0.9 million, or 0.7%, to \$133.9 million for 2008 from \$133.0 million for 2007. The increase was primarily due to higher royalties expense on increased production and higher employee and repair parts costs at the Imperial Valley projects.

Plant operations decreased \$2.6 million, or 1.9%, to \$133.0 million for 2007 from \$135.6 million for 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 increased maintenance and hazardous waste expense at certain Imperial Valley projects totaling \$3.8 million and \$3.6 million, respectively. The hazardous waste expense increase is relative to 2006, which included a one-time decrease in hazardous waste expense due to the enactment of Senate Bill 1294 - Geothermal Waste Exemption ("SB 1294"). 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.

#### *Depreciation and Amortization*

Depreciation and amortization decreased \$0.1 million, or 0.1%, to \$114.4 million for 2008 from \$114.5 million for 2007. The decrease was due primarily to comparably longer lives of production pipeline replacement given the higher quality of material used at certain Imperial Valley Projects.

Depreciation and amortization increased \$18.1 million, or 18.8%, to \$114.5 million for 2007 from \$96.4 million for 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.

### *Interest Expense*

Interest expense decreased \$6.0 million to \$37.5 million for 2008 compared to 2007 and \$7.0 million to \$43.5 million for 2007 compared to 2006. The decreases were due to lower outstanding debt balances.

### *Interest and Other Income*

Interest and other income decreased \$2.2 million to \$2.7 million for 2008 compared to 2007 and \$1.8 million to \$4.9 million for 2007 compared to 2006. The decreases were primarily due to lower average interest rates.

### *Income Tax Expense*

Income tax expense decreased \$3.6 million to \$14.3 million for 2008 from \$17.9 million for 2007. The effective tax rates were 11.7% and 17.4% in 2008 and 2007, respectively. The lower effective tax rate in 2008 was due primarily to the effects of higher consolidated state tax rates in 2007 due to adjusted apportionment factors and their impact on cumulative deferred taxes and the 2008 benefit associated with the California Enterprise Zone Tax Credit.

Income tax expense increased \$6.8 million to \$17.9 million for 2007 from \$11.1 million for 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 2006.

### *Minority Interest*

Minority interest increased \$19.1 million to \$54.2 million for 2008 compared to 2007 and \$6.6 million to \$35.1 million for 2007 compared to 2006. The increases were a result of certain provisions in the Saranac Project's partnership agreement which adjust the economic interests of the partners over the term of the agreement as well as improved financial performance at the Saranac Project.

### Liquidity and Capital Resources

CE Generation's direct and indirect subsidiaries are organized as legal entities separate and apart from CE Generation and its other subsidiaries. Pursuant to separate project financing agreements applicable to the Imperial Valley Projects, the assets of each subsidiary with a direct or indirect ownership interest in the Imperial Valley Projects other than Magma Power Company and Salton Sea Power Company are pledged or encumbered to support or otherwise provide the security for their own project or subsidiary debt. It should not be assumed that the assets of any subsidiary will be available to satisfy CE Generation's obligations or the obligations of its other subsidiaries. However, unrestricted cash or other assets which are available for distribution may, subject to applicable law and the terms of financing and ring-fencing arrangements for such parties, be advanced, loaned, paid as dividends or otherwise distributed or contributed to CE Generation or affiliates thereof.

Cash flows from operations were \$146.1 million for 2008 compared to \$149.1 million for 2007. The decrease was due primarily to higher cash payments to the minority owners of the Saranac Project and higher income tax payments, partially offset by lower cash payments for interest and the timing of working capital changes.

Cash flows used in investing activities were \$50.2 million for 2008 compared to \$36.1 million for 2007. The increase is primarily due to higher capital expenditures of \$23.0 million at the Imperial Valley Projects due primarily to increased spending related to pipeline replacement materials, partially offset by a decrease in restricted cash.

Forecasted capital expenditures for 2009 are approximately \$61 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 in 2009 than historical expenditures. The Company expects to meet these capital expenditures with cash flows from operations.

Cash flows used in financing activities were \$86.8 million for 2008 compared to \$122.2 million for 2007. The decrease was primarily due to lower repayments of subsidiary and project debt due to the extinguishment of the Saranac Note Payable in March 2008 and lower distributions to owners, partially offset by higher repayments of parent senior secured bonds.

## 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 EPA released the final Clean Air Interstate Rule (“CAIR”), calling for reductions of SO<sub>2</sub> and NO<sub>x</sub> emissions in the Eastern United States through, at each state’s option, a market-based cap-and-trade system, emission reductions, or both because of contributions to downwind nonattainment of the fine particulate matter and ozone standards. The SO<sub>2</sub> and NO<sub>x</sub> emissions reductions were planned to be accomplished in two phases, in 2009-2010 and 2015. However, in July 2008, the D.C. Circuit held that the CAIR was fatally flawed and vacated the rule, remanding it to the EPA to consider which states are included in CAIR based on their contribution to nonattainment and neighboring states’ emission reductions to contributions to nonattainment in addition to distributing allowances appropriately. In September 2008, the EPA and others filed a petition for rehearing to the full court of the CAIR. In December 2008, the court granted the EPA’s petition to remand the matter without vacating the rule to the EPA to conduct further proceedings consistent with its prior opinion that the CAIR is fatally flawed and must be revised. The court concluded that, notwithstanding the flaws of the CAIR, it should remain in effect until it is replaced by a new rule. As a result of the court’s ruling, CE Generation and other utilities in the Eastern United States have an obligation to comply with the NO<sub>x</sub> provisions of the CAIR effective on January 1, 2009, and with the SO<sub>2</sub> provisions of the CAIR effective January 1, 2010, until such time as the EPA promulgates a new rule. Under the CAIR, a market for trading SO<sub>2</sub> and NO<sub>x</sub> emission credits had developed. As a result of the uncertainties created by the court’s ruling and the indefinite nature of the existing CAIR, the cost and availability of NO<sub>x</sub> allowances is subject to market conditions.

The emissions reductions could be made more stringent by current or future regulatory and legislative proposals at the federal or state levels that would result in significant reductions of SO<sub>2</sub>, NO<sub>x</sub> and mercury, as well as carbon dioxide (“CO<sub>2</sub>”) and other gases that may affect global climate change.

The Regional Greenhouse Gas Initiative (“RGGI”) is a cooperative effort by ten Northeast and Mid-Atlantic States to limit CO<sub>2</sub> emissions. RGGI is the first mandatory, market-based CO<sub>2</sub> emissions reduction program in the United States. The states of Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, and Vermont are all signatory states to the RGGI agreement. These ten states have capped CO<sub>2</sub> emissions from the power sector at 188 million tons. The cap on emissions of CO<sub>2</sub> from power plants in the RGGI region will be 10 percent lower by 2018 than at the start of the RGGI program in 2009. The RGGI is composed of individual CO<sub>2</sub> Budget Trading Programs in each of the ten participating states. These ten individual programs will be implemented through state regulations, based on a RGGI Model Rule, and are linked through CO<sub>2</sub> allowance reciprocity. States will sell emission allowances through auctions and invest proceeds in consumer benefits such as energy efficiency, renewable energy, and other clean energy technologies. Regulated power plants will be able to use a CO<sub>2</sub> allowance issued by any of the ten participating states to demonstrate compliance with the state program governing their facility. Taken together, the ten individual state programs will function as a single regional compliance market for carbon emissions.

The Saranac Project is required to purchase CO<sub>2</sub> allowances related to 2009 CO<sub>2</sub> emissions prior to 2012, the cost of which is not yet known. Following the expiration of the NYSE&G contract in June 2009, it is expected that the cost of any required CO<sub>2</sub> allowances will be the obligation of the power purchaser.

The Imperial Valley Projects are subject to mandatory greenhouse gas reporting requirements as promulgated by the California Air Resources Board beginning in 2009.

Refer to Note 10 of Notes to Consolidated Financial Statements included elsewhere in this report for additional information regarding commitments related to environmental remediation for contaminated sites.

## Contractual Obligations

The Company has contractual obligations 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 as of December 31, 2008 are as follows (in thousands):

	<u>Payments Due by Period</u>				
	<u>Total</u>	<u>2009</u>	<u>2010- 2011</u>	<u>2012- 2013</u>	<u>2014 and After</u>
Contractual Cash Obligations:					
Long-term debt	\$ 434,285	\$ 50,810	\$ 76,131	\$ 72,158	\$ 235,186
Interest payments on long-term debt <sup>(1)</sup>	174,641	31,693	52,450	41,621	48,877
Natural gas contract commitments <sup>(1)</sup>	<u>37,536</u>	<u>37,536</u>	-	-	-
Total contractual cash obligations	<u>\$ 646,462</u>	<u>\$ 120,039</u>	<u>\$ 128,581</u>	<u>\$ 113,779</u>	<u>\$ 284,063</u>

<sup>(1)</sup> 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.

In support of CE Generation's debt service requirements, a financial institution has issued a letter of credit for the account of TransAlta and a separate financial institution has issued a letter of credit for the account of MEHC. As of December 31, 2008, each letter of credit is currently issued in the amount of \$11.8 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. As of December 31, 2008, each letter of credit was issued in the amount of \$20.1 million.

In 2007, the North American Electric Reliability Corporation finalized certain rules that require the owners and 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.

## Inflation

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

## Off-Balance Sheet Arrangements

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

## New Accounting Pronouncements

For a discussion of new accounting pronouncements affecting the Company, refer to Note 2 of Notes to Consolidated Financial Statements included elsewhere in this report.

## Critical Accounting Policies

Certain accounting policies require management to make estimates and judgments concerning transactions that will be settled several years 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 business climate, management's plans, legal factors, market price of the asset, the use of the asset 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, 2008 includes goodwill of acquired businesses of \$265.9 million. Goodwill is allocated to each reporting unit and is tested at least annually for impairment using a variety of methods, principally discounted projected future net cash flows, with any impairment charged to earnings. The Company completed its annual review as of October 31 and no indicators of impairment were identified as of December 31, 2008. 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 before interest, taxes, depreciation and amortization 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 income taxes, 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, state jurisdictions have closed examination of the Company's income tax returns through at least 2002. 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. Assets and liabilities are established for uncertain tax positions taken or positions expected to be taken in income tax returns when such positions are judged to not meet the "more-likely-than-not" threshold based on the technical merits of the position.

#### Quantitative and Qualitative Disclosures About Market Risk

##### *Interest Rate Risk*

The following table summarizes the Company's fixed-rate long-term debt totaling \$434.3 million and \$490.6 million as of December 31, 2008 and 2007, respectively and the estimated effects of hypothetical increases and decreases in interest rates based on rates in effect as of December 31, 2008. 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. In general, such increases and decreases 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. It is assumed that the changes occur immediately and uniformly to each debt instrument. The hypothetical changes in market interest rates do not reflect what could be deemed best or worst case scenarios. Variations in market

interest rates could produce significant changes in the timing of repayments due to prepayment options available. For these reasons, actual results might differ from those reflected in the table (dollars in thousands).

	<b>Estimated Fair Value after Hypothetical Change in Interest Rates</b>		
	<b>Fair Value</b>	<b>100 bp decrease</b>	<b>100 bp increase</b>
(bp = basis points)			
December 31, 2008	<u>\$ 405,988</u>	<u>\$ 417,026</u>	<u>\$ 370,389</u>
December 31, 2007	<u>\$ 515,667</u>	<u>\$ 566,219</u>	<u>\$ 495,257</u>

#### *Commodity and Credit Risks*

The Imperial Valley Project's primary source of electricity revenue is derived from payments received pursuant to long-term power sales agreements with Edison. Because of the Imperial Valley Project's dependence on Edison, if Edison fails to fulfill its obligations to the Imperial Valley Projects, it could significantly impair the ability of the 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 88% of the Imperial Valley Projects' electricity sales were to Edison in 2008.

In June and November 2001, the Salton Sea II, Salton Sea III, Vulcan, Elmore, Leathers and Del Ranch Projects, which were then receiving Edison's avoided cost of energy, entered into agreements that provided for amended energy payments. The amendments provided for fixed energy payments per kWh in lieu of Edison's avoided cost of energy. The fixed energy price was 3.25 cents per kWh from December 1, 2001 to April 30, 2002 and increased to 5.37 cents per kWh commencing May 1, 2002 through April 30, 2007. On May 30, 2006, the Imperial Valley Projects that receive Edison's avoided cost of energy entered into amendments with Edison to their respective power purchase agreements which provide for a fixed energy price commencing May 1, 2007 and ending April 30, 2012. The amendments were approved by the California Public Utilities Commission and such approval became final on October 19, 2006. The energy price under the respective amended power purchase agreements during the fixed price period will be 6.15 cents per kWh, escalated 1% annually beginning May 1, 2008. Beginning May 1, 2012, the projects subject to these amendments will revert back to Edison's avoided cost of energy. There can be no assurances that Edison's avoided cost of energy after May 1, 2012 will result in revenues equivalent to the current fixed energy payments being received. For the years ended December 31, 2008, 2007 and 2006, Edison's average avoided cost of energy was 8.6 cents per kWh, 6.9 cents per kWh and 6.9 cents per kWh, respectively. Estimates of Edison's future avoided cost of energy vary substantially from year to year primarily based on the future cost of natural gas and may be impacted by regulatory proceedings which may change the definition of the avoided cost of energy and other commodity factors.

Approximately 81% of the natural gas-fired facilities electricity sales were to NYSE&G in 2008. The Saranac Project's revenues and operating income as a percentage of CE Generation's total revenue and operating income, net of minority interest, were 46% and 28%, respectively, in 2008. The Saranac Project's contract with NYSE&G expires in June 2009. Saranac is currently reviewing its commercial alternatives, including opportunities to enter into contracts after June 2009 or to sell its services on a merchant basis. After Saranac's existing contract expires, its revenues, fuel costs, operating income and cash flows from operating activities are likely to decrease materially.

#### 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 officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures for CE Generation, LLC and we have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of Company's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: March 30, 2009

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

## CERTIFICATION

I, Stephen D. Dickas, certify that:

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

Date: March 30, 2009

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