



# SALTON SEA FUNDING CORPORATION AND GUARANTORS

**Combined Financial Statements**  
**For the Quarterly Period Ended March 31, 2009**

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**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINED BALANCE SHEETS (Unaudited)**  
(In thousands)

	As of	
	March 31, 2009	December 31, 2008
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 15,480	\$ 22,430
Trade receivables	30,467	30,806
Trade receivables from affiliate	1,152	1,163
Inventories	18,591	18,954
Other current assets	<u>2,239</u>	<u>1,516</u>
Total current assets	67,929	74,869
Property, plant and equipment, net	579,365	578,245
Goodwill	86,992	86,992
Intangible assets, net	60,448	61,833
Due from affiliates	1,499	-
Other assets	<u>1,305</u>	<u>1,489</u>
<b>Total assets</b>	<u>\$ 797,538</u>	<u>\$ 803,428</u>
<b>LIABILITIES AND OWNERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 10,562	\$ 16,591
Accrued interest	4,959	1,217
Current portion of senior secured notes and bonds	26,210	26,210
Other current liabilities	<u>4,788</u>	<u>8,639</u>
Total current liabilities	46,519	52,657
Senior secured notes and bonds	164,475	164,475
Due to affiliates	-	2,626
Deferred income taxes	79,822	80,975
Other long-term liabilities	<u>2,458</u>	<u>2,856</u>
Total liabilities	<u>293,274</u>	<u>303,589</u>
Commitments and contingencies (Note 4)		
Total owners' equity	<u>504,264</u>	<u>499,839</u>
<b>Total liabilities and owners' equity</b>	<u>\$ 797,538</u>	<u>\$ 803,428</u>

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

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINED STATEMENTS OF OPERATIONS**  
**AND COMPREHENSIVE INCOME (LOSS) (Unaudited)**  
(In thousands)

	<b>Three-Month Periods</b>	
	<b>Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Operating revenue</b>	<u>\$ 46,389</u>	<u>\$ 45,504</u>
<b>Operating costs and expenses:</b>		
Royalty, operating, general and administrative expense	25,378	25,381
Depreciation and amortization	<u>14,965</u>	<u>17,263</u>
Total operating costs and expenses	<u>40,343</u>	<u>42,644</u>
<b>Operating income</b>	<u>6,046</u>	<u>2,860</u>
<b>Other income (expense):</b>		
Interest expense	(3,756)	(4,349)
Interest and other income	<u>27</u>	<u>286</u>
Total other income (expense)	<u>(3,729)</u>	<u>(4,063)</u>
<b>Income (loss) before income tax expense (benefit)</b>	2,317	(1,203)
Income tax expense (benefit)	<u>(2,099)</u>	<u>5,160</u>
<b>Net income (loss)</b>	<u>4,416</u>	<u>(6,363)</u>
<b>Other comprehensive income-</b>		
Unrecognized amounts on retirement benefits, net of tax of \$7 and \$6	<u>9</u>	<u>8</u>
<b>Comprehensive income (loss)</b>	<u>\$ 4,425</u>	<u>\$ (6,355)</u>

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

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINED STATEMENTS OF CASH FLOWS (Unaudited)**  
(In thousands)

	<b>Three-Month Periods</b>	
	<b>Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 4,416	\$ (6,363)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation and amortization	14,965	17,263
Provision for deferred income taxes	(1,160)	4,838
Amortization of deferred financing costs	103	145
Changes in other operating assets and liabilities:		
Trade receivables	350	5,401
Inventories	363	29
Due to affiliates, net	(4,125)	9,346
Other current assets	(723)	(886)
Accounts payable and other current liabilities	7,274	(853)
Net cash flows from operating activities	21,463	28,920
<b>Cash flows from investing activities:</b>		
Capital expenditures	(28,494)	(23,875)
Decrease in restricted cash	81	136
Net cash flows from investing activities	(28,413)	(23,739)
<b>Net change in cash and cash equivalents</b>	(6,950)	5,181
<b>Cash and cash equivalents at beginning of period</b>	22,430	20,066
<b>Cash and cash equivalents at end of period</b>	\$ 15,480	\$ 25,247

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

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINED STATEMENTS OF CHANGES IN OWNERS' EQUITY (Unaudited)**  
(In thousands)

	<b>Owners' Equity</b>	<b>Accumulated Other Comprehensive Loss, Net</b>	<b>Total</b>
<b>Balance, January 1, 2008</b>	\$ 471,078	\$ (1,641)	\$ 469,437
Net loss	(6,363)	-	(6,363)
Other comprehensive income	-	8	8
<b>Balance, March 31, 2008</b>	<u>\$ 464,715</u>	<u>\$ (1,633)</u>	<u>\$ 463,082</u>
<b>Balance, January 1, 2009</b>	\$ 502,593	\$ (2,754)	\$ 499,839
Net income	4,416	-	4,416
Other comprehensive income	-	9	9
<b>Balance, March 31, 2009</b>	<u>\$ 507,009</u>	<u>\$ (2,745)</u>	<u>\$ 504,264</u>

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

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. General**

Salton Sea Funding Corporation (“Funding Corporation”), which was formed on June 20, 1995, is a special purpose Delaware corporation and was organized for the sole purpose of acting as issuer of senior secured notes and bonds. On July 21, 1995, June 20, 1996, and October 31, 1998, Funding Corporation issued \$475.0 million, \$135.0 million and \$285.0 million, respectively, of separate series of Senior Secured Notes and Bonds (collectively, the “Securities”). Funding Corporation is a wholly-owned subsidiary of Magma Power Company (“Magma”), which in turn is a wholly-owned subsidiary of CE Generation, LLC (“CE Generation”). CE Generation 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 Salton Sea Guarantors (not a legal entity) consist of: (1) Salton Sea Power Generation L.P., Salton Sea Power L.L.C. (“Salton Sea Power”), and Fish Lake Power LLC, together owning a 100% interest in five operating geothermal electric power generating plants located in the Imperial Valley of California commonly known as the Salton Sea I Project, the Salton Sea II Project, the Salton Sea III Project, the Salton Sea IV Project and the Salton Sea V Project (collectively, the “Salton Sea Projects”), (2) Salton Sea Brine Processing L.P., and (3) CE Salton Sea Inc. (collectively, the “Salton Sea Guarantors”).

The Partnership Guarantors (not a legal entity) consist of: (1) Vulcan/BN Geothermal Power Company (“Vulcan”), Elmore, L.P. (“Elmore”), Leathers, L.P. (“Leathers”), Del Ranch, L.P. (“Del Ranch”) and CE Turbo LLC (“CE Turbo”), each of which owns an operating geothermal power plant located in the Imperial Valley of California commonly known as the Vulcan Project, the Elmore Project, the Leathers Project, the Del Ranch Project and the CE Turbo Project, respectively (collectively, the “Partnership Projects”), (2) CalEnergy Operating Corporation (“CEOC”) and Vulcan Power Company (“VPC”), both 99% owned by Magma and 1% owned by Funding Corporation, (3) San Felipe Energy Company (“San Felipe”), Conejo Energy Company (“Conejo”), and Niguel Energy Company (“Niguel”), each 100% owned by CEOC, (4) VPC Geothermal LLC (“VPCG”), which is 100% owned by VPC, (5) Salton Sea Minerals Corp., (6) CalEnergy Minerals LLC (“CalEnergy Minerals”), and (7) CE Salton Sea Inc. (collectively, the “Partnership Guarantors”). VPC and VPCG collectively own 100% of the partnership interests in Vulcan. CEOC, Niguel, San Felipe and Conejo collectively own 90% of the partnership interests in each of Elmore, Leathers and Del Ranch, respectively. CE Salton Sea Inc. owns CE Turbo.

Magma owns all of the remaining 10% interests in each of the Elmore, Leathers and Del Ranch Projects. CEOC is entitled to receive from Magma, as payment for certain data and services provided by CEOC, all of the partnership distributions Magma receives with respect to its 10% ownership interests in each of the Elmore, Leathers and Del Ranch Projects and Magma’s special distributions equal to 4.5% of total energy revenue from the Leathers Project. Given the assignment of these rights by Magma to CEOC, the 10% ownership interest in each of the Elmore, Leathers and Del Ranch Projects is reflected in the Combined Financial Statements of the Partnership Guarantors, the Salton Sea Guarantors and Funding Corporation.

Salton Sea Royalty LLC (the “Royalty Guarantor”) is the beneficiary of an assignment of certain fees and royalties paid by the Elmore, Leathers and Del Ranch Projects (the “Royalty Projects”).

The Securities are payable from the proceeds of payments made of principal and interest on the secured project notes from the Salton Sea Guarantors, the Partnership Guarantors and the Royalty Guarantor (collectively, the “Guarantors”) to Funding Corporation. The Securities are also guaranteed on a joint and several basis by the Guarantors, each of which is an affiliate of Magma and Funding Corporation. Although the guarantees of the Partnership Guarantors and the Royalty Guarantor are limited to available cash flow (the guarantee of the Salton Sea Guarantors is not so limited), the obligations of each Guarantor under their respective secured project notes is not limited to available cash flow. Funding Corporation does not conduct any operations apart from those related to the issuance of the Securities.

The unaudited Combined Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements. Management believes the unaudited Combined Financial Statements contain all adjustments (consisting only of normal recurring adjustments) considered necessary for the fair presentation of the Combined Financial Statements as of March 31, 2009 and for the three-month periods ended March 31, 2009 and 2008. The results of operations for the three-month period ended March 31, 2009 are not necessarily indicative of the results to be expected for the full year.

The unaudited Combined Financial Statements include the accounts of Funding Corporation and the Guarantors (collectively, the “Company”) as Funding Corporation and the Guarantors are entities under common control and management. All transactions and accounts between and among Funding Corporation and the Guarantors have been eliminated.

The preparation of the unaudited Combined Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results may differ from the estimates used in preparing the unaudited Combined Financial Statements. Note 2 of Notes to Combined Financial Statements included in the Company’s audited Combined Financial Statements for the year ended December 31, 2008 describes the most significant accounting estimates and policies used in the preparation of the Combined Financial Statements. There have been no significant changes in the Company’s assumptions regarding significant accounting policies during the first three months of 2009.

## 2. Property, Plant and Equipment, Net

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

	Depreciation Life	As of	
		March 31, 2009	December 31, 2008
Power plants	5 to 30 years	\$ 920,801	\$ 908,095
Wells and resource development	2 to 30 years	<u>237,723</u>	<u>240,347</u>
Total operating assets		1,158,524	1,148,442
Accumulated depreciation		<u>(579,159)</u>	<u>(570,197)</u>
Property, plant and equipment, net		<u>\$ 579,365</u>	<u>\$ 578,245</u>

The Company replaced certain pipe and equipment with a remaining net book value of \$0.7 million and \$3.4 million during the three-month periods ended March 31, 2009 and 2008, respectively, which was charged to depreciation expense in the Combined Statements of Operations.

## 3. Intangible Assets, Net

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

	Amortization Life	As of March 31, 2009		As of December 31, 2008	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Power purchase and royalty contracts	4 to 30 years	\$ 216,935	\$ 175,158	\$ 216,935	\$ 174,257
Patented technology	24 years	<u>46,290</u>	<u>27,619</u>	<u>46,290</u>	<u>27,135</u>
Intangible assets, net		<u>\$ 263,225</u>	<u>\$ 202,777</u>	<u>\$ 263,225</u>	<u>\$ 201,392</u>

Amortization expense on acquired intangible assets was \$1.4 million for each of the three-month periods ended March 31, 2009 and 2008. The Company expects amortization expense on acquired intangible assets to be \$4.1 million for the remaining nine months in 2009 and \$5.5 million in 2010 through 2013.

#### **4. Commitments and Contingencies**

##### *The California Power Exchange*

In January 2001, the California Power Exchange declared bankruptcy. As a result, Salton Sea Power and CE Turbo 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 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 March 31, 2009 and December 31, 2008 was \$2.0 million and \$1.0 million, respectively, and is included in other current liabilities on the Combined 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.

#### **5. Related Party Transactions**

Pursuant to the Amended and Restated Easement Grant Deed and Agreement Regarding Rights for Geothermal Development dated February 23, 1994, as amended, the Salton Sea Guarantors acquired from Magma Land I, a wholly-owned subsidiary of Magma, rights to extract geothermal brine from the geothermal lease rights property which is necessary to operate the Salton Sea Guarantors’ power generation facilities in return for 5% of all electricity revenue received by the Salton Sea Guarantors. The amounts expensed for the three-month periods ended March 31, 2008 and 2007 were \$1.1 million and \$1.2 million, respectively.

Pursuant to the Easement Grant Deeds and Agreements Regarding Rights for Geothermal Development dated March 14, 1988 and August 15, 1988, the Partnership Guarantors acquired from Magma rights to extract geothermal brine from the geothermal lease rights property which is necessary to operate the Leathers, Del Ranch and Elmore Projects in return for 17.333%, on a pro rata basis, of all energy revenue received by each project. The amounts expensed for the three-month periods ended March 31, 2009 and 2008, were \$2.7 million and \$2.4 million, 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 \$0.4 million and \$0.5 million for the three-month periods ended March 31, 2009 and 2008, 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 the Administrative Services Agreement dated April 1, 1993 with Magma (the “Magma Services Agreement”), Magma will provide administrative and management services to the Salton Sea Guarantors, excluding the Salton Sea IV Project and the Salton Sea V Project. Fees payable to Magma amount to 3% of all electricity revenue. The amounts expensed for each of the three-month periods ended March 31, 2009 and 2008 were \$0.3 million.

Pursuant to the Magma Services Agreement, Magma has agreed to pay CEOC all equity cash flows and certain royalties payable by the Partnership Guarantors in exchange for providing data and services to Magma. As security for the obligations of Magma under the Magma Services Agreement, Magma has collaterally assigned to CEOC its rights to such equity cash flows and certain royalties. The assignment of such rights has been reflected in the Combined Financial Statements of the Company.

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 \$2.8 million for each of the three month periods ended March 31, 2009 and 2008. As of March 31, 2009 and December 31, 2008, trade receivable balances from TransAlta were \$1.2 million and \$1.0 million, respectively. Effective August 7, 2006 through May 31, 2009, up to 26 megawatts (“MW”) of available power from the Salton Sea V Project will be sold to TransAlta under the TransAlta Transaction Agreement at a fixed price. Salton Sea Power, CE Turbo, and TransAlta each have agreed not to exercise their respective 30 day termination right described above with respect to such amount of available power through such period.

On January 21, 2004, Salton Sea Power and CE Turbo entered into a Green Energy Tag Purchase and Sale Agreement to sell the non-power attributes (the non-power attributes made available by one megawatt hour (“MWh”) of generation, a “Green Tag”) associated with up to 931,800 MWh of available generation of the Salton Sea V Project and the CE Turbo Project through December 31, 2008 to TransAlta Energy Marketing (US) Inc. (“TransAlta Marketing”) at a market price per Green Tag. Pursuant to this agreement, sales to TransAlta Marketing totaled \$0.5 million for the three-month period ended March 31, 2008. As of December 31, 2008, the trade receivable balance from TransAlta Marketing was \$0.2 million.

## **6. Components of Accumulated Other Comprehensive Loss, Net**

Accumulated other comprehensive loss, net consists of unrecognized amounts on retirement benefits of \$2.7 million, net of tax of \$1.9 million, as of March 31, 2009 and December 31, 2008.

## 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 Salton Sea Funding Corporation ("Funding Corporation") and the Guarantors (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 unaudited Combined 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.

The Guarantors consist of the following legal entities:

- *Salton Sea Guarantors* - Salton Sea Brine Processing, L.P., Salton Sea Power Generation L.P., Salton Sea Power L.L.C., and Fish Lake Power LLC, each of which have an ownership interest in one or more of five operating geothermal power plants in the Imperial Valley of California commonly known as the Salton Sea I Project, Salton Sea II Project, Salton Sea III Project, Salton Sea IV Project and Salton Sea V Project (collectively, the "Salton Sea Projects"), and CE Salton Sea Inc.
- *Partnership Guarantors* - Vulcan/BN Geothermal Power Company ("Vulcan"), Elmore, L.P. ("Elmore"), Leathers, L.P. ("Leathers"), Del Ranch, L.P. ("Del Ranch"), CE Turbo LLC ("CE Turbo"), each of which owns an operating geothermal power plant located in the Imperial Valley of California commonly known as the Vulcan Project, the Elmore Project, the Leathers Project, the Del Ranch Project and the CE Turbo Project, respectively, (collectively, the "Partnership Projects"), CalEnergy Minerals LLC, Salton Sea Minerals Corp., CE Salton Sea Inc., CalEnergy Operating Corporation, Vulcan Power Company, San Felipe Energy Company, Conejo Energy Company, Niguel Energy Company, and VPC Geothermal LLC.
- *Royalty Guarantor* - Salton Sea Royalty LLC.

The Salton Sea Projects and the Partnership Projects are collectively known as the Imperial Valley Projects. Refer to Exhibit B, included herein, for additional information regarding the legal organization and ownership structure of the Company.

### Forward-Looking Statements

From time to time, the Company 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 the Company'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. The Company 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 project's capacity and the total hours in the year. Refer to Note 1 of Notes to Combined Financial Statements included in the Company's audited Combined Financial Statements for the year ended December 31, 2008 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.

The following represents operating revenue (in millions), aggregate capacity and electricity production of the Imperial Valley Projects:

	<b>Three-Month Periods Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
Operating revenue	\$46.4	\$45.5
Overall capacity factor	90.1%	88.2%
MWh produced	635,600	628,600
Facility net capacity (MW) (weighted average)	326.4	326.4

Operating revenue for the first quarter of 2009 increased \$0.9 million, or 2.0%, from the comparable period in 2008 primarily due to the following:

- \$1.0 million increase due to higher energy rates at certain Imperial Valley Projects, partially offset by a \$0.5 million decrease in Green Tag revenue due to the expiration of the Company's related party contract with TransAlta Marketing. Refer to Note 5 of Notes to Combined Financial Statements included elsewhere in this report.
- \$0.4 million increase due to a 1.1% increase in energy production.

#### *Royalty, Operating, General and Administrative Expense*

Royalty, operating, general and administrative expense was \$25.4 million for the first quarter of 2009 and the comparable period in 2008. Increased scale disposal expense of \$0.6 million in 2009 was offset by lower maintenance expense compared to the same period in 2008.

#### *Depreciation and Amortization*

Depreciation and amortization decreased \$2.3 million, or 13.3%, to \$15.0 million for the first quarter of 2009 from \$17.3 million for the comparable period in 2008. The decrease was primarily due to the 2008 plug and abandonment of a production well that delivered brine to certain Imperial Valley Projects.

#### *Interest Expense*

Interest expense decreased \$0.5 million to \$3.8 million for the first quarter of 2009 from \$4.3 million for the comparable period in 2008 due to lower outstanding debt balances.

#### *Income Tax Expense*

Income tax expense decreased \$7.3 million to a benefit of \$2.1 million for the first quarter of 2009 from an expense of \$5.2 million for the comparable period in 2008. This change is due primarily to the timing in recognition of tax benefits associated with depletion and energy tax credits at both the Salton Sea Guarantors and the Partnership Guarantors. This benefit was offset partially by additional income tax expense due to an increase in the pre-tax income from entities subject to U.S. federal tax.

#### Liquidity and Capital Resources

Cash flows from operations were \$21.5 million for the first quarter of 2009 compared with \$28.9 million for the comparable period in 2008. The decrease is due primarily to the timing of working capital changes.

Cash flows from investing activities were \$(28.4) million for the first quarter of 2009 compared with \$(23.7) million for the comparable period in 2008. The increase is due primarily to higher capital expenditures of \$4.6 million related to the Company's pipeline replacement program.

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

#### Environmental Matters

Refer to Note 4 of Notes to Combined Financial Statements included elsewhere in this report and the "Environmental Matters" section of Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's annual report for the year ended December 31, 2008 for additional information regarding certain environmental matters affecting the Company's operations.

#### Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about market risk affecting the Company, see the "Quantitative and Qualitative Disclosures About Market Risk" section of Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's annual report for the year ended December 31, 2008. The Company's exposure to market risk and its management of such risk has not changed materially since December 31, 2008.

## CERTIFICATION

I, Stephen A. Larsen, certify that:

1. I have reviewed this quarterly report of Salton Sea Funding Corporation and the Guarantors (collectively, the “Company”);
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 Salton Sea Funding Corporation and the Guarantors 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 the 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: May 14, 2009

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

## CERTIFICATION

I, Stephen D. Dickas, certify that:

1. I have reviewed this quarterly report of Salton Sea Funding Corporation and the Guarantors (collectively, the "Company");
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 Salton Sea Funding Corporation and the Guarantors 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: May 14, 2009

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

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINING BALANCE SHEET (Unaudited)**  
**AS OF MARCH 31, 2009**  
(in thousands)

EXHIBIT A

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation &amp; Eliminations</u>	<u>Combined</u>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ -	\$ 1	\$ -	\$ 15,479	\$ 15,480
Trade receivables	15,063	15,404	-	-	30,467
Trade receivables from affiliate	1,152	-	-	-	1,152
Inventories	-	18,591	-	-	18,591
Other current assets	1,055	1,149	-	35	2,239
Total current assets	<u>17,270</u>	<u>35,145</u>	<u>-</u>	<u>15,514</u>	<u>67,929</u>
Property, plant and equipment, net	338,379	240,986	-	-	579,365
Goodwill	-	56,528	30,464	-	86,992
Intangible assets, net	17,832	34,719	7,897	-	60,448
Due from affiliates	(1,096)	(550)	-	3,145	1,499
Other assets	654	651	-	-	1,305
<b>Total assets</b>	<u>\$ 373,039</u>	<u>\$ 367,479</u>	<u>\$ 38,361</u>	<u>\$ 18,659</u>	<u>\$ 797,538</u>
<b>LIABILITIES AND OWNERS' EQUITY</b>					
Current liabilities:					
Accounts payable	\$ 7,341	\$ 3,221	\$ -	\$ -	\$ 10,562
Accrued interest	2,783	2,176	-	-	4,959
Current portion of secured project notes	22,501	3,709	-	(26,210)	-
Current portion of senior secured notes and bonds	-	-	-	26,210	26,210
Other current liabilities	(260)	5,048	-	-	4,788
Total current liabilities	<u>32,365</u>	<u>14,154</u>	<u>-</u>	<u>-</u>	<u>46,519</u>
Secured project notes	84,574	79,901	-	(164,475)	-
Senior secured notes and bonds	-	-	-	164,475	164,475
Deferred income taxes	13,266	66,556	-	-	79,822
Other long-term liabilities	-	2,441	-	17	2,458
Total liabilities	<u>130,205</u>	<u>163,052</u>	<u>-</u>	<u>17</u>	<u>293,274</u>
Owners' equity:					
Owners' equity	242,834	207,172	38,361	18,642	507,009
Accumulated other comprehensive loss, net	-	(2,745)	-	-	(2,745)
Total owners' equity	<u>242,834</u>	<u>204,427</u>	<u>38,361</u>	<u>18,642</u>	<u>504,264</u>
<b>Total liabilities and owners' equity</b>	<u>\$ 373,039</u>	<u>\$ 367,479</u>	<u>\$ 38,361</u>	<u>\$ 18,659</u>	<u>\$ 797,538</u>

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINING BALANCE SHEET (Unaudited)**  
**AS OF DECEMBER 31, 2008**  
(in thousands)

EXHIBIT A (Continued)

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation &amp; Eliminations</u>	<u>Combined</u>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ -	\$ 4	\$ -	\$ 22,426	\$ 22,430
Trade receivables	15,171	15,635	-	-	30,806
Trade receivables from affiliate	1,163	-	-	-	1,163
Inventories	-	18,954	-	-	18,954
Other current assets	640	824	-	52	1,516
Total current assets	<u>16,974</u>	<u>35,417</u>	<u>-</u>	<u>22,478</u>	<u>74,869</u>
Property, plant and equipment, net	337,171	241,074	-	-	578,245
Goodwill	-	56,528	30,464	-	86,992
Intangible assets, net	18,120	35,610	8,103	-	61,833
Other assets	711	778	-	-	1,489
<b>Total assets</b>	<u>\$ 372,976</u>	<u>\$ 369,407</u>	<u>\$ 38,567</u>	<u>\$ 22,478</u>	<u>\$ 803,428</u>
<b>LIABILITIES AND OWNERS' EQUITY</b>					
Current liabilities:					
Accounts payable	\$ 6,071	\$ 10,520	\$ -	\$ -	\$ 16,591
Accrued interest	677	540	-	-	1,217
Current portion of secured project notes	22,501	3,709	-	(26,210)	-
Current portion of senior secured notes and bonds	-	-	-	26,210	26,210
Other current liabilities	2,655	5,971	1	12	8,639
Total current liabilities	<u>31,904</u>	<u>20,740</u>	<u>1</u>	<u>12</u>	<u>52,657</u>
Secured project notes	84,574	79,901	-	(164,475)	-
Senior secured notes and bonds	-	-	-	164,475	164,475
Due to affiliates	1,102	1,524	-	-	2,626
Deferred income taxes	15,779	65,196	-	-	80,975
Other long-term liabilities	315	2,524	-	17	2,856
Total liabilities	<u>133,674</u>	<u>169,885</u>	<u>1</u>	<u>29</u>	<u>303,589</u>
Owners' equity:					
Owners' equity	239,302	202,276	38,566	22,449	502,593
Accumulated other comprehensive loss, net	-	(2,754)	-	-	(2,754)
Total owners' equity	<u>239,302</u>	<u>199,522</u>	<u>38,566</u>	<u>22,449</u>	<u>499,839</u>
<b>Total liabilities and owners' equity</b>	<u>\$ 372,976</u>	<u>\$ 369,407</u>	<u>\$ 38,567</u>	<u>\$ 22,478</u>	<u>\$ 803,428</u>

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINING STATEMENT OF OPERATIONS (Unaudited)**  
**FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2009**  
(in thousands)

EXHIBIT A (Continued)

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation &amp; Eliminations</u>	<u>Combined</u>
<b>Operating revenue</b>	\$ 22,332	\$ 24,057	\$ 3,548	\$ (3,548)	\$ 46,389
<b>Operating costs and expenses:</b>					
Royalty, operating, general and administrative expense	15,040	12,968	895	(3,525)	25,378
Depreciation and amortization	7,421	7,338	206	-	14,965
Total operating costs and expenses	<u>22,461</u>	<u>20,306</u>	<u>1,101</u>	<u>(3,525)</u>	<u>40,343</u>
<b>Operating income (loss)</b>	<u>(129)</u>	<u>3,751</u>	<u>2,447</u>	<u>(23)</u>	<u>6,046</u>
<b>Other income (expense):</b>					
Interest expense	(2,088)	(1,668)	-	-	(3,756)
Interest and other income	-	17	-	10	27
Total other income (expense)	<u>(2,088)</u>	<u>(1,651)</u>	<u>-</u>	<u>10</u>	<u>(3,729)</u>
<b>Income (loss) before income tax expense (benefit)</b>	<u>(2,217)</u>	<u>2,100</u>	<u>2,447</u>	<u>(13)</u>	<u>2,317</u>
Income tax expense (benefit)	(2,195)	101	-	(5)	(2,099)
<b>Net income (loss)</b>	<u>\$ (22)</u>	<u>\$ 1,999</u>	<u>\$ 2,447</u>	<u>\$ (8)</u>	<u>\$ 4,416</u>

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINING STATEMENT OF OPERATIONS (Unaudited)**  
**FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2008**  
(in thousands)

EXHIBIT A (Continued)

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation &amp; Eliminations</u>	<u>Combined</u>
<b>Operating revenue</b>	\$ 24,079	\$ 21,425	\$ 3,122	\$ (3,122)	\$ 45,504
<b>Operating costs and expenses:</b>					
Royalty, operating, general and administrative expense	10,163	17,513	805	(3,100)	25,381
Depreciation and amortization	6,451	10,606	206	-	17,263
Total operating costs and expenses	<u>16,614</u>	<u>28,119</u>	<u>1,011</u>	<u>(3,100)</u>	<u>42,644</u>
<b>Operating income (loss)</b>	<u>7,465</u>	<u>(6,694)</u>	<u>2,111</u>	<u>(22)</u>	<u>2,860</u>
<b>Other income (expense):</b>					
Interest expense	(2,585)	(1,764)	-	-	(4,349)
Interest and other income	-	99	-	187	286
Total other income (expense)	<u>(2,585)</u>	<u>(1,665)</u>	<u>-</u>	<u>187</u>	<u>(4,063)</u>
<b>Income (loss) before income tax expense (benefit)</b>	4,880	(8,359)	2,111	165	\$ (1,203)
Income tax expense (benefit)	1,842	3,250	-	68	5,160
<b>Net income (loss)</b>	<u>\$ 3,038</u>	<u>\$ (11,609)</u>	<u>\$ 2,111</u>	<u>\$ 97</u>	<u>\$ (6,363)</u>

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINING STATEMENT OF CASH FLOWS (Unaudited)**  
**FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2009**  
(in thousands)

EXHIBIT A (Continued)

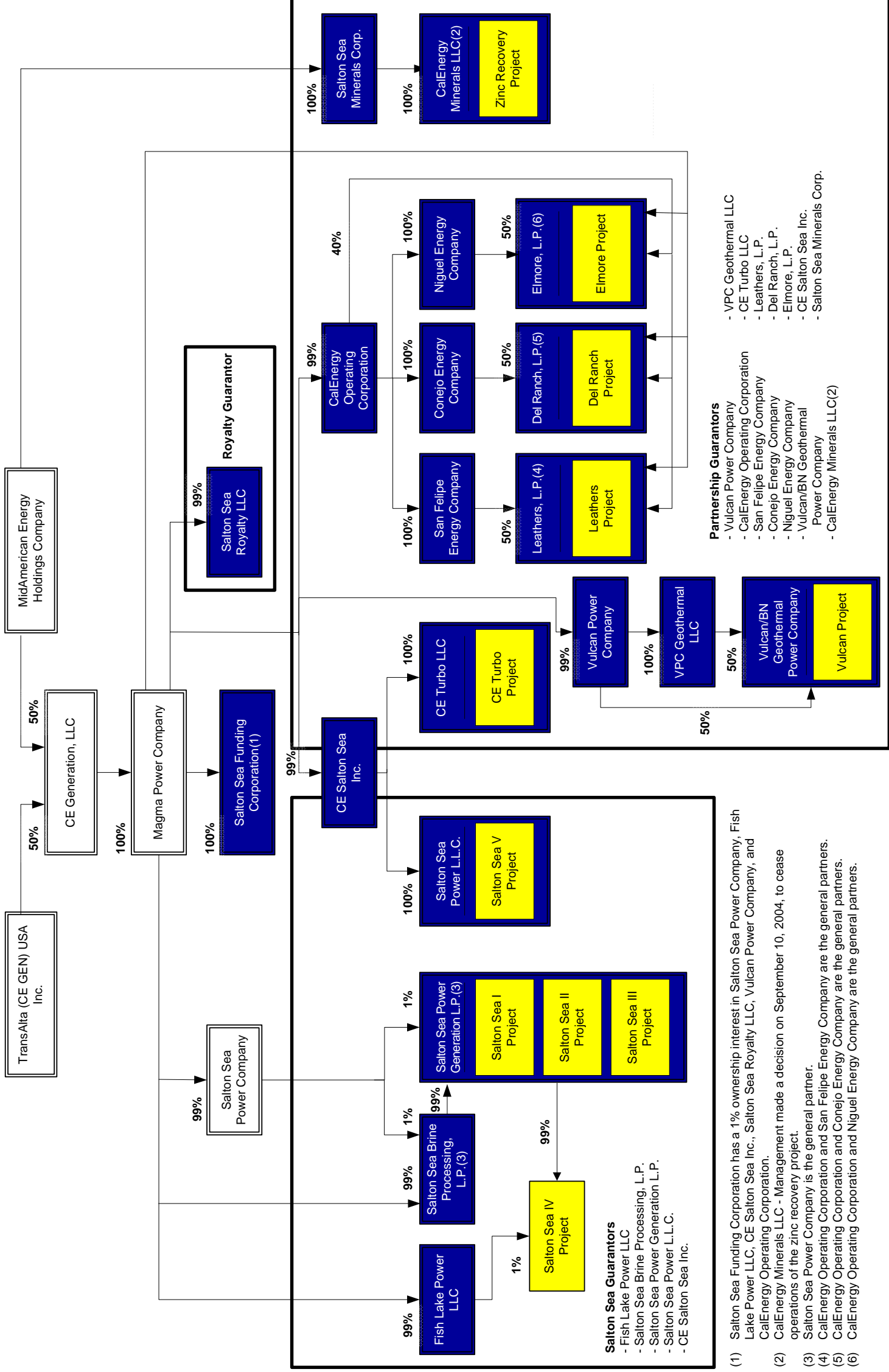
	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation &amp; Eliminations</u>	<u>Combined</u>
<b>Cash flows from operating activities:</b>					
Net income (loss)	\$ (22)	\$ 1,999	\$ 2,447	\$ (8)	\$ 4,416
Adjustments to reconcile net income (loss) to net cash flows from operating activities:					
Depreciation and amortization	7,421	7,338	206	-	14,965
Provision for deferred income taxes	(2,513)	1,353	-	-	(1,160)
Amortization of deferred financing costs	57	46	-	-	103
Changes in operating assets and liabilities:					
Trade receivables	119	231	-	-	350
Inventories	-	363	-	-	363
Due to affiliates, net	3,548	1,923	(2,652)	(6,944)	(4,125)
Other current assets	(415)	(325)	-	17	(723)
Accounts payable and other current liabilities	(467)	7,754	(1)	(12)	7,274
Net cash flows from operating activities	<u>7,728</u>	<u>20,682</u>	<u>-</u>	<u>(6,947)</u>	<u>21,463</u>
<b>Cash flows from investing activities:</b>					
Capital expenditures	(7,728)	(20,766)	-	-	(28,494)
Decrease in restricted cash	-	81	-	-	81
Net cash flows from investing activities	<u>(7,728)</u>	<u>(20,685)</u>	<u>-</u>	<u>-</u>	<u>(28,413)</u>
<b>Net change in cash and cash equivalents</b>	-	(3)	-	(6,947)	(6,950)
<b>Cash and cash equivalents at beginning of period</b>	-	4	-	22,426	22,430
<b>Cash and cash equivalents at end of period</b>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 15,479</u>	<u>\$ 15,480</u>

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINING STATEMENT OF CASH FLOWS (Unaudited)**  
**FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2008**  
(in thousands)

EXHIBIT A (Continued)

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation &amp; Eliminations</u>	<u>Combined</u>
<b>Cash flows from operating activities:</b>					
Net income (loss)	\$ 3,038	\$ (11,609)	\$ 2,111	\$ 97	\$ (6,363)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:					
Depreciation and amortization	6,451	10,606	206	-	17,263
Provision for deferred income taxes	2,009	2,829	-	-	4,838
Amortization of deferred financing costs	95	50	-	-	145
Changes in operating assets and liabilities:					
Trade receivables	3,111	2,290	-	-	5,401
Inventories	-	29	-	-	29
Due to affiliates, net	(5,647)	12,257	(2,317)	5,053	9,346
Other current assets	(465)	(454)	-	33	(886)
Accounts payable and other current liabilities	(43)	(810)	-	-	(853)
Net cash flows from operating activities	<u>8,549</u>	<u>15,188</u>	<u>-</u>	<u>5,183</u>	<u>28,920</u>
<b>Cash flows from investing activities:</b>					
Capital expenditures	(8,549)	(15,326)	-	-	(23,875)
Decrease in restricted cash	-	136	-	-	136
Net cash flows from investing activities	<u>(8,549)</u>	<u>(15,190)</u>	<u>-</u>	<u>-</u>	<u>(23,739)</u>
<b>Net change in cash and cash equivalents</b>	-	(2)	-	5,183	5,181
<b>Cash and cash equivalents at beginning of period</b>	-	24	-	20,042	20,066
<b>Cash and cash equivalents at end of period</b>	<u>\$ -</u>	<u>\$ 22</u>	<u>\$ -</u>	<u>\$ 25,225</u>	<u>\$ 25,247</u>

**Exhibit B - Salton Sea Funding Corporation and Guarantors - Organization Chart**



**Salton Sea Guarantors**  
 - Fish Lake Power LLC  
 - Salton Sea Brine Processing, L.P.  
 - Salton Sea Power Generation L.P.  
 - Salton Sea Power L.L.C.  
 - CE Salton Sea Inc.

**Partnership Guarantors**  
 - Vulcan Power Company  
 - CalEnergy Operating Corporation  
 - San Felipe Energy Company  
 - Conejo Energy Company  
 - Niguel Energy Company  
 - Vulcan/BN Geothermal Power Company  
 - CalEnergy Minerals LLC(2)

**Partnership Guarantors**  
 - VPC Geothermal LLC  
 - CE Turbo LLC  
 - Leathers, L.P.  
 - Del Ranch, L.P.  
 - Elmore, L.P.  
 - CE Salton Sea Inc.  
 - Salton Sea Minerals Corp.

(1) Salton Sea Funding Corporation has a 1% ownership interest in Salton Sea Power Company, Fish Lake Power LLC, CE Salton Sea Inc., Salton Sea Royalty LLC, Vulcan Power Company, and CalEnergy Operating Corporation.  
 (2) CalEnergy Minerals LLC - Management made a decision on September 10, 2004, to cease operations of the zinc recovery project.  
 (3) Salton Sea Power Company is the general partner.  
 (4) CalEnergy Operating Corporation and San Felipe Energy Company are the general partners.  
 (5) CalEnergy Operating Corporation and Conejo Energy Company are the general partners.  
 (6) CalEnergy Operating Corporation and Niguel Energy Company are the general partners.