

CALPINE CONSTRUCTION FINANCE COMPANY, L.P.
MARCH 31, 2011 FINANCIAL STATEMENTS

Reference is made to the Indenture dated May 19, 2009 (the "Indenture") among Calpine Construction Finance Company, L.P., a Delaware limited partnership ("CCFC"), CCFC Finance Corp., a Delaware corporation ("CCFC Finance Corp", and CCFC, collectively the "Issuers"), the Guarantors named therein and Wilmington Trust Company (as "Trustee" and as "Collateral Trustee"), governing the \$1.0 Billion 8% Senior Secured Notes due 2016.

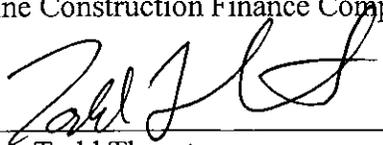
Capitalized terms used herein and not otherwise defined herein shall have the meaning ascribed to such term in the Indenture.

The undersigned, being an officer of CCFC, certifies for the fiscal quarter ended March 31, 2011:

- (i) that he has read the terms and requirements of Section 4.03 of the Indenture;
- (ii) that the attached unaudited financial statements and management's discussion and analysis of the results of operations for the quarter ended March 31, 2011 (the "Financial Statements") are being delivered pursuant to Section 4.03 of the Indenture and have been reviewed by CCFC's independent accountants and prepared in accordance with GAAP;
- (iii) that in his opinion as an officer of CCFC, he has made an examination as necessary to enable him to give an informed opinion as to where or not such covenant has been complied with; and
- (iv) that in his opinion as an officer of CCFC, the delivery of the Financial Statements with this certificate satisfies the covenant required by Section 4.03 of the Indenture.

IN WITNESS WHEREOF, the undersigned has executed this certification effective as of May 25, 2011.

Calpine Construction Finance Company, L.P.

By: 

Name: Todd Thornton

Title: Vice President 

Calpine Construction Finance Company, L.P.

(A Delaware Limited Partnership)

Quarterly Report

For the Quarterly Period Ended March 31, 2011

**717 Texas Avenue, Suite 1000, Houston, Texas 77002
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DEFINITIONS

As used in this Report, the following abbreviations and terms have the meanings as listed below. Additionally, the terms, “we,” “us” and “our” refer to Calpine Construction Finance Company, L.P. and its consolidated subsidiaries, unless the context clearly indicates otherwise. Unless and as otherwise stated, any references in this Report to any agreement means such agreement and all schedules, exhibits and attachments in each case as amended, restated, supplemented or otherwise modified to the date of this Report.

ABBREVIATION	DEFINITION
2009 Indenture	Indenture, dated as of May 19, 2009, among CCFC, CCFC Finance, as issuers, the Guarantors, and Wilmington Trust Company, as trustee under which the Notes were issued
AB 32	California Assembly Bill 32
Administrative Services Agreement	Administrative Services Agreement, dated May 19, 2009, between Calpine and CCFC, Brazos Valley Energy LLC and Hermiston Power LLC
Average availability	Represents the total hours during the period that our plants were in-service or available for service as a percentage of the total hours in the period
Average capacity factor	A measure of total actual generation as a percent of total potential generation. It is calculated by dividing (a) total MWh generated by our power plants by (b) the product of multiplying (i) the average total MW in operation during the period by (ii) the total hours in the period
CARB	California Air Resources Board
Calpine	Calpine Corporation
CCFC	Calpine Construction Finance Company, L.P.
CCFC Finance	CCFC Finance Corp.
CES	Calpine Energy Services, L.P., an indirect, wholly owned subsidiary of Calpine
CO ₂	Carbon dioxide
Commodity Margin	Non-GAAP financial measure that includes power and capacity revenues, sales of purchased natural gas, transmission revenue and expenses, fuel expense and RGGI compliance and other environmental costs
COSCI	Calpine Operating Services Company, Inc., an indirect, wholly owned subsidiary of Calpine
EEl	Edison Electric Institute
ERCs	Emission Reduction Credits
FDIC	U.S. Federal Deposit Insurance Corporation
FERC	U.S. Federal Energy Regulatory Commission
GHG	Greenhouse gas(es), primarily carbon dioxide (CO ₂), and including methane (CH ₄), nitrous oxide (N ₂ O), sulfur hexafluoride (SF ₆), hydrofluorocarbons (HFCs) and perfluorocarbons (PFCs)

ABBREVIATION	DEFINITION
Guarantors	Hermiston Power LLC and Brazos Valley Energy LLC, our wholly owned subsidiaries
kW-Month	Kilowatt month, a measure of power produced
LTSA	Long-Term Service Agreement
Master Maintenance Services Agreement	Master Maintenance Services Agreement, dated August 14, 2003, as amended on May 19, 2009, between CCFC, Hermiston Power LLC (formerly Hermiston Power Partnership), Brazos Valley Energy LLC and COSCI
Master Operation and Maintenance Agreement	Master Operation and Maintenance Agreement, dated August 14, 2003, as amended on May 19, 2009, between CCFC, Hermiston Power LLC (formerly Hermiston Power Partnership), Brazos Valley Energy LLC and COSCI
MW	Megawatt(s), a measure of plant capacity
MWh	Megawatt hour(s), a measure of power produced
Notes	The \$1.0 billion aggregate principal amount of 8.0% Senior Secured Notes due 2016 and issued pursuant to the 2009 Indenture
O&M	Operations and maintenance
Original Seminole PPA	Power purchase agreement entered into between CES and Seminole, dated as of December 14, 2000, as amended and assigned to CCFC on December 1, 2005, expired on May 31, 2009
PPA(s)	Power purchase agreement(s)
RGGI	Regional Greenhouse Gas Initiative
Seminole	Seminole Electric Cooperative, Inc.
Seminole PPA	Power purchase agreement entered into between CCFC and Seminole, dated as of October 7, 2005
Siemens	Siemens Westinghouse Power Corporation
STEC	South Texas Electric Cooperative, Inc., formerly Magic Valley Electric Cooperative, Inc.
TECO	Tampa Electric Company
Tolling Agreement(s)	Each of the EEI Master Power Purchase and Sale Agreements, dated May 19, 2009, between CES and CCFC, CES and Hermiston Power LLC, and CES and Brazos Valley Energy LLC along with the related tolling confirmation for each power plant
U.S. GAAP	Generally accepted accounting principles in the U.S.
VIE(s)	Variable interest entity(ies)

Forward-Looking Statements

In addition to historical information, this Report contains forward-looking statements. Forward-looking statements may appear throughout this Report, including without limitation, “Management’s Discussion and Analysis.” We use words such as “believe,” “intend,” “expect,” “anticipate,” “plan,” “may,” “will”, “should”, “estimate”, “potential”, “project” and similar expressions to identify forward-looking statements. Such statements include, among others, those concerning our expected financial performance and strategic and operational plans, as well as all assumptions, expectations, predictions, intentions or beliefs about future events. You are cautioned that any such forward-looking statements are not guarantees of future performance and that a number of risks and uncertainties could cause actual results to differ materially from those anticipated in the forward-looking statements. Such risks and uncertainties include, but are not limited to:

- Financial results that may be volatile and may not reflect historical trends due to, among other things, fluctuations in prices for commodities such as natural gas and power;
- Regulation in the markets in which we participate and our ability to effectively respond to changes in laws and regulations or the interpretation thereof, including changing market rules and evolving federal, state and regional laws and regulations, including those related to climate change and GHG emissions;
- Our ability to manage our significant liquidity needs and comply with covenants under our Notes;
- Risks associated with the operation of power plants including unscheduled outages and plant efficiencies;
- Competition, including risks associated with marketing and selling power in the evolving energy markets;
- The expiration or termination of our third-party PPAs and the related results on revenues;
- Natural disasters, such as hurricanes, earthquakes and floods or acts of terrorism that may impact our power plants or the markets our power plants serve;
- Disruptions in or limitations on the transportation of natural gas and transmission of power;
- Our ability to manage our customer and counterparty exposure and credit risk;
- Present and possible future claims, litigation and enforcement actions; and
- Other risks identified in this Report.

Given the risks and uncertainties surrounding forward-looking statements, you should not place undue reliance on these statements. Many of these factors are beyond our ability to control or predict. Our forward-looking statements speak only as of the date of this Report. You should also carefully review other reports furnished or filed by Calpine with the U.S. Securities and Exchange Commission. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

CALPINE CONSTRUCTION FINANCE COMPANY, L.P.
(an Indirect Wholly Owned Subsidiary of Calpine Corporation)

CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)

	March 31, 2011	December 31, 2010
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 169,704	\$ 139,749
Accounts receivable	13,832	18,072
Inventory	15,831	12,512
Prepaid maintenance	351	1,528
Prepaid maintenance, affiliate	7,053	7,053
Other current assets	5,081	5,730
Total current assets	211,852	184,644
Property, plant and equipment, net	1,527,989	1,531,996
Deferred financing costs, net	15,667	16,425
Deposits	3,230	3,272
Total assets	\$ 1,758,738	\$ 1,736,337
LIABILITIES & PARTNERS' CAPITAL		
Current liabilities:		
Accounts payable	\$ 3,789	\$ 3,315
Accounts payable, affiliate, net	20,238	10,542
Accrued liabilities	9,449	3,711
Accrued interest payable	26,681	6,677
Accrued property taxes	1,764	3,718
Deferred income taxes, current	14	19
Total current liabilities	61,935	27,982
Debt	966,855	965,251
Deferred income taxes, net of current	2,090	2,082
Other long-term liabilities	1,477	5,400
Total liabilities	1,032,357	1,000,715
Commitments and contingencies (Note 8)		
Partners' capital	726,381	735,622
Total liabilities and partners' capital	\$ 1,758,738	\$ 1,736,337

The accompanying notes are an integral part of these
Consolidated Condensed Financial Statements.

CALPINE CONSTRUCTION FINANCE COMPANY, L.P.
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CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March, 31	
	2011	2010
	(Restated)	
	(in thousands)	
Operating revenues:		
Power revenue, affiliate	\$ 50,159	\$ 48,673
Power revenue	42,509	48,260
Natural gas revenue	2,722	14
Total operating revenues	95,390	96,947
Operating expenses:		
Fuel expense, affiliate	11,586	15,477
Fuel expense	4,257	4,006
Transmission expense	9,246	9,457
Other cost of revenue	682	111
Plant operating expense, affiliate	30,357	12,196
Plant operating expense	9,659	8,635
Depreciation and amortization expense	16,351	17,896
General and other administrative expense	47	97
Total operating expenses	82,185	67,875
Income from operations	13,205	29,072
Interest expense	22,367	22,369
Interest (income)	(51)	(106)
Other (income) expense, net	127	18
Income (loss) before income taxes	(9,238)	6,791
Income tax expense	25	100
Net income (loss)	\$ (9,263)	\$ 6,691

The accompanying notes are an integral part of these
Consolidated Condensed Financial Statements.

CALPINE CONSTRUCTION FINANCE COMPANY, L.P.
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CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	<u>Three Months Ended March, 31</u>	
	<u>2011</u>	<u>2010</u> (Restated)
	(in thousands)	
Cash flows from operating activities:		
Net income (loss)	\$ (9,263)	\$ 6,691
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	16,351	17,896
Amortization of discount and deferred financing costs	2,362	2,363
Loss on disposal of property, plant and equipment	1,917	880
Deferred income taxes	3	4
Change in operating assets and liabilities:		
Accounts receivable	4,240	6,761
Accounts receivable/payable, affiliate, net	3,417	6,228
Inventory	(3,319)	(318)
Other assets	1,868	(893)
Accounts payable	474	400
Accrued liabilities	(2,315)	(2,855)
Accrued interest payable	20,004	20,005
Income taxes payable, affiliate	22	96
Other long-term liabilities	638	82
Net cash provided by operating activities	<u>36,399</u>	<u>57,340</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(15,720)	(8,674)
Proceeds from sale of property, plant and equipment	9,276	10,121
Net cash provided by (used in) investing activities	<u>(6,444)</u>	<u>1,447</u>
Net increase in cash and cash equivalents	29,955	58,787
Cash and cash equivalents, beginning of period	139,749	135,109
Cash and cash equivalents, end of period	<u>\$ 169,704</u>	<u>\$ 193,896</u>
Cash paid during the period for:		
Interest	\$ —	\$ —
Income taxes	\$ —	\$ —
Supplemental disclosure of non-cash investing and financing activities:		
Change in property, plant and equipment included in affiliate balances, net and accrued liabilities	\$ 7,893	\$ 710
Contribution from partners	\$ 22	\$ —

The accompanying notes are an integral part of these
Consolidated Condensed Financial Statements.

CALPINE CONSTRUCTION FINANCE COMPANY, L.P.
(an Indirect Wholly Owned Subsidiary of Calpine Corporation)

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
March 31, 2011
(Unaudited)

1. Basis of Presentation and Summary of Significant Accounting Policies

We are a Delaware limited partnership formed on August 23, 1999, under a partnership agreement ending on December 31, 2050. Our partners consist of a general partner and a limited partner, both of which are indirect, wholly owned subsidiaries of Calpine. In accordance with the partnership agreement, the partners share distributions and operating profits and losses in direct proportion to their respective ownership interests as follows:

Partner	Type	Ownership Interest
Calpine CCFC GP, Inc. ⁽¹⁾	General	1%
Calpine CCFC LP, Inc.	Limited	99%

(1) Our general partner controls our management and operations.

At March 31, 2011, we owned all of the assets of the following six natural gas-fired, combined-cycle power plants:

Power Plant	Baseload with Peaking Capacity (MW)	City	State
Brazos Valley Power Plant	606	Richmond	TX
Hermiston Power Project	616	Hermiston	OR
Magic Valley Generating Station	692	Edinburg	TX
Osprey Energy Center	599	Auburndale	FL
Sutter Energy Center	578	Yuba City	CA
Westbrook Energy Center	537	Westbrook	ME
Total generating capacity	<u>3,628</u>		

Basis of Interim Presentation — The accompanying unaudited, interim Consolidated Condensed Financial Statements of Calpine Construction Finance Company, L.P., and consolidated subsidiaries have been prepared in accordance with U.S. GAAP and include all subsidiaries that are VIEs where we are the primary beneficiary.

In the opinion of management, the Consolidated Condensed Financial Statements include the normal, recurring adjustments necessary for a fair statement of the information required to be set forth therein. Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted from these statements in accordance with the terms of the 2009 Indenture, and, accordingly, these financial statements should be read in conjunction with our audited Consolidated Financial Statements for the year ended December 31, 2010. The results for interim periods are not necessarily indicative of the results for the entire year primarily due to seasonal fluctuations in our revenues, the timing of major maintenance expense and volatility of commodity prices.

Use of Estimates in Preparation of Financial Statements — The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures included in our Consolidated Condensed Financial Statements. Actual results could differ from those estimates.

Fair Value of Financial Instruments — The carrying value of accounts receivable, accounts payable and other payables approximate their respective fair values due to their short-term maturities.

Credit Risk — Financial instruments that potentially subject us to credit risk primarily consist of cash and cash equivalents and accounts receivable. Certain of our cash and cash equivalents may exceed FDIC insured limits or may be invested in money market accounts with investment banks that are not FDIC insured. We place our cash and cash equivalents in what we believe to be creditworthy financial institutions and certain of our money market accounts invest in U.S. Treasury securities or other obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities. We do not believe there is significant risk to us relating to the financial institutions. We actively monitor the credit risk of our

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receivables and counterparties. We sell power to an affiliate and third parties under long-term agreements, and our accounts receivable, affiliate and trade are concentrated primarily with three customers. See Notes 5 and 6 for disclosures regarding significant transactions with our customers. We have exposure to trends within the energy industry, including declines in the creditworthiness of our customers. We generally have not collected collateral or other security to support our natural gas and power-related accounts receivable; however, we may require collateral in the future.

Cash and Cash Equivalents — We consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable and Payable — Accounts receivable and payable represent amounts due from customers and owed to both affiliate and third-party vendors, respectively. Accounts receivable are recorded at invoiced amounts, net of reserves and allowances, and do not bear interest. Receivable balances greater than 30 days past due are individually reviewed for collectability, and if deemed uncollectible, are charged off against the allowance accounts after all means of collection have been exhausted and the potential for recovery is considered remote. We use our best estimate to determine the required allowance for doubtful accounts based on a variety of factors, including the length of time receivables are past due, economic trends, conditions affecting our customer base and significant one-time events. Specific provisions are recorded for individual receivables when we become aware of a customer's inability to meet its financial obligations. We review the adequacy of our reserves and allowances quarterly. As of March 31, 2011 and December 31, 2010, we determined that no allowance was required.

Inventory — Inventory primarily consists of spare parts and is valued at weighted average cost. Costs are expensed to plant operating expense or capitalized to property, plant and equipment as the parts are utilized and consumed. Inventory, other than spare parts, consists of emission allowances to be held either for resale or to satisfy an emission allowance liability, and are stated using the weighted average cost method subject to lower of cost or market provisions. As of March 31, 2011, our CO₂ emission allowances are held to satisfy Westbrook Energy Center's RGGI compliance obligation.

Property, Plant and Equipment, Net — Property, plant and equipment items are recorded at cost. We capitalize costs incurred in connection with refurbishment of major turbine generator equipment. Maintenance is expensed when the service is performed for work that does not meet our capitalization criteria. We depreciate assets utilizing the straight-line method over their estimated useful lives using an estimated salvage value applicable to the asset or asset group. We depreciate rotatable equipment using the component method of depreciation. The useful lives of our rotatable equipment is generally estimated to range from 3 to 18 years, and salvage value for rotatable equipment is estimated to be 0.15% of original cost. For the balance of plant assets, we use the composite depreciation method. Under this method, all balance of plant assets are combined into one group and depreciated over the useful life of our estimated composite pool of 37 years. Generally, upon normal retirement of assets under the composite depreciation method, the costs of such assets are retired against accumulated depreciation and no gain or loss is recorded. For the retirement of assets under the component depreciation method, generally, the costs and related accumulated depreciation of such assets are removed from the Consolidated Condensed Balance Sheet and a gain or loss is recorded. In accordance with U.S. GAAP, transfers of assets among entities under common control are recorded at carrying value. Property, plant and equipment, net also includes ERCs that are not available to be sold, and the cost of these ERCs is amortized over the useful life of the power plant.

Revenue Recognition — Capacity revenue is recognized monthly as earned, and revenue from the sale of power is recognized upon transmission or delivery to customers. Both capacity revenue and revenue from the sale of power along with other reimbursable costs are included in power revenue, affiliate and power revenue on our Consolidated Condensed Statements of Operations. Natural gas revenue represents natural gas acquired from CES and sold to third parties.

Fuel Expense — We recognize as fuel expense and fuel expense, affiliate, the natural gas purchased to fulfill our requirements under the Seminole PPA, as well as natural gas purchased for resale to third parties. Fuel expense also includes costs incurred to transport natural gas to our power plants, which totaled \$2.8 million and \$2.7 million for the three months ended March 31, 2011 and 2010, respectively.

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Transmission Expense — Transmission expense includes all costs incurred to transmit power to our customers.

Income Taxes — We are a limited partnership. Therefore, our taxable income or loss is passed through to our partners and reported on the respective partners' tax returns for federal and most state income tax purposes. Accordingly, there is no provision or accrual for federal and most state income taxes in our Consolidated Condensed Financial Statements. However, Texas imposes its franchise ("margin") tax at the partnership level. Management performed a separate estimate of our taxable margin for Texas based upon our revenue and allowable deductions. Accordingly, a provision and accrual for current and deferred income taxes for the Texas franchise tax have been included in our Consolidated Condensed Financial Statements. See Note 7 for discussion regarding our income taxes.

VIEs — We completed our analysis of our subsidiaries, and determined that, Hermiston Power LLC and Brazos Valley Energy LLC, are VIEs. Consolidation of our VIEs is appropriate as we are the primary beneficiary; we have the power to direct the most significant activities of our subsidiaries (including O&M activities and other activities that we believe have a significant impact on the entities' financial performance) and absorb the risk of expected returns and losses. CCFC has not provided financial support for Hermiston Power LLC or Brazos Valley Energy LLC for the periods covered by this Report.

Subsequent Events — We have evaluated subsequent events up to the date of issuance of this Report on May 23, 2011.

2. Restatement of Prior Consolidated Condensed Financial Statements

During the preparation of the financial statements for the third quarter of 2010, we determined that various out of period items that had been recorded in 2009 and 2010 were material in the aggregate. We have restated our first and second quarter 2010 financial statements. The effects of these issues on our first quarter 2010 financial statements are as follows:

- We corrected our 2010 financial statements to record certain revenue and fuel and transmission expense amounts related to prior periods, based on updates to our 2009 year-end accruals. These adjustments decreased total power revenues by \$(0.1) million, decreased total fuel expense by \$(0.2) million and increased transmission expense by \$0.6 million for the three months ended March 31, 2010.
- We adjusted our prior financial statements to correct amounts invoiced by us to affiliates for reimbursable amounts pursuant to the agreements discussed in Note 5. For the three months ended March 31, 2010, these adjustments resulted in an increase in power revenue, affiliate of \$0.1 million.
- We adjusted our prior financial statements for corrections to operating and maintenance expenses incurred from affiliate as a result of errors in billings. For the three months ended March 31, 2010, these adjustments resulted in an increase in plant operating expense, affiliate of \$1.1 million.

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The issues discussed above had no net impact to our total operating, investing or financing cash flows. The following tables reflect the previously reported amounts, as well as the restated amounts for financial statement captions affected by these adjustments inclusive of tax impacts:

Affected Financial Statement line items (in thousands):

Consolidated Condensed Statement of Operations

	Three Month Ended March 31, 2010	
	As Reported	Restated
Power revenue, affiliate	\$ 48,613	\$ 48,673
Power revenue	\$ 48,335	\$ 48,260
Total operating revenues	\$ 96,948	\$ 96,947
Fuel expense, affiliate	\$ 15,387	\$ 15,477
Fuel expense	\$ 4,294	\$ 4,006
Transmission expense	\$ 8,887	\$ 9,457
Plant operating expense, affiliate	\$ 11,060	\$ 12,196
Total operating expenses	\$ 66,367	\$ 67,875
Income from operations	\$ 30,581	\$ 29,072
Income before income taxes	\$ 8,300	\$ 6,791
Net income	\$ 8,200	\$ 6,691

Consolidated Condensed Statement of Cash Flows

	Three Month Ended March 31, 2010	
	As Reported	Restated
<i>Cash flows from operating activities:</i>		
Net income	\$ 8,200	\$ 6,691
Accounts receivable	\$ 6,418	\$ 6,761
Accounts receivable/payable, affiliate, net	\$ 5,062	\$ 6,228

3. Property, Plant and Equipment, Net

As of March 31, 2011 and December 31, 2010, the components of property, plant and equipment are stated at cost less accumulated depreciation as follows (in thousands):

	March 31, 2011	December 31, 2010
Buildings, machinery and equipment	\$ 1,977,037	\$ 1,989,266
ERCs	4,249	4,249
	1,981,286	1,993,515
Less: Accumulated depreciation	459,098	467,320
	1,522,188	1,526,195
Land	5,801	5,801
Property, plant and equipment, net	\$ 1,527,989	\$ 1,531,996

Total depreciation expense was \$16.3 million and \$17.9 million for the three months ended March 31, 2011 and 2010, respectively.

4. Debt

Our debt at March 31, 2011 and December 31, 2010 was as follows (in thousands):

	March 31, 2011	December 31, 2010
Notes	\$ 1,000,000	\$ 1,000,000
Less: Unamortized discount	33,145	34,749
Debt	\$ 966,855	\$ 965,251

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On May 19, 2009, we and CCFC Finance issued \$1.0 billion in aggregate principal amount of 8.0% senior secured notes due June 1, 2016. Interest on the Notes accrues at the rate of 8.0% per annum and is payable semi-annually in arrears on June 1 and December 1. The Notes and the related guarantees are secured, subject to certain exceptions and permitted liens, by all of our real and personal property and our material subsidiaries (including the Guarantors), consisting primarily of our six natural gas-fired power plants, as well as our equity interests. The 2009 Indenture governing the Notes generally limits, among other things, our ability and the ability of our restricted subsidiaries to incur additional indebtedness, sell assets and pay distributions. Additionally, we may redeem all or part of the Notes, with the terms of the redemption and applicable premium varying based on the timing of redemption.

The effective interest rate on the Notes was 8.9% for each of the three months ended March 31, 2011 and 2010.

5. Affiliate Transactions

We have entered into various agreements with Calpine affiliates to sell power and to purchase natural gas, for O&M and major maintenance programs at our power plants, and administrative and other services. Our agreements with Calpine, CES, COSCI and certain other Calpine subsidiaries also provide for the netting of payment obligations due from and payable to each other, and the affiliate balances among and between Calpine and its affiliates are netted for presentation purposes in our Consolidated Condensed Financial Statements.

Tolling Agreements with CES

Effective May 19, 2009, CES entered into EEI master power purchase and sale agreements for our power plants for a ten-year term. Under each of the Tolling Agreements, subject to certain exceptions (including capacity delivered pursuant to our third-party PPAs), CES purchases the entire power capacity, energy and ancillary services not already committed under the Seminole PPA of each power plant and supplies each power plant with all of the natural gas required to generate power. The purchase price for this power output is the sum of contracted quantities multiplied by a fixed, plant-specific amount per kW-Month plus certain indexed capacity charges, and is paid on a monthly basis. As specified in the individual confirmations to the Tolling Agreements, CES is also required to bear certain costs associated with power transmission, natural gas transportation and environmental costs. Performance by CES under each of the Tolling Agreements is guaranteed by Calpine. The Tolling Agreements for Hermiston Power Project, Sutter Energy Center, Westbrook Energy Center and Brazos Valley Power Plant meet the criteria of an operating lease.

Master Operation and Maintenance Agreement and Master Maintenance Services Agreement with COSCI

We are party to both a Master Operation and Maintenance Agreement and a Master Maintenance Services Agreement with COSCI as amended in May 2009. The agreements are distinct, and both apply separately and independently to each power plant, with the exception of Magic Valley Generation Station. Major maintenance services for Magic Valley Generating Station are provided under a LTSA with Siemens. See Note 6 for discussion of this agreement. Both the Master Operation and Maintenance Agreement and the Master Maintenance Services Agreement, as amended, have a term through May 19, 2019. COSCI's performance under both agreements is guaranteed by Calpine. Each of the agreements is cancelable by us or COSCI in whole or in part at any time upon written notice.

Under each agreement, COSCI is paid an annual management fee of \$100,000 for each power plant that is subject to the agreements (plus a 2.5% annual increase beginning in 2011) and all other costs incurred for services or parts, supplies or other items on a cost-reimbursable basis. As major maintenance is performed, we may buy or sell parts, supplies or other items, such as replacement turbine parts, from or to COSCI. These parts are transferred at net book value. Expenses incurred under these agreements are reported as plant operating expense, affiliate on our Consolidated Condensed Statements of Operations. As of March 31, 2011 and December 31, 2010, we had \$0.8 million and \$0, respectively, in prepaid management fees to COSCI included in other current assets on our Consolidated Condensed Balance Sheets.

CALPINE CONSTRUCTION FINANCE COMPANY, L.P.
(an Indirect Wholly Owned Subsidiary of Calpine Corporation)

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
March 31, 2011
(Unaudited)

Administrative Services Agreement

On May 19, 2009, we entered into an Administrative Services Agreement with Calpine, pursuant to which Calpine provides software and intellectual property, regulatory, insurance, tax, accounting, legal, internal audit and credit support services (provided that Calpine shall not be required to provide credit support) to us. Through March 31, 2011, Calpine provided certain administrative services under this agreement at no charge to us. The Administrative Services Agreement will remain in effect on a month-to-month basis until terminated by any party upon 30 days prior written notice. At our request, Calpine will continue to provide services for an additional 90 days following notice of termination. Our insurance costs are managed through Calpine on our behalf. As of March 31, 2011 and December 31, 2010, we had \$0.6 million and \$1.4 million, respectively, in prepaid insurance to Calpine included in other current assets on our Consolidated Condensed Balance Sheets.

Accounts receivable (payable) to our affiliates at March 31, 2011 and December 31, 2010, were as follows (in thousands):

	<u>March 31, 2011</u>	<u>December 31, 2010</u>
Accounts receivable (payable), affiliate:		
CES	\$ 14,758	\$ 14,320
COSCI	(34,386)	(21,940)
Calpine	(272)	(2,642)
Other affiliates	(338)	(280)
Accounts payable, affiliate, net	<u>\$ (20,238)</u>	<u>\$ (10,542)</u>

6. Significant Agreements with Third Parties

Major Maintenance Agreement

We entered into a LTSA for spare parts, maintenance and related technical services with Siemens for each turbine at our Magic Valley Generating Station. The term of the LTSA began on June 30, 1998, and expires on an individual turbine basis after the end of the twelfth maintenance period. As of March 31, 2011, we are in the sixth maintenance period. Milestone payments are made every 2,000 operating hours and are reflected as prepaid maintenance on our Consolidated Condensed Balance Sheets. Each scheduled outage inspection occurs every 8,000 operating hours. The cost for each inspection is based on the number and type of program parts estimated for each inspection. The LTSA is cancelable by us in whole or in part at any time by providing 30 days written notice to the counterparty, subject to termination penalties.

STEC PPA

We are contractually obligated to provide up to 400 MW of power and capacity from our Magic Valley Generating Station to STEC pursuant to a PPA dated as of May 22, 1998. The initial term of the PPA terminates on July 24, 2021. The terms of the STEC PPA provide for a capacity payment with pricing that varies over the term of the PPA, a monthly service charge which is subject to escalation, and certain other energy charges as specified in the PPA. We are currently negotiating an amendment to the PPA to revise various pricing components to align with the nodal market implemented in the Electric Reliability Council of Texas in December 2010. Under our Tolling Agreement with CES, our entire generating capacity, power and ancillary services are sold to CES. In return, CES provides all power and ancillary services to STEC on our behalf. We continue to invoice STEC in accordance with the PPA and amounts earned under our PPA with STEC are presented as power revenue on our Consolidated Condensed Statements of Operations. We remit to CES, as a portion of the consideration under the Tolling Agreement, all amounts due to us from STEC, which reduce our power revenue, affiliate on our Consolidated Condensed Statements of Operations. Amounts netted against power revenue, affiliate were \$22.7 million and \$23.6 million (restated) for the three months ended March 31, 2011 and 2010, respectively. Furthermore, we do not record fuel expense associated with the STEC PPA, as such fuel is covered under the Tolling Agreement.

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Provided that certain conditions are met, STEC has an option to purchase up to 33.33% of the future cash flows of Magic Valley Generating Station for a contractually calculated price based on discounted after-tax net income. This one-time option is exercisable on or before July 24, 2011.

Seminole PPA

Pursuant to an assignment and assumption agreement dated as of December 1, 2005, CES assigned all of its interests under the Original Seminole PPA to us. On October 7, 2005, we entered into the Seminole PPA, which commenced on June 1, 2009, and will remain in effect through May 31, 2014, unless terminated earlier. Under the Seminole PPA, Seminole purchases a certain amount of monthly capacity, which varies from 340 MW to 360 MW. Seminole's monthly capacity charge is comprised of a production capacity charge component, subject to increase over the term of the PPA, and a fixed fuel transportation charge. Seminole is also required to purchase a minimum of 110 MW of power per month, up to its contractual capacity. The monthly requested power charge is comprised of an indexed fuel charge and a variable O&M charge. We purchase the natural gas required to fulfill our requirements under the Seminole PPA primarily from CES at index-based pricing.

Revenues earned from significant third-party customers included in power revenue and natural gas revenue on our Consolidated Condensed Statements of Operation for the three months ended March 31, 2011 and 2010, were as follows (in thousands):

	<u>Three Months Ended March 31,</u>	
	<u>2011</u>	<u>2010</u>
		(Restated)
Revenues:		
STEC	\$ 22,663	\$ 23,593
Seminole	\$ 22,472	\$ 24,566

Accounts receivable from significant third-party customers at March 31, 2011 and December 31, 2010, were as follows (in thousands):

	<u>March 31, 2011</u>	<u>December 31, 2010</u>
Accounts receivable:		
STEC	\$ 6,841	\$ 6,859
Seminole	\$ 6,883	\$ 11,093

7. Income Taxes

Under federal income tax rules, CCFC is treated as a partnership and is not subject to an entity level federal income tax. However, CCFC is subject to the Texas franchise tax, which generally imposes a tax at the "margin" level. Income tax expense for the Texas franchise tax reflected on our Consolidated Condensed Statements of Operations was \$25 thousand and \$100 thousand (restated) for the three months ended March 31, 2011 and 2010, respectively. The income tax provision is the result of applying the Texas franchise tax provisions and is the only difference from the amount of income tax expense determined by applying the federal statutory income tax rate.

The tax years subsequent to 2006 remain open to examination for state income tax purposes. There are no unrecognized tax positions related to Texas franchise tax.

CALPINE CONSTRUCTION FINANCE COMPANY, L.P.
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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
March 31, 2011
(Unaudited)

8. Commitments and Contingencies

Letters of Credit

Calpine has issued irrevocable standby letters of credit on our behalf to guarantee the payment of certain of our transmission obligations and our performance under our third-party PPAs. Each letter of credit is subject to annual renewals until the underlying agreements terminate. At March 31, 2011 and December 31, 2010, letters of credit totaling \$17.2 million and \$22.6 million, respectively, were issued but not drawn on.

Litigation

We are involved in various claims and legal actions arising out of the normal course of business, the most significant of which is summarized below. The ultimate outcome of each of these matters cannot presently be determined, nor can the liability that could potentially result from a negative outcome be reasonably estimated presently for every case. In the case of all known contingencies, we accrue a liability when the loss is probable and the amount is reasonably estimable. The liability we may ultimately incur with respect to any one of these matters in the event of a negative outcome may be in excess of amounts currently accrued with respect to such matters and may potentially be material to our consolidated financial position, results of operations or cash flows in the period settled. As we learn new facts concerning contingencies, we reassess our position with respect to accrued liabilities and other potential exposures. At present, we do not expect that the outcome of these proceedings will have a material adverse effect on our financial position, results of operations or cash flows.

TECO Proposed Rate Increase — On July 15, 2010, TECO filed with FERC a proposal to increase transmission rates on its system by more than 40 percent. We are a firm transmission customer on TECO's system, transmitting power from our Osprey Energy Center to markets in Florida. We and other transmission customers filed protests with FERC opposing TECO's proposed rate increase. FERC accepted TECO's proposed rates, subject to refund, and set the matter for hearing before an administrative law judge. However, FERC stayed the hearing process and directed the parties to enter into settlement negotiations. Settlement discussions with TECO are underway.

Environmental Matters

Power operations in general are subject to complex and stringent laws and regulations governing the discharge of materials into the environment. Our power plants operations are also affected from time to time in varying degrees by such environmental laws and regulations that require our power plants to remove, remedy or control the emission of specified substances in the environment. On occasion, we may incur environmental fees, penalties and fines associated with the operations of our power plants. Total liabilities of approximately \$4.5 million and \$3.9 million for emission allowances related to Westbrook Energy Center's compliance with the RGGI program were recognized in accrued liabilities on our Consolidated Condensed Balance Sheet as of March 31, 2011 and other long-term liabilities on our Consolidated Condensed Balance Sheets as of December 31, 2010. As of March 31, 2011 and December 31, 2010, total liabilities of approximately \$0.6 million for Sutter Energy Center's AB 32 cost of implementation fees were recognized in accrued liabilities and other long-term liabilities on our Consolidated Condensed Balance Sheets. The costs incurred to comply with the regulations are reimbursed by CES and are included in other cost of revenue on our Consolidated Condensed Statements of Operations.

CALPINE CONSTRUCTION FINANCE COMPANY, L.P.
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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS**

Executive Overview

We are a Delaware limited partnership and an indirect, wholly owned subsidiary of Calpine. We were formed on August 23, 1999, to develop, own and operate power plants. At March 31, 2011, we owned all of the assets comprising six natural gas-fired, combined-cycle power plants with an aggregate generation capacity of 3,628 MW as described in Note 1 of the Notes to Consolidated Condensed Financial Statements.

Our Commodity Margin and cash flows from operations are primarily derived from the sale of power, capacity and related products. Commodity Margin includes our power and capacity revenues, sales of purchased natural gas, transmission revenue and expense, fuel expense and RGGI compliance and other environmental costs. Various factors impact our Commodity Margin, including generation, outages, power plant operating performance and availability. Under the Index Based Agreement, our Commodity Margin was subject to market risk, primarily due to fluctuating natural gas prices and power prices. As a result of these factors, we have historically experienced large fluctuations in our net income (loss) and Commodity Margin. The Tolling Agreements reduce our exposure to significant commodity price fluctuations.

Our major expenses consist of fuel, operating expenses and interest expense on our debt. Operating expenses have consisted primarily of fixed operating costs, maintenance expenses, general and other administrative expenses, and variable O&M expenses that fluctuate with the operation of our power plants. We do not record fuel expense for our power sales to CES, as this activity meets the criteria for a tolling arrangement. We earn a tolling fee from CES, which is included in power revenues, affiliate on our Consolidated Condensed Statements of Operations.

Affiliate Agreements

On May 19, 2009, we entered into and/or amended various affiliate agreements, the most significant of which are discussed below.

Tolling Agreements

On May 19, 2009, CES entered into EEI master power purchase and sale agreements for our power plants for a ten-year term. Under each of the Tolling Agreements, subject to certain exceptions (including capacity delivered pursuant to our third-party PPAs), CES purchases the entire power capacity, energy and ancillary services not already committed under the Seminole PPA of each power plant and supplies each power plant with all of the natural gas required to generate power. The purchase price for this power output is the sum of contracted quantities multiplied by a fixed, plant-specific amount per kW-Month plus certain indexed capacity charges and is paid on a monthly basis. As specified in the individual confirmations to the Tolling Agreements, CES is also required to bear certain costs associated with power transmission, natural gas transportation and environmental costs. Performance by CES under each of the Tolling Agreements is guaranteed by Calpine.

Master Operation and Maintenance Agreement and Master Maintenance Services Agreement

The Master Operation and Maintenance Agreement and the Master Maintenance Services Agreement have terms through May 19, 2019. The Master Maintenance Services Agreement is distinct from the Master Operation and Maintenance Agreement (which applies to routine O&M) and both apply separately and independently to each power plant, with the exception of Magic Valley Generation Station as further discussed below. Under the amended terms of each agreement, COSCI is paid an annual management fee of \$100,000 for each power plant that is subject to the agreements (plus a 2.5% annual increase beginning in 2011) and for all other costs incurred for services on a cost-reimbursable basis. COSCI's performance under both agreements is guaranteed by Calpine. Each of the agreements is cancelable by us or COSCI in whole or in part at any time upon written notice.

Major maintenance services for our Magic Valley Generating Station are provided under a LTSA with Siemens for spare parts, maintenance and related technical services. The term of the LTSA began on June 30, 1998, and expires on an individual turbine basis after the end of the twelfth maintenance period. Milestone payments are made every 2,000

operating hours and are reflected as prepaid maintenance on our Consolidated Condensed Balance Sheets. Each scheduled outage inspection occurs every 8,000 operating hours. The cost for each inspection is based on the number and type of program parts estimated for each inspection. The LTSA is cancelable by us in whole or in part at any time by providing 30 days written notice to the counterparty, subject to termination penalties.

Legislative and Regulatory Update

We are subject to complex and stringent energy, environmental and other governmental laws and regulations at the federal, state and local levels in connection with the operation of our power plants. Ongoing state, regional and federal initiatives to implement new environmental and other governmental regulations are expected to have a significant impact on the power generation industry. Such changes could have positive or negative impacts on our existing business. Significant updates are discussed below. For a further discussion of the environmental and other governmental regulations that affect us, please see “— Governmental and Regulatory Matters” of our Report for the year ended December 31, 2010.

California AB 32

California’s AB 32 creates a statewide cap on GHG emissions and requires the state to return to 1990 emission levels by 2020. In implementing the law, CARB is working towards a cap-and-trade program that will commence on January 1, 2012. However, on March 18, 2011, a San Francisco Superior Court judge issued an order in *Association of Irrigated Residents, et al. v. California Air Resources Board (CARB)*, suspending implementation of CARB’s scoping plans for a cap-and-trade program to implement AB 32, until the scoping plan complies with portions of the California Environmental Quality Act. The judge agreed with plaintiffs that CARB did not adequately consider alternatives to cap-and-trade when it established the scoping plan. The state intends to appeal the judge’s ruling. It is unclear whether the state’s appeal will stay the judge’s rule and allow the state to continue to work on cap and trade regulation while the appeal is pending. While we do not expect this case to override the implementation of AB 32, implementation could be delayed until the legal challenges are resolved.

Results of Operations for the Three Months Ended March 31, 2011 and 2010

Below are the results of operations for three months ended March 31, 2011, as compared to the same period in 2010 (in thousands, except for percentages). In the comparative tables below, increases in revenue/income or decreases in expense (favorable variances) are shown without brackets while decreases in revenue/income or increases in expense (unfavorable variances) are shown with brackets.

	<u>2011</u>	<u>2010</u>	<u>Change</u>	<u>% Change</u>	
		(Restated)			
Operating revenues:					
Power revenue, affiliate	\$ 50,159	\$ 48,673	\$ 1,486	3	%
Power revenue	42,509	48,260	(5,751)	(12)	
Natural gas revenue	2,722	14	2,708	#	
Total operating revenues	<u>95,390</u>	<u>96,947</u>	<u>(1,557)</u>	<u>(2)</u>	
Operating expenses:					
Fuel expense, affiliate	11,586	15,477	3,891	25	
Fuel expense	4,257	4,006	(251)	(6)	
Transmission expense	9,246	9,457	211	2	
Other cost of revenue	682	111	(571)	#	
Plant operating expense, affiliate	30,357	12,196	(18,161)	#	
Plant operating expense	9,659	8,635	(1,024)	(12)	
Depreciation and amortization expense	16,351	17,896	1,545	9	
General and other administrative expense	47	97	50	52	
Total operating expenses	<u>82,185</u>	<u>67,875</u>	<u>(14,310)</u>	<u>(21)</u>	
Income from operations	13,205	29,072	(15,867)	(55)	
Interest expense	22,367	22,369	2	—	
Interest (income)	(51)	(106)	(55)	(52)	
Other (income) expense, net	127	18	(109)	#	
Income (loss) before income taxes	(9,238)	6,791	(16,029)	#	
Income tax expense	25	100	75	75	
Net income (loss)	<u>\$ (9,263)</u>	<u>\$ 6,691</u>	<u>\$ (15,954)</u>	<u>#</u>	
Operating Performance Metrics:					
	<u>2011</u>	<u>2010</u>	<u>Change</u>	<u>% Change</u>	
MWh generated	1,682	3,839	(2,157)	(56)	%
Potential MWh generation	7,809	7,807	2	—	
Average availability	65.8%	87.5%	(21.7)	(25)	
Average capacity factor	21.5%	49.2%	(27.7)	(56)	

Variance of 100% or greater

Power revenue, affiliate increased primarily due to a decrease in sales from our Magic Valley Generating Station to STEC. As Magic Valley Generating Station operates under a Tolling Agreement with CES, our entire generating capacity, power and ancillary services are purchased by CES. CES provides all power and ancillary services to STEC on our behalf, and all amounts due to us from STEC are remitted to CES and netted against power revenue, affiliate. Accordingly, as sales to STEC decrease, our third party power revenue decreases with an equivalent increase to our power revenue from CES. See Note 6 of the Notes to Consolidated Condensed Financial Statements for further details regarding our STEC PPA.

Power revenue, affiliate also includes our reimbursements from CES for environmental fees, which are included in other cost of revenue. Our reimbursement for environmental fees increased due to a higher RGGI expense accrual for the three months ended March 31, 2011, as compared to the same period in 2010. Although market prices were comparable quarter over quarter, our expense in the first quarter of 2010 decreased by the impact of an adjustment to our RGGI liability, resulting from a decline in market prices from the prior year.

Power revenue primarily consists of sales of power to STEC and Seminole from our Magic Valley Generating Station and Osprey Energy Center, respectively.

Power revenue from STEC decreased by approximately \$1.1 million, primarily due to a 14% decrease in price per MWh, partially offset by an 11% increase in MWh sold for the three months ended March 31, 2011 as compared to the same period in 2010. Although our MWh sold to STEC increased, total generation from our Magic Valley Generation Station significantly decreased quarter over quarter, due to a month-long outage along with an extreme cold weather event in early February 2011.

Power revenue from Seminole decreased by approximately \$4.7 million, primarily due to a 10% decrease in price per MWh, which was due to a decrease in the applicable indices, along with a 10% decrease in MWh sold for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010, which was due to less power requested from Seminole as there was milder weather in the southeast during the first quarter of 2011 as compared to the first quarter of 2010.

In addition to revenue earned from power sales to Seminole, we earn revenue from the sale of natural gas to Seminole, which fluctuates based on their demand. Natural gas revenue increased due to increased sales to Seminole as there was higher demand during the three months ended March 31, 2011, as compared to the same period in 2010.

Fuel expense, affiliate is comprised of three main components: natural gas purchased from CES to produce power under the Seminole PPA; natural gas purchased from CES to sell to Seminole upon their request; and natural gas resales to CES that decrease our fuel expense, affiliate as these transactions are presented on a net basis. The change in fuel expense, affiliate is primarily due to a net decrease of approximately \$7.4 million in natural gas purchases from CES. The decrease was mostly due to less natural gas needed as there was less power demand from Seminole during the three months ended March 31, 2011 as compared to the same period in 2010. This decrease was offset by an increase in natural gas purchases from CES for resale to Seminole due to higher demand as mentioned above. Additionally, there was an approximate \$3.4 million decrease in natural gas sales to CES for the first quarter of 2011, as compared to the first quarter of 2010.

Total plant operating expense increased by approximately \$19.2 million, primarily due to the timing of major maintenance cycles and unplanned outages at our power plants. Total major maintenance expense increased by approximately \$16.6 million, to \$21.7 million for three months ended March 31, 2011, from \$5.1 million (restated) for the same period in 2010. In conjunction with the increase in outages and major maintenance performed, we had higher repairs and maintenance expense and costs from scrap parts related to outages. Accordingly, our O&M fees, which include repairs and maintenance expense, increased by approximately \$2.0 million for the three months ended March 31, 2011, as compared to the three months ended March 31, 2010. Additionally, our loss on disposal of property, plant and equipment increased by \$1.0 million, to a \$1.9 million loss for the three months ended March 31, 2011, from a \$0.9 million loss for the same period in 2010.

Depreciation and amortization decreased by \$1.5 million, primarily due to a decrease in our power plants' rotatable equipment for the three months ended March 31, 2011, as compared to the three months ended March 31, 2010. Also contributing to the quarter-over-quarter decrease in depreciation was certain rotatable equipment becoming fully depreciated by the end of 2010.

Liquidity and Capital Resources

Working Capital — At March 31, 2011, we had a working capital surplus (current assets less current liabilities) of approximately \$149.9 million compared to approximately \$156.7 million at December 31, 2010. The decrease in the working capital is primarily attributable to our RGGI liability becoming current as of March 31, 2011 due to an anticipated compliance payment in early March 2012, along with a decrease in accounts receivable based on lower generation.

Notes — On May 19, 2009, we and CCFC Finance issued \$1.0 billion in aggregate principal amount of 8.0% senior secured notes due 2016 in a private placement. Interest on the Notes accrues at the rate of 8.0% per annum and is payable semi-annually in arrears on each June 1 and December 1. The Notes will mature on June 1, 2016. The Notes and the related guarantees are secured, subject to certain exceptions and permitted liens, by all of our real and personal property and our material subsidiaries (including the Guarantors), consisting primarily of our six natural gas-fired power plants, as well as our equity interests.

Sources of Funds — We remain primarily dependent upon Calpine and our affiliates to generate our cash flow. Most of our revenue is generated from the sale of capacity and power through the Tolling Agreements with CES. Consequently, our cash flows from operations are dependent on cash generated from these sales. Osprey Energy Center also earns revenue from the sale of power to Seminole under a PPA that expires in 2014. Magic Valley Generating Station has a PPA for the sale of power to STEC that expires in 2021. We sell the entire generating capacity of our Magic Valley Generating Station to CES under a Tolling Agreement. CES is responsible for meeting our obligations to supply power to STEC under the PPA, in exchange for the fees owed to us from STEC. Accordingly, amounts netted against power revenue, affiliate were \$22.7 million and \$23.6 million (restated) for the three months ended March 31, 2011 and 2010, respectively

Should CES be unable to perform its obligations under the Tolling Agreements, we would be required to enter into PPAs and arrange for scheduling, marketing and other services with third parties. If we were unable to secure new third-party agreements on acceptable terms, or at all, it could have a material adverse effect on our financial condition and results of operations, and could cause us to be unable to make payments on our outstanding indebtedness.

Distributions to Partners — Under the 2009 Indenture, distributions to our partners are limited to excess cash flow, adjusted for certain asset sales, equity sales and an annual escalation of \$10.0 million until 2016, less distributions made. We did not make any distributions during the three months ended March 31, 2011 or 2010.

Cash Flow Activities — The following table summarizes our cash flow activities for the periods indicated (in millions):

	Three Months Ended March 31,	
	2011	2010
		(Restated)
Beginning cash and cash equivalents	\$ 139.7	\$ 135.1
Net cash provided by (used in):		
Operating activities	36.4	57.3
Investing activities	(6.4)	1.5
Net increase in cash and cash equivalents	30.0	58.8
Ending cash and cash equivalents	<u>\$ 169.7</u>	<u>\$ 193.9</u>

Cash provided by operating activities decreased for the three months ended March 31, 2011, compared to same period in 2010, due to a decrease in net operating assets of \$4.4 million and a decrease of \$16.5 million in net income adjusted for non-cash items, primarily due to an increase in major maintenance expense.

Cash used in investing activities was \$6.4 million for the three months ended March 31, 2011, as compared to cash provided by investing activities of \$1.5 million for the three months ended March 31, 2010. The change is primarily due to a decrease in proceeds related to the sale of property, plant and equipment of approximately \$0.9 million, along with an increase in purchases of property, plant and equipment of \$7.0 million.