SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-11-14**
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SALTON SEA FUNDING CORP CIK:**949149**| State of Incorp.:**DE** Type: **10-Q** | Act: **34** | File No.: **033-95538** | Film No.: **96663308** SIC: **4961** Steam & air-conditioning supply	Mailing Address *302 SOUTH 36TH ST* *STE 400 A* *OMAHA NE 68131*	Business Address *302 S 36TH STE 400-A* *OMAHA NE 68131* *4023414500*

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Annual Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 1996
Commission File No. 33-95538

SALTON SEA FUNDING CORPORATION
(Exact name of registrant as specified in its charter)

47-0790493
(IRS Employer Identification No.)

Salton Sea Brine Processing L.P.	California	33-0601721
Salton Sea Power Generation L.P.	California	33-0567411
Fish Lake Power Company	Delaware	33-0453364
Vulcan Power Company	Nevada	95-3992087
CalEnergy Operating Company	Delaware	33-0268085
Salton Sea Royalty Company	Delaware	47-0790492
(Exact name of Registrants as specified in their charters)	(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

302 S. 36th Street, Suite 400-A, Omaha, NE 68131
(Address of principal executive offices and Zip Code of Salton Sea Funding Corporation)

Salton Sea Funding Corporation's telephone number, including area code: (402) 231-1641

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes X No

All common stock of Salton Sea Funding Corporation is indirectly held by Magma Power Company.

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100 shares of Common Stock were outstanding on September 30, 1996.

SALTON SEA FUNDING CORPORATION

Form 10-Q

September 30, 1996

C O N T E N T S

PART I: FINANCIAL INFORMATION

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INDEPENDENT ACCOUNTANTS' REPORT

Board of Directors and Stockholder
Salton Sea Funding Corporation
Omaha, Nebraska

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We have reviewed the accompanying balance sheet of the Salton Sea Funding Corporation as of September 30, 1996, and the related statements of operations for the three and nine month periods ended September 30, 1996 and cash flows for the nine months ended September 30, 1996. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such financial statements for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the balance sheet of Salton Sea Funding Corporation as of December 31, 1995, and the related statements of operations, stockholders' equity, and cash flows for the period from June 20, 1995 (inception date) through December 31, 1995 (not presented herein); and in our report dated January 26, 1996, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying balance sheet as of December 31, 1995 is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

DELOITTE & TOUCHE LLP

Omaha, Nebraska
October 22, 1996

INDEPENDENT ACCOUNTANTS' REPORT

Board of Directors and Stockholder
Salton Sea Funding Corporation

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Omaha, Nebraska

We have audited the accompanying statements of operations and cash flows of Salton Sea Funding Corporation (the "Company") for the period from June 20, 1995 through September 30, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentations. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the results of operations and cash flows of Salton Sea Funding Corporation for the period from June 20, 1995 through September 30, 1995 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP
Omaha, Nebraska
January 4, 1996

SALTON SEA FUNDING CORPORATION

BALANCE SHEETS
(Dollars in Thousands)

	September 30, 1996	December 31, 1995
	(unaudited)	
ASSETS		
Cash	$ 49,396	$ 4,393
Restricted cash and short-term investments	15,138	57,256
Prepaid expenses and other assets	13,164	3,070
Notes receivables from affiliates	563,035	452,088
Investment in 1% of net assets of		

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Guarantors	6,116	5,714
	$646,849	$522,521

LIABILITIES AND STOCKHOLDER'S EQUITY

Liabilities:		
Accrued liabilities	$ 13,044	$ 3,889
Due to affiliates	62,597	59,594
Senior secured notes and bonds	563,035	452,088
Total liabilities	638,676	515,571
Stockholder's equity:		
Common stock--authorized 1,000 shares, par value $.01 per share; issued and outstanding 100 shares	-	-
Additional paid-in capital	5,308	5,443
Retained earnings	2,865	1,507
Total stockholder's equity	8,173	6,950
	$646,849	$522,521

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

SALTON SEA FUNDING CORPORATION

STATEMENTS OF OPERATIONS
(Dollars in Thousands)

	Three Months Ended September 30, 1996	Nine Months Ended September 30, 1996	From June 20, 1995 (Inception Date) through September 30, 1995
	(unaudited)	(unaudited)	
Revenues:			
Interest income	$10,844	$28,504	7,414
Equity in earnings of Guarantors	303	537	185
Total revenues	11,147	29,041	7,599
Expenses:			
General and			

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administrative expenses	241	467	-
Interest expense	10,339	26,272	6,586
Total expenses	10,580	26,739	6,586
Income before income taxes	567	2,302	1,013
Provision for income taxes	232	944	339
Net income	$ 335	$ 1,358	$ 674

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

SALTON SEA FUNDING CORPORATION

STATEMENTS OF CASH FLOWS
(Dollars in Thousands)

	Nine Months Ended September 30, 1996	From June 20, 1995 (Inception Date) through September 30, 1995
	(unaudited)	
Cash flows from operating activities:		
Net income	$ 1,358	$ 674
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in earnings of guarantors	(537)	(185)
Changes in assets and liabilities:		
Prepaid expenses and other assets	(10,094)	(6,793)
Accrued liabilities	9,155	6,925
Net cash flows from operating activities	(118)	621
Cash flows from investing activities:		
Decrease (increase) in restricted cash and short-term investments	42,118	(73,522)
Secured project notes of Guarantors	(135,000)	(475,000)
Decrease in notes receivable from affiliates	24,053	-
Net cash flows from investing activities	(68,829)	(548,522)
Cash flows from financing activities:		
Due to affiliates	3,003	95,568
Proceeds from offering of senior project notes and bonds	135,000	475,000
Repayment on loans payable	(24,053)	-

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Net cash flows from financing activities	113,950	570,568
Net change in cash	45,003	22,667
Cash at the beginning of period	4,393	-
Cash at the end of period	$49,396	$ 22,667
Non-cash investing and financing activities:		
Adjustments resulting from capital transactions of Guarantors	$ (135)	$ 2,000

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

SALTON SEA FUNDING CORPORATION

NOTES TO FINANCIAL STATEMENTS
(in thousands)

1. General:

In the opinion of management of the Salton Sea Funding Corporation (the "Funding Corporation"), the accompanying unaudited financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the financial position as of September 30, 1996 and the results of operations for the three and nine months ended September 30, 1996 and from June 20, 1995 (inception date) through September 30, 1995 and cash flows for the nine months ended September 30, 1996 and from June 20, 1995 (inception date) through September 30, 1995.

The results of operations for the three and nine months ended September 30, 1996 are not necessarily indicative of the results to be expected for the full year.

The Funding Corporation was formed on June 20, 1995 for the sole purpose of acting as issuer of senior secured notes and bonds.

2. Other Footnote Information:

Reference is made to the Funding Corporation's most recently issued annual report on Form 10-K that included information necessary or useful to the understanding of the Funding Corporation's business and financial statement presentations. In particular, the significant accounting policies and practices were presented as Note 2 to the Funding Corporation financial

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statements included in that filing.

3. Debt Offering:

On June 20, 1996, the Funding Corporation issued $135,000 of Senior Secured Notes and Bonds, consisting of $70,000, 7.02% Senior Secured Series D Notes, due May 30, 2000, and $65,000, 8.30% Senior Secured Series E Bonds, due May 30, 2011, with maturities of $25,850, $32,000, $22,728, $5,500, $1,000 and $47,922 for 1997, 1998, 1999, 2000, 2001 and thereafter, respectively.

INDEPENDENT ACCOUNTANTS' REPORT

Board of Directors and Stockholder
Magma Power Company
Omaha, Nebraska

We have reviewed the accompanying combined balance sheet of the Salton Sea Guarantors as of September 30, 1996, and the related combined statements of operations for the three and nine month periods ended September 30, 1996 and 1995 and cash flows for the nine months ended September 30, 1996 and 1995. These financial statements are the responsibility of the Guarantors' management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such combined financial statements for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the combined balance sheet of the Salton Sea Guarantors as of December 31, 1995, and the related combined statements of operations, Guarantors' equity, and cash flows for the year then ended (not presented herein); and in our report dated January 26, 1996, we expressed an unqualified opinion on those combined financial statements. In our opinion, the

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information set forth in the accompanying combined balance sheet as of December 31, 1995 is fairly stated, in all material respects, in relation to the combined balance sheet from which it has been derived.

DELOITTE & TOUCHE LLP

Omaha, Nebraska
October 22, 1996

SALTON SEA GUARANTORS

COMBINED BALANCE SHEETS
(Dollars in Thousands)

	September 30, 1996 (unaudited)	December 31, 1995
ASSETS		
Cash	$ 65	$ 454
Accounts receivable	22,070	10,436
Prepaid expenses and other assets	18,978	20,129
Property, plant, contracts and equipment, net	470,059	417,287
Goodwill, net	51,116	52,094
	$562,288	$500,400
LIABILITIES AND GUARANTORS' EQUITY		
Liabilities:		
Accounts payable	$ 177	$ 939
Accrued liabilities	13,523	4,043
Due to affiliates	40,046	4,319
Senior secured project note	310,670	321,500
Total liabilities	364,416	330,801
Total Guarantors' equity	197,872	169,599
	$562,288	$500,400

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

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SALTON SEA GUARANTORS

COMBINED STATEMENTS OF OPERATIONS
(Dollars in Thousands)
(Unaudited)

	Three Months Ended September 30, 1996	Three Months Ended September 30, 1995	Nine Months Ended September 30, 1996	Nine Months Ended September 30, 1995
Revenues:				
Sales of electricity	$33,413	$23,724	$68,646	$55,807
Interest and other income	3	186	131	595
Total revenues	33,416	23,910	68,777	56,402
Expenses:				
Operating, general and administration	7,576	8,055	19,302	21,038
Depreciation and amortization	3,973	1,553	9,859	7,953
Interest expense	6,205	6,449	18,724	19,139
Less capitalized interest	(1,174)	(3,061)	(7,381)	(6,480)
Total expenses	16,580	12,996	40,504	41,650
Income before minority interest	16,836	10,914	28,273	14,752
Minority interest	-	-	-	1,393
Net income	$16,836	$ 10,914	$28,273	$ 13,359

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

SALTON SEA GUARANTORS

COMBINED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
(Unaudited)

Nine Months Ended

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	September 30, 1996	September 30, 1995
Cash flows from operating activities:		
Net income	$28,273	$ 13,359
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interest	-	1,393
Depreciation and amortization	9,859	7,953
Changes in assets and liabilities:		
Accounts receivable	(11,634)	(5,203)
Prepaid expenses and other assets	1,151	(3,664)
Due to (from) affiliates	35,727	(32,734)
Accounts payable and accrued liabilities	8,718	4,225
Net cash flows from operating activities	72,094	(14,671)
Cash flows from investing activities:		
Purchase of Guarantors by CalEnergy, net of cash	-	(171,964)
Capital expenditures	(61,653)	(48,221)
Net decrease in marketable securities	-	4,988
Decrease in restricted cash	-	3,400
Net cash flows from investing activities	(61,653)	(211,797)
Cash flows from financing activities:		
Repayments on loans payable	(10,830)	(298,672)
Loan proceeds	-	509,364
Contributions from parent	-	29,176
Deferred financing costs	-	(8,400)
Distributions to parent	-	(5,000)
Net cash flows from financing activities	(10,830)	226,468
Net change in cash	(389)	-
Cash at beginning of period	454	-
Cash at end of period	$ 65	$ -

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

SALTON SEA GUARANTORS

NOTES TO COMBINED FINANCIAL STATEMENTS
(in thousands)

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1. General:

In the opinion of management of the Salton Sea Guarantors (the "Guarantors"), the accompanying unaudited financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the financial position as of September 30, 1996 and the results of operations for the three and nine months ended September 30, 1996 and 1995 and cash flows for the nine months ended September 30, 1996 and 1995.

The combined financial statements include the accounts of the partnerships in which the Guarantors have a 100% interest.

The results of operations for the three and nine months ended September 30, 1996 and 1995 are not necessarily indicative of the results to be expected for the full year.

2. Other Footnote Information:

Reference is made to the Salton Sea Funding Corporation's most recently issued annual report on Form 10-K that included information necessary or useful to the understanding of the Guarantors' business and financial statement presentations. In particular, the Guarantors' significant accounting policies and practices were presented as Note 2 to the Guarantors' combined financial statements included in that filing.

3. Property, Plant, Contracts and Equipment:

Property, plant, contracts and equipment consisted of the following:

	September 30, 1996	December 31, 1995
Plant and equipment	$339,042	$173,509
Salton Sea Unit 4 construction in progress	-	108,632
Power sale agreements	64,609	64,609
Mineral extraction	63,990	60,577
Exploration and development costs	19,132	17,793
	486,773	425,120
Less accumulated depreciation and amortization	(16,714)	(7,833)
	$470,059	$417,287

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4. Purchase of Magma Power Company:

On January 10, 1995, CalEnergy Company, Inc. ("CECI") acquired approximately 51% of outstanding shares of common stock of Magma Power Company (the "Magma Common Stock") through a cash tender offer and completed the Magma acquisition on February 24, 1995 by acquiring approximately 49% of the outstanding shares of Magma Common Stock not owned by CECI through a merger. The transaction was accounted for as a purchase business combination.

Unaudited pro forma combined revenue and net income of the Guarantors on a purchase, push down basis of accounting, for the nine months ended September 30, 1995, as if the acquisition had occurred at the beginning of the period after giving effect to certain pro forma adjustments related to the acquisition were $56,402 and $13,869, respectively.

INDEPENDENT ACCOUNTANTS' REPORT

Board of Directors and Stockholder
Magma Power Company
Omaha, Nebraska

We have reviewed the accompanying combined balance sheet of the Partnership Guarantors as of September 30, 1996, and the related combined statements of operations for the three and nine month periods ended September 30, 1996 and 1995 and cash flows for the nine months ended September 30, 1996 and 1995. These financial statements are the responsibility of the Guarantors' management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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Based on our review, we are not aware of any material modifications that should be made to such combined financial statements for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the combined balance sheet of the Partnership Guarantors as of December 31, 1995, and the related combined statements of operations, Guarantors' equity, and cash flows for the year then ended (not presented herein); and in our report dated January 26, 1996, we expressed an unqualified opinion on those combined financial statements. In our opinion, the information set forth in the accompanying combined balance sheet as of December 31, 1995 is fairly stated, in all material respects, in relation to the combined balance sheet from which it has been derived.

DELOITTE & TOUCHE LLP

Omaha, Nebraska
October 22, 1996

PARTNERSHIP GUARANTORS

COMBINED BALANCE SHEETS
(Dollars in Thousands)

	September 30, 1996 (unaudited)	December 31, 1995
ASSETS		
Cash	$ -	$ 11,146
Restricted cash and short-term investments	-	9,859
Accounts receivable	30,586	11,841
Due from affiliates	91,309	54,949
Prepaid expenses and other assets	24,588	9,651
Property, plant, contracts and equipment, net	369,646	298,956
Management fee	66,768	63,520
Goodwill, net	139,577	142,250
	$722,474	$602,172

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LIABILITIES AND GUARANTORS' EQUITY

Liabilities:		
Accounts payable	$ 4,542	$ 3,566
Accrued liabilities	22,675	19,995
Loans payable	-	43,766
Senior secured project notes	189,955	62,706
Deferred income taxes	105,799	98,407
Total liabilities	322,971	228,440
Guarantors' equity:		
Common stock	3	3
Additional paid-in capital	362,737	359,092
Retained earnings	36,763	14,637
Total Guarantors' equity	399,503	373,732
	$722,474	$602,172

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

PARTNERSHIP GUARANTORS

COMBINED STATEMENTS OF OPERATIONS
(Dollars in Thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1996	1995	1996	1995
Revenues:				
Sales of electricity	$46,031	$23,205	$98,186	$59,294
Interest and other income	2,608	5,359	6,757	8,029
Total revenues	48,639	28,564	104,943	67,323
Expenses:				
Operating, general and administration	17,016	8,333	41,426	23,792
Depreciation and amortization	9,870	8,787	24,159	14,040
Interest expense	4,193	6,767	9,455	14,162

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Less capitalized interest	(2,168)	(5,914)	(6,637)	(5,914)
Total expenses	28,911	17,973	68,403	46,080
Income before income taxes	19,728	10,591	36,540	21,243
Provision for income taxes	7,702	3,885	14,414	8,125
Income before minority interest	12,026	6,706	22,126	13,118
Minority interest	-	-	-	1,427
Net income	$12,026	$ 6,706	$22,126	$11,691

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

PARTNERSHIP GUARANTORS

COMBINED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
(Unaudited)

	Nine Months Ended September 30,	
	1996	1995
Cash flows from operating activities:		
Net income	$ 22,126	$ 11,691
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interest	-	1,427
Depreciation and amortization	24,159	14,040
Changes in assets and liabilities:		
Accounts receivable	(4,268)	(5,388)
Due from affiliates	(37,279)	(2,320)
Prepaid expenses and other assets	(9,735)	1,340
Accounts payable and accrued liabilities	503	11,070
Deferred income taxes	4,192	-
Other, net	-	(7,005)
Net cash flows from operating activities	(302)	24,855
Cash flows from investing activities:		
Purchase of Guarantors by CalEnergy, net of cash	-	(197,810)
Capital expenditures	(14,723)	(1,977)
Net decrease in marketable securities	-	7,457

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Management fee	-	(29,423)
Decrease (increase) in restricted cash and short-term investments	23,085	(1,134)
Net cash flows from investing activities	8,362	(222,887)
Cash flows from financing activities:		
Repayments on loans payable	(99,809)	(221,877)
Deferred finance costs	-	(9,714)
Loan proceeds	135,000	288,185
Distributions to parent	(54,397)	143,505
Net cash flows from financing activities	(19,206)	200,099
Net change in cash	(11,146)	2,067
Cash at beginning of period	11,146	-
Cash at end of period	$ 0	$ 2,067

During 1996, CalEnergy Company, Inc. contributed $71,000 of net assets acquired from Mission Edison, of which $12,956 was cash, to the Partnership Guarantors.

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

PARTNERSHIP GUARANTORS

NOTES TO COMBINED FINANCIAL STATEMENTS
(in thousands)

1. General:

In the opinion of management of the Partnership Guarantors (the "Guarantors"), the accompanying unaudited combined financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the financial position as of September 30, 1996 and the results of operations for the three and nine months ended September 30, 1996 and 1995 and cash flows for the nine months ended September 30, 1996 and 1995.

The combined financial statements include the proportionate share of the accounts of the partnerships in which the Guarantors have an interest.

The results of operations for the three and nine months ended September 30, 1996 and 1995 are not necessarily indicative of the

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results to be expected for the full year.

2. Other Footnote Information:

Reference is made to the Salton Sea Funding Corporation's most recently issued annual report on Form 10-K that included information necessary or useful to the understanding of the Guarantors' business and financial statement presentations. In particular, the Guarantors' significant accounting policies and practices were presented as Note 2 to the Guarantors' combined financial statements included in that filing.

3. Property, Plant, Contracts and Equipment:

Property, plant, contracts and equipment consisted of the following:

	September 30, 1996	December 31, 1995
Plant and equipment	$ 62,449	$ 58,532
Power sale agreements	122,997	44,966
Process license	46,290	46,290
Mineral extraction	118,987	112,350
Exploration and development costs	56,673	53,449
	407,396	315,587
Less accumulated depreciation and amortization	(37,750)	(16,631)
	$369,646	$298,956

PARTNERSHIP GUARANTORS

NOTES TO COMBINED FINANCIAL STATEMENTS
(in thousands)

4. Purchase of Magma Power Company

On January 10, 1995, CalEnergy Company, Inc. ("CECI") acquired approximately 51% of the outstanding shares of common stock of Magma Power Company (the "Magma Common Stock") through a cash tender offer and completed the Magma acquisition on February 24, 1995 by acquiring approximately 49% of the outstanding shares of Magma Common Stock not owned by CECI through a merger. The transaction was accounted for as a purchase business combination.

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5. Purchase of Edison Mission Energy's Partnership Interests

On April 17, 1996 CECI completed the indirect acquisition of Edison Mission Energy's partnership interests in the Vulcan, Hoch (Del Ranch), Leathers and Elmore geothermal operating facilities. Magma Power Company, a wholly-owned subsidiary of CECI, currently operates these facilities and directly or indirectly owns 100% interest in these facilities. Magma's direct ownership interest related to Del Ranch, Leathers, Elmore and Vulcan is assigned to the Partnership Guarantors.

Unaudited proforma combined revenue and net income of the Guarantors on a purchase, push down basis of accounting, for the nine months ended September 30, 1996, as if both acquisitions had occurred at the beginning of the period after giving effect to certain pro forma adjustments related to the acquisitions were $123,582 and $23,259, respectively compared with revenue and net income of $137,953 and $24,245, respectively for the nine months ended September 30, 1995.

6. Debt Offering

On June 20, 1996, the Guarantors issued $135,000 of Senior Secured Project Notes consisting of $70,000, 7.02% Senior Secured Notes, due May 30, 2000 and $65,000, 8.30% Senior Secured Notes, due May 30, 2011, with maturities of $25,850, $32,000, $22,728, $5,500, $1,000, and $47,922, for 1997, 1998, 1999, 2000, 2001 and thereafter, respectively.

Proceeds from these Senior Secured Project Notes were used to repay approximately $96,000 in existing project level loans of the Guarantors, provide approximately $15,000 to fund the Capital Expenditures Fund and provide approximately $23,000 of the cost of the acquisition of Edison Mission Energy's partnership interests described above.

INDEPENDENT ACCOUNTANTS' REPORT

Board of Directors and Stockholder
Magma Power Company
Omaha, Nebraska

We have reviewed the accompanying balance sheet of the Salton Sea Royalty Company as of September 30, 1996, and the related statements of operations for the three and nine month periods ended September 30, 1996 and 1995 and cash flows for the nine

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months ended September 30, 1996 and 1995. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such financial statements for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the balance sheet of the Salton Sea Royalty Company as of December 31, 1995, and the related statements of operations, equity, and cash flows for the year then ended (not presented herein); and in our report dated January 26, 1996, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying balance sheet as of December 31, 1995 is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

DELOITTE & TOUCHE LLP

Omaha, Nebraska
October 22, 1996

SALTON SEA ROYALTY COMPANY

BALANCE SHEETS
(Dollars in Thousands)

	September 30, 1996 (unaudited)	December 31, 1995
ASSETS		
Due from affiliates	$17,214	$ 25,110

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Royalty stream, net	46,715	53,744
Goodwill, net	35,231	35,912
Prepaid expenses and other assets	1,909	2,575
	$101,069	$117,341

LIABILITIES AND EQUITY		
Liabilities:		
Accrued liabilities	$ 11,238	$ 5,948
Senior secured project note	62,409	67,882
Deferred income taxes	13,152	15,460
Total liabilities	86,799	89,290
Equity:		
Common stock	-	-
Additional paid-in capital	7,440	24,541
Retained earnings	6,830	3,510
Total equity	14,270	28,051
	$101,069	$117,341

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

SALTON SEA ROYALTY COMPANY

STATEMENTS OF OPERATIONS
(Dollars in Thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1996	1995	1996	1995
Revenues:				
Royalty income	$ 7,784	$ 7,097	$22,422	$21,164
Expenses:				
Operating, general and administrative expenses	1,894	1,756	5,446	5,069
Amortization of royalty stream and goodwill	2,570	5,047	7,710	8,163
Interest expense	1,290	(568)	3,989	3,168

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Total expenses	5,754	6,235	17,145	16,400
Income before income taxes	2,030	862	5,277	4,764
Provision for income taxes	592	(50)	1,957	1,210
Income before minority interest	1,438	912	3,320	3,554
Minority interest	-	-	-	1,092
Net income	$ 1,438	$ 912	$ 3,320	$ 2,462

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

SALTON SEA ROYALTY COMPANY

STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
(Unaudited)

	Nine Months Ended September 30, 1996	1995
Cash flows from operating activities:		
Net income	$3,320	$2,462
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interest	-	1,092
Amortization of royalty stream and goodwill	7,710	8,163
Changes in assets and liabilities:		
Prepaid expenses and other assets	666	481
Accrued liabilities and deferred income taxes	2,982	2,250
Net cash flows from operating activities	14,678	14,448
Net cash flows from investing activities:		
Purchase of Company by CECI, net of cash	-	(38,603)
Net cash flows from investing activities	-	(38,603)
Net cash flows from financing activities:		
Proceeds from issuance of debt	-	115,446

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Deferred financing costs	-	(3,499)
Capital contributions	-	1,647
Decrease (increase) in due from affiliates	7,896	(32,898)
Payment of debt	(5,473)	(40,446)
Distribution to parent	(17,101)	(16,095)
Net cash flows from financing activities	(14,678)	24,155
Net change in cash	-	-
Cash at beginning of period	-	-
Cash at end of period	$ -	$ -

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

SALTON SEA ROYALTY COMPANY

NOTES TO FINANCIAL STATEMENTS
(in thousands)

1. General:

In the opinion of management of the Salton Sea Royalty Company (the "Company"), the accompanying unaudited financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the financial position as of September 30, 1996 and the results of operations for the three and nine months ended September 30, 1996 and 1995 and cash flows for the nine months ended September 30, 1996 and 1995.

The results of operations for the three and nine months ended September 30, 1996 and 1995 are not necessarily indicative of the results to be expected for the full year.

2. Other Footnote Information:

Reference is made to the Salton Sea Funding Corporation's most recently issued annual report on Form 10-K that included information necessary or useful to the understanding of the Guarantor's business and financial statement presentations. In particular, the Guarantor's significant accounting policies and practices were presented in Note 2 to the Company's financial statements included in that report.

3. Purchase of Magma Power Company

On January 10, 1995, CalEnergy Company, Inc. ("CECI") acquired

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approximately 51% of the outstanding shares of common stock of Magma Power Company (the "Magma Common Stock") through a cash tender offer and completed the Magma acquisition on February 24, 1995 by acquiring approximately 49% of the outstanding shares of Magma Common Stock not owned by CECI through a merger. The transaction was accounted for as a purchase business combination.

Unaudited proforma combined revenue and net income of the Company on a purchase, push down basis of accounting, for the nine months ended September 30, 1995, as if the acquisition had occurred at the beginning of the period after giving effect to certain pro forma adjustments related to the acquisition were $21,164 and $2,705, respectively.

THE SALTON SEA FUNDING CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(in thousands, except per kwh data)

Results of Operations:

The following is management's discussion and analysis of certain significant factors which have affected the Funding Corporation's and Guarantors' financial condition and results of operations during the periods included in the accompanying statements of operations.

Funding Corporation was organized for the sole purpose of acting as issuer of senior secured notes and bonds (the "Securities"). The Securities are payable from the proceeds of payments made of principal and interest on the senior secured project notes by the Guarantors, as defined, to the Funding Corporation. The Securities are guaranteed on a joint and several basis by the Guarantors. The guarantees of the Partnership Guarantors and Salton Sea Royalty Company are limited to available cash flow. The Funding Corporation does not conduct any operations apart from the Securities.

The Partnership Projects sell all electricity generated by the respective plants pursuant to four long-term SO4 Agreements between the projects and Southern California Edison Company ("Edison"). These SO4 Agreements provide for capacity payments, capacity bonus payments and energy payments. Edison makes fixed annual capacity bonus payments to the projects, and to the extent that capacity factors exceed certain benchmarks is required to make capacity bonus payments. The price for capacity and capacity bonus payments is fixed for the life of the SO4

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Agreements and the capacity payments are significantly higher in the months of June through September. Energy is sold at increasing fixed rates for the first ten years of each contract and thereafter at Edison's Avoided Cost of Energy.

The fixed energy price periods of the Partnership Project SO4 Agreements extend until December 1998, December 1998, and December 1999 for each of the Hoch (Del Ranch), Elmore and Leathers Partnerships, respectively. The fixed energy rates range from 12.7 cents per kWh in 1996 to 15.6 cents per kWh in 1999. The fixed energy price period on the Vulcan Partnership SO4 Agreement expired in February 1996.

The Salton Sea I Project sells electricity to Edison pursuant to a 30-year negotiated power purchase agreement, as amended (the "Salton Sea I PPA"), which provides for capacity and energy payments. The initial contract capacity and contract nameplate are each 10 MW. The energy payment is calculated using a Base Price which is subject to quarterly adjustments based on a basket of indices. The time period weighted average energy payment for Unit 1 was 5.07 cents per kWh during the nine months ended September 30, 1996. As the Salton Sea I PPA is not an SO4 Agreement, the energy payments do not revert to Edison's Avoided Cost of Energy. The Salton Sea IV project also sells electricity to Edison pursuant to a 30-year negotiated power purchase agreement. The Salton Sea Unit IV contract also provides for fixed price capacity payments for the life of the contract. Approximately 56% of the kWhs are sold under the Salton Sea Unit IV PPA at a fixed energy price, which is subject to quarterly adjustments by reference to various inflation-related indices, through June 20, 2017 (and at SCE's Avoided Cost of Energy thereafter), while the remaining 44% of the Salton Sea Unit IV kWhs are sold according to a 10-year fixed price schedule followed by payments based on a modified Avoided Cost of Energy for the succeeding 5 years and at SCE's Avoided cost of Energy thereafter. The Salton Sea Unit IV project was operational on May 24, 1996.

Results of Operations: (continued)

The Salton Sea II and Salton Sea III Projects sell electricity to Edison pursuant to 30-year modified SO4 Agreements. The contract capacities and contract nameplates are 15 MW and 20 MW for Salton

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Sea II and 47.5 MW and 49.8 MW for Salton Sea III, respectively. The contracts require Edison to make capacity payments, capacity bonus payments and energy payments. The price for contract capacity and contract capacity bonus payments is fixed for the life of the modified SO4 Agreements. The energy payments for the first ten year period, which period expires April 4, 2000 for Salton Sea II and February 13, 1999 for Salton Sea III, are levelized at a time period weighted average of 10.6 cents per kWh and 9.8 cents per kWh for Salton Sea II and Salton Sea III, respectively. Thereafter, the monthly energy payments will be at Edison's Avoided Cost of Energy. For Salton Sea II only, Edison is entitled to receive, at no cost, 5% of all energy delivered in excess of 80% of contract capacity for the period April 1, 1994 through March 31, 2004.

The Salton Sea IV Project sells electricity to Edison pursuant to a modified SO4 agreement which provides for contract capacity payments on 34 MW of capacity at two different rates based on the respective contract capacities deemed attributable to the original Salton Sea PPA option (20 MW) and to the original Fish Lake PPA (14 MW). The capacity payment price for the 20 MW portion adjusts quarterly based upon specified indicies and the capacity payment price for the 14 MW portion is a fixed levelized rate. The energy payment (for deliveries up to a rate of 39.6 MW) is at a fixed price for 55.6% of the total energy delivered by Salton Sea IV and is based on an energy payment schedule for 44.4% of the total energy delivered by Salton Sea IV. The contract has a 30-year term but Edison is not required to purchase the 20 MW of capacity and energy originally attributable to the Salton Sea I PPA option after September 30, 2017, the original termination date of the Salton Sea I PPA.

For the nine months ended September 30, 1996, Edison's average Avoided Cost of Energy was 2.3 cents per kWh which is substantially below the contract energy prices earned for the nine months ended September 30, 1996. Estimates of Edison's future Avoided Cost of Energy vary substantially from year to year. The Company cannot predict the likely level of Avoided Cost of Energy prices under the SO4 Agreements and the modified SO4 Agreements at the expiration of the scheduled payment periods. The energy revenues generated by each of the projects operating under such Agreements could decline significantly after the expiration of the respective scheduled payment periods.

THE SALTON SEA FUNDING CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(in thousands, except per kwh data)

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Results of Operations: (continued)

The following data includes the combined Operating Capacity Factors and electricity production of Salton Sea Units I, II, III and IV:

	Three Months Ended September 30		Nine Months Ended September 30	
	1996	1995	1996	1995
Operating Capacity Factor	97.9%	93.8%	89.6%	86.3%
Contract Capacity (NMW) (weighted average)*	119.4	79.8	97.4	79.8
kWh Produced (in thousands)	258,000	165,400	573,900	451,400

* Weighted average for the commencement of operations at the Salton Sea Unit IV.

The following data includes combined Operating Capacity Factors and electricity production of Vulcan, Del Ranch, Elmore and Leathers:

	Three Months Ended September 30		Nine Months Ended September 30	
	1996	1995	1996	1995
Operating Capacity Factor	106.4%	108.0%	106.5%	106.0%
Contract Capacity (NMW)	148.0	148.0	148.0	148.0
Produced (in thousands)	347,700	353,000	1,016,300	1,027,600

The Salton Sea Guarantors' sales of electricity increased to $33,413 for the three months ended September 30, 1996 from $23,724 for the same period of 1995, a 40.8% increase. For the nine month period ended September 30, 1996, sales of electricity increased to $68,646 from $55,807 in 1995, a 23.0% increase. These increases were primarily due to the addition of Unit 4 production on June 1, 1996 and increased electric production at the other plants.

The Partnership Guarantors' sales of electricity increased to $46,031 for the three months ended September 30, 1996 from $23,205 for the same period in 1995, a 98.4% increase. For the nine month period ended September 30, 1996, sales of electricity increased to $98,186 from $59,294 in 1995, a 65.6% increase.

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These increases were primarily due to the purchase of Edison Mission Energy's 50% partnership interest in the four geothermal operating facilities in April 1996. This was partially offset by a decreased price per kWh for the Vulcan project as a result of the expiration of the scheduled price period.

THE SALTON SEA FUNDING CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(in thousands, except per kwh data)

Results of Operations: (continued)

The Royalty Guarantor revenue increased to $7,784 for the three months ended September 30, 1996 from $7,097 for the same period last year. For the nine month period ended September 30, 1996, revenue increased to $22,422 from $21,164 in 1995, a 5.9% increase. These increases were due primarily to higher energy sales at Del Ranch, Elmore and Leathers compared to the same periods of 1995.

The Salton Sea Guarantors' operating expenses, which include royalty, operating, and general and administrative expenses, decreased to $7,576, for the three months ended September 30, 1996 from $8,055 for the same period in 1995. For the nine month period ended September 30, 1996, operating expenses decreased to $19,302 from $21,038 in 1995. These decreases were primarily due to higher plant maintenance expenditures in 1995 and continuing work force efficiencies as a result of CECI's acquisition of the facilities, which were partially offset by the start up of the Salton Sea Unit IV plants operations in June 1996.

The Partnership Guarantors' operating expenses, which include royalty, operating, and general and administrative expenses, increased to $17,016 for the three months ended September 30, 1996 from $8,333 for the same period in 1995. For the nine month period ended September 30, 1996, operating expenses increased to $41,426 from $23,792 in 1995. These increases were primarily due to the Edison Mission Energy acquisition.

The Royalty Guarantors' operating expenses increased to $1,894 for the three months ended September 30, 1996 from $1,756 for the same period in 1995, a 7.9% increase. For the nine month period ended September 30, 1996, operating expenses increased to $5,446 from $5,069 in 1995, a 7.4% increase. These increases were due to a scheduled increase in third party lessor royalties related to the increase in the Partnership Projects' sales of

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electricity.

The Salton Sea Guarantors' depreciation and amortization increased to $3,973 for the three months ended September 30, 1996 from $1,553 for the same period of 1995, a 155.8% increase. For the nine month period ended September 30, 1996, depreciation and amortization increased to $9,859 from $7,953 in 1995. These increases were due primarily to the final push down allocation of purchase accounting adjustments related to the first quarter 1995 acquisition of Magma.

The Partnership Guarantors' depreciation and amortization increased to $9,870 for the three months ended September 30, 1996 from $8,787 for the same period in 1995, a 12.3% increase. For the nine month period ended September 30, 1996, depreciation and amortization increased to $24,159 from $14,040 in 1995, a 72.1% increase. These increases were due primarily to the final push down allocation of purchase accounting adjustments related to the first quarter 1995 acquisition of Magma and the Edison Mission Energy Partnership Interest Acquisition.

The Royalty Guarantors' amortization decreased to $2,570 for the three months ended September 30, 1996 from $5,047 for the same period of 1995, a 49.1% decrease. For the nine month period ended September 30, 1996, amortization decreased to $7,710 from $8,163 in 1995. These decreases were due primarily to the final push down allocation of purchase accounting adjustments related to the first quarter 1995 acquisition of Magma.

Results of Operations: (continued)

The Salton Sea Guarantors' interest expense, net of capitalized amounts, increased to $5,031 for the three months ended September 30, 1996 from $3,388 for the same period in 1995, a 48.5% increase. For the nine month period ended September 30, 1996, interest expense, net of capitalized amounts, decreased to $11,343 from $12,659 in 1995. These changes were due primarily to the capitalization of interest related to the Salton Sea Unit IV expansion, during the construction period, the mineral reserve project and the timing of current year debt payments partially offset by increased indebtedness from the issuance of the senior secured project notes in July of 1995.

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The Partnership Guarantors' interest expense, net of capitalized amounts, increased to $2,025 for the three months ended September 30, 1996 from $853 for the same period in 1995 as the result of additional indebtedness. For the nine month period ended September 30, 1996, interest expense, net of capitalized amounts, decreased to $2,818 from $8,248 in 1995. This increase were a result of lower indebtedness for the period and capitalization of interest to the mineral reserve project.

The Royalty Guarantors' interest expense increased to $1,290 for the three months ended September 30, 1996 from ($568) from the same period in 1995. For the nine month period ended September 30, 1996, interest expense increased to $3,989 from $3,168 in 1995. The increase was the result of an adjustment in 1995 due to a reallocation of debt from the purchase accounting.

The Salton Sea Guarantors are comprised of partnerships and one company which has a partial interest in the Salton Sea expansion. Income taxes are the responsibility of the partners and Salton Sea Guarantors have no obligation to provide funds to the partners for payment of any tax liabilities. Accordingly, the Salton Sea Guarantors have no tax obligations.

The Partnership Guarantors income tax provision increased to $7,702 for the three months ended September 30, 1996 from $3,885 for the same period in 1995, a 98.2% increase. For the nine month period ended September 30, 1996, the provision for income taxes increased to $14,414 from $8,125 in 1995, a 77.4% increase. These increases were primarily due to an increase in income before income taxes resulting from the Edison Mission Energy acquisition. Income taxes will be paid by the parent of the Guarantors from distributions to the parent company by the Guarantors which occur after operating expenses and debt service.

The Royalty Guarantor's income tax provision was $592 for the three months ended September 30, 1996 compared to ($50) for the same period in 1995. For the nine month period ended September 30, 1996, the income tax provision was $1,957 compared to $1,210 for the same period in 1995. These increases were due primarily to increased earnings in the current year. Tax obligations of the Royalty Guarantor will be remitted to the parent company only to the extent of cash flows available after operating expenses and debt service. The increase was the result of an adjustment in 1995 due to a reallocation of debt from the purchase accounting.

THE SALTON SEA FUNDING CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(in thousands, except per kwh data)

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Results of Operations: (continued)

The Salton Sea Funding Corporation's net income for the three months ended September 30, 1996 was $335 and $1,358 for the nine month period ended September 30, 1996, which primarily represented interest income and expense, net of applicable tax, and the Salton Sea Funding Corporation's 1% equity in earnings of the Guarantors. The Funding Corporation was formed on June 20, 1995 for the sole purpose of acting as issuer of senior secured notes and bonds. Net income from June 20, 1995 (inception date) through September 30, 1995 was $674.

The Salton Sea Guarantors' net income increased to $16,836 for the three months ended September 30, 1996 compared to $10,914 for the same period of 1995. For the nine month period ended September 30, 1996, net income increased to $28,273 compared to $13,359 in 1995.

The Partnership Guarantors' net income increased to $12,026 for the three months ended September 30, 1996 compared to $6,706 for the same period of 1995. For the nine month period ended September 30, 1996, net income increased to $22,126 compared to $11,691 in 1995.

The Royalty Guarantors' net income decreased to $1,438 for the three months ended September 30, 1996 compared to $912 for the same period of 1995. For the nine month period ended September 30, 1996, net income decreased to $3,320 compared to $2,462 in 1995.

Liquidity and Capital Resources:

The Salton Sea Guarantors' only source of revenue is payments received pursuant to long term power sales agreements with Edison, other than interest earned on funds on deposit. The Partnership Guarantors' primary source of revenue is payments received pursuant to long term power sales agreements with Edison. The Partnership Guarantors' also receive a special distribution. The Royalty Guarantor receives royalties pursuant to resource lease agreements with the Partnership Projects and the East Mesa Project. These payments, for each of the Guarantors, are expected to be sufficient to fund operating and maintenance expenses, payments of interest and principal on the Securities, projected capital expenditures and debt service reserve fund requirements.

On April 17, 1996 CalEnergy Company, Inc., ("CECI") completed the acquisition of Edison Mission Energy's partnership interests in

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four geothermal operating facilities in California for a cash purchase price of $70,000. The acquisition has been accounted for as a purchase. The four projects, Vulcan, Hoch (Del Ranch), Leathers and Elmore, are located in the Imperial Valley of California. CECI operates the facilities and sells power to Southern California Edison ("Edison") under long-term SO4 contracts. Prior to this transaction, CECI indirectly owned 50% of these facilities. The acquisition of Edison Mission Energy's 50% interest results in CECI owning an additional 74 net MW of generating capacity.

THE SALTON SEA FUNDING CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(in thousands, except per kwh data)

Liquidity and Capital Resources: (continued)

On June 20, 1996 the Salton Sea Funding Corporation, completed a sale to institutional investors of $135,000 aggregate amount of Senior Secured Series D Notes and Series E Bonds. The Funding Corporation Series D Notes and Series E Bonds which mature in May 2000 and May 2011 respectively, bear an interest rate of 7.02% and 8.30% respectively. The proceeds of the offering were used to refinance $96,584 of existing project level indebtedness, to fund a portion of the purchase price of the Edison Mission Energy acquisition and for certain capital improvements at the Imperial Valley Project.

SALTON SEA FUNDING CORPORATION

PART II - OTHER INFORMATION

Item 1 - Legal proceedings.

The Salton Sea Funding Corporation is not a party to any material legal matters.

Item 2 - Changes in Securities.

Not applicable.

Item 3 - Default on Senior Securities.

Not applicable.

Item 4 - Submission of Matters to a Vote of Security Holders.

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Not applicable.

Item 5 - Other Information.

Not applicable.

Item 6 - Exhibits and Reports on Form 8-K.

(a) Exhibits:

Exhibit 27 - Financial Data Schedule

(b) Report on Form 8-K:

Not applicable.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SALTON SEA FUNDING CORPORATION

Date: November 14, 1996

/s/Gregory E. Abel
Gregory E. Abel
Executive Vice President and
Chief Accounting Officer

/s/John G. Sylvia
John G. Sylvia
Senior Vice President and
Chief Financial Officer

EXHIBIT INDEX

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