

September 22, 2006

Via Email, Facsimile and Overnight Mailing

Stephen F. Mecham, Esq.
Callister Nebeker & McCullough
Gateway Tower East, Suite 900
10 East South Temple
Salt Lake City, UT 84133

Re: Power Purchase Agreement between Desert Power, L.P. and PacifiCorp dated September 24, 2004 (the "PPA")

Dear Mr. Mecham:

As you know, on September 20, 2006, the Public Service Commission of Utah issued a *Report and Order Resolving Desert Power Contract Dispute* in Docket No. 04-035-04, which found *inter alia*, at page 7, that no force majeure event had occurred with respect to the PPA. Accordingly, the obligations of Desert Power, L.P. ("Desert Power") have not been suspended with regard to the performance assurances first formally demanded by PacifiCorp in its correspondence to you dated July 14, 2006. Additionally, the Commission concluded that it was reasonable to extend the Commercial Operation Date to on or before June 1, 2007, but it had an insufficient basis to extend any other term of the PPA. PacifiCorp has enclosed a form of amendment to the PPA and form letter of credit documents for Desert Power's completion.

PacifiCorp is not aware of any circumstances or events since its July 14, 2006 demand to Desert Power, which circumstances or events would operate to alleviate or satisfy PacifiCorp's concerns. To be certain, facts have come forward since that time that strongly suggest the project is indeed in dire circumstances. The additional statements and information relayed by Mr. Darling to PacifiCorp during the parties' meeting on August 1, 2006 indicated that Desert Power's primary lender had suspended its financing, a standstill agreement had been put in place, and the lender was requiring additional equity investment be made into the project. Moreover, pursuant to publicly filed reports on SEC Form 8-K, PacifiCorp is also aware that Desert Power's potential acquiror and source of new funding for the project, MMC Energy, Inc., has withdrawn its offer to purchase the project. Accordingly, PacifiCorp's concerns about Desert Power's ability to meet its obligations under the PPA remain very high, and thus, PacifiCorp reiterates its demands for posting of Default Security, as defined by the PPA, and providing additional performance assurances as detailed in PacifiCorp's July 14, 2006 request, which are set forth again below.

PacifiCorp continues to hold that a Material Adverse Change has occurred under the PPA. The facts set forth in the July 14, 2006 letter, supplanted by the information provided by Mr. Darling during the August 1, 2006 meeting, coupled with the withdrawal of the MMC

Energy, Inc.'s offer of financial support, are indicative of a dire situation both financially and operationally and make it unlikely, in PacifiCorp's reasonable view, that Desert Power will be able to fulfill its obligations under the PPA. Accordingly, pursuant to Section 11, and including without limitation Section 11.1.5 of the PPA, PacifiCorp hereby demands, again, that Desert Power provide performance assurances as follows:

1. Post additional Default Security pursuant to Section 8.2 within 15 days of the date hereof, which shall include the \$4 million letter of credit for the benefit of PacifiCorp referenced therein; and
2. An unqualified representation and warranty by Desert Power, and a corresponding formal legal opinion of your firm addressed to PacifiCorp and upon which it can expressly rely, that neither Desert Power, nor any of its affiliates, are in default of any financing agreement or other material debt instrument entered into by Desert Power; and
3. An unqualified representation and warranty that Desert Power has and will continue to have adequate, available and liquid financing to continue with all work necessary for the Facility to achieve Commercial Operation no later than June 1, 2007; and
4. An unqualified representation and warranty that Desert Power has in place, as evidenced by written contracts, all contractors, engineers, consultants, and the like, to perform all work necessary for the Facility to achieve Commercial Operation no later than June 1, 2007 and an opinion from Desert Power's legal counsel stating that to the best of counsel's knowledge, after making due inquiry, neither Desert Power nor any of its affiliates have breached any agreements, including without limitation a breach for failure to make payment when due, with any such contractors, engineers, consultants, and the like; and
5. Further, at the July 6, 2006, meeting with Questar and the regulators, Desert Power representatives stated they had made arrangements with U.S. Magnesium to release pipeline capacity from Questar Gas. Desert Power representatives also stated they could install propane-fueled air compressors. As part of PacifiCorp's request for performance assurances, please provide copies of all agreements, analyses, proposals, plans, schedules, engineering studies, and similar documents that demonstrate that Desert Power will be able to provide a firm natural gas supply to the Facility no later than June 1, 2007 under one or both of these alternative methods, including but not limited to an agreement or tariff provision from Questar Gas that permits U.S. Magnesium to release capacity on its pipeline.

This letter shall constitute notice under Section 11.1.5 and 11.2, and the beginning of the cure period referenced in Section 11. If Desert Power does not provide the above-requested performance assurances on or before 5:00 p.m. MTN, Monday, October 9, 2006, a material uncured Event of Default will have occurred, and PacifiCorp will declare Desert Power in breach of the PPA and commence the process to terminate the PPA.

Sincerely,

/s/ Mark Klein

Mark Klein
Vice President,
PacifiCorp Energy

Enclosures

cc:
Desert Power, L.P.
2603 Augusta Drive, Suite 880
Houston, TX 77057
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Vice President and Manager; and
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