

## **PACIFICORP ENERGY**

July 14, 2006

**VIA CERTIFIED MAIL AND PDF**

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, with an Effective Date November 9, 2004 (the "PPA")**

Dear Mr. Mecham:

Capitalized terms used in this letter but not otherwise defined shall have the meaning ascribed thereto in the PPA.

Over the last several months PacifiCorp and Desert Power, L.P. ("Desert Power") have discussed several options relating to the remedy or settlement of certain disputes between the parties. Those disputes arise out of Desert Power's failure to meet its Scheduled Commercial Operation Date of May 9, 2006, its failure to post relevant security amounts as required by the PPA, and its failure to pay any liquidated damages as a result of its failure to meet the operation date as required by the PPA. Without waiving any rights under the PPA, PacifiCorp entertained discussions relating to rescheduling or delay to a set delivery date, and throughout this process, PacifiCorp has been cooperative, open to solutions, and available to work through the issues.

However, over the past two weeks, PacifiCorp conducted due diligence on Desert Power's delays in delivering the project on time. Part of our due diligence process led to a meeting with Desert Power, PacifiCorp, the Utah Division of Public Utilities, the Utah Committee of Consumer Services and Questar Gas on July 6, 2006. At that meeting, Desert Power's ability to obtain a firm natural gas supply for the project, an unquestionably fundamental and material element of the project, before even a proposed June 1, 2007 on-line and commercially operational date, was called into question. Desert Power stated that it would not be a problem to provide a firm gas supply and that it had alternatives to the Questar Gas compression approach.

Additionally, PacifiCorp has learned that several material liens have been filed against Desert Power relating to the Facility. According to our research, six (6) different liens, totaling approximately \$7.5 million from delinquent taxes, unpaid contractors, consulting and engineering firms currently encumber the property and the project. The most recent and largest lien was filed against the property on June 19, 2006, by PCE Constructors Inc. for \$4.6 million.

Finally, PacifiCorp believes that virtually all work has stopped on the project, and that progress has ceased in achieving a delayed Commercial Operation prior to June 1, 2007.

Because of these events, in PacifiCorp's reasonable opinion a Material Adverse Change has occurred. Among other things, the lack of a committed fuel source and the imposition of the liens on the Facility are indicative of a dire situation both financially and operationally and makes it unlikely that Desert Power will be able to fulfill its obligations under the PPA. Accordingly, pursuant to Section 1.1 and including without limitation Section 1.1.1.5 of the PPA,

PacifiCorp hereby demands 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 (or of another outside law firm acceptable to PacifiCorp in its sole discretion) addressed to PacifiCorp and upon which it can expressly rely (the "Legal Opinion"), that neither Desert Power, L.P. 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, L.P. 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 all contractors, engineers, consultants, and the like, are continuing with all work necessary for the Facility to achieve Commercial Operation no later than June 1, 2007 and a Legal Opinion stating that neither Desert Power, L.P. 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.

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 the performance assurances demand outlined above, 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 pennits U.S. Magnesium to release capacity on its pipeline.

This letter shall constitute notice under Section 11.1.5, and the beginning of the cure period referenced in that section. If Desert Power does not provide the above-requested performance assurances on or before 5:00 p.m. MTN, Monday, July 3 1,2006, 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  
Vice President,  
PacifiCorp Energy

cc:

Desert Power, L.P.  
2603 Augusta Drive, Suite 880  
Houston, TX 77057  
Attn: Catherine M. Fonfara,  
Vice President and Manager; and  
Charles Darling  
Fax: 71 3.572.2255

Dean Brockbank, Esq.  
Jeffery B. Erb, Esq.