

August 4, 2006

***Sent By Email and US Mail***

Mr. William J. Fehrman  
President  
PacifiCorp Energy  
1407 W. North Temple  
Suite 320  
Salt Lake City, Utah 84116

***Re: Power Purchase Agreement Mediation***

Dear Bill:

We appreciated the opportunity to meet with you to resolve the issues arising out of our Power Purchase Agreement, PacifiCorp Energy's letter of July 14, 2006, and our response and request for mediation dated July 19, 2006. It is imperative that we reach agreement with you without any further delay.

During our meeting, you asked that we respond to each of the points raised in your July 14, 2006 letter. As a general matter, as we informed you at the meeting, we want to accommodate your concerns while maintaining our ability to quickly close our additional financing and move forward to timely completion of the project. Obviously, there are points on which we disagree, but we hope that these points of disagreement do not stand in the way of completing this plant on a timely basis and bringing needed power online for our mutual benefit. In that spirit, we provide you these responses. Of course, as with any mediation, we understand that each of us retains all of our respective claims in the event that we are unable to achieve such a resolution.

With that understanding, we submit the following responses:

1. PacifiCorp requested that Desert Power post the \$4 million letter of credit for the benefit of PacifiCorp within 15 days of the July 14, 2006 letter as provided for and pursuant to the provisions of Section 8.2 of the PPA. As we informed you, we do not believe that is a requirement imposed by the contract.

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Houston, TX 77057  
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Desert Power Plant*

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Desert Power has previously posted the sum of \$500,000.00 as the Project Development Security. As provided in Section 8.1, after the occurrence of the Commercial Operation Date ("COD), the sum will be transferred to the Default Security Account provided for in Section 8.2.

However, until the COD, the provisions of Section 8.1 govern the calculation of any delay damages. That damage calculation on the Project Development Security is internal to Section 8.1. PacifiCorp deducts its damages from the Project Development Security, and then Desert Power is required to replenish the account.

Thus, the Project Development Security is the security mechanism provided to PacifiCorp prior to the COD.

The terms of Section 8.2 support this construction. Under that Section, the security provided for therein is to be posted on or before the COD, and the only deduction that can be made against it is damages computed pursuant to Section 5.3. Those damages result from a failure to deliver Scheduled Quantities. Scheduled Quantities can only occur after the COD.

Thus, Desert Power submits that the contract terms do not contemplate the posting of the Default Security at the present time.

There is an additional consideration. The delay in reaching agreement on the Term Sheet, which has now extended over 45 days since the original agreement in principle, has severely strained our credit relationship, and our credibility with our bank. In these circumstances, imposing additional financial burdens, such as a requirement to post a \$4 million letter of credit, effectively renders our finance ability far more difficult. Further, at the present time, it does not appear that there are any net damages to PacifiCorp from the delayed start-up of the Desert Power plant. If the plant is "out of the money" in the current environment, there would be no cost, only savings, to PacifiCorp and its ratepayers from the 13-month delay in the COD of the plant and the consequent avoidance of the monthly Capacity Payment, which would have totaled in excess of \$9 million, over that period.

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2. PacifiCorp has requested an unqualified representation and warranty by Desert Power, and a corresponding formal legal opinion of our 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.

There have been no defaults declared in Desert Power's Credit Agreement with its Bank. The Bank is aware of the existing liens, as the attached document reflects.

3. PacifiCorp has requested 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.

As to financial commitments, with the extension contemplated under the proposed Term Sheet, Desert Power reasonably believes it will have the financial commitments to complete construction and achieve a June 1, 2007 COD. This belief is based upon ongoing discussions with financing entities.

However, Desert Power understands PacifiCorp's concern with assuring the ability of Desert Power to meet the June 1, 2007 COD contemplated under the Term Sheet. Accordingly, Desert Power agrees that on or before October 15, 2006 it will provide evidence of the requested financial commitments. Desert Power would agree to a condition subsequent in any Extension Agreement that if it has not done so, that would be an Event of Default.

Desert Power submits, however, that its ability to meet the June 1, 2007 COD is directly dependent upon a prompt resolution of these outstanding issues and execution of the Extension Agreement because that agreement is essential to a prompt resolution of Desert Power's financing requirements..

4. PacifiCorp has requested 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.

Desert Power reasonably believes that it will have all resources necessary to achieve a COD of June 1, 2007. We are currently in discussions to conclude arrangements on the financing, the successful culmination of which depends upon removing the current cloud over the PPA. Further, neither Desert Power nor any of its affiliates have breached any agreements. All payments, except for ProEnergy Services with whom we have a dispute, CEntry which is in litigation, and Tooele County will be discharged upon refinancing. As to Tooele County, the taxes will be discharged upon the conclusion of the current property tax appeal and negotiation process.

5. With respect to PacifiCorp's concerns over gas supply, under the terms of Section 7 of the PPA, entitled "Fuel," it states: "Seller shall use commercial reasonable efforts to obtain all natural gas supplies necessary to make Scheduled Deliveries from the general gas market, and to maintain transportation arrangements to effect delivery of such natural gas supplies, and shall promptly notify PacifiCorp if its ability to obtain such supplies appears uncertain."

In upgrading its plant, Desert Power's natural gas use for generating power remains the two combustion turbines previously utilized by it in generating power on a simple-cycle basis. Those two units have been previously dispatched by PacifiCorp as a Network Resource, and Desert Power always dispatched those units on a reliable basis with its existing transportation arrangements on Questar Gas.

In order to further enhance supply reliability, Desert Power entered into a Gas Supply Agreement with IGI Resource that provides Desert Power the option to nominate gas supply to the Riverton delivery point on the Questar Gas system.' This delivery point is close to the line serving the plant. The ability to nominate gas to this delivery point enhances

**This contract was previously provided to PacifiCorp. The amendment of the confirmation for a June 1, 2007 commencement of deliveries under that agreement is attached hereto.**

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pressures in the southern part of the Questar Gas system, which actually increases line reliability to the plant. Given past operations, Desert Power has concluded that these arrangements allow delivery of all natural gas supplies from the general market necessary to make Scheduled Deliveries.

Nevertheless to further assure the long-term reliability of gas supply, Desert Power has entered into negotiations with Questar Gas to firm up its supply arrangements on that system. Questar Gas has agreed that installation of electric powered compressors can be undertaken to effect the compression needed to firm up that gas supply. Those electric powered compressors are currently available to Desert Power. Desert Power has identified variable frequency drives that can be delivered to the packager within thirteen weeks, with delivery of the packaged units within 20 weeks. This eliminates the long lead times associated with natural gas powered compressors, which Questar Gas had originally proposed.

Desert Power is currently working with Questar and Wilbros, Questar's engineering firm, to develop an installation schedule. As soon as that is developed, we will provide it to PacifiCorp. However, with the agreement by Questar Gas that electric powered compressors can be used, lead time issues are removed.

To further explore the avenues for firming up gas supplies, Desert Power has a proposal from a propane air installer to install a propane air system if determined necessary. That system can be fully installed and operational within six (6) months after receipt of order. Such a system allows Desert Power to firm up its gas supply as well in the event Questar Gas cannot provide such firming.

However, based upon its past operations, the provisions in its Gas Supply Agreement for deliveries at Riverton, as well as the measures it is currently taking to assure long-term transportation reliability, Desert Power has taken, and continues to take, "commercial reasonable efforts," and even more, to secure its gas supply.

**In discussions with representatives of US Magnesium following our August 1, 2006 meeting, Desert Power has concluded that US Magnesium has made changes at its plant that render exercise of the fuel substitution option infeasible.**

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6. As a part of our meeting, you requested that Desert Power agree that in the event Desert Power does not achieve a June 1, 2007 COD, the price under the PPA is automatically reset to the then-current avoided cost rate.

Desert Power cannot agree to this condition. Desert Power has no idea as to what that rate would be. Although Desert Power has every confidence that it will achieve COD on or before June 1, 2007, assuming prompt resolution of the outstanding issues between us, incorporation of such a rate condition effectively renders the plant unfinanceable, which would ensure Desert Power's failure.

Under the terms of the Settlement Stipulation, the rates provided for therein apply to plants completed on or before June 1, 2007. If that criterion is not satisfied, the resulting rate to be charged is a matter to be determined by the Commission. A Commission order will protect PacifiCorp against any claim of imprudence, if that is a concern.

We believe that constitutes a reasonable basis on which to proceed, and one consistent with the Stipulation, given that both the PPA and the Stipulation are the subject of Commission orders and subject to its oversight. At the same time, as we indicated, our contractor has advised us that after a thirty (30) day mobilization period, he can complete the project within six (6) months.

The ability to achieve the June 1, 2007 COD directly depends upon an expedited resolution and prompt extension of the PPA so that we can obtain the necessary financial commitments to complete the project by June 1, 2007. We have the terms agreed to in June; all we need is to capture it in an agreement.

Additionally, in our meeting on August 1, 2007 you stated that the regulators were "hammering" on you to enforce the above issues and you encouraged us to visit with them and answer any of their questions regarding the expansion of Desert Power. On August 2, 2006, Desert Power met with Connie White, Director of the DPU and Reed Warnick and Dan Gimble of the Committee on Consumer Services. Based on our understanding, none of them are concerned with the terms of the Stipulation.

We believe that with an expedited, mutually agreeable extension subject to the conditions set out here, we can quickly complete our financing process and achieve

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the June 1, 2007 COD contemplated under the proposed Term Sheet and the Settlement Stipulation. If you any questions, please call me. Needless to say, resolving this dispute is our highest priority.

Sincerely,

          /s/            
Charles M. Darling, IV

cc:           Rob       Lasich  
Dean                Brockbank  
Stephen F. Mecham