



SPROUSE SHRADER SMITH P.C.
ATTORNEYS AT LAW

T. COYT "CODY" WEBB II
(806) 468-3334

July 30, 2004

Utah Power & Light Company
825 NE Multnomah St., Suite 600
Portland, Oregon 97232
Attention: Manager - QF Contracts

Dear Madam or Sir:

Spring Canyon Energy LLC ("Spring Canyon") is pursuing development of a gas-fired qualifying facility near Mona, Utah (the "Project"), and it currently intends to pursue project pricing under the Stipulation (dated May 20, 2004) entered into by PacifiCorp in Public Service Commission Docket No. 03-035-14 (the "Stipulation").

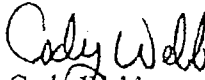
In accordance with Schedule 38 to Utah Power's tariff, Spring Canyon is providing the following information:

- The proposed Project will be very similar to the 500+ MW electric generation station that Spring Canyon proposed in response to PacifiCorp's RFP 2003-A. Therefore, with respect to the information specified in Section I.B.2(a)-(e), (g) and (h), that information was previously delivered to Stacey Kusters (Director of Origination with PacifiCorp) in connection to Spring Canyon's response to the RFP.
- Spring Canyon is currently negotiating an interconnection agreement with PacifiCorp, and a number of studies regarding interconnection have already been performed.
- Spring Canyon is prohibited at this time pursuant to confidentially agreements from disclosing the name of the thermal host and the nature of the thermal process.

Please confirm that Spring Canyon may rely on the pricing contained in the Stipulation and forward a draft contract for to serve as a basis for negotiations.

Sincerely,

SPROUSE SHRADER SMITH, PC


Cody Webb



SPROUSE SHRADER SMITH P.C.
ATTORNEYS AT LAW

T. COYT "CODY" WEBB II
(806) 468-3334

September 2, 2004

Utah Power & Light Company
825 NE Multnomah St., Suite 600
Portland, Oregon 97232
Attention: Manager - QF Contracts

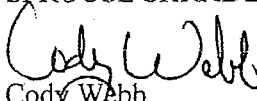
Dear Madam or Sir:

In a letter dated July 30, 2004, Spring Canyon Energy, LLC ("**Spring Canyon**") requested a draft power sales agreement to serve as a basis for negotiations in connection with a proposed gas-fired qualifying facility to be constructed near Mona, Utah. The letter also requested confirmation that Spring Canyon could rely on the indicative pricing contained in the Stipulation (dated May 20, 2004) entered into by PacifiCorp in Public Service Commission Docket No. 03-035-14. As of today, Spring Canyon has not received any communication from Utah Power & Light Company regarding this request.

At this time, Spring Canyon renews its request that Utah Power & Light Company promptly provide Spring Canyon with the requested draft power sales agreement and pricing information. You should send the draft power sales agreement and pricing information to Ted Banasiewicz. Mr. Banasiewicz address is P.O. Box 77400-359, 31585 Runaway Place, Steamboat Springs, Colorado 80477, with a copy to me at the above address. In light of the upcoming holiday, Spring Canyon would like to have this information no later than September 10, 2004.

Sincerely,

SPROUSE SHRADER SMITH, PC


Cody Webb

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One Utah Center
201 South Main, Suite 2200
Salt Lake City, UT 84111

Please Reply To:

Dean S. Brockbank, Senior Counsel
Direct Dial (801) 220-4568
Fax (801) 220-3299
email:
dean.brockbank@pacificorp.com

September 17, 2004

VIA FACSIMILE
(806) 373-3454

Cody Webb
Sprouse Shrader Smith, P.C.
701 S. Taylor, Suite 500
P.O. Box 15008
Amarillo, Texas 79105-5008

Re: Spring Canyon Energy LLC

Dear Mr. Webb:

Thank you for your letter dated July 30, 2004 requesting that PacifiCorp confirm that Spring Canyon LLC may rely on the pricing contained in the Stipulation dated May 20, 2004 (in Docket No. 03-035-14, approved by the Public Service Commission of Utah ("PSC") on June 28, 2004) for Spring Canyon's proposed Qualifying Facility ("QF").

Spring Canyon may not rely on the pricing contained in the Stipulation. The Stipulation has several limitations on the availability of the stipulated pricing: (i) it is available only to QFs having contracts approved by the PSC during the Interim Period (as defined in the Stipulation); (ii) it is available in situations where power from a QF will be available no later than June 1, 2007; and (iii) it is subject to an aggregate 275 MW cap. Under the Stipulation, if any QF project would cause the cap to be exceeded, any party can petition the PSC to lift the cap.

Under the Stipulation, the PSC ordered the creation of a QF Taskforce to review and discuss several issues regarding QF pricing and to make recommendations to the PSC later this year. The first Taskforce meeting was held a few months back and subsequent meetings have been scheduled throughout this year.

Moreover, given the work of the Taskforce, and the limitations set forth in the Stipulation, it is currently unclear what approach PacifiCorp would take with respect to providing

indicative prices aside from the Stipulation. These are some of the issues currently being worked through by the Taskforce.

Finally, once these issues are resolved with respect to the Stipulation and the Taskforce, PacifiCorp can only provide indicative pricing to a proposed QF after the QF has provided all of the information set forth in PacifiCorp's Electric Service Schedule No. 38. In your letter, you indicated that Spring Canyon has already provided much of the necessary information in connection with PacifiCorp's RFP 2003-A. Because QFs fall under a completely different statutory and regulatory regime than the RFPs, PacifiCorp is unable to shuffle information around from RFP bids to QF applications, or vice versa. Spring Canyon will need to treat its application for QF indicative prices on a stand-alone basis, separate from the RFP, and provide all of the information required under Schedule 38. Section I.B.2(f) of Schedule 38, demonstration of ability to obtain QF status, can usually be satisfied by providing the information necessary to obtain a QF self-certification from the Federal Energy Regulatory Commission.

You indicated that Spring Canyon is prohibited from disclosing information relating to the proposed thermal host due to confidentiality reasons. PacifiCorp frequently enters into confidentiality arrangements, and would be happy to do so in this case in order to better understand Spring Canyon's thermal host plans, while maintaining any sensitive information on a confidential basis.

If you have any questions or would like to further discuss the Stipulation or PacifiCorp's Schedule 38 process, please give me a call.

Sincerely,



Dean S. Brockbank
Sr. Counsel

cc: Stacey Kusters
Bruce Griswold
John Stewart

SPRING CANYON ENERGY, LLC

Via Facsimile
801-220-3299

September 24, 2004

Mr. Dean S. Brockbank
Senior Counsel
PacifiCorp
1 Utah Center
201 South Main, Suite 2200
Salt Lake City, UT 84111

Re: Qualifying Facility Contract for Spring Canyon Energy, LLC

Dear Mr. Brockbank:

Thank you for your September 17, 2004 response to Spring Canyon Energy's July 30, 2004 application for a draft Qualifying Facility ("QF") contract and indicative pricing from PacifiCorp. While your response did not provide either a draft contract or indicative pricing, it does provide guidance from which we shall proceed.

Your response points out limitations on the availability of pricing specified in the Stipulation dated May 20, 2004, and approved by the Public Service Commission of Utah ("PSC") on June 28, 2004 (the "Stipulation").

First, these include a requirement for the power from the QF to be available no later than June 1, 2007, which availability date is consistent with Spring Canyon's desire and ability.

Second is the requirement for the contract to be approved by the PSC during the Interim Period (as defined in the Stipulation). The Stipulation contemplates that the PSC will make a determination regarding the Taskforce (as defined in the Stipulation) recommendation by December 20, 2004, and while we expect that to be the case, it is quite possible that the PSC determination will be delayed. Despite the potential for the Interim Period to be extended, we hereby again request a draft contract and request that PacifiCorp enter into good faith negotiations. We are sure that Spring Canyon can comply with this requirement if PacifiCorp will engage in negotiations in a good faith manner.

Third, regarding the aggregate 275 MW cap (the "Cap"), based on recent discussions with the Division of Public Utilities (the "Division") we are aware that approximately 140 MW is available to a QF applicant as of today; perhaps more if our July 30, 2004 application date is considered. Therefore, Spring Canyon is hereby requesting a contract with a term of a minimum

Mr. Dean Brockbank
September 24, 2004
Page 2 of 2

of twenty (20) years and with pricing consistent with the Stipulation for the amount of megawatts that remain under the Cap.

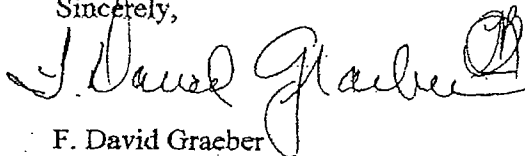
Consistent with the Stipulation, Spring Canyon will simultaneously request a determination from the PSC, which will increase the cap and will specify that the pricing in the Stipulation will apply to the incremental increase in the cap. While that process is on going, we trust that PacifiCorp will engage in good faith contract negotiations for a QF contract with Spring Canyon. The QF contract should anticipate a capacity of 140 MW, or an amount exceeding 140 MW if more than 140 MW exists under the Cap, or in the event the PSC increases the Cap.

Finally, with regard to the information required to be provided by a QF in accordance with Utah Power and Light, Schedule No. 38, we in good faith, believed PacifiCorp was keenly aware of the information required under paragraph 1.B.2 with the exception of subparagraph f. This belief was predicated on our assumption PacifiCorp had in its possession detailed information regarding the Spring Canyon project, which was submitted to PacifiCorp in response to the PacifiCorp RFP 2003-A.

In your letter, you stated that Spring Canyon would need to provide all of the information required under Schedule No. 38. As a result, we have attached Appendix A, which provides all of the required information. Note that Appendix A is marked confidential and we expect that PacifiCorp will not make use of this information for its own benefit or disclose this information to any party except as required by law with respect to the approval of a QF contract. If PacifiCorp believes it has the right, in accordance with PURPA, to request information regarding the thermal host beyond what has been provided in Appendix A, PacifiCorp will need to provide Spring Canyon evidence of such right and will need to execute a binding confidentiality agreement with Spring Canyon. Such confidentiality agreement shall also contain a non-circumvention clause.

If you have any questions, please do not hesitate to call me at 214-520-8177. Otherwise, Spring Canyon will anticipate a prompt response to this correspondence.

Sincerely,



F. David Graeber
Managing Member
Spring Canyon Energy, LLC

cc w/o attachment: Cody Webb, Sprouse, Shrader, Smith, PC
Artie Powell, Utah Division of Public Utilities

CONFIDENTIAL**APPENDIX A**

**SPRING CANYON ENERGY LLC ("SCE")
General Project Information In Accordance With Schedule No. 38,
Paragraph 1.B.2****Facility Description**

The SCE Facility is anticipated to achieve commercial operations no later than June 1, 2007. The SCE Facility is developed and permitted as a natural gas fired combined cycle power generation facility utilizing two General Electric gas turbines providing over 400 MW net of station service requirements. The gas turbines will be equipped with inlet air chilling capability, which allow for additional power production when ambient air temperatures exceed 50°F. The exhaust of the gas turbines will be directed to two heat recovery steam generators ("HRSGs"). The steam produced by the HRSGs will then drive a single steam turbine electrical generator to create additional "combined cycle" power. In this configuration, the Facility is capable of providing either base load or dispatchable power options as negotiated with PacifiCorp.

If ultimately desirable to and negotiated with PacifiCorp, the Facility can be configured to include peaking capability. In this configuration, the exhaust from the gas turbines will be augmented with additional heat from natural gas-fired duct burners when appropriate, providing fully dispatchable peaking power.

Detailed information regarding monthly capability will be provided upon PacifiCorp determining which configuration best serves its needs.

The Facility will utilize an air-cooled condenser to condense steam turbine exhaust into feed water for return to the HRSGs. Employing an air-cooled condenser reduces the Facility's water usage requirement. In addition, the Facility will employ zero water discharge technology and therefore will have no liquid discharges to the surrounding environment.

SCE's Facility has been configured with Lowest Achievable Emission Rate ("LAER") technology to control NOx, CO, and other criteria pollutants. NOx emissions in the turbine exhaust will be controlled with Dry-Lo NOx combustion technology prior to passing through Selective Catalytic Reduction ("SCR") NOx catalyst. NOx emissions will be controlled to 2.0 ppm with the SCR and CO emissions will be controlled to 4.0 ppm without the use of CO catalyst.

Facility Location & Electrical Interconnection

SCE will deliver electricity to PacifiCorp at PACE-Mona at a voltage of 345kv. The

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location of SCE's Facility is approximately eighty-two (82) miles south of Salt Lake City, Utah and approximately three (3) miles west of the small community of Mona, Utah. SCE has executed a purchase and sale contract and controls a 40-acre site, which is 0.75 miles north of PacifiCorp's Mona Switching Station.

At the request of SCE, PacifiCorp Transmission has completed an Interconnect Study and System Impact Analysis and has provided a Facility Interconnect Agreement and Interconnection Agreement to SCE for execution. Via the Interconnect Study and System Impact Analysis, PacifiCorp has identified the equipment required to interconnect SCE's Facility with PacifiCorp's 345kv Mona substation and the network upgrades required to modify PacifiCorp's transmission system.

Water Availability

With regard to water availability, SCE has executed water rights option and purchase agreements and as a result controls more than sufficient water rights for the Facility.

Permits and Regulatory Approvals

With regard to permits and regulatory approvals, SCE has:

- **Received** an Ordinance from Juab County, Utah rezoning the site to an industrial classification suitable for a gas fired, combined cycle power generation facility;
- **Received** Final Approved Change Applications from the State of Utah, Department of Natural Resources, Division of Water Rights, which authorizes SCE to change the location and use of the water rights which SCE has purchased; and
- **Received** Final Approval Order from the State of Utah, Department of Environmental Quality, Division of Air Quality, which authorizes SCE to construct one natural gas-fired combined cycle turbine generator set with duct burner.

Air Permit

- While all other permits and approvals have been obtained consistent with the maximum anticipated output of the Facility, the air permit has been secured in a manner which allows a phased approach to construction, whereby one gas turbine/steam turbine could be constructed and operated prior to the construction of the second gas turbine/steam turbine.

CONFIDENTIAL**Permit/Approvals Outstanding**

SCE has obtained or applied for all permits and approvals of significance. SCE will make application for permits that are considered routine at a later date. This includes the granting of a right-of-way by the Bureau of Land Management ("BLM") for electric transmission line and the natural gas pipeline. The electric transmission line will traverse approximately 0.75 miles and the gas pipeline will traverse approximately five (5) miles of BLM administered land.

Gas Pipeline

The gas pipeline will continue from the BLM administered lands, traversing across the agricultural land of four private landowners until reaching its termination in Elberta, Utah at the point of interconnection with Questar's Mainline 104, a distance of approximately 13 miles. The gas pipeline is designed so that it may also interconnect with the Kern River Gas Pipeline, providing SCE with a dual fuel supply possibility.

Fuel Transportation/Supply

With regard to fuel transportation, SCE has received a letter of interest from Questar, which proposes to build, own and operate the lateral to the Facility and to provide gas transportation services. In the letter of interest, Questar offers to prepare a formal proposal confirming the ability and cost to provide such services.

QF Status

SCE will provide approximately 80,000 lbs per hour of steam at an approximate pressure of 60 lbs per square inch to an industrial manufacturing process which will be located adjacent to the SCE facility. The industrial process will utilize thermal energy in several aspects of their manufacturing process including a chemical conversion process which requires heating to affect the conversion process, a separation process and a drying process both of which are thermal intensive. The manufacturing facility is well along in its development with water rights having been purchased and technical design completed. As a result of utilizing thermal energy from Spring Canyon, the thermal host will not require an air permit and all necessary permits appear to be routine. The equity investors of SCE consider the proposed thermal host to be economically viable and engineers and attorneys for SCE have verified that the thermal host will, in fact, allow SCE to obtain QF status.

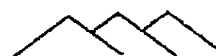
Term and Pricing

With regard to term and pricing, SCE has proposed:

- A minimum term of twenty (20) years;

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- Pricing consistent with the Stipulation dated May 20, 2004, and approved by the Utah Public Service Commission on June 28, 2004; and
- Capacity to be a minimum of 140 MW or greater if available in accordance with the Stipulation dated May 20, 2004 and approved by the PSC June 28, 2004 or if the Cap as defined by the Stipulation is increased by the PSC.

**Spring Canyon Energy LLC**

Via: Facsimile
801-530-6796

September 28, 2004

Commissioner Richard Campbell
Chairman
Utah Public Service Commission
Heber M. Wells Building, 4th Floor
160 East 300 South
Salt Lake City, UT 84111

Re: **Docket 03-035-14, Stipulation**

Dear Commissioner Campbell:

The referenced Stipulation dated May 20, 2004, (in Docket No. 03-035-14 approved by the Public Service Commission of Utah ("PSC") on June 28, 2004) specified prices available to any Qualifying Facility ("QF") contract approved during the Interim Period (as defined by the Stipulation) provided that the power from the QF will be available to PacifiCorp no later than June 1, 2007 and, provided up to a cumulative cap of 275 MW for all QF projects approved during the Interim Period. In the event that a proposed QF project will cause the cap to be exceeded, paragraph 9 of the Stipulation allows for any party to request a determination by the PSC as to whether the cap should be increased and whether the same terms and pricing should apply to the proposed increase.

On July 30, 2004, Spring Canyon Energy, LLC informed PacifiCorp that its proposed facility near Mona, Utah ("Spring Canyon") would be a QF and that Spring Canyon intended to seek pricing under the Stipulation. In that correspondence, Spring Canyon referenced Schedule 38, which, at that time, required PacifiCorp to respond with a draft contract including indicative pricing within 30 days. A follow-up letter dated September 2, 2004 repeated our original request. PacifiCorp did not respond to the letter dated July 30, 2004 until September 17, 2004 and in its response provided neither a draft contract nor indicative pricing. Its response stated that "it is currently unclear what approach PacifiCorp would take with respect to providing indicative prices aside from the Stipulation."

On September 24, 2004 Spring Canyon again requested that PacifiCorp enter into good faith negotiations with Spring Canyon to achieve QF contract approval during the Interim Period. Based on recent discussions with the Division of Public Utilities ("Division") we are aware that the 275 MW cap has not been exceeded and approximately 140 MW is available to a QF applicant as of today; perhaps more if our July 30, 2004 application date is considered. Spring Canyon has therefore requested from PacifiCorp a 140 MW QF (or a greater amount if available under the cap) contract with a term of a minimum of twenty (20) years and with pricing consistent with the Stipulation.

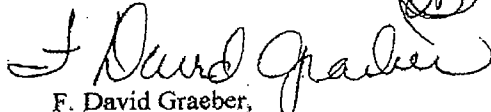
Spring Canyon also, in its September 24, 2004 correspondence, informed PacifiCorp that Spring Canyon would request that the PSC increase the cap, per the Stipulation, and specify that appropriate terms and pricing apply to the proposed increase in the cap. Accordingly, Spring Canyon hereby requests that PSC increase the cap, per the Stipulation, to accommodate the capacity of the proposed nominal 420 MW Spring Canyon QF project. Spring Canyon further requests that the PSC direct PacifiCorp to engage in

Mr. Richard Campbell
September 28, 2004
Page 2 of 2

good faith negotiations with Spring Canyon to facilitate approval of a QF contract with a capacity of the greater of: i) 140 MW, ii) the amount remaining under the cap as of July 30, 2004, or iii) the additional cap amount associated with the PSC approval of Spring Canyon's request; such contract to be approved by the PSC during the Interim Period.

We look forward to receiving your approval and concurrence of these issues.

Sincerely,

A handwritten signature in cursive script, appearing to read "F. David Graeber". The signature is written in dark ink and is positioned above the printed name. There is a small circular mark or stamp above the signature.

F. David Graeber,
Managing Member

cc: Dean Brockbank, PacifiCorp
Artie Powell, Utah PSC
Cody Webb, Sprouse, Shrader, Smith

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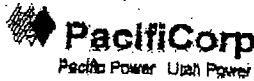
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201 South Main, Suite 2200
Salt Lake City, UT 84111

Please Reply To:

Dean S. Brockbank, Senior Counsel

Direct Dial (801) 220-4568

Fax (801) 220-3299

email:

dean.brockbank@pacifiCorp.com

October 4, 2004

VIA FACSIMILE
(970) 871-6234

F. David Graeber
Managing Member
Spring Canyon Energy, LLC
P.O. Box 774000-359
Steamboat Springs, CO 80477

Re: September 24, 2004 Letter

Dear Mr. Graeber:

Thank you for your letter dated September 24, 2004. In your letter, you requested a contract with pricing consistent with the Stipulation dated May 20, 2004 (in Docket No. 03-035-14, approved by the Public Service Commission of Utah ("PSC") on June 28, 2004) for the amount of megawatts available under the 275 MW cap. You estimated that approximately 140 MW are remaining under the cap. According to our estimate, approximately 100 MW remain under the 275 MW cap. Following is an accounting to date of the QFs that have completed contract negotiations with PacifiCorp:

Desert Power	95 MW
Tesoro	12 MW
Kennecott	32 MW
US Magnesium	<u>36 MW</u>
Total	175 MW

Your September 24, 2004 letter to PacifiCorp and your September 28, 2004 letter to Chairman Campbell at the Public Service Commission of Utah ("PSC") raise several questions to which PacifiCorp does not yet have answers. For example, the Stipulation does not address the scenario whereby pricing for a portion of a QF's output would fall under the Stipulation and pricing for the remainder of the output would be based on avoided costs calculated under a

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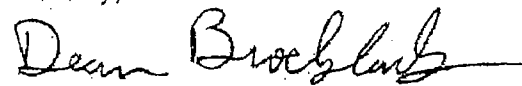
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separate methodology. PacifiCorp's position is that the scenario you request is beyond the scope of the Stipulation.

In addition to the QFs listed above, PacifiCorp received a written request for indicative prices under Schedule 38 from another QF, which is also in itself larger than the entire stipulated cap. We received this request ahead of your July 30, 2004 request. Given these two proposed "jumbo" QFs, and given the limitations set forth in the Stipulation, only the PSC can resolve these difficult issues.

We look forward to working through these issues via a PSC docket. Please give me a call if you would like to discuss these issues further.

Sincerely,



Dean S. Brockbank
Sr. Counsel

cc: Public Service Commission of Utah
Artie Powell, Division of Public Utilities
Stacey Kusters
Bruce Griswold
John Stewart
Tim Hunter
Cody Webb (via fax) (806) 373-3454