

March 14, 2007

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**Re: Update Regarding Commitments Made in the Settlement of Excess
PacifiCorp Income Tax Cost Monies in Docket No. 05-035-98 and
Notice of Performance Force Majeure**

Gentlemen:

Pursuant to the settlement agreement in the above-referenced matter, paragraph 3.c. contained certain covenants that were agreed to by PacifiCorp. The covenants included, among other things, the following:

1. Transfer of stock ownership in Intermountain Geothermal Company ("IGC") to PacifiCorp. PPW Holdings LLC assigned and transferred to PacifiCorp its stock ownership in IGC on March 21, 2006.
2. Replacement of the current steam supply contract with a contract providing that PacifiCorp's future cost for the steam will be at cost. A new steam delivery agreement between IGC and PacifiCorp was entered into and made effective March 21, 2006.
3. Expansion of the Blundell geothermal plant in central Utah by approximately 11 megawatts of production by means of installing an 11 megawatt heat recovery unit at a cost of no more than \$3,100 per kilowatt and with the expansion to be completed by the fourth quarter of 2007. PacifiCorp has completed phase 1 (civil engineering) of the project and is scheduled to begin phase 2 (mechanical) of the project in March 2007. This expansion project is currently on schedule and within the budget parameters set forth in the settlement agreement.

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In addition to the covenants contained in paragraph 3.c., PacifiCorp committed in paragraph 3.d. to undertake a study of the economic feasibility of an additional 25 megawatt expansion at the Blundell plant. In satisfaction of this obligation I have attached a copy of the company's economic feasibility study for your review and consideration.

As further explained in the company's study, the total cost of a 25 megawatt expansion is estimated at \$5,538¹ per kilowatt, with a plant-only cost of \$4,259² per kilowatt. Both estimates exceed the settlement agreement's not-to-exceed cost of \$3,600 per kilowatt set forth in paragraph 3.c.(vi).

Pursuant to paragraph 9.c. of the settlement agreement, please be advised that this letter shall also serve as written notice of an occurrence of a performance force majeure event as defined in paragraph 9.b. of the settlement agreement. Paragraph 9.b. of the settlement agreement provides in pertinent part, as follows:

PacifiCorp shall be **excused, released and discharged from performance** of its obligations related to the applicable expansions of the capacity of the Blundell steam plant upon the occurrence of an event of Performance Force Majeure. For purposes of this Agreement, "Performance Force Majeure" shall mean **any of the following events that result in a decline in the net present value** of the proposed expansions provided to the Parties pursuant to paragraph 3(d) hereof, such that on **any date thereafter . . . the net present value of the addition of the 25 megawatts of new generation is less than \$10 million** caused by: . . . (D) a material change in the availability of the federal production tax credit with respect to the proposed expansions . . . (Emphasis added.)

On December 20, 2006, PL 109-432 amended 26 USCA §45 by only extending the availability of production tax credits for one year. Consequently, qualified facilities that are placed in service after December 31, 2008 would be ineligible to receive the credit. As a result of Congress' failure to extend the availability of production tax credits beyond the end of the calendar year 2008, the present value economic analysis performed by the company excludes production tax credits because the 25 megawatt expansion will not be in service prior to the expiration of the tax credits. The unavailability of the tax credits negatively impacts the economic benefit associated with the 25 megawatt expansion, resulting in a negative \$3.4 million detriment. Accordingly, the economic benefit of the 25 megawatt expansion does not satisfy the

¹ This amount includes required costs and considerations pertaining to transmission system upgrades, taxes, allowance for funds used during construction, and escalation.

² This amount represents the cost estimates for the plant expansion only, excluding the required costs and considerations pertaining to transmission system upgrades, taxes, allowance for funds used during construction, and escalation.

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minimum required benefit of \$10 million set forth in paragraph 9.b. of the settlement agreement.

Based upon the foregoing and the attached feasibility study, PacifiCorp hereby notifies the settlement parties that as a result of the performance force majeure PacifiCorp is hereby deemed excused, released, and discharged from performance of the obligations related to future capacity expansions of the Blundell steam plant that are set forth in the settlement agreement.

Notwithstanding PacifiCorp's inability to economically perform further expansions, we believe the estimated \$48.9 million economic benefit associated with the 11 megawatt expansion brought about by the settlement with the parties in this matter will benefit Utah customers and the need for renewable generation for years to come. Our estimated economic benefit of \$48.9 million far exceeds the original estimate of \$17.5 million that the settlement parties anticipated receiving from the 11 megawatt expansion. As such, we believe the settlement was a successful resolution for all stakeholders and we would like to thank you for your cooperation and hard work on this matter.

Very truly yours,

Mark C. Moench

cc: Brinton R. Burbridge, Esq. via mail (w/enclosures)