

**TWO ELK GENERATION PARTNERS,
Limited Partnership**

8480 East Orchard Road, Suite 4000 Greenwood Village, Colorado 80111
Telephone: (303) 796-8600 Facsimile: (303) 773-0461

February 1, 2006

Via U.S. Mail

FILED

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**Terri A. Lorenzon, Director
Environmental Quality Council**

Mr. Michael Stoll, Acting Administrator
Air Quality Division
Wyoming Department of Environmental Quality
The Herschler Building 4-W
122 West 25th Street,
Cheyenne WY 82002

**Two Elk Generating Station – Unit 1
Permit No. CT-1352B
Status Report No. 7**

Dear Mr. Stoll:

In accordance with the Wyoming Environmental Quality Council Order of June 30, 2005 – “Order Granting Motion to Dismiss”, Two Elk Generation Partners, Limited Partnership (“TEGP”) is pleased to provide Wyoming Department of Environmental Quality – Air Quality Division (“WYDEQ”) with this seventh monthly status report for the Two Elk Generating Station, Unit 1 (the “Facility”).

Licensing & Permitting

A local Gillette WY engineering firm was selected and released to design, engineer and develop those technical work products for the Facility’s main access road intersection with Wyoming Highway 450. Technical work products will be submitted to Wyoming Department of Transportation – WYDOT for WYDOT review and approval, in accordance with the Agreement for Rendering Services between TEGP and WYDOT.

Upon WYDOT approval of the technical work products, WYDOT will issue its' permit for the construction of the Facility's main access road intersection at Wyoming Highway 450.

Financing

Campbell County WY passed a unanimous resolution for application to the WY Governor's office for issuance of a preference allocation from the general allocation pool of the volume cap for tax exempt bonds, in the amount of \$85,000,000. TEGP, previously secured \$560 million in taxable bond authority and has converted, issued and funded \$326.48 million in tax exempt bonds. This \$85 million preference allocation request represents the last conversion allowed by the IRS, from taxable bond authority to tax exempt bond authority, as TEGP will reach a qualifying allocation amount under \$412 million, the maximum tax exempt level permitted by the IRS for the Facility.

The balance of bonds to be issued, \$148 million will be issued as taxable bonds going forward for which TEGP maintains its current bond (level) authority.

Transmission and Power Purchase Agreements

TEGP addressed matters involving PacifiCorp on the TEGP Electric Interconnection and Electric Transmission Open Access Tariff matter underway with PacifiCorp.

Electric Interconnection - TEGP previously funded and executed the revised Generation Interconnection Impact Study Agreement with PacifiCorp, allowing PacifiCorp to proceed with continued study activities for TEGP. PacifiCorp continued work on the revised PacifiCorp System Impact Study (previously performed in 2005) for TEGP, which is being re-evaluated with new assumptions and inputs.

Electric Transmission - PacifiCorp submitted to TEGP the first results of Pacific's Transmission Facility Study: "*Antelope Mine Substation – Wasatch Front Transmission Project Corridor Study*". This study identifies existing and potential transmission corridor(s) which PacifiCorp can utilize to provide transmission service to TEGP. TEGP and its transmission consultant provided required responses and comments to this study.

Conclusion of PacifiCorp transmission matters is required to finalize power purchase agreements which have been initiated with new customers in Utah and Arizona.

The TransWest Express Project, announced by Arizona Public Service Company consisting of two 500 kV AC transmission lines from Wyoming to northern Arizona with

a possible intermediate interconnection in Utah was preliminarily discussed with PacifiCorp.

TEGP and PacifiCorp continue to evaluate information on recently announced transmission projects involving Wyoming to assess any impact or lack thereof to TEGP's active interconnection service and transmission service requests with PacifiCorp.

Engineering

Bechtel Power Corporation – the Facility's Engineering, Procurement and Construction contractor and Foster Wheeler North America Corporation and manufacturer and supplier of the Facility's main boiler are the primary providers of engineering and engineering work products. Activities include:

- Regular and periodic design coordination meetings
- Review and coordination of boiler drawing submittals

Procurement

Evaluation of Foster Wheeler North America Corporation's Notice of *Force Majeure*, resulting from hurricane events in the Gulf coast region continues, pursuant to the Bechtel Power Corporation purchase order with Foster Wheeler.

Construction

Main Access Road - Construction of the main access road is restrained by the absence of the WYDOT permit for intersecting with Wyoming Highway 450. Main access road work and completion is required to release subsequent construction activities and main access road construction will be incorporated in a re-bid earthwork subcontract.

Should you have any questions, please feel free to contact us.

Sincerely,

TWO ELK GENERATION PARTNERS,
Limited Partnership

A handwritten signature in black ink, appearing to read 'D. Yueh', with a stylized flourish at the end.

Daniel D. Yueh, Vice President
North American Power Group, Ltd. for
Two Elk Power Company, its
General Partner