

**TWO ELK GENERATION PARTNERS,
Limited Partnership**

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FILED

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Terri A. Lorenzon, Director
Environmental Quality Council

January 2, 2007

Via U.S. Mail

Mr. David A. Finley, Administrator
Air Quality Division
Wyoming Department of Environmental Quality
The Herschler Building 2-E
122 West 25th Street,
Cheyenne WY 82002

**Two Elk Generating Station – Unit 1
Permit No. CT-1352B
Status Report No. 18**

Dear Mr. Finley:

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 eighteenth monthly status report for the Two Elk Generating Station, Unit 1 (the “Facility”).

Licensing & Permitting

All permits are in full force and effect at this time.

Financing

TEGP and its financing team successfully completed, closed and funded the issuance of the new Series 2006 tax-exempt bonds in the amount of \$119 million.

Also completed, closed and funded was the remarketing of the Series 2000, 2001, 2005 and 2005B tax-exempt bonds in an aggregate amount of \$326.48 million.

Transmission and Power Purchase Agreements

TEGP continued coordination activities involving PacifiCorp on the March 9, 2004 TEGP Electric Interconnection and Electric Transmission Open Access Tariff (the "OATT") application continuing with PacifiCorp.

Electric Interconnection - In accordance with the PacifiCorp and TEGP executed *Large Generator Interconnection Facilities Study Agreement*, PacifiCorp prepared the draft *Large Generator Interconnection Facilities Study* (the "Study") in November 2006. Subsequent to a coordination meeting in November 2006, TEGP and PacifiCorp in various conference telephone calls conducted a review and evaluation of the Study. In December 2006, TEGP submitted to PacifiCorp comprehensive critical comments on the Study. PacifiCorp commenced preparing a new construction schedule reflecting corrected scheduling and removed discrepancies contained in the first draft construction schedule. Resolution of the PacifiCorp Study is required as a condition precedent to PacifiCorp submitting to TEGP the Large Generator Interconnection Agreement with attachments. PacifiCorp notified TEGP late in December 2006 that PacifiCorp is proceeding to re-evaluate the Study in view of recent other electric interconnection requests by other applicants which will materially reduce the Study's estimated construction cost and the Study's estimated construction schedule.

Electric Transmission - PacifiCorp previously stated that PacifiCorp will perform a stability analysis during the Transmission Facilities Study stage. PacifiCorp previously submitted to TEGP the first results of Pacific's Transmission Facility Study: "*Antelope Mine Substation - Wasatch Front Transmission Project Corridor Study*". This study identified existing and potential transmission corridor(s) which PacifiCorp would utilize to provide transmission service to TEGP. TEGP has requested that PacifiCorp submit to TEGP the PacifiCorp Power Flow Studies performed for the Study in order to confirm the assumptions and cost basis contained in the Study.

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

TEGP and PacifiCorp are continuing coordination on both interconnection and transmission matters.

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 coordination
- Review and coordination of equipment schedules

TEGP’s local Campbell County Wyoming engineering firm completed the engineering, design, procurement and bid specification preparation for the main access road. Finished plans, drawings, specifications and bid packages are being reviewed.

Completion of this task is required to release subsequent construction of the main access road, allowing site construction of the Facility to proceed going forward.

Procurement

Bechtel has informed TEGP that Foster Wheeler North America Corporation’s Notice of *Force Majeure*, resulting from hurricane events in the Gulf coast region is no longer in effect, pursuant to the Bechtel Power Corporation purchase order with Foster Wheeler.

Construction

Construction of the main access road is required to release site construction to proceed.

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 long horizontal flourish extending to the right.

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