

**TWO ELK GENERATION PARTNERS,
Limited Partnership**

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Terri A. Lorenzon, Director
Environmental Quality Council

June 1, 2007

Via U.S. Mail and hand delivery

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. 23**

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

This update also serves as a notice that Daniel D. Yueh has left North American Power Group and Two Elk Power Company. Mr. M. Bradley Enzi will now be the point of contact with the Wyoming Department of Environmental Quality and will provide the monthly reports cited in the above paragraph. Please feel free to contact him with any questions in our Cheyenne office.

Licensing & Permitting

TEGP has extended the Wyoming Department of Transportation permit through May of 2008 to meet the construction schedule of the access road referenced in the construction section.

TEGP has extended the Army Corps of Engineers permit that is involved in the construction of the access road which is referenced in the construction section of this update through May 2009.

TEGP asked and our environmental consulting firm (Tetra Tech) has confirmed the following:

- The Unit 1 ISC permit and on-going construction activities do not require any additional environmental work.
- **No Wetlands Surveys** are required for Unit 1.
- All plant and wildlife surveys are complete for Unit 1.
- No wildlife surveys are necessary for the access road and the cultural resources clearance is complete for the access road.

TEGP has been working closely with developers and officials in the region to accurately assess workforce and housing. TEGP will have an updated assessment prepared for the Industrial Siting Council.

All permits remain in full force and effect.

Financing

TEGP continues to work with its financial advisors and prospective financial participants in developing and optimizing financial structures for the Project. In general, this will involve closely working with Campbell County to issue and remarketing tax-exempt bonds in support of the project and an equity arrangement on behalf of the owners.

TEGP has selected a lead bookrunning underwriter for the project, subject to execution of a definitive agreement. In moving the financing forward, TEGP and the lead book underwriter issued Requests For Proposals's for the independent engineering and power market studies that are required for the remarketing of the bonds. Proposals were received the last week in May. TEGP is evaluating the proposals with the lead book underwriter and expects to shortly select firms in each category. Separately, an update to the fuel consultants report will be prepared.

TEGP already has received proposals for the non-tax-exempt portion of construction costs and is in discussions with participants regarding project investment and ownership positions. These discussions will continue while the tax-exempt bond arrangements are finalized.

Transmission and Power Purchase Agreements

TEGP continued activities involving PacifiCorp on the March 9, 2004 TEGP Electric Interconnection and Electric Transmission Open Access Tariff (the "OATT") application with PacifiCorp. Under the terms of the OATT, PacifiCorp is required to identify for TEGP, as a generator requesting interconnection, exactly what physical changes to its system are necessary to allow TEGP to become a part of the PacifiCorp transmission system.

Electric Interconnection - By way of background, TEGP executed PacifiCorp's *Large Generator Interconnection Facilities Study Agreement* in August 2004. After a series of interim studies after that date, PacifiCorp prepared its third report, the draft *Large Generator Interconnection Facilities Study* (the "Study") in November 2006. On December 23, 2006, PacifiCorp notified TEGP that in its internal review, PacifiCorp identified new Wyoming oil and gas loads representing approximately 300 MW of new electric load growth that was not accounted for in the Study. Both TEGP and PacifiCorp agreed that the likely result of a re-study would include a substantial reduction in the cost of achieving TEGP's requested Network Resource Interconnection and a reduction in the time required to construct the upgrades necessary for TEGP's requested Network Resource Interconnection.

PacifiCorp issued the Facilities Re-Study Report (Draft) dated March 30, 2007. TEGP provided comments to PacifiCorp on April 19, 2007. The Facilities re-Study report (Final) was issued by PacifiCorp May 9, 2007. The study has identified the necessary upgrades to the PacifiCorp transmission system to accommodate Two Elk Generation Station Unit 1's interconnection as a network resource. PacifiCorp has identified that it believes the addition of nearly 350 miles of transmission in Wyoming, the re-conductoring of nearly 60 miles and the reconstruction of approximately 35 miles of transmission in the PacifiCorp system, as well as substation and switch station upgrades are necessary.

These upgrades will **be completed by PacifiCorp**. Further, PacifiCorp has identified that the upgrades and changes **will benefit all customer classes within the Wyoming service territory of PacifiCorp** and therefore, have been identified as "network" upgrades. PacifiCorp is responsible for the construction of these system upgrades and changes and will be contractually obligated to complete the upgrades by 2011 to coincide with the commercial operation of Unit 1.

The projected cost of the network upgrades for Unit 1 is approximately \$355 million. TEGP has received a draft final Large Generator Interconnection Agreement and shortly expects to finalize this agreement with PacifiCorp..

Power Sales and Off-take Arrangements. The progress on the PacifiCorp interconnection has allowed our customers to move forward with the finalization of power purchase and other off-take agreements. Each customer that will be taking power from Unit 1 has received approval from its board of directors or other regulatory body to proceed with process of executing the final definitive agreements, now that interconnection has been defined..

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

Construction

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

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.

Bechtel, TEGP and the lead underwriter will be meeting to coordinate a plan for procurement of the balance of the materials and supplies for Unit#1 in relationship to the issuance and re-marketing of tax-exempt bonds.

Detailed engineering, plans and contract specifications for the main Highway 450 access road were performed by Stetson Engineering. , TEGP concluded its review of the

engineering and bid specification package and completed updating the associated permits and environmental information (see permit section).

TEGP issued an RFP on May 8, 2007 for bids to construct the main access road.. The RFP was issued to eight Wyoming contractors, asit is a condition of our ISC permit, and our intention to utilize as many qualified Wyoming contractors as feasible in the construction of Unit 1. The RFP required that a notice of intent to bid be submitted to TEGP by May 22 and include qualifications and references. TEGP received 4 responses to the RFP and two additional inquiries. Formal bids for the road are due in June.

On April 30, TEGP filed a request with MIGC under the terms of its FERC tariff for natural gas service from MIGC, Inc. and Western Gas Resources to the Two Elk Energy Park site.

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

Sincerely,

TWO ELK GENERATION PARTNERS,
Limited Partnership



M. Bradley Enzi, Vice President
North American Power Group, Ltd. for
Two Elk Power Company, its
General Partner