

08/11/2007 16:23 FAX

0004

**TWO ELK GENERATION PARTNERS,
Limited Partnership**

8480 East Orchard Road, Suite 4000 Greenwood Village, Colorado 80111

Telephone: (303) 796-8600 Facsimile: (303) 773-0461

Wyoming Office

2402 Pioneer Ave. Cheyenne, WY 82001

Telephone: (307) 638-7200 Facsimile: (307) 638-7204

FILED

NOV 27 2007

Terri A. Lorenzon, Director
Environmental Quality Council

September 11, 2007

Via 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. 26**

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-sixth monthly status report for the Two Elk Generating Station, Unit 1 (the “Facility”). Over the past two years we have continuously constructed the Facility under the terms of our various permits.

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 that is referenced in the construction section of this update through May 2009.

TEGP continues to work closely with housing developers and officials in the region to accurately assess workforce and housing. An updated socio economic report of the area is being prepared for the Wyoming Department of Environmental Quality's Industrial Siting Division. Preliminary data for the report has been collected from the area and from TEGP to expedite the preparation of the report. A pre-filing coordination meeting is scheduled for September 17, 2007.

All permits remain in full force and effect, and on schedule for the November 2011 transmission interconnect.

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 remarket tax-exempt bonds in support of the project and an equity arrangement on behalf of the owners.

TEGP has selected bookrunning lead underwriters for the project, subject to execution of a definitive agreement and is working closely with them in structuring the bond documents. After Requests For Proposals's and evaluation, Global Energy was selected and retained to perform power market studies for the bond offering and Burns & Roe was selected and retained to prepare an independent engineering report to be used in the bond remarketing.

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

Site visits and regional meetings are taking place with these participants.

Transmission and Power Purchase Agreements

Transmission interconnection continues on schedule for a November 2011 interconnect. 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 - TEGP and PacifiCorp have reached agreement on the final scope of work and terms of the Large Generator Interconnection Agreement. Under the terms of the LGIA, PacifiCorp will build new transmission facilities and upgrade its existing facilities by November 2011 to incorporate Two Blk into the PacifiCorp transmission system as a "network resource", capable of serving PacifiCorp customers [load] on a non-discriminatory basis with PacifiCorp's own generation facilities.

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. Studies by PacifiCorp of incremental transmission upgrades, if any, to support individual customer transmission service requests made of PacifiCorp were completed by PacifiCorp in August and provided to those customers.

TEGP and PacifiCorp are continuing coordination on both interconnection and transmission matters to allow for a November 2011 interconnect.

Construction

Construction continues to prepare the Facility for the November 2011 transmission interconnect. The road construction, foundation and site work continue as planned. 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. Recent activities include:

- Continuing work between Bechtel and Foster Wheeler
- July updates to construction staffing, manpower, trades and non-local workers
- August meetings to update the construction schedule for coordinated completion with PacifiCorp's transmission system upgrades and integration as a network resource in November 2011.
- Review and evaluation of equipment selection
- Coordination with Bechtel procurement and direction for release of bids for balance of plant (BOP) equipment
- Boiler construction preparation work on site

Local Contractors

Detailed engineering, plans and contract specifications for the main Highway 450 access road were performed by Stetson Engineering. Detailed engineering, plans and specifications for site foundations were prepared by Bechtel Engineering.

Pursuant to the RFP issued on May 8, 2007, TEGP awarded a road construction and foundation grading contract to MGM Enterprises. MGM was immediately released to begin work, and began site grading. The site is 50% graded and the foundation construction continues.

Detailed engineering and construction drawings were received for the combustion turbine and generator. An award was given to General Electric for delivery of the combustion turbine.

Justice Oil completed a 14 month construction project working on the Two Elk gas lines around June of 2007. This line will supply natural gas to the Facility, though additional construction will, of course, be needed to tie this gas line and other gas lines into the Facility.

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

Sincerely,

TWO ELK GENERATION PARTNERS,
Limited Partnership



M. Bradley Enzi, Vice President
Two Elk Power Company, its
General Partner