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February 4, 2011

Mr. John Bezdek
Senior Advisor to the Secretary
Department of the Interior
1849 C Street, N.W.
Washington, DC 20240

Mr. Rod McInnis
Regional Administrator
National Marine Fisheries Service
Southwest Region
501 West Ocean Boulevard, Suite 4200
Long Beach, CA 90802-4213

Re: Dispute Resolution Notice on Flows at Iron Gate Dam

Gentlemen:

The purpose of this letter is to provide Notice of the results of Dispute Resolution Procedures that have occurred pursuant to Section 8.6.4 of the Klamath Hydroelectric Settlement Agreement ("KHSA"), and to withdraw PacifiCorp Energy's ("PacifiCorp's") Notice of Dispute issued by PacifiCorp on January 11, 2011, regarding certain actions taken by the U.S. Bureau of Reclamation ("Reclamation") and the National Marine Fisheries Service ("NMFS") concerning flows at Iron Gate Dam. In withdrawing its Notice of Dispute, PacifiCorp reserves all of its rights under the KHSA, including the right to reinstate this or other disputes if the terms of the agreement reached on February 4, 2011, as discussed herein are not fulfilled.

Summary of Disputed Matter

On January 11, 2011, PacifiCorp served notice on the KHSA parties of a dispute with Reclamation and NMFS under Section 8.6.4.A of the KHSA regarding a letter exchange between Reclamation and NMFS seeking implementation of flow variability at Iron Gate Dam prior to NMFS issuing an Endangered Species Act ("ESA") Section 10 Incidental Take Permit ("ITP") to PacifiCorp covering that action, and a subsequent related flow directive issued by Reclamation to PacifiCorp on January 4, 2011, to reduce flows at Iron Gate Dam. Specifically, PacifiCorp asserted in its Notice that directing PacifiCorp to

implement variable flows conflicted with the letter and intent of the KHSA, in particular Interim Measure 5.

Interim Measure 5 provides that PacifiCorp and Reclamation, in coordination with NMFS and certain other parties, will annually evaluate the feasibility of enhancing fall and early winter flow variability, and will develop and implement plans to provide such flow variability upon PacifiCorp's receipt of an ITP from NMFS. PacifiCorp's notice of dispute states that Reclamation's directive to PacifiCorp was not based on a collaborative development of a flow variability plan, and that NMFS had not yet issued an ITP to PacifiCorp, a pre-condition of flow variability implementation by PacifiCorp. PacifiCorp further asserted that implementation of reduced flows as directed by Reclamation may materially impact PacifiCorp's electric generation in a manner that conflicts with the KHSA.

Reclamation, NMFS, and PacifiCorp held informal meetings on January 12 and 27, 2011, to resolve the dispute. On February 4, 2011, the Disputing Parties ("Parties") reached an agreement resolving the dispute. The Parties agreed to memorialize the results of the Dispute Resolution Procedures in an exchange of letters among Reclamation, NMFS, and PacifiCorp.

Alternatives Considered and Resolution of the Disputing Parties

Reclamation, NMFS, and PacifiCorp discussed several alternatives to resolve the dispute, ranging from delaying early implementation of flow variability until issuance of an ITP by NMFS, to implementation of various flow variability scenarios. The Parties agreed that providing a flow variability program prior to NMFS's issuing an ITP to PacifiCorp, and implementing certain Reclamation flow directives, will meet the Parties' interests if done so in a manner consistent with NMFS' 2010 Biological Opinion and the intent reflected in the KHSA. To that end, the Parties have resolved how to provide flow variability and implement flow directives while NMFS processes PacifiCorp's ITP application. Below follows a summary of the resolution reached among the Parties:

(1) PacifiCorp agrees to assist in implementing a flow variability program at Iron Gate Dam, pursuant to NMFS' 2010 Biological Opinion for Reclamation's operation of the Klamath Irrigation Project. Specifically, in coordination with NMFS and Reclamation, PacifiCorp will make its best efforts to provide variable flows at Iron Gate Dam in February 2011, after the J.C. Boyle facility is fully operational, as detailed in the flow schedule described conceptually in Attachment A. The objective of the flow variability program described in Attachment A is to provide releases of up to 5,000 cubic feet per second (cfs) at Iron Gate Dam before February 15, 2011, using up to 18,600 acre-feet of water, which is the amount of water specified in NMFS' 2010 Biological Opinion as being available for the program. In coordination with NMFS and Reclamation, PacifiCorp will make its best efforts to provide a second, smaller pulse of water using the balance, if any, of the 18,600 acre-feet remaining following the initial flow variability event. PacifiCorp will assist Reclamation in the implementation of the flow variability program within the operational constraints of PacifiCorp's facilities, and without

compromising the safety of the facilities, the public, or PacifiCorp personnel. PacifiCorp understands that NMFS has evaluated the flow variability program as described in Attachment A, and determined that it is consistent with the NMFS' 2010 Biological Opinion (see Attachment B and C).

(2) Given that PacifiCorp will implement the flow variability program as described above, PacifiCorp understands that Reclamation and NMFS will undertake, or have undertaken, the following actions:

(a) Reclamation requested a written determination from NMFS that the variable flow regime outlined above remains consistent with NMFS' 2010 Biological Opinion for Reclamation's operation of the Klamath Irrigation Project.

(b) Reclamation will request written concurrence from NMFS that compliance with minimum flows specified in NMFS' 2010 Biological Opinion for Reclamation's operation of the Klamath Irrigation Project may be accomplished with actual flows falling within a reasonable range above or below the target minimum flow. The reasonable range and target minimum flow will be established by NMFS after further consultation among PacifiCorp, Reclamation, and NMFS.

(c) PacifiCorp will analyze the value of lost generation, if any, caused by (i) providing early implementation of flow variability prior to NMFS' issuance of an ITP to PacifiCorp; and (ii) flow directives issued by Reclamation to PacifiCorp that deviate from assumptions contained in the KHSA. PacifiCorp will develop the analyses in consultation with Reclamation. The Parties agree to pursue with the other signatories of the KHSA that PacifiCorp receive a credit, in an acceptable manner as yet to be determined by the signatories, for generation lost as a result of river operations directed by Reclamation. PacifiCorp expects that it will receive the value of lost generation, and that if it does not receive such value, PacifiCorp reserves its right to Notice a dispute under the KHSA.

(d) NMFS will provide a letter to PacifiCorp in a form acceptable to PacifiCorp explaining that if PacifiCorp takes such actions to assist in the implementation of flow variability program described above, PacifiCorp will be acting within the scope of coverage of the Incidental Take Statement issued to Reclamation as part of the NMFS 2010 Biological Opinion and any incidental take of coho salmon that relates to flows below Iron Gate Dam resulting from such actions will not be considered a prohibited taking under the ESA.

(e) NMFS will provide PacifiCorp with a schedule in a form acceptable to PacifiCorp for processing PacifiCorp's application for an ITP covering implementation of flow variability and other interim Project operations. NMFS agrees to make its best efforts to process PacifiCorp's ITP application in accordance with the schedule developed by NMFS. By agreeing to a schedule to process PacifiCorp's ITP application, PacifiCorp understands that NMFS cannot predetermine the outcome of the permitting process. If NMFS fails to issue an ITP to PacifiCorp in accordance with NMFS'

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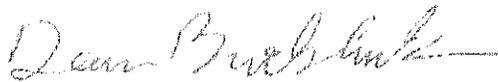
schedule, PacifiCorp reserves its rights to withdraw from the agreements reflected in this letter and renew its objections regarding implementation of the flow variability program until such time that NMFS issues a final ITP in accordance with KHSA Interim Measure 5.

Conclusion

In closing, PacifiCorp is pleased that the Parties were able to reach an acceptable resolution to this dispute. PacifiCorp appreciates that Reclamation and NMFS are sensitive to PacifiCorp's operation and generation needs, and were flexible in exploring a resolution which took into account these considerations. Our ability to achieve that resolution quickly, efficiently, and to the satisfaction of all concerned Parties is a testament to the strength of the KHSA and the soundness of the procedures to which we agreed for settling disputes. We appreciate the work of you and your staff in assisting us in resolving this matter, and we look forward to our continued collaboration during the implementation of the KHSA.

This letter shall serve as Notice of the results of the dispute resolution pursuant to Section 8.6.4.D of the KHSA. Accordingly, we have copied the other parties to the KHSA with this letter.

Sincerely,

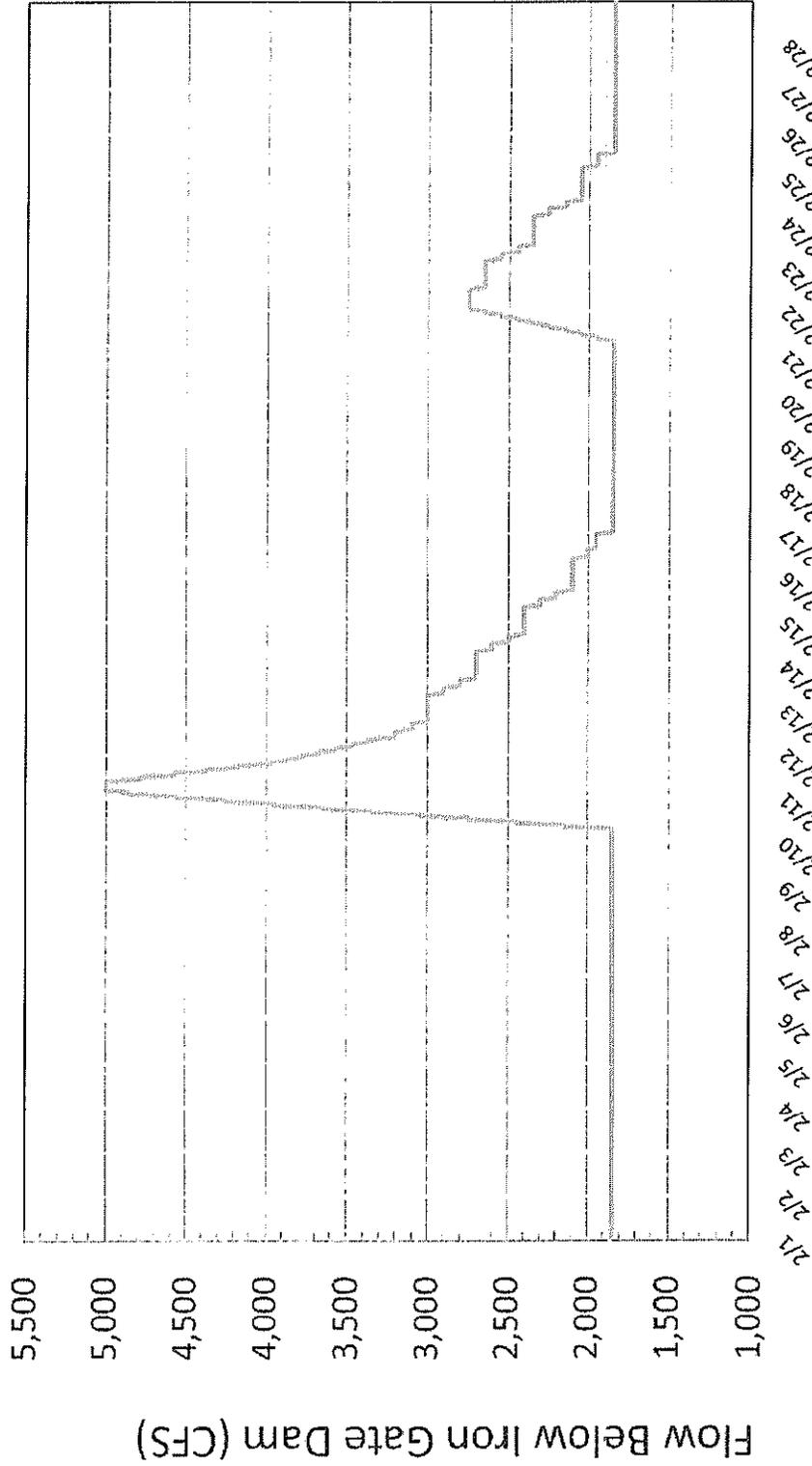


Dean Brockbank

Cc: Settlement Parties

Attachment A:

Conceptual February 2011 Flow Schedule



Date

Notes: Objective of flow schedule is to release 18,600 acre-feet of water available for flow variability. Pulse flow timing may shift depending on natural flow conditions, operational constraints, or other factors. Hydrograph is conceptual and flows are targets given lack of precision in controlling spill at Iron Gate Dam.