



Pacific Gas and
Electric Company

Energy Procurement
Contract Management

245 Market Street, MC: N12E
San Francisco, CA 94105-1702

Mailing Address
Mail Code N12E
Pacific Gas and Electric Company
P. O. Box 770000
San Francisco, CA 94177-0001

June 22, 2007

VIA EMAIL AND US MAIL

Mr. Steve Munson
HFI BioPower Project LLC
345 Cyber Drive, #103
Bend, OR 97702

Re: HFI BioPower Project LLC Project Development Security Payment

Dear Mr. Munson,

HFI BioPower Project LLC ("HFI") and Pacific Gas and Electric Company ("PG&E") are Parties to that certain Power Purchase and Sale Agreement (the "Agreement") dated May 3, 2006 ("PPA").

Pursuant to Section 8.4(a) of the PPA of the Cover Sheet to the Agreement and Section 8.4 (a) of the Agreement HFI is required to deliver to PG&E the Project Development Security (PDS) in the amount of \$800,000 within thirty (30) days of the date on which all of the conditions precedent set forth in Article Eleven of the Agreement are either satisfied or waived. All conditions precedent were satisfied on November 4, 2006 and the PDS payment was due on December 4, 2006. PG&E sent a letter on December 5, 2006 requesting posting of the PDS within three (3) Business Days. In the letter, PG&E notified HFI that failure to provide the full amount of the PDS could result in an Event of Default pursuant to Section 5.1(a) of the Agreement, thereby reserving PG&E's rights and remedies under the Agreement.

PG&E and HFI subsequently conducted a number of conference calls in which PG&E allowed for the PDS to be posted over time in exchange for a higher total posting amount. During these calls, HFI agreed to provide the PDS payment over time in the amount of \$200,000 due on March 16, 2007 and subsequent payment in the amount of \$700,000 due on March 28, 2007. HFI did not adhere to the revised posting schedules. PG&E sent a letter to HFI on March 13, 2007 reminding HFI of the upcoming March 16, 2007 payment and again reserved its rights. In mid-March, 2007, HFI indicated that it was close to obtaining financing from Merrill Lynch necessary to fund the PDS, and HFI requested extra time to allow for financing to close. However, during a conference call between HFI and PG&E on May 29, 2007, HFI indicated that Merrill Lynch would not allow the recently obtained financing monies to be utilized by HFI to fund the PDS.

Mr. Munson then requested that PG&E give HFI another 90 days to secure and close additional financings. In exchange for the additional time, Mr. Munson offered to make a \$100,000 payment toward the PDS amount as a good faith showing of HFI's commitment to the project. PG&E accepted. PG&E received the first payment in the form of a \$50,000 check on June 19, 2007, and PG&E agrees that the additional \$50,000 payment will be in the form of a check to be received no later than June 26, 2007. PG&E accepts these payments without waiving any rights or remedies available to it under the Agreement and in law and equity.

from the date of this letter
wire transfer

Please acknowledge your confirmation of our discussions as described herein by countersigning a copy of this letter and returning it to the attention of Jessica Hilgart by June 26, 2007.

Please contact Jessica Hilgart at 415-973-1260 if you have any questions.

Sincerely,



Jeannette Woo
Manager, Contract Management
Energy Procurement

Cc: A. Anna Capelle
Hugh Merriam
Jessica Hilgart

Read and Acknowledged:

HFI BioPower Project LLC

By: 
Steve Munson

Title: CEO

Date: 6/26/07