



Adding Value to Energy™

July 6, 2005

Ms. Mary Ann Wright
 Associate Director, Mining
 Utah Division of Oil Gas and Mining
 1594 West North Temple
 Salt Lake City, Utah 84114

General
 Henry COVOL
 Copy FAM, FFS
 Priscilla
 Mary Ann
 Steve Alder
 Wayne
 (2-sided)

RE: Covol Engineered Fuels, LC Coal Cleaning Project – Wellington, Utah

Dear Ms. Wright:

This letter is to inform you that I have been assigned primary responsibility for environmental matters at the above referenced facility. In the past these matters have been the responsibility of Mr. W. Layne Ashton; however, Mr. Ashton has been reassigned within the company and is now residing in Texas.

Future correspondences concerning DOGM matters related to the Wellington, Utah Coal Cleaning Project should be directed to me as follows:

Steven P. Van Ootegham
 Regional Environmental Manager
 Headwaters, Incorporated
 10653 S. River Front Parkway
 Suite 300
 South Jordan, Utah 84095

Also, we are in receipt of your June 28, 2005 letter in which you inform us of your recent site inspection at the Price location and remind us of the need for additional information concerning the "tolling fee" agreement with Pacificorp. We apologize for not providing this information at an earlier date. We have enclosed the first and last page of the contract with Pacificorp to demonstrate that this contract is, in fact, in place at this time.

DOGM has also requested information about the "tolling fee" agreement with Pacificorp. Section 4 of the contract with Pacificorp, Raw Coal Supply – Tolling, reads as follows:

"COVOL will operate its' facility to process raw coal delivered to Pacificorp into clean coal in accordance with the coal quality requirements specified by Pacificorp. Subject to COVOL meeting the requirements of Section 9(b)¹, Pacificorp will pay to COVOL a tolling fee for each ton of raw coal processed into a ton of clean coal. COVOL shall process the raw coal tonnage delivered by Pacificorp for tolling under this agreement."

10653 S. River Front Parkway
 Suite 300
 South Jordan, UT 84095
 P: 801.984.9400
 F: 801.984.9410

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DIV. OF OIL, GAS & MINING

¹ Section 9(b) of the contract with Pacificorp contains specifications for Clean Coal Quality.

Details of the tolling agreement; i.e. fees, tonnages, costs of government impositions, recovery percentages, etc. are also addressed in Section 5 of the Pacificorp contract. However, COVOL

does not consider the financial details of the tolling agreement relevant to the applicability determination that is the basis for the request for additional information.

COVOL looks forward to the final determination from DOGM that the Division's permitting requirements are not applicable to the coal cleaning operation that is being constructed in Wellington, Utah. As you review the information you have requested, please call me if there are any questions or comments.

Sincerely,

A handwritten signature in cursive script, reading "Steven P. Van Ootegham", followed by a horizontal line.

Steven P. Van Ootegham
Regional Environmental Manager

Enclosure

cc: Keith Thompson/Covol
Ron Sherback/Headwaters Energy Services (HES)

**AGREEMENT TO PROCESS
HIGH ASH WASTE COAL INTO LOW ASH CLEAN COAL
TOLLING AGREEMENT**

The parties to this Tolling Agreement ("Agreement") to process high ash run of mine coal from PacifiCorp's Deer Creek mine ("Raw Coal") into low ash coal ("Clean Coal"), which is dated for reference purposes January 25, 2005, ("Effective Date") are: PACIFICORP, an Oregon corporation ("PacifiCorp"); and COVOL ENGINEERED FUELS LC a Utah corporation ("COVOL").

This is an Agreement by COVOL to process PacifiCorp's Raw Coal into Clean Coal as specified by PacifiCorp at COVOL's processing facility (the "Facility") located in Carbon County, Utah. Subject to the terms and conditions of this Agreement, COVOL agrees to process Raw Coal so provided, and PacifiCorp agrees to pay for such processing services as set forth below.

The parties agree as follows:

1. Term.

This Agreement shall be effective on the Effective Date and shall remain in effect until September 30, 2006, unless earlier terminated by PacifiCorp pursuant to Section 10 below. This Agreement may be extended at PacifiCorp's sole option for successive six (6) month periods through December 31, 2008. In the event PacifiCorp desires to extend the term of this Agreement for any additional six month period, PacifiCorp shall provide written notice to COVOL no later than thirty (30) days prior to the expiration of the current period in effect. For example, PacifiCorp shall provide an extension notice no later than September 1, 2006 if PacifiCorp desires to extend this agreement for a six month period beginning October 1, 2006 through March 31, 2007, and by March 1, 2007 if PacifiCorp has exercised the first extension option and desires to extend this Agreement for an additional six month period beginning April 1, 2007 through September 30, 2007.

2. Quantity.

PacifiCorp has approximately 140,000 tons of high ash Deer Creek coal stockpiled at Hunter Plant that PacifiCorp is willing to commit to the initial testing of this coal cleaning process subject to Section 10 below and any unanticipated needs at PacifiCorp's Utah generating plants. In addition, during the term of this Agreement, PacifiCorp at its discretion and based upon the availability of Raw Coal shall have the right to deliver to the Facility up to 25,000 tons of Raw Coal each calendar month. The parties shall agree to work with each other if the monthly quantities vary significantly from the ratable monthly volume of 25,000 tons of Raw Coal.

3. Raw Coal Delivery.

- (a) Throughout the Term, as provided for by the Raw Coal delivery provisions set forth below, PacifiCorp will deliver Raw Coal to the Facility for consignment to COVOL. Raw

also submit information to consultants and contractors performing work related to this Agreement who agree in writing to protect the confidentiality of such information.

22. Documentation and Audit Rights.

PacifiCorp and COVOL shall maintain all records and accounts pertaining to quantities, quality analyses and source of all coal supplied under this Agreement for a period lasting through the term of this Agreement and for two (2) years thereafter. PacifiCorp and COVOL shall have the right, at no additional expenses to either party, to audit, copy and inspect such records and accounts at any reasonable time upon reasonable notice during the term of the Agreement and for two (2) years thereafter.

23. Notices

Any required Notice to be given to either party shall be given by U.S. mail, electronic mail (telefax) and/or overnight delivery express service as follows:

If to PacifiCorp:

PacifiCorp
201 South Main St. Suite 2100
Attn: General Manager – Fuels
Salt Lake City, Utah 84111
Telephone: (801) 220-4608
Fax: (801)220-4578

If to Covol Engineered Fuels LC:

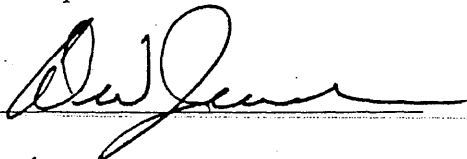
Covol Engineered Fuels LC.
10653 S. Riverfront Parkway Suite 300
Attn: Keith Thompson, Manager
South Jordan, Utah 84095
Telephone: 801-984-9400
Fax: 801-984-9460

24. Attorneys Fees.

In the event litigation involving or relating to this Agreement is commenced by any party, the prevailing party in such litigation shall be entitled to recover from the other parties its reasonable attorneys fees and costs incurred in connection with such litigation and any appeal therefrom.

IN WITNESS WHEREOF, the parties have executed this Agreement by their respective, duly authorized representatives effective as of the date first written above.

PacifiCorp

By: 

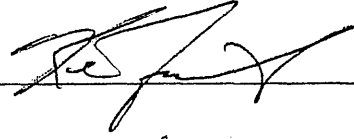
Its: President Intellwest Mining Company

Covol Engineered Fuels LC

By: 

Its: Vice President

Headwaters Incorporated
(For Purposes of Paragraph 11)

By:  _____

Its: President HES