

MAY 11 2001

Steve Larson, Executive Director  
California Energy Commission  
1516 Ninth Street  
Sacramento, California 95814

*B. James*

TN 20472

<b>DOCKET</b>	
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DATE	MAY 11 2001
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The Department of Water Resources Bottle Rock Power Plant Ownership Change

This is in response to your memorandum to me of May 4, 2001, requesting that the Department of Water Resources consider taking responsibility to assure adequate funding for decommissioning the Bottle Rock Power Plant.

This Department is of the opinion that the \$5 million surety bond and the \$10 million environmental insurance policy being provided by Bottle Rock Power Corporation is adequate to cover the cost of decommissioning the Bottle Rock Power Plant and that no additional commitment by DWR is needed.

Our independent appraisers estimated that the total cost to decommission the power plant and steamfield is to be \$6.6 million. Of this amount \$1.6 million is the closure of 16 wells which are not part of the facilities covered by the Energy Commission license, but are permitted under the jurisdiction of the Division of Oil and Gas and are covered by a surety bond required by that agency under its permit. This appraisal also indicates that the equipment, tools and personal property are valued at \$1 million.

As indicated in the attached comparison of Bottle Rock and the Coldwater Creek projects, the Coldwater Creek Project is substantially larger than Bottle Rock and it involves costs that are not comparable to the cost of decommissioning Bottle Rock.

Our appraisal of the Bottle Rock decommissioning dated January 9, 2001 has now been approved by the Department of General Services as has the "Purchase Agreement for the Bottle Rock Power Plant and Assignment of the Geothermal Steam Lease." Therefore, the transfer of ownership by the Energy Commission is the only matter delaying the transfer of title to Bottle Rock Power Corporation which is prepared to promptly move forward with the restart of generation at the Bottle Rock Plant.

Steve Lawson  
MAY 11 2001

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We have an outside closing date of June 1, 2001 in the Purchase Agreement and are currently planning to close on May 30, 2001, but this cannot occur on that date unless the Energy Commission has approved the transfer of ownership. We, therefore, urge your approval by May 30.

If there are questions regarding this matter, please contact me at (916) 653-7007 or Bob James of our legal office staff at (916) 653-3949.

Sincerely,

Original signed by  
L. Lucinda Chipponeri for  
Thomas M. Hannigan  
Director

Attachment

cc: Ronald Suess, President  
Bottle Rock Power Corporation  
725 Farmer's Lane, Suite 8  
Santa Rosa, California 95405

bcc: Garney Hargan, JOC  
Ceceilia Vasquez, Room 1640

Rjames:Pat Cannedy

Text Name:LawsonBottle Rock Letter

Spell Check:May 10, 2001

Control No. 2001-0201

**Comparison of Coldwater Creek Project vs. Bottle Rock Powerplant**

	Coldwater Creek Geothermal Project	Bottle Rock Powerplant
Steamfield Site	1,500 acres	344.01 acres
Powerplant Site	8.3 acres	6.0 acres
Well Pads	18	3
Production or Suspend Wells	19	12
Reinjection Wells	3	2
Paved Roads (approximate)	12 miles	1.07 miles
Unpaved Roads (approximate)	6 miles	1.44 miles

# Memorandum

Date : May 4, 2001

Telephone: ATSS ( )  
( )

To : Mr. Thomas M. Hannigan, Director  
Department of Water Resources  
1416 9<sup>th</sup> Street, Room 1115-1  
Sacramento, CA 95814

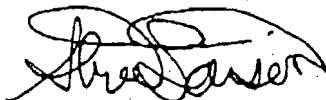
From : California Energy Commission  
1516 Ninth Street  
Sacramento 95814-3512

Subject : **DWR BOTTLE ROCK GEOTHERMAL POWER PLANT OWNERSHIP CHANGE**

The purpose of this memo is to help facilitate an orderly ownership change concerning the DWR Bottle Rock geothermal power plant. As you know, Energy Commission approval of the ownership change is required. We understand that the buyer (Bottle Rock Petroleum Corporation) is eager to finalize the sale in order to re-start the facility, potentially as early as this summer.

We have had ongoing discussions with your staff and the new owner concerning the details of the sale, particularly our longer-term concerns of financing closure. You have negotiated a \$5 million bond to address closure, and a \$10 million insurance policy to address any environmental issues that might develop during re-start and operational activities. We have discussed our concerns about the adequacy of the \$5 million closure bond to your staff. Specifically, SMUD has informed us that the closure costs associated with their Central California Power Agency (CCPA) No. 1 geothermal plant will exceed \$12 million, exclusive of their administrative costs. The Bottle Rock facility may exceed this figure given the substantial concrete structure DWR installed. The closure issue is complicated because the success of re-starting the facility is in question, given concerns about adequate steam supply. In addition, the generating capacity of the facility may be considerably less than the original 55-megawatt license, which will limit the revenue stream. Furthermore, local residents are anticipating closure and will likely be concerned about how the new owner will perform.

At this point, given the discrepancy between the closure bond and CCPA No. 1's actual closure costs, lack of certainty about a successful re-start of the facility, and the capitalization of the buyer, we may not be able to recommend approval of the ownership change to the Energy Commission. We are initiating a financial analysis that may help with our decision. However, in the final analysis, our closure concerns would be eliminated if we had assurances that adequate funding would be available for closure, particularly in a worst case scenario where re-start fails. As little as several months ago, prior to serious buyer interest, DWR was faced with a substantial closure process and associated closure costs. Today, if the ownership change is approved, and if re-start subsequently fails, DWR has significant funding to cover a substantial portion of the closure. We would appreciate anything DWR can offer to help resolve our concerns.



STEVE LARSON  
Executive Director