

C: Bob James, RA 1116

## Memorandum

Date : May 4, 2001

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

<b>DOCKET</b> 79-AFC-4C	Telephone: ATSS ( )
<b>DATE</b> MAY 04 2001	
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From : **California Energy Commission**  
1516 Ninth Street  
Sacramento 95814-5512

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