

CALIFORNIA ENERGY COMMISSION

1516 NINTH STREET
SACRAMENTO, CA 95814-5512

October 30, 2006

Tom Allen
PG&E Project Manager
P.O. Box 770000
San Francisco, CA 95814

DOCKET 00-AFC-1C
DATE OCT 30 2006
RECD. NOV 1 2006

**Subject: Contra Costa Power Plant Unit 8 Project (00-AFC-1C)
Closure of Asset Transfer Agreement (ATA) and Start of Milestones**

Dear Mr. Allen:

It was the understanding of the Energy Commission staff that the expedited completion of the amendment to add Pacific Gas and Electric (PG&E) as a co-owner and allow for facility design changes was necessary to avoid costly delays. Our understanding was based on several conversations with Mirant and PG&E, including the May 25th, 2006 meeting with the Energy Commission's Executive Director. Moreover, the information provided by PG&E to the Public Utilities Commission supporting application 05-06-029 stated unequivocally that "... any delay that extends the resumption of construction past September 2006 will significantly increase the cost of the project. After September, PG&E's cost estimates increase almost \$1 million a month, and PG&E's revenue requirement will correspondingly increase by \$250,000 per month" (CPUC Proposed Decision on Application 05-06-029, May 9th, 2006).

On July 19, 2006, the Energy Commission approved the Order for the addition of PG&E as a co-owner, the extension of the milestones, and four modifications to the facility. In addition to the Order, the Energy Commission staff has worked expeditiously with PG&E to identify issues that need to be resolved prior to the restart of construction on the project including evaluating alternatives to the use of once-through cooling water effluent. Although the January 13, 2006 petition to amend the Decision and the July 13, 2006 letter from PG&E to Commissioner Geesman detailed that PG&E could exercise its option to acquire Contra Costa Power Plant Unit 8 as late as June 30, 2008, the Energy Commission staff has concerns over the increasing delay in the on-line date for the project.

Please provide a status report by November 10, 2006 that explains: the current status and expected date for the final execution of the ATA; the status of all submittals that are required to restart construction; and the status of submitting a petition to amend the Commission Decision to change the cooling system for the project.

Sincerely,

Roger Johnson, Manager
Energy Facilities Siting Divisioncc: David Frandsen, Mirant
Chuck Hickland, Mirant