

**DEPARTMENT OF WATER RESOURCES**

1416 NINTH STREET, P.O. BOX 942836  
SACRAMENTO, CA 94236-0001  
(916) 653-5791



October 9, 2008

Mr. Ronald E. Suess, President  
Bottle Rock Power, LLC  
Post Office Box 326  
Cobb, California 95426

Re: Estimate

Dear Mr. Suess:

The Department of Water Resources (DWR) has now completed its review of North American Dismantling Corp.'s estimate of the cost to remove the Bottle Rock Power Plant Facilities and the engineering estimates submitted with your letter of December 10, 2007 for plugging and abandonment of all steam and injection wells as well as closure of the ponds sited at each of the three well pads.

Our review indicates that North American Dismantling Corp. is qualified to make the estimate of the cost to remove the plant and that ThermoSource LLC is qualified to make the estimate for the cost to close the steam and injection wells. We also believe that the estimates of cost which they have made are reasonable. However, the estimates do not meet the requirements of Section 2.4 of the Purchase Agreement for Bottle Rock Power Plant and assignment of Geothermal Steam Lease, dated April 5, 2001.

Section 2.4 of that agreement provides in pertinent part as follows:

"Every third year after closing, or more often at the option of Seller or Buyer, Buyer shall submit to Seller for Seller's approval an independent engineering estimate of the cost to meet the obligations of Sections 7.1 (e) of this agreement. If such estimate (as approved by Seller) exceeds Five Million dollars \$5,000,000 U.S.), the Buyer shall promptly increase the security to cover the amount of the estimated cost plus twenty-five percent (25%)."

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Section 7.1(e) of that agreement provides as follows:

"7.1 From and after closing date, Buyer shall be solely responsible and liable for the following:

...(e) Full responsibility and sole obligation for decommissioning the Bottle Rock Power Plant, Francisco Steam Field and for all site restoration, including any restoration and remediation obligations associated with any land rights comprising the purchased assets;"

The Francisco Geothermal Steam Field Lease, dated February 25, 1975, provides in pertinent part as follows:

"(b) Following termination of this Lease or any part thereof for any cause, and following abandonment of any well drilled pursuant to the provisions hereof, Lessee shall within six (6) months thereafter, remove all personal property which fill all sumps, remove all foundations and so nearly as practicable restore the areas affected by such termination or abandonment to the condition in which they were prior to the commencement of its operations hereunder; and, in the case of termination, shall deliver to the Lessor a quitclaim deed, in recordable form, surrendering to the Lessor all right, title and interest of the Lessee in that part of the said lands as to which this Lease shall have been so terminated, saving and excepting necessary easements and right of way on the Lands for Lessee's further operations on any part of the said Lands as to which this Lease shall not have been terminated, The ownership of any of Lessee's property not removed by it during the period herein provided shall, in the absence of force majeure as defined in Section 13, be deemed abandoned by Lessee and shall pass to Lessor without further act of the parties or either of them effective upon expiration of such period."

Clearly the conditions set forth in the North American Dismantling Corp. estimate do not meet the requirement of the Francisco Lease and the Purchase Agreement. We are particularly concerned with conditions 3, 4, 5, 6, 8, 11, 12, 14, 15, 16 and 17 although there may be other problems. Also the estimate does not seem to cover the cost of removal and disposal of the pipeline from the steam field to the plant or the steam field control and maintenance facilities, and there is no contingency factor for closure of the steam wells and sumps. The cost of taking care of these omitted items is very large and has to be covered in some way by the estimate.

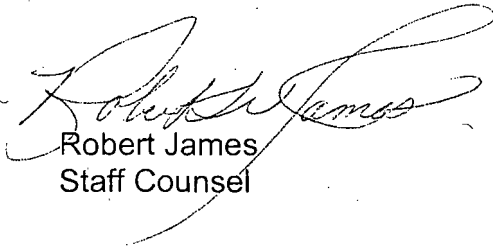
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It appears to me this leaves us with a couple of alternatives:

- (1) DWR send the estimate back to you and request that you revise the estimate to cover all of the costs and return it to us by January 1, 2009.
- (2) In lieu of that I am willing to recommend to DWR management that we agree to a \$16,500,000 estimate which would mean that the bond would have to be increased from \$5 million to \$20,625,000.

Please advise me by December 1, 2008 as to which of these alternatives you wish to pursue. If you have any questions please call me at (916) 653-3949.

Sincerely,



Robert James  
Staff Counsel

cc: Mr. Dale Rundquest  
Compliance Manager  
California Energy Commission  
1516 Ninth Street  
Sacramento, California 95814-5512