

DEPARTMENT OF WATER RESOURCES

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Thomas King, Managing Director
USRG Management Company, LLC

On Behalf of
Bottle Rock Power, LLC
10 Bank Street
White Plains, New York 10606

DOCKET 79-AFC-4C
DATE _____
RECD. <u>MAY 21 2009</u>

Thank you for your letter of January 15, 2009, providing your proposals in substitution of increasing the amount of the security bond as required by the Purchase Agreement. After discussing your proposal with the people involved in this Department and in the Energy Commission we do not find your proposals provide a satisfactory alternative to the procedure provided for in the Purchase Agreement.

Your first proposal offers a novation with the V.V. and J Coleman Partnership which would transfer to Bottle Rock Power any liability the Department may have relating to the Bottle rock facilities.

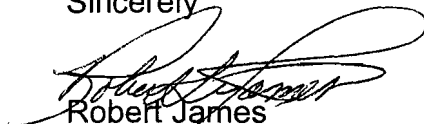
If we were to agree to this approach we would prefer a broad release from the V.V. and J Coleman Partnership and an amendment of the Purchase Agreement in place of a novation. However, unless the amendment to the Purchase Agreement completely eliminated any requirement for an escalating security bond it would not solve Bottle Rock Power's problem of increasing the bond to cover the estimated cost of decommissioning the plant. Any amendment of the Purchase Agreement would require approval of the Department of General Services which I believe DGS is unlikely to provide, particularly if the Energy Commission or Lake County opposed the amendment.

Your second suggestion seems to assume that the Energy Commission will give up the security bond for its standard language regarding the closure of geothermal facilities. Again I am not convinced this will occur because it would require the Energy Commission to give up the security of the bond for a promise by a limited liability corporation which will probably have almost no assets when decommissioning occurs.

Your third alternative is vague and does not indicate how Bottle Rock Power would increase the bond amount and on what schedule. DWR is willing to discuss this approach, but we would need to agree on a procedure for its implementation. As DWR has suggested in the past, perhaps you would prefer to provide security in the form of a trust fund or a letter of credit instead of the bond to assure that the necessary funds are available when the life of the project has terminated. In addition, Bottle Rock Power should consider obtaining funds to cover the future costs of decommissioning the plant and steamfield through charges to the power users, which could be included in the rate structure. DWR remains willing to explore these alternatives with you.

The Department is anxious to resolve this matter and we are prepared to consider any alternatives satisfactory to you. Please call me on (916) 653-3949 if you have questions or comments on this matter.

Sincerely



Robert James
Staff Counsel

cc John Mc Kinsey
Stoel Rives, LLP

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