hydrogen energy

One World Trade Center, Suite 1600, Long Beach, CA 90831 Main (+1) 562-276-1543 Fax(+1) 562-276-1571 www.hydrogenenergycalifornia.com

Michael R. Peevey
President
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Re: Hydrogen Energy California LLC

03 September 2010

Dear President Peevey:

I wanted to take this opportunity to share our latest progress toward assessing the feasibility of the HECA project and the potential to deploy such a first-of-a-kind integrated gasification combined cycle (IGCC) facility that will produce hydrogen for low-carbon power generation and capture carbon dioxide for use in enhanced oil recovery (EOR) and sequestration. In doing so, I would also like to highlight some near term milestones that will prove critical in order to keep the project progressing and on track.

In terms of status, we have made substantial progress on the feasibility assessment. On Aug 31st the California Energy Commission issued a favorable preliminary staff assessment on the viability of HECA's permit application and environmental impact review. We have more work to do with CEC and each of the relevant agencies over the coming months, but this preliminary assessment provides an important early indication toward the feasibility of permitting the HECA project. The CEC staff has worked on this complex project with diligence and professionalism, despite obvious competition for time and resources.

From a technical perspective, Fluor has been engaged as the project's FEED (Front End Engineering and Design) contractor and they have already commenced work on a detailed design package in July of this year. This will provide the basis of assessing technical feasibility and is currently being progressed by a combined team of 70+ Fluor and HECA staff jointly located in Long Beach.

We have a letter agreement with Oxy outlining key terms associated with CO_2 off-take. Oxy has provided the basis for their components of the permitting process to CEC, including development of a site-specific MRV (Monitoring, Reporting and Verification) program to track and demonstrate long-term CO_2 storage.

From a CCS stakeholder perspective, HECA's continued progress on the feasibility of the project has attracted further industry and government collaboration that benefits the state of California. US DOE has already provided over $20m of cost share from the Federal Clean Coal Power Initiative – Round 3 (CCPI-3) solicitation, and a further $288m will be available subject to the project meeting clear milestones supporting commercial and technical reasonableness.

As I stated at the CCS Stakeholders' meeting in January, one critical milestone is assurance of commercial feasibility via signing term sheets with the three regulated utilities by the end of September. Without this, Hydrogen Energy will not be able to satisfy future DOE contract milestones to guarantee their further investment, and further participation on the part of Hydrogen Energy will not be possible. In short, without getting these term sheets in place by the end of September, Hydrogen Energy will not be able to justify material decisions including final site and land payments in the first week of October. All three utilities (Southern California Edison, Pacific Gas and Electric and San Diego Gas & Electric) have engaged directly and positively to develop and conclude these term sheets by the end of the month. The term sheets aim to spell out the framework of the PPAs to be developed through the remainder of the year, and key components of the term sheet are entirely consistent with what has already been shared by the HECA team.

I hope this provides a useful update as to the progress, status and critical milestones for the HECA project in the near future.

Thank you again for the continued leadership on the part of the PUC and for your attention to keep progress on track over the coming weeks.

Sincerely,

Jonathan Briggs
Director, Hydrogen Energy California

cc: Southern California Edison Company
Pacific Gas and Electric Company
San Diego Gas & Electric Company