- Since the 2007 PPA, the intention of the parties has been for the capacity of the Bottle Rock geothermal facility to be increased to at least 15 MW. Although the project has consistently performed at 10 MW, the project has faced challenges that have prevented the facility from being expanded. The parties agreed to the proposed 2012 PPA to support the continued operation and expansion of a baseload geothermal facility in Lake County, California. Bottle Rock has represented to PG&E that it has spent more than $100 million on the facility and forecasts spending over $50 million more to increase production.

- The 2007 PPA incented production to at least 16 MW through performance damages if this level of production was not sustained.

- In 2008, Bottle Rock approached PG&E to amend the 2007 PPA stating that, due to large cost increases and geothermal well losses, the 2007 PPA terms did not allow for future geothermal well development. As a result, the parties negotiated and executed the 2010 PPA.

- The 2010 PPA had a complex pricing structure that provided higher payments as the production of the facility increased beyond 16 MW.[1] Under the 2010 PPA, if the production of the facility exceeded 16 MW, Bottle Rock's payments for volumes greater than 16 MW were based on a formula that increased with more deliveries to a cap of $134/MWh. This Commission approved PPA provides that if the plant's production level increases to 55 MW, it will be paid a levelized price of $118/MWh.

- This specific pricing structure is unique and was intended to provide an incentive for increased production given the capital investment required to improve a geothermal facility. The challenge with this pricing structure is that it did not facilitate sufficient financing to actually increase the plant's production.

- Although Bottle Rock made every effort to raise the capital necessary to expand the steam field and increase generation as required in the 2010 PPA, Bottle Rock was unsuccessful in raising the capital and therefore continued to accrue under-performance damages, which are now approximately $20 million. The 2010 PPA did include a mechanism that the accrued penalties would be forgiven 25% per year over 4 years, if they achieved higher levels of production.

- Bottle Rock informed PG&E that one of the reasons that it was unable to raise sufficient capital was the presence of significant accrued under-performance damages on their balance sheet, combined with the PPA pricing structure.

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[1] Incentive is based on GWh production, but for the purposes of this discussion, converted to equivalent MWs based on a 95% capacity factor.

- PG&E agreed as part of the proposed 2012 PPA to restructure the penalties to support the expansion of the facility, replacing the accrued damages (approximately $20 million) with up to $30 million in damages tied to future investment and increased production from the facility.

- In the proposed 2012 PPA, Bottle Rock is obligated to spend $30 Million on steam field expansion and plant improvement by the end of the 6th Contract Year and to submit annual documentation of the funds spent to PG&E.

- In the event that the steam field expansion is not successful and the Project cannot produce a sustained 16 MW of energy production during a six (6) month test by the Guaranteed Full Commercial Operation Date, which is March 28, 2018, PG&E may seek as damages from Bottle Rock the difference between $30 Million and the actual amount it has invested up to March 28, 2018. In addition, Bottle Rock's failure to meet Full Commercial Operation by March 28, 2018 is an Event of Default and PG&E may terminate the proposed 2012 PPA.

- These provisions should facilitate Bottle Rock's efforts to attract expansion capital while allowing PG&E to terminate the PPA and collect damages in the event the Project fails to achieve the goal of Full Commercial Operation by March 28, 2018.