

# The Salt Lake Tribune

## Real money? Blue Castle defends Utah reactor financing

Critics • Project has revealed little to the public or state, about how it will raise funding.

By Judy Fahys

and Steven Oberbeck

The Salt Lake Tribune

Published: February 27, 2012 07:20AM

Updated: February 27, 2012 07:25AM

Promoters of what would be Utah's first nuclear power plant are due to hear from the state this week whether they still have rights to water they need to cool the reactors — or if their plans face new scrutiny.

At least two groups insist State Engineer Kent Jones should step back from his initial decision last month to grant water rights to Blue Castle Holdings, the homegrown company that plans to develop a 3,000-megawatt plant near Green River. One reason, they say, is that Jones left too many questions unanswered about the finances for a project that is estimated to cost \$100 million to \$200 million just to license and up to \$16 billion to build.

"We know very little" about the project funding, said environmental attorney Lara A. Swensen, who is representing some two dozen individuals and organizations opposed to the power plant.

<form>

<a title="View The Blue Castle project on Scribd" href="http://www.scribd.com/doc/82731648/The-Blue-Castle-project?secret\_password=12kzipew66gzkyu1mk7c" style="margin: 12px auto 6px auto; font-family: Helvetica,Arial,Sans-serif; font-style: normal; font-variant: normal; font-weight: normal; font-size: 14px; line-height: normal; font-size-adjust: none; font-stretch: normal; -x-system-font: none; display: block; text-decoration: underline;">The Blue Castle project</a><iframe class="scribd\_iframe\_embed" src="http://www.scribd.com/embeds/82731648/content?start\_page=1&view\_mode=list&access\_key=key-1memb6y2ngnz1p5xzjfx&secret\_password=12kzipew66gzkyu1mk7c" data-auto-height="true" data-aspect-



Scott Sommerdorf | Tribune file photo Former Rep. Aaron Tilton heads Blue Castle, the company developing plans for Utah's first nuclear power plant. The state engineer gave his OK in January but has been asked by project opponents to reconsider..

ratio="0.77370417193426" scrolling="no" id="doc\_98175" width="100%" height="600" frameborder="0">  
</iframe><script type="text/javascript">(function() { var scribd = document.createElement("script"); scribd.type = "text/javascript"; scribd.async = true; scribd.src = "http://www.scribd.com/javascripts/embed\_code/inject.js"; var s = document.getElementsByTagName("script")[0]; s.parentNode.insertBefore(scribd, s); })();</script>

</freeform>

“As the record stands, I don’t think there’s any reason to believe they can get adequate financing. It takes more than just your good word to get you there.”

But that’s essentially all it took to get the state’s approval for rights to water — a resource as precious as gold in the West.

Not only is the state engineer’s approval crucial for Blue Castle, but it also represents the only opportunity for residents to have their say on a state level before the plant’s review is turned over to the federal government.

It also is the only time that Utah can weigh in on whether the project would be “speculative” and in violation of the law governing water.

Jones conceded the evidence he relied upon in granting the 53,600 acre-feet of Green River water was limited. But he said his hands are tied. The state doesn’t require much, just the lowest standard of proof in the law: “a reason to believe.”

Jones found that Blue Castle cleared that hurdle by providing him with pieces of information: a news release about an investment deal that never materialized, a small power utility’s pledge of interest in the project, oral testimony given during a public hearing and a follow-up letter from an attorney representing the water district for Kane and San Juan counties. The water districts have potentially lucrative lease agreements with Blue Castle for their water.

—

**Burden of proof** • Consumers seeking a car or home loan would face a greater burden of proof — and would have to provide such documentation as pay stubs, credit reports and the like.

John Mann, assistant state engineer, declined to talk about the specifics of the Blue Castle case — his office is required to issue its decision before Thursday — but he noted the tentative financing schedule and funding plan met the “reason to believe” threshold.

While some might contend that the company should have been required to meet a higher standard, Blue Castle president and CEO Aaron Tilton said his company followed the law to the letter.

“The argument is with the Legislature, or somewhere else, not with us,” Tilton said. “We’re certainly complying [with the law], and the state engineer has certainly met the regulatory hurdle” for approving the water rights.

He also dismissed the car- and mortgage-loan analogy.

“The state is not loaning money to anybody,” he said. If the project is never completed, he added, the state hasn’t lost anything.

Although state regulations give Jones the ability to ask for “such additional information as will enable him to guard the public interests,” he never has. And Blue Castle never offered.

As Jones was considering Blue Castle’s water-rights request, the last piece of information voluntarily provided was

a June 2010 news release announcing a \$30 million deal with LeadDog Capital, a company that now is in trouble with the U.S. Securities and Exchange Commission.

Since then, Blue Castle has pointed to its December 2010 acquisition of Willow Creek LLC, a Grand Junction, Colo., oil, gas and water pipeline construction and service company, as its main revenue source.

Like the collapse of the LeadDog Capital deal, Tilton never reported that development to the state. And even now, he is loath to share anything about how Blue Castle is getting the money that will be required to license the plant.

His companies are private, and he is not required to publicly disclose financial data.

But he and another top Blue Castle executive weren't so reticent previously.

—

Willow Creek revenues • In City Weekly last May, Tilton identified Willow Creek as a source of \$30 million a year in revenue. And Blue Castle Chief Operating Officer Tom Retson wrote in the magazine Nuclear Energy International two months ago that Willow Creek was generating \$27 million a year in revenue.

That clashes with information from Dun & Bradstreet, a well-known provider of business information, which puts Willow Creek's revenue at just \$5.6 million a year.

Says Tilton: "Dun & Bradstreet doesn't know what they are talking about."

He insisted the Blue Castle subsidiary has a profit margin higher than average. In the pipeline service industry, that average is 4 percent to 9 percent for like-sized companies, according to the Risk Management Association, a nonprofit organization providing credit-risk information.

In other words, a company the approximate size of Willow Creek with \$27 million in revenues would probably be generating a profit of around \$2.5 million a year, a fraction of what Blue Castle estimates it will need each year to finance the licensing process.

The Tribune twice contacted Willow Creek and requested an opportunity to photograph one of its current projects. Both times the newspaper was referred back to Tilton, and he declined to give clearance for a photo. He said at one point he did not want to bother the company's clients.

In November 2010, another financing deal was announced, but it is one that Blue Castle has not discussed publicly, nor did it reveal the details to the state engineer.

A Canadian company called GRIT International sent out its own news release that it had "signed an agreement to financially participate in the Blue Castle Holdings Nuclear Project" that it said gives GRIT "a minority ownership stake."

Soon after, in a report to investors, GRIT said the "exit value" of its investment would be about \$650 million in just a few years. It's worth pointing out that another GRIT news release a few months earlier described an infusion of \$6.65 million in August 2010 from LeadDog Capital Markets.

If LeadDog sounds familiar, it's because that was the hedge fund that Blue Castle originally said it was going to rely on for \$30 million. But last month, a week after the state engineer announced he was approving the water request for the nuclear plant, new information surfaced to suggest LeadDog is a sham, based on a cease-and-desist action filed in New York City by the SEC.

Tilton, who said only last month that Blue Castle never signed an agreement with LeadDog, said Friday that his company never signed an agreement with GRIT either.

—

Other financing • Still another key component of the financing plan that Blue Castle provided to the state was its strategy of lining up utilities and other investors who would sign up to participate in its project. They would provide needed capital in stages to help secure the licenses by 2016 and bring the plant online by 2021.

Blue Castle said it had signed a preliminary agreement with a “private equity fund” that had cash on hand and was ready to provide it with \$50 million that was contingent upon it completing negotiations with multiple utilities for their participation in the project.

Tilton said Friday that financing arrangement also was not finalized.

But he insisted that numerous utilities have continued to express interest in the project, although none has been made public — except for one.

Page, Ariz., which operates its own municipal electric utility serving some 4,000 customers, acknowledged that it had signed an agreement of interest with Blue Castle. But even then, the Page city attorney has indicated there was “no financial obligation” involved.

Although Tilton said he approached the Utah Municipal Power Agency and the Utah Associated Municipal Power Systems about their interest, neither has jumped on board the nuclear project.

“They [Blue Castle] never asked us for anything — they just wanted us to know what they were doing,” said Doug Hunter, the general manager of UAMPS, which represents 45 small, publicly owned utilities in Utah and several other nearby states.

He said the UAMPS board did raise the question of Blue Castle’s financing and was told by Tilton that the company had adequate funding. “We just let it slide. They [developers of proposed power projects] are all going to say that.”

Tilton says all this hoopla about the project’s financing amounts to nothing. He points to the milestones Blue Castle has already achieved and insists that’s how the company should be judged.

“The real issue is we’re completing and doing everything critics say that we can’t,” said Tilton, citing as examples the securing of water rights and pre-licensing activities that are under way. “I don’t know how you can argue against that.”

steve@sltrib.com

fahys@sltrib.com

Twitter: judyfutah

—

Due diligence

Utah law requires the state engineer, Utah’s top water rights official, to certify that an applicant for a water rights change “has the financial ability to complete the proposed works.”

The law also gives the person in that role added powers for scrutinizing an applicant's finances:

“Before either approving or rejecting an application the state engineer may require such additional information as will enable him properly to guard the public interests, and may require a statement of the following facts: In case of an incorporated company, he may require the submission of the articles of incorporation, the names and places of residence of its directors and officers, and the amount of its authorized and its paid-up capital. If the applicant is not a corporation, he may require a showing as to the names of the persons proposing to make the appropriation and a showing of facts necessary to enable him to determine whether or not they are qualified appropriators and have the financial ability to carry out the proposed work, and whether or not the application has been made in good faith.”

---

© 2012 The Salt Lake Tribune

not been completed, the State Engineer believes, based on the description of what has been proposed and the existence of other similar facilities in the United States, the project is physically feasible.

Given that the western United States is growing and there will be a need for additional generating capacity, there is reason to believe that there will be a market for the electricity generated at the plant. With the move to produce energy from sources with fewer carbon emissions, nuclear power may become more competitive with conventional fossil fuel power plants. Changes in energy policy and market conditions are beyond the control of the State Engineer but, based on the information presented, the State Engineer has reason to believe that this change application is for an economically feasible project.

§73-3-8(1)(a)(iv) Financial Ability to Complete the Proposed Works

The application is protested on the grounds that neither the applicant nor its agent has the financial ability to complete the proposed works. Information provided by the protestants estimate the cost to secure an ESP as approximately \$100 million and the cost to construct the plant as between \$12 and \$18 billion.

Applicant's Statement

BCH asserts that it has the ability to finance the project as scheduled under its current step-by-step development program and to date has accrued approximately 3-years of preparation, studies, and strategic business development representing millions of dollars in value and investment.

BCH presented a table at the hearing showing its capital acquisition schedule through 2015 indicating how BCH would acquire the estimated \$100 million for the permitting and licensing phase of the project. BCH stated that a term-sheet for \$50 million of investment into the project has been signed with a private equity fund and that existing or in-progress negotiations with utilities represent total commitments of \$72 million, or approximately 72% of the needed capital for this stage of development. BCH submitted information indicating it has entered into an agreement with LeadDog Capital L.P. for private equity financing to provide up to \$30 million in capital in exchange for Blue Castle common stock. BCH states that the financing for the permit will take place over a 3-year period and term-sheets have been signed with 17 different utilities, representing 4500 Mwe of power.

l(a)(iv) Section Conclusions

The statute does not require that an applicant have all of the funds to fully construct a project immediately available before the State Engineer approves a water right application. The applicant is a public agency with taxing authority. The lessee of the water and project developer, BCH, is a private company. The applicant, through the lessee, has demonstrated to the satisfaction of the State Engineer an ability to secure funding as needed, on a step-by-step basis, and a plan to continue to capitalize the project sufficient to establish a reason to believe that the applicant has the financial ability to complete the works.

The following three pages are from a response by the Kane and San Juan counties' water conservancy districts to supplemental protests to the project.

2. Claim - BCH does not meet NRC requirements as a licensee. Page 2 of Sierra Club

Answer: As stated in Answer 1 above, the NRC specifies the requirements to obtain a license for a nuclear power plant under 10CFR 50.10,50.33 and under Part 52 for new reactors adopting this rule for the licensing. BCH have satisfied NRC information requirements for the pre-application period for process and scheduling, and continues to work towards meeting statutory requirements .

Presently, BCH has the right and capability to apply for an NRC license, and specifically for an Early Site Permit (ESP). The NRC will make pertinent determinations on the qualifications of BCH as a licensee when applications are submitted. It should be noted that no financial qualification requirements are stated by the NRC for Early Site Permit applicants.

3. Claim - BCH intends to transfer or sell NRC licenses to second party once obtained

Answer: BCH's business model does not entail a strategy of transfers or a sale of the NRC licenses in the Blue Castle Project. The BCH business model calls for additional utility and merchant participation within the current BCH entity structure. A typical example is the Page Electric Utility MOU for participation in BCH attached hereto. This MOU sets forth an outline for a purchase of equity in The Blue Castle Project. All of the project assets are owned by BCH. Therefore, Page Electric Utility would become an equity owner of BCH. There are no current plans to transfer the licensee or water leases; BCH is the entity which will put the leased water in the change applications to use. Furthermore, multiple owners normally participate under equity arrangements of the sponsor entity which typically holds the assets. These arrangements are typical in the nuclear power generation industry for large power plant development.

Multiple examples of these typical arrangements are shown in NRC's NUREG-6500, "Owners of Nuclear Power Plants". NUREG-6500 states: "Commercial nuclear power plants in this country can be owned by a number of separate entities, each with varying ownership proportions. Each of these owners may, in turn, have a parent/subsidiary relationship to other companies. In addition, the operator of the plant may be a different entity as well."

4. Claim: BCH does not have the ability to secure \$100 million for licensing or 13-16 Billion in construction costs

Answer : BCH has proven it has the ability to finance the project requirements as scheduled under its current step-by-step developmental program. The Blue Castle Project, to date, has accrued approximately 3 years of preparation, studies and strategic business development which represent millions in value and investment for the successful demonstration of economic feasibility and environmental stewardship.

RECEIVED

JUN 03 2010  
WATER RIGHTS  
SALT LAKE

The NRC does not require the capital for the construction be raised or all equity participants in the project to be identified in order to apply for a Combined Operating License or for an Early Site Permit. Furthermore, all of the current water rights in this change application were approved for previously proposed power plant projects that were not finalized. Therefore, the existing precedent for approving change applications for power plant projects is clearly not contingent on having the capital on hand to complete the project, as protestants claim.

The typical regulatory and financial development process for large coal/nuclear power plants does not require significant capitalization at this stage. In fact, the present NRC licensing process is predicated on sequential licensing milestones that should be achieved prior to incurring major expenses. Please see slides 33-38 of the Blue Castle presentation from the January 12 hearing in Green River which outlines the standard development process of staging capital, and which is consistent with the licensing process.

The capital schedule for the licensing of the project follows the schedule below.

	2010	2011	2012	2013	2014	2015	Total
Total	\$10	\$21	\$26	\$20	\$19	\$4	\$100

The Blue Castle Project has signed a term sheet for \$50 million of investment into the Blue Castle Project with a private equity fund that has cash on hand. Execution of a definitive agreement with this fund is predicated on completing negotiations with utilities for their participation. The utilities that could complete agreements with Blue Castle would comprise an additional \$22 million in revenues to Blue Castle. The above existing or in-progress commitments would represent \$72 million in equity and revenue financing for the project over the next 3-4 years; therefore approximately 70% of the capital sources have already been identified with signed terms sheets and due diligence with 17 different utilities. The negotiations and or due diligence activities are protected by legally binding agreements which include non-disclosure provisions.

The federal regulatory licensing strategy of BCH is to first conduct the activities required to apply for an Early Site Permit. There are presently no NRC requirements for financial qualifications of applicants for an ESP (NUREG 1577); the only specified requirements are for applicants of a construction permit under Part 50, a COL license under Part 52, an Operating License under Part 50 and for Decommissioning. The BCH activities and schedule follow standard operating procedures for the nuclear power industry.

For example, a similar project currently underway that has staged their financial commitments consistent with the requirements of the NRC and the State, and has

RECEIVED

JUN 03 2010  
WATER RIGHTS  
SALT LAKE

multiple owners, consists of the 2 nuclear units proposed for the Vogtle plant in Burke County, Georgia. Joint owners of this project are: Georgia Power (45.7%), Oglethorpe Power Corp (30%), Municipal Electric Authority of Georgia (22.7%) and the City of Dalton (1.6%). In August of 2006, this consortium of utilities submitted an application for an ESP. In August of 2009, the project received its ESP. In March of 2010, it began raising capital for the construction of the project, 4 years after it submitted its ESP application. In April of 2010, it received loan guarantees from the US DOE. Clearly the NRC did not require the utilities to raise construction capital before the issuance of any NRC permits or licenses, illustrating the accuracy and successful models shown on slides 33-36 for the change application hearing.

**5. Claim: BCH has yet to present storage and transfer plans for the used fuel from the Blue Castle site.**

**Answer:** BCH is not required to present definitive storage and transfer plans for the used fuel at this stage of the project development. However, since BCH considers that this issue requires transparency from the beginning of the project development, Blue Castle has published a summary of the current standard NRC position on the handling of used fuel, as well as its intention to maintain the used fuel safe and secure on site until its final disposition is determined by the Federal Government. This information is provided on the BCH website [www.bluecastleproject.com](http://www.bluecastleproject.com) under FAQ section, and current NRC standards are published under [www.nrc.gov](http://www.nrc.gov).

The Nuclear Waste Policy Act of 1982 establishes the federal government's responsibility to provide for the permanent disposal of high-level radioactive waste and spent nuclear fuel, and the industry's responsibility to bear the costs of permanent disposal. Amendments to this Act have mostly focused on the efforts of DOE to develop a national repository at Yucca Mountain Nevada. The resolution of used fuel disposition and waste storage is now on hold and surely to be revised since the Executive Branch announced the termination of the Yucca Mountain project and the formation of a Blue Ribbon Commission to make recommendations on "options for permanent disposal of used fuel and/or high-level nuclear waste, including deep geologic disposal".

**6. Claim - Withdrawals must be year round from the water diversion source. No intermittent withdrawals.**

**Answer:** The projected design for the Blue Castle Project will nominally require approximately 70 cfs of consumptive water on a constant basis, during full power operations. One primary purpose for the on site reservoir is to store water for the low flow time of the year. There is no requirement by the NRC to constantly withdraw water from the river nor would it be done when the reservoir is filled and the plant is shut down for maintenance. The only regulatory requirement is to have water available for all types of operations, including for safe shutdown and continuing cooling of the plant. The reservoir provides assurance for meeting such requirements.

RECEIVED

JUN 03 2010  
WATER RIGHTS  
SALT LAKE

These are the minutes of the  
Page Electric Utility Board.

PAGE ELECTRIC UTILITY  
REGULAR BOARD MEETING  
October 13, 2009

CALL TO ORDER: The regular meeting of the Page Electric Utility Board was called to order at 5:31 p.m., on October 13, 2009 by Chairman Brynn Johns. The meeting was held in the Conference Room of Page Electric Utility, 19 Poplar Street, Page, Arizona.

ROLL CALL: Board members present: Chairman Johns, Rick Yanke, Tony Ferrando, Jeff Jones and Vice Mayor Cook. Bob Talbot was excused.

Staff present: General Manager, Bryan Hill; Finance Director, Catherine Foley; and Executive Secretary, Donna Roberts.

City Attorney, Rick Olson, arrived at 5:49 p.m.,

MOMENT OF SILENCE: The Board observed a moment of silence.

SWEARING IN OF BOARD MEMBER: Chairman Johns administered the oath of office to newly-appointed Board member Jeff Jones.

APPROVAL OF MINUTES: The September 8, 2009 regular Board meeting minutes were unanimously approved upon a motion by Yanke and second by Ferrando.

AUDIENCE AND COMMUNICATION: None.

UNFINISHED BUSINESS: Discussion/Possible Action - Ratification of Power Plant MOU: Motion by Yanke, seconded by Ferrando, to approve the power plant MOU with Blue Castle. There was discussion regarding PEU's financial obligation. When asked the City Attorney assured the Board there was no financial obligation.

The motion carried with a unanimous vote.

Discussion/Possible Action - UAMPS CRC: There was brief discussion, with no action taken.

NEW BUSINESS: Discussion/Possible Action - WAPA Letter Agreement #09-DSR-12069: On behalf of the State of Utah, PEU has requested that WAPA complete a Facility Study at Western's Glen Canyon Substation to identify the need for equipment upgrades which will support the requirements of the future Lake Powell Pipeline Project's construction into the existing Glen Canyon Substation. The study will determine the required Western equipment upgrades necessary to allow both PEU and Garkane Power to provide electric

This is a press release from  
Blue Castle Holdings.



## Blue Castle Holdings

*IMMEDIATE RELEASE*

*June 29, 2010*

### **Blue Castle Nuclear Power Project Signs \$30 Million Private Equity Agreement**

SALT LAKE CITY, UT - Blue Castle Holdings Inc. (Blue Castle), developer of a planned nuclear power plant projects in Green River, Utah has entered into an agreement with LeadDog Capital L.P. for private equity financing. The equity financing will be used for the continued development of the proposed new nuclear power plant project. Under the terms of the agreement, LeadDog Capital has committed to provide up to \$30 million in new capital in exchange for newly issued Blue Castle common stock. The financing will take place in multiple tranches over a 3 year period. The schedule for stock purchases is to be established at the sole discretion of Blue Castle.

"This agreement provides Blue Castle with a flexible financing option that allows Blue Castle to raise and deploy capital when necessary and only under optimum conditions. The structure of this capital is very complimentary to our licensing schedule," said Aaron Tilton, CEO of Blue Castle Holdings.

The Blue Castle Project is considered the leading new nuclear deployment project in the Western US. Blue Castle has secured difficult to obtain water leases essential for running a nuclear power plant. The planned site is located in Emery County, and zoning has been changed to accommodate the nuclear plant project. The project is in the Nuclear Regulatory Commission's budget cycle to begin the site permit application licensing review in 2011. Utah is a great location not only because of good physical site characteristics but the State of Utah officially supports new nuclear development with financial incentives. The project is well placed to efficiently support projected new market demands for electricity.

The Blue Castle project has attracted the interest of over 15 utilities, which would represent 4500MWe of interest in the project. The project will help address the significant need for economic options for new generating resources facing many utilities in the Western US.

The Blue Castle Project provides an economic option to utilities for participation in a fully licensed new nuclear plant project at an acquisition cost of 4-7% of the station's estimated construction cost. This should result in greatly reduced project development risk and will be designed to provide utility companies with a high degree of confidence for timely new electric generating assets.

SCANNED

**RFCFIVFr**

**OCT 07 2010**

June 29, 2010 Press Release Blue Castle Holdings Inc.

**WATER RIGHTS  
SALT LAKE**