

MINUTE ITEM

This Calendar Item No. 42
was approved as Minute Item
No. 42 by the State Lands
Commission by a vote of 3
to 0 at its 1-21-88
meeting.

CALENDAR ITEM

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PRC 5206

Hoagland

APPROVAL OF A GEOTHERMAL STEAM SALES PRICE FORMULA

APPLICANT: Freeport Geothermal Resources Company
Attention: G. A. Vaughan, Land Manager
P. O. Box 11279
Santa Rosa, California 95406

AREA, TYPE LAND AND LOCATION:
Approximately 130 acres of reserved mineral
land in the south eastern portion of The
Geysers Steamfield, Lake County.

PERTINENT INFORMATION:

State Geothermal Lease PRC 5206 was issued by
competitive bidding in 1976. The City of
Santa Clara was the highest qualified bidder
(28 percent of the net profits and a 10 percent
royalty). Pursuant to P.R.C. Section 6912(b)
the owner of the surface matched the high bid,
was awarded the lease and subsequently assigned
it to Natomas Company with which it had a lease
for the surface.

In 1987, Phillips Petroleum Company purchased
Aminoil, U.S.A. and through that acquisition
obtained Aminoil's leases to the northwest of
the State parcel which supplies steam to
Pacific Gas and Electric Company's Units 13
and 16. In April 1985, the Commission approved
assignment of PRC 5206 from Natomas to Phillips
Petroleum. In November 1985, Phillips sold its
California geothermal leases to Freeport
Geothermal Resources Company which included the
State lease. In October 1986, the Commission
approved the assignment of the lease from
Phillips to Freeport.

Freeport is now constructing a 20 MW electrical generating plant on the State lease. It intends to supply steam to the plant from State lands and its private leaseholds and sell the electricity to P.G.&E.

In cases where the steam developer (lessee) and the plant owner are the same, Section 4(e) of the lease and Section 28(1) of Exhibit "C" of the lease provide that the lessee must account to the State for the steam based on the highest price in the field.

After a review of other sales contracts in the Geysers Field, a pricing formula has been determined which will, currently and in the foreseeable future, calculate a price equal to or slightly higher than the highest price in the Geysers Field. The price will be conditioned that in no event will the calculated price be less than the highest price in the field at which geothermal resources are being sold in substantial quantities.

The price for steam produced from the leased lands will be at a base price of \$1,891 for each 1,000 pounds on July 1, 1985, adjusted semi-annually thereafter on each January 1 and July 1 in proportion to interim increases or decreases in the Gross National Product Implicit Price Deflator Index (GNP Deflator), weighted 75 percent, and the Fuel/Power component of the Producer's Price Index (Fuel/Power Index), weighted 25 percent.

In making such adjustments for the GNP Deflator, the announced quarterly index (final index, 1982 = 100) for the second quarter of 1985 and every fourth and second calendar quarter thereafter shall be utilized for the adjustments each January 1 and July 1, respectively, as reported in the first published issue after the applicable quarter of the "Survey of Current Business" published by the United States Department of Commerce, Bureau of Economic Analysis. In making such

(CALENDAR ITEM NO. 42 CONT'D)

adjustments for the Fuel/Power Index, the simple average of the indices (final index, 1967 = 100) for the three months during the second quarter of 1985 and every fourth and second calendar quarter thereafter shall be utilized for the adjustments each January 1st and July 1st; respectively, as reported in the first published issue after the applicable month of the "Producers Price Index" published monthly by the United States Department of Labor, Bureau of Labor Statistics.

In the event that either the GPN Deflator of the Fuel/Power Index is discontinued or "substantially modified", a mutually agreeable alternate index will be substituted. An index will be deemed "substantially modified" when there has been a material change as to the purpose of the index as currently defined below:

1. For the GNP Deflator - The purpose of the index is to express over time the numerical relationship of current dollar GNP to constant dollar GNP, i.e., changes in the purchasing power of the dollar.
2. For the Fuel/Power Index - The purpose of the index is to express the average weighted price changes over time at the producer level for coal, electric power, gas fuels and petroleum products refined.

The adjusted prices shall be effective retroactively to the first day of the applicable six-month period and applied prospectively to the following six-month period.

OTHER PERTINENT INFORMATION:

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (14 Cal. Adm. Code 15061), the staff has determined that this activity is exempt from the requirements of CEQA because the activity is not a "project" as defined by CEQA and the State CEQA Guidelines.

Authority: P.R.C. 6804.1, P.R.C. 21065 and
14 Cal. Adm. Code 15368.

(CALENDAR ITEM NO. 43 CONT'D)

EXHIBIT: A. Location Map.

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. ADM. CODE 15061 BECAUSE IT IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL. ADM. CODE 15378.

2. APPROVE THE PRICE FOR STEAM PRODUCED UNDER GEOTHERMAL RESOURCES LEASE PRC 5206 COMMENCING AT A BASE PRICE OF \$1,891 FOR EACH 1,000 POUNDS ON JULY 1, 1985, ADJUSTED SEMI-ANNUALLY THEREAFTER OR EACH JANUARY 1, AND JULY 1 IN PROPORTION TO INTERIM INCREASES OR DECREASES IN THE GROSS NATIONAL PRODUCT IMPLICIT PRICE DEFLATOR INDEX, WEIGHTED 75 PERCENT, AND THE FUEL/POWER COMPONENT OF THE PRODUCERS PRICE INDEX, WEIGHTED 25 PERCENT; PROVIDED THAT IN NO EVENT SHALL SUCH CALCULATED PRICE BE LESS THAN THE HIGHEST PRICE IN GEYSERS STEAM FIELD AT WHICH STEAM OF LIKE QUALITY IS BEING SOLD IN SUBSTANTIAL QUANTITIES.

CALENDAR PAGE	242.3
MINUTE PAGE	314

GEYSERS GEOTHERMAL AREA

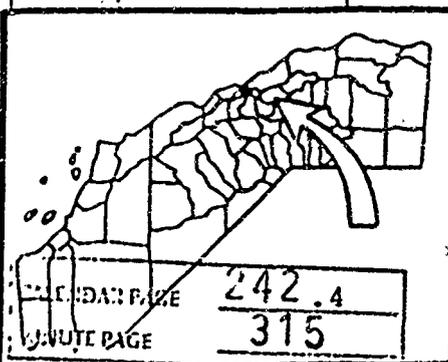
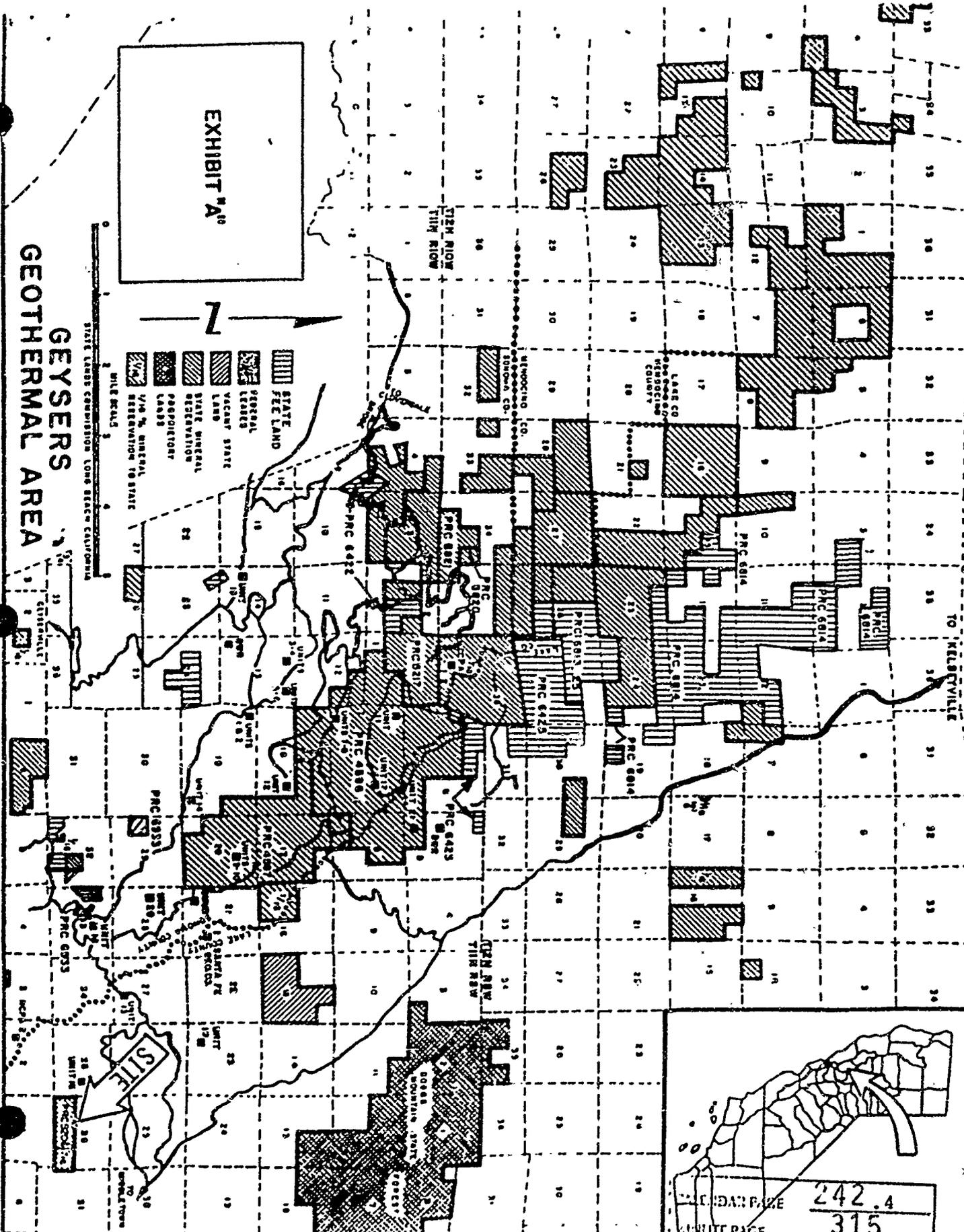
STATE LANDS COMMISSION, LOS ANGELES COUNTY, CALIFORNIA

1 MILE SCALE

- STATE LAND
- FEDERAL LAND
- VACANT STATE LAND
- STATE MINERAL RESERVATION
- PASADENA LANDS
- 1/4% MINERAL RESERVATION TO STATE

EXHIBIT No. 10

7



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