

MINUTE ITEM
This Calendar Item No. 43
was approved as Minute Item
No. 43 by the State Lands
Commission by a vote of 3
to 0 at its 1-21-88
meeting

CALENDAR ITEM

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01/21/88
PRC 5206
Hoagland
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APPROVAL OF THE CONSENT TO ENCUMBRANCE OF STATE GEOTHERMAL
LEASE PRC 5206 FOR FINANCING GEOTHERMAL DEVELOPMENT AT
THE GEYSERS, LAKE COUNTY

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

LENDER: Morgan Guaranty Trust Company of New York
23 Wall Street
New York New York 10015

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

PREREQUISITE:
1. Encumbrance forms have been executed.
2. Lender is qualified to hold a State lease.
3. The statutory filing fees have been
submitted.

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.

CALENDAR ITEM NO. 43 (CONT'D)

In April 1985, the Commission approved assignment of PRC 5206 from Natomas to Phillips Petroleum. In November 1985, Phillips sold its California geothermal leases including PRC 5206 to Freeport Geothermal Resources. In October 1986, the Commission approved the assignment of the lease from Phillips to Freeport.

Freeport Geothermal Resources Company, a Delaware corporation, is the lessee of State Geothermal Lease PRC 5206. Freeport has obtained a loan commitment of \$45 million for the construction of a power plant to serve the State geothermal lease and nearby private lands. The Lessee and Lender (Morgan Guaranty Trust Company of New York, and others) desire to encumber the Lessee's interest in the geothermal lease to secure the loan. (See map, Attachment A).

In addition, Freeport McMoran Resource Partners, Limited Partnership (a Delaware limited partnership) owns nearby private leases upon which a separate power plant is being constructed. The State will not receive a direct economic benefit from this separate development. Freeport Geothermal Resources Company is a partner in this plant and has agreed to guarantee the obligations of the limited partnership under its loan agreement. This guarantee was part of the loan agreement for financing the project located on State lands, and therefore, the consent to encumbrance agreement includes the guarantee obligations. Thus, if the limited partnership were to default and Freeport Geothermal Resources Company were to default on the guaranty, the lenders could foreclose on the State Lessee's lease interest.

It is understood that Freeport McMoran Resources Partners, Limited Partnership is also guarantying Freeport Geothermal Resources Company's loan obligation. And, accordingly, the interest rate on the loans was lower because of these cross guarantees.

Although the Commission does not have to consent to the encumbrance for the guarantee portion of the loan, without its approval the loan would have to be restructured. Since this project will substantially benefit the school lands revenue picture, staff believes it is in the State's best interest to approve the consent to encumbrance.

Staff is recommending approval of the encumbrance of PRC 5206 between Freeport Geothermal Resources Company and Morgan Guaranty Trust Company so the power plant construction and the steam field development can proceed as planned. Completion of the project will allow generation of about \$250,000 in new State royalty revenue by 1989.

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.

EXHIBIT: A. Location Map.

IT IS RECOMMENDED THAT THE COMMISSION:

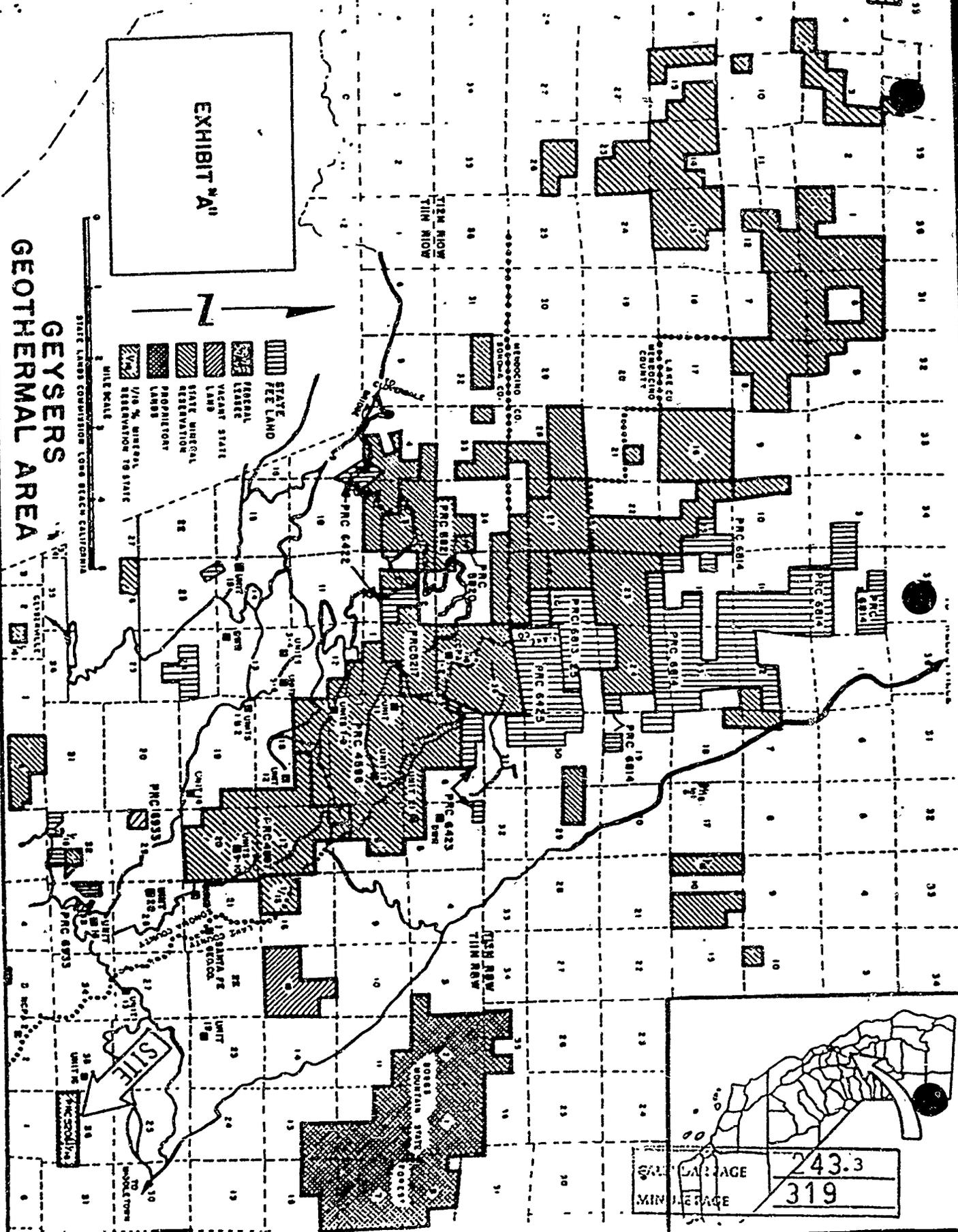
1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. ADM. CODE 15061 BECAUSE IT IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL ADM. CODE 15378.
2. APPROVE THE CONSENT TO ENCUMBRANCE OF PRC 5206 BETWEEN FREEPORT GEOTHERMAL RESOURCES COMPANY AND MORGAN GUARANTY TRUST COMPANY OF NEW YORK.

GEYSERS GEOHERMAL AREA

STATE LANDS COMMISSION LONG BEACH CALIFORNIA

EXHIBIT "A"

- STATE LAND
- FEDERAL LEASE
- VACANT STATE LAND
- STATE MINERAL RESERVATION
- PROPRIETOR LANDS
- 1/16 % MINERAL RESERVATION TO STATE



SUM TOTAL	243.3
MIN AVERAGE	319

R.O 12/87