

MINUTE ITEM

This Calendar Item No. 59 was approved as
Minute Item No. 59 by the California State Lands
Commission by a vote of 3 to 0 at its
4/13/99 meeting.

**CALENDAR ITEM
C59**

A 2, 8

S 4

04/13/99
PRC 4596.2
PRC 4597.2
PRC 6422.2
PRC 6423.2
J. Adams

**CONSIDER APPROVAL OF AN AMENDMENT MODIFYING THE ROYALTY
PROVISIONS OF STATE GEOTHERMAL RESOURCE LEASE
NOS. PRC 4596.2, PRC 4597.2, PRC 6422.2, AND PRC 6423.2,
LAKE AND SONOMA COUNTIES**

LESSEE:

Geysers Power Company, LLC
C/o Calpine Corporation
Attn.: Ms. Jacalyn Thomas
6700 Koll Center Parkway, Suite 200
Pleasanton, CA 94566

AREA, LAND TYPE, AND LOCATION:

Approximately 4,408 acres of School Land in The Geysers Geothermal Field,
Lake and Sonoma Counties.

BACKGROUND:

State Geothermal Resource Lease Nos. PRC 4596.2, PRC 4597.2, PRC 6422.2,
and PRC 6423.2 were issued to Union Oil Company of California (Unocal)
between 1971 and 1974. Contingent upon Commission approval of a concurrent
calendar item involving the assignment of Unocal's interests to Thermal Power
Company, and then assignment of Thermal Power's interests, the Lessee of
record will be Geysers Power Company, LLC, a subsidiary of Calpine
Corporation. Geysers Power Company has requested Commission approval of
an amendment modifying the royalty provisions of the Leases.

The Leases currently specify that geothermal resources shall not be disposed of

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except in accordance with sales contracts approved by the Commission. To date, all steam produced from the Leases has been sold through an arms-length steam sales contract between Unocal, as steamfield operator, and Pacific Gas and Electric Company (PG&E), as operator of the powerplants. The Commission approved the original steam sales contract in 1972, as well as a new steam sales contract in 1992, and modifications to the new contract in 1995 and 1996.

It is the intention of Geysers Power Company to acquire the PG&E powerplants served by the steamfield within the next 30 to 90 days. If this occurs, the steam sales contract will terminate because a single entity will control both the steamfield and the powerplants. In the absence of an arm's length sales agreement, an alternative method for valuing the geothermal steam resource will be needed. Commission staff has evaluated various methods for establishing the value of the geothermal resource used to generate electrical power, and has determined that a fixed percentage royalty calculation method will provide fair compensation for the use of the resource. This method establishes the steam value as a percentage of the value of the electricity generated from the steam.

Accordingly, Commission staff proposes to modify the royalty provisions under the Leases, contingent upon the acquisition of the PG&E powerplants by Geysers Power Company, or any entity related to or affiliated with Geysers Power Company, resulting in the loss of the arms-length sale of steam. The value of the geothermal steam produced from the Leases during the first year of combined ownership of the steamfield and powerplants by Geysers Power Company and/or any related entity, for purposes of calculating royalty payments for the Leases, shall be thirty-six percent (36%) of the total gross value associated with the sale of the electrical power generated from the steam. This percentage would increase to thirty-eight percent (38%) in the second year, thirty-nine percent (39%) in the third year, forty percent (40%) in the fourth year, forty-one percent (41%) in the fifth year, and remain at forty-two percent (42%) thereafter. The gross value associated with the sale of electrical power will include, without limitation, sales of electricity to the California Power Exchange, bilateral power sales contracts, payments from Reliability Must Run and/or

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Ancillary Services contracts with the California Independent System Operator, subsidies from the California Energy Commission's Existing Renewable Resources Account, and/or green power premiums. The royalty provision shall be subject to renegotiation in 2009, ten years after the effective date of the amendment.

Commission staff additionally proposes that, during the term of the lease, it conduct periodic inspections of lease operations, with all reasonable and necessary costs for the administration and implementation of the inspections paid by Lessee through a State Standard Reimbursement Agreement, subject however, to a twenty-five thousand dollar (\$25,000.) per annum cap, adjusted annually based upon the change in the Consumer Price Index. All costs shall be calculated under provisions of the State Administrative Manual.

STATUTORY AND OTHER REFERENCES:

- A. Public Resources Code, section 6913.
- B. Paragraphs 4 and 6 of Lease Nos. PRC 4596.2 and PRC 4597.2.
- C. Paragraph 3 (c) (1) of Lease Nos. PRC 6422.2 and PRC 6423.2.

OTHER PERTINENT INFORMATION

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

Authority: Public Resources Code, Section 21065, and Title 14 California Code Regulations, Section 15378.

EXHIBIT:

Location Map

PERMIT STREAMLINING ACT DEADLINE:

N/A

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RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDING:

FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15061 BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY PUBLIC RESOURCES CODE, SECTION 21065 AND TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15378.

AUTHORIZATION:

APPROVE THE AMENDMENT OF STATE GEOTHERMAL RESOURCE LEASE NOS. PRC 4596.2, PRC 4597.2, PRC 6422.2, AND PRC 6423.2, AS FOLLOWS:

1. MODIFY THE ROYALTY PROVISIONS TO PROVIDE THAT, CONTINGENT UPON THE ACQUISITION OF THE PG&E POWERPLANTS BY GEYSERS POWER COMPANY, LLC., OR ANY RELATED ENTITY, RESULTING IN THE LOSS OF THE ARMS-LENGTH SALE OF STEAM, THE VALUE OF THE GEOTHERMAL STEAM PRODUCED FROM THE LEASES DURING THE FIRST YEAR OF COMBINED OWNERSHIP OF THE STEAMFIELD AND POWERPLANTS FOR PURPOSES OF CALCULATING ROYALTY PAYMENTS FOR THE LEASES, SHALL COMMENCE AT THIRTY-SIX PERCENT (36%) OF THE TOTAL GROSS VALUE ASSOCIATED WITH THE SALE OF THE ELECTRICAL POWER GENERATED FROM THE STEAM, INCREASING TWO PERCENT (2%) AFTER THE FIRST YEAR AND THEN ONE PERCENT (1%) ANNUALLY TO FORTY-TWO PERCENT (42%). THE ROYALTY PROVISIONS SHALL BE SUBJECT TO RENEGOTIATION IN 2009, TEN YEARS AFTER THE EFFECTIVE DATE OF THE AMENDMENT.

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2. AMEND THE LEASES TO PROVIDE FOR REIMBURSEMENT OF ALL REASONABLE NECESSARY COSTS FOR THE ADMINISTRATION AND IMPLEMENTATION OF PERIODIC INSPECTIONS OF LEASE OPERATIONS BY COMMISSION STAFF. COSTS SHALL BE PAID BY LESSEE THROUGH A STATE STANDARD REIMBURSEMENT AGREEMENT, SUBJECT HOWEVER, TO A TWENTY-FIVE THOUSAND DOLLAR (\$25,000.) PER ANNUM LIMIT, ADJUSTED ANNUALLY BASED UPON THE CHANGE IN THE CONSUMER PRICE INDEX. ALL COSTS SHALL BE CALCULATED UNDER PROVISIONS OF THE STATE ADMINISTRATIVE MANUAL.

AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO EXECUTE ALL DOCUMENTS TO EFFECT THIS AMENDMENT.

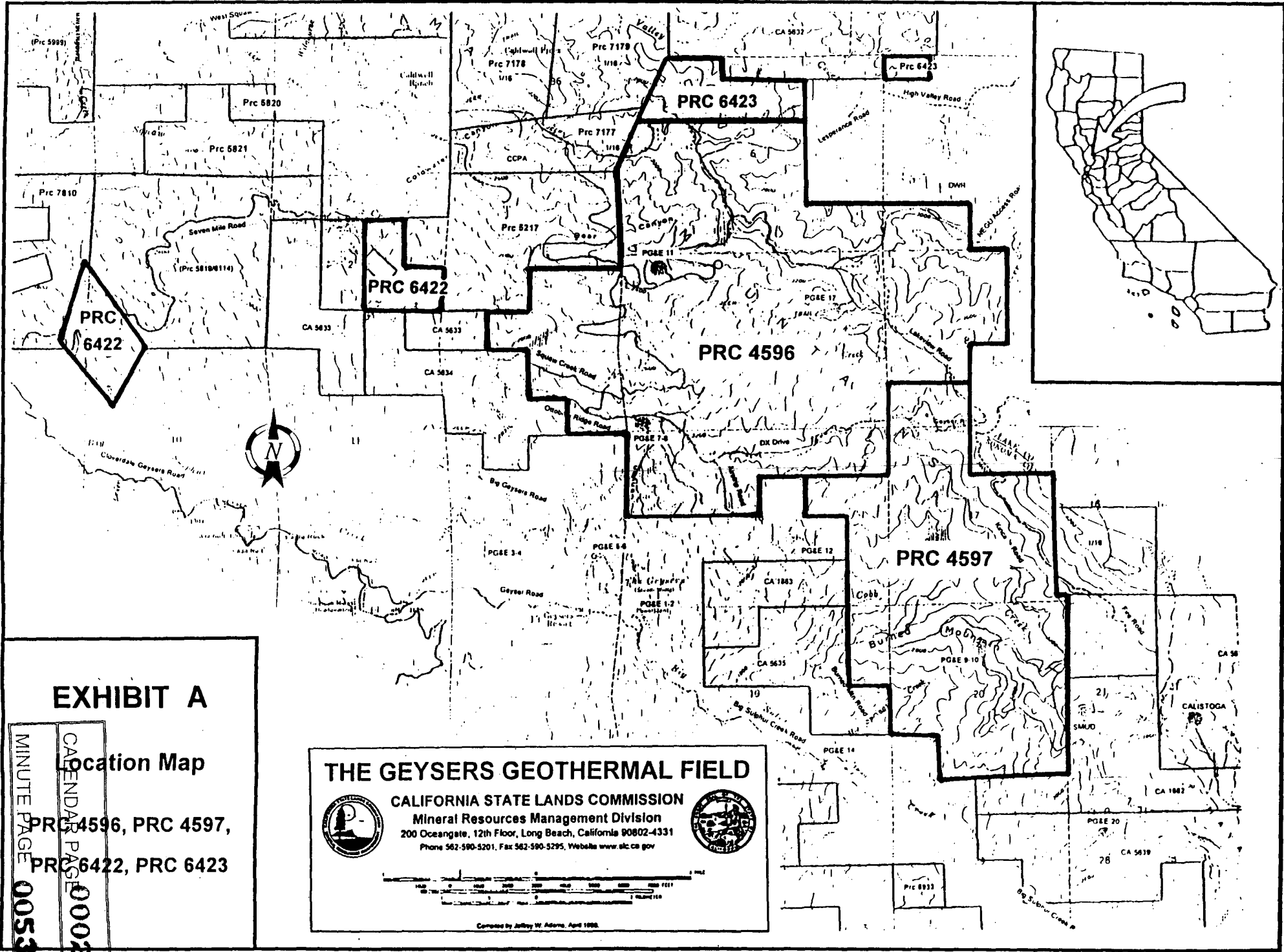


EXHIBIT A

Location Map

PRC 4596, PRC 4597,
PRC 6422, PRC 6423

THE GEYSERS GEOTHERMAL FIELD

CALIFORNIA STATE LANDS COMMISSION
Mineral Resources Management Division
200 Oceangate, 12th Floor, Long Beach, California 90802-4331
Phone 562-590-5201, Fax 562-590-5295, Website www.slc.ca.gov

Composed by Jeffrey W. Adams, April 1998.

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