

**CALENDAR ITEM
C80**

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PRC 8673.2
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**CONSIDER APPROVAL OF AN ASSIGNMENT OF
100 PERCENT INTEREST IN, AND TWO-YEAR EXTENSION
OF, STATE GEOTHERMAL RESOURCES
PROSPECTING PERMIT NO. PRC 8673.2,
INYO COUNTY**

PERMITTEE AND ASSIGNOR:

Deep Rose, LLC
Attn.: Mr. Terry Metcalf
P. O. Box 378
Sonoma, CA 95476

ASSIGNEE:

Deep Rose Geothermal 16, LLC
Attn.: Mr. Terry Metcalf
P. O. Box 378
Sonoma, CA 95476

TERM OF EXTENSION:

May 1, 2008, through April 30, 2010.

AREA, TYPE LAND AND LOCATION:

Approximately 640 acres of State fee-owned School Lands comprising all of Section 16, Township 21 South, Range 38 East, Mount Diablo Meridian, Inyo County.

BACKGROUND:

State Geothermal Resources Prospecting Permit No. PRC 8673.2 (Permit) was issued to Deep Rose, LLC, (Permittee) effective May 1, 2006, granting an exclusive right for two years to prospect for geothermal resources in the permitted area, subject to an extension of two additional years at the discretion of the California State Lands Commission (Commission). The Permit provides that

CALENDAR ITEM NO. **C80** (CONT'D)

upon discovery of geothermal resources in commercial quantities, the Permittee shall have a preferential right to a geothermal resources lease, subject to approval by the Commission. The Permit requires an annual rent of one dollar (\$1.00) per acre for the first year, five dollars (\$5.00) per acre for the second year, and twenty-five dollars (\$25.00) per acre for the third and fourth years, if the Permit is extended. The Permit requires a prospecting program that includes the drilling and testing of one or more geothermal wells. The Permittee has a Conditional Use Permit from the Inyo County Planning Department granting permission to drill up to four geothermal exploration wells. The Permittee also has a right-of-way over adjacent U.S. Bureau of Land Management lands to construct an access road to the State parcel.

ASSIGNMENT:

The Permittee has requested the Permit be assigned to a newly formed limited liability company consisting of the Permittee and Raser Technologies, Inc. The parties formed Deep Rose Geothermal 16, LLC, on December 12, 2007, under the Delaware Limited Liability Company Act. The financial risk to the State is low with this newly formed company because expected surface disturbance is minimal and sufficient cash security already has been obtained from the Permittee.

EXTENSION:

The Permittee and the new limited liability company have requested an extension of the Permit and have provided Commission staff with a summary of the actions undertaken during the past two years. The Permittee spent an estimated \$2,000,000, but encountered difficulties and delays in securing a financial partner, a drilling contractor, and all the permits required for the construction of an access road and the commencement of exploratory drilling operations on the State parcel. The inclusion of Raser Technologies, as a member of the proposed assignee, will bring additional financial resources and technical expertise to the project. The Permittee has indicated to Commission staff that road construction will begin no later than May 2008, and construction of a drillsite and commencement of drilling activities will begin by fall 2008.

PREREQUISITE CONDITIONS, FEES AND EXPENSES:

The Permittee has submitted all assignment forms and supporting documentation concerning the limited liability company and has paid the required filing and processing fees for the assignment and extension. The Permittee has also paid the twenty-five dollar (\$25.00) per acre rent for May 1, 2008, through April 30,

CALENDAR ITEM NO. **C** (CONT'D)

2009. The Permittee previously deposited with the Commission, in lieu of a bond, fifty thousand dollars (\$50,000.00) , guaranteeing the faithful performance of the terms and conditions of the Permit.

STATUTORY AND OTHER REFERENCES:

- A. Paragraphs 1 and 32 of State Geothermal Resources Prospecting Permit No. PRC 8673.2.
- B. Public Resources Code sections 6804, 6910(b), and 6925.

OTHER PERTINENT INFORMATION:

- 1. A Mitigated Negative Declaration was prepared and adopted for this project in March 2006 by the State Department of Conservation - Division of Oil, Gas, and Geothermal Resources. Commission staff has reviewed such document. A Mitigation Monitoring Program was adopted by the State Department of Conservation - Division of Oil, Gas, and Geothermal Resources.
- 2. This activity involves lands which have NOT been identified as possessing significant environmental values pursuant to Public Resources Code sections 6370, et seq. However, the Commission has declared that all state school lands and submerged lands are “significant” by nature of their public ownership (as opposed to “environmentally significant”). Since such declaration of significance is not based upon the requirements and criteria of Public Resources Code sections 6370, et seq., use classifications for such lands have not been designated. Therefore, the finding of the project’s consistency with the use classification as required by Title 2, California Code of Regulations, section 2954 is not applicable.

EXHIBIT:

- A. Site Map

PERMIT STREAMLINING ACT DEADLINE:

July 18, 2008 (CSLC acting as responsible agency under the CEQA).

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDING:

FIND THAT A (MITIGATED) NEGATIVE DECLARATION AND A MITIGATION MONITORING PROGRAM WERE PREPARED AND

CALENDAR ITEM NO. C80 (CONT'D)

ADOPTED FOR THIS PROJECT BY STATE DEPARTMENT OF CONSERVATION - DIVISION OF OIL, GAS, AND GEOTHERMAL RESOURCES AND THAT THE COMMISSION HAS REVIEWED AND CONSIDERED THE INFORMATION CONTAINED THEREIN.

AUTHORIZATION:

1. CONSENT TO THE ASSIGNMENT OF THE 100 PERCENT INTEREST IN STATE GEOTHERMAL RESOURCES PROSPECTING PERMIT NO. PRC 8673.2 FROM DEEP ROSE, LLC, TO DEEP ROSE GEOTHERMAL 16, LLC, WITH THE ASSIGNEE TO BE BOUND BY ALL THE TERMS AND CONDITIONS OF THE PERMIT.

2. AUTHORIZE THE EXTENSION OF STATE GEOTHERMAL RESOURCES PROSPECTING PERMIT NO. PRC 8673.2 THROUGH APRIL 30, 2010, WITH ALL TERMS AND CONDITIONS OF THE PERMIT TO REMAIN IN FULL FORCE AND EFFECT.

3. AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO EXECUTE ANY DOCUMENTS NECESSARY TO IMPLEMENT THE COMMISSION'S ACTION