

**INFORMATIONAL
CALENDAR ITEM
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J. Adams

**FILE RECORDS FOR ONE-SIXTEENTH
RESERVED MINERAL INTEREST PARCEL,
THE GEYSERS GEOTHERMAL FIELD,
SONOMA AND LAKE COUNTIES**

PARTIES:

California State Lands Commission
100 Howe Avenue, Suite 100-South
Sacramento, CA 95825-8202

Wildhorse Ranch, Inc.
Attention: Mr. Richard Wall
100 Broadway, Third Floor
San Francisco, CA 94111

CPN Wild Horse Geothermal, LLC
Attention: Mr. Kevin Talkington
10350 Socrates Mine Road
Middletown, CA 95461

AREA, LAND TYPE, AND LOCATION:

Approximately 534 acres of State one-sixteenth (1/16th) reserved mineral interest school lands in Section 36, T12N, R9W, M.D.B.&M., at The Geysers Geothermal Field, Sonoma and Lake Counties.

BACKGROUND:

Pursuant to Section 10 of Chapter 303, California Statutes of 1921, as amended with a minor modification in wording in the Statutes of 1935, Chapter 848, page 2269, certain State-owned lands were sold with the State retaining a 1/16th mineral interest. The statute provides, in part:

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"...The purchaser of the soil is hereby authorized to sell or lease... the oil and gas and other minerals that may be thereon or therein upon such terms and conditions as such purchaser and owner may deem best... provided... that the lessee or purchaser shall in every case pay to the state an undivided one-sixteenth of the mineral produced or the value thereof at the well..."

The landowner, as fifteen-sixteenth mineral interest owner, is free to lease the lands for mineral development, but the landowner is obligated to see that the State, through the California State Lands Commission (Commission), is paid a full 1/16th of the value of all minerals produced from the lands, including geothermal resources. The landowner, as lessor, typically instructs its lessee to make the payments directly to the State. Along with the payment, the lessee also provides to the State production statements and details on its allocation methods. This is usually done on a monthly basis to coincide with payment deadlines on other geothermal leases in the area.

Although the Commission does not issue leases or permits on State 1/16th reserved mineral interest lands, there is still a need for a Public Resources Code (PRC) numeric designation so that file records can be maintained and accounting can be performed relative to the payments associated with individual parcels.

1/16TH RESERVED MINERAL INTEREST PARCEL AT THE GEYSERS:

The subject parcel covers approximately 534 acres in Section 36, T12N, R9W, in the northern part of The Geysers, the largest geothermal development in the world. The parcel is owned by Wildhorse Ranch, Inc. (WHR), owner of approximately 2,000 acres of adjacent lands where the State reserved a one-hundred percent (100%) mineral interest. WHR also owns approximately 2,000 acres of lands in fee. WHR's lessee is CPN Wild Horse Geothermal, LLC, a subsidiary of Calpine Corporation. CPN Wild Horse holds two State geothermal resource leases at The Geysers which total 2,281 acres. Another Calpine subsidiary, Geysers Power Company, LLC, holds the remaining five State leases which total another 4,966 acres.

WHR originally leased the subject parcel to Geothermal Resources International (GRI), which drilled six wells there in the early 1980s. The wells produced more than 22.9 billion pounds of geothermal steam from 1988 through 1996. The steam was used at a power plant owned by Central California Power Agency (CCPA). In 1992, WHR assigned the lease to CCPA after GRI went bankrupt. In 1996, CCPA closed its power plant because it was too costly to operate. The six

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wells were later plugged with cement and abandoned. However, from 1988 through 1996, the State received more than \$2.2 million in revenue from the parcel as its 1/16th share of the steam production. The parcel was actually divided into two parts identified as PRC 7177.2 and PRC 7178.2. This was done because production from the two parts supplied two different turbine units within CCPA's power plant. The files corresponding to those two PRC designations were closed when WHR's lease with CCPA was terminated in 1999.

In 2004, WHR issued a new lease covering the subject parcel to Geysers Power Company under a new set of lease terms. In 2010, that lease was assigned to Calpine's CPN Wild Horse Geothermal subsidiary. Three wells have been completed on the parcel and a pipeline is now being constructed to transport steam from the wells to one or more existing geothermal power plants operated by Calpine. Because the parcel will soon become productive a new PRC number is needed for file records and accounting related to the State's 1/16th reserved mineral interest.

REVENUE FROM STATE LANDS AT THE GEYSERS:

Production of geothermal resources from State-owned school lands at The Geysers began in 1972. Through mid-2011, the State lands, including both one-hundred percent and 1/16th reserved mineral interest lands, have yielded nearly 1.6 trillion pounds (786 million tons) of geothermal steam and more than \$186 million in royalty revenue to the State. The State lands at The Geysers currently yield about \$5 million annually. Since 1984, pursuant to PRC section 6217.5, net revenues derived from the State's school lands are deposited in the State Teachers' Retirement Fund.

EXHIBIT:

- A. Location Map