

MINUTE ITEM

6/78
Priddy17. SALES PRICE FOR GEOTHERMAL RESOURCES, GEYSERS AREA,
1978 - PRC 4596, PRC 4597.

During consideration of Calendar Item 17 attached, Mr. A. D. Willard, Supervising Mineral Resources Engineer, gave an informational status report on the sales price for geothermal resources in the Geysers area for 1978.

Commission-Alternate Sid McCausland asked if the subject prices included the same factors for imported fuel from cartel-controlled sources. Mr. Willard assumed that it did. Mr. McCausland then requested the staff to research the inclusion of these factors as support for Commission use of similar data for establishment of related market prices.

In addition, Mr. McCausland indicated his desire to understand the geologic consequences of shutting in a geothermal well when it is not required rather than venting the well to the atmosphere. He was concerned that reasonable conservation management techniques be used in the development of geothermal resources. Policies should dictate that when the resource cannot be used for its intended commercial development, strict conservation measures should be enforced to protect the resource. In addition, Chairman Kenneth Cory stated it was his opinion that geothermal resources are more suited to a constant energy supply situation, and instructed the staff, in future geothermal leasing, to address the concept of using geothermal steam as a constant energy source, protecting against its use for meeting peak energy demands. Mr. McCausland agreed and stated that in addition it is important to meet with the operators of State geothermal leases regarding the relative importance of this resource in comparison to other energy sources since the field of geothermal energy has changed a great deal in the past few years.

Chairman Cory asked for a status report of litigation on the environmental problems in Lake County.

Mr. N. Gregory Taylor, Assistant Attorney General, stated that Lake County apparently requested that the Air Resources Board sue PG&E or increase the requirements with regard to H₂S discharges into the atmosphere. He explained that PG&E was granted a deferral in a program to restrict H₂S discharges. Lake County is contending that H₂S is blowing over the mountains from Sonoma County into their county. He indicated the status of this litigation is unknown at this time, but he would research further and report back to the Commission.

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With regard to Pariani v. State, Mr. Taylor reported that the State's position was recently upheld at the trial court level. Further, in another case in a Federal court concerning whether geothermal resources was a water or mineral (Union v. U.S.), the decision on appeal came down and held that the resource was a mineral. Upon request, the U. S. Supreme Court refused to review the case. It was hoped this decision would have disposed of the issue; however, at this time that does not appear to be the case. The private parties in the Pariani case have now announced they are going to proceed with an appeal of their case.

The record is not completed as yet. They have 30 days to file their opening brief after which the State must file its brief in response. In addition, Mr. Taylor reported that pursuant to court order, there are royalties in excess of \$8 million being held in a special trust account. Mr. Taylor indicated his instructions to the Deputy Attorney General in charge of this lawsuit, Dennis Egan, will be to give this litigation top priority. The case may not be final for two to four years so this amount of money will be accumulating and will not be available for State use until the case is concluded.

Attachment: Calendar Item 17 (one page)

INFORMATIVE CALENDAR ITEM

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PRC 4596
PRC 4597
Priddy

SALES PRICE FOR GEOTHERMAL RESOURCES
GEYSERS AREA 1978

The Sales Price for electricity produced in the Geysers area has been set at 15.52 mills per kilowatt hour of net output. Pursuant to terms of the sales contract the price of steam is redetermined annually based on the average price of electricity generated from fossil fuels and nuclear fuel (nuclear fuel use was 0 in 1977). The agreement for the sale of geothermal steam from Union Oil Company of California, Magma Power Company and Thermal Power Company to Pacific Gas and Electric Company was approved by the Commission in June of 1972. At that time the rate was 2.4 mills per kilowatt hour.

The rate, kilowatt hours generated, and royalty from State lands are tabulated below:

<u>Year</u>	<u>Rate in Mills</u>	<u>KWH</u>	<u>Royalty</u>
1972	2.40	237,240,000	\$ 56,938
1973	2.65	820,305,000	\$ 217,381
1974	3.23	1,451,882,000	\$ 468,957
1975	6.89	2,004,442,000	\$1,381,061
1976	10.85	2,246,039,000	\$2,436,952
1977	13.68	2,305,002,000	\$3,153,243
1978	15.52	2,500,000,000(est)	\$4,000,000(est)

Royalty income to the State in 1978 is estimated to be \$4,000,000. The royalty continues to be deposited in the trust account established by the court pending outcome of the Pariani case (litigation over geothermal resources ownership on patented lands which included a mineral reservation). The trial court ruled the State is the owner of the geothermal resources beneath the patented lands and therefore entitled to the royalties from the sale of the geothermal steam. The Pariani case is currently on appeal. As of March 29, 1978, \$8,773,859 was on deposit in the trust account.

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