

MINUTE ITEM

This Calendar Item No. 26  
approved as Minute Item  
No. 26 by the State Lands  
Commission by a vote of 2  
to 1 at its 3/6/86  
meeting.

MINUTE ITEM

26

03/06/86  
PRC 6398  
Staff

DENIAL OF REQUEST FOR A SIX-MONTH EXTENSION OF  
THE DRILL-BY DATE GEOTHERMAL LEASE PRC 6398.  
MENDOCINO COUNTY

During consideration of Calendar Item 26, attached, Mr. James Wazlaw, Vice-President, SAI Engineers, Inc. appeared to ask the Commission for a six-month extension of the lease.

The Commission was reluctant to approve an extension of the lease when the terms of the lease have not been met. The Commission also advised Mr. Wazlaw that approval of staff's recommendation would not preclude his company from applying for a new lease.

Upon motion duly made by Commission-Alternate Ordway and seconded by Commission-Alternate Wallace, the Resolution in Calendar Item 26 was approved, as presented, by a vote of 2-0.

Attachment: Calendar Item 26.

CALENDAR ITEM

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26

02/27/86  
PRC 6398  
Staff

DENIAL OF REQUEST  
FOR SIX MONTH EXTENSION OF THE DRILL-BY DATE,  
GEOTHERMAL LEASE PRC 6398, MENDOCINO COUNTY

APPLICANT: M-S-R Public Power Agency  
P. O. Box 4060  
Modesto, California 95352  
Attn: Greg Pohl

AREA, TYPE LAND AND LOCATION:  
Approximately 320 acres of school lands in the  
north half, Section 28, T12N, R9W, MDM,  
Mendocino County.

BACKGROUND INFORMATION:

On March 24, 1983 the State Lands Commission approved the issuance to M-S-R Public Power Agency of a geothermal lease by competitive public bid in the northwest portion of The Geysers Geothermal Field, Mendocino County.

The lease was for a primary term of ten years. In addition to paying a royalty of 12.5 percent of the gross revenue received, the lessee also agreed to pay 12 percent of the net profits derived from the lease.

Other terms of the lease require that the lessee:

1. Drill an exploratory well to evaluate the geothermal resources within three years of the lease issue date (March 24, 1983)
2. Submit annually a plan of development and operation.

(PAGES 148-148.4 ADDED 03/04/86) -1-

CALENDAR	148
MINUTE PAGE	586

CALENDAR ITEM NO. 26 (CONT'D)

The lessee has not drilled an exploratory well or filed an application to drill a well with the Commission or the Division of Oil and Gas (lead agency for geothermal exploratory projects under CEQA). Preparation of the environmental document could by statute require up to 135 days.

A well can not be drilled by March 24, 1986 so at that time M-S-R will be in default under the lease. As to annual plans, MSR has submitted only one report, on March 21, 1984, which the staff deemed inadequate. The failure to file development plans compounds the default.

In an undated letter received on January 22, 1985, and a second letter dated January 28, 1985, M-S-R proposed to sub-lease PRC 6398 to SAI Geothermal. They also requested the drill-by date be extended from March 24, 1986 to June 1, 1987. The Commission has not acted on that request. In a letter dated January 9, 1986, M-S-R has now requested a six-month extension of the drilling requirement. As a basis for their request, they state that SAI will provide a development plan for the lease at the end of the extension.

They state that SAI Geothermal has obtained long-term PURPA contracts with PG &E for 50 megawatts of powerplant. However, PG &E has allocated power transmission capacity of only 20 megawatts to SAI Geothermal. SAI Geothermal proposes to use that capacity on either M-S-R or GEO (GRI) private lands to the south of PRC 6398 and possibly a portion of the remaining 30 megawatts on PRC 6398.

STAFF ANALYSIS: The low net-profit bid (12 percent) was primarily due to the statutory provision that allows the surface land owner of the State-owned geothermal mineral reservation to match the high bid and be awarded the lease.

Under this condition most companies are reluctant to expend funds for evaluation of the

CALENDAR ITEM NO. 26 <sup>4</sup> (CONT'D)

property and submittal of a bid. Therefore, the competitive bid process is seriously impaired as was demonstrated in this instance when only one bid was submitted. The bid was submitted by the company having a lease agreement with the surface owner.

The Commission issued this extremely low net profits lease even though in the same action they rejected three higher bids (21.85 percent, 22.70 percent, and 22.80 percent) for adjacent parcels. Staff had recommended that none of the bids be accepted on the basis that a number of adjacent leases had been entered into for higher net profits.

M-S-R argued that it wanted to develop the property and should be awarded the lease. They said that they would be able to develop power sooner because they would be both the supplier of the steam, and the user of the resource since they would build and operate the generating plant.

At this time, M-S-R has not drilled an exploratory well for discovery of a resource, or even reached a point where exploration of PRC 6398 and sale of steam in the 1980's are likely.

The California Energy Commission and PG&E have projected delays until the mid 1990's in adding additional geothermal electrical generating capacity in northern California. The Commission staff believes that the best land management policy for the Commission, because of these projected delays, would be to accept a quitclaim of PRC 6398. The acreage could then be combined with adjacent unleased State lands for a unit comprising more than 2,000 acres offsetting the present developed area to the north and west. The leasing of this larger area, in the future at the time Geothermal steam generating capacity is to be

CALENDAR ITEM NO. 26 (CONT'D)

added, should provide the greatest flexibility for a developer and maximize future revenue to the State.

OTHER PERTINENT INFORMATION:

Pursuant to the Commission's delegation of authority, 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: P.R.C.: 21080(a) P.R.C. 21065 and 14 Cal. Adm. Code 15378.

AB 884: N/A.

EXHIBIT: A. Site Map.

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THIS 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. DENY THE REQUEST FOR EXTENSION OF THE DRILL-BY DATE FOR STATE GEOTHERMAL LEASE PRC 6398.

DATE	148 .3
MINUTE	589

