

MINUTE ITEM
This Calendar Item No. C 77
was approved as Minute Item
No. 77 by the State Lands
Commission by a vote of 2
to 0 at its 2/27/96
meeting.

CALENDAR ITEM
C77

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S 4

02/27/96
PRC 4596
PRC 4597
PRC 6422
PRC 6423
Adams

**APPROVE PRICE DETERMINATION FOR THE SALE OF
INCREMENTAL GEOTHERMAL STEAM, STATE GEOTHERMAL RESOURCES
LEASES PRC 4596, PRC 4297, PRC 6422 AND PRC 6423,
LAKE AND SONOMA COUNTIES**

LESSEE:

Attn: Mr. Anthony J. Chasteen
Union Oil Company of California
NEC Acquisition Company
Thermal Power Company
3576 Unocal Place
Santa Rosa, California 95403-1774

PURCHASER:

Pacific Gas and Electric Company
201 Mission Street
San Francisco, California 94177

AREA, TYPE LAND AND LOCATION:

School lands within The Geysers Steam Field, Lake and Sonoma Counties.

BACKGROUND:

The State has over 4,000 acres of reserved mineral interest lands under lease to Union Oil Company of California (50 percent), NEC Acquisition Company (25 percent) and Thermal Power Company (25 percent) in The Geysers Steam Field. The leases were entered into between 1971 and 1974, and provide that geothermal resources shall not be disposed of except in accordance with sales

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contracts approved by the State Lands Commission (Commission). In May 1970, Pacific Gas and Electric Company (PG&E), Union, and its partners executed agreements for the sale of steam at The Geysers, which the Commission approved in July 1972.

In September 1991, new agreements executed by the parties, approved by the Commission in June 1992, gave PG&E the right to curtail electrical generation, to be competitive with other sources of generation, provided they generate 40 percent of field capacity on an annual basis. In January 1995, when Geysers power became PG&E's most expensive dispatchable power source due to abundant hydroelectric power and low natural gas prices, they exercised this right. The curtailment drastically reduced the amount of steam Union could sell, and consequently, the amount of royalty revenue derived from State leases.

In August 1995, the parties executed an agreement for a temporary discount price of \$11.00 per megawatt-hour for all steam sold beyond the 40 percent minimum (called incremental steam). The regular 1994 price of \$16.47 was applied to all steam up to the 40 percent minimum. The agreement, approved by the Commission in October 1995, induced PG&E to increase Geysers generation because it made the power competitive with power generated from natural gas. This increased the amount of steam sold, and increased the State's royalty revenue above what would otherwise have been derived under maximum curtailment. The agreement expired at the end of 1995.

Because the outlook for future energy prices remains unfavorable, Union and its partners propose to continue discounting the price on incremental steam to PG&E during 1996. The price would be discounted periodically in order to make it as competitive as possible with market prices for other sources of electricity, and thus maximize both generation and price.

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Analysis of the electricity prices for 1995 (see attached Exhibit "B") indicates that in order to motivate PG&E to continue to purchase steam during off peak hours the competitive discounted price could fluctuate from as low as \$5.00 to approximately \$12.00 per megawatt-hour. The discounted price will encourage PG&E to continue to operate its power plants without curtailment by enabling the entire leasehold production to stay competitive with PG&E's dispatch mix of high on-peak and low off-peak prices.

The regular contract price, estimated to be \$16.70 in 1996, will still apply to all steam sold up to the 40 percent minimum. The discount price, which Union will offer to PG&E periodically, will apply to all additional generation (incremental steam). Union will also request the State's approval to use the discount price to calculate the State's royalty on the incremental steam. The basis for the reduced price will be reviewed by Commission staff to determine if it is competitive.

In order to facilitate timely approvals of the price, it is recommended that the Commission grant the Executive Officer authority to approve Union's discount price.

STATUTORY AND OTHER REFERENCES:

Public Resources Code, Section 6913, Lease Provisions, Paragraphs 4 and 6.

AB 884:

N/A

OTHER PERTINENT INFORMATION:

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (14 Cal. Code Regs. 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.

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OTHER PERTINENT INFORMATION:

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (14 Cal. Code Regs. 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 14 Cal. Code Regs. 15378.

EXHIBIT:

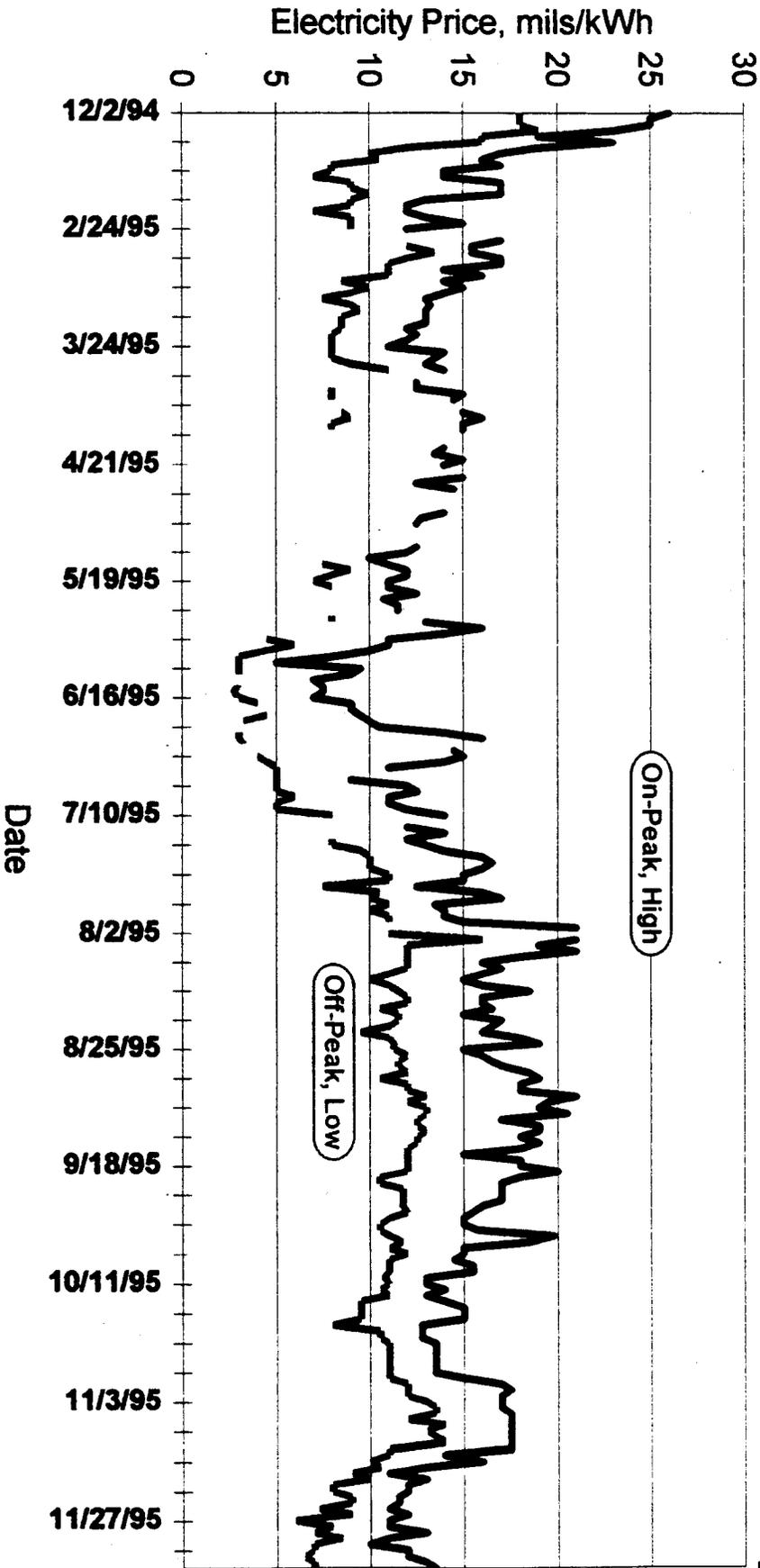
- A. Location Map
- B. Daily Spread in Northern California Non-Firm Electricity Prices

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. CODE REGS. 15061 BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY PUBLIC RESOURCES CODE SECTION 21065 AND 14 CAL. CODE REGS. 15378.
2. APPROVE THE PROCEDURE FOR PRICE DETERMINATION FOR THE SALE OF INCREMENTAL GEOTHERMAL STEAM BETWEEN UNION OIL COMPANY OF CALIFORNIA, NEC ACQUISITION COMPANY, THERMAL POWER COMPANY, AND PACIFIC GAS AND ELECTRIC COMPANY.
3. AUTHORIZE THE EXECUTIVE OFFICER TO APPROVE OR DISAPPROVE THE PROPOSED PRICE SUBMITTED BY THE LESSEES.

EXHIBIT "B"

Daily Spread in Northern California Non-Firm Electricity Prices Comparison of High, On-Peak and Low, Off-Peak Values



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PRC 4597

PRC 4221
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