

MINUTE ITEM
This Calendar Item No. C79
was approved as Minute Item
No. 79 by the State Lands
Commission by a vote of 3
to 0 at its 11-26-01
meeting.

CALENDAR ITEM
C79

A 1
S 2

11/26/01
PRC 5217.2
PRC 5820.2
PRC 5821.2
PRC 7751.2
J. Adams

**CONSIDER ACCEPTANCE OF FULL QUITCLAIM DEEDS
FOR STATE GEOTHERMAL RESOURCE LEASE NOS.
PRC 5217.2, PRC 5820.2, PRC 5821.2, AND PRC 7751.2,
THE GEYSERS GEOTHERMAL FIELD,
SONOMA, LAKE, AND MENDOCINO COUNTIES**

APPLICANT:

CCPA No. 1
Attn: Mr. Ken Byers
708 Alhambra Blvd., #2
Sacramento, CA 95816

AREA, LAND TYPE, AND LOCATION:

Approximately 1,449 acres of 100 percent reserved mineral interest School Land in The Geysers Geothermal Field, Sonoma, Lake, and Mendocino Counties.

BACKGROUND:

Geothermal Resources Lease No. PRC 5217.2, containing 434.16 acres of reserved mineral interest School Land, was issued in 1977 through competitive bid to surface owners Prati, Sink, Flood, and Wall (now collectively known as WHR, Inc.). Lease No. PRC 5820.2, containing 40.00 acres of reserved mineral interest School Land, was issued in 1980 through competitive bid to Geothermal Power Corporation. Lease No. PRC 5821.2, containing 200.00 acres of reserved mineral interest School Land, was issued in 1980 through competitive bid to surface owner Squaw Creek Investment Company. Lease No. PRC 7751.2, containing 774.52 acres of reserved mineral interest School Land, was issued in 1994 through negotiation to CCPA No. 1, a California joint powers agency composed of the Sacramento Municipal Utility District, the Modesto

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Irrigation District, and the City of Santa Clara. In 1992, CCPA No. 1 also became the lessee for Lease Nos. PRC 5217.2, 5820.2, and PRC 5821.2 through assignments approved by the California State Lands Commission (Commission).

QUITCLAIM SUBMITTAL:

Public Resources Code sections 6804.1 and 6914 permit a lessee to make, at any time, a written quitclaim of all rights under a lease. The quitclaim becomes effective on the date it is filed with the State, subject to the continued obligation of the lessee and its surety to pay all accrued rentals and royalties, and to place all wells on the lands to be quitclaimed in a condition for suspension or abandonment in accordance with applicable lease terms and regulations, whereupon the lessee shall be released from all obligations thereafter accruing under the lease with respect to the lands quitclaimed. Commission staff has received four documents, each titled "Quitclaim of Geothermal Lease" and dated December 27, 1999, quitclaiming back to the State all of CCPA No. 1's right, title and interest in the leased land described in State Geothermal Resource Lease Nos. PRC 5217.2, PRC 5820.2, PRC 5821.2, and PRC 7751.2.

LEASE DEVELOPMENT, OPERATIONS:

Five geothermal wells were drilled into Lease No. PRC 5217.2 between 1981 and 1987. One well was drilled into Lease No. PRC 5821.2 in 1984, and one well was drilled into Lease No. PRC 7751.2 in 1994. No wells were drilled into Lease No. PRC 5820.2. From 1988 through 1996, the six wells drilled into Lease Nos. PRC 5217.2 and PRC 7751.2, together with ten wells drilled on an adjacent private lease, supplied geothermal resources (steam) to CCPA No. 1's Coldwater Creek Geothermal Power Plant (CCPA Plant). During the eight years of operations, the six State wells produced a cumulative total of 18.3 billion pounds of steam, for which the State received a total of more than \$3 million in royalty revenue. Six other wells, located on adjacent private lands in which the State holds a one-sixteenth reserved mineral interest, produced 21.9 billion pounds of steam and provided another \$2 million in royalty revenue to the State.

OTHER LEASE IMPROVEMENTS:

In addition to wells, certain other improvements were constructed in connection with the development and utilization of geothermal resources from the four State leases. Six sites, each approximately two acres in size, were graded to form locations from which wells could be drilled and operated. Two other sites,

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totaling about 6.5 acres, were graded to provide locations for storage of equipment. Approximately three miles of unpaved roadway were constructed to provide access to the well sites. Roughly one mile of above-ground piping was installed to transport steam from the well sites to the CCPA Plant. About half of the unpaved roadway and piping was constructed directly upon the State leases; the balance on adjacent private lands. Two larger, asphalt-paved roadways were constructed to provide access to the project site from Lake County to the north and Sonoma County to the west. Portions of these paved roads cross two of the State leases. A 230-volt transmission line, with six supporting towers, was built to connect the CCPA Plant with Pacific Gas and Electric's electrical grid. A portion of the transmission line was built across Lease No. PRC 5217.2.

CCPA PLANT, CESSATION OF OPERATIONS:

The CCPA Plant consisted of two 65-megawatt turbine-generators and related equipment, which occupied about eight acres of private land immediately north of Lease No. PRC 5217.2. The construction and operation of the CCPA Plant was authorized through a license issued in 1985 by the California Energy Commission (CEC) pursuant to the Warren-Alquist Act (Public Resources Code Section 25500, et. seq.). The design of the CCPA Plant was based on the volume and quality of steam expected from the surrounding steam field. By the time the facility was completed in 1988, the steam supply was found to be of lesser quantity and inferior quality than originally estimated. As a result, the CCPA Plant generally operated only one of its two 65-megawatt turbines.

By 1996, the CCPA Plant was generating only 45 megawatts and its cost to generate power exceeded the cost to purchase power from other sources. Therefore, at the end of May 1996, CCPA No. 1 ceased operating the generating facility and put it up for sale. Because California had a surplus of electricity at that time, CCPA No. 1 could not locate a willing buyer for the power plant.

CLOSURE PLAN:

Pursuant to the terms of its license, CCPA No. 1 was required to prepare and file with the CEC a plan to decommission, or close, its power generating facility. CCPA No. 1 was also required to obtain the CEC's approval before undertaking any decommissioning activities, and comply with any requirements the CEC incorporated as a condition of approval of such plan. In 1997, CCPA No. 1 submitted its "Coldwater Creek Geothermal Power Plant and Steam Field Closure Plan" (Closure Plan) to the CEC. The Closure Plan detailed the

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activities and measures CCPA No. 1 would employ to accomplish the removal and permanent closure of the CCPA Plant and related steam field facilities, and the restoration of the project site.

With respect to improvements placed upon the four State leases, the Closure Plan provided for: (1) all wells to be plugged with cement and abandoned in accordance with State regulations covering geothermal well abandonment operations, (2) all steam pipelines to be removed, but with their concrete footings left at ground level, and (3) all well sites to be graded to improve drainage and control erosion, scarified to encourage re-vegetation, and re-vegetated with native grasses, shrubs and trees. The access roadways were to undergo minor alterations to improve drainage and erosion control, but they would otherwise be left in place for utilization by the surface owners and by County and State fire-fighting agencies.

CEC PROCEEDINGS AND DECISION:

The CEC conducted formal proceedings during 1997 and 1998 concerning the closure of the CCPA Plant and related steam field facilities. The proceedings included an analysis, performed by CEC staff, of the environmental impacts of the proposed closure activities, both for the power plant site and for the steam field. As previously noted, the CEC's jurisdiction over the plant site was pursuant to the Warren-Alquist Act (Public Resources Code Section 25500, et. seq.). With respect to the steam field portion of CCPA No. 1's Closure Plan, the CEC acted as Lead Agency pursuant to a memorandum of agreement between the CEC, CCPA No. 1, and Sonoma County.

Commission staff participated in the CEC's proceedings on the Closure Plan, and submitted comments to the CEC concerning the extent of abandonment and restoration requirements relative to the four State leases. Representatives of the largest surface owner, WHR, Inc., also participated and submitted comments. It was the position of WHR, Inc. that the Closure Plan omitted certain abandonment and restoration obligations required by its lease with CCPA No. 1, notably, the removal of the access roadways constructed for the project. WHR, Inc., as well as Commission staff, believed the CEC should have analyzed the potential impacts of completely removing the access roadways, rather than just the impacts of leaving the roads in place. The CEC decided, however, that it had neither the authority nor inclination to adjudicate lease terms concerning road removal or any other issues, and that road removal did not appear to be a

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reasonably foreseeable result of the closure project.

In 1998, the CEC issued its decision, which formally approved CCPA No. 1's Closure Plan. The approval contained a number of power plant closure conditions and steam field closure mitigation measures intended to ensure that closure activities not pose a risk of significant impacts to the environment. The approval provided for compliance monitoring and verification by staff of the CEC, and required that CCPA No. 1 provide for on-going monitoring for at least two years to ensure that measures undertaken to control erosion, maintain site stability and revegetate the area were ultimately successful. The approval also provided that CCPA No. 1 would cooperate with private land owners and the County of Sonoma to develop a plan concerning ways to mitigate the risk of significant road-induced impacts.

CCPA-WHR DISPUTE AND SETTLEMENT:

Shortly after the CEC issued its decision, CCPA No. 1 filed a complaint for declaratory relief in the superior court in an effort to have its closure obligations under the WHR, Inc. lease agreements determined. In late 1999, CCPA No.1 and WHR, Inc. agreed to settle the disputes raised in the declaratory relief action. A formal settlement and release agreement was executed by the parties in early 2000. The agreement provided that, in exchange for monetary compensation, WHR, Inc. would release CCPA No. 1 from any additional closure obligations beyond those included in the CEC-approved Closure Plan.

LEASE OBLIGATIONS FOR SITE ABANDONMENT AND RESTORATION:

Provisions of the subject leases require the lessee, unless the lessee is also the owner of the surface estate, to surrender possession of the leased lands with all improvements, including wells, left in place, or, at the State's option, to surrender possession of the leased lands after first removing all improvements and restoring the premises and replanting areas designated by the State.

In December 1999, Commission staff notified CCPA No. 1 in writing that the State would not exercise its option, pursuant to provisions in the subject leases, to retain any improvements, and that CCPA No. 1 should proceed with the plugging and abandonment of the wells, and all facility abandonment and restoration work contained in the CEC-approved Closure Plan.

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VERIFICATION OF ABANDONMENT AND RESTORATION WORK:

In early 2000, all seven of the wells drilled into the four State leases were plugged with cement and abandoned in accordance with State regulations covering geothermal well abandonment operations. By August 2001, CCPA No. 1 had completed its surface restoration work on the subject leases. Commission staff monitored the work to verify its conformance with terms of the subject leases. As further verification, Commission staff confirmed with staff of the CEC that the work satisfied the CEC's requirements relative to decommissioning the facility. Completion of the abandonment and restoration work fulfills CCPA No. 1's site clean-up and restoration obligations under the four State leases. Further, Commission staff has reviewed its files and concludes that no defaults exist on any of the four State leases, and that CCPA No. 1 has complied with all applicable laws and provisions of the leases, and has paid all rentals and royalties.

SURFACE OWNER SATISFACTION:

Commission staff contacted representatives of surface owners WHR, Inc., and Squaw Creek Investment Company, to determine whether they were satisfied that CCPA No. 1 has adequately restored the lands covered by the four State leases. Both WHR, Inc., and Squaw Creek Investment Co. advised Commission staff that CCPA No. 1 has restored the surface lands in an acceptable manner, and neither surface owner has an objection to the Commission accepting the quitclaim deeds submitted by CCPA No. 1.

STATUTORY AND OTHER REFERENCES:

- A. Public Resources Code sections 6804.1 and 6914.

OTHER PERTINENT INFORMATION:

- 1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines [Title 14, California Code of Regulations, section 15060(c)(3)], the staff has determined that this activity is not subject to the requirements of the CEQA because it is not a "project" as defined by the CEQA and the State CEQA Guidelines.

Authority: Public Resources Code section 21065 and Title 14, California Code of Regulations, sections 15060(c)(3) and 15378.

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EXHIBITS:

- A. Land Description
- B. Location Map

PERMIT STREAMLINING ACT DEADLINE:

N/A

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDING:

FIND THAT THE ACTIVITY IS NOT SUBJECT TO THE REQUIREMENTS OF THE CEQA, PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15060(c)(3) BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY PUBLIC RESOURCES CODE SECTION 21065 AND TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15378.

AUTHORIZATION:

1. ACCEPT FROM CCPA NO. 1 (LESSEE) THE (FULL) QUITCLAIM DEEDS DATED DECEMBER 27, 1999, WHEREIN THE LESSEE QUITCLAIMS BACK TO THE STATE ALL RIGHT, TITLE AND INTEREST IN THE LEASED LANDS DESCRIBED IN STATE GEOTHERMAL RESOURCE LEASE NOS. PRC 5217.2, PRC 5820.2, PRC 5821.2, AND PRC 7751.2.
2. RELEASE CCPA NO. 1 FROM ALL OBLIGATIONS UNDER STATE GEOTHERMAL RESOURCE LEASE NOS. PRC 5217.2, PRC 5820.2, PRC 5821.2, AND PRC 7751.2, EFFECTIVE NOVEMBER 26, 2001, ALL ABANDONMENT AND LEASE RESTORATION WORK HAVING BEEN COMPLETED.
3. AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO EXECUTE ANY DOCUMENT NECESSARY TO IMPLEMENT THIS QUITCLAIM.

EXHIBIT A

PRC 5217.2, PRC 5820.2
PRC 5821.2, PRC 7751.2

LAND DESCRIPTION

LEASE NO. PRC 5217.2:

Lots 1, 2, 3, 4, 5, 6, 7, 8, 11 and 12 of Section 1 and Lot 8 of Section 2, Township 11 North, Range 9 West, Mount Diablo Base and Meridian, Sonoma County, containing 434.16 acres, more or less.

LEASE NO. PRC 5820.2:

The Northeast Quarter of the Southeast Quarter of Section 34, Township 12 North, Range 9 West, Mount Diablo Base and Meridian, Sonoma County, containing 40.00 acres, more or less.

LEASE NO. PRC 5821.2:

The Northwest Quarter of the Southeast Quarter, the South Half of the Southeast Quarter, and the Southeast Quarter of the Southwest Quarter of Section 34, and the Southwest Quarter of the Southwest Quarter of Section 35, all in Township 12 North, Range 9 West, Mount Diablo Base and Meridian, Sonoma County, containing 200.00 acres, more or less.

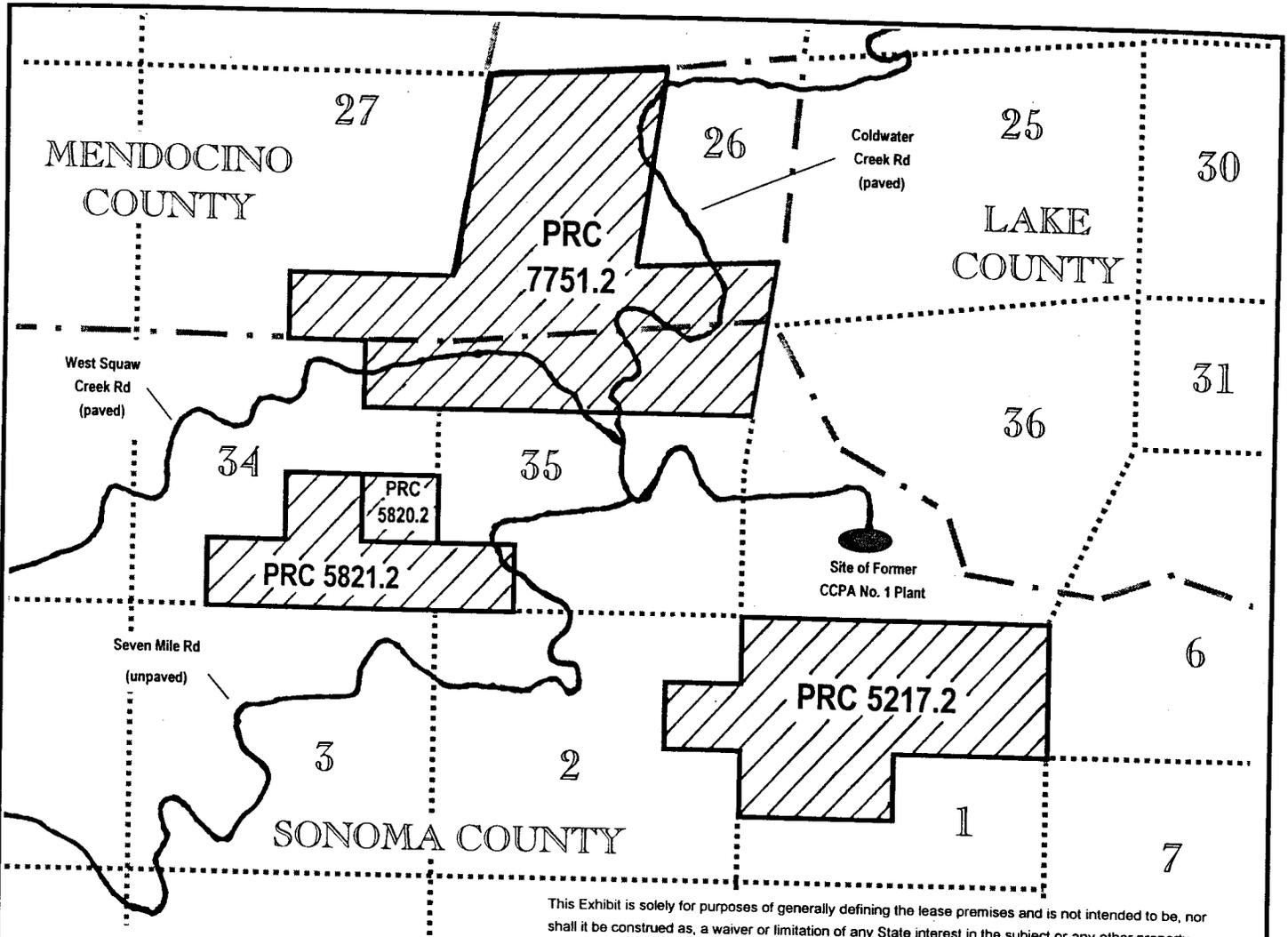
LEASE NO. PRC 7751.2:

The North Half of the Southwest Quarter and the Northwest Quarter of Section 26, all in Township 12 North, Range 9 West, Mount Diablo Base and Meridian, Lake and Mendocino Counties, containing 282.52 acres, more or less; and the South Half of the South Half of Section 26, the South Half of the Southeast Quarter of Section 27, the Northeast Quarter of the Northeast Quarter of Section 34, and the North Half of the North Half of Section 35, all in Township 12 North, Range 9 West, Mount Diablo Base and Meridian, Mendocino and Sonoma Counties, containing 492.00 acres, more or less. Total acreage is 774.52 acres, more or less.

Total acreage of the four State leases is 1,448.68 acres, more or less.

END OF DESCRIPTION

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This Exhibit is solely for purposes of generally defining the lease premises and is not intended to be, nor shall it be construed as, a waiver or limitation of any State interest in the subject or any other property.

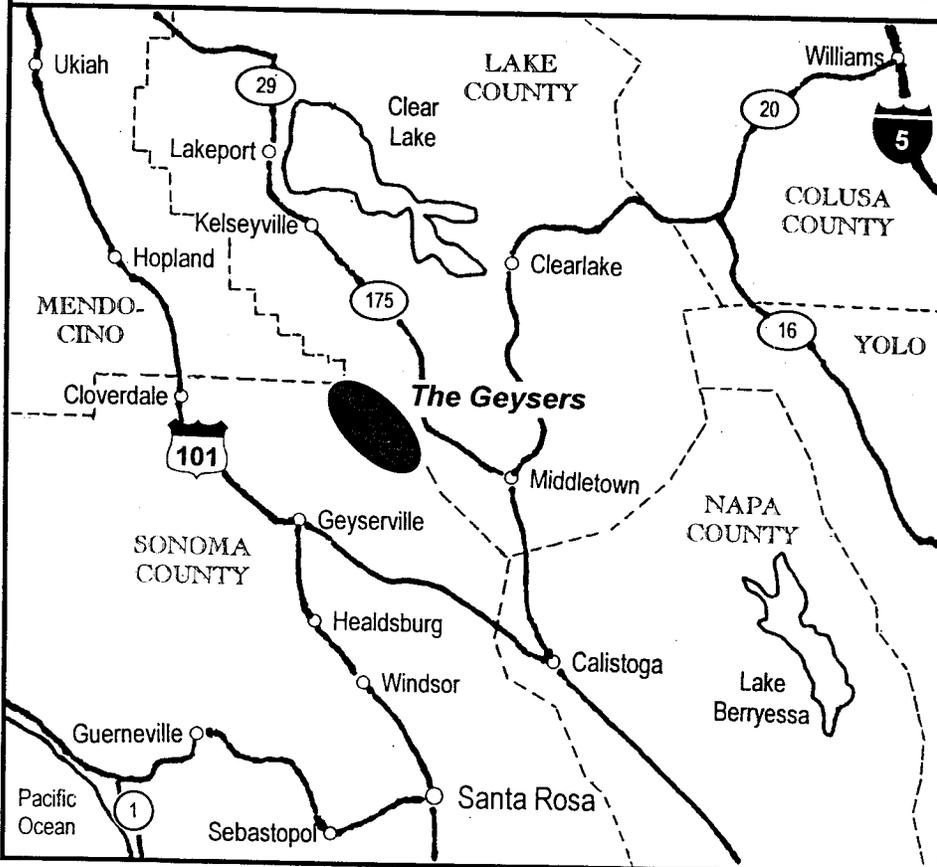


EXHIBIT B
PRC 5217.2, PRC 5820.2,
PRC 5821.2, PRC 7751.2
LOCATION MAP
The Geysers Geothermal Field
SONOMA, LAKE, and
MENDOCINO COUNTIES

JWA, 2001



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