**CALENDAR ITEM**

# C49

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PRC 8556.2
R17407
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## CONSIDER APPROVAL OF THE AMENDMENT OF STATE GEOTHERMAL RESOURCES LEASE NO. PRC 8556.2 TO PROVIDE FOR THE DRILLING OF GEOTHERMAL WELLS, THE GEYSERS GEOTHERMAL FIELD, SONOMA AND MENDOCINO COUNTIES

**LESSEE:**

Geysers Power Company, LLC
Attn.: Mr. Kevin Talkington
10350 Socrates Mine Road
Middletown, CA 95461

**AREA, LAND TYPE, AND LOCATION:**

Approximately 1,881.43 acres of State 100 percent (100%) reserved mineral interest school lands at The Geysers Geothermal Field, Sonoma and Mendocino Counties.

**BACKGROUND:**

State Geothermal Resources Lease No. PRC 8556.2 was issued to WHR, Inc., owner of the surface estate, and then assigned to Geysers Power Company, LLC (Lessee), both actions effective September 1, 2004. The leased land consists of several non-contiguous tracts identified as Parcels 1, 2, 3, and 4, as depicted on the attached Exhibit A.

The lease was originally issued for Parcels 1, 2, and 3. At the time of issuance, the California State Lands Commission (Commission) authorized the drilling of three exploratory wells. The wells were identified as WHS-71, WHS-73, and PS-35. The first two wells were to be drilled into Parcel 2, and the third well into Parcel 3. The County of Sonoma issued Use Permit UPE07-0042 authorizing the drilling of these wells, together with the construction of one drillsite and improvement of a jeep trail for access to the drillsite. The County permit, like the State lease, does not authorize production operations without further environmental analyses and approvals. The Lessee, therefore, must seek further

approval from the Commission and the County based on subsequent environmental review to conduct production operations.

The lease has been amended on three occasions, the effect of which has been to:

(1) Add an adjacent tract of State reserved mineral interest land as Parcel 4, authorize drilling into Parcel 4 from existing drillsites on adjacent private lands controlled by the Lessee, and utilize the resources from Parcel 4 at an existing geothermal power plant owned by the Lessee. The drilling and production operations would be in accordance with a plan covered by a Sonoma County Use Permit (UP94-760);

(2) Authorize the drilling of development wells into Parcels 1, 2 and 3 pursuant to Sonoma County Use Permit UPE05-0114. That permit covers nine drillsites on or adjacent to Parcels 1, 2, and 3, from which up to 26 wells could be drilled into the leased land. The actual development may ultimately involve as few as half that number of wells. The County permit also covers the construction of access corridors for pipelines, roads, and other appurtenant facilities for production of geothermal resources from Parcels 1, 2, and 3; and

(3) Extend the drilling term by two years, increase the annual rent until production is established, and clarify the types of wells that satisfy the drilling requirement.

To date, the Lessee has yet to drill any exploratory or production wells into the leased lands. The lease will terminate with respect to any of the four parcels that is not producing, or is not capable of producing, by the end of the primary term on September 1, 2011.

The Lessee is a wholly-owned subsidiary of Calpine Corporation and holds all six of the State's geothermal leases at The Geysers. The six leases cover approximately 6,848 acres. The Lessee also controls a private 360-acre parcel in which the State retains a 1/16$^{th}$ mineral interest. The Lessee uses geothermal steam produced from its State, Federal, and private leaseholds to generate approximately 1,000 megawatts of electricity. Although the subject lease is not yet producing, the other five State leases and the 1/16$^{th}$ parcel currently provide approximately $6 million per year in royalty revenue to the State. Public Resources Code section 6217.5 provides that net revenues derived from school lands shall be deposited in the State Teachers' Retirement Fund.

**REQUEST FOR AMENDMENT:**

The Lessee has requested amendment of the lease to authorize the drilling of two additional exploratory wells. The two wells, WHS-36 and WHS-77, are proposed to be drilled into Parcel 2 from a drillsite covered in the original lease authorization. The drilling of wells WHS-36 and WHS-77 is not covered by UPE05-0114, and the County must modify UPE07-0042 to permit the drilling of these two additional wells.

The Lessee seeks authorization to drill these additional exploratory wells to help delineate and confirm the presence of geothermal resources in the area. Such confirmation is necessary in advance of a proposal to develop and use these resources, possibly at one or more new geothermal plants the Lessee may construct.

**AMENDMENT TERM:**

The proposed amendment to State Geothermal Resources Lease No. PRC 8556.2 will authorize the Lessee to drill two additional exploratory wells, WHS-36 and WHS-77, into Parcel 2. All other terms and conditions of the lease will remain unchanged.

**STATUTORY AND OTHER REFERENCES:**

A. Public Resources Code: Division 6, Parts 1 and 2; and Division 13.
B. California Code of Regulations: Title 2, Division 3; and Title 14.

**OTHER PERTINENT INFORMATION:**

1. The California Division of Oil, Gas, and Geothermal Resources (CDOGGR) prepared and adopted Mitigated Negative Declaration (MND), State Clearinghouse No. 2004062024, on July 16, 2004, and adopted a Mitigation Monitoring Program. The MND covered construction of one new drillsite and use of two existing drillsites to drill three exploratory wells, WHS-71, WHS-73, and PS-35, one from each site. The MND was reviewed by Commission staff and used as the basis for the Commission granting to the Lessee the right to drill those three wells under the original terms of the lease. To date, none of those three wells has been drilled.

2. The Lessee requests approval to drill exploratory wells WHS-36 and WHS-77 in addition to the three previously approved. Before any of these exploratory wells can be used by the Lessee for production or injection, a subsequent environmental analysis will be required.

3. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (Title 14, California Code of Regulations, section 15061), staff

has determined that this project is categorically exempt from the requirements of the CEQA. The project is exempt under Class 6, Information Collection; Title 14, California Code of Regulations, section 15306.

Authority: Public Resources Code section 21084 and Title 14, California Code of Regulations, section 15300.

4. This activity involves lands which have NOT been identified as possessing significant environmental values pursuant to Public Resources Code sections 6370, et seq. However, the Commission has declared that all lands are "significant" by nature of their public ownership (as opposed to "environmentally significant"). Since such declaration of significance is not based upon the requirements and criteria of Public Resources Code sections 6370, et seq., use classifications for such lands have not been designated. Therefore, the finding of the project's consistency with the use classification as required by Title 2, California Code of Regulations, section 2954 is not applicable.

**EXHIBIT:**

A. Location Map

**PERMIT STREAMLINING ACT DEADLINE:**

October 27, 2008 (CSLC acting as a responsible agency under the CEQA)

**RECOMMENDED ACTION:**

IT IS RECOMMENDED THAT THE COMMISSION:

**CEQA FINDING:**

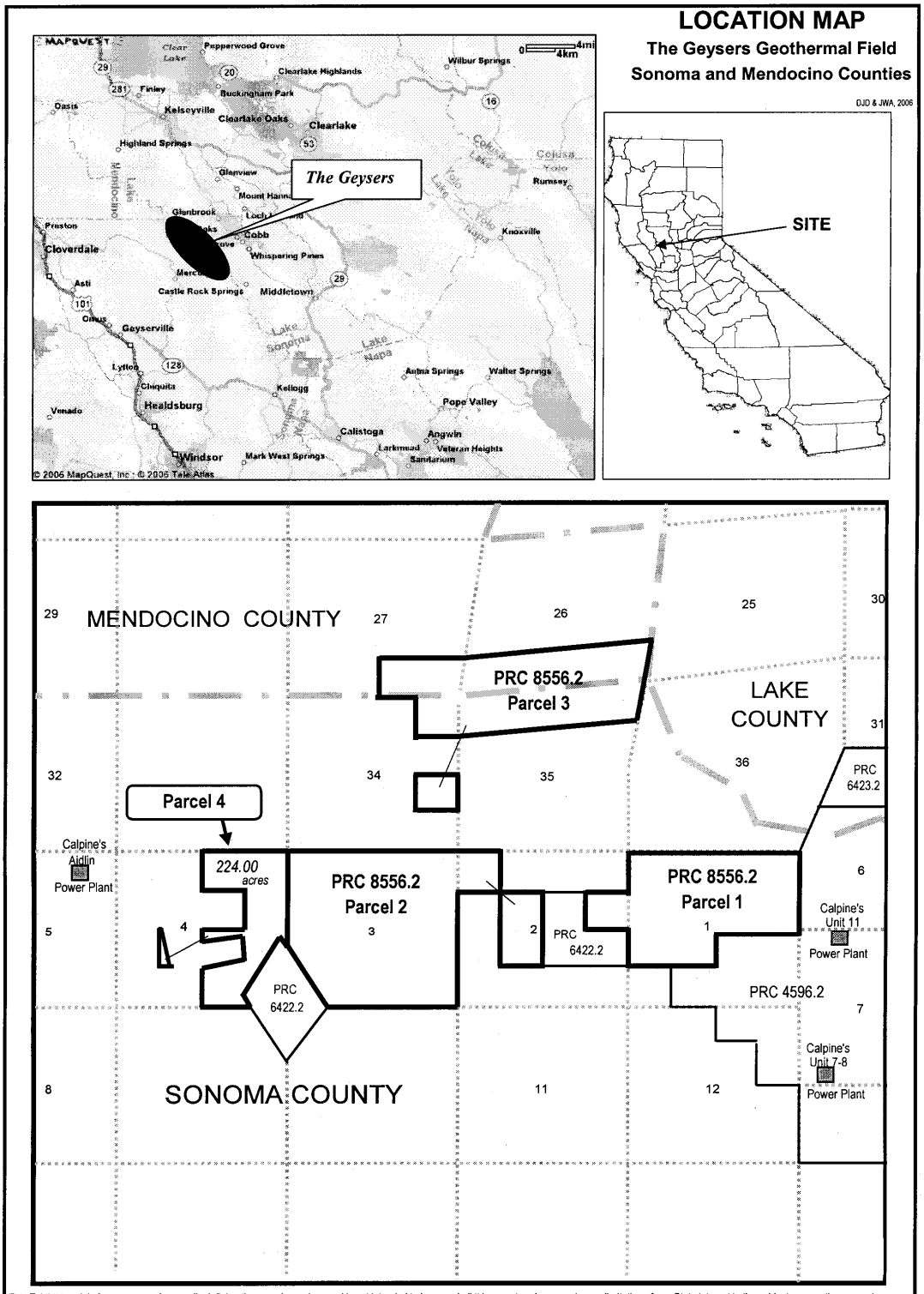
FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORINA CODE OF REGULATIONS, SECTION 15061 AS A CATEGORICALLY EXEMPT PROJECT, CLASS 6, INFORMATION COLLECTION; TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15306.

**AUTHORIZATION:**

1. AUTHORIZE THE AMENDMENT OF STATE GEOTHERMAL RESOURCES LEASE NO. PRC 8556.2 UPON THE TERMS AND CONDITIONS OUTLINED IN THIS CALENDAR ITEM AND IN THE FORM ON FILE IN THE LONG BEACH OFFICE OF THE COMMISSION, THE AMENDMENT TO PROVIDE FOR THE APPROVAL OF TWO NEW EXPLORATORY WELLS.

2. AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO EXECUTE ANY DOCUMENTS NECESSARY TO IMPLEMENT THE COMMISSION'S ACTION.

# EXHIBIT A




This Exhibit is solely for purposes of generally defining the parcel 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.