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CONSIDER APPROVAL OF A STATE GEOTHERMAL RESOURCES PROSPECTING PERMIT, TO PROVIDE FOR DRILLING UP TO SIX EXPLORATORY WELLS, NEAR THE GEYSERS GEOTHERMAL FIELD, LAKE AND MENDOCINO COUNTIES

APPLICANT:

High Valley, LLC
c/o Oski Energy, LLC
Attn.: Mr. Frank Misseldine
730 Sandhill Road, Suite 250
Reno, NV 89521

AREA, LAND TYPE, AND LOCATION:

Approximately 1,383 acres of State owned School Lands in Lake and Mendocino Counties, including 823 acres of fee lands and 560 acres of 100 percent reserved mineral interest (RMI) lands, as described in Exhibit A and depicted in Exhibit B (attached hereto).

BACKGROUND:

Sections 6904 and 6910 of the Public Resources Code allow the California State Lands Commission (Commission) to issue permits for exploration of geothermal resources on State owned lands, where such lands have not been nominated or selected by the Commission for lease by competitive public bid. The permits are intended for lands where the existence and nature of the geothermal resources are not well known or additional exploration is needed.

High Valley, LLC (High Valley) is a Limited Liability Company registered in the State of Delaware, and a subsidiary of US Renewables Group. High Valley has applied for a geothermal resources prospecting permit to evaluate the geothermal resource potential of a 1,383-acre area north of the developed portion of The Geysers Geothermal Field for possible future development.

The State acquired its interests in the 1,383 acres proposed for inclusion in the subject prospecting permit directly from the Federal government through three separate transactions involving the U.S. Bureau of Land Management (BLM).

The 823-acre fee interest parcel was acquired in 1983 via Indemnity Clear List 353, which transferred ownership of the parcel and several others at The Geysers from the BLM to the State. The BLM had previously leased the parcel to Union Oil Company (Union) in 1974. Union built access roads and drill sites prior to the State's acquisition. Union drilled three exploratory wells, HV State #39, 94, and 99, but did not develop the lease. In 1994, Union abandoned the exploratory wells and quitclaimed the lease.

The 440-acre parcel (out of 560 acres) of RMI land was acquired in 1985 via Indemnity Clear List 356. The BLM had already leased the parcel to Union in 1982, and roads and a drill site were in place when the State acquired the parcel. Union drilled an exploratory well, Binkley State #1, but did not develop the lease. The well was abandoned and the lease was quitclaimed in 1986.

The remaining 120-acre parcel sold and RMI land was acquired by the State as lieu lands in 1958 and immediately sold and patented into private ownership, with all minerals reserved to the state. The Commission leased the parcel to a company called Geothermal Resources International in 1982. The lease was quitclaimed in 1984 without ever being explored. High Valley has no plans to explore the parcel, but asked that it be included in the permit given its proximity to the other State parcels and to Federal parcels leased by High Valley. After careful consideration, Commission staff believes it will be in the best interest of the State to include this isolated parcel in the subject permit because it is considered too small for competitive leasing and it must be joined with adjacent lands for development purposes.

APPLICATION:

High Valley submitted its permit application in May 2007. However, before processing the application, Commission staff decided to determine if there was interest in the lands being offered for leasing by competitive bid. The geothermal industry was polled to seek a nomination in September 2007. When no nominations were made, Commission staff continued processing High Valley's application. Additional information was requested from High Valley in December 2007. After several meetings regarding its prospecting plans, High Valley was advised in August 2008 that its application was complete. In accordance with Public Resources Code section 6912, subdivision (a), Commission staff then notified the surface owners of all 560 acres of RMI lands. However, none of the surface owners exercised their right to submit a similar application.

The process to comply with requirements of the California Environmental Quality Act (CEQA) was initiated in October 2008. Pursuant to Public Resources Code section 3715.5, the Division of Oil, Gas, and Geothermal Resources (DOGGR) has CEQA lead agency authority for all geothermal exploratory projects. The preparation of the required environmental documentation took approximately three years to complete because High Valley's environmental consultant, at the direction of the DOGGR, had to revise the Initial Study several times. The Initial Study and Negative Declaration documents were finally released for public comment in March 2012, and adopted by the DOGGR on July 11, 2012.

PROSPECTING PROGRAM:

High Valley submitted a prospecting program that Commission staff considers satisfactory for exploring the proposed prospecting area. The proposed permit requires High Valley to drill at least one well, but authorizes the drilling of up to six wells, which is the maximum allowed under CEQA for a geothermal exploratory project.

Initially, High Valley will reopen two geothermal wells drilled in the 1980s that were subsequently plugged and abandoned, HV State #99-25 and Binkley State #1, and test the wells to evaluate resource characteristics and assess their potential for commercial utilization. The wells are located at two existing drill sites. If unsuccessful or inconclusive, High Valley may drill one new exploration well on each drill site, and may also reopen two other wells, HV State #94 and HV State #39A, or may drill two new wells on two other existing drill sites.

High Valley will use existing roadways for access to all drill sites. It has secured access rights to cross private lands in the area, and in 2011, through U.S. Renewable Group subsidiary, Oski Energy, LLC, obtained a long-term right-of-way lease (PRC 8959.2) from the Commission for access to roadways that cross State fee lands.

PERMIT PROVISIONS:

1. Exclusive right to prospect for geothermal resources in permitted area for a term of two years, subject to an extension of two additional years at the discretion of the Commission.

2. Preferential right to a geothermal lease upon discovery of geothermal resources in commercial quantities.

3. Annual rent, payable in advance, of $1 per acre for the first year. Rent increases to $5 per acre at the beginning of the second year. The first year's rent will be $1,383.00.

4. Performance bond or other security in the amount of $50,000.00.

5. If the permit is later converted into a preferential geothermal lease, an annual rent of $10 per acre, and royalties as follows: either (i) no less than three percent (3%) or more than five percent (5%) of the value of electricity generated from geothermal resources attributable to the leased land, or (ii) no less than ten percent (10%) or more than twelve and one-half percent (12.5%) of the value of geothermal resources sold to a third party; and five percent (5%) for any mineral products or chemical compounds in their first marketable form.

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. A Negative Declaration, State Clearinghouse No. 2012032059, was prepared by the Department of Conservation, Division of Oil, Gas, and Geothermal Resources and adopted on July 11, 2012 for this project. The California State Lands Commission staff has reviewed such document.

2. This activity involves lands which have NOT been identified as possessing significant environmental values pursuant to Public Resources Code section 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 section 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 California Code of Regulations, Title 2, section 2954 is not applicable.

EXHIBITS:

A. Land Description
B. Location Map

RECOMMENDED ACTION:

It is recommended the Commission:

CEQA FINDINGS:

1. Find that a Negative Declaration, State Clearinghouse

No.2012032059, was prepared by the Department of Conservation, Division of Oil, Gas, and Geothermal Resources and adopted on July 11, 2012 for this Project and that the Commission has reviewed and considered the information contained therein.

OTHER FINDINGS:

1. Find that conditions exist for the issuance of a geothermal resources prospecting permit pursuant to Public Resources Code sections 6904 and 6910.

2. Find that a geothermal resources prospecting permit pursuant to Public Resources Code section 6910 is in the best interests of the State.

AUTHORIZATION:

1. Authorize issuance of a Geothermal Resources Prospecting Permit to provide for drilling up to six exploratory wells to High Valley, LLC, covering the lands described in Exhibit A, attached hereto.

2. Authorize the Executive Officer or his designee to execute any documents necessary to implement the Commission's actions.

EXHIBIT A

W 40934

LAND DESCRIPTION

A parcel of State fee-owned indemnity school lands consisting of Lots, 2, 3, 4, and the E ½ of the SW ¼ of Section 30, and Lots 1 and 7 of Section 31, T12N, R8W, MDBM; and Lots 1, 2, 3, 4, 5, 6, 7, 8 and 9 of Section 25, and the N ½ of the SE ¼ of Section 26, T12N, R9W, MDBM; Lake and Mendocino Counties; containing 823 acres, more or less.

Together with a parcel of State reserved mineral interest indemnity school lands consisting of the S ½ of the SW ¼ of Section 24, the SW ¼ of the NE ¼, and the NW ¼ of Section 25, and the NE ¼ of Section 26, T12N, R9W, MDBM; Lake County; containing 440 acres, more or less.

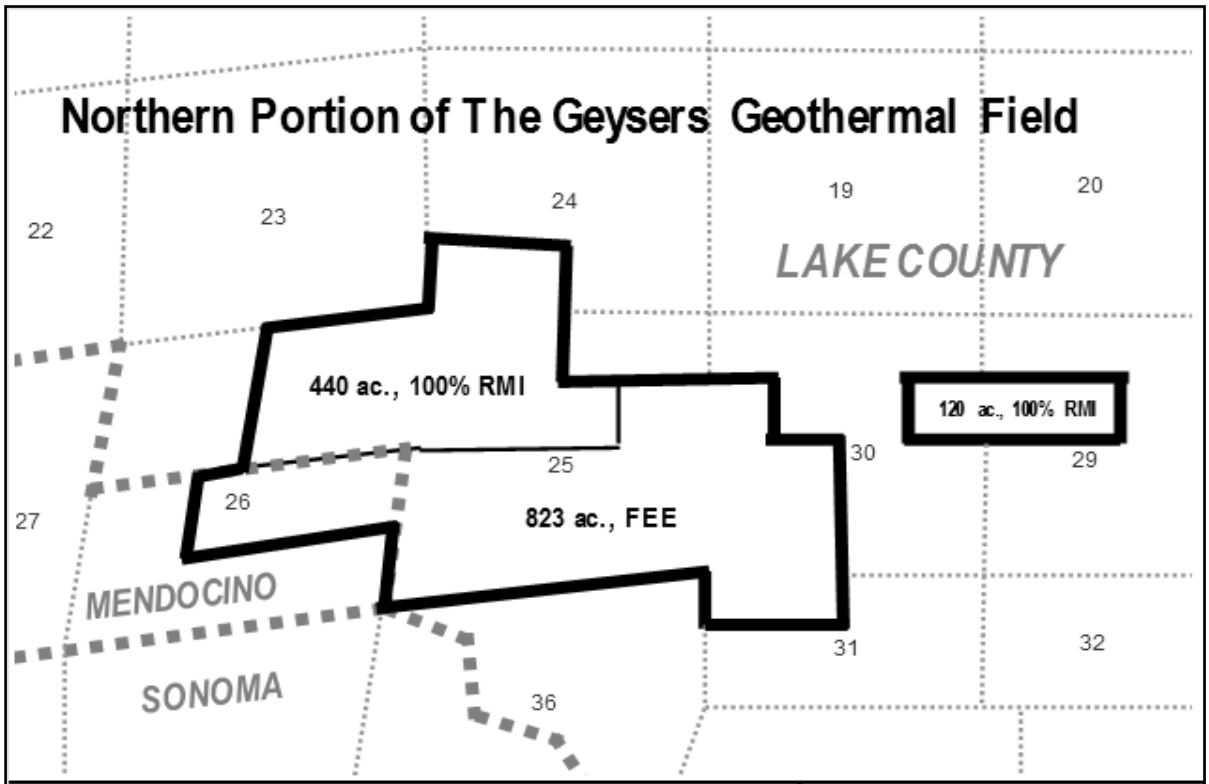
Together with a parcel of State patented reserved mineral interest school lands consisting of the S ½ of the NW ¼ of Section 29, and the SE ¼ of the NE ¼ of Section 30, T12N, R8W, MDBM; Lake County; containing 120 acres, more or less.

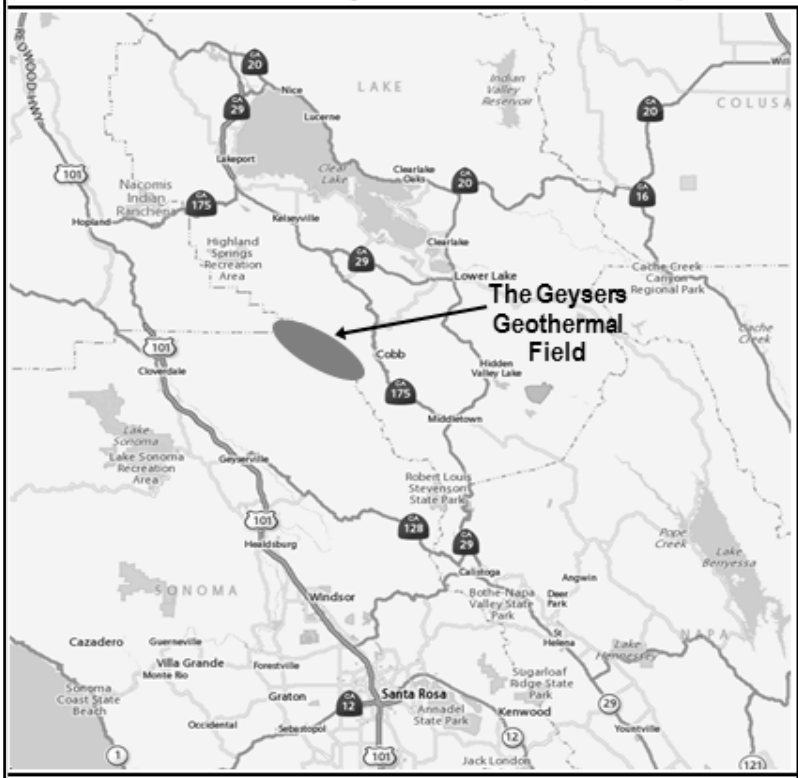
Combined area of aforementioned parcels totals 1,383 acres, more or less.

END OF DESCRIPTION

EXHIBIT B

W 40934





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

LOCATION MAP
High Valley, LLC
Proposed
Geothermal Resources
Prospecting Permit
LAKE AND MENDOCINO COUNTIES

JWA 2012