

MINUTE ITEM

This Calendar Item No. 24
was approved as Minute Item
No. 24 by the State Lands
Commission by a vote of 3
to 0 at its 10/26/89
meeting.

CALENDAR ITEM

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10/26/89
PRC 6425
Willard

APPROVAL OF AMENDMENT OF GEOTHERMAL RESOURCES
LEASE PRC 6425, LAKE AND MENDOCINO COUNTIES

APPLICANT: Union Oil Company of California and
N.E.C. Acquisition Company
P. O. Box 6854
Santa Rosa, California 95406

BACKGROUND:

On March 15, 1983, the State Lands Commission, by indemnity selection under 43 USC 852, took title to a geothermal lease identified as CA 960. This lease was first issued to the Lessee by the Department of the Interior, Bureau of Land Management, on November 1, 1974. The primary term under the original lease and one five-year extension will expire on November 1, 1989. Three steam wells have been drilled by the Lessee. However, severe internal corrosion in the wellbores and surface piping have prevented these wells from being produced.

In early 1987, Union initiated a comprehensive study to determine the course, extent, and solution to the corrosion problem. A fieldwide ultrasonic inspection program was started to determine the existing wall thickness of well casing and piping to ensure safe operating conditions. The results of these measurements have identified areas of wall thinning, estimated of corrosion rates, and baseline data for a corrosion research test program.

The research program has now progressed to a demonstration project on certain wells in the area producing the highly corrosive steam. Based on the results of this project,

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mitigation measures may be developed which will permit the wells on lease PRC 6425 to be economically and safely produced. Union has proposed a work program that could bring the lease into production within five years. Staff believes this is the essential element for a prudent exploration and development program in this area and that it justifies an amendment and extension of the lease using a State Geothermal Resources Lease form for an additional five years.

TERMS OF PROPOSED LEASE AMENDMENT:

Initial period: Five (5) years and for so long as geothermal resources are being or capable of being produced or utilized in commercial quantities, if the Lessee is in compliance with the terms and conditions of an exploration and development program.

Royalty: Twelve and one-half percent (12-1/2%).

Rental: Twenty-five dollars (\$25) per acre per year.

Bond: Lessee has a blanket bond in the amount of \$300,000 covering all of its State leases in the Geysers Field.

Lease Form: State Geothermal Lease form will replace federal form.

STATUTORY AND OTHER REFERENCES:

A. P.R.C.: Div. 6, Parts 1 and 2; Div. 13.

B. Cal. Code Regs.: Title 2, Div. 3;
Title 14, Div. 6.

AB 884: N/A.

OTHER PERTINENT INFORMATION:

1. An Environmental Assessment (EA) was prepared and adopted for this project by the United States Department of the

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Interior, Geological Survey and is on file in the office of the State Lands Commission. The Commission's staff has reviewed such document and believe that it complies with the requirements of the CEQA Guidelines, Section 15225 and can, therefore, be used in place of a Negative Declaration.

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT AN EA PREPARED AND ADOPTED FOR THIS PROJECT BY THE UNITED STATES DEPARTMENT OF THE INTERIOR, GEOLOGICAL SURVEY, THAT THE DOCUMENT COMPLIES WITH SECTION 15225 OF THE CEQA GUIDELINES AND CAN BE USED IN THE PLACE OF A NEGATIVE DECLARATION, AND THAT THE COMMISSION HAS REVIEWED AND CONSIDERED THE INFORMATION CONTAINED THEREIN.
2. DETERMINE THAT THE PROJECT, AS APPROVED, WILL NOT HAVE A SIGNIFICANT EFFECT ON THE ENVIRONMENT.
3. APPROVE AMENDMENT OF GEOTHERMAL RESOURCES LEASE PRC 6425 IN THE FORM ON FILE IN THE OFFICE OF THE COMMISSION.

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