

**CALENDAR ITEM
C95**

MINUTE ITEM
This Calendar Item No. C95
was approved as Minute Item
No. 95 by the State Lands
Commission by a vote of 3
to 0 at its 10-17-95
meeting.

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10/17/95
PRC 4596
PRC 4597
PRC 6422
PRC 6423
Adams

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**APPROVE AGREEMENT FOR A TEMPORARY PRICE
FOR THE SALE OF GEOTHERMAL STEAM, STATE GEOTHERMAL
RESOURCES LEASES PRC 4596, PRC 4597, PRC 6422
AND PRC 6423, THE GEYSERS STEAM FIELD,
LAKE AND SONOMA COUNTIES**

LESSEES:

Union Oil Company of California
Attention: Anthony J. Chasteen
3576 Unocal Place
Santa Rosa, California 95403-1774

NEC Acquisition Company
Attention: Anthony J. Chasteen
3576 Unocal Place
Santa Rosa, California 95403-1774

Thermal Power Company
Attention: Anthony J. Chasteen
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:

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 (Unocal) (50 percent), NEC Acquisition Company (NEC) (25 percent) and Thermal Power Company (Thermal Power) (25 percent) in The Geysers Steam Field. The leases were entered into between 1971 and 1974. The lease agreements provide that geothermal resources shall not be disposed of except in accordance with sales contracts approved by the State Lands Commission (Commission). In May 1970, Pacific Gas and Electric Company (PG&E), Union and its partners executed contracts for the sale of steam at The Geysers. The Commission approved these agreements in July 1972.

In September 1991, the parties executed new agreements for the sale of steam at The Geysers, which the Commission approved in June 1992. The new agreements gave PG&E the discretionary right to curtail electrical generation, provided that on an annual basis the generation level average at least 40 percent of the field's capacity.

In January 1995, PG&E began curtailing electrical generation at The Geysers for the first time, when a combination of abundant inexpensive hydroelectric power and inexpensive power generated by low cost natural gas displaced Geysers steam as a competitive source of dispatchable power in the PG&E system. The curtailment drastically reduced the amount of steam Union sells to PG&E, and consequently, the amount of royalty revenue derived from the State Geothermal Resources Leases.

In August 1995, Union and its partners executed an agreement that provides a reduced price for all steam sold beyond the minimum 40 percent of field capacity, effective through the end of 1995 only. The reduced price is 11 mils per kilowatt-hour, or \$11.00 per megawatt-hour. All steam sold up to the 40 percent annual contract minimum will remain at the full contract price for 1995 of 16.47 mils per kilowatt-hour, or \$16.47 per megawatt-hour.

The reduced price provides an opportunity for Unocal to sell more steam and gives PG&E incentive to increase generation at The Geysers by making that power competitive with power generated from natural gas. The State will realize additional royalty revenue above that which would otherwise be derived under terms of the existing steam sales contract at maximum curtailment.

The reduced price agreement will terminate at the end of 1995, at which time the pricing provisions of the existing steam sales contract will be in effect again.

CALENDAR ITEM NO. C95 (CONTD)

STATUTORY AND OTHER REFERENCES:

- A. Public Resources Code Section 6913
- B. 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.

Authority: Public Resources Code Section 21065 and 14 Cal. Code Regs. 15378.

EXHIBIT:

- A. Location Map

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 AGREEMENT FOR A TEMPORARY PRICE FOR THE SALE OF GEOTHERMAL STEAM, STATE GEOTHERMAL RESOURCES LEASES PRC 4596, PRC 4597, PRC 6422 AND PRC 6423, THE GEYSERS STEAM FIELD, LAKE AND SONOMA COUNTIES, BETWEEN UNION OIL COMPANY OF CALIFORNIA, NEC ACQUISITION COMPANY, THERMAL POWER COMPANY (LESSEES) AND PACIFIC GAS AND ELECTRIC COMPANY (PURCHASER) DATED AUGUST 4, 1995, ON FILE IN THE OFFICE OF THE COMMISSION AND BY REFERENCE MADE A PART HEREOF.

