

MINUTE ITEM

This Calendar Item No. 67  
was approved as Minute Item  
No. 67 by the State Lands  
Commission by a vote of 3  
0 at its 6/11/90  
meeting.

CALENDAR ITEM

67

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06/11/90  
PRC 5206  
Willard  
Frey

APPROVAL OF ASSIGNMENTS AND CONSENT TO  
ENCUMBRANCE OF STATE GEOTHERMAL RESOURCES  
LEASE PRC 5206 FOR FINANCING GEOTHERMAL DEVELOPMENT  
AT THE GEYSERS, LAKE COUNTY

APPLICANT: Freeport Geothermal Resources Company  
P.O. Box 11279  
Santa Rosa, California 95406-1279

ASSIGNEES: Freeport-McMoRan Resources Partners,  
Limited Partnership  
P.O. Box 11279  
Santa Rosa, California 95406-1279

Santa Rosa Geothermal Company,  
Limited Partnership  
P.O. Box 11279  
Santa Rosa, California 95401-1279

SECURED-PARTY LENDER:  
Meridian Trust Company of California as  
collateral agent for Deutsche Bank AG.

AREA, TYPE OF LAND AND LOCATION:  
Approximately 130 acres of reserved mineral  
interest land in the south eastern portion of  
the Geysers Steamfield, Lake County  
(Exhibit "A").

(ADDED 06/08/90)

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- PREREQUISITE:
1. Assignment forms have been executed.
  2. Encumbrance forms have been executed.
  3. Assignees and Lenders are qualified to hold a State Lease.
  4. The statutory filing fees have been submitted.

PERTINENT INFORMATION

State Geothermal Lease PRC 5206 was issued by competitive bidding in 1976. The City of Santa Clara was the highest qualified bidder (28 percent of the net profits and a 10 percent royalty). Pursuant to P.R.C. Section 6912(b), the owner of the surface matched the high bid, was awarded the lease and subsequently assigned it to Natomas Company with which it had a lease for the surface.

In April 1985, the Commission approved assignment of PRC 5206 from Natomas to Phillips Petroleum. In November 1985, Phillips sold its California geothermal leases including PRC 5206 to Freeport Geothermal Resources Company. In October 1986, the Commission approved the assignment of the lease from Phillips to Freeport.

Freeport Geothermal Resources Company (FGRC) is the current lessee of Geothermal Resource Lease PRC 5206. Freeport-McMoRan Resource Partners, Limited Partnership (FMRP) and FGRC intend to sell or contribute to Santa Rosa Geothermal Company, L.P. (Santa Rosa) all of the geothermal assets in the Geysers Area now owned by FGRC and FMRP. FMRP will be a limited partner in Santa Rosa and Sonoma Geothermal Partners, L.P. (Calpine) will be the general partner (Upon the occurrence of certain events, this relationship could be reversed, as explained below, so that FMRP would be the general partner, and Calpine would be the limited partner in Santa Rosa). It is the intent of the parties to transfer FGRC's and FMRP's Geysers Area geothermal business as an entirety and then operate that business through Santa Rosa (see Exhibit "B"). Calpine will upon closing of the overall transaction acquire a partnership interest of \$55 Million in Santa

(ADDED 06/08/90)

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Rosa and be the general partner by providing \$27.5 million in cash and a note for \$27.5 million. Within 180 days Calpine will either pay the note and retain its interest, or fail to pay the note reducing its interest and become a limited partner, with FMRP becoming the general partner.

In connection with the overall transaction described above, FGRC proposes to assign its interest in PRC 5206 to FMRP, and FMRP in turn proposes to assign to Santa Rosa. Concurrently with such assignments, Santa Rosa will assign its interest as security to Meridian Trust Company of California as collateral agent for Duetsche Bank and other lenders, who will finance the purchase price to be paid by Santa Rosa to FGRC and FMRP for the Geysers Area geothermal assets. The loan commitment is for \$200 million.

Staff has carefully prepared the forms of assignment and encumbrance to provide maximum protection to the State in the unlikely event of the lessee's failure to meet the loan commitments or lease obligations. Each of the Assignors (FGRC and FMRP) and the lessee will remain fully liable for the faithful performance of all of the terms and conditions of Lease PRC 5206. Therefore following the assignments the State would have recourse to FGRC's, FMRP's, Santa Rosa's and Calpine's (General partner of Santa Rosa) assets in the event of default under the lease and economic loss to the State.

Although the Commission has the discretion not to consent to the encumbrance of Lease PRC 5206 for the guarantee portion of the loan, without its approval the loan would have to be restructured. Since this project will provide for the continuation of the successful operation of the geothermal power plant which utilizes steam from Lease PRC 5206 as well as nearby private lands, staff recommends approval of the assignments and consent to encumbrance.

(ADDED 06/08/90)

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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 CEQA because the activity is not a "project" as defined by CEQA and the State CEQA Guidelines.

Authority: P.R.C. 6804.1, P.R.C. 21065  
and 14 Cal. Code Regs. 15368.

- EXHIBITS:
- A. Location Map.
  - B. Organization Chart.

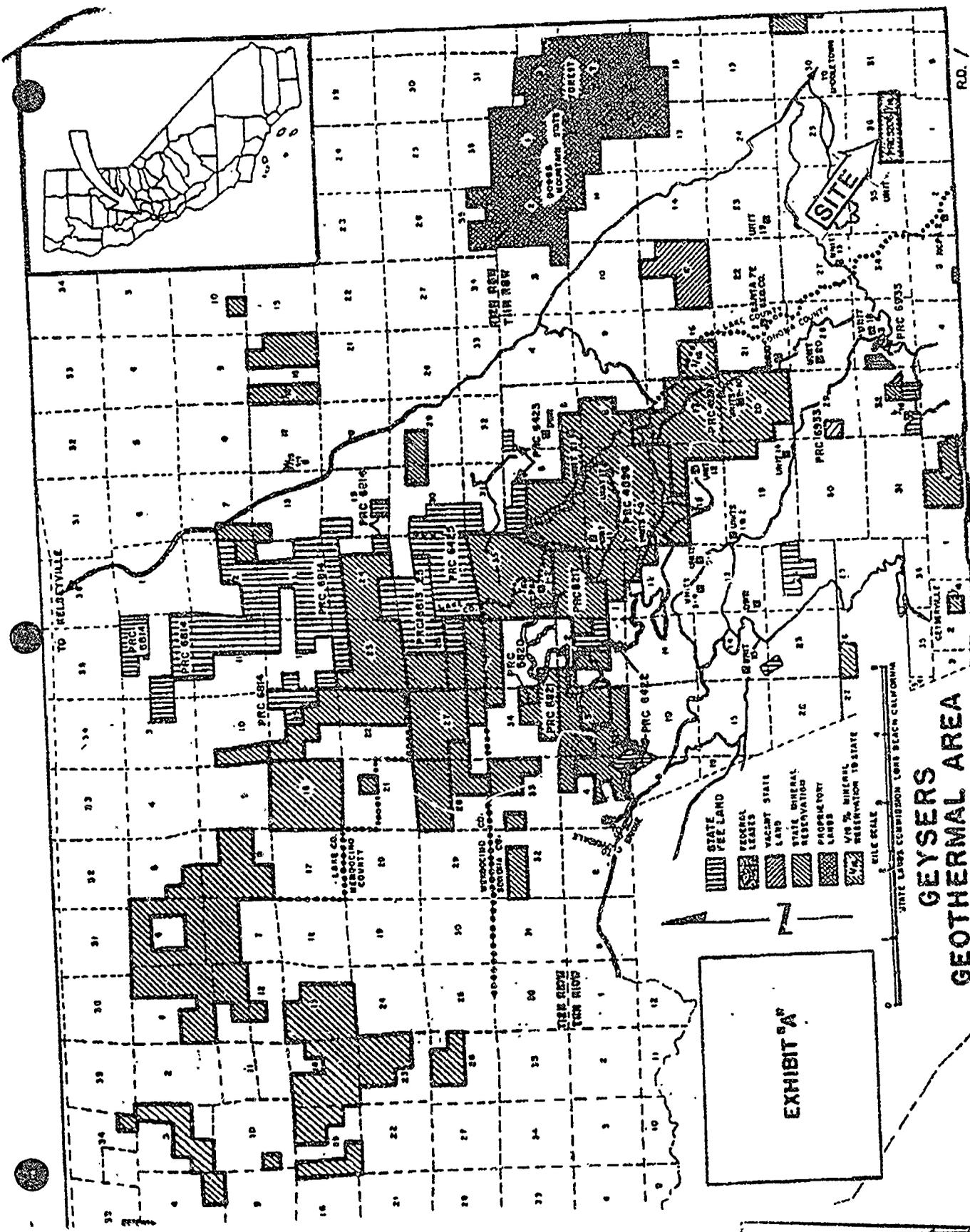
IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. ADM. CODE 15061 BECAUSE IT IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL. CODE REGS. 15378.
2. APPROVE THE ASSIGNMENTS OF GEOTHERMAL RESOURCES LEASE PRC 5206 TO:
  - A. FREEPORT-MCMORAN RESOURCE PARTNERS, LIMITED PARTNERSHIP BY THE LESSEE, FREEPORT GEOTHERMAL RESOURCES COMPANY;
  - B. SANTA ROSA GEOTHERMAL COMPANY L.P. BY THE LESSEE, FREEPORT-MCMORAN RESOURCE PARTNERS, LIMITED PARTNERSHIP;THE ASSIGNEES TO BE BOUND BY THE TERMS AND CONDITIONS OF THE LEASE.
3. APPROVE THE AGREEMENT AND CONSENT TO ENCUMBRANCE OF LEASE PRC 5206 WITH MERIDIAN TRUST COMPANY OF CALIFORNIA AS COLLATERAL AGENT FOR DEUTSCHE BANK AG.

(ADDED 06/08/90)

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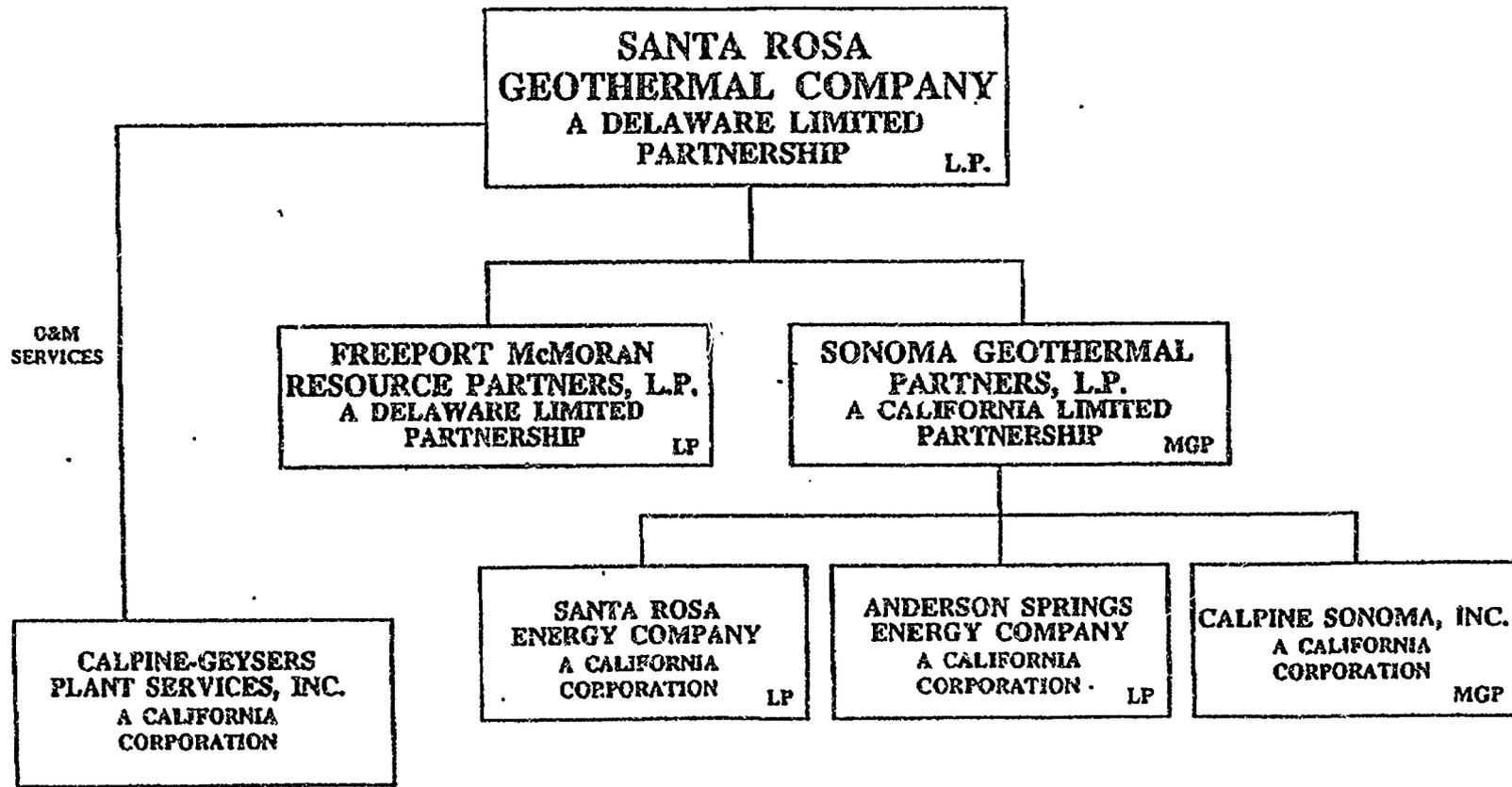


**EXHIBIT "A"**

**GEYSERS  
GEOTHERMAL AREA**

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# FREEPORT GEYSERS ACQUISITION OWNERSHIP / O & M STRUCTURE



**CALPINE CORPORATION**

4/2/90

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EXHIBIT "B"

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