

MINUTE ITEM

This Calendar Item No. C63 was approved as Minute Item No. 63 by the California State Lands Commission by a vote of 3 to 0 at its 4-17-06 meeting.

CALENDAR ITEM

C63

A 25

04/17/06

PRC 8673.2

W 40876

S 18

D. Dudak

**CONSIDER APPROVAL OF THE ISSUANCE OF A
STATE GEOTHERMAL RESOURCES PROSPECTING PERMIT,
STATE FEE-OWNED SCHOOL LANDS,
INYO COUNTY**

APPLICANT:

Deep Rose, LLC
Attn: Mr. Terry Metcalf
1240 S. China Lake Blvd.
Ridgecrest, CA 93555

AREA, LAND TYPE, AND LOCATION:

Approximately 640.00 acres of State fee-owned school lands, Inyo County.

BACKGROUND:

Sections 6904 and 6910 of the Public Resources Code (PRC) provide the authority for the California State Lands Commission (Commission) to issue permits for exploration of geothermal resources on lands belonging to the State, where such lands have not been selected by the Commission for lease by competitive public bid. Geothermal Resources Prospecting Permits are intended for lands where the existence and nature of the geothermal resource is not well known, such as lands that may indicate potential, but need additional exploration, or lands that have never been explored.

The Commission issued more than 90 such permits in the 1960s through 1984. For nearly two decades, exploration for geothermal resources was relatively stagnant as cheaper sources of power reduced interest in geothermal projects. However, there has been a marked increase in exploring for geothermal and other renewable resources in recent years in response to a need for more electrical generation from non-fossil fuel sources and the availability of development incentives.

APPLICATION FOR PERMIT:

Deep Rose, LLC (Applicant) submitted an application for a geothermal resources prospecting permit in 2003. The application was deemed to be complete early in 2004, but could not be considered pending the evaluation of the potential impacts of the project, pursuant to the California Environmental Quality Act (CEQA).

BASIS FOR PERMIT INSTEAD OF LEASING BY COMPETITIVE BID:

In 1978, the California Legislature modified the Public Resources Code to create a flexible leasing program for geothermal resources to promote more rapid and extensive geothermal development on State lands. The Legislature recognized that different parcels of State lands have varying degrees of potential for successful development. Some parcels might display strong indications of geothermal resources and likelihood of commercially producible energy, which could be let at a competitive lease sale, while other parcels indicate potential but need additional exploration, and still other parcels have never been explored.

The subject parcel is not considered suitable for competitive leasing. This conclusion is reached despite its location within the Coso Hot Springs Known Geothermal Resource Area (KGRA), as defined by the Federal Geothermal Steam Act of 1970 (Title 30, Chapter 23, Section 1001 (e)), and its location about five miles from the 260-megawatt Coso Geothermal Field. Its inclusion in the KGRA does not mean geothermal resources are present. As defined in the Steam Act, a KGRA is "an area in which the geology, nearby discoveries, competitive interests, or other indicia would, in the opinion of the Secretary [of the U.S. Department of the Interior], engender a belief in men who are experienced in the subject matter that the prospects for extraction of geothermal steam or associated geothermal resources are good enough to warrant expenditures of money for that purpose."

The subject parcel must be considered exploratory, as it does not exhibit strong indications for the presence geothermal resources. Actual exploration is needed to determine whether geothermal resources are present, specifically through the drilling of one or more wells. According to the California Division of Oil, Gas, and Geothermal Resources (DOGGR), any well location greater than one mile from a producing geothermal well must be considered an exploratory well. Therefore, a prospecting permit is considered to be the appropriate mechanism to provide for the exploration of the subject parcel.

PROSPECTING PROGRAM AND SCHEDULE:

The Applicant has submitted a prospecting program and time schedule consisting of the drilling and testing of one or more geothermal wells during the term of the permit. No other geological or geophysical exploration methods are planned as Applicant believes geothermal resources may exist at great depth beneath the State parcel based on knowledge about the subsurface geologic structure in the region as it relates to the Coso geothermal field five miles to the southeast.

Typically, geothermal exploration might also include methods such as measurement of gravity, near surface resistivity, and near surface heat flow. Heat flow is measured by means of relatively shallow (500-2,000 ft) temperature gradient holes. Such information would be useful for selecting a site for a deeper geothermal well. The Applicant has already selected such a site.

Given the available technical information on the area of interest, Commission staff agrees with the Applicant that other exploration techniques would not yield useful information and that a deep well is the only way to determine the presence of commercially valuable geothermal resources and measure the production potential.

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, subject to approval by the Commission.
3. Annual rent, payable in advance, of \$1 per acre for the first year, \$5 per acre for the second, and \$25 per acre for the third and fourth, if extended.
4. Submission of prospecting program consisting of the drilling and testing of one or more geothermal wells during the term of the permit.
5. Reimbursement of the State's costs for inspection to verify compliance with the environmental document.
6. Performance bond or other security in the amount of \$50,000.

CALENDAR ITEM NO. C63 (CONT'D)

7. If a preferential geothermal lease is issued, the lessee shall pay an annual rent of \$10 per acre, and royalties of 12.5 percent (12.5%) for geothermal resources and 5 percent (5%) for minerals and chemicals recovered from the resources. The value of the geothermal resources for royalty purposes shall be determined from either a sales contract or a percentage of the value of electrical power generated from the resource, both of which are subject to prior approval by the Commission. The value of the minerals or chemicals shall be determined from their sale in first marketable form.

STATUTORY AND OTHER REFERENCES:

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

OTHER PERTINENT INFORMATION:

1. A Mitigated Negative Declaration and Mitigation Monitoring Program were prepared and adopted for this project by the California Division of Oil, Gas, and Geothermal Resources. The California State Lands Commission's staff has reviewed this document.
2. This activity involves lands identified as possessing significant environmental values pursuant to Public Resources Code sections 6370, et seq.
3. Based on the staff's consultation with the persons nominating such lands and through the CEQA review process, it is staff's opinion that the project, as proposed, is consistent with its use classification.

Authority: Public Resources Code section 21065 and Title 14,
California Code of Regulations, sections 15060(c)(3) and
15378.

EXHIBITS:

- A. Land Description
- B. Location Map

PERMIT STREAMLINING ACT DEADLINE:

September 24, 2006 (CSLC acting as responsible agency under the CEQA).

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDINGS:

1. FIND THAT A MITIGATED NEGATIVE DECLARATION, SCH NO. 2005121125, AND MITIGATION MONITORING PROGRAM WERE PREPARED AND ADOPTED FOR THIS PROJECT BY THE CALIFORNIA DIVISION OF OIL, GAS, AND GEOTHERMAL RESOURCES AS LEAD AGENCY AND THAT THE COMMISSION HAS REVIEWED AND CONSIDERED THE INFORMATION CONTAINED THEREIN.
2. ADOPT THE MITIGATION MONITORING PROGRAM, AS CONTAINED ON FILE IN THE SACRAMENTO OFFICE OF THE COMMISSION.
3. FIND THAT THIS ACTIVITY IS CONSISTENT WITH THE USE CLASSIFICATION DESIGNATED BY THE COMMISSION FOR THE LAND PURSUANT TO PUBLIC RESOURCES CODE SECTIONS 6370, ET SEQ.

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, IN THAT THE LANDS DO NOT DISPLAY STRONG INDICATIONS OF GEOTHERMAL RESOURCES, REQUIRE ADDITIONAL EXPLORATION, AND ARE THEREFORE UNSUITABLE FOR LEASING.
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 TO DEEP ROSE, LLC, OF A GEOTHERMAL RESOURCES PROSPECTING PERMIT, ON FILE IN THE LONG BEACH OFFICE OF THE COMMISSION, COVERING THE LANDS DESCRIBED IN EXHIBIT A, ATTACHED HERETO.

CALENDAR ITEM NO. C63 (CONT'D)

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

EXHIBIT A

W 40876

LAND DESCRIPTION

A parcel of California State owned school lands being all of Section 16, Township 21 South, Range 38 East, Mount Diablo Meridian, Inyo County.

END OF DESCRIPTION

Prepared March 13, 2006 for the California State Lands Commission.

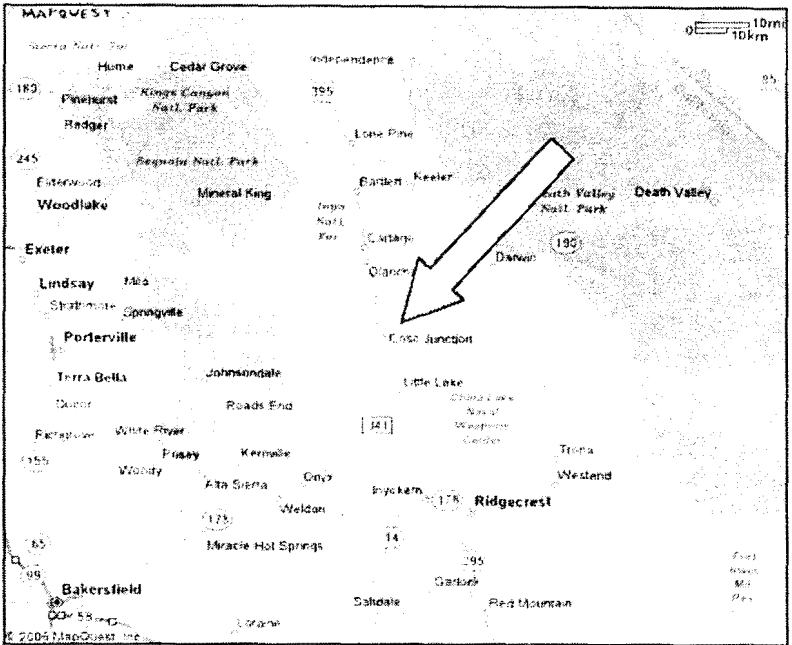


000341

CALENDAR PAGE

000901

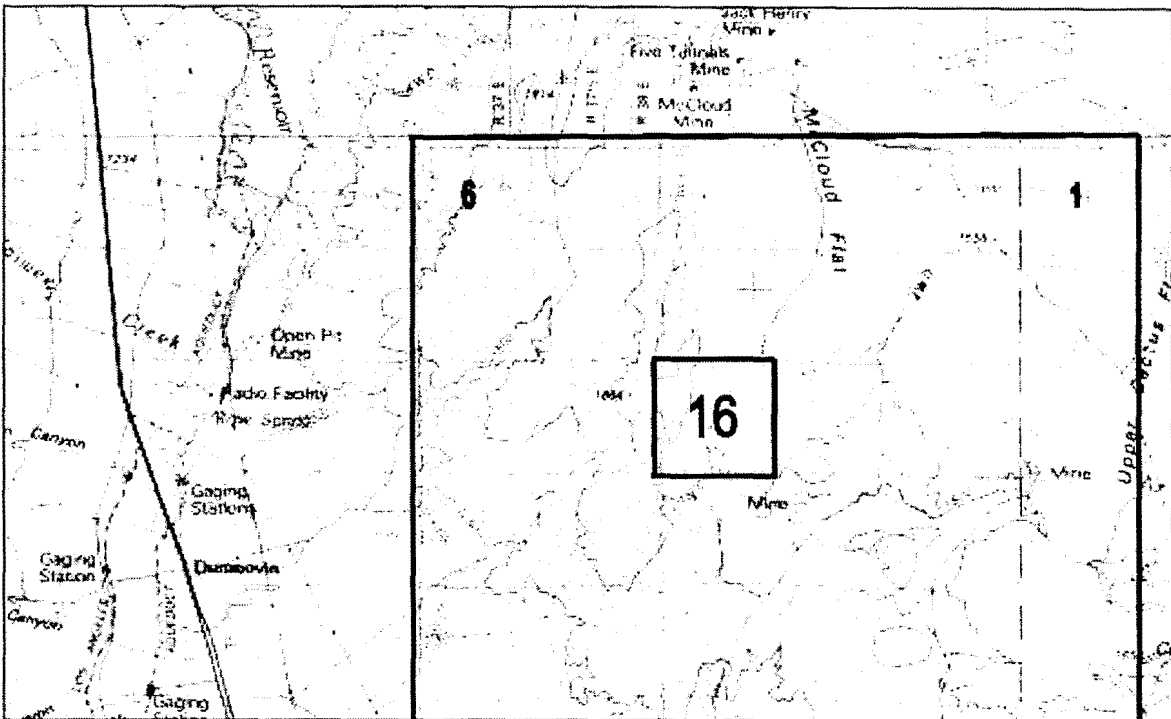
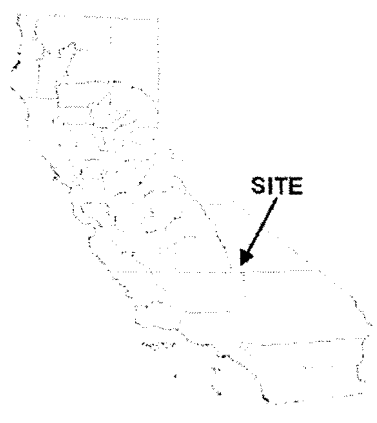
MINUTE PAGE



LOCATION MAP
Section 16, T21S, R38E
INYO COUNTY

EXHIBIT B
W40876

D. D. & M. A. 2006



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.

000342
 CALENDAR PAGE

000902
 MINUTE PAGE