

STAFF REPORT

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08/23/19
PRC 8844.2

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N. Saito

**CONSIDER AN AMENDMENT TO STATE GEOTHERMAL
RESOURCES LEASE NO. PRC 8844.2**

LESSEE:

CPN Wild Horse Geothermal, LLC

AREA, LAND TYPE, AND LOCATION:

Approximately 400 acres of State 100 percent reserved mineral interest school land, State Parcel Numbers 104-549-1, 104-550, 104-548; Assessor's Parcel Number 117-210-010 (Parcel 1) and 117-220-007 (Parcel 2), located within portions of Section 33, 34, and 35, T12N, R9W, MDBM, in the Geysers geothermal field, Sonoma County, as described on Exhibit A and shown on Exhibit B (for reference purposes only).

BACKGROUND:

The Commission owns the mineral resources on nearly 10,000 acres of school lands in and around the Geysers, the world's largest geothermal development. The Geysers geothermal field currently generates about 700 megawatts of electrical power, enough to supply 700,000 households. Within the Geysers geothermal field, the Commission has seven active geothermal leases covering 7,245 acres, of which roughly 5,000 acres are developed. The Commission has issued geothermal leases in the Geysers since 1971, with those remaining held by either the Lessee, a wholly owned subsidiary of Calpine Corporation, or Geysers Power Company LLC.

Lease No. PRC 8844.2 was originally issued to Geysers Power Company LLC on September 1, 2009 ([Item C46, August 11, 2009](#)), and assigned soon thereafter to CPN Wild Horse in April 6, 2010 ([Item C50, April 6, 2010](#)).

PROPOSED LEASE AMENDMENT:

The lease consists of two, 200-acre parcels (Parcel 1 and Parcel 2) consisting of a primary term that gives 10 years, commencing September 1, 2009, to develop productive geothermal resources from the individual parcels and a secondary term lasting so long as geothermal resources are produced, or are capable of being produced from the individual parcels. The Lessee has satisfied the primary term of Parcel 1 by developing a well on that parcel; however, the drilling term of Parcel 2 will expire August 31, 2019, unless a well capable of meeting the

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requirements of the drilling term is developed. Currently the rent is set at \$10 per acre. On June 20, 2019, the Lessee applied to extend the drilling term on Parcel 2 for an additional 10 years in exchange for an increase in rent and a one-time bonus payment.

If authorized by the Commission, the lease amendment will commence on September 1, 2019, and will increase the annual rent, payable in advance, to \$15 per acre until August 31, 2024, and increase to \$25 per acre thereafter, through the term of the lease. As further consideration for this lease amendment, the Lessee shall submit a one-time payment of \$40 per acre, for Parcel 2, for a total of \$8,000 payable within 30 days of the approval of the lease amendment. All other terms and conditions of the lease will remain unchanged.

STAFF ANALYSIS AND RECOMMENDATION:

Authority:

Public Resources Code sections 6005, 6216, 6301, 6501.1, 6503, 6904, 6913, and 8701; California Code of Regulations, title 2, sections 2000 and 2003.

State's Best Interests Analysis:

In all, the Geysers geothermal leases issued by the Commission yield approximately \$5 million per year in revenue from royalties and rent. Public Resources Code section 6217.5 provides that the net revenue from school lands shall be deposited in the State Treasury to the credit of the State Teachers' Retirement Fund. The leasing and subsequent exploration and development of the school lands proposed for lease will increase the royalty revenue derived from State school lands and help achieve California's goal of increasing electrical generation from renewable sources.

Climate Change:

The combination of more frequent and longer duration weather patterns contributing to high winds, low humidity, extreme heat, and thunderstorm and lightning events for California's forested mountain regions has contributed to an increasingly aggressive wildland fire season as a related product of climate change. This threat can be further elevated through prolonged drought conditions and a lack of forest fuels reduction management for forest land areas. In addition, as stated in *Safeguarding California Plan: 2018 Update* (California Natural Resources Agency 2018), climate change is projected to increase the frequency and severity of natural disasters related to flooding, fire, drought, extreme heat, and storms. The forest land setting of the subject State parcel and surrounding land is vulnerable to these weather events and the threat of wildland fires. Pursuant to the proposed lease, the Applicant acknowledges that the

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lease premises are located in an area that may be subject to effects of climate change. Conversely, the applicant is responsible for ensuring that the facilities are maintained in a manner that does not contribute to wildland fire hazards. Regular maintenance of vegetation within the lease premises, the existing facilities under lease, and access to the lease premises will help minimize the threat of fire hazards to the lease premises.

Conclusion:

For all the reasons above, staff believes the proposed lease amendment is in the State's best interests and recommends approval of this amendment.

OTHER PERTINENT INFORMATION:

1. Approval or denial of the application is a discretionary action by the Commission. Each time the Commission approves or rejects a use of State-owned school land, it exercises legislatively delegated authority and responsibility as trustee of the State's school lands as authorized by law. Upon expiration or prior termination of the lease, the lessee has no right to a new lease or to renewal of any previous lease.
2. This action is consistent with the Commission's Strategic Plan, Strategy 1.1, to deliver the highest level of public health and safety in the protection, preservation and responsible economic lands use and resources; and Strategy 2.1, to optimize returns for the responsible development and school land use and resources, both onshore and offshore.
3. Find that Mitigated Negative Declarations SCH Nos. 2009042009 and 2009042013 were prepared by Sonoma County and adopted on June 12, 2009, and June 15, 2009, respectively, for this project and that Commission staff has reviewed and considered the information contained therein. Staff believes the original documents remain valid, and thus, no further documentation is necessary.
4. A Mitigation Monitoring Program was adopted by Sonoma County for each Mitigated Negative Declaration. The previous lease authorization for the Project was approved by the Commission on August 11, 2009, and relied on the adopted Mitigated Negative Declarations and Mitigation Monitoring Programs. The Commission adopted the Mitigation Monitoring Programs, on file at the Sacramento Office of the Commission, at the August 11, 2009 meeting, and they remain in full force.

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EXHIBITS:

- A. Land Description
- B. Site and Location Map
- C. Geothermal Resources Lease Amendment

RECOMMENDED ACTION:

It is recommended that the Commission:

CEQA FINDINGS:

1. Find that Mitigated Negative Declarations SCH Nos. 2009042009 and 2009042013 were prepared by Sonoma County and adopted on June 12, 2009, and June 15, 2009, respectively, for this project, and that the Commission has reviewed and considered the information contained therein; that the lease amendment is within the scope of impacts evaluated in the original MNDs for this project; that in the Commission's independent judgment, the scope of activities to be carried out under the lease amendment to be issued by this authorization have been adequately analyzed; that none of the events specified in Public Resources Code section 21166 or the State CEQA Guidelines section 15162 resulting in any new or substantially more severe significant impact has occurred; and, therefore no additional CEQA analysis is required.
2. A Mitigation Monitoring Program was adopted by Sonoma County for each Mitigated Negative Declaration. The Commission adopted the Mitigation Monitoring Programs, on file at the Sacramento Office of the Commission, at the August 11, 2009 meeting, and they remain in full force.

STATE'S BEST INTERESTS:

Find that the proposed amendment is in the best interests of the State.

AUTHORIZATION:

Authorize amendment of Lease No. PRC 8844.2, a State Geothermal Resources Lease, for lands as described in Exhibit A, Land Description, and shown on Exhibit B, Site and Location Map (for reference purposes only); for an additional 10-year primary term beginning September 1, 2019; an increase in rent on Parcel 2 to \$15 per acre for the first 5 years of the additional term, then to \$25 per acre thereafter; and a one-time payment of \$8,000; in substantially the same form attached as Exhibit C.

EXHIBIT A

LAND DESCRIPTION

Two parcels of state patented school lands situate in portions of Sections 33, 34, and 35, T12N, R9W, MDBM., as shown on that Official Government Plat approved October 24, 1882, County of Sonoma, State of California and more particularly described as follows:

Parcel 1

The NW $\frac{1}{4}$ of the SE $\frac{1}{4}$, the S $\frac{1}{2}$ of the SE $\frac{1}{4}$, and the SE $\frac{1}{4}$, of the SW $\frac{1}{4}$, of Section 34, T12N, R9W, MDBM., as shown on said Official Plat. PRO. 8844.2

TOGETHER WITH the SW $\frac{1}{4}$, of the SW $\frac{1}{4}$, of Section 35, T12N, R9W, MDBM., as shown on said Official Plat.

Parcel 2

The NE $\frac{1}{4}$, and the NE $\frac{1}{4}$ of the SE $\frac{1}{4}$, of Section 33, T12N, R9W, MDBM., as shown on said Official Plat.

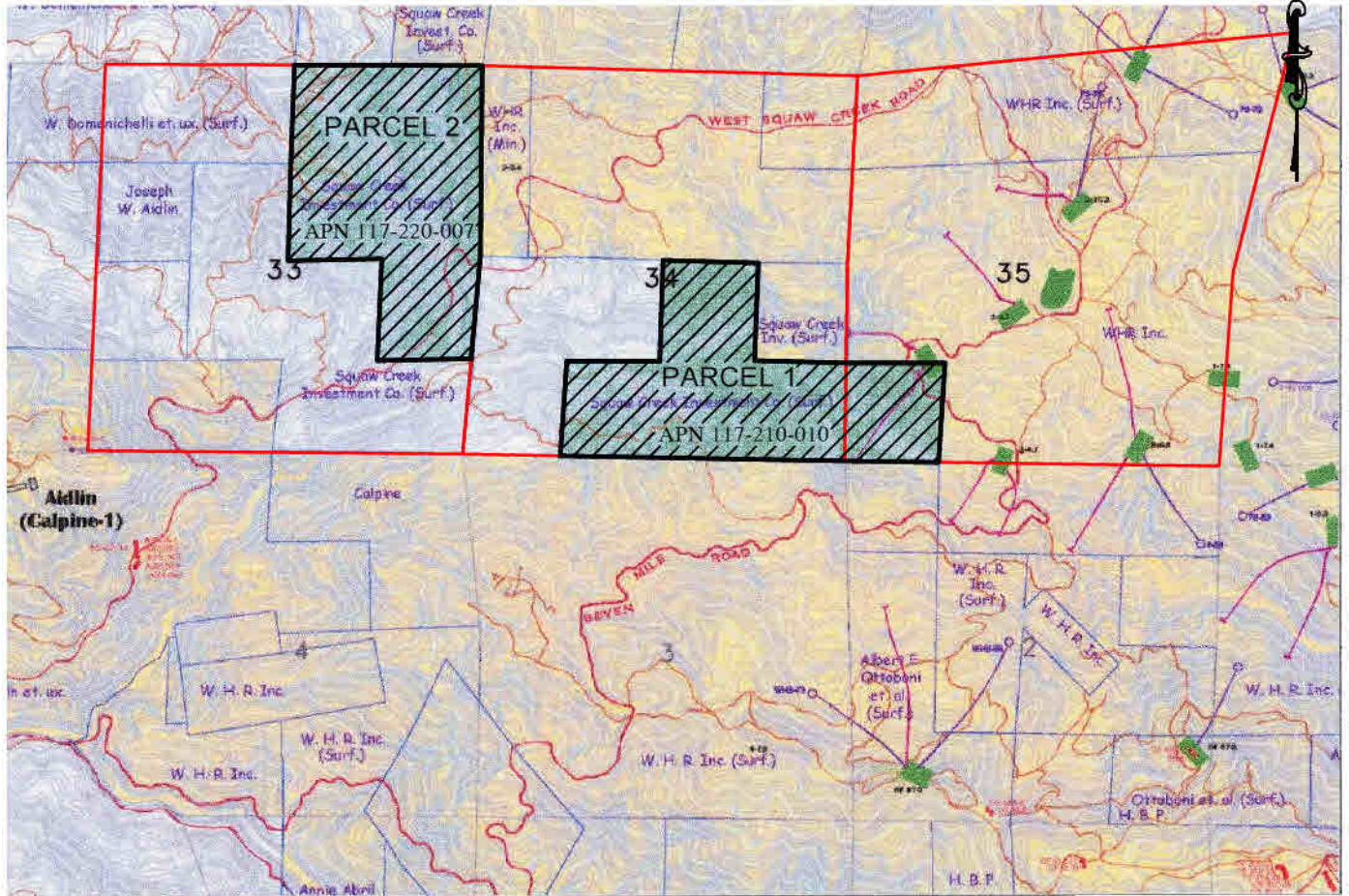
END OF DESCRIPTION

Prepared July 19, 2019 by the California State Lands Commission Boundary Unit.



NO SCALE

SITE



PORTIONS OF SECTIONS 33, 34, 35, T12N, R9W, MDM

NO SCALE

LOCATION



MAP SOURCE: USGS QUAD

Exhibit B

CPN PRG 88442
 HORSE
 GEOTHERMAL
 APN 117-210-010,
 117-220-007
 GEOTHERMAL LEASE
 SONOMA COUNTY



This Exhibit is solely for purposes of generally defining the lease premises, is based on unverified information provided by the Lessee or other parties 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.

EXHIBIT C

PRC 8844.2

AMENDMENT

STATE GEOTHERMAL RESOURCES LEASE

PRC 8844.2

SONOMA COUNTIES

This amendment is entered by and between the State of California, by and through the California State Lands Commission ("State") as Lessor, and CPN Wild Horse Geothermal, LLC ("Lessee").

Whereas, State Geothermal Resources Lease PRC 8844.2 ("Lease") was issued to Geysers Power Company, LLC in September 2009 and later assigned to CPN Wild Horse Geothermal LLC, a Calpine subsidiary, effective April 1, 2010;

Whereas, the lease consists of two parcels (parcel 1 and parcel 2) both with a drilling term of 10 years. And while Lessee has satisfied the drilling term on parcel 1, the drilling term on parcel 2 is nearing expiration without development of a well capable of meeting the requirements of the drilling term. Now the Lessee has applied to extend the drilling term on parcel 2 for an additional 10 years, consisting of two discrete 5-year terms in exchange for an increase in annual rent and a one-time bonus payment;

Whereas State and Lessee now desire to amend the Lease to read as follows;

Now, therefore, the State and Lessee do hereby agree as follows:

Effective the 1st day of September 2019 the Lease shall be amended as follows:

1. Paragraph 1(a) of the Lease, is hereby deleted in its entirety and replaced with the following language: This lease shall be for a term of ten (10) years, commencing September 1, 2019, and for so long thereafter as geothermal resources are being produced or are capable of being produced or utilized, in commercial quantities from the Leased Land or lands unitized therewith, unless sooner terminated as provided in this lease.
2. Paragraph 4(d) of the Lease, is hereby deleted in its entirety and replaced with the following language: As to parcel 1, an annual rent, payable in advance, of ten dollars (\$10.00) per acre, or fraction of an acre for each year or fraction of year that this lease is in effect. As to parcel 2, commencing September 1, 2019, an annual rent, payable in advance, of fifteen dollars (\$15.00) an acre until August 31, 2024, and increasing to twenty-five dollars (\$25.00) thereafter, through the term of the Lease. As additional consideration for this lease amendment, the Lessee shall submit a one-

time payment in the amount of forty dollars (\$40.00) an acre, for Parcel 2, in the amount to \$8,000 payable within 30 days of the approval of this lease amendment. All other terms and conditions of the lease shall remain in full force and effect without amendment.

LESSEE:
CPN WILDHORSE GEOTHERMAL, LLC
LIMITED LIABILITY COMPANY

LESSOR:
STATE OF CALIFORNIA
STATE LANDS COMMISSION

By: _____

By: _____

Title: _____

Title: Division Chief,
Mineral Resources Management

Date: _____

Date: _____

ATTACH ACKNOWLEDGMENT

Execution of this document was authorized by the
California State Lands Commission on

(Month Day Year)