

**ADMINISTRATOR'S RECORD OF DECISION**

**SETTLEMENT AGREEMENT WITH  
CALPINE SISKIYOU GEOTHERMAL PARTNERS, L.P.**

## Summary

On December 27, 1996, Bonneville Power Administration (BPA) and Calpine Siskiyou Geothermal Partners, L.P. (Calpine) executed a Settlement Agreement (Attachment 1). The Settlement Agreement resolved all questions with respect to the appropriate consideration due each party as a consequence of the restructuring of the rights and obligations between BPA and Calpine under the January 20, 1993, Memorandum of Understanding (MOU); the August 25, 1994, BPA Consent Agreement; and the March 5, 1996, Agreement (Standstill Agreement). The Settlement Agreement terminates any obligations BPA may have had to purchase power from Calpine's proposed 30-megawatt (MW) plant in the Glass Mountain Known Geothermal Area (KGRA) and grants BPA the option of obtaining electrical power from a future geothermal project developed by Calpine at the Glass Mountain KGRA for a period of at least five years and possibly up to ten years, if Calpine continues to hold its Glass Mountain leases. Any promises, undertakings, and forbearances by BPA and Calpine, as set forth in the Settlement Agreement, do not constitute an admission of liability on the part of either party.

The essential terms of the Settlement Agreement are described more fully below.

## Background

BPA is a self-financing Federal power marketing agency with statutory responsibility to supply electricity to utility, industrial and other customers in the Pacific Northwest. The Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act) requires BPA to meet its customers' electric power requirements. 16 USC 839d(a)(2). As part of its mission, BPA is responsible for acquiring conservation and additional generation resources sufficient to meet the future needs of its utility customers. Section 6(d) of the Northwest Power Act authorizes BPA to acquire experimental, developmental, demonstration or pilot projects of a type with potential for providing cost-effective service to the region. 16 USC 839d(d).

The Pacific Northwest Electric Power and Conservation Planning Council (Council), in its 1986 Power Plan, noted that "...approximately 4,400 megawatts of cost-effective electrical energy could be obtained through the development of regional geothermal resource areas." The 1986 Power Plan called for methods of confirming this resource so that it would be available when needed. The geothermal resource area at Vale, Oregon was identified as a promising site.

In response to the Council's initiative, BPA developed its Geothermal Pilot Project Program (Program). The goal of the Program was to initiate development of the Pacific Northwest's large, but essentially untapped, geothermal resources and to confirm the availability of the resource to meet the energy needs of the region. Pursuant to the Program, BPA published a Request for Proposals (RFP) for geothermal resources on July 5, 1991. Trans-Pacific Geothermal Corporation (Trans-Pacific) in conjunction with the City of Springfield, Oregon, acting through the Springfield Utility Board (SUB), submitted a proposal for a 30-MW project at the Vale site. In December 1991, BPA selected the Trans-Pacific proposal and began contract negotiations. The MOU was signed on January 20, 1993. Attached to the MOU was a negotiated but unexecuted Power Purchase Agreement (PPA) between BPA and Trans-Pacific and a negotiated but unexecuted Billing Credits Agreement between BPA and

SUB. The PPA was for a forty-five (45) year term that provided for the sale of power to BPA from a 30-MW power plant. In the separate Billing Credits Agreement, SUB agreed to acquire 9 average MW from the plant for the term of the PPA and BPA agreed to provide billing credits to SUB. The execution of the PPA and the Billing Credits Agreement were contingent upon completion of the necessary review under the National Environmental Policy Act (NEPA), and final approval of the proposed Project by BPA and the other Federal agencies involved.

After completion of some initial wells, Trans-Pacific determined that the geothermal resource at the Vale, Oregon site was not sufficient to meet the needs of the proposed Project on a cost-effective basis.

As a consequence, Trans-Pacific requested the opportunity to move the site of the Project to Glass Mountain, California. Trans-Pacific did not have any leasehold interests at Glass Mountain and enlisted Calpine Corporation, a leaseholder at the proposed site. Calpine Corporation and Trans-Pacific formed Calpine Siskiyou Geothermal Partners, L.P. (Calpine) to develop the Project. BPA and SUB signed separate Consent Agreements with Calpine and Trans-Pacific, and BPA modified the unexecuted PPA and Billing Credits Agreement to reflect the relocation of the proposed Project. Calpine initiated the NEPA review process at the Glass Mountain site. The NEPA process was ongoing at the time the Settlement Agreement was executed.

A separate geothermal pilot project involved the development of a project at Newberry Volcano, Oregon. The environmental review had been completed on the proposed Newberry project and favorable Records of Decision had been issued by BPA and the other Federal agencies involved. BPA signed the proposed PPA with the Newberry developer and exploration work began. On July 17, 1996, the Newberry developer notified BPA that the resource at Newberry Volcano was insufficient to meet its obligations under the Newberry PPA on a cost-effective basis, and demanded that BPA allow it to relocate its project to Glass Mountain.

During the course of discussions about the proposed relocation, the Newberry developer made a new proposal that contained terms and conditions which significantly shortened the length of the contract and price of the power. BPA initiated discussions with Calpine to see if it could agree to terms and conditions similar to those proposed by the Newberry developer. Unable to meet the price and terms proposed, BPA and Calpine began to focus their discussions on restructuring the rights and obligations between them in the event that BPA elected not to go forward with the proposed Project after the completion of the environmental review work.

### Settlement Agreement

Beginning in early November 1996, and continuing at a number of subsequent meetings both in person and via telephonic conferences, BPA and Calpine negotiated the essential terms of the Settlement Agreement. The Settlement Agreement resolves any and all claims by Calpine, its affiliates, Trans-Pacific, or any partner or member of any of them against BPA arising out of the MOU, the BPA Consent Agreement or the Standstill Agreement.

Under the Settlement Agreement, BPA agreed to pay up to a total of \$14.5 million to Calpine in exchange for a release by Calpine, its affiliates, Trans-Pacific, or any partner or member of any of them.

of all claims they may have against BPA under the MOU, the BPA Consent Agreement, or the Standstill Agreement. The Settlement Agreement also grants an option to BPA on future development of the geothermal resources at Glass Mountain. Calpine also agreed to continue, at its own expense, to work toward the successful conclusion of the environmental review work already under way.

BPA recognized that there would be some value to maintaining an option for a future project at the site, and Calpine granted BPA a series of options under the Settlement Agreement. The initial option is for a period of five years. During this initial option period, if Calpine develops the site, it must offer BPA a project with similar terms and conditions, including price, as that offered to the other power purchaser. This option will continue for a second five-year period if Calpine continues to hold the applicable leases. BPA also has the option to request that Calpine develop the site for BPA power needs. The terms and price would be negotiated after BPA exercises its option.

BPA and Calpine have further agreed to a coordinated effort in the marketing of green power. In addition, Calpine granted BPA a "right of first discussion" in the sale of lower-priced power in any melded green power product marketed by Calpine.

SUB did not participate in the settlement negotiations and is not a signatory to the Settlement Agreement. BPA was not authorized by SUB to represent its interests, and BPA made no representations to Calpine that it was representing SUB.

### Decision

Upon consideration of the entire record, BPA decided to execute the Settlement Agreement.

Issued in Portland, Oregon on March 11, 1997.

  
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Randall W. Hardy  
Administrator and Chief Executive Officer