

SUBLEASE AND AGREEMENT

THIS SUBLEASE AND AGREEMENT is made and entered into as of this 15th day of November, 1963, by and between MAGMA POWER COMPANY, a Nevada corporation, Party of the First Part, hereinafter referred to as Sublessor, and SIERRA PACIFIC POWER COMPANY, a Maine corporation, carrying on and entitled to carry on a public utility business in the State of Nevada, Party of the Second Part, hereinafter referred to as Sublessee.

Recitals

WHEREAS, Sublessor is the owner and holder of a certain Lease and Agreement as lessee from Sam M. Dermengian and Annie Dermengian, husband and wife, as lessor, covering certain lands situated in Lander and Eureka Counties, Nevada, as described in said Lease and Agreement, which said Lease and Agreement is recorded in Book H, Page 75 of Miscellaneous Records of Eureka County, Nevada, and in Book 11, Page 362 of Miscellaneous Records of Lander County, Nevada, which said Lease and Agreement grants to Sublessor the sole and exclusive right to drill, for, produce, extract, take, remove, transport and sell all of the heat, fluid and minerals, including formation water, the natural heat of the earth and all fluids and minerals producible from wells drilled on said lands, including, but not limited to, gases, liquids and solids such as steam, hot water, carbon dioxide, methane, helium, heavy water, sulphur, sulphur gases, sulphur compounds, boron compounds, halogens and their compounds, carbonate and bicarbonate compounds, as well as heat or power derived from any such natural heat,

fluids or minerals, and

WHEREAS, Sublessor desires to sublet to Sublessee, and Sublessee desires to sublease from Sublessor, for the uses and purposes and pursuant to the agreement hereof, all of the land covered by said lease (which said lease, for purposes hereof, shall be hereinafter referred to as "primary lease").

Terms of Agreement

NOW, THEREFORE, for good and valuable consideration paid to Sublessor by Sublessee and other valuable consideration, receipt of which is hereby acknowledged, and in consideration of the covenants and agreements hereinafter contained by Sublessee to be kept and performed, Sublessor has sublet and demised and by these presents does sublet and demise to Sublessee, its grantees, successors and assigns, upon and subject to the terms and conditions hereinafter set forth, all that certain land covered by the primary lease in Eureka and Lander Counties, State of Nevada, as described therein, together with all rights and privileges of Sublessor under said primary lease and for the uses and purposes as set forth in said primary lease except, and subject to, the terms and conditions hereof as follows, to-wit:

1. This sublease shall be for the full term of the primary lease unless sooner terminated pursuant to the provisions hereof.
2. Sublessee, subject to the provisions hereof, shall perform the provisions of the primary lease insofar as and to the extent that the provisions of said primary lease are applicable to the lands covered hereby, it being specifically understood and agreed that no default on the part of

Sublessor under the primary lease, or termination of the primary lease pursuant to its terms because of default thereunder, shall impair or affect in any way the rights of Sublessee hereunder, nor cause or result in a termination of this sublease prior to expiration of the original term of said primary lease.

3. Sublessee shall within <sup>one hundred fifty (150)</sup> ~~ninety (90)~~ days from *WJH* the date hereof commence and continue diligently, and in good faith, the drilling of a well upon the demised premises or on other lands in the vicinity thereof subleased to Sublessee by Sublessor for the development of natural steam or thermal energy therefrom and Sublessee shall continue drilling one or more wells on the demised premises, or such other lands, provided that Sublessee shall not be required to utilize more than one string of drilling tools in said drilling program until Sublessee shall have developed on the demised premises or such other lands sufficient natural steam or thermal energy, to the satisfaction of Sublessee, to adequately supply an electric generating plant capable of producing 5,000 or more kilowatts of electric power. Thereafter, upon completion of the aforesaid drilling program, Sublessee may test production and productive capacity of said wells for a period of three months and upon completion of said test period Sublessee shall either continue the drilling program (if the tests shall not satisfy Sublessee as to the capacity of the wells theretofore drilled on the demised premises) until an additional well, or additional wells shall have been drilled on the demised premises or such other lands by Sublessee sufficient to satisfy Sublessee as to the aggregate productive capacity of said wells, or Sublessee, upon being

satisfied as to the productive capacity of said wells, shall commence (or diligently pursue if already commenced) engineering studies for construction of a plant for the generation of electric power on the demised premises having a capacity of 5,000 kilowatts or more, and shall proceed with said engineering studies diligently and in good faith and upon completion thereof shall proceed diligently and in good faith with the erection of such electric generating plant and shall thereafter, with diligence and good faith, proceed to bring the requisite transmission lines to said plant and place said plant on production. In any and all events, except as provided under paragraph 9 hereof, Sublessee shall have completed construction of said electric generating plant and the transmission lines to said plant within three years from the date hereof.

4. Notwithstanding any of the provisions of paragraph 3 hereof, Sublessee may at any time, if it so desires, relinquish and surrender to Sublessor the demised premises and all wells and casing and equipment appurtenant thereto theretofore placed thereon by Sublessee and thereafter be released of further obligations hereunder, except that Sublessee shall not thereafter undertake any project or projects for the development of natural steam or thermal energy for generation of electric power therefrom within an area of twenty-five miles from the outer boundaries of the demised land for a period of three years from the date of Sublessee's relinquishment of the demised premises as aforesaid.

5. Sublessee shall pay to Sublessor as royalty 1-1/2 mills per kilowatt hour for all electricity produced and transmitted from the demised premises as measured at the bus bar.

Said royalty to be payable monthly and the said royalty payment to be accompanied by a statement setting forth the basis for computation and determination of said royalty. Sublessee shall have the right to commingle steam and thermal energy produced from the leased premises and to meter or gauge the production of such steam or thermal energy from the leased premises in computing and paying Sublessor's royalty hereunder in the same manner as provided in the primary lease.

6. Out of the royalty paid by Sublessee to Sublessor Sublessor undertakes and agrees to pay monthly to lessor under the primary lease a lessor's royalty of 25/100ths of one mill per kilowatt hour for all electricity produced and transmitted from the demised premises as measured at the bus bar. In the event Sublessor fails to make said royalty payments to lessor under the primary lease as aforesaid, Sublessee shall have the right to withhold from the monthly royalty payments payable to Sublessor the said royalty payable to said lessor under the primary lease and to pay said royalty directly to lessor.

7. Every three years commencing from and after the first day of January next following the date that the first electric generating plant shall have been placed on production, Sublessee shall ascertain the average cost per kilowatt hour to Sublessee during the month of January of such year of ~~fossil~~ <sup>steam</sup> *74 JH* ~~fuels~~ used by Sublessee in its power plants, ~~utilizing fossil~~ *74 JH* ~~fuels.~~ In the event such average cost shall exceed the average cost thereof during the same month three years prior thereto, the royalty payable to Sublessor hereunder shall be

increased in the same proportion as such increased average cost. Such increase shall be effective as of January 1 of such year. In the event of any increase in the royalty paid to Sublessor as herein provided, Sublessor shall pay a proportionately increased royalty to lessor under the primary lease.

8. The rights granted to Sublessee hereunder are personal to Sublessee and Sublessee may not transfer or assign in whole or in part its rights hereunder without the prior written consent so to do by Sublessor. The provisions of this paragraph 8 shall not apply as to a sublease or assignment to an entity in which Sublessee has an ownership interest nor to the hypothecation of Sublessee's rights hereunder in connection with any borrowing whether by bonds or otherwise.

9. The obligations of Sublessee hereunder shall be suspended except as to delay rentals and the term of this sublease shall be extended while Sublessee is prevented from complying therewith in whole or in part by strikes, lockouts, riots, action of the elements, accidents, delays in transportation, inability to secure labor and material in the open market, laws, rules or regulations of any federal, state, municipal or other governmental agency, authority or representative, or other matters or conditions beyond the reasonable control of Sublessee whether or not similar to the conditions or matters herein specifically enumerated.

10. Sublessee shall pay to Sublessor and Sublessor shall forthwith pay to lessor under the primary lease, or Sublessee, if it elects, may pay directly to lessor under the primary lease, the entire delay rental payable to

lessor under the said primary lease.

11. After the first electric generating plant has been on production for three years, or sooner at the option of Sublessee, Sublessee shall continue development of the demised premises or other lands in the vicinity thereof subleased to Sublessee by Sublessor, by the drilling of additional wells for production of natural steam and thermal energy and the erection on the demised premises or such other lands of electric generating facilities and bring thereto transmission lines for the utilization of additional natural steam and thermal energy for the production and sale of a greater amount of electricity to the extent that the generation of such additional electricity and the sale thereof reasonably meets Sublessee's system requirements for electricity at the point of generation thereof on or in the vicinity of the demised premises or such other lands. Sublessee agrees that the demised premises and such other lands as Sublessee may sublease from Sublessor in the general area of the demised premises shall be developed and the natural steam and thermal energy producible therefrom shall be utilized by Sublessee to the reasonably ascertainable capacity thereof prior to the development or utilization by Sublessee of any other lands from which electricity generated thereon would serve substantially the same service area as the demised lands and such other lands as may be sublet to Sublessee by Sublessor.

12. Sublessor agrees that in the event Sublessor undertakes to sublet any other lands covered by the said primary lease or other lands situated within a radius of five (5) miles from the outer boundary of the demised land, Sublessor shall give to Sublessee the right of first refusal to take such sublease upon the same terms that Sublessor is

willing to sublet said lands to any other person or persons provided, however, that no joint venture, agreement, operating agreement, partnership or joint effort on the part of Sublessor and any other person or persons shall be deemed to be a subletting under the provisions hereof even though such joint venture, agreement, operating agreement, partnership or joint effort shall involve the assigning of any interest in any lease or leases. Sublessee shall nevertheless have the right of first refusal to purchase natural steam or thermal energy produced or electricity generated by such joint venture, partnership or joint effort, or pursuant to such agreement or operating agreement on the same terms that such joint venture, partnership or joint effort proposes to sell same to any other person or persons.

13. If Sublessee shall fail to keep or perform any covenant or condition imposed on it by the terms of this instrument, Sublessor may give written notice of such failure to Sublessee and, if Sublessee does not, within thirty (30) days after such notice, commence, in good faith, to correct such failure and thereafter proceed with due diligence and good faith in the correction thereof, Sublessor, without in any way limiting other remedies it may have in law or in equity, may forthwith terminate this Sublease and all rights of Sublessee hereunder.

14. Any notice or other communication herein from Sublessor to Sublessee shall be given in writing by delivering same personally to Sublessee or by sending same by registered or certified mail, postage prepaid, addressed to Sublessee at 220 South Virginia Street, Reno, Nevada, and any notice or other communication hereunder from Sublessee to Sublessor shall be given in writing by delivering same personally

to Sublessor or by sending same by registered or certified mail, postage prepaid, addressed to Sublessor at 631 South Witmer Street, Los Angeles 17, California. Any notice mailed, as aforesaid, shall be deemed given and received within 72 hours after the deposit thereof in the United States mail within either the state of Nevada or the state of California, and if deposited in the United States mail outside of either such states, such notice shall have been deemed to have been given and received within 96 hours after the deposit of same in the United States mail in such other state. The parties may, upon written notice, at any time and from time to time, change their respective addresses for the purposes hereof.

The provisions hereof shall be binding upon and inure to the benefit of the respective successors, and assigns, of the parties hereto subject to the limitations hereof with respect to transfer or assignment on the part of Sublessee.

IN WITNESS WHEREOF, the parties have executed this instrument as of the day and year first above written.

MAGMA POWER COMPANY, a Nevada corporation,

By [Signature] Vice President  
By [Signature] Secretary

SUBLESSOR

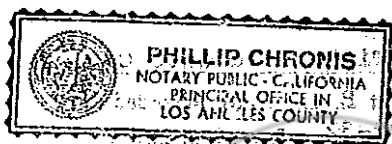
SIERRA PACIFIC POWER COMPANY,  
a Maine corporation

By [Signature]  
By [Signature]

SUBLESSEE

STATE OF CALIFORNIA )  
COUNTY OF LOS ANGELES ) SS

On November 15, 1963, before me, the undersigned, a Notary Public in and for said County and State, personally appeared Ray Parodi, known to me to be the Vice President, and Joseph W. Adlin, known to me to be the Secretary of MAGMA POWER COMPANY, the corporation that executed the within Instrument, known to me to be the persons who executed the within Instrument on behalf of the Corporation herein named, and acknowledged to me that such Corporation executed the within Instrument pursuant to its By-Laws or a resolution of its Board of Directors.



My Commission Expires August 8, 1967

SAVES

Phillip Chronis

STATE OF Nevada )  
COUNTY OF Washoe ) SS

On December 31, 1963, before me, the undersigned, a Notary Public in and for said County and State, personally appeared Fred L. Fletcher, known to me to be the President, and Jae L. Granden known to me to be the Secretary of SIERRA PACIFIC POWER COMPANY, the corporation that executed the within Instrument, known to me to be the persons who executed the within Instrument on behalf of the corporation herein named, and acknowledged to me that such corporation executed the within Instrument pursuant to its by-laws or a resolution of its Board of Directors.

Ben E. Baal

My Commission expires March 4, 1964

COUNTY OF LAS VEGAS  
CLERK OF DISTRICT COURT

On this day, before me, the undersigned, a Notary Public in and for said County and State, personally appeared \_\_\_\_\_, known to me to be the \_\_\_\_\_, President, and \_\_\_\_\_, Secretary of MAGNA POWER COMPANY, the corporation that executed the within instrument, known to me to be the persons who executed the within instrument, and acknowledged to me that each corporation executed the within instrument pursuant to the by-laws or a resolution of its board of directors.

39742

FILE NO. \_\_\_\_\_  
Filed for record at the request of Pioneer Title Insurance Co. of Nevada  
April 13, 1964, at 08 minutes past 8 A.M. Recorded in  
Book 4 of Official Records, page 22-32 Records of EUREKA  
COUNTY, NEVADA.  
Fee: \$ 9.35 \_\_\_\_\_, Recorder.

22

On this day, before me, the undersigned, a Notary Public in and for said County and State, personally appeared \_\_\_\_\_, known to me to be the \_\_\_\_\_, President, and \_\_\_\_\_, Secretary of EUREKA PACIFIC POWER COMPANY, the corporation that executed the within instrument, known to me to be the persons who executed the within instrument on behalf of the corporation herein named, and acknowledged to me that each corporation executed the within instrument pursuant to the by-laws or a resolution of its board of directors.