

MINUTE ITEM

This Calendar Item No. 28
was approved as Minute Item
No. 28 by the State Lands
Commission by a vote of 3
to 0 at its 1/31/85
meeting.

Minute Item

28

1/31/85
PRC 6096
Hoagland

DENIAL OF EXTENSION
OF GEOTHERMAL PROSPECTING PERMIT

During consideration of Calendar Item 28 attached, the following people appeared:

Mr. Larry T. Durkan, President
Exploration Engineering, Inc.

Ms. Sandra L. Durkan
Exploration Engineering, Inc.

Mr. Dwight Kuhns
Catalyst Energy Development Corporation

Ms. Kathryn George
Catalyst Energy Development Corporation

Mr. Craig McDonald, Chief
Plant Operations
Sonoma State Hospital

Mr. Mike Garland
Office of Energy Assessments
Department of General Services

Mr. Doug Yee
Facilities Planning Branch
Department of Development Services

Assistant Executive Officer Trout summarized the status of Mr. Durkan's prospecting permit as a result of the Commission's requested action at its November 29, 1984 meeting.

Upon hearing all the testimony, the Commission concluded that Mr. Durkan had not provided adequate assurance of a financial commitment to support a further extension of the prospecting permit.

There not being a motion to extend the permit, the resolution in Calendar Item 28 was approved as presented by a vote of 3-0.

Commission-Alternate Ordway clarified that Exploration Engineering Inc. would not be precluded from applying for any future projects.

Attachment: Calendar Item 28.
(NON-SUBSTANTIVE REVISION 02/10/85)

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01/31/85
PRC 6096
Hoagland

DENIAL OF EXTENSION OF
GEOTHERMAL PROSPECTING PERMIT

PERMITTEE: Exploration Engineering, Inc.
2278 Market Street
San Francisco, California 94144
Attn: Mr. Larry T. Durkan
President

AREA, TYPE OF LAND AND LOCATION:
Approximately 1,670 acres of proprietary land
(Department of Developmental Services) at
Sonoma State Hospital, Eldridge, Sonoma County.

LAND USE: Drill from one to three wells at locations
approved by the hospital administration to
assess the geothermal potential of the area.

TERMS OF ORIGINAL PERMIT:

Initial period: Two years from December 20,
1981.

Renewal Option: For a period or periods not
exceeding two years.

Surety bond: \$50,000.

Public liability insurance: Combined single
limit coverage of \$500,000.

Consideration: Rental of \$1 per acre per
annum during first year, \$5
per acre per annum during the
second year, and \$25 per acre
per annum during any

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extension. In the event a preferential lease is executed, it would provide for rental of \$1 per acre per annum, and a royalty of ten percent of gross revenues received from the sale of geothermal resources, with a minimum royalty of \$2 per acre per annum.

Special: Upon discovery of geothermal resources in commercial quantities, permittee will be entitled to apply for a preferential lease upon notice of intention to exercise this right; subject, however, to the discretion of the Commission and review of environmental documentation pertaining to full field development of the resource.

TERMS OF PERMIT EXTENSION:

Period: One year commencing December 20, 1983. All other terms and conditions of the permit remain in full force and effect.

CONSIDERATION: Rental at the permit extension rate of \$25 per acre and royalties as indicated above in the event a lease is executed.

STATUTORY TERMS, FEES AND EXPENSES:

A. P.R.C.: Div. 6, Parts 1 and 2; Div. 13; Div. 20.

B. Cal. Adm. Code: Title 2, Div. 3; Title 14, Div. 6.

AB 884: N/A.

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OTHER PERTINENT INFORMATION:

On December 17, 1981, the Commission authorized issuance of a Geothermal Prospecting Permit to Larry T. Durkan covering the grounds of Sonoma State Hospital, an area of approximately 1,670 acres near Glen Ellen, Sonoma County. After a series of assignments, the permit is now assigned to Exploration Engineering, Inc.

A well was commenced in July 1982, and drilled to a depth of about 1,500 feet when it was suspended due to disagreement between the then parties over financing. The assignee has indicated that the dispute has been settled and that he had a promise of adequate funding from another source. As a well was commenced during the primary term of the permit, it was considered extendable, in the Commission's discretion pursuant to P.R.C. 6910, for a period not exceeding two years; provided that the combination of the term and extension of any prospecting permit shall not exceed a total of four years. Permittee requested a one-year extension which was granted commencing December 20, 1983.

Lessee has now requested an additional extension of one year as provided by law. From its inception, this project has been plagued by delays, litigation and lack of vigorous exploration by the applicant. The applicant was found to be in breach of the terms of the permit on two occasions; once for failure to remove drilling equipment when it was no longer in use and once for failure to pay rent. In each case the breach was cured at the last possible moment. At the time of the second breach, the Permittee contended that he could not obtain adequate financing because he did not have a contract of sale for the resource. Throughout the project Permittee has made claims that he had secured adequate financing and expected to commence drilling shortly. Staff has yet to see any concrete evidence that adequate financing has been secured.

CALENDAR ITEM NO. 28 (CONT'D)

Because of all past delays and excuses for failure to perform, it is the opinion of staff that it would be in the best interest of the State to deny the request of Exploration Engineering for a one-year extension.

On November 29, 1984 staff therefore recommended to the Commission that the lessee's request be denied. At that commission meeting the permittee, Larry T. Durkan, appeared before the Commission along with representatives from Catalyst Energy Corporation (a James J. Lowrey Company). This firm proposed to help secure financing for the completion of the drilling and construction of a geothermal or gas-fired co-generation project at the hospital. Staff of the hospital and the Department of Developmental Services expressed their opposition to an extension of the geothermal prospecting permit. The Department has complained that permittee's operations in the past have significantly disrupted the physical environment of the hospital grounds and endangered the safety of the hospital residents. (See the Department's letter dated December 14, 1984 and Permittee's reply dated January 6, 1985, attached hereto as Exhibit B.) After discussion, the Commission approved extension of the permit from December 20, 1984 to January 31, 1985. The Commission directed the Permittee to meet with staff of the Commission and the other involved agencies during that period and be prepared to present the Commission with evidence that he had secured financing for completion of the existing well; that substantial progress had been made toward securing a contract for the sale of the resource; and that progress had been made to remove objections to the project which had been voiced by staff of the hospital. Staff of the Commission met January 18, 1985 with staff of the hospital and the Permittee to discuss the project and the progress made to eliminate objections to further extension. At that meeting, a representative of Catalyst Energy presented a

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CALENDAR ITEM NO. 28 (CONT'D)

letter (a copy of which is attached hereto as Exhibit C) addressed to the Executive Officer, which represented that Catalyst had negotiated with Lakewood Enterprises for drilling funds, met with Department of Developmental Services staff, further researched project economics, met with consultants on co-generation project, finalized a power purchase agreement with Pacific Gas and Electric Company, met with consultant of the Office of Energy Assessments to outline scope of a proposal to General Services, sent out financial package for drilling to interested parties and arranged a meeting with staff of the State. The letter requested that the application for extension be approved to permit an integrated complete development effort. During the ensuing discussion, it was disclosed that Lakewood Enterprises, which purportedly was to provide funding for completion of the well, had withdrawn from the project. The Assistant Executive Officer indicated that, because the permittee and his financial representatives had failed to produce evidence of funding requested by the Commission, that staff would recommend that the request for further extension of the permit be denied.

Because of the continuing delays, and failure to perform, Permittee's disruption of state hospital operations, and lack of progress during the latest extension, the opinion of staff remains that it would be in the best interest of the State to deny the request of Exploration Engineering for further extension.

The staff recommends that the present permittee, Exploration Engineering, Inc., be directed to abandon Well "SS3" which has been partially drilled on the permitted area. Such abandonment will comply with all the terms of the permit and the rules and regulations of the California Division of Oil and Gas. It is further recommended that the permittee be informed that the bond in the amount of \$50,000, presently held by the State, will not

be relinquished until the Commission has been informed, in writing, that the well has been abandoned and staff has inspected and approved the abandonment.

ENVIRONMENTAL INFORMATION:

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (14 Cal. Adm. Code 15061) the staff has determined that this activity is exempt from the requirements of the CEQA because it is not a project as defined by CEQA and the State CEQA guidelines.

Authority: P.R.C. 21065 and 14 Cal. Adm. Code 15378.

EXHIBIT:

- A. Location Map.
- B. Department of Developmental Services Letter, dated December 14, 1984.
Exploration Engineering Letter Dated January 6, 1985.
- C. Catalyst Energy Development Corporation Letter, dated January 17, 1985.

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. ADM. CODE 15378.
2. DENY FURTHER EXTENSION OF GEOTHERMAL PROSPECTING PERMIT PRC 6096.1 TO EXPLORATION ENGINEERING, INC.
3. DIRECT THE PERMITTEE TO ABANDON WELL "SS3" IN ACCORDANCE WITH ALL APPROPRIATE RULES AND REGULATIONS AND DIRECT THAT THE PERMITTEE'S BOND WILL NOT BE RELINQUISHED UNTIL THE ABANDONMENT HAS BEEN APPROVED BY THE DIVISION OF OIL AND GAS AND INSPECTED AND APPROVED BY STAFF OF THE COMMISSION.

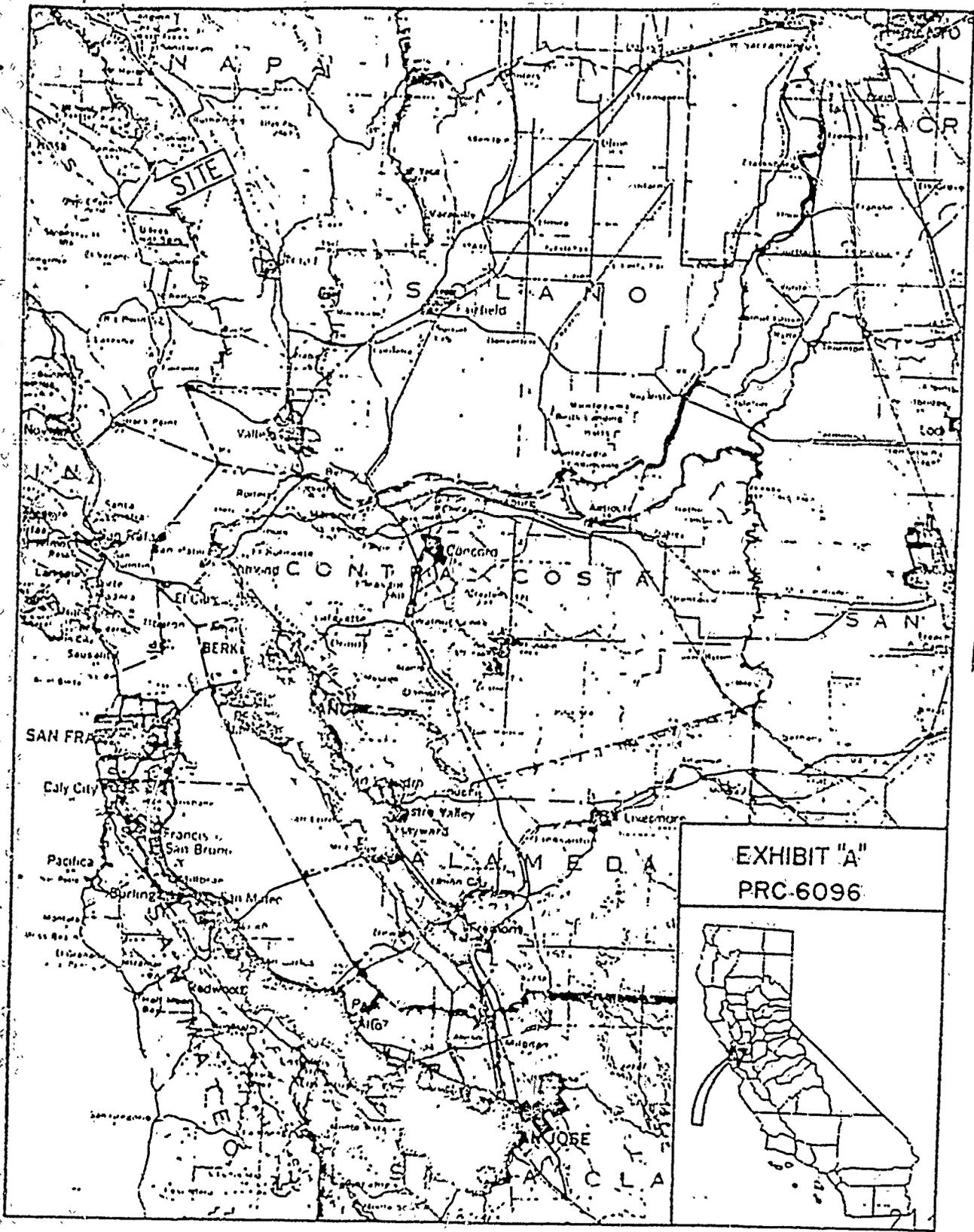


EXHIBIT "A"
 PRC-6096



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EXHIBIT B

GEORGE DEUKMEJIAN, Governor

STATE OF CALIFORNIA—HEALTH AND WELFARE AGENCY

DEPARTMENT OF DEVELOPMENTAL SERVICES

1600 9TH STREET
SACRAMENTO, CA 95814
TTY 323-3901

(916) 445-1306

December 14, 1984

LARRY DURKAN
Exploration Engineering, Inc.
2278 Market Street
San Francisco, California 94114

Dear Mr. Durkan:

DRILLING AT SONOMA STATE HOSPITAL, DEPARTMENT OF DEVELOPMENTAL SERVICES

You are to refrain from all drilling activities at Sonoma State Hospital until past violations of your prospecting permit P.R.C. 6091.6 are resolved through a plan of correction.

The intent of the plan of correction is to provide the administration at Sonoma State Hospital reasonable assurances permit violations will not continue or recur. Hospital client safety is the prime concern of all activities performed on Sonoma State Hospital property. Violations which endanger clients or staff will not be tolerated. The utmost care must be taken in your plan of correction to insure the safety of all persons traversing the hospital grounds.

The plan should provide preventative/corrective measures directed at the following past violations:

<u>Permit References</u> (P.R.C. 6091.6)	<u>Violations</u>
Page 3, Operations, Section 9(a), and Page 10, Preservation of Property, Waste Discharge; Section 21(b)	Drill site fence not secure at entry area.
Page 3, Operations, Section 9(a), and Pages 11 and 12, Preservation of Property, Waste Discharge, Sections 21, 21(f), 21(g), 21(i) and 21(n)	Heavy mud deposits by heavy equipment operations on unpaved drill site. Mud spread from drill site .4 miles on Wilson Street at Sonoma State Hospital and .75-1.5 miles south on Arnold Drive (county road).
	Soil deposited on roads deposited in Sonoma Creek (spawning stream) by rains following depositing on roads.

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Permit References
(P.R.C. 6091.6)

Violations

Page 12, Section 2:(1)

Heavy traffic flow in excess of 15 mph speed limit endangering developmentally disabled residents utilizing Wilson Street and adjacent buildings such as the School.

Page 17, Time of Essence, Section 38

Failure to act in a timely manner.

Include a time schedule in the plan of correction to indicate completion dates of corrective actions. The plan of correction should be submitted to this office. Submittal of a satisfactory plan of correction will be considered by the hospital in determining whether further drilling will be permitted.

Should you have any questions, please contact me at (916) 445-1306.

Larry Durkan
By: **MIKE KOESTER, Chief**
Facilities Planning Branch

- cc: L. Boulger
- D. Yee
- T. Gillons
- C. McDonald

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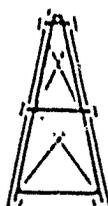


EXHIBIT B

EXPLORATION ENGINEERING, INC.

RECEIVED
HOSPITAL ADMINISTRATOR

JAN 10 1985

January 6, 1985

SONOMA
STATE HOSPITAL

Mr. Mike Koester, Chief
Facilities Planning Branch
Department of Developmental Services
1600 9th Street
Sacramento, CA 95814

Dear Mr. Koester:

I have never been notified either verbally or in writing of "heavy mud deposits by heavy equipment operations on unpaved drill site. Mud spread from drill site .4 miles on Wilson Street at Sonoma State Hospital and .75-1.5 miles south on Arnold Drive (county road)".

Especially I have never been notified either verbally or in writing of "soil deposited on roads deposited in Sonoma Creek (spawning stream) by rains following depositing on roads". Significantly California Department of Fish and Game who inspected the job site has never found or been notified of any problems which could endanger fish or wildlife. Evidence enclosed letter Department of Fish and Game Regional Manager Region 3.

I was never notified neither verbally or in writing nor was my on site management notified of "heavy traffic flow in excess of 15 mph speed limit endangering developmentally disabled residents utilizing Wilson Street and adjacent buildings such as the School".

Research of Geothermal exploration and development on your part will prove to you beyond all reasonable doubt that I have not only acted in a timely manner but have in fact been exceedingly prompt.

California Division of Oil and Gas who regularly inspected the operations at Sonoma State Hospital did not notice any of the alleged violations mentioned in your letter, nor were they notified by you of said alleged violations. As all heavy equipment operation at Sonoma State Hospital ceased on or about December 28, 1982 and I did not receive your letter until December 14, 1984 I suggest that your untimely criticisms are of a punitive nature. I categorically deny all of the alleged violations of Prospecting Permit 6096.1 set down in your letter of December 14, 1984.

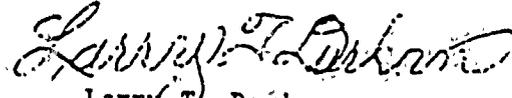
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2278 MARKET STREET • SAN FRANCISCO, CA 94114

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In order to establish an atmosphere of mutual trust and cooperation I have addressed each of the items which you mentioned in your letter. Please find enclosed a Plan of Correction of Misunderstandings.

Sincerely,



Larry T. Durkan
President

LTD/ky

cc: L. Boulger
D. Yee
✓ T. Gillons
C. McDonald

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DEPARTMENT OF FISH AND GAME

Post Office Box 47
Yountville, CA 94599
(707) 944-4460



November 14, 1983

Mr. Larry Durham
2124 Mount Olive Court
Santa Rosa, CA 95404

Dear Mr. Durham:

This is in response to your telephone call of November 10, 1983 requesting we notify you if we have had any problems so far with your Geothermal Exploration Project at Sonoma State Hospital. We are unaware of any problems that have been created for fish and wildlife by the present exploration project. However, if commercial quantities of steam are discovered we believe an indepth Environmental Assessment should be made to determine what effects full field development would have on the natural resources of the area, and what measures will be taken to mitigate any adverse effects.

Sincerely,

A handwritten signature in cursive script, appearing to read "Brian Hunter".

Brian Hunter
Regional Manager
Region 3

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PLAN OF CORRECTION OF MISUNDERSTANDINGS
SONOMA STATE MENTAL HOSPITAL GEOTHERMAL PROJECT

1. Drill Site Security:

To maintain drill site security at entry a gate security guard will be provided during times of operation. The gate security guard will be responsible for but not limited to traffic control, "no mud" tire inspection, and patrolling the fence and gate for security and making necessary repairs to maintain same.

2. Heavy Equipment Operation:

To prevent transport vehicles of winter operations from spreading mud from tires onto adjacent paved roads future winter drill sites shall be paved or gravelled to produce "no mud" conditions. The gate security guard shall conduct a policy of inspecting the tires and loads of all vehicles leaving the site to insure that all loads are secure and no mud from tires or elsewhere on the equipment can be transmitted to adjacent property or roads. The gate guard shall maintain the gate in a closed and locked condition at all times, no equipment will be allowed to leave the site without the inspection of the gate guard.

3. Traffic Speed Control:

To avoid traffic flow in excess of 15 miles per hour speed limit the gate guard shall present all contractors and sub-contractors used on the job as well as each truck driver and heavy equipment operator with a written copy of the Eldridge speed limit code and shall obtain the drivers signature on a copy to kept on file at the gate. Any violations will result in drivers disqualification to work on the Geothermal Project at Eldridge.

4. Time Schedule:

Time schedule for the resumption of heavy equipment operations shall be coordinated to resume as soon as an agreement satisfactory to the hospital and EEI has been reached.

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EXHIBIT C
The Catalyst Energy
Development Corporation.

110 Wall Street, New York, NY 10005, (212) 363-2000

January 17, 1985

Ms. Claire T. Dedrick
Executive Officer
State Lands Commission
1807 13th Street
Sacramento, California 95814

Dear Ms. Dedrick,

The State Lands Commission at its November hearing extended Mr. Larry Durkan's prospecting permit for the Sonoma State Hospital leasehold for forty-five days additional in order that Mr. Durkan show a commitment for geothermal drilling funds. Catalyst Energy Development Corporation, by virtue of our development agreement with Mr. Durkan, was directed by the Commission to meet with affected state agencies, propose a level of benefits to the hospital and the state, and seek agreement under various project development scenarios. Catalyst testified at the Commission hearing that the negotiation and securing of agreements was an heroic - high impossible - task in the short time period allowed, but nonetheless diligently pursued the steps listed below in hopes that positive progress would ensure further extension of the prospecting permit.

Having diligently responded to the Commission's instructions, it has been our impression that this project is plagued by conflict, miscommunication, and a notorious history; which together make the normally tough job of project development more onerous. Therefore, to ensure responsible development of a worthy project, we respectfully recommend that the Commission grant Mr. Durkan a full twelve month extension of the prospecting permit.

Since the November hearing, Catalyst has performed work as follows:

- 1) Negotiated with Lakewood Enterprises for commitment of drilling funds,
- 2) Met with Department of Developmental Services and Messrs. Craig McDonald and Tom Gillons of Sonoma State Hospital to outline project and proposed benefits,
- 3) Further researched project economics, including hospital's cost of steam, PG&E's power purchase rates, and the cost of natural gas,
- 4) Consulted with Douglas Energy to obtain estimate of cogeneration equipment performance vs. natural gas consumption,
- 5) Finalized a power purchase agreement with Pacific Gas & Electric,
- 6) Met with Mr. Charles Kuhn, engineering consultant to Energy

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- Assessment, to outline scope of proposal to General Services,
7) Sent financial pro forma package for drilling to interested parties including Bank of America project finance group and R.C.Dick Geothermal and arranged meetings, and
8) Arranged to meet with State Lands Staff, General Services, and Developmental Services January 18 at the hospital.

Based upon our recent effort, Catalyst feels confident that a viable geothermal and/or cogeneration project exists with attractive benefits for the State. However, short extensions of the Prospecting Permit merely raise expectations and engender frustrations, which seriously diminish the project's chances.

Accordingly, we propose the State Lands Commission renew Mr. Durkan's prospecting permit for a full year to permit an integrated complete development effort. Given a full year's renewal, Catalyst will answer outstanding questions and proceed as follows:

- Verify geothermal resource,
- Update capital cost estimates, revenue and operating cost figures,
- Clearly define and negotiate benefits to the hospital and to the State,
- Raise drilling money,
- Drill and test the resource,
- Begin design/engineering of the power plant.

Sonoma represents a promising energy project, and your careful attention to our letter is appreciated.

Sincerely,

Kathryn E. George
Kathryn E. George

Dwight C. Kuhns
Dwight C. Kuhns

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