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MEETING
STATE LANDS COMMISSION

STATE CAPITOL
ROOM 6028
SACRAMENTO, CALIFORNIA

TUESDAY, NOVEMBER 20, 1979
10:00 A.M.

DELORRS I. DALTON

MEMBERS PRESENT

- Hon. Kenneth Cory, State Controller, Chairman
- Mr. David Ackerman, for Lieutenant Governor Mike Curb, Commissioner
- Mr. Roy Bell, for Mary Ann Graves, Director of Finance, Commissioner

STAFF PRESENT

- Mr. William Northrop, Executive Officer
- Mr. James Trout
- Mr. Robert Hight
- Mr. Don Everitts
- Mr. W. M. Thompson
- Mr. Dwight Sanders
- Mr. Al Willard
- Ms. Dianne Jones

ALSO PRESENT

- Jan Stevens, Attorney General's Office
- Mike Shoaff, Union Oil
- Bill Woods, Aminoil, U.S.A.
- Martin McDonough, Northern California Power Agency

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CHAIRPERSON CORY: We will call the meeting to order.

The first item on the agenda today is that today is an unusual day.

Dianne, I understand that you have become a year younger.

MS. JONES: Yes.

CHAIRPERSON CORY: We have something for you.

(Thereupon Ms. Dianne Jones was presented with a rose by each of the Commissioners.)

MS. JONES: Thank you.

(Applause.)

CHAIRPERSON CORY: Are you ready for your speech? The mike should be on for you.

MS. JONES: Thank you very much.

(Laughter.)

CHAIRPERSON CORY: The next item is the confirmation of the minutes of the meeting of October 29th. Are there any corrections or additions?

Hearing none, the minutes will be confirmed as presented.

We have the report of the Executive Officer.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, Members,

1 the first subject we would like to discuss is the funding
2 of EIR's. The Commission has the opportunity to take some
3 steps of immediate help to the State's energy needs. An
4 additional oil and gas field can be explored and rapidly
5 developed with existing conventional technology. Further
6 geothermal resources can also be developed in The Geysers
7 area. What is needed first, in each case, is the initial
8 funding for data collection and environmental considerations.

9 Offshore lands near Pt. Conception, Santa Barbara
10 County, can be considered an excellent prospect for oil and
11 gas leasing. This area is bordered by high bonus-bid
12 Federal leases, but before a decision can be made on whether
13 or not to lease these lands, the environmental impacts of
14 this action must be evaluated. Additionally, a resource
15 valuation must be made in order to determine the best
16 procedures for leasing the land. Considerable funds will
17 be needed for this project.

18 At The Geysers area, at least \$100,000 will be
19 required for the preparation by contract of environmental
20 impact reports. These would be the prelude to competitive
21 leasing of State-owned geothermal lands.

22 CHAIRPERSON CORY: Is the 100 grand just for
23 preparation of the contract for the report?

24 EXECUTIVE OFFICER NORTHROP: And the report.

25 CHAIRPERSON CORY: And the report. That includes

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1 the report?

2 EXECUTIVE OFFICER NORTHROP: Yes.

3 Is that right, Mr. Everitts?

4 MR. EVERITTS: Yes.

5 CHAIRPERSON CORY: Okay.

6 EXECUTIVE OFFICER NORTHROP: There is currently
7 no provision for advance funding for geological and geo-
8 physical exploration or EIR preparation for the Commission's
9 competitive energy resource lease program.

10 These activities could begin at once, if the
11 funds were available now. With your consent, I propose to
12 look for these funds through various alternatives, including
13 possible budget augmentation, or probably, in the real world,
14 legislation.

15 CHAIRPERSON CORY: How is that different from
16 Item 33 on the agenda today?

17 EXECUTIVE OFFICER NORTHROP: Item 33 on the agenda,
18 Mr. Chairman, authorizes me to move ahead once funds are
19 secured.

20 CHAIRPERSON CORY: So you want us, at this point,
21 to discuss whether or not you should go out looking for the
22 dough?

23 EXECUTIVE OFFICER NORTHROP: Yes.

24 CHAIRPERSON CORY: I think Roy Bell is saying
25 you can look for the dough as long as you don't come to him.

1 (Laughter.)

2 MR. BELL: I think my advice would be that you
3 make sure you augment your own budget through a special
4 bill or you will be waiting until after June to get your
5 money, and that is seven months from now. If you need to
6 go ahead early, you had better get urgency legislation.
7 And there is a reason for augmenting your own budget, as
8 you know.

9 EXECUTIVE OFFICER NORTHROP: Yes.

10 So we will move in that direction.

11 CHAIRPERSON CORY: You have permission.

12 EXECUTIVE OFFICER NORTHROP: The last item, Mr.
13 Chairman, is the local coastal plans. Under provision of
14 the Coastal Act, the State Lands Commission is required to
15 review some 68 LCP's and four major port master plans and
16 make comments on these plans prior to their certification
17 by the Coastal Commission. In most cases of review and
18 comment, staff will respond directly, with your permission,
19 in line with Commission policy. This practice seems
20 appropriate considering the number of plans. With your
21 concurrence, the Commission comments will be transmitted,
22 unless, of course, the comments are counter to Commission
23 policy, in which case we will return to the Commission for
24 approval.

25 This completes my report.

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1 MR. BELL: Any questions from the Commissioners?

2 Thank you, Mr. Northrop.

3 The next item is the Consent Calendar.

4 For the people in the audience, those are the
5 items that are designated with a C in front of the number,
6 and they will be taken up all at once and the staff
7 recommendation will be followed unless there is an objection
8 at this point in time from any member of the audience or
9 any member of the Commission.

10 Is there any objection to any of the Consent
11 Calendar items?

12 MR. BELL: No objection.

13 MR. ACKERMAN: No objection.

14 CHAIRPERSON CORY: Are there any items that have
15 been taken off?

16 EXECUTIVE OFFICER NORTHROP: Of the Consent
17 Calendar, no, Mr. Chairman.

18 CHAIRPERSON CORY: Without objection then, the Consent
19 Calendar will be approved as presented. Those are Items C1
20 through C13 inclusive.

21 Item 14, geothermal resources, the recommendation
22 of the prospecting permit for Mr. Glebe.

23 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, this
24 is a denial of a prospecting permit, and Mr. Don Everitts
25 of our geothermal section will address the Commission as to

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1 the chronology of this item.

2 MR. EVERITTS: First of all, just so that you
3 are familiar with the area, Item 14 is discussing this area
4 right in here. It is related to a couple of other items
5 that are coming up real soon. Here is another piece that
6 we want to classify and lease. This is the NCPA parcel
7 that we discussed a couple of meetings ago, and we wanted
8 to deny a prospecting application. This is the one that
9 Aminoil wanted to renew a permit, and we did not accept
10 the renewal. This is the one right here now that we have
11 a request for deferment for Aminoil. This is the main
12 Geysers area which the State has about 50 percent of the
13 production.

14 The Glebe application for that larger parcel is
15 one that we first received around 1972, and we corresponded
16 with them several times in 1972. Never did hear from them.
17 Finally, in 1976, we wrote them and asked if they were
18 still interested. If not, we wanted to cancel the applica-
19 tion. The applicant responded and asked for a 60-day
20 extension. We did give the applicant an extension and
21 advised them that they should submit the data as soon as
22 possible.

23 It was two years later in January of '78 that we
24 again informed them we were going to cancel the application
25 if we did not receive the information, and shortly after
that, the applicant did file a revised application and

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submitted most of the information.

About that time, legislation was going through changing our geothermal law and our leasing procedures, and we were a little bit slow probably in responding in February of '78. But in July, we once again asked the applicant for some more information. I don't believe we have ever received all of the information we needed.

In the meantime, in January of this year, we did tell them that because of the new legislation, we did not feel that we could recommend to the Commission that the prospecting permit be granted any more and that the land should be put up for lease and probably on a net profit basis, the reason being that there is drilling activity within a mile or two of there, the geothermal field is trending that way, and the staff does not think that a prospecting permit is proper any more.

CHAIRPERSON CORY: Okay. There is a request from Mr. Herman B. and Ruby Glebe to speak.

MRS. GLEBE: Members of the State Lands Commission, Executive Officer, my husband and I, Herman B. Glebe, of Kelseyville are here in reply to the Commission staff who are recommending putting a parcel, Exhibit A, File Number W 9577, up for competitive bid and denying our request for permit.

We recently wrote each of the staff stating why we

1 felt this permit being refused was unjust so that each
2 of the members are aware of our objections.
3

4 Briefly, we filed in '72, but we did not receive
5 a reply for four years. I don't know where the lack of
6 communication was, but we did not hear.

7 Then when the EIR was requested and prepared, we
8 also sent the additional materials as requested. Normally,
9 we have received permits within a year, prior to this,
10 because we have had permits in the past. No Federal bids
11 went out until all of the court trials and appeals were
12 completed. The State has appeals in court at this time
13 and already is picking up the lands to put out on bid.
14 Apparently it does not have to abide by the due process
15 of law.

16 That's the statement we want to file with you.

17 CHAIRPERSON CORY: Any questions from Commission
18 Members?

19 MR. ACKERMAN: I have one question.

20 Mrs. Glebe, in your letter to us, you stated that
21 on July 20, '78, the Commission required an extensive EIR
22 to be prepared?

23 MRS. GLEBE: That's right.

24 MR. ACKERMAN: You mentioned the EIR was prepared
25 by Union Oil.

MRS. GLEBE: Yes.

1 MR. ACKERMAN: Did they pay for it?

2 MRS. GLEBE: Yes. They paid for it because it
3 was too expensive, it was too lengthy. We could not deal
4 with it in any way. It was for engineering and geology,
5 and we did not have those funds.

6 MR. ACKERMAN: Is Union Oil interested in your
7 property?

8 MRS. GLEBE: They have leased our property for
9 14 years.

10 MR. ACKERMAN: They currently have the lease on
11 your property?

12 MRS. GLEBE: Oh, yes. They have had a lease for
13 14 years. They have done the surveying and road building
14 and maintained the property and improved and laid the ground-
15 work for that. They are ready to go ahead with drilling,
16 is what they have planned. They have worked on the back-
17 ground of it for this number of years. We feel that if it
18 went out to bid and someone else picked it up, we would be
19 back three or four or five years again.

20 CHAIRPERSON CORY: Current statutes allow that
21 if it goes out to bid, you have a right to match the high
22 bidder, if you are not the high bidder, and receive the
23 lease as property owners; is that not correct?

24 MRS. GLEBE: Yes. That is correct; if you have
25 got the money to do it.

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1 CHAIRPERSON CORY: How does that interrelate with
2 you having leased it to Union Oil? Aren't they the ultimate
3 people paying?

4 MRS. GLEBE: Well, they are at this time, yes.
5 At the present time.

6 MR. GLEBE: I would like to see the communications
7 that were sent to us between 1972 and 1976, if you have
8 them, please.

9 MRS. GLEBE: We never received anything.

10 CHAIRPERSON CORY: Don, do you have the file with
11 you?

12 MR. EVERITTS: We don't have the file with us.
13 We can certainly send you copies of it. The file is in
14 Long Beach.

15 MR. GLEBE: We never received anything between
16 the time we filed in 1972 and 1976.

17 MRS. GLEBE: Normally, our applications have been
18 taken care of promptly. What I mean is within a year or so,
19 in the past, when we asked for permits. We do have other
20 land, too. This is not the only block.

21 MR. EVERITTS: Well, actually, according to our
22 chronology, there was no communication between November 6th,
23 1972 and February 10th, 1976. We never received a response
24 to the 1972 correspondence, final correspondence, and it was
25 just the matter of trying to get the files active again and

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1 cleaning it up that we realized that we had never heard
2 from you.

3 MR. GLEBE: Well, you never even sent us a notice
4 between that time, that you accepted it or anything else
5 in your files.

6 MRS. GLEBE: Well, we answered, but I don't know --

7 MR. EVERITTS: Well, in October, according to
8 our records, we forwarded the environmental information for
9 it -- describing the environmental data required for the
10 application, and we did not receive any response to that.

11 MR. GLEBE: In October of what year?

12 MR. EVERITTS: '72.

13 MR. GLEBE: We never received that.

14 MRS. GLEBE: We never got any of that.

15 MR. EVERITTS: Well, as a general rule -- we would
16 have to check the file -- but as a general rule those are
17 sent certified mail.

18 MRS. GLEBE: Some of your material is.

19 CHAIRPERSON CORY: Okay. The communication
20 difficulty in the '72 to '76 period, our records indicate
21 that there was a form sent October 30th of '72 saying that
22 you needed an EIR and you have to file that and fill this
23 stuff out; is that correct? And the applicant did not
24 respond. They do not remember or have any record of having
25 received that. Then in '76, we discovered that at that

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1 point the applicant had not responded and we contacted them.

2 It was not you contacting us?

3 MRS. GLEBE: I don't remember who contacted who
4 in '76. I think the Commission wrote.

5 MR. GLEBE: You did contact us in 1976, but we
6 didn't get anything from the time we sent our application
7 in until 1976.

8 CHAIRPERSON CORY: Our problem is that, as I see
9 it, the fact situation indicates that to give a prospecting
10 lease would be adverse to the State's interest, at this
11 point, given the proximity of known geothermal resources
12 there, and we have a problem as the trustee for the public
13 resources of deriving the highest possible revenue.

14 MRS. GLEBE: Isn't it on appeal as yet, this point
15 of mineral versus steam in the courts in the State?

16 MR. STEVENS: Mr. Chairman, the status of the
17 product is still on appeal, but in the meantime, the State
18 leasing program we would advise should continue. There is
19 no order outstanding or stay of any sort which would prevent
20 the operation of the program, and the Commission remains
21 with the duty to obtain the maximum possible revenue from
22 its lands.

23 CHAIRPERSON CORY: If the case is decided against
24 the State, the leases would not be valid and that would be
25 the end of it at that point, and if there were any stay, we

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1 would not be able to issue a prospecting permit either.

2 MR. STEVENS: That's right. Where there is a
3 distinction between the mineral nature and some other kind
4 of product, in those cases, we will have to reexamine the
5 whole thing.

6 CHAIRPERSON CORY: The differentiation between
7 the prospecting permit and a known geothermal would not --
8 if it were that rather than a mineral, that would be the
9 end of it for either case, would it not?

10 MR. STEVENS: In those cases where the ownership
11 is different, right. In the meantime, there is a duty to
12 lease for competitive sales where there is a strong indication
13 of geothermal resource. This is basically the statutory
14 standard. Where it appears that there is commercially
15 producible energy, the standard is to lease rather than
16 issue a prospecting permit.

17 CHAIRPERSON CORY: Any questions from Commissioners?

18 MR. BELL: I had a question in my mind, since, in
19 effect, Union Oil did the expensive and hard-to-get type
20 information for the EIR and it was submitted. Is there an
21 indication from our staff that that information was still
22 not a complete EIR?

23 MR. EVERITTS: The information that Union Oil
24 Company submitted was basically a plan of development. It
25 was not an environmental impact document. It was not

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1 sufficient.

2 CHAIRPERSON CORY: We still do not have an
3 environmental impact --

4 MR. EVERITTS: We still do not have an Environ-
5 mental Impact Report. We have still not received all of
6 the data.

7 CHAIRPERSON CORY: What kind of data is lacking?

8 MR. EVERITTS: The environmental impacts, the
9 mitigation factors, air quality -- just most of the
10 problems that we are faced with.

11 CHAIRPERSON CORY: They just dealt with how they
12 would drill the field?

13 MR. EVERITTS: And where.

14 CHAIRPERSON CORY: But not discussing what that
15 would do to the environment?

16 MR. EVERITTS: No, it was not.

17 MR. ACKERMAN: Are there any other producing wells
18 within close proximity to this tract?

19 MR. EVERITTS: Just immediately south of this
20 parcel here, which is the subject of another item on the
21 calendar, there is a well, Cobb Number 1, I think. It's a
22 marginal well. A commercial well being maybe 60,000
23 pounds, this is 50,000. But I mean it is a producing well.

24 MR. ACKERMAN: Is that the only well that has
25 been drilled?

1 MR. EVERITTS: That's the only well that has been
2 drilled. The field is going that way. That's all we can
3 say.

4 CHAIRPERSON CORY: And there are two wells, one in
5 that crosshatched area, 38 or 36, just above the yellow one.
6 There is that one and --

7 MR. EVERITTS: There is the well that has been
8 drilled here by Aminoil. What we are saying is that this,
9 by just general trendology --

10 CHAIRPERSON CORY: It's going that way.

11 MR. EVERITTS: It's going that way.

12 CHAIRPERSON CORY: Is an HIR required for a
13 prospecting permit?

14 MR. EVERITTS: Yes.

15 CHAIRPERSON CORY: So we don't have the right data
16 at this point.

17 There is somebody in the back of the room that
18 wants to say something. If you would come up and identify
19 yourself. We are easy to get along with. Come on forward.

20 MR. SHOAFF: My name is Mike Shoaff. I'm with
21 Union Oil Company.

22 I would like to point out that a few of the wells
23 that were drilled in this particular area have been drilled
24 since the Glebes have made application for their prospecting
25 permit -- like the Cobb Valley well, the Binkley well that

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1 was drilled in Section 36, the Wild Horse well which was
2 drilled -- I'm not exactly sure what date. I think it was
3 about 1976 to 1977. There is one well that was drilled
4 up to the northeast, I believe it is, which is the Sullivan
5 well which was drilled back a good number of years ago, but
6 it was a dry hole. So in all fairness to the consideration
7 of the particular prospecting permit, I think you should
8 consider that some of these wells were drilled after the
9 application was filed.

10 Additionally, Union has had a lease from the
11 Globes for I believe it's been 14 years, and our hesitation
12 about going that direction as far as drilling more wells
13 for our operations has been the lawsuit that has been
14 brought up. Also the determination in the Federal suit, too.
15 It was only decided about a year and a half ago.

16 CHAIRPERSON CORY: None of those things seem to
17 indicate -- I mean the fact that you have a lease and haven't
18 turned loose of it tends to put evidence on the side of the
19 scale that it is a known geothermal area as opposed to a
20 prospecting --

21 MR. SHOAFF: Not particularly. It's a situation
22 of how can you go up there and justifiably drill a well
23 when you don't know who really owns the resource?

24 CHAIRPERSON CORY: But that's a separate question
25 that's not related to whether or not its prospecting or

1 KGRA.

2 MR. SHOAFF: I don't follow.

3 If we can't really be assured that the individual
4 that we were leasing it from really owned the resource,
5 then why should we be --

6 CHAIRPERSON CORY: Well, that's a business
7 decision, but that has nothing to do with the factual
8 determination of whether it is a known geothermal area
9 or whether it is a prospecting permit.

10 MR. SHOAFF: Right.

11 CHAIRPERSON CORY: And the differentiation
12 statutorily that we must decide is whether or not it is
13 a known area and there is a significant probability that
14 you are going to find a geothermal resource there or whether
15 you should be able to have a greater return on your dollar
16 because you are taking a more significant risk and you are
17 wildcatting it.

18 MR. SCHOAFF: True. But at the time that the
19 prospecting permit was applied for back in '72, and even
20 in 1976, a great deal of these wells hadn't been drilled,
21 and I think two of the wells that were drilled were --

22 CHAIRPERSON CORY: But whoever is at fault, there
23 has not been diligent pursuit of the application. To issue
24 a prospecting permit, you have to have an EIR, and to date
25 we still don't have an EIR.

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1 MR. SHOAFF: There was some information that was
2 provided in conversations with the Long Beach office also.
3 It was brought up, what information was exactly needed.
4 Was it for a Negative Declaration or was the information
5 we were asked to submit --

6 CHAIRPERSON CORY: Pardon me. Are you a geologist?
7

8 MR. SHOAFF: No, I am not.

9 CHAIRPERSON CORY: A lawyer?

10 MR. SHOAFF: No.

11 CHAIRPERSON CORY: I'm not a lawyer either, but
12 the lawyers who impinge upon our lives more than we need
13 them, they keep, as I understand it, telling us that the
14 concept of a Negative Dec that would work up there, I don't
15 think would work legally and I don't think it would work
16 politically, given the problems we have had and the number
17 of potential lynchings that we have had of our staff that
18 we sent up there to hold hearings. A Negative Dec, I don't
19 think -- and if I am mistaken, if the staff would correct me
20 -- I don't see how we could proceed on a Negative Dec.

21 MR. EVERITTS: No way in Lake County.

22 MR. SHOAFF: Well, I grant you that.

23 CHAIRPERSON CORY: So what we are sitting with here
24 is trying to sort out -- it seems to me that the burden
25 has to rest upon an applicant to pursue the application,
and I can understand why they didn't. I can understand why

1 Union, until they decided whether or not there was somebody
2 valid to lease from -- until these court cases were
3 resolved, I can understand your predicament. But to invoke
4 those at this point, given the fact of the information that
5 the wells have been drilled-- it seems to me that they have
6 been drilled and we are now at the point where when we wear
7 our trustee hat, we have got to kick you up into the higher
8 bracket of a known geothermal area as opposed to a prospecting
9 area.

10 MR. SHOAFF: I see your point there, but also
11 the turnabout, in 1976 -- I'm not sure what took place
12 between 1972 and '76 -- but I think there was diligent
13 pursuit of this.

14 CHAIRPERSON CORY: From 1976?

15 MR. SHOAFF: Right.

16 CHAIRPERSON CORY: Well, we still don't have an
17 EIR, and if you want a prospecting permit, you have to
18 supply an EIR.

19 MR. SHOAFF: Well, we submitted enough information
20 to determine whether or not an EIR was all that necessary
21 at the initial findings that we brought up. I think there
22 was -- there was a report that was submitted, I believe, by
23 the Glebes.

24 MR. WILLARD: I think you could recall that --

25 THE REPORTER: I'm sorry. I don't have your name.

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1 MR. WILLARD: Al Willard.

2 Yes, you did submit a Plan of Development for the
3 area.

4 MR. SHOAFF: Right.

5 CHAIRPERSON CORY: And from the Plan of Development,
6 you take that and then develop an Environmental Impact Report.

7 MR. SHOAFF: Right.

8 CHAIRPERSON CORY: If you follow this, this is
9 what the impact will be on the environment.

10 MR. SHOAFF: Right.

11 CHAIRPERSON CORY: And that was not done, so we
12 are still sitting here --

13 MR. SHOAFF: Last December, through our offices,
14 we had decided to go about and get the Environmental Impact
15 Report -- and then also the changing of the law back in
16 January of last year.

17 CHAIRPERSON CORY: I'm not sure what you just said.

18 MR. SHOAFF: When was the last time it was
19 requested for an Environmental Impact Report?

20 MR. WILLARD: July of '78.

21 MR. SHOAFF: All right. We were working through
22 environmental consultants trying to find one that would be
23 satisfactory to us to write the Environmental Impact Report,
24 one that had familiarization with the area, as well as
25 knowledge of the --

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1 MR. EVERITTS: Of course, in the meantime, we
2 have a new law, and that's one of our problems.

3 MR. SHOAFF: Right. January of this year.

4 CHAIRPERSON CORY: January of '79?

5 MR. SHOAFF: Right. But November of last year,
6 in our office, we finally decided upon an environmental
7 consultant, and then January 1st, the law changes.

8 CHAIRPERSON CORY: But in January of the year
9 before, the applicant was informed that if we didn't have
10 the information within 30 days, we were going to cancel.

11 MR. SHOAFF: And we submitted some information.
12 Obviously, it wasn't enough.

13 CHAIRPERSON CORY: Commissioners, do you have any-
14 thing?

15 MR. ACKERMAN: Just as a comment. I think that I
16 would agree with Mr. Cory that if the area is known to be
17 a commercially feasible geothermal area, and we have had a
18 couple of other cases in the last two months before the
19 Commission on these instances, to where we are almost obligated
20 to look at a lease instead of a prospecting permit. It
21 would seem that this falls into that category that Union
22 seems to express a definite interest where they have already
23 extended some money to go further, and it seems to be more
24 than just exploration, but that they are looking at some kind
25 of commercial development. And the appropriate way to go

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1 would be to go out for a bid on a lease on this.

2 MR. SHOAFF: And you are going to make the
3 determination on expenditure and interest.

4 CHAIRPERSON CORY: We are making a determination
5 today to go out for competitive bid.

6 MR. SHOAFF: Right.

7 CHAIRPERSON CORY: And it's your move, if you
8 want to bid there, or if you have a contract with the
9 Glebes, then you can sit back and wait and see what that
10 is, and then, in essence, jump the claim by matching the bid.
11 So those are your options. You are protected.

12 MR. SHOAFF: Well, I grant you that.

13 CHAIRPERSON CORY: But it's going to be at a
14 higher rate than you hoped for.

15 MR. ACKERMAN: The Glebes are protected also.

16 MR. SHOAFF: The Glebes are protected, too. I
17 grant you that. But at what point do you make that
18 determination of when expenditures and interest are there
19 to signify it's a KGRA or whatever?

20 CHAIRPERSON CORY: Well, there are a number of
21 factors, but we are looking at the facts in coming to the
22 conclusion that it is a known geothermal area, and we are
23 proceeding by putting it out to competitive bid, and that
24 determination is made on each parcel before it is put to
25 competitive bid.

1 MR. WILLARD: You, of course, are not obligated
2 to make a KGRA determination. You have that discretion to
3 put it up for competitive bid or not. It is not mandatory
4 that you find it is a KGRA.

5 CHAIRPERSON CORY: It is theoretically possible
6 that if you put it up to competitive bid and nobody bids on
7 it, then you could come back and reapply for a prospecting
8 permit. But either one would require an Environmental
9 Impact Report.

10 MR. EVERITTS: That was contemplated in this
11 whole legislation that we go with what we think is the
12 highest and best use, namely, the lease. If we have to
13 revert to a prospecting permit, you have that option later
14 on.

15 CHAIRPERSON CORY: The staff recommendation on
16 this item is that we do what at this point? Deny the
17 prospecting permit and that we prepare the EIR?

18 EXECUTIVE OFFICER NORTHROP: That's what we are
19 proposing. Deny this and use the funding that we were
20 discussing to prepare an EIR and go out to bid on it.

21 MR. EVERITTS: That applies to two parcels, that
22 particular item.

23 EXECUTIVE OFFICER NORTHROP: Yes. We will
24 attempt to cover this in the next calendar item.

25 CHAIRPERSON CORY: Is there anybody else who

1 would like to say something?

2 MR. WOODS: Could I just make a comment? I
3 don't know if it will make any difference, but maybe it
4 will clarify something.

5 CHAIRPERSON CORY: You are --

6 MR. WOODS: I am Bill Woods with Aminoil, U.S.A.
7 We have the land lease on the purple parcel.

8 If I could step up here to the map, I would like
9 to point out that we have done some exploratory work in
10 this area and we have three noncommercial wells in this area
11 here and one semi-commercial well. We have done exploration
12 work in here. We have a well here that is a semi-commercial
13 well. It is not really what you would call something that
14 we could put our hat on for full field development. We
15 have two dry holes drilled in this area.

16 So, basically, what I am saying is that we look
17 at it as a fairly high risk parcel. However, we are willing
18 to take that risk, but it is a fairly high risk parcel.

19 We also had an application pending on that, and
20 I think it was in December, 1974, we submitted an Environ-
21 mental Impact Report on that project. That impact report
22 was a minimal effort, I agree, and it may not have been
23 adequate. If there was notification of that impact report
24 being inadequate, it went to the landowner. We didn't
25 receive a copy. At least I don't have a copy in my file.

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1 CHAIRPERSON CORY: Okay. What is the wish of the
2 Commission? Deny?

3 MR. BELL: Yes, I think at this time since we do
4 have both the landowner and Union at least protected, that
5 we should deny.

6 CHAIRPERSON CORY: Without objection, we will
7 deny the permit. Staff, when we get down to the other one,
8 we will go ahead and proceed with the steps to get it --

9 MR. EVERITTS: That's the same item. This item
10 covers both parcels.

11 CHAIRPERSON CORY: No, I'm talking about when we
12 get to 33, there will be approval on the budgetary end for
13 providing the EIR.

14 Item 14 is disposed of as the staff recommended.
15 Item 15.

16 EXECUTIVE OFFICER NORTHROP: Item 15 is a similar
17 parcel of geothermal area and Mr. Everitts will point that
18 out. I believe it's the one in orange.

19 CHAIRPERSON CORY: There are two in orange.

20 EXECUTIVE OFFICER NORTHROP: There are two in
21 orange. Yes, it's that one there.

22 As you recall, two months ago this was on the
23 calendar for denial of the prospecting permit. Represen-
24 tatives from the Northern California Power Agency prevailed
25 upon the Commission to put this over for a 60-day or two-

1 month period. That period is up and it's back on the
2 calendar.

3 MR. EVERITTS: The reason there are two orange
4 parcels here is that this and this were on the same item
5 two months ago.

6 CHAIRPERSON CORY: Okay. Mr. McDonough, General
7 Counsel for Northern California Power Agency.

8 MR. McDONOUGH: Thank you, Mr. Chairman. I am
9 Martin McDonough, General Counsel for Northern California
10 Power Agency, an organization of 11 cities in Central and
11 Northern California that are doing some geothermal work.

12 The cities do appreciate the 60-day delay that
13 you gave us in September. In that interval, we have
14 received a Preliminary Report from our consulting geologist,
15 Doctor Kennig. We have proceeded further with our negoti-
16 ations with the trustee in bankruptcy for our former
17 partner, Resource Funding Limited, to remove the threat
18 of litigation over our acquisition of its interest, and
19 we have prepared for a meeting next week with the Sun Oil
20 Company which is the farmor under a farmout of the leases
21 which are adjacent to the parcel which is in question here.

22 Within the 60-day period, we have received the
23 geologist's Final Report, but it has not yet been examined.
24 It was received only within the last 48 hours. We have not
25 been able to finalize an agreement with the trustee, and we

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1 have not determined whether to drill a second well or
2 reenter the first one, some further action appearing to be
3 necessary under the terms of the farmout.

4 The preliminary well tests indicate that our
5 first well will produce less than 30,000 pounds of steam
6 per hour and that the temperature and pressures involved
7 are substantially less than those encountered in the other
8 portions of The Geysers area.

9 If the State Lands Commission issues a prospecting
10 permit as requested, it would be an encouragement to NCPA
11 to continue its exploration program. A determination to
12 bid the property will produce a great deal of uncertainty
13 for the near future and will be a discouragement.

14 The cost of the first well that we put down will
15 be substantially in excess of \$2 million when all of the
16 costs are in. Now they are accumulated to about a million
17 nine. This money was obtained by pledging the electric
18 revenues of member cities.

19 We urge that the prospect, from our viewpoint, is
20 certainly not proved and that we have a serious question as
21 to whether to pursue the program to develop the steam. We
22 ask that the flexible leasing program that you administer
23 be fashioned so that you can issue a prospecting permit with
24 a provision for a reasonable rental if the prospect proves
25 to be good. If the permit is issued, we would be happy to

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1 negotiate the terms with you to ensure that you have
2 adequate information to provide a fair rental and to
3 encourage the cities in going forward with their program.

4 We respectfully ask for your favorable considera-
5 tion for a prospective permit.

6 CHAIRPERSON CORY: Under statute, do we have
7 statutory authority to do what they are suggesting?
8

9 MR. HIGHT: Yes, Mr. Chairman, but up to 16
10 percent of the profits.

11 EXECUTIVE OFFICER NORTHROP: Mr. Chairman,
12 apparently there is disagreement among the staff.

13 MR. WILLARD: Ten percent, under a prospective
14 permit. That is the minimum.

15 CHAIRPERSON CORY: What is the maximum?

16 MR. WILLARD: There is no maximum.

17 CHAIRPERSON CORY: Somebody better get a law book,
18 because there seems to be a disagreement among the staff
19 as to what we are doing.

20 EXECUTIVE OFFICER NORTHROP: We can get all we want
21 for a prospective permit?

22 MR. WILLARD: The minimum is ten percent of the
23 gross.

24 CHAIRPERSON CORY: Somebody wander out and find
25 them a book and figure out what we are doing before we
make a decision.

1 There should be some in my office, or see if you
2 can find -- there should be a set of codes in every
3 Legislator's office. Find the first one and see if you
4 could borrow one.

5 Are there other questions of the Commissioners
6 on this item?

7 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, he's
8 a good lawyer. He brought the code along.

9 MR. ACKERMAN: Has the staff had an opportunity
10 to review the geologic report?

11 EXECUTIVE OFFICER NORTHROP: We have not. As a
12 matter of fact, Mr. Ackerman, this morning I checked with
13 staff to see if we had heard anything, and we have had no
14 communication until this moment, until the appearance of
15 Mr. McDonough here.

16 MR. STEVENS: Mr. Chairman, I think that is a
17 minimum of ten percent. Section 6910 provides for
18 commercial leases after prospecting permits when producible
19 amounts are discovered, and it refers to 6913 which says:

20 "Leases which result from prospecting
21 permits shall be limited to royalty of not
22 less than ten percent of the gross revenue,
23 exclusive of charges."

24 MR. HIGHT: Read the next sentence.

25 CHAIRPERSON CORY: What is the term "exclusive of

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1 "charges"? That you will exclude those from gross revenues
2 in determining whether or not you receive the ten percent?

3 MR. HIGHT: Mr. Chairman, I correct myself as
4 wrong. The 16-2/3 percent applies to competitive bids
5 as the minimum.

6 MR. STEVENS: We don't see any max.

7 MR. HIGHT: No.

8 MR. STEVENS: There is one other question, Mr.
9 Chairman, if I may. I think there was a discrepancy in
10 the description of the present well which was drilled by
11 the agency, with respect to the pounds of steam per hour
12 produced.

13 Mr. McDonough, did you say that was roughly
14 30,000 or less?

15 MR. McDONOUGH: Yes, sir. I noted the staff's
16 report figure of 50,000 pounds per hour. There were three
17 tests made, according to the geologist. None of them
18 exceeded 30,000 pounds per hour.

19 MR. EVERITTS: We have been told 50,000. In
20 previous communication, you have equated it to 3 megawatts,
21 which again would equate to about 50,000. That is ball
22 park numbers.

23 MR. McDONOUGH: Doctor Kennig estimates that
24 with the pressures and temperatures available, if turbines
25 of that style were available, it would generate approxi-
mately one megawatt electrical.

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1 MR. EVERITTS: Well, two months ago it was three
2 megawatts, but --

3 MR. STEVENS: Would a difference of this sort
4 have a substantial effect on whether or not this was a
5 commercially feasible well?

6 MR. EVERITTS: It's like a ten barrel well,
7 commercial, you make more money on a twenty barrel well.

8 CHAIRPERSON CORY: If this is denied, as the
9 prior one was, where are we at that point? I am confused,
10 given this new information, as to what our options are or
11 aren't and what the significance of these acts are?

12 MR. EVERITTS: You have an option of granting a
13 prospecting permit with no preferential right to a lease.
14 You have the option of granting a prospecting permit with
15 a preferential right to a lease. You have a right to go
16 any kind of bid lease -- net profits -- so it doesn't cost
17 any front end money. So it wouldn't cost any more than a
18 prospective permit.

19 The Environmental Impact Report is written. That
20 would be one of the advantages.

21 MR. WILLARD: We could go forward with the
22 competitive leasing at this time.

23 MR. BELL: The question is, basically, is this
24 a commercial area,

25 MR. EVERITTS: I just have to equate it to an

1 oil well. I sure wouldn't lease something that had an oil
2 well that close to it, even if it was just a little oil well.

3 MR. WILLARD: You could certainly test the market-
4 place by going out to competitive bid.

5 EXECUTIVE OFFICER NORTHROP: On the net profits
6 lease, of course, if the rest of the industry felt that
7 this Northern is a conglomerate on power fields, then, of
8 course, we would not get bids that would be in excess of
9 the ten percent royalty, if it is as bad as has been painted.

10 MR. McDONOUGH: Mr. Chairman, I merely intended to
11 give you the reports of Doctor Kennig who obviously knows
12 about it. I don't. But to give you those figures.
13 Obviously, a prospecting permit without a preferential right
14 to lease would not be --

15 CHAIRPERSON CORY: Worth a lot, would it?

16 MR. McDONOUGH: -- worth a lot.

17 CHAIRPERSON CORY: Okay. There is no prejudice
18 against this agency from continuing to pursue these, if we
19 should deny the prospecting permit at this time?

20 EXECUTIVE OFFICER NORTHROP: No. We would welcome
21 the Northern California Power Agency bid on this property.
22 If they were the successful bidder, we would just be very
23 pleased.

24 MR. BELL: Do they lack some of the protection
25 which the Glebes and Union had?

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1 MR. HERRITTS: They have a lease with the surface
2 owner, so they always have recourse back to the lease
3 through the surface owner.

4 MR. BELL: They are in approximately the same
5 position.

6 CHAIRPERSON CORY: The difference being that the
7 EIR has been completed on this one.

8 MR. BELL: I have great difficulty, Mr. Chairman,
9 distinguishing any remarkable difference between this and
10 the prior item which we denied -- pardon me -- took an
11 action to deny the prospecting permit.

12 CHAIRPERSON CORY: Okay. Without objection, we
13 will deny this one, the same as we did 14.

14 Item 16 - Approve the deferment of drilling
15 requirement for Geothermal Resources Lease PRC 5217.2 from
16 February 25th, '80 to the same date in '82.

17 EXECUTIVE OFFICER NORTHROP: The reason for this,
18 Mr. Chairman, is there was some litigation over the very
19 fact that we discussed here this morning, the ability of
20 the landowner to --

21 CHAIRPERSON CORY: So Aminoil was not in a position
22 to proceed until this litigation was cleared up. It is
23 now cleared up, and this gives them just the same amount of
24 time they lost.

25 EXECUTIVE OFFICER NORTHROP: Right. It puts them

1 in the same position as Union and --

2 CHAIRPERSON CORY: Aminoil has requested this?

3 EXECUTIVE OFFICER NORTHROP: Yes, they have
4 requested it.

5 CHAIRPERSON CORY: So they're happy with it?

6 MR. WOODS: Yes. That's fine.

7 CHAIRPERSON CORY: Any questions from Commissioners?
8 Without objection, Item 16 is approved as
9 presented.

10 Item 17 Lease for The Brother Jonathan Company,
11 approval of a Salvage Permit.

12 Is there anybody in the audience on this item?

13 Questions from the Commissioners?

14 Without objection, Item 17 is approved and presented.

15 Item 18 - Assignment of a 15-year lease with
16 respect to a Structure Permit from Detwiler for Shorecliff
17 Properties.

18 Anybody in the audience on this item?

19 Any questions from the Commissioners?

20 Without objection, Item 18 will be approved as
21 presented.

22 Item 19 - City of Burlingame and San Francisco
23 Airport Motel Company, the Sheraton. This is the one where
24 we are agreeing to the lease, but not dealing with the
25 ownership question?

1 EXECUTIVE OFFICER NORTHROP: Right.

2 MR. BELL: And we reserve the right to the title?

3 EXECUTIVE OFFICER NORTHROP: Right. The title
4 is not in question.

5 CHAIRPERSON CORY: Anybody in the audience on
6 this item?

7 Questions from Commissioners?

8 Without objection, Item 19 will be approved as
9 presented.

10 Item 20 - Mobil Oil Estates, relocation of a public
11 easement on Redwood Peninsula, Redwood City.

12 Anybody in the audience on this item?

13 Questions from Commissioners?

14 Without objection, Item 20 will be approved as
15 presented.

16 Item 21 - Scenic Lands Properties, Incorporated,
17 the settlement compromise title, Petaluma, within the City
18 of Petaluma.

19 Anybody in the audience on this item?

20 MR. TROUT: Mr. Chairman, we would like permission
21 to make a small change in the legal description to more pre-
22 cisely define the monument. We have substituted Exhibits D and F.
23 They do not change the form of the agreement. They just
24 more precisely describe the calls. Other than that, there
25 would be no change.

1 CHAIRPERSON CORY: With that amendment --

2 MR. BELL: No objection.

3 CHAIRPERSON CORY: Without objection, Item 21
4 will be approved with the amendment D and F of the
5 exhibits. Is that correct?

6 MR. TROUT: That's correct.

7 CHAIRPERSON CORY: Item 22 - Denial of applications,
8 without prejudice, for use of State-owned properties.

9 Is there anybody in the audience on this item?
10 Item 22?

11 Questions from Commissioners?

12 These are things we have to deny to fit within
13 the statutory limitations?

14 EXECUTIVE OFFICER NORTHRUP: Statutory limitations
15 of one year; right.

16 CHAIRPERSON CORY: Without objection, Item 22
17 will be approved as presented.

18 MR. BELL: There is only one?

19 EXECUTIVE OFFICER NORTHRUP: Only one in there
20 now.

21 CHAIRPERSON CORY: Okay. Item 23 --

22 EXECUTIVE OFFICER NORTHRUP: Off calendar.

23 CHAIRPERSON CORY: Off calendar. Okay.

24 Item 24 - Approve the holding of a public hearing
25 -- both Items 24 and 25. These are gas leases in the

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1 Delta area, and staff wants authorization for public
2 hearings prior to going to bid.

3 Anybody in the audience on these items?

4 Without objection, Items 24 and 25 will be
5 approved as presented.

6 Item 26 - Third modification --

7 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, Mr.
8 Thompson will discuss the plan and budget and tell you
9 how much money we told the Senate we were going to raise.

10 MR. THOMPSON: This is a report for the first
11 quarter of the year, and since it's kind of late in getting
12 to the Commission, why it's kind of out of date. As you can
13 see, we have had some problem with oil pricing when we
14 had to give you two rates of revenue here. This is based
15 on uncertainties. Basically we are talking about a range
16 here between \$116 million and \$197 million.

17 Part of our uncertainty was just recently
18 resolved. Effective November 15th, the regulations came
19 out that decontrol upper tier oil effective January 1st.
20 So part of the uncertainty we had in this thing was resolved.
21 And, hopefully, that of the excise profits tax which is on
22 the Senate floor right now for debate is resolved and also
23 the question on heavy oil. These are the reasons for the
24 range and that particular revenue spread, and we have almost
25 a three to four dollar difference in composite price

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1 resulting from these uncertainties.

2 The oil production for the first quarter was down
3 primarily because we were concentrating on water injection
4 wells. In the first quarter, we redrilled seven water
5 injection wells, and actually in that one quarter of the
6 year we spent 40 percent of our budget money on injection
7 wells there. As far as well work on injection wells, we
8 spent 52 percent of our money.

9 So we have been getting a lot of injection wells,
10 and, hopefully, we will see this response in the ensuing
11 quarters.

12 CHAIRPERSON CORY: Questions from the Commissioners?

13 MR. BELL: None.

14 CHAIRPERSON CORY: Okay. Without objection then,
15 we will approve the Third Modification.

16 MR. THOMPSON: I believe Items 27 and 28 have
17 been pulled. We are still trying to get some legal
18 language straightened out on one of those and we need one
19 number. They will be on the December calendar.

20 CHAIRPERSON CORY: Item 29, we are proposing
21 expenditure on Windham Avenue and Van Camp Street.

22 MR. THOMPSON: This is a prior pool for subsidence
23 costs to place landfill on this one-acre parcel here, and
24 this would bring the land surface back up to its pre-
25 subsidence level. This was originally filled in about the

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1 mid-forties as part of the landfill for Pier A. Since that
2 time, it has gone down, I think, six and a half feet.

3 MR. BELL: How much?

4 MR. THOMPSON: Six and a half feet.

5 MR. BELL: Anything from subsidence not due to
6 oil drilling --

7 EXECUTIVE OFFICER NORTHROP: Mr. Bell, none of
8 it is due to oil drilling.

9 CHAIRPERSON CORY: Some of this is just the fill
10 settling.

11 MR. BELL: This is just the fill settling.

12 MR. THOMPSON: It's a combination of many things
13 that would affect why subsidence occurs. The fill
14 substance could be going down. There could be recent
15 subsidence. There are many items on this. This is a
16 legal issue. I'd prefer not to comment on it.

17 MR. BELL: Sorry I asked the question.

18 CHAIRPERSON CORY: Any other questions the staff
19 doesn't want to deal with?

20 (Laughter.)

21 MR. THOMPSON: If the lawyer would like to talk,
22 I'm wide open to listening.

23 MR. HIGHT: Doing fine.

24 CHAIRPERSON CORY: Any questions from Commissioners
25 on this item?

1 MR. BELL: No.

2 CHAIRPERSON CORY: Item 29 will be approved as
3 presented.

4 Item 30 - Approve second phase subsidence cost
5 proposed to be expended by the City of Long Beach in the
6 Town Lot area of the Harbor District and rescind the action
7 of July 25th, Minute action. This is another --

8 MR. THOMPSON: This is not a rescinding of the action.
9 Actually, it's an expansion and adding a little bit to it.
10 So it actually will supersede the action and complete
11 that particular action.

12 CHAIRPERSON CORY: Questions from Commissioners?
13 Without objection, 30 will be approved as
14 presented.

15 Item 31 - Invitation to bid on crude oil sell
16 off on the upper -- is it upper and release?

17 MR. THOMPSON: It's the uncontrolled portion of
18 the oil. This is the eight percent of the LBHD contract
19 which has been taken by the City and sold off in years past.
20 We are now going to try to sell the uncontrolled portion
21 of that. We have upper tier, lower tier and uncontrolled.
22 The uncontrolled results from the recent heavy oil decision,
23 and almost half of the oil produced by LBHD now is
24 uncontrolled because it is below 16 gravity. So, therefore,
25 any composite barrel then is half uncontrolled in the past.

1 We have a supplier/purchaser relationship to max, so in
2 this particular case succeeding price is being paid for
3 the upper and lower tier portions, and we can only go out
4 and get competitive bidding for the uncontrolled portion.

5 The method that is proposed here is to take the
6 average of the posted price for uncontrolled oil in the
7 Wilmington field, and the bonus factor then will be the
8 bid factor above that. So the bidder will always know then
9 that he will have to use as a base those average prices,
10 and that he will bid a certain amount above that.

11 The term of the sell-off is for a six-month
12 increment. It can then be renewed for additional six-month
13 increments after that at the mutual agreement of both
14 parties.

15 Again, we feel that the uncontrolled price posted
16 does not reflect the real market value of the crude. There
17 are many reasons for this, but we hear it is being sent
18 off at what would indicate a two to three dollar bonus being
19 paid for this. In fact, I think there are actually some
20 Federal orders going out under bonus contracts at the same
21 percentile.

22 CHAIRPERSON CORY: How many barrels?

23 MR. THOMPSON: This is about 500 barrels a day,
24 and this will actually increase a little bit with time,
25 because again, as I said, there is recent action on the

1 phase two control.

2 CHAIRPERSON CORY: That will automatically shift
3 over to whoever wins the bid?

4 MR. THOMPSON: Yes, because actually they are
5 taking the uncontrolled portion of this eight percent.
6 There is no fixed barrel amount. It is that particular
7 portion of this which will vary with time.

8 CHAIRPERSON CORY: What happens if the Feds
9 change the thing to 18 instead of 16. That will auto-
10 matically go in, too?

11 MR. THOMPSON: There will then be more classi-
12 fication of uncontrolled oil.

13 CHAIRPERSON CORY: Roll those dice.

14 (Laughter.)

15 CHAIRPERSON CORY: Any questions?

16 MR. ACKERMAN: What do you expect the price to be
17 per barrel? Any rough estimates?

18 EXECUTIVE OFFICER NOR THROP: We have had some
19 indications that it will probably be three dollars above.
20 There is a problem right now in the fact that composite
21 prices, when you start adding up the lower tier price and
22 the penalty, you come up with a price of probably two dollars
23 above the average price we are getting for it right now.
24 So I would suspect that the price would be somewhere between
25 the two and three dollars a barrel range.

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1 MR. THOMPSON: Except that things are so unstable
2 in this market right now because as of a couple of days ago
3 one company raised their stripper price by two dollars a
4 barrel. The day before that, another company raised its
5 a dollar and a half.

6 EXECUTIVE OFFICER NORTHROP: And the reason for
7 the short fuse, the six-month fuse, is so that we can
8 encourage people to bid without worrying about bidding
9 themselves down the road to an impossible price in the
10 future. It gives a six-month period, and that is why we
11 designed the above posting and then made it a six-month
12 time increment so that if it did get askew and somebody
13 was bidding above -- because it's really like a cork. It
14 floats above the price. If that happens to get up too high,
15 they can bail out without getting hurt.

16 MR. THOMPSON: We really don't know what the world
17 price will be, because this is mostly an uncontrolled
18 market. We have stripper postings, uncontrolled postings
19 in the mid-continent at over \$30 a barrel now.

20 CHAIRPERSON CORY: Without objection, Item 31
21 is approved.

22 Item 32, you are going to inform us on caustic
23 waterflooding techniques.

24 MR. THOMPSON: This is just an informational
25 calendar item here, just to tell you where we are going on

1 this. We are injecting this pre-flash basis water which
2 we have taken the calcium magnesium ions out and increased
3 the sodium ions so that we can have an area around the
4 well bores in which these two particular magnesium calcium
5 ions are reduced because they tend to reduce the activity
6 of the sodium hydroxide and orthosilicate that we have
7 put in. We want to increase that efficiency as high as we
8 can.

9 The only other change is the fact that we are
10 changing over and going to make a blend of this material.
11 Instead of just being sodium hydroxide, it will be sodium
12 hydroxide and orthosilicate.

13 CHAIRPERSON CORY: What is the orthosilicate?

14 MR. THOMPSON: It just seems to be a material
15 that is a little more stable and doesn't react quite as
16 much and seems to give about the same recovery efficiencies.
17 So it's a question of stability. Because these ions in the
18 clays in the reservoir will tend to react with the sodium
19 and destroy the effect of the material we are putting down
20 there.

21 CHAIRPERSON CORY: So you would use it as a
22 substitute as opposed to the hydroxide?

23 MR. THOMPSON: Well, it will actually be a blend
24 of the two. Instead of being pure sodium hydroxide, it
25 will be a blend of the two, hoping to get better efficiencies.

1 As you can see, we spent a good part of the
2 money that was authorized originally. We have spent
3 almost \$10 million on this. A part of this money was also

4 CHAIRPERSON CORY: You spent 10 million, and
5 what have we gotten back?

6 MR. THOMPSON: Well, enough that we are actually
7 producing 350 barrels a day of incremental oil right now,
8 which generates over \$6,000 a day in uncontrolled prices.
9 So there is a payback, because part of this original grant
10 was to do some well work that would actually give you an
11 increase. It's a combination. It's an illustration that
12 we have to do well work as well as propose a tertiary
13 process to keep the wells in shape to produce this
14 incremental oil. So the Federal government is beginning
15 to get some payback on their investment just as we are.

16 Mr. Bell is running the payout, but I must
17 caution him, it's not the whole jump, because we would have
18 gotten the lower tier price for it anyway. So you take
19 away about six dollars from the eighteen dollars, and it's
20 the incremental amount. But it still pays off at a pretty
21 good rate.

22 MR. BELL: In our lifetime?

23 MR. THOMPSON: Yes. We hope within the immediate
24 four or five years. We will start at the first of the
25 year. Hopefully, then we will start with actual cost --

1 CHAIRPERSON CORY: 4.56 years, we should get
2 10 million back. And at 15-3/4 percent interest -- we
3 didn't add that in, but -- okay. We have been informed
4 pursuant to Item 32.

5 Item 33 - Authorize solicitation of bids and
6 subsequent award of contract for preparation of EIR and
7 geological and geophysical survey of State lands at Ft.
8 Conception, and the Executive Officer is to find the bread.

9 EXECUTIVE OFFICER NORTHROP: Yes.

10 CHAIRPERSON CORY: Any questions?

11 MR. BILL: No, this would correspond with our
12 other action.

13 CHAIRPERSON CORY: These are the adjacent ones
14 to the high bid Federal lands, and as our energy problem
15 nationally becomes more acute, I think the pressure is
16 there that we get with it as quick as we can.

17 MR. EVERITTS: You might be interested in knowing
18 that Chevron has applied for exploratory permits from the
19 Corps of Engineers on four of the parcels in here and
20 Mobil has already filed for an application to drill a well
21 from the USGS on one of these.

22 MR. ACKERMAN: Is this the first time that the
23 State has done something like this?

24 EXECUTIVE OFFICER NORTHROP: This will be the
25 first time that we have gone out for -- no, I don't
think so. We did some stuff earlier.

1 MR. EVERITTS: This particular piece right here
2 was actually up for lease back when Union Oil Company had
3 its blowout and the Commission pulled this off the calendar.
4 In fact, we had already advertised and the Commission
5 pulled it clear off the market back in 1969 -- this piece
6 right in here. There has also been a well drilled here by
7 the USGS, and that, incidentally, had oil shows in it.

8 CHAIRPERSON CORY: That was supposed to have been
9 off structure?

10 MR. EVERITTS: That was an off structure well.

11 CHAIRPERSON CORY: They found it, anyway.

12 EXECUTIVE OFFICER NORTHROP: To answer your
13 question, Mr. Ackerman, the closest thing we had to this --
14 I was just checking with Mr. Thompson -- was in the Long
15 Beach area before the bid. There was some prebid coring
16 activities in which they went on structure to do this kind
17 of thing, but this will probably be the first time we have
18 done an EIR and gone full bore on it.

19 MR. ACKERMAN: This is really doing the
20 preparatory work that any bidder would have come back to do
21 independently now.

22 MR. EVERITTS: Yes, the work we are talking about.
23 Now, as far as drilling in any permits that the State ever
24 issued for coring, we weren't allowed to drill into any
25 oil-bearing sands. In fact, if they hit sands -- or hit oil

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1 or gas, they immediately had to abandon those wells and
2 pull back up. So we are talking largely about doing
3 shallow -- you can do any type of geophysical work, but
4 any coring that would be done would be very shallow coring.

5 One thing as far as looking for funding for this,
6 we think that we can probably put this as part of the --
7 the successful bidder should be required to pay that back
8 to us.

9 EXECUTIVE OFFICER NORTIROP: The way we envision
10 it is is a revolving fund. We take the money -- when the
11 bid goes out, one of the prerequisites to making a bid is
12 to agree to pay back the money we spend for the EIR and
13 geophysical work. So it would not be that the State would
14 be handling the burden, but it would be just funding the
15 money.

16 MR. ACKERMAN: What this really avoids is two or
17 three different companies having to incur the same identical
18 costs?

19 MR. THOMPSON: The risk reduction in Long Beach
20 for example, the fact that those core holes were made and
21 you knew the extent of the accumulation and knew it was
22 there. It cuts down the risk for the bidders. Therefore,
23 this knowledge ahead of time is really not a loss to them.
24 The successful bidder can pick this up with no problem.

25 MR. ACKERMAN: It would be an advantage to the

1 State because then you would know more about the property
2 as well.

3 MR. THOMPSON: All potential bidders have access
4 to it, so you widen out the field.

5 EXECUTIVE OFFICER NORTHROP: Everybody gets a
6 peak.

7 MR. BELL: We probably should have been doing
8 this --

9 MR. ACKERMAN: A long time ago.

10 CHAIRPERSON CORY: Okay. Authorization is
11 granted without objection.

12 Item 34 - City of Redondo Beach wants a contract --

13 EXECUTIVE OFFICER NORTHROP: We would like to
14 have our staff look at some oil and gas problems they have
15 got down there.

16 CHAIRPERSON CORY: They are going to reimburse
17 us?

18 EXECUTIVE OFFICER NORTHROP: They are going to
19 reimburse us.

20 CHAIRPERSON CORY: Without objection, 34 will be
21 approved.

22 Any further items to come before us?

23 Without objection, we will adjourn in memory
24 of Dianne's youth.

25 (Thereupon the meeting of the State Lands
Commission adjourned at 11:10 a.m.)

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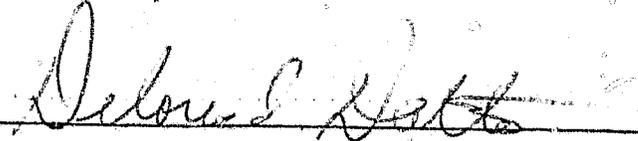
CERTIFICATE OF SHORTHAND REPORTER

1
2
3 I, DELORES I. DALTON, a Shorthand Reporter of the
4 State of California, do hereby certify:

5 That I am a disinterested person herein; that
6 the foregoing State Lands Commission Meeting was reported
7 in shorthand by me, DELORES I. DALTON, and thereafter
8 transcribed into typewriting.

9 I further certify that I am not of counsel
10 or attorney for any of the parties to said hearing, nor
11 in any way interested in the outcome of said hearing.

12 IN WITNESS WHEREOF, I have hereunto set my
13 hand this 12th day of December, 1979.

14
15 
16 _____
17 DELORES I. DALTON
18 SHORTHAND REPORTER
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1 in 1976 into agreement with Resource Funding Limited, RFL,
2 as it's called, had a number of geothermal leaseholds. NCPA
3 had, as the courts like to say, money. So the two got
4 together in hopes of developing geothermal steam.

5 Since they entered into that agreement, a couple
6 of things have happened. One is that on land adjacent to
7 this 120 acres NCPA has gone out and expended about \$2
8 million on a wildcat rig to see if there's any steam up
9 there on the land that RFL had. Its results to date have
10 not been especially good. We've found about a third of the
11 pressure that we were looking for up there, but we are going
12 to continue to look and spend more money, presumably.

13 The second thing that happened is that RFL has
14 been plunged into bankruptcy reorganization proceedings.
15 NCPA is at the moment negotiating with the trustee in
16 bankruptcy to buy up the geothermal leaseholds. Those
17 geothermal leaseholds, as I pointed out, include this parcel
18 of 120 acres. That 120 acres is subject, of course, to the
19 state reservation, but it's part of a much bigger parcel
20 that NCPA had hoped to develop.

21 We're hoping by about October 11 to enter into an
22 agreement with the trustee so that we will be the owners of
23 those geothermal leaseholds and will be able to negotiate,
24 to represent our interests with the state and with others
25 in this matter. For that reason, largely, we're hopeful

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1 that the state will give us a 60-day extension so that we
2 can resolve our internal problems and then come back.

3 We think that the state won't be prejudiced in
4 any way by a 60-day postponement. There is, I think, no
5 reason to believe that these lands and the geothermal
6 resources will be worth any less in 60 days than they are
7 now, and we may be able to marshall our arguments why in
8 fact we believe that a prospecting permit should be issued.

9 I should point out, incidently, that it's my
10 understanding that the staff has been very helpful. They've
11 rushed this matter through and worked with some effort on
12 our behalf. I know this request that we postpone the
13 matter for 60 days comes as a surprise and a disappointment
14 to them, but we think it's in the best interests of our
15 citizens and therefore of the state as a whole.

16 MR. ACKERMAN: I have a question about the
17 difference between a prospecting permit and one that would
18 allow you geothermal exploration. I'm a little confused.

19 MR. NORTHROP: Mr. Ackerman, I am, too, because
20 it seems to me that what we are attempting to do here is
21 not issue a prospecting permit and not renew a prospecting
22 permit in light of the fact that staff feels the area is of
23 more value. We discussed at staff this morning what would
24 be accomplished by such a delay, and I can't see that any-
25 thing would be accomplished.

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1 Certainly if these prospecting leases have more
2 than face value to RFL, they certainly would have the same
3 value to State Lands. I don't understand.

4 ACTING CHAIRPERSON BELL: By the way, the map I'm
5 looking at shows geographically widely separated leases here.
6 I'm wondering if the Northern California Power Agency is
7 speaking to only one of these.

8 MR. TUTTELMAN: That's correct, Mr. Chairman, we
9 are. It's the little rectangular portion in the north
10 there.

11 MR. EVERITTS: Northern California is speaking
12 specifically to this 120-acre parcel here (indicating). This
13 is our producing area (indicating). This is their
14 marginally productive well (indicating).

15 ACTING CHAIRPERSON BELL: That's the one that had
16 the prospecting --

17 MR. EVERITTS: No. This is their application
18 that was finally completed in June of this year. This one
19 is a prospecting permit that expired in June of this year.

20 ACTING CHAIRPERSON BELL: Thank you. I wanted to
21 make sure I got the two of them straight.

22 Can you try and answer Mr. Ackerman's question?

23 MR. NORTHROP: Would you please restate the
24 question, Mr. Ackerman?

25 MR. ACKERMAN: I'm not sure what the question is

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1 before us.

2 MR. NORTHROP: I think there's a question in my
3 mind as to what's before us. Don, can you help?

4 MR. EVERITTS: As I understand Mr. Ackerman's
5 question, the prospecting permit -- first of all, under new
6 legislation the commission has the option of issuing a lease
7 or issuing a prospecting permit. Before, the law stated
8 you had to issue a prospecting permit if they asked for one
9 and if it was not in a productive area. We now have the
10 option of making our own determination of whether it's good
11 or bad.

12 The prospecting permit now gives you the right
13 to explore, drill an exploratory well. It does not commit
14 you to any action other than that well. It's not
15 necessarily a preferential right. You may give them a
16 preferential right, but you don't have to if they make a
17 discovery.

18 A lease is a fixed agreement to go out there and
19 develop. What we're proposing to do is put these up for
20 bid, probably go percentage of net profits. In one of these
21 leases not too far off here, in this general area, we've
22 got a 47.77 per cent of the net profits, plus 10 per cent
23 of the gross bid, which is equivalent to a pretty good
24 situation. There are some differences in royalties.

25 The prospecting permit is an exploratory permit,

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1 and a lease is a development permit.

2 ACTING CHAIRPERSON BELL: After we grant a
3 prospecting permit and someone comes up and discovers
4 something on it, what then happens? After you've issued a
5 prospecting permit --

6 MR. EVERITTS: -- and a discovery is made on the
7 prospecting permit --

8 ACTING CHAIRPERSON BELL: -- then what happens?

9 MR. EVERITTS: You may issue a preferential lease
10 to the --

11 MR. HIGHT: No. Under the new legislation,
12 Mr. Chairman, that went into effect January 1st, the
13 commission now has the option -- they're not compelled to
14 issue --

15 MR. EVERITTS: I said, you may issue a lease.

16 ACTING CHAIRPERSON BELL: I've been sitting on
17 this board four or five years off and on, and I remember the
18 old prospecting thing. It used to bug me a lot. I just
19 wondered if they got that cleared up. This is something
20 that's been bothering me for some time.

21 MR. EVERITTS: This was one of the old ones,
22 except we've got a little bit of a problem: it has expired
23 now, and they did not make a discovery on it.

24 ACTING CHAIRPERSON BELL: I'm assuming these
25 gentlemen before us at this time are only concerned with the

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1 Cobb Valley one.

2 MR. TUTTELMAN: Right.

3 MR. PADILLA: Mr. Chairman, may I make a comment?

4 ACTING CHAIRPERSON BELL: Please state your name
5 for the record.

6 MR. PADILLA: I'm Joseph Padilla, and I'm with
7 SAI Engineers, and I've been handling the exploration
8 program for SAI and for our client, NCPA.

9 In making the application with the Division of
10 Oil and Gas, the area was established as being in excess of
11 one mile away from the established reservoir limits. So it
12 is in an unproven geothermal area, in other words.

13 There is a great degree of risk. There has been
14 one well drilled approximately one mile from our well, and
15 that is called a "new-field well". That was a dry hole.
16 Our well, the NCPA-RFL Cobb Valley Well Number 1 is an
17 exploratory well, but the result at total depth, at 9,618
18 feet, is less than commercial quantities of steam.

19 I believe that NCPA -- or RFL, rather -- filed the
20 prospecting permit under the old regulations, and NCPA
21 entered into an exclusive steam purchase agreement in '76-77,
22 and they have diligently followed exploration. They have
23 expended considerable amounts of money to survey the area
24 and to drill a well. The well, incidently, was flooded
25 June 12, 1979.

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1 If the permit was allowed to expire, it was not
2 because of NCPA not following the application, but because
3 of the litigation and the problems that the original lease
4 holder, which is RFL, has had. In other words, they went
5 into bankruptcy. They are not functioning. Any problem
6 that happened is primarily a paper problem, but the
7 exploration process and the determining whether there is
8 steam there or not have been pursued quite diligently by
9 NCPA, and they have assumed the responsibility and are
10 funding the exploration program.

11 In my opinion a denial of that prospecting permit
12 is not in the true tenor of the law.

13 ACTING CHAIRPERSON BELL: If I can paraphrase what
14 you're saying, I think you're saying to us that since this
15 lies outside of a proven field, it is not something that the
16 State Lands Commission can find to be within a productive
17 area and therefore subject to bid rather than a prospecting
18 permit?

19 MR. TUTTELMAN: Right.

20 ACTING CHAIRPERSON BELL: On the other hand, I
21 think one of you gentlemen said that the law has been
22 changed to allow us to go either way.

23 MR. HIGHT: Yes, Mr. Chairman. This application
24 became final after the new law had gone into effect;
25 therefore, the new law applies. The area is now, staff

1 feels, not suitable for a prospecting permit in that the
2 area has known geothermal resources and would be suitable
3 to a competitive lease situation. That is the staff's
4 reasoning for asking for denial of issuance of the permit.

5 MR. EVERITTS: The law he was talking to, the
6 Division of Oil and Gas law, strictly had to do with state-
7 wide drilling regulations. But even under the existing law
8 it would be very difficult to qualify that as a prospect --
9 under our old law.

10 Under our old law the definition of a "Geothermal
11 Resources Area" was an area that had a well capable of
12 producing geothermal in paying quantities. Now admittedly,
13 that's a marginal well, but it is not a nonproductive well.

14 MR. McDONOUGH: Mr. Chairman, all we're saying now
15 is that the cities have expended about two million dollars
16 up there in furtherance of this project. We have no
17 question that the law is the way it is now, but we believe
18 that if we were given another 60 days, we would be in a position
19 to come back to this commission and make a convincing
20 argument that this area is or is not going to be geo-
21 thermally productive. We'll have more information, and we
22 can put forth a better argument. We don't think the state
23 is going to be prejudiced in any way by this short delay.

24 MR. NORTHROP: Mr. Chairman, if I may.

25 ACTING CHAIRPERSON BELL: Yes. I was going to

1 call on you.

2 MR. NORTHROP: Staff doesn't understand where
3 money was expended in an area in which there was not --
4 the commission has given no approval for any operation in
5 the parcel indicated.

6 ACTING CHAIRPERSON BELL: That's what bugged me.
7 It was the other parcel that had the expired prospecting
8 permit. There has never been a prospecting permit on this
9 outfit.

10 MR. McDONOUGH: That's absolutely true. We're
11 not suggesting that there ever has been, but only that this
12 is part of a large geothermal area, 1,425 acres, and that
13 an area of some substance is needed to produce successful
14 quantities. A larger area is needed for exploration.

15 Although operating without a permit, we had so
16 far envisioned this as 1,425 acres of land that was
17 available to us.

18 ACTING CHAIRPERSON BELL: Mr. Ackerman has a
19 question.

20 MR. ACKERMAN: Bob, does a lease have to go out
21 to bid, or can a prospecting permit be issued to a
22 particular individual without bidding?

23 MR. HIGHT: A prospecting permit can be issued to
24 anybody who applies. You apply for a prospecting permit
25 and satisfy the necessary requirements, and a prospecting

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1 permit is issued. There is no bidding procedure at that
2 time.

3 MR. ACKERMAN: But if a lease were to be entered
4 into for this particular parcel, then that has to be put
5 out to competitive bid?

6 MR. HIGHT: Yes.

7 ACTING CHAIRPERSON BELL: In fact, that is what
8 the staff is suggesting.

9 MR. HIGHT: Right.

10 MR. McDONOUGH: Mr. Chairman, we really have two
11 requests. One is that you give us the postponement. If
12 there is some indication that you are not agreeable to that,
13 I'd like to put into the record a little more information
14 about the bidding process and why that won't be productive
15 for the state in this particular area.

16 ACTING CHAIRPERSON BELL: Would you please
17 address yourself to that part?

18 MR. McDONOUGH: Dave, you've given some
19 consideration to that.

20 MR. TUTTELMAN: Dave Tuttelman, staff counsel with
21 NCPA.

22 I guess there are two ways to look at the
23 problem. For one thing, as Mr. Padilla pointed out, for the
24 parcel in question there's quite a bit of speculation as to
25 whether or not commercial quantities of steam will be

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1 produced from this parcel. Since that is the underlying
2 policy of establishing a prospecting permit procedure, it
3 seems that the state may wish to go along that route.

4 More important is the fact that since we are right
5 now the only entity up in the Geysers, at least up in that
6 area, who has, shall we say, a feasible production program
7 going, the value of the steam from that parcel to the state
8 will, in essence, be consistent with the value of the steam
9 to NCPA. We have a number of other parcels that we're
10 looking at to try to determine the value of steam from them,
11 and if, of course, the cost of producing steam from the
12 state parcel is in excess of the price we're going to have
13 to pay for steam from other parcels, we will, of course,
14 tend to go to those other parcels. Right now, as I said,
15 it is very speculative.

16 I also want to point out that the well we drilled
17 actually goes to the south of the state parcel. I've been
18 trying to talk to Mr. Padilla about this, but --

19 ACTING CHAIRPERSON BELL: I assume that's labeled
20 on our map "Cobb Valley Number 1".

21 MR. TUTTELMAN: Yes.

22 What I'm trying to say is there's a fault that
23 goes to the northeast of the state parcel. The way things
24 are working out right now it seems that the closer you get
25 to the fault the less are the possibilities that you will

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1 produce commercial quantities of steam. So from that point
2 of view it seems that the policy of issuing a prospecting
3 permit would seem to be fulfilled better if one were issued
4 to NCPA, seeing we're the only entity up there that has,
5 shall we say, the tangible interest in getting the steam
6 out. More important is the fact that right now it's a very
7 speculative venture.

8 ACTING CHAIRPERSON BELL: Any other comments?

9 MR. ACKERMAN: Could you please clarify what the
10 two positions are?

11 ACTING CHAIRPERSON BELL: Actually these are the
12 positions of just the people concerned with Cobb Valley. We
13 still have to hear from Aminoil.

14 (Laughter.)

15 MR. ACKERMAN: Just on Cobb Valley. The Lands
16 Commission staff contends that this is a commercially
17 feasible area and therefore should be put out to
18 competitive bid for a lease. Your contention is that it has
19 not yet proven to be commercially feasible and therefore
20 should not be subject to a lease bid, but we should issue a
21 prospecting permit so you can determine whether or not it is
22 commercially feasible.

23 MR. TUTTELMAN: That's correct.

24 MR. ACKERMAN: Bob, is the normal action taken
25 that if a prospecting permit is issued and it's then

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1 determined that it is commercially feasible, then that
2 prospecting permit is terminated and a bid is advertised
3 and a lease situation entered into?

4 ACTING CHAIRPERSON BELL: Would you like to
5 explain the right of the prospecting permit holder?

6 MR. HIGHT: Under the new law the prospecting
7 permit owner -- the commission has the option of either
8 going with him or putting it out to bid.

9 ACTING CHAIRPERSON BELL: And if it's put out to
10 bid, then what right does the prospecting permit holder
11 have?

12 MR. HIGHT: He can bid. If he is the high bidder,
13 then he wins. If he's the low bidder, a certain amount of
14 his costs in exploration are paid back to him from the high
15 bidder.

16 MR. EVERITTS: He also has more geological
17 expertise.

18 ACTING CHAIRPERSON BELL: I was going to say that
19 he's the only guy that's got any expertise in terms of the
20 geological aspects.

21 MR. ACKERMAN: So he is in an ideal competitive
22 situation in the bidding process anyway.

23 MR. HIGHT: Yes.

24 MR. McDONOUGH: We suggest that that leg up, if
25 there is one --

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1 ACTING CHAIRPERSON BELL: -- may make for a more
2 attractive bid.

3 MR. McDONOUGH: It's certainly more attractive
4 from our viewpoint, particularly in view of the fact that
5 we've spent so much money to date.

6 ACTING CHAIRPERSON BELL: We recognize that, but
7 it really isn't our fault, since we never gave you a
8 prospecting permit in the first place.

9 MR. ACKERMAN: How did you spend money?

10 MR. McDONOUGH: We'd like you to believe, however,
11 that the citizens of our cities are the same constituents
12 as the citizens of the state.

13 ACTING CHAIRPERSON BELL: We're sure you did it in
14 good faith.

15 I would suggest that we now hear from the holder
16 of the -- I'm assuming this is now going to be about the
17 other half.

18 MR. HIGHT: Mr. Chairman, These should have been
19 separate items.

20 ACTING CHAIRPERSON BELL: All right then, You're
21 suggesting, really subtly, that we settle this one before
22 we hear from the next one?

23 MR. ACKERMAN: Should this one be settled
24 independently?

25 MR. HIGHT: Yes.

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1 ACTING CHAIRPERSON BELL: They are not related,
2 really.

3 MR. HIGHT: Right.

4 ACTING CHAIRPERSON BELL: I guess I'm going to
5 have to ask a question, then, of Mr. Northrop.

6 MR. NORTHROP: Yes, sir.

7 ACTING CHAIRPERSON BELL: The first request of the
8 group isn't that we turn off the bid process and everything.
9 They just want 60 more days to find out whether things are
10 "gooder" or "badder" up there, and if they're gooder, they'd
11 be very happy to come in with a good bid. They don't really
12 want to turn off the process, but merely postpone it for
13 two months.

14 MR. McDONOUGH: That's true.

15 MR. ACKERMAN: Have we ever issued a 60-day
16 prospecting permit?

17 (Laughter.)

18 MR. NORTHROP: That raises a matter of trespass
19 and a whole lot of other things and the liability we have
20 in case they have a problem up there. We don't have any
21 "hold harmless". This should be a lawyer's argument, but as
22 a practical matter --

23 ACTING CHAIRPERSON BELL: I'd rather keep the
24 trespass charge against them by not giving them the
25 prospecting permit, and just put it over for two months.

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1 MR. NORTHROP: That was the question on my face.
2 They understand, I hope, that the prospecting permit
3 entitles them to bid in case they find something. In the
4 other case, where they already are there and have much
5 geology -- it's a decision they have to make, of course.
6 It might be well to just take your shot at a net-profits
7 bid on that basis.

8 ACTING CHAIRPERSON BELL: Just out of curiosity,
9 how long does it take, after we approve putting something
10 out to bid, before the bids are actually closed?

11 MR. EVERITTS: Ninety days.

12 MR. NORTHROP: I'd say 90 to 120 days.

13 MR. McDONOUGH: We understood there was some time
14 lag. On the other hand, we'd like to move this back.

15 ACTING CHAIRPERSON BELL: That would then give you
16 six months instead of four.

17 MR. McDONOUGH: Well, there's some logic to that,
18 yes.

19 ACTING CHAIRPERSON BELL: Mr. Ackerman, do you
20 have any opinions on this? Staff seems to feel we ought to
21 act on this item before we hear about the other one.

22 MR. ACKERMAN: In terms of liability, then, and
23 trespass, the best thing would be to hold off for 60 days;
24 that correct?

25 ACTING CHAIRPERSON BELL: Let's ask the Attorney

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1 General, who would have to defend us.

2 MR. STEVENS: It's still not clear to me whether
3 actual exploration activities are being conducted on the
4 state parcel or merely in the area around it pursuant to
5 agreements with other people who are private landowners.

6 MR. McDONOUGH: The latter is true.

7 MR. STEVENS: So there is no question of trespass,
8 apparently.

9 ACTING CHAIRPERSON BELL: The whole place up there
10 is not state land. I'd say then that unless staff tells us
11 we have a real problem, our best solution to this is just
12 defer it for 60 days. I think that was their initial
13 request.

14 MR. ACKERMAN: Is there any problem with that?

15 MR. HIGHT: No.

16 ACTING CHAIRPERSON BELL: If the staff has no
17 problem with that, we will accept your first suggestion. We
18 will defer this item for two months.

19 MR. NORTHROP: We will put it on the November
20 agenda.

21 MR. McDONOUGH: Fine. Thank you very much.

22 ACTING CHAIRPERSON BELL: The second half of this
23 agenda item concerns an expired prospecting permit, and
24 Mr. C.E. Woods has asked to address us on this item.

25 Are you Mr. C.E. Woods?

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1 MR. WOODS: That I am, sir. Better known as
2 Bill Woods.

3 My name, of course, is Bill Woods, and I represent
4 the applicant in this prospecting permit for extension of
5 this prospecting permit, Aminoil USA, Inc.

6 ACTING CHAIRPERSON BELL: They're the ones that
7 had the permit that expired?

8 MR. WOODS: That is correct.

9 ACTING CHAIRPERSON BELL: As opposed to the last
10 people, who didn't have one.

11 MR. WOODS: As opposed to the last one. I will
12 try to make my comments very brief.

13 Aminoil commenced the geophysical investigation
14 of this area surrounding the 200-acre Squaw Creek parcel in
15 early 1975. As a result of that preliminary work, areas of
16 greatest potential for successful geothermal exploration,
17 which included that Squaw Creek parcel, were identified.

18 The topography of that particular area is
19 extremely difficult and contains many steep canyons and
20 landslide areas. The specific 200-acre parcel which is the
21 subject of the Squaw Creek prospecting permit is located on
22 one of these steep canyons, which drops off into a water
23 course identified as Hummingbird Creek and is extremely
24 limited in its potential for surface locations for wells.

25 Subsequent to the issuance of the prospecting

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1 permit in 1976, Aminoil has diligently pursued the
2 exploration efforts in the area, which include extensive
3 geological and geophysical work and the drilling of one
4 well on the prospecting permit parcel and three wells
5 approximately two miles to the southwest of the parcel.
6 Only one of these wells has been completed as a potential
7 commercial producer.

8 The latest geophysical work, a magnetotuleric
9 survey of the regional area, has, in fact, just been
10 completed and is still under evaluation. The exploration
11 costs for the regional area represent an investment by
12 Aminoil of approximately \$6 million. Approximately \$2
13 million of that investment can be related to the
14 exploration efforts directly related to the Squaw Creek
15 prospect.

16 Aminoil firmly believes that the best interests
17 of the state could be better served by granting the
18 extension of the prospecting permit, which could provide
19 Aminoil with the opportunity to perform additional
20 exploration efforts on the prospecting permit parcel based
21 upon data collected as recently as early this year.

22 The 200-acre parcel, which is not sufficient land
23 area to become a viable geothermal project in itself, could
24 then become a viable portion of a geothermal project area,
25 and if it does contain geothermal resource reserves in

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1 commercial quantities, it could be more expeditiously
2 developed.

3 For these reasons and the reasons stated in our
4 letter of June 13, 1979, Aminoil would respectfully
5 reiterate its request that the primary term of the
6 prospecting permit identified as PRC 5147.2 be extended for
7 the two-year term as provided by the terms of the agreement.

8 I'd be happy to answer any questions that you
9 might have with regard to that permit.

10 ACTING CHAIRPERSON BELL: Let's hear from staff
11 first.

12 MR. NORTHROP: Mr. Chairman and members, the staff
13 feels that we couldn't agree more with Aminoil that this
14 area probably has some good geothermal potential. Under
15 the prospecting agreement the state's revenue is limited to
16 ten per cent. While we have indeed issued leases in the
17 area -- as a matter of fact, Aminoil itself, as I recall,
18 matched a lease of considerably higher than ten per cent --
19 staff feels that this is a good geothermal area and should
20 be leased on a net-profits or other lease as the commission
21 sees fit in future meetings to direct us to do.

22 MR. WOODS: If I could respond to one portion of
23 that, the area of the leasehold that we matched the highest
24 bid on we do not consider as related substructurally to the
25 area of this prospecting permit.

1 MR. NORTHROP: Staff didn't mean to imply that
2 there was any communication between the two producing areas.

3 ACTING CHAIRPERSON BELL: Actually, the request
4 then is to extend the prospecting permit for two years.
5 That's what I interpret your request to be.

6 MR. WOODS: That is correct.

7 ACTING CHAIRPERSON BELL: And that is opposed to
8 the staff position that instead of doing that, we put it
9 out to bid. You've given us some reasons why you don't
10 think it's profitable for us to put it out to bid, and
11 Mr. Northrop apparently thinks it is.

12 MR. NORTHROP: Staff feels that the economics
13 would probably be better served if we went out to bid.

14 MR. WOODS: From the standpoint of economics,
15 what we would suggest is that the more expeditious
16 development of the leasehold could have an impact on those
17 economics.

18 MR. NORTHROP: Mr. Chairman, the commission has
19 been very direct to staff in seeing that these net-profits
20 and other type bids are developed as expeditiously as
21 possible. As a matter of fact, our fuse now is much shorter
22 than it was before on moving to develop the resource. We
23 think the resource should be developed quickly, as
24 Mr. Woods knows. The two of us on other occasions and in
25 other areas have cooperated fully in trying to get

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1 geothermal developed expeditiously.

2 MR. WOODS: That is the name of the game.

3 ACTING CHAIRPERSON BELL: You don't think he's
4 unreasonable in that respect?

5 MR. WOODS: No.

6 ACTING CHAIRPERSON BELL: Just on this point.

7 MR. WOODS: Just on this point.

8 ACTING CHAIRPERSON BELL: Mr. Ackerman.

9 MR. ACKERMAN: Is there precedent set previously
10 for a corporation which has an existing geothermal
11 development operation to come in and ask for a prospecting
12 permit on another piece of land in order to add that to
13 their ongoing operation to make the whole thing commercially
14 feasible? Is that normally then put out to lease bid?

15 MR. NORTHROP: Other than the new legislation,
16 we've really had our hands tied in that area, Mr. Ackerman.
17 I'm not sure that historically it's ever been done.

18 Don, do you recall that we've ever denied an
19 extension and put it out to bid?

20 MR. EVERITTS: No.

21 MR. NORTHROP: I don't think so, either.

22 ACTING CHAIRPERSON BELL: This may be a first-time
23 kind of thing. I will move it.

24 MR. ACKERMAN: Second.

25 ACTING CHAIRPERSON BELL: On this particular one

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1 we are going to agree with the staff that it should be put
2 out to bid. Without objection, that is approved.

3 MR. NORTHROP: Staff would welcome Aminoil's bid.

4 MR. WOODS: Thank you very much for the
5 opportunity to speak.

6 ACTING CHAIRPERSON BELL: Thank you, Mr. Woods.

7 Item 37, authorize award of the Santa Barbara
8 County beach hazard removal contract --

9 MR. NORTHROP: -- to Robert Haller, who is the
10 only bidder on that contract.

11 ACTING CHAIRPERSON BELL: Robert Haller is the
12 sole bidder.

13 MR. ACKERMAN: No problem with that.

14 ACTING CHAIRPERSON BELL: I have no problem with
15 that, either, so item 37 will be approved.

16 Item 38, request the Lake County Planning
17 Commission to consider the state-county cooperative and
18 joint environmental review process for geothermal explora-
19 tion of a portion of Boggs Mountain. I believe we also have
20 an appearance request on item 38. This is the last
21 appearance item of the day, according to the record.

22 Mr. John Bannister, vice president of Geothermal Kinetics,
23 Inc., had indicated that he wanted to testify -- if he
24 isn't worn out yet.

25 Mr. Northrop.

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1 MR. NORTHROP: Mr. Chairman, this was a first when
2 it started out: the county and the state getting together
3 and doing a joint environmental endeavor and review process.
4 We felt it would be the pattern, and in the initial stages
5 and early on in the EIR Lake County agreed, and the
6 executive officer and many of the executive staff went to
7 Lake County and held hearings, and we felt we were doing
8 just fine.

9 Then in recent times the Lake County Planning
10 Commission, either through new staff or new policy,
11 indicated they had some problems with the EIR, and staff
12 informs me that their objections were not all that
13 specific.

14 What we are asking in this calendar item is we
15 request the commission to respectfully ask the Lake County
16 Planning Commission to carefully consider what they have
17 done in this joint environmental process. It directs the
18 staff to meet with Lake County officials to discuss
19 procedures to be followed under CEQA for this project.
20 Staff feels this is a good project and it's something that
21 should proceed. We feel we have not only complied
22 with the letter but with the spirit of CEQA, and we feel
23 this project should go on, so we ask that the commission
24 remind Lake County of what has happened in the past.

25 ACTING CHAIRPERSON BELL: Who owns the bed of

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1 Clear Lake?

2 MR. NORTHROP: It's granted to the County of Lake
3 in a bill carried by Senator Collier, as I recall.

4 ACTING CHAIRPERSON BELL: Is John Bannister here?

5 MR. BANNISTER: Mr. Chairman, I don't particularly
6 desire to make a statement. I'm here primarily in case
7 there are questions.

8 ACTING CHAIRPERSON BELL: The action before us
9 is really a relatively mild one of just saying, "Hey, let's
10 try and get together and straighten out our differences,"
11 as I understand it.

12 MR. BANNISTER: Mr. Chairman, that basically is
13 true. The county, as expressed by the chairman of the
14 planning commission, Mr. Jim Renfro, and another
15 commissioner, would like very much to get an attorney from
16 the State Lands Commission and the county attorney together
17 and decide some of the legal issues that might be arising.
18 I think a meeting between the two staffs would be very
19 important to iron it out.

20 ACTING CHAIRPERSON BELL: Mr. Hight?

21 MR. HIGHT: We'll take care of that,
22 Mr. Chairman.

23 ACTING CHAIRPERSON BELL: Fine. Thank you very
24 much.

25 MR. ACKERMAN: I will so move.

1 ACTING CHAIRPERSON BELL: I will second.

2 Without objection, then, item 38 will be approved.

3 Item 39 is an informative item on a sales price
4 for geothermal resources, Geysers area.

5 MR. NORTHROP: Mr. Chairman, Mr. Everitts, chief
6 of that section, will give you an estimate on the reserves.

7 MR. EVERITTS: We try on an annual basis to report
8 the revenue on our geothermal operations, and also to
9 indicate to the commission just how prices are going up on
10 something besides crude oil. Back in 1972 we were getting
11 2.40 mills for our geothermal per KWH, and we're now up to
12 16.58, so we've had roughly a seven-fold increase in
13 revenue, at least on a unit basis.

14 We're up to an estimated four million dollars
15 next year in royalties. That's for 1979. It's of interest
16 that last year the royalties reversed a normally upward
17 trend. The reason for the drop is that the companies
18 substituted some hydro power. They also, rather than using
19 geothermal as a base load, they were using some take-or-pay
20 gas. In the meantime this is collecting in a trust account
21 waiting for a settlement of who really owns the geothermal,
22 and we now have on deposit roughly \$14 million.

23 ACTING CHAIRPERSON BELL: Have they solved the
24 technical problems of how to get rid of that stuff in the
25 Imperial Valley that eats everything alive? I don't know

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1 if I'm expressing it right.

2 MR. EVERITTS: There are two or three plants
3 under construction, which will still be pretty much
4 experimental. They're talking about closed systems that //
5 are never open to the atmosphere. // That may be part of the
6 problem. They're talking about heat-exchanger situations.
7 Basically, I don't think they've solved the
8 problem.

9 ACTING CHAIRPERSON BELL: That was an informative
10 item only. I think it's rather impressive that these
11 royalties or whatever you want to call it are really
12 becoming relatively significant in this area. It wasn't too
13 many years ago when it was just a drop in the bucket.

14 MR. EVERITTS: Absolutely right.

15 ACTING CHAIRPERSON BELL: Item 40, authorize the
16 executive officer to execute a memorandum of understanding
17 between the commission and the Department of Water
18 Resources concerning the utilization of state lands for the
19 Central Valley Project and the state water system.

20 Mr. Northrop.

21 MR. NORTHROP: Mr. Chairman, this is some
22 property that is needed by the Central Valley Project, and
23 we're asking that the executive officer be allowed to
24 execute a memorandum of understanding.

25 MR. ACKERMAN: No problem.

1 ACTING CHAIRPERSON BELL: Without objection, then,
2 item 40 is approved.

3 Item 41.

4 MR. NORTHROP: Mr. Chairman, we now have a
5 geothermal task force, and there is an attempt in the
6 Resources Agency and in other places to put this into some
7 sort of more formal group. They are contemplating a
8 Geothermal Coordinating Council. We are asking for
9 permission to execute a memorandum of understanding so
10 State Lands production will be represented on that council.

11 ACTING CHAIRPERSON BELL: Is this, as you under-
12 stand it, primarily state people?

13 MR. NORTHROP: Yes, sir, exclusively state
14 people.

15 ACTING CHAIRPERSON BELL: Probably under the
16 Resources Agency?

17 MR. NORTHROP: Yes, probably under Conservation.
18 Wait. It has three public members.

19 ACTING CHAIRPERSON BELL: Well, I see no objection
20 to protecting our interests.

21 MR. ACKERMAN: No.

22 ACTING CHAIRPERSON BELL: All right. Without
23 objection, then, item 41 will be approved.

24 Item 42.

25 MR. NORTHROP: Mr. Chairman, item 42 authorizes a

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1 suit. I think staff counsel would like to address himself
2 to it.

3 MR. HIGHT: Yes, Mr. Chairman. This is an
4 authorization to collect some back rent for occupation of a
5 marina in Suisun City.

6 ACTING CHAIRPERSON BELL: This is litigation
7 because he doesn't want to pay up?

8 MR. HIGHT: Correct, Mr. Chairman.

9 MR. ACKERMAN: No problem.

10 ACTING CHAIRPERSON BELL: I have no problem,
11 either. Without objection, item 42 is approved.

12 Items 43 and 44 have been dropped. Those are the
13 last items I have on my agenda, Mr. Northrop, except for
14 the comment in the executive officer's report that at the
15 end of the meeting there will be an executive session.

16 MR. NORTHROP: That's right, sir.

17 MR. STEVENS: Mr. Chairman, I might make a brief
18 report on the progress of one lawsuit which the commission
19 authorized and that was to assert the rights of the public
20 to navigate rivers of California which are navigable against
21 the contentions of local counties that they had the right to
22 close these rivers to public use. The Court of Appeals
23 sustained the commission's position and held that there is
24 a state constitutional right to navigate which cannot be
25 broadly prohibited or blocked by a county ordinance.

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1 Therefore, the south fork of the American River will remain
2 open, and the El Dorado County ordinance was declared
3 invalid.

4 ACTING CHAIRPERSON BELL: You can't put a chain
5 across the river, but can you prevent somebody from
6 something which may be life-harming or something?

7 MR. STEVENS: You can prevent littering, dangerous
8 activities, things of that sort.

9 ACTING CHAIRPERSON BELL: Public-safety-type
10 activities, but you cannot prevent a guy from just rowing a
11 boat up the river?

12 MR. STEVENS: The court held it was simply too
13 broad, in the guise of preventing these activities, to
14 say the river is closed, period, to nonresidents.

15 ACTING CHAIRPERSON BELL: I hadn't realized they
16 said closed to nonresidents completely. That's a very
17 effective case, because it seems to more or less justify all
18 the claims we've been making to our rights on navigable
19 rivers, doesn't it?

20 MR. STEVENS: It helps considerably.

21 ACTING CHAIRPERSON BELL: Thank you.

22 Now if there is no other business, do I declare
23 the meeting adjourned?

24 MR. NORTHROP: Yes, sir, if you would, please,
25 Mr. Chairman.

1 ACTING CHAIRPERSON BELL: All right. The meeting
2 is adjourned, and we will now clear the room and have an
3 executive session.

4 (Thereupon this public meeting of
5 the State Lands Commission was
6 adjourned at 11:59 a.m.)

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I, PAUL D. RAMSHAW, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing public meeting of the State Lands Commission was reported in shorthand by me, Paul D. Ramshaw, and thereafter transcribed into typewriting.

I further certify that I am not of counsel or attorney for any of the parties to said meeting nor in any way interested in the outcome of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand this 23rd day of October, 1979.



PAUL D. RAMSHAW
Certified Shorthand Reporter
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