

1
2
3
4
5
6
7
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11
12
13
14
15
16
17
18
19
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22
23
24
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MEETING
STATE LANDS COMMISSION
STATE OF CALIFORNIA

ROOM 447
STATE CAPITOL
SACRAMENTO, CALIFORNIA

THURSDAY, NOVEMBER 29, 1984

10:20 A.M.

ORIGINAL

Reported by:

Cathleen Slocum, C.S.R.
License No. 2822

MEMBERS PRESENT

John Jervis, Acting Chairperson, representing
Kenneth Cory, Controller

Nancy Ordway, representing Jesse Huff, Director
of Finance

Susan Wallace, representing Leo T. McCarthy,
Lieutenant Governor

STAFF PRESENT

Claire Dedrick, Executive Officer

James Trout, Assistant Executive Officer

Robert Hight

Jane Smith, Secretary

ALSO PRESENT

Dave Judson, Deputy Attorney General

I N D E X

| | <u>Page</u> |
|--|-------------|
| 1 | |
| 2 | |
| 3 | |
| 4 | |
| 5 | |
| 6 | |
| 7 | |
| 8 | |
| 9 | |
| 10 | |
| 11 | |
| 12 | |
| 13 | |
| 14 | |
| 15 | |
| 16 | |
| 17 | |
| 18 | |
| 19 | |
| 20 | |
| 21 | |
| 22 | |
| 23 | |
| 24 | |
| 25 | |
| Proceedings | 1 |
| Confirmation of minutes of October 25, and 29, 1984 | 1 |
| Report of the Executive Officer | 1 |
| Consent Calendar Items C1-C23 | 1 |
| Regular Calendar Items 24-48 | 1 |
| Agenda Item 26 - State Lands Commission Division Project | 2 |
| Agenda Item 27 - State Lands Commission | 3 |
| Agenda Item 28 - City of Long Beach | 4 |
| Agenda Item 31 - East Bay Municipal Utility District | 5 |
| Agenda Item 32 - Exploration Engineering, Inc. | 6 |
| Sandra Durkan | 6 |
| Larry Durkan | 8 |
| Dwight Kuhns | 11 |
| Craig McDonald | 17 |
| Doug Yee | 18 |
| Dwight Kuhns | 24 |
| Commission discussion | 28 |
| Commission action/motion | 35 |
| Agenda Items 33-48 less Item 47 - en masse | 36 |
| Commission action | 37 |
| Adjournment | 38 |
| Certificate of Reporter | 39 |

1 PROCEEDINGS

2 ---ooo---

3 ACTING CHAIRPERSON JERVIS: State Lands Commission
4 will come to order.

5 All right. We have the confirmation of minutes
6 for the meeting of October 25th and October 29th, 1984.

7 I have a motion, second, approved.

8 The report of the Executive Officer.

9 EXECUTIVE OFFICER DEDRICK: I have no report.

10 ACTING CHAIRPERSON JERVIS: I want to report from
11 the Chief Counsel on voting and nonvoting for the record.

12 MR. HIGHT: Yes, Mr. Chairman. For the record
13 Susan Wallace is representative for the Lieutenant Governor
14 in a nonvoting capacity.

15 ACTING CHAIRPERSON JERVIS: All right. The Consent
16 Calendar Item C1 through C23, anybody in the audience who
17 desires to be heard on any of the consent items, C1 through
18 C23?

19 If not, a motion

20 COMMISSIONER ORDWAY: Motion.

21 ACTING CHAIRPERSON JERVIS: Without objection,
22 the Consent Calendar is approved, Item C1 through C23.

23 Item 24, Mr. Peter Uccelli.

24 EXECUTIVE OFFICER DEDRICK: Excuse me, Mr. Chairman.
25 Items 24 and 25 have been pulled from the calendar as well

1 as Items 30 and 47.

2 COMMISSIONER ORDWAY: 30 and 47?

3 EXECUTIVE OFFICER DEDRICK: Correct.

4 ACTING CHAIRPERSON JERVIS: All right. Item 26.

5 EXECUTIVE OFFICER DEDRICK: This is to ask for
6 your authorization to approve a resurvey and map of the
7 Gallinas Canal. Jim wanted to speak to this.

8 MR. TROUT: We made a survey some years ago and
9 we have since that time found some new monumentation and
10 this would be a corrective survey. Staff is here if there's
11 any questions, but it's a fairly routine action. Don
12 Brittnacher, who served with the State Lands Commission
13 for a very long time and worked very hard on this project
14 and other projects in the neighborhood, he is now retired
15 and he is here in the meeting this morning in case there
16 were any questions, but he certainly did an excellent job
17 and we're going to be sorry to have him leave us but he
18 is probably going to enjoy his retirement very much. Don.

19 MR. BRITTNACHER: Thank you very much.

20 ACTING CHAIRPERSON JERVIS: On behalf of the
21 Lands Commission, we'd certainly like to thank you for your
22 33 years of dedication to the State --

23 COMMISSIONER ORDWAY: 33 years?

24 [Laughter.]

25 COMMISSIONER ORDWAY: How do you look that good

1 after 33 years with the Lands Commission?

2 EXECUTIVE OFFICER DEDRICK: That's the year of
3 retirement that did that.

4 ACTING CHAIRPERSON JERVIS: You're now here as
5 a private citizen. You're welcome to come to the microphone
6 and unload anything you'd like to.

7 [Laughter.]

8 MR. BRITTNACHER: I'm not really a private citizen
9 yet until tomorrow.

10 [Laughter.]

11 ACTING CHAIRPERSON JERVIS: We'll have another
12 meeting next month. Again, our appreciation for all that
13 you have done.

14 Do we have a motion on Item 26?

15 COMMISSIONER ORDWAY: Motion.

16 ACTING CHAIRPERSON JERVIS: Without objection,
17 approved.

18 Item 27.

19 MR. TROUT: Mr. Chairman, Item 27 is your approval
20 for a proposed sale of crude oil in the State's Tract 2
21 interest in Long Beach, 350 barrels a day at 17.6 degree
22 gravity oil. This would authorize the seeking of bids. We'd
23 come back to you for the approval of those bids. The new
24 sale would be effective May 1st, '85.

25 ACTING CHAIRPERSON JERVIS: Anybody in the audience

1 desire to be heard on this matter?

2 COMMISSIONER ORDWAY: Motion.

3 ACTING CHAIRPERSON JERVIS: Without objection,
4 Item 27 is approved.

5 Item 28:

6 MR. TROUT: Item 28, Mr. Chairman, was a sale
7 the Commission authorized earlier for Long Beach Harbor
8 Department tidelands parcel and Parcel A. There were three
9 segments in this operation. One segment of \$2.12.3 is the
10 high bid. The second one, \$1.76-1/2 for a second segment,
11 and \$2.32 for, 32.3 cents for the third segment. This is
12 approval of the award of those contracts.

13 ACTING CHAIRPERSON JERVIS: Anybody in the
14 audience on Item 28?

15 COMMISSIONER ORDWAY: Motion.

16 ACTING CHAIRPERSON JERVIS: Without objection,
17 Item 28 is approved.

18 Item 29.

19 MR. TROUT: Mr. Chairman, this is a request for
20 approval on bids for Tract 1, two segments, approximately
21 7500 barrels per day of 17.7 degree gravity oil. The sales,
22 the high bids were \$2.26, \$2.54.2 on the two segments. The
23 high bidder was Pacific Refining. We ask your approval
24 of the sale.

25 ACTING CHAIRPERSON JERVIS: Let anyone here think

1 that the State is selling oil for \$2.50 a barrel, perhaps
2 you might explain what those figures mean.

3 MR. TROUT: That's a good point. That's a bonus
4 over the posted price in the area for oil of similar quality
5 and quantity.

6 ACTING CHAIRPERSON JERVIS: All right. Thank
7 you. Motion.

8 COMMISSIONER ORDWAY: Motion.

9 ACTING CHAIRPERSON JERVIS: Without objection,
10 Item 29 is approved.

11 Item 30 is off calendar.

12 Item 31, East Bay MUD.

13 EXECUTIVE OFFICER DEDRICK: This is a request
14 for an exemption of an oil and gas lease from competitive
15 bidding requirements in Contra Costa County. Bob.

16 MR. HIGHT: The surrounding area is owned by Pan-
17 Pacific Petroleum Company or is leased by Pan-Pacific. These
18 are small parcels which the County wishes to lease. Because
19 of their small size and irregular configuration, they would
20 like to enter into a negotiated lease with Pan-Pacific and
21 this is pursuant to provisions of the Public Resources Code.

22 ACTING CHAIRPERSON JERVIS: Anybody in the audience
23 on Item 31?

24 Motion.

25 COMMISSIONER ORDWAY: Motion.

1 ACTING CHAIRPERSON JERVIS: Without objection,
2 Item 31 is approved.

3 Item 32, Exploration Engineering, Inc., permittee.
4 EXECUTIVE OFFICER DEDRICK: Staff is recommending
5 a denial of the extension of the geothermal prospecting
6 permit to the applicant. The operation is at Sonoma State
7 Hospital in Sonoma County.

8 ACTING CHAIRPERSON JERVIS: And the staff
9 recommendation is denial --

10 EXECUTIVE OFFICER DEDRICK: That is correct.

11 ACTING CHAIRPERSON JERVIS: We have request from
12 people in the audience who would like to be heard on Item
13 32. I have five requests here. Perhaps we should start
14 with Sandra Durkan who is Environmental Exploration Engineering,
15 Inc. secretary. Sandra Durkan, come forward to the microphone.

16 MS. DURKAN: This microphone?

17 EXECUTIVE OFFICER DEDRICK: That's fine.

18 Just give your name for the record when you sit
19 down, Miss Durkan. Pull the mike up.

20 MS. DURKAN: My name is Sandra Durkan. We entered
21 in this prospect permit three years ago. The first year
22 we drilled to 1500 feet, felt that we wanted to do some
23 testing and have gone on. In the time that's gone on we've
24 done numerous engineering studies of the resource, taking
25 it from 130 degree to 405 degrees to allow our investors

1 in the development coming in which is Catalysts Energy
2 Corporation to have a full view of the project. We feel
3 denial at this time when the financing is in place would
4 be unfair and unjust by the State Lands Commission as four
5 years are provided and many companies have used that entire
6 four years to take their developments through to completion.

7 ACTING CHAIRPERSON JERVIS: In other words you're
8 saying that although you have been there two years, at least
9 two years --

10 EXECUTIVE OFFICER DEDRICK: Three.

11 ACTING CHAIRPERSON JERVIS: -- three years --

12 MS. DURKAN: Yes.

13 ACTING CHAIRPERSON JERVIS: -- what have you done
14 during the three years?

15 MS. DURKAN: We have drilled to 1500 feet. We
16 have tested that resource and we have done engineering studies
17 and submitted them to State Lands Commission, to the hospital
18 and to General Services who was acting for the hospital
19 to make a contract and we have brought in the financing
20 for final development for this project.

21 ACTING CHAIRPERSON JERVIS: Yes.

22 COMMISSIONER ORDWAY: Your first lease was for
23 how many years?

24 MS. DURKAN: It was for four years.

25 EXECUTIVE OFFICER DEDRICK: No, that's not correct.

1 COMMISSIONER ORDWAY: This permit was for how
2 long?

3 MS. DURKAN: For four years with two years being --

4 MR. HIGHT: Two years.

5 COMMISSIONER ORDWAY: It was a two-year permit
6 and you already had one extension; is that right?

7 MS. DURKAN: Right. I'm sorry.

8 ACTING CHAIRPERSON JERVIS: What are your plans
9 right now?

10 MS. DURKAN: Our plans are to move forward as
11 soon as we can. We have financing put in place to drill
12 and complete a project out there.

13 ACTING CHAIRPERSON JERVIS: We have others obviously
14 from Exploration Engineering. Perhaps you'd like to join
15 Mrs. Durkan up at the front table.

16 If you'd come close to a microphone there and
17 state your name for the record, we'd appreciate it very
18 much.

19 MR. DURKAN: My name is Larry Durkan, Corporate
20 President, Exploration Engineering, Inc.

21 MR. KUHS: My name is Dwight Kuhns. I'm from
22 James J. Lowrey and Company, representing an arm of Lowrey
23 and Co. called Catalysts Energy Development Corporation.

24 MR. FINNILA: My name is Al Finnilla. I'm the
25 Vice President of Exploration Engineering.

1 ACTING CHAIRPERSON JERVIS: So we have a two-
2 year lease of this, permit, that's coming to an end at this
3 point. What's the --

4 EXECUTIVE OFFICER DEDRICK: Excuse me, Mr. Chairman.
5 I should clarify. They have a two-year prospecting permit
6 on which there was a partially drilled well. They asked
7 for a one-year extension last year.

8 COMMISSIONER ORDWAY: Which was granted.

9 EXECUTIVE OFFICER DEDRICK: Which was granted
10 after some problems that had occurred during the initial
11 permit period that were quite substantial. You have a list
12 before you of chronology of events in this case. The lease
13 was, the extension was dependent upon paying of rent in
14 advance. The rent was ultimately paid somewhat late. During
15 the year of the extension no further activity has taken
16 place on the property that has resulted in proving up a
17 resource. The request before you for an extension today
18 is for the purpose of continuing that exploration. The
19 legal situation is such that if a prospecting permittee
20 does in fact strike a resource, that permittee has a privileged,
21 has a right to a lease without competitive bidding or anything.
22 That lease is guaranteed if they strike a resource during
23 that period.

24 ACTING CHAIRPERSON JERVIS: I think the most
25 logical question to ask is what are your plans? Where are

1 you?

2 MR. DURKAN: In the past year this project has
3 received a considerable investment from my company. We
4 have done extensive engineering ourselves and we've hired
5 outside firms as consultants and as primary engineering
6 groups to do the same engineering. We're involved here
7 in a phase of geothermal development which is presently
8 without precedent in California. The prospecting permit
9 itself is on State lands which are unprecedented for lease
10 development. Work all the way through this project has
11 required that we do an extensive amount of engineering to
12 prove up the viable applicability of low and intermediate
13 temperature geothermal resources at this particular site
14 to prove up to the extent that it's acceptable to the
15 financial community. We had no guidelines to follow in
16 that nor in our relationships with the various State
17 agencies involved as the project is absolutely without
18 precedent. Our plan on this project is to continue ahead,
19 complete our drilling and proceed as rapidly as we can to
20 full development to the extent that it is not in conflict
21 with the hospital or with the hospital's obligation to maintain
22 the health and welfare of their facility. So that our full
23 development plan is planned to be worked out with the
24 hospital as the project progresses. We have no guidelines
25 to follow in this unprecedented situation.

1 ACTING CHAIRPERSON JERVIS: You have the financing
2 to carry this out?

3 MR. DURKAN: Yes. I brought Mr. Kuhns with us
4 today so he can describe to you the extent of his company's
5 commitment to this project and to the financing as well
6 as the development of the project. Dwight Kuhns.

7 MR. KUHNS: Just to establish for the record,
8 I'd like to bring to your attention that James J. Lowrey
9 and Company has a history with the State of California that
10 has already been well developed. We have been in the past
11 financial advisors to a number of authorities under the
12 California State Treasurer's Office and the most notable
13 of these enterprises we raised both private and public
14 financing for a couple of hydroelectric projects for the
15 Yolo County Water Irrigation District. At that time sold
16 public bonds. The first sale of such bonds for the California
17 Alternative Energy Authority. We've also been represented
18 to a number of municipal governments in California including
19 Modesto, I'm sorry, Turlock Irrigation District whereby
20 we raised \$50 million for a series of low-head hydroelectric
21 projects for Turlock.

22 The most recent of our ventures in California
23 is developing in a co-venture with IPT, San Jose State
24 University Cogeneration Project. We did that with negotiations
25 through the Office of General Services. That project will

1 be coming on line in December of this year.

2 I met Mr. Durkan, Mr. and Mrs. Durkan at a
3 Geothermal Resources Council Meeting of approximately six
4 months ago in California where I first learned about their
5 proposal for the Sonoma State Hospital Project. I presented
6 this proposal to the staff of Lowrey and we took a particular
7 interest in it because of the Durkans' idea of developing
8 a geothermal resource in an area where there was also, where
9 there was already a population and a demand for energy and
10 also an immediate consumer for part of the energy from such
11 an energy project in the hospital.

12 We have over the last six months spent a great
13 deal of time and money investigating the economic and
14 technical viability of this project. Because frankly we're
15 very careful about projects we're getting into and particu-
16 larly projects the like of which has never been done before.

17 Now, as I'm sure you're aware of, geothermal money
18 is very difficult to raise because of the risk involved.
19 We feel that in our agreement with the Durkans we have put
20 together financing configuration that lessens the risk for
21 potential drilling partnership in the event they hit a dry
22 hole in the first well.

23 I believe that if the staff of the State Lands
24 Commission and the Commission itself give the amount of
25 attention that this project requires to fully look over

1 our financing proposal, that they will come away with the
2 confidence that we have a serious financial proposal here
3 and that in the event on the other hand that you withdraw
4 the extension of the permit, it may be months and perhaps
5 a year before a second proposal can be made to a second
6 permitted. That's lost time for everybody involved including
7 the State.

8 ACTING CHAIRPERSON JERVIS: Let me interrupt at
9 that point. You refer to an agreement. Do you have a written
10 agreement?

11 MR. KUHNS: Yes, I do. I have a copy here for
12 the Commission.

13 EXECUTIVE OFFICER DEDRICK: Excuse me. Is that
14 agreement signed?

15 MR. KUHNS: Yes, it is.

16 ACTING CHAIRPERSON JERVIS: So you have entered
17 into in effect a signed agreement with Exploration Engineering?

18 MR. KUHNS: A point for your information, Miss
19 Dedrick. Apparently the copy I left with your office 24
20 hours ago was the copy, my copy rather than the signed copy.
21 I have a signed copy here today.

22 EXECUTIVE OFFICER DEDRICK: And does an executed
23 agreement exist between Lakewood and Mr. Durkan?

24 MR. DURKAN: No.

25 COMMISSIONER ORDWAY: I didn't hear that. Question

1 again, please.

2 ACTING CHAIRPERSON JERVIS: Question again.

3 EXECUTIVE OFFICER DEDRICK: Would you explain
4 the relationship with Lakewood in this situation?

5 MR. KUHN: Maybe Mr. Durkan would like to.

6 EXECUTIVE OFFICER DEDRICK: I think perhaps you
7 should.

8 MR. DURKAN: During the course of our endeavors
9 to finance this project through the public market rather
10 than through granting or other sources, we probed many people
11 for their ability to financially back the project and we
12 decided in the end that the most sensible approach to it
13 would be to split the project into a drilling partnership
14 and a power production partnership, both interrelated to
15 each other. To that end, we have been working with a group
16 in Sonoma County, California, who are experienced at
17 financial packaging by the name of Lakewood Enterprises
18 and we have been for the past four months negotiating
19 contracts and showing them the inside information of
20 unprecedented geothermal project and we're still in that
21 stage.

22 Neither of us are convinced that we have a totally
23 acceptable agreement yet. We expect it to be immediately
24 forthcoming.

25 EXECUTIVE OFFICER DEDRICK: The relevant point

1 here, Commissioners, is that the obligation to the State
2 involves doing the drilling. The contract between Lakewood
3 which would be the operating company and Durkan is not a
4 completed or signed contract. Correct?

5 MR. DURKAN: That's correct.

6 MS. DURKAN: However, the contract with the
7 Catalyst also provides for their assistance in raising the
8 drilling money. So their performance has to be considered
9 in this decision.

10 I would also like to mention that our lease
11 payment was put up in advance this time.

12 ACTING CHAIRPERSON JERVIS: You mean for the
13 last year's extension of your permit?

14 MS. DURKAN: No. For this year's extension it
15 has been put up in cash and staff has had it for
16 approximately two weeks.

17 ACTING CHAIRPERSON JERVIS: So that's in essence
18 in escrow at this point?

19 EXECUTIVE OFFICER DEDRICK: Yes.

20 MR. DURKAN: I believe 42,700 this year.

21 MS. DURKAN: And 50.

22 ACTING CHAIRPERSON JERVIS: How far are you away
23 from a decision between you and Lakewood as to whether
24 you're going to enter into a written agreement? How much
25 time are we talking about?

1 MR. DURKAN: I believe very little time, but it's
2 impossible for me to make absolute predictions. We're
3 together to the extent that they appeared at the meeting
4 with staff and told staff their exact intentions. We believe
5 we'll have a very soon summarization.

6 ACTING CHAIRPERSON JERVIS: What comment do I
7 hear from staff on that issue of how far these parties are
8 from a written agreement that will allow them to --

9 EXECUTIVE OFFICER DEDRICK: On our current
10 information I don't think we can make a judgment on that.

11 ACTING CHAIRPERSON JERVIS: Do you have a question?

12 COMMISSIONER ORDWAY: I'd like to hear from Mr.
13 McDonald.

14 ACTING CHAIRPERSON JERVIS: I would, too. Craig
15 McDonald, Chief of Plant Operations at Sonoma State Hospital,
16 which is the third party involved in this, could we hear
17 from you?

18 MR. McDONALD: I'd like to call --

19 COMMISSIONER ORDWAY: Would you please sit at
20 the mike and use the microphone?

21 EXECUTIVE OFFICER DEDRICK: While Mr. McDonald
22 is sitting down, just for the record the hospital system
23 is a surface owner of the area and the State Law requires
24 the permission of the surface owner before State lands can
25 grant prospecting permit or leases. Therefore, aside from

1 the fact that also a part of State Government, they're a
2 very important leading player in this situation.

3 MR. McDONALD: My name is Craig McDonald. I'm
4 the Chief of Plant Operations at Sonoma State Hospital.
5 Beside me is Doug Yee who represents the Department of
6 Developmental Services.

7 EXECUTIVE OFFICER DEDRICK: Sir, could you move
8 the microphone closer to you.

9 MR. McDONALD: Sure.

10 MR. YEE: My name is Doug Yee and I'm the
11 Assistant Chief of Facility Planning for the Department
12 of Developmental Services.

13 ACTING CHAIRPERSON JERVIS: All right. What is
14 your comment on the request for extension of this permit?

15 MR. McDONALD: At this point in time the hospital
16 stands opposed to this extension. If I might, I'd like
17 to just give you folks a brief outline of some events in
18 the past. Some two and a half to three years ago the
19 hospital was approached by Mr. Durkan who represented to
20 us that he thought that a geothermal project at the hospital
21 could result in a substantial savings in utility costs to
22 the facility, as much as 50 percent. Mr. Durkan also
23 expressed that only the hospital would be involved in any
24 geothermal project. In other words, no product would be
25 sold to outside entities. On that basis, the hospital was

1 in agreement to let this exploration proceed though not
2 totally in agreement with the express conditions of the
3 permit rendered allowed Mr. Durkan by State Lands Commission.

4 At any rate, the scope of the project now seems
5 to have increased to sale of utilities to outside entities
6 such as PG&E. The hospital has no assurance in writing
7 or verbally that it will benefit whatsoever. At this point
8 in time the benefits to the hospital, to our residents,
9 the environmental impact upon our residents' facility, their
10 living environment, their quality of life is in question.
11 We feel that until such time as a written agreement can
12 be arrived at between State Lands, Department of Developmental
13 Services and whatever outside entities, this project should
14 be set aside.

15 ACTING CHAIRPERSON JERVIS: Yes, sir.

16 MR. YEE: I represent the Department. I also
17 do the energy for the Department. Approximately a year
18 ago in November of 1983 Mr. Durkan gave me a call and asked
19 me how he would proceed with getting a third party type
20 arrangement negotiated and signed with the State and I
21 recommended to him that we were in third party cogeneration
22 arrangements and the Department of General Services, Office
23 of Energy Assessments, were the people that we utilized
24 and was essentially the legislature's representative to
25 handle these agreements. So we met a year ago with Mike

1 Garland in his office who is the Chief of the Office of
2 Energy Assessments and then proceeded to discuss how Mr.
3 Durkan would go about obtaining a third party contract with
4 the State to provide a geothermal cogeneration project at
5 Sonoma State Hospital.

6 Subsequent to that, he's had several calls back
7 and forth with the Office of Energy Assessments. They've
8 provided him sample contracts. For instance, the third
9 party agreement for Yountville Veterans Home and he's been
10 in contact with their technical advisors on the staff,
11 Marshall Clark, and Marshall told him that it was
12 approximately a cost to the public or the State of California
13 approximately \$100,000 to get through in staff time and
14 development of a third party contract based on previous
15 contracts they've worked on and that he needed some type
16 of reasonable assurance that the project that was being
17 investigated had a chance of succeeding before they would
18 proceed with the project.

19 So Mr. Durkan was given the opportunity of several
20 months to respond with technical information that he had
21 a feasible project, that the State would receive adequate
22 benefit from the project. Finally in April of this year --
23 and I'll read you from a letter that Mike Garland wrote.

24 "In early April you called and indicated to
25 my staff that it was impossible to provide

1 the technical and economic data. Further
2 you indicated a problem with getting
3 cooperation from the Office of Energy
4 Assessment."

5 Well, the Energy Assessment Office repeatedly
6 tried to contact Mr. Durkan and they investigated whether
7 there was truly a problem with getting service out of the
8 Office of Energy Assessments and they were unable to contact
9 him until much later. To date, in my recent
10 last week with Marshall Clark, they are yet to be convinced
11 that there is technical justification for a viable geothermal
12 cogeneration project at Sonoma State Hospital.

13 So from the Department's standpoint, we recommend
14 that the permit be denied because we don't have adequate
15 justification that there is a viable project at Sonoma State
16 Hospital.

17 ACTING CHAIRPERSON JERVIS: Would that be your
18 position if they were to sign an agreement with you to sell
19 you the product? Would your mind change under those
20 conditions if there were a written agreement between the
21 Durkans and the hospital?

22 MR. YEE: We utilize the Office of Energy
23 Assessments as our advisors, technical advisors. If we
24 were to receive if they were satisfied that there was
25 adequate profits to the State or adequate benefit to the

1 site, et cetera, whatever their criteria is, that they've
2 used in the past at other cogeneration sites including the
3 San Jose State University site, then we would be in
4 agreement that it's a good project. We'd go ahead with
5 it. That's our main concern that we benefit and the
6 environmental quality of the client at Sonoma State Hospital
7 is not disrupted. We maintain services to our clients
8 without interruption.

9 ACTING CHAIRPERSON JERVIS: Maybe we can get Mr.
10 Durkan to come back up here for just a moment and sit
11 alongside Mr. Yee.

12 EXECUTIVE OFFICER DEDRICK: As a point of
13 clarification, Mr. Chairman, the catalytic energy portion
14 of the project would be the cogeneration facility, gas-
15 fired, that Mr. McDonald referred to.

16 ACTING CHAIRPERSON JERVIS: Why haven't you been
17 able to reach an agreement with the hospital people? I
18 know you're talking about something that might not be, but
19 suppose there is something that obviously you're telling
20 would be that there is, why haven't you been able to come
21 to agreement with the hospital?

22 MR. DURKAN: We're drilling for suspected
23 geothermal resource at approximately 6,000 feet. I believe
24 that beneath a map anomaly at our location we will encounter
25 geothermal resources from 6,000 to 6,500 feet. Highly likely

1 they will be of the high temperature, high flow, hot water
2 dominated reservoir. However, that is absolute pure
3 speculation as no human being has ever drilled below a thousand
4 feet in the Valley of the Moon. So when Energy Assessments
5 asked me to provide exact engineering of how I will apply
6 my geothermal resource to generating equipment, they're
7 asking for engineering based on unknown.

8 In the Imperial Valley, the geothermal resource
9 as it has been discovered is so densely populated with brines
10 and mineral deposits, you can almost walk on it. On the
11 Geysers, at the other end of the spectrum, it's dry steam.
12 The type of engineering necessary to cover the entire spectrum
13 of potential uses would require in fact a railroad boxcar
14 to move it. We're talking of engineering that simply cannot
15 be done until the well has been completed and tested in
16 the resource.

17 ACTING CHAIRPERSON JERVIS: I'm not talking so
18 much about the engineering as I am asking you why you haven't
19 been able to reach an agreement with the hospital about
20 what you do with the product if you make the kind of strike
21 you're talking about.

22 MR. DURKAN: When we first entered into this with
23 the hospital, we all were aware that there was no precedent
24 for us or guidelines for us to go by. So we entered into
25 a mutual covenant that we would operate under a verbal

1 agreement until such time as we were at the position that
2 we were going to be proposing an exact engineering
3 specification, finished program that would be implied there
4 at the hospital and then at that point we would put our
5 heads together and the hospital would guide us as to the
6 compatibility of this proposed project with their operation
7 and their responsibilities.

8 ACTING CHAIRPERSON JERVIS: But it's pretty tough
9 for the State to be operating on verbal agreements of that
10 kind. These cogeneration projects, we certainly hate to
11 discourage them. But these people who work at the hospital
12 have seen what happens to good neighbors over there in the
13 geothermal area. How far are these test wells from the
14 hospital buildings?

15 MR. DURKAN: My first test well is approximately
16 a hundred feet behind the main power center. Craig McDonald
17 assisted me in the selection of that site and approved that
18 site as being compatible with their operation and acceptable
19 to them at the time.

20 My full intention and understanding as to the
21 verbal condition that we started up under was that we would
22 use the firing line first-hand field experience to in fact
23 create a contract that not only would be acceptable to the
24 hospital and to private enterprise, but would be of such
25 a nature that it can be passed from one hospital and one

1 facility to the next and thereby our co-union would lead
2 to the eventual development of perhaps many hundreds of
3 thousands of right now unused acreage in the State of
4 California. But this contract that we would draw would
5 be drawn on the step-to-step basis as we discover what things
6 really need to be covered here. The hospital had absolutely
7 no experience or knowledge of geothermal exploration and
8 development and they are learning from observance and
9 participation. So that I'm 100 percent in alignment and
10 in agreement that we should form a contract between us in
11 addition to the State Lands prospecting permit which is
12 acceptable to this facility and is conducive to the limited
13 development of geothermal resources under their direction.
14 I'm in a hundred percent agreement with this.

15 MR. KUHN: It please the Commission, I'd like
16 to make a statement.

17 ACTING CHAIRPERSON JERVIS: Come on up.

18 MR. KUHN: I think somewhat in defense of Mr.
19 Durkan, when he first contacted us, I contacted the Office
20 of General Services. I spoke, I think, briefly with Doug.
21 I spoke at length with Mike Garland and in fact Mike came
22 to New York for an extended meeting with us in mid-October.
23 I think it's fair to say that we have been in contact with
24 the hospital and the Office of General Services from the
25 moment that we learned about the Sonoma State Hospital

1 Project and Mr. Durkan as the permittee. We I believe
2 influenced Mr. Durkan to go ahead and negotiate first an
3 agreement with us rather than offer technical engineering
4 and come to an agreement with the hospital and General
5 Services because we felt that we needed to have the
6 assurance of an agreement in place before we could turn
7 around and go and negotiate with General Services. We would
8 not have done that did I not have the assurance from Mike
9 Garland himself that he was open to negotiating a contract
10 of the sort that we outlined for him in New York. We made
11 him aware of our progress with the negotiations with the
12 Durkans at that time. We made him aware of the configuration,
13 what it meant for the hospital. His reply to that was in
14 general: It looks all right, I'm willing to sit down and
15 negotiate with you. I can't make any promises at this point.
16 At that, we took that as a positive note and went on to
17 negotiate our agreement with Mr. Durkan, fully planning
18 to then negotiate with the Office of General Services for
19 what benefits both that office and the hospital directly
20 would receive in a financial configuration where we would
21 build the project.

22 MR. DURKAN: Additionally, I met with Mike Garland
23 on the same day in New York City and Mike indicated to me
24 that my project had taken a vast step forward by the
25 inclusion of Catalyst and the experience that they brought

1 to our table and Mike also informed me that he thought I
2 would be much wiser to stay out of the negotiations at this
3 point and let this experienced other half of my company
4 now take that over. So we're following that in good faith.

5 COMMISSIONER ORDWAY: Mr. McDonald, has the Office
6 of Energy Assessment denied the project or is the project
7 still pending?

8 MR. DURKAN: The project is still pending.

9 COMMISSIONER ORDWAY: I'm asking you, Mr. McDonald.

10 MR. McDONALD: I have no personal contact with
11 that office. Doug will have to answer.

12 MR. YEE: To my knowledge they have not closed
13 their doors to the project, but at the same time my
14 indication from Marshall Clark which is on Mike Garland's
15 staff -- I was unaware of any conversations between Mike
16 Garland as far as giving positive indications to Catalyst
17 or anything. That was discussion that occurred in New York
18 and I'm not familiar with that. But I do know that Mr.
19 Clark informed me that I asked him what the status of the
20 Sonoma Geothermal and he said, well, we still haven't heard
21 from Larry Durkan to provide any economic feasibility or
22 technical justification.

23 ACTING CHAIRPERSON JERVIS: How long ago was that?

24 MR. YEE: That was last week.

25 ACTING CHAIRPERSON JERVIS: Mr. Durkan, response

1 to that?

2 MR. DURKAN: We're still in that position with
3 Developmental Services. We would like to negotiate that
4 contract, but we were in hopes that we would not be taking
5 too much time by allowing the Catalyst to have their contract
6 fully in place so that we could use this new addition and
7 this strong part of our company to do that which they do
8 best.

9 ACTING CHAIRPERSON JERVIS: See, the State's kind
10 of a multi-headed monster here. You're going to have to deal
11 with people aside from those that are working directly at
12 that hospital.

13 MR. DURKAN: Correct.

14 ACTING CHAIRPERSON JERVIS: Any final questions
15 or comments from the staff?

16 EXECUTIVE OFFICER DEDRICK: Yes. I think we should
17 point out that what we're talking about today is extension
18 of a geothermal project. A cogeneration project is not
19 necessarily related to the geothermal project and I think
20 that's a distinction that's quite important.

21 MR. DURKAN: The cogeneration project is designed
22 to protect the wildcat geothermal exploration driller, the
23 guy who's going in the ground with 2.9 million to protect
24 him from total loss should he encounter a low temperature
25 resource which will not make electricity on its own but

1 is capable of perhaps assisting a conventional fuel source
2 thereby reducing consumption of those fossil fuels.

3 EXECUTIVE OFFICER DEDRICK: That's precisely my
4 point.

5 MR. DURKAN: Therefore, geothermal and other fuels
6 would be combined there and utilize the resource.

7 MR. McDONALD: It should also be pointed out that
8 this agreement between Catalyst Energy Corporation and Mr.
9 Durkan in regards to cogeneration has not been discussed
10 or approved by the Department of Developmental Services
11 or the hospital.

12 ACTING CHAIRPERSON JERVIS: That's an important
13 point.

14 MR. DURKAN: And from our side we consider it
15 a proposal as an absolute downside risk for our project,
16 but we consider it only a proposal and it's not an absolute
17 requirement in my mind.

18 ACTING CHAIRPERSON JERVIS: If we granted an
19 extension of this permit, how long would it be before you
20 got to the point of resuming drilling?

21 MR. DURKAN: As quickly as I possibly could. I'm
22 estimating at this point I would be able to start up within
23 90 days.

24 ACTING CHAIRPERSON JERVIS: Well, it's my
25 inclination that we grant an extension for, let's say, two

1 months ending January 31st, let's say, by which time I think
2 the Lands Commission would like to see a written agreement
3 on the production phase and would also like to see some
4 progress between Exploration Engineering and the State Office
5 of Energy Assessments because I don't think the hospital
6 is going to be in a position unless it has approval from
7 that other head of State Government to enter into the kind
8 of agreement that we're going to want to see between you
9 and the hospital system before we go beyond another two
10 months.

11 MR. TROUT: Mr. Chairman, from the staff point
12 of view, should the Commission wish to consider such an
13 extension, I think we would recommend that a condition on
14 that extension be that the Exploration Engineering would
15 agree there would be no drilling during that period. So
16 that the Commission is in the same position at the end of
17 January that they are now.

18 ACTING CHAIRPERSON JERVIS: I'd like to see that
19 condition in there, too, and that's why I asked Mr. Durkan
20 that question about resumption of drilling. So I'm comfortable
21 with that.

22 MR. DURKAN: And I further agree in accordance
23 with the long-time verbal standing agreement that has been
24 here that I cannot mobilize any equipment or do anything
25 on that hospital without express permission from the hospital.

1 So, therefore, I wouldn't be drilling without their
2 permission under any circumstance.

3 ACTING CHAIRPERSON JERVIS: Well --

4 MR. LUDLOW: Excuse me.

5 ACTING CHAIRPERSON JERVIS: Yes.

6 MR. LUDLOW: My name is Frederick Ludlow. I'm
7 staff counsel with State Lands Commission. The condition
8 that Mr. Durkan needs to agree to is he will not drill from
9 today until December 31. That's a condition --

10 COMMISSIONER ORDWAY: January 31.

11 MR. LUDLOW: January 31. That will be a
12 modification of the existing extension of the permit and
13 a condition of the additional 60 days or 30 days he's getting
14 as an extension. It has to be an express agreement to that
15 effect. Not just the hospital forbidding him, but he has
16 to agree that under the terms of this permit he will not
17 drill.

18 ACTING CHAIRPERSON JERVIS: I don't care how that's
19 going to work technically, but I'm sure that the legal staff
20 of the Lands Commission will be involved in that one.

21 MR. DURKAN: As staff of Lands Commission to this
22 point has worked very hard to see this project progress,
23 I will stipulate to anything they request me to in good
24 faith.

25 ACTING CHAIRPERSON JERVIS: So the motion is that

1 we approve an extension of the prospecting permit through
2 January 31st, 1985 on the condition that the permittee agree
3 that there not be any drilling from today through January
4 31st. I don't know that we need to say it in the permit
5 itself, but I think it probably should be evident to you,
6 Mr. Durkan, that you're going to need to show at least two
7 major things to the Commission when you come back here if
8 you seek an extension of this two-month permit and one of
9 them is obviously some kind of agreement on the financing
10 package for the geothermal drilling. The second one is
11 some kind of agreement from the State that it thinks what
12 you're doing is appropriate and that's going to involve
13 at least two State agencies. I think the Lands Commission
14 is going to be looking for those things in January or
15 February.

16 MR. DURKAN: And I so agree.

17 MR. KUHN: I'd like to make a point.

18 COMMISSIONER ORDWAY: The Office of Energy
19 Assessments, because they will be involved over the next
20 two months, I assume, be present at our January meeting.

21 ACTING CHAIRPERSON JERVIS: Yes, comment.

22 MR. KUHN: The comment is two things. One is
23 that I may be misunderstanding this, but I thought the term
24 of the permit was up December 21st and not November 21st.

25 EXECUTIVE OFFICER DEDRICK: December 19.

1 COMMISSIONER ORDWAY: Which is before our next
2 meeting.

3 MR. KUHN: Before your next meeting. If you're
4 suggesting an extension of 60 days, is that from this point
5 or from the time the permit expires?

6 ACTING CHAIRPERSON JERVIS: Well, an extension
7 from whenever it expires to January 31st. In effect that's
8 going to be 60 days.

9 EXECUTIVE OFFICER DEDRICK: But the no drilling
10 requirement would be applied from today.

11 MR. KUHN: I understand.

12 The second thing is that the criteria whereby
13 the Commission at the end of this 60 days would make a
14 decision upon whether or not to further extend the permit
15 is that an agreement be in place or is that there be a
16 positive outlook as to the possibility of an agreement?
17 I think those are two different things and one is possible
18 within that time period and one is not.

19 ACTING CHAIRPERSON JERVIS: What's not possible
20 within that time period?

21 COMMISSIONER ORDWAY: A signed agreement.

22 MR. KUHN: Based on my experience in energy
23 project development, I would risk saying that it may be
24 very difficult to get an agreement negotiated with General
25 Services and the hospital in the next 30 to 60 days.

1 Now, if you talk about a positive outlook towards
2 the eventual signing of such an agreement, I think that
3 would be very possible.

4 ACTING CHAIRPERSON JERVIS: Well, that's not a
5 condition of the permit. It's difficult for me to anticipate
6 what the Lands Commission thinking is going to be at the
7 end of January. All I can say is that you should arm yourself
8 with the best ammunition possible when you come back and
9 if it is a positive indication that things are about to
10 happen, I think that will probably weigh heavily with the
11 Lands Commission.

12 MR. KUHN: Thank you. I just wanted that
13 comment for the record. Thank you.

14 EXECUTIVE OFFICER DEDRICK: Mr. Chairman, before
15 you go further, I'd like to call for a very short Executive
16 Session with the Commission and the attorneys on a legal
17 matter. Is that proper?

18 ACTING CHAIRPERSON JERVIS: Affecting this item?

19 EXECUTIVE OFFICER DEDRICK: Affecting this item.

20 MR. DURKAN: May I be present?

21 EXECUTIVE OFFICER DEDRICK: No.

22 MR. HIGHT: No.

23 [Thereupon the Commission went into
24 Executive Session.]

25 ACTING CHAIRPERSON JERVIS: Now we'll be back

1 in open session. We need some technical clarifying
2 amendments. Do you have anybody from the staff who would
3 like to speak to that before a motion is offered?

4 MR. HIGHT: Yes, Mr. Chairman. I think in order
5 to place the Commission in the clearest legal position,
6 the resolution that you previously discussed needs to be
7 amended to provide that the no drilling permit or time would
8 be from the expiration of the existing permit until the
9 termination of the proposed amendment.

10 COMMISSIONER ORDWAY: Which would be -- basically
11 they're saying as to the extension no drilling rather than
12 amend the extension that they're currently under so as not
13 to confuse the current extension.

14 ACTING CHAIRPERSON JERVIS: When is the date that
15 the current permit expires?

16 MR. HIGHT: December 19.

17 COMMISSIONER ORDWAY: So we're talking 42 or 41
18 days from December 20th to January 31 that there would be
19 no drilling.

20 MR. HIGHT: Correct.

21 MR. DURKAN: Do I understand that we are free
22 to drill between now and that time?

23 EXECUTIVE OFFICER DEDRICK: I understood you to
24 say on the record that you couldn't drill for 90 days.

25 MR. DURKAN: I asked.

1 ACTING CHAIRPERSON JERVIS: I'm not sure the
2 hospital, you expressed a great desire to get along with
3 these folks from the hospital this morning and yet there
4 is no written agreement in place with them. You've expressed
5 this great desire to get along with them. I'm not sure
6 they'll be real happy with you drilling between now and
7 December 19.

8 MR. DURKAN: That was my question. I wondered
9 if the hospital was in on that decision and whether I was
10 free to drill or just --

11 COMMISSIONER ORDWAY: I think we're referring
12 to how we not go back and amend an extended permit that
13 you're currently operating under.

14 MR. DURKAN: I understand.

15 COMMISSIONER ORDWAY: And we deal with this new
16 extension of 41 days that we're granting and put conditions
17 on that extension.

18 ACTING CHAIRPERSON JERVIS: We don't want at this
19 late hour between now and December 19 drop a late condition
20 on the existing permit that you do have.

21 MR. DURKAN: I see. I understand.

22 COMMISSIONER ORDWAY: With that clarified, I'll
23 move.

24 ACTING CHAIRPERSON JERVIS: It's been moved.
25 Without objection --

1 MR. DURKAN: Additionally I brought this accounting
2 for our company's investment of a million five-hundred
3 thousand to date in that project. If you'd like access
4 to it, you're provided that.

5 ACTING CHAIRPERSON JERVIS: All right. Without
6 objection, the amendment to the resolution is approved.

7 MR. DURKAN: Thank you.

8 EXECUTIVE OFFICER DEDRICK: Do you want to take
9 them up in order or en masse?

10 ACTING CHAIRPERSON JERVIS: Take them up en masse.

11 Is there anybody else in the audience who would
12 like to speak on Items 33 through 48 minus 47, 33 through
13 48, minus 47. Anybody in the audience on those issues?

14 Let me entertain a motion -- One question from
15 Susan on Item 42.

16 COMMISSIONER WALLACE: Page 333 there's a statement
17 that says the fisherman didn't attend the geophysical study meetings and
18 they indicated time to attend both the committee meeting and the geophysical
19 study group was not available. I just had a question about to ask staff
20 why and maybe that can be cleared up.

EXECUTIVE OFFICER DEDRICK: Mr. Faber.

21 MR. FABER: Yes. My name is Robert Faber. I'm
22 Assistant to the Executive Officer, Energy and Mineral
23 Resources.

24 The statement is basically that we were conducting
25 several additional meetings at the request of the Commission

1 relative to studies on the effects of geophysical research.
2 The fishermen felt that they couldn't participate both in
3 those and some other meetings that were going on. As it
4 turns out, at this stage of the game what we have done,
5 I tried to coordinate two sets of meetings and as far as
6 I know the fishermen are participating fully in the process
7 now.

8 ACTING CHAIRPERSON JERVIS: While we have Mr.
9 Faber up here at the microphone

10 COMMISSIONER ORDWAY: With his hand up.

11 ACTING CHAIRPERSON JERVIS: That's right. Got
12 his hand up because that means he's asking permission to
13 go ashore. I understand that Mr. Faber is about to depart
14 if he has not already from the State Lands Commission. We
15 can't thank you for 33 years worth of work. I don't know
16 how many it is, Bob, but it's less than 33. But I think
17 the Commission should go on record commending you for the
18 job you have done at the Lands Commission.

19 MR. FABER: Thank you very much.

20 ACTING CHAIRPERSON JERVIS: Now, do I have a motion
21 on Items 33 through 48?

22 COMMISSIONER ORDWAY: You have a motion.

23 ACTING CHAIRPERSON JERVIS: Without objection,
24 those items are approved.

25 Is there any business to come before the Lands

1 Commission?

2 EXECUTIVE OFFICER DEDRICK: No further business.

3 ACTING CHAIRPERSON JERVIS: We are adjourned.

4 [Thereupon the State Lands Commission
5 meeting was adjourned at 11:15 a.m.]

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CERTIFICATE OF SHORTHAND REPORTER

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3 I, CATHLEEN SLOCUM, a Certified Shorthand
4 Reporter of the State of California, do hereby certify:

5 That I am a disinterested person herein; that
6 the foregonig State Lands Commission meeting was reported
7 in shorthand by me, Cathleen Slocum, and thereafter
8 transcribed into typewriting.

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

12 IN WITNESS WHEREOF, I have hereunto set my hand
13 this 21 day of December, 1984.

14
15 *Cathleen Slocum*
16 CATHLEEN SLOCUM
17 Certified Shorthand Reporter
18 License No. 2822
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