MEETING
STATE LANDS COMMISSION
STATE OF CALIFORNIA

ROOM 447
STATE CAPITOL
SACRAMENTO, CALIFORNIA

THURSDAY, NOVEMBER 29, 1984
10:20 A.M.

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
INDEX

Proceedings
Confirmation of minutes of October 25 and 29, 1984
Report of the Executive Officer
Consent Calendar Items Cl-C23
Regular Calendar Items 24-48
Agenda Item 26 - State Lands Commission Division Project
Agenda Item 27 - State Lands Commission
Agenda Item 28 - City of Long Beach
Agenda Item 31 - East Bay Municipal Utility District
Agenda Item 32 - Exploration Engineering, Inc.
Sandra Durkan
Larry Durkan
Dwight Kuhns
Craig McDonald
Doug Yes
Dwight Kuhns
Commission discussion
Commission action/motion
Agenda Items 33-48 less Item 47 - en masse
Commission action
Adjournment
Certificate of Reporter
PROCEEDINGS

--000--

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

All right. We have the confirmation of minutes for the meeting of October 25th and October 29th, 1984. I have a motion, second, approved.

The report of the Executive Officer.

EXECUTIVE OFFICER DEDRICK: I have no report.

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

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

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

If not, a motion

COMMISSIONER ORDWAY: Motion.

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

Item 24, Mr. Peter Uccelli.

EXECUTIVE OFFICER DEDRICK: Excuse me, Mr. Chairman. Items 24 and 25 have been pulled from the calendar as well.
as Items 30 and 47.

COMMISSIONER ORDWAY: 30 and 47?

EXECUTIVE OFFICER DEDRICK: Correct.

ACTING CHAIRPERSON JERVIS: All right. Item 26.

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

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

MR. BRITTNACHER: Thank you very much.

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

COMMISSIONER ORDWAY: 33 years?

[Laughter.]

COMMISSIONER ORDWAY: How do you look that good
after 33 years with the Lands Commission?

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

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

[Laughter.]

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

[Laughter.]

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

Do we have a motion on Item 26?

COMMISSIONER ORDWAY: Motion.

ACTING CHAIRPERSON JERVIS: Without objection, approved.

Item 27.

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

ACTING CHAIRPERSON JERVIS: Anybody in the audience
desire to be heard on this matter?

COMMISSIONER ORDWAY: Motion.

ACTING CHAIRPERSON JERVIS: Without objection,

Item 27 is approved.

Item 28:

MR. TROUT: Item 28, Mr. Chairman, was a sale

the Commission authorized earlier for Long Beach Harbor

Department tidelands parcel and Parcel A. There were three

segments in this operation. One segment of $2.12.3 is the

high bid. The second one, $1.76-1/2 for a second segment,

and $2.32 for, 32.3 cents for the third segment. This is

approval of the award of those contracts.

ACTING CHAIRPERSON JERVIS: Anybody in the

audience on Item 28?

COMMISSIONER ORDWAY: Motion.

ACTING CHAIRPERSON JERVIS: Without objection,

Item 28 is approved.

Item 29.

MR. TROUT: Mr. Chairman, this is a request for

approval on bids for Tract 1, two segments, approximately

7500 barrels per day of 17.7 degree gravity oil. The sales,

the high bids were $2.26, $2.54.2 on the two segments. The

high bidder was Pacific Refining. We ask your approval

of the sale.

ACTING CHAIRPERSON JERVIS: lest anyone here think
that the State is selling oil for $2.50 a barrel, perhaps 
you might explain what those figures mean.

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

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

COMMISSIONER ORDWAY: Motion.

ACTING CHAIRPERSON JERVIS: Without objection,

Item 29 is approved.

Item 30 is off calendar.

Item 31, East Bay MUD.

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

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

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

Motion.

COMMISSIONER ORDWAY: Motion.
ACTING CHAIRPERSON JERVIS: Without objection, Item 31 is approved.

Item 32, Exploration Engineering, Inc., permittee.

EXECUTIVE OFFICER DEDRICK: Staff is recommending a denial of the extension of the geothermal prospecting permit to the applicant. The operation is at Sonoma State Hospital in Sonoma County.

ACTING CHAIRPERSON JERVIS: And the staff recommendation is denial.

EXECUTIVE OFFICER DEDRICK: That is correct.

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

MS. DURKAN: This microphone?

EXECUTIVE OFFICER DEDRICK: That's fine.

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

MS. DURKAN: My name is Sandra Durkan. We entered in this prospect permit three years ago. The first year we drilled to 1500 feet, felt that we wanted to do some testing and have gone on. In the time that's gone on we've done numerous engineering studies of the resource, taking it from 130 degree to 405 degrees to allow our investors
in the development of Wyoming in which Catalysts Energy Corporation to have a full view of the project. We feel denial at this time when the financing is in place would be unfair and unjust by the State Lands Commission as four years are provided and many companies have used that entire four years to take their developments through to completion.

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

EXECUTIVE OFFICER DEDRICK: Three.

ACTING CHAIRPERSON JERVIS: -- three years --

MS. DURKAN: Yes.

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

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

ACTING CHAIRPERSON JERVIS: Yes.

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

MS. DURKAN: It was for four years.

EXECUTIVE OFFICER DEDRICK: No, that's not correct.
COMMISSIONER ORDWAY: This permit was for how long?

MS. DURKAN: For four years with two years being —

MR. HIGHT: Two years.

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

MS. DURKAN: Right. I'm sorry.

ACTING CHAIRPERSON JERVIS: What are your plans right now?

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

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

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

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

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

MR. FINNILA: My name is Al Finnila. I'm the Vice President of Exploration Engineering.
ACTING CHAIRPERSON JERVIS: So we have a two-
year lease of this, permit, that's coming to an end at this
point. What's the --

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

COMMISSIONER ORDWAY: Which was granted.

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

ACTING CHAIRPERSON JERVIS: I think the most
logical question to ask is what are your plans? Where are
MR. DURKAN: In the past year this project has received a considerable investment from my company. We have done extensive engineering ourselves and we've hired outside firms as consultants and as primary engineering groups to do the same engineering. We're involved here in a phase of geothermal development which is presently without precedent in California. The prospecting permit itself is on State lands which are unprecedented for lease development. Work all the way through this project has required that we do an extensive amount of engineering to prove up the viable applicability of low and intermediate temperature geothermal resources at this particular site to prove up to the extent that it's acceptable to the financial community. We had no guidelines to follow in that nor in our relationships with the various State agencies involved as the project is absolutely without precedent. Our plan on this project is to continue ahead, complete our drilling and proceed as rapidly as we can to full development to the extent that it is not in conflict with the hospital or with the hospital's obligation to maintain the health and welfare of their facility. So that our full development plan is planned to be worked out with the hospital as the project progresses. We have no guidelines to follow in this unprecedented situation.
ACTING CHAIRPERSON JERVIS: You have the financing to carry this out?

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

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

The most recent of our ventures in California is developing in a co-venture with IPT, San Jose State University Cogeneration Project. We did that with negotiations through the Office of General Services. That project will
be coming on line in December of this year.

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

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

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

I believe that if the staff of the State Lands
Commission and the Commission itself give the amount of
attention that this project requires to fully look over
our financing proposal, that they will come away with the confidence that we have a serious financial proposal here and that in the event on the other hand that you withdraw the extension of the permit, it may be months and perhaps a year before a second proposal can be made to a second permittee. That's lost time for everybody involved including the State.

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

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

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

MR. KUHNS: Yes, it is.

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

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

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

MR. DURKAN: No.

COMMISSIONER ORDWAY: I didn't hear that. Question
again, please.

ACTING CHAIRPERSON JERVIS: Question again.

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

MR. KUHNS: Maybe Mr. Durkan would like to.

EXECUTIVE OFFICER DEDRICK: I think perhaps you should.

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

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

EXECUTIVE OFFICER DEDRICK: The relevant point
here, Commissioners, is that the obligation to the State involves doing the drilling. The contract between Lakewood which would be the operating company and Durkan is not a completed or signed contract. Correct?

MR. DURKAN: That's correct.

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

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

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

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

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

EXECUTIVE OFFICER DEDRICK: Yes.

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

MS. DURKAN: And 50.

ACTING CHAIRPERSON JERVIS: How far are you away from a decision between you and Lakewood as to whether you're going to enter into a written agreement? How much time are we talking about?
MR. DURKAN: I believe very little time, but it's impossible for me to make absolute predictions. We're together to the extent that they appeared at the meeting with staff and told staff their exact intentions. We believe we'll have a very soon summarization.

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

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

ACTING CHAIRPERSON JERVIS: Do you have a question?

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

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

MR. MCDONALD: I'd like to call --

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

EXECUTIVE OFFICER DEDRICK: While Mr. McDonald is sitting down, just for the record the hospital system is a surface owner of the area and the State Law requires the permission of the surface owner before State hands can grant prospecting permit or leases. Therefore, aside from
the fact that also a part of State Government, they're a very important leading player in this situation.

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

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

MR. MCDONALD: Sure.

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

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

MR. MCDONALD: At this point in time the hospital stands opposed to this extension. If I might, I'd like to just give you folks a brief outline of some events in the past. Some two and a half to three years ago the hospital was approached by Mr. Durkan who represented to us that he thought that a geothermal project at the hospital could result in a substantial savings in utility costs to the facility, as much as 50 percent. Mr. Durkan also expressed that only the hospital would be involved in any geothermal project. In other words, no product would be sold to outside entities. On that basis, the hospital was
in agreement to let this exploration proceed though not totally in agreement with the express conditions of the permit rendered allowed Mr. Durkan by State Lands Commission.

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

ACTING CHAIRPERSON JERVIS: Yes, sir.

MR. YEE: I represent the Department. I also do the energy for the Department. Approximately a year ago in November of 1983 Mr. Durkan gave me a call and asked me how he would proceed with getting a third party type arrangement negotiated and signed with the State and I recommended to him that we were in third party cogeneration arrangements and the Department of General Services, Office of Energy Assessments, were the people that we utilized and was essentially the legislature's representative to handle these agreements. So we met a year ago with Mike
Garland in his office who is the Chief of the Office of Energy Assessments and then proceeded to discuss how Mr. Durkan would go about obtaining a third party contract with the State to provide a geothermal cogeneration project at Sonoma State Hospital.

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

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

"In early April you called and indicated to my staff that it was impossible to provide
the technical and economic data. Further you indicated a problem with getting cooperation from the Office of Energy Assessment."

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

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

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

MR. YEE: We utilize the Office of Energy Assessments as our advisors, technical advisors. If we were to receive, if they were satisfied that there was adequate profits to the State or adequate benefit to the
site, et cetera, whatever their criteria is, that they've used in the past at other cogeneration sites including the San Jose State University site, then we would be in agreement that it's a good project. We'd go ahead with it. That's our main concern that we benefit and the environmental quality of the client at Sonoma State Hospital is not disrupted. We maintain services to our clients without interruption.

ACTING CHAIRPERSON JERVIS: Maybe we can get Mr. Durkan to come back up here for just a moment and sit alongside Mr. Yes?

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

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

MR. DURKAN: We're drilling for suspected geothermal resource at approximately 6,000 feet. I believe that beneath a map anomaly at our location we will encounter geothermal resources from 6,000 to 6,500 feet. Highly likely
they will be of the high temperature, high flow, hot water
dominated reservoir. However, that is absolute pure
speculation as no human being has ever drilled below a thousand
feet in the Valley of the Moon. So when Energy Assessments
asked me to provide exact engineering of how I will apply
my geothermal resource to generating equipment, they're
asking for engineering based on unknown.

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

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

MR. DURKAN: When we first entered into this with
the hospital, we all were aware that there was no precedent
for us or guidelines for us to go by. So we entered into
a mutual covenant that we would operate under a verbal
agreement until such time as we were at the position that we were going to be proposing an exact engineering specification, finished program that would be implied there at the hospital and then at that point we would put our heads together and the hospital would guide us as to the compatibility of this proposed project with their operation and their responsibilities.

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

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

My full intention and understanding as to the verbal condition that we started up under was that we would use the firing line first-hand field experience to in fact create a contract that not only would be acceptable to the hospital and to private enterprise, but would be of such a nature that it can be passed from one hospital and one
facility to the next and thereby our co-union would lead
to the eventual development of perhaps many hundreds of
thousands of right now unused acreage in the State of
California. But this contract that we would draw would
be drawn on the step-to-step basis as we discover what things
really need to be covered here. The hospital had absolutely
no experience or knowledge of geothermal exploration and
development and they are learning from observance and
participation. So that I'm 100 percent in alignment and
in agreement that we should form a contract between us in
addition to the State Lands prospecting permit which is
acceptable to this facility and is conducive to the limited
development of geothermal resources under their direction.
I'm in a hundred percent agreement with this.

MR. KUHNS: If it please the Commission, I'd like
to make a statement.

ACTING CHAIRPERSON JERVIS: Come on up.

MR. KUHNS: I think somewhat in defense of Mr.
Durkan, when he first contacted us, I contacted the Office
of General Services. I spoke, I think, briefly with Doug.
I spoke at length with Mike Garland and in fact Mike came
to New York for an extended meeting with us in mid-October.
I think it's fair to say that we have been in contact with
the hospital and the Office of General Services from the
moment that we learned about the Sonoma State Hospital.
Project and Mr. Durkan as the permittee. We believe influenced Mr. Durkan to go ahead and negotiate first an agreement with us rather than offer technical engineering and come to an agreement with the hospital and General Services because we felt that we needed to have the assurance of an agreement in place before we could turn around and go and negotiate with General Services. We would not have done that did I not have the assurance from Mike Garland himself that he was open to negotiating a contract of the sort that we outlined for him in New York. We made him aware of our progress with the negotiations with the Durkans at that time. We made him aware of the configuration, what it meant for the hospital. His reply to that was in general: It looks all right, I'm willing to sit down and negotiate with you. I can't make any promises at this point. At that, we took that as a positive note and went on to negotiate our agreement with Mr. Durkan, fully planning to then negotiate with the Office of General Services for what benefits both that office and the hospital directly would receive in a financial configuration where we would build the project.

MR. DURKAN: Additionally, I met with Mike Garland on the same day in New York City and Mike indicated to me that my project had taken a vast step forward by the inclusion of Catalyst and the experience that they brought.
to our table and Mike also informed me that he thought I would be much wiser to stay out of the negotiations at this point and let this experienced other half of my company now take that over. So we're following that in good faith.

COMMISSIONER ORDWAY: Mr. McDonald, has the Office of Energy Assessments denied the project or is the project still pending?

MR. DURKAN: The project is still pending.

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

MR. MCDONALD: I have no personal contact with that office. Doug will have to answer.

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

ACTING CHAIRPERSON JERVIS: How long ago was that?

MR. YEE: That was last week.

ACTING CHAIRPERSON JERVIS: Mr. Durkan, response
to that?

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

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

MR. DURKAN: Correct.

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

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

MR. DURKAN: The cogeneration project is designed to protect the wildcat geothermal exploration driller, the guy who's going in the ground with 2.9 million to protect him from total loss should he encounter a low temperature resource which will not make electricity on its own but
is capable of perhaps assisting a conventional fuel source thereby reducing consumption of those fossil fuels.

EXECUTIVE OFFICER DEDRICK: That's precisely my point.

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

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

ACTING CHAIRPERSON JERVIS: That's an important point.

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

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

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

ACTING CHAIRPERSON JERVIS: Well, it's my inclination that we grant an extension for, let's say, two
months ending January 31st, let's say, by which time I think the Lands Commission would like to see a written agreement on the production phase and would also like to see some progress between Exploration Engineering and the State Office of Energy Assessments because I don't think the hospital is going to be in a position unless it has approval from that other head of State Government to enter into the kind of agreement that we're going to want to see between you and the hospital system before we go beyond another two months.

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

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

MR. DURKAN: And I further agree in accordance with the long-time verbal standing agreement that has been here that I cannot mobilize any equipment or do anything on that hospital without express permission from the hospital.
So, therefore, I wouldn't be drilling without their permission under any circumstance.

ACTING CHAIRPERSON JERVIS: Well --

MR. LUDLOW: Excuse me.

ACTING CHAIRPERSON JERVIS: Yes.

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

COMMISSIONER ORDWAY: January 31.

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

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

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

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

MR. DURKAN: And I so agree.

MR. KUHNS: I'd like to make a point.

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

ACTING CHAIRPERSON JERVIS: Yes, comment.

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

EXECUTIVE OFFICER DEDRICK: December 19.
COMMISSIONER ORDWAY: Which is before our next meeting.

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

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

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

MR. KUHNS: I understand.

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

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

COMMISSIONER ORDWAY: A signed agreement.

MR. KUHNS: Based on my experience in energy project development, I would risk saying that it may be very difficult to get an agreement negotiated with General Services and the hospital in the next 30 to 60 days.
Now, if you talk about a positive outlook towards the eventual signing of such an agreement, I think that would be very possible.

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

MR. KUHNS: Thank you. I just wanted that comment for the record. Thank you.

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

ACTING CHAIRPERSON JERVIS: Affecting this item?

EXECUTIVE OFFICER DEDRICK: Affecting this item.

MR. DURKAN: May I be present?

EXECUTIVE OFFICER DEDRICK: No.

MR. HIGHT: No.

[Thereupon the Commission went into Executive Session.]

ACTING CHAIRPERSON JERVIS: Now we'll be back
in open session. We need some technical clarifying amendments. Do you have anybody from the staff who would like to speak to that before a motion is offered?

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

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

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

MR. HIGHT: December 19.

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

MR. HIGHT: Correct.

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

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

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

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

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

MR. DURKAN: I understand.

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

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

MR. DURKAN: I see. I understand.

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

ACTING CHAIRPERSON JERVIS: It's been moved.

Without objection.
MR. DURKAN: Additionally I brought this accounting for our company's investment of a million five-hundred thousand to date in that project. If you'd like access to it, you're provided that.

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

MR. DURKAN: Thank you.

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

ACTING CHAIRPERSON JERVIS: Take them up en masse. Is there anybody else in the audience who would like to speak on Items 33 through 48 minus 47, 33 through 48, minus 47. Anybody in the audience on those issues?

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

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

EXECUTIVE OFFICER DEDRICK: Mr. Faber.

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

The statement is basically that we were conducting several additional meetings at the request of the Commission
relative to studies on the effects of geophysical research. The fishermen felt that they couldn't participate both in those and some other meetings that were going on. As it turns out, at this stage of the game what we have done, I tried to coordinate two sets of meetings and as far as I know the fishermen are participating fully in the process now.

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

COMMISSIONER ORDWAY: With his hand up.

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

MR. FABER: Thank you very much.

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

COMMISSIONER ORDWAY: You have a motion.

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

Is there any business to come before the Lands
Commission?

EXECUTIVE OFFICER DEDRICK: No further business.

ACTING CHAIRPERSON JERVIS: We are adjourned.

[Thereupon the State Lands Commission meeting was adjourned at 11:15 a.m.]
CERTIFICATE OF SHORTHAND REPORTER

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

That I am a disinterested person herein; that the foregoing State Lands Commission meeting was reported in shorthand by me, Cathleen Slocum, 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 1st day of December, 1984.

Cathleen Slocum
Certified Shorthand Reporter
License No. 2822