APPEARANCES

COMMISSION MEMBERS

Mr. Steve Westly, State Controller, Chairperson, also represented by Cindy Aronberg

Mr. Cruz M. Bustamante, Lieutenant Governor, represented by Mr. Kevin McCarty

Mr. Michael C. Genest, Director of Finance, represented by Ms. Anne Sheehan

STAFF

Mr. Paul Thayer, Executive Officer

Mr. Curtis Fossum, Assistant Legal Counsel

Mr. Alan Hager, Assistant Attorney General

Ms. Lynda Smallwood, Executive Assistant

Mr. Paul Mount, Chief, Mineral Resources Management Division

ALSO PRESENT

Mr. David King, Slawson Exploration Company, Inc.
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CHAIRPERSON WESTLY: I would like to call this meetings of the State Lands Commission to order. All of the representatives of the Commission are present this afternoon. I'm California State Controller Steve Westly. I'm joined today, on my right, by Kevin Mccarty representing the lieutenant governor of the State; and on my left is Anne Sheehan representing the Department of Finance.

For the benefit of those in the audience, the State Lands Commission administers properties owned by the state as well as its mineral interests. Today we're going to hear proposals concerning the leasing and management of these public properties.

The first item of business will be the adoption of minutes from the Commission's last meeting.

May I have a motion to approve the minutes?

ACTING COMMISSIONER SHEEHAN: Move approval.

ACTING COMMISSIONER McCARTY: Second.

CHAIRPERSON WESTLY: Great.

All in favor, say "aye."

(Ayes.)

CHAIRPERSON WESTLY: Thank you. The minutes are unanimously adopted.

At that point, the next order of business is the
Executive Officer's Report.

Mr. Thayer, may we have your report?

EXECUTIVE OFFICER THAYER: Thank you, Mr. Chair.

And good afternoon, members of the Commission.

I have three items I wanted to report on:

First, at the August meeting, we had an assignment of a pipeline in the offshore from Plains Dcor. Dcor is a fairly new company, and the Commission had some concerns about its experience and financial ability to operate these leases. And the Chair asked staff to develop a condition, which would require a five-year review, to make sure, to double check, that they were appropriately carrying out the terms of the lease.

This was supported by all of the commissioners, and we've worked with your staff to develop the language on that condition.

But the lieutenant governor at that meeting asked staff to report back as to the feasibility of imposing the same sort of condition on other leases and under what circumstances we do that.

Staff notes that the oil facilities, which were the subject of the condition in the August hearing, are in the process -- there's a trend for them being turned over to smaller and smaller operators. So we see of this concern, that we're having to pay much closer attention to
the capabilities of the new companies or the new assignees on these new leases.

These oil facilities are routinely audited for compliance with Health and Safety and Clean Operations every five years, so we have an opportunity to, in fact, do that sort of thing. And as the staff, what we're really doing is attaching that condition whenever the same circumstances show up. We are not going to operate unfairly with respect to Dcor. And that same concern that led to that condition being attached to the assignment to Dcor will cause us to recommend the same condition for future leases.

So I think that responds to the lieutenant governor's concern. We will be using that condition.

CHAIRPERSON WESTLY: Thank you.

Ms. Sheehan?

ACTING COMMISSIONER SHEEHAN: So will we attach it when the leases come up for renewal or simply on top of -- will we have to reopen it for recommendations on that, or on top of what we already have there?

EXECUTIVE OFFICER THAYER: It would be a new condition attached to the leases. And in some circumstances, we would do that whenever there's an assignment. There aren't that many new leases involving an assignment like this, where it's going from a larger
company to a smaller company. But that's where we are.

ACTING COMMISSIONER SHEEHAN: Thanks.

EXECUTIVE OFFICER THAYER: The second item that I wanted to note is that I had the pleasure of being down in San Diego on October 7th. The San Diego Coastkeeper had its annual fundraising and awards dinner. And in appreciation for all of its work on being a good steward of California's coastline and inland waters, especially in San Diego Bay, the State Lands Commission was honored with a Coastal Champion Award. And that award is right in front of the Chair.

We're in good company. The other awardee was the Natural Resources Defense Counsel. We will display this award in the public lobby so that anybody coming into the Commission can see that. And I'm sure the commissioners would agree that this is an honor which everyone here appreciates all of the work, that all of us worked together on, as well as being very representative of the goals of particularly these commissioners. And I wanted to make sure you had an opportunity to see that.

CHAIRPERSON WESTLY: Great. Thank you, Paul.

EXECUTIVE OFFICER THAYER: The third issue -- slightly less happy issue is that the -- you will recall that the Commission adopted a resolution expressing concerns over the once-through cooling issue for --
predominantly for power plants along the coast.

The California Council for Environmental and Economic Balance challenged that resolution as being a regulation and appealed to the Office of Administrative Law to so determine and a couple weeks ago, OAL came back, in fact, affirming the request of CEQA.

The Coastal Commission attorneys as well as Allen Hager from the Attorney General's Office reviewed that determination. And our conclusion is, first, that no additional action is necessary by the Commission; we don't have to take any action to actually repeal that resolution. And that we have several different options on a go-forward basis. I would like to review those, but it's not set as an action item today, and I would only do that if you wanted to do something differently from what you think the best place to go would be.

The options would include redrafting that resolution. I have some concerns that if it were redrafted, we would have to take careful note of OAL concerns and cause us, perhaps, to be more cautious than we want to be on this subject. This is a subject that, I know, is of great concern to the commissioners.

Another option would be to take some of the same policies that's in that resolution and put it into regulations. Again, I have some concerns about that,
because it would begin to get us involved in water quality issues that we don't really have the expertise for. You will recall that that resolution relied predominantly on carrying out the requirements of other agencies. And it would seem to me that it would be best if those other agencies continued to have primary responsibility over those sorts of issues.

The third option, and the one that, in some respects, this Commission is going to do right along, anyway, is to very carefully analyze each project that came before the Commission. So we would be looking at all the impacts that caused the concern to the Commission, from once-through cooling and make sure that those are fully analyzed before they come to the Commission, so the Commission will have the benefit of knowing what the impacts are going to be.

We'll also analyze any alternatives and any mitigation so that the Commission, on a case-by-case basis, can continue to review projects with respect to the concerns that it had when it adopted the resolution.

Thank you.

CHAIRPERSON WESTLY: Thank you, Mr. Thayer.

On that last point, I just want to reiterate, I think that the State Lands Commission should continue to stand firm on making sure that we address the
environmental damage caused by once-through cooling. This is an important issue. I know, Secretary Chrisman shares my concerns, but we had passed a very similar motion on the Oceans Commission. And I'm proud to be a leader in that area. And I hope we will continue to be a leader in that area.

Any other comments from my colleagues?

Ms. Sheehan?

ACTING COMMISSIONER SHEEHAN: I guess, in terms of, you know, the last option, will the staff come back with a recommendation or -- on any of them, I guess, or in terms of what direction you feel the Commission would want to go?

EXECUTIVE OFFICER THAYER: I guess it's my intent to go forward with the last option. And I guess if the -- if the commissioners would prefer to go in a different direction, we could calendar that or discuss it further.

ACTING COMMISSIONER SHEEHAN: I'm very comfortable. I think the statement was made in terms of the policy of the Commission. You know, it would be very preferable for them to come up with some alternatives before they come back to us. I think that was clear. And the Water Board has to do their thing.

And I think that's the proper regulatory way. It will be a little torturous for us to have to go through
some regulations, and I think the problem belongs at the Board.

So -- okay.

EXECUTIVE OFFICER THAYER: Yeah. And to editorialize just for 30 seconds here, in going through the process and reviewing OAL's review and its authority and jurisdiction, I have some concerns. Because I think, in some respects, this Commission did a service to the industry, through adopting this resolution, and gave their notice of its concern. And certainly, this Commission has the jurisdiction over this issue. It has the jurisdiction over any issue with impacts to Public Trust lands.

And I'm concerned where, in effect, there's a chill cast over the Commission's ability to kind of give some advance warning on issues like this, because that advance warning is then deemed to be regulation.

But having said all of that, I think at this point we're at a -- in a situation where industry is aware of the Commission's concern for how this issue will turn out.

ACTING COMMISSIONER SHEEHAN: And I guess -- I guess what I want to say is, your final point is sort of the critical one: That people are on notice about the summary of the Commission in coming forward. So whether it be done, you know, even though the resolution, OAL found, I guess, just a couple of clauses insufficient in
terms of from a legal determination; I think the message has been sent.

EXECUTIVE OFFICER THAYER: Absolutely.

ACTING COMMISSIONER SHEEHAN: Thanks.

EXECUTIVE OFFICER THAYER: That would conclude the Executive Officer's report.

CHAIRPERSON WESTLY: Great. I just want to reaffirm the Commission's direction to fully analyze the impacts on global warming. I think this whole issue of climate change is more important than ever. We have talked about it repeatedly. But we have been a leader here to look at areas that can address what we can do to reduce the impacts of global warming.

Paul, you and the staff have done a great job on that. I urge you to continue. Having just seen the movie An Inconvenient Truth, it raised questions on what the impacts of our coast will be. And I would love it if you have any other thoughts on that area, which we should be proactively looking at.

EXECUTIVE OFFICER THAYER: In discussions with your staff on this issue, and I understand it's of great concern to the Chair, just the thought that a lot of -- well, a lot of our property is defined by the mean high tideline. And as the ocean rises, that line is going to move inland. So it raises questions.
If we approve the seawall, does that mean that our future right to land behind that seawall is extinguished, because the water doesn't go there? There are a whole variety of issues like that, that are important to how the Commission does its business. So I think the Commission -- or the Chair and Commission are entirely on point to be concerned about this issue. And it's something we'll look at and bring it back to the Commission.

CHAIRPERSON WESTLEY: That would be great, because it obviously impacts the state's coastline. I'm very pleased that the governor assigned AB 32 and wanted to give both sides of the aisle and the legislature credit for doing that. But every state agency needs to be thinking: What we can do to mitigate the impacts of global warming to reduce the carbon footprint of the state?

I would like to direct you and the other staff to come back with concrete suggestions on what the State Lands Commission could do to reduce our carbon footprint and to prepare appropriately, if that is fair.

Are there any other comments from the other commissioners?

If not, the next order of business will be the Adoption of the Consent Calendar.
And I would like to call on our Executive Officer, Mr. Thayer, to indicate which items have been removed from the consent calendar.

EXECUTIVE OFFICER THAYER: Thank you, Mr. Chair. Those items would be 4, 14, 49. We won't hear those items today, but bring them back probably on the consent calendar, again, at a future meeting.

CHAIRPERSON WESTLY: That's items 4, 14, and 49?

EXECUTIVE OFFICER THAYER: Correct.

CHAIRPERSON WESTLY: Got it.

EXECUTIVE OFFICER THAYER: And I believe Commissioner McCarty had one other issue that he wanted to raise with respect to voting.

ACTING COMMISSIONER McCARTY: I can probably do that during the votes, after the -- I can abstain on those measures. I would move the consent calendar to pull Item 54 for discussion.

ACTING COMMISSIONER SHEEHAN: I will second that motion.

CHAIRPERSON WESTLY: Great. All in favor -- let's move the approval of the consent items with the exception of items 4, 14, and 49, which would be addressed at a future meeting, and Item 54, that we will discuss today.

Is that the motion?

All in favor, please say "aye."
(Ayes.)

ACTING COMMISSIONER McCARTY: And one note for the record, I would like to abstain Item No. 17.

CHAIRPERSON WESTLY: Okay. Terrific. Mr. Thayer, would you like to provide a summary of Item 54?

EXECUTIVE OFFICER THAYER: Thank you, Mr. Chair. I would like to call on Paul Mount, chief of our Resources Management Division, to present that item.

MR. MOUNT: Good afternoon, Commissioners. My name is Paul Mount. I'm the Chief of Mineral Resource Management Division. Item 54 is consideration of an application for negotiated subsurface use by Slawson Exploration.

What they plan on doing is to drill a well from west to east. In order to reach their target, they need to drill this well underneath the Sacramento River, which the State Lands have the rights to.

They have a Rec Board lease to the east of the river, and they do have that lease. They have had it since April. And they want to build this well, from the west, where they have surface use lease. And they want to drill it under the Sacramento River to try to recover or explore for natural gas in that area.

The State would receive approximately 22 percent royalty on the unit. And we would have to lease about
80.3 acres to Slawson Exploration.

They would like to begin as soon as possible because of the weather -- in the winter, it makes it very difficult for them to drill in that area. And so we're here today -- they are requesting to drill this well as soon as possible.

A representative of Slawson is here to answer any questions you may have.

CHAIRPERSON WESTLY: What I would like to do now, unless there are any immediate questions from the commissioners, is ask William Barbour, the general counsel at Spanos Corporation to come forward.

ASSISTANT LEGAL COUNSEL FOSSUM: Mr. Chairman, that individual was prepared to speak on another item that you have already approved.

CHAIRPERSON WESTLY: Forgive me. When you said there was a member of the public, who may wish to speak --

EXECUTIVE OFFICER THAYER: Yes, sir. He just had put in a speaker's request, but I imagine, given the turn of events, he may want to address the Commission.

CHAIRPERSON WESTLY: This is the time when we like to invite members of the public to come forward. And if you could come up to the microphone here, and please identify yourself, we would be appreciative.

MR. KING: Thank you. I'm David King. I'm the
land manager for Slawson Exploration.

CHAIRPERSON WESTLY: Great.

And would you like to speak for or against?

MR. KING: Yes. Our operations here will be

drilled on private property, which we've obtained a

surface use agreement from Mr. Durst. We would be

approximately 150 feet from the river, to the west of the

erver. We would drill a vertical well to approximately

2700 feet. At such time we would put a mud motor, which

is a directional drilling tool, and then we would drill at

approximately a 20-degree angle to encounter the Forbes

sand, which is a gas-producing sand, at approximately

around 700 feet of sand. We would be drilling this

well -- as I said, it's a directional well, so we could

encounter several sand intervals that we expect to contain

carbon.

CHAIRPERSON WESTLY: Okay. Thank you very much.

Why don't you hold on there for a minute in case

there are any questions.

Are there any other members of the public who

would like to speak?

Okay. At this point, let me just voice my view.

I am going to vote no on this issue. I've consistently

voting no against new oil leases for drilling. And in the

state of California -- and I have concerns about whether
this is the best stewardship to use public lands for oil extraction. I think our public lands -- Trust lands should be used and kept to water-related uses, open space, and recreation whenever possible.

But what I would like to do is ask other members of the Commission if they would like to speak on this issue.

Member McCarty, you would like to refer to Ms. Sheehan.

ACTING COMMISSIONER SHEEHAN: Yeah. Just in terms -- I certainly understand the Chair's view in terms of his interpretation. But staff has found this consistent with the Public Trust -- our historic and precedential finding of the Trust.

Is that correct, Mr. Thayer?

EXECUTIVE OFFICER THAYER: Absolutely. And perhaps Paul Mount may have some experience in terms of the Commission approving other projects very similar to the slant drilling underneath the river and that kind of thing. I think, it's something that we've done before.

This is a new lease, which differentiates it from some of the other projects that have come before the Commission, where there was an expectation and a right of development. That doesn't exist in this circumstance.

ACTING COMMISSIONER SHEEHAN: Okay.
MR. MOUNT: Traditionally, the Commission has approved these projects, because, in fact, they were natural gas. So there was very little controversy surrounding these.

It would be underneath the river, and almost every well that I can think of, up there, is at a depth considerably deeper than 500 feet and at a very little environmental impact.

In fact, we leased, historically, to Slawson, one lease in the general area where they are now, in fact, about ten years ago.

ACTING COMMISSIONER SHEEHAN: I guess I would ask the representative from Slawson: What are your alternatives if the Commission does not approve this today?

MR. KING: As I indicated, we are looking to drill a deviated well, because we cannot set up in the bypass and we cannot set up in the river.

The objectives are such that we need to encounter the Forbes sand, at around 7,000 feet, from a west-east, direction to see these zones. To go north of the bypass, we would be not able to see all of the zones in directional drilling.

The mechanism of drilling is, it's better to drill at -- even though you are drilling at an angle, it's in
one direction.

If you have to corkscrew the well, then it gets much more complicated, and the depths that we're talking about do not permit corkscrewing to get such a shallow depth at 7,000 feet. More like 10,000, 12,000 feet, you have the ability to corkscrew around. We would not be able to see potentially three zones we're looking for. And the economics are such that it would make it very difficult, if not impossible. We have no surface use agreements with the people to the north. We have them with the west -- west of the river.

ACTING COMMISSIONER SHEEHAN: So if I understand you correctly, you wouldn't have many alternatives; correct?

MR. KING: That's correct.

CHAIRPERSON WESTLY: Mr. McCarty.

ACTING COMMISSIONER McCARTY: Thank you, Chair Westly.

And I will also be supporting the Chair on this measure. This is my first time serving on this Board, but my understanding is that Mr. Bustamante held similar views in the past along with the Controller.

So I will be supporting your position and also voting no on this measure.

CHAIRPERSON WESTLY: Thank you.
I think if there are no other members of the public who would like to speak, or no other questions from my colleagues, what I would like to do is call for a roll call vote, if I could.

ACTING COMMISSIONER SHEEHAN: We need a motion.

CHAIRPERSON WESTLY: Forgive me.

The motion, I meant to make more clearly, in my initial statement, was to vote against approving the particular request.

ACTING COMMISSIONER McCARTY: Second that motion to vote no.

CHAIRPERSON WESTLY: All in that favor, please say "aye."

(Ayes.)

EXECUTIVE OFFICER THAYER: Opposed?

ACTING COMMISSIONER SHEEHAN: Opposed.

CHAIRPERSON WESTLY: Okay. Thank you very much. Thank you for being here today.

That brings us to the next issue. That concludes the regular calendar.

EXECUTIVE OFFICER THAYER: That concludes the regular calendar. We just have public comment left.

CHAIRPERSON WESTLY: Terrific.

At this point, are there any speakers who wish to address the Commission during this public period?
I know there are -- just to be clear on this, there was one member of the public who wanted to speak on Item C20. But this was approved on the consent calendar. Anything else, members from the public? All right. That concludes the open meeting. I note for the record that there is not a closed session today. And therefore, the meeting is now adjourned. And I would like to thank all of the staff and the members of the public being here today.

Thank you.

(The State Lands Commission meeting adjourned at 2:27 p.m.)
CERTIFICATE OF REPORTER

I, KATHRYN S. KENYON, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing California State Lands Commission meeting was reported in shorthand by me, Kathryn S. Kenyon, a Certified Shorthand Reporter of the State of California, 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 2nd day of December, 2006.

KATHRYN S. KENYON, CSR
Certified Shorthand Reporter
License No. 13061