

MINUTE ITEM

This Calendar Item No. 32
was approved as Minute Item
No. 32 by the State Lands
Commission by a vote of 3
to 0 at its 11/29/84
meeting.

MINUTE ITEM

32

11/29/84
PRC 6096
Hoagland

Denial of Extension of
Geothermal Prospecting Permit

During consideration of Calendar Item 32, attached, the following people testified:

- 1) Sandra Durkan, Secretary
Exploration Engineering, Inc.
- 2) Larry Durkan, President
Exploration Engineering, Inc.
- 3) Alfred Finnila, Vice-President
Exploration Engineering, Inc.
- 4) Craig McDonald, Chief
Plant Operations
Sonoma State Hospital
- 5) Douglas Yee, Assistant Chief
Facilities Planning Branch
Department of Developmental Services
- 6) Dwight C. Kuhns, Representative
James J. Lowrey & Company

The representatives from Exploration Engineering, Inc. and James J. Lowrey Company appeared to urge the Commission to grant a second year extension of the Geothermal Prospecting Permit issued to Exploration Engineering, Inc.

Craig McDonald and Douglas Yee stated that Sonoma State Hospital opposed any further extensions to Exploration Engineering, Inc.

Upon conclusion of all testimony, the Commission granted Exploration Engineering, Inc. an extension from December 20, 1984 until January 31, 1985, on the condition that there be no drilling during the period 12/20/84 through 1/31/85.

At the end of the extension period, the Commission would require written verification of:

- 1) An agreement on the financing for the drilling portion, and
- 2) An agreement from the appropriate State agencies as to the appropriateness of this project.

Commission-Alternate Ordway asked that a representative from the Office of Energy Assessment be present at the January 31, 1985 Commission meeting.

Upon motion duly made by Commission -Alternate Ordway and seconded by Acting-Chairman Jervis, the following resolution was approved, as amended, by a vote of 2-0:

- 1) FINDS THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. ADM. CODE 15061 BECAUSE IT IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL. ADM. CODE 15378.
- 2) GRANTS EXTENSION OF GEOTHERMAL PROSPECTING PERMIT P.R.C. 60961.1 TO EXPLORATION ENGINEERING, INC. TO JANUARY 31, 1985, ON THE CONDITION THAT PERMITTEE AGREES THAT THERE BE NO DRILLING DURING THE PERIOD 12/30/84 THROUGH 1/31/85.

CALENDAR ITEM

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11/29/84
PRC 6096
Hoagland

DENIAL OF EXTENSION OF
GEOTHERMAL PROSPECTING PERMIT

PERMITTEE:

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

AREA, TYPE OF LAND AND LOCATION:

Approximately 1,670 acres of proprietary land
(Department of Developmental Services) at
Sonoma State Hospital, Eldridge, Sonoma County.

LAND USE:

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

TERMS OF ORIGINAL:

Initial period: Two years from December 20,
1981.

Renewal Options: One period of up to two years.

Surety bond: \$50,000.

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

Consideration: Rental of \$1 per acre per
annum during first year, \$5
per acre per annum during the
second year, and \$25 per acre
per annum during any
extension. In the event a
preferential lease is
executed, it will provide

CALENDAR ITEM NO. 2 (CONT'D)

for rental of \$1 per acre per annum, and a royalty of ten percent of gross revenues received from the sale of geothermal resources, with a minimum royalty of \$2 per acre per annum.

Special:

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

TERMS OF PERMIT EXTENSION:
Period:

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

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

STATUTORY TERMS, FEES AND EXPENSES:

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

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

AB 884: N/A.

OTHER PERTINENT INFORMATION:

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

CALENDAR ITEM NO. 52 (CONT'D)

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

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

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

CALENDAR ITEM NO. 5 (CONT'D)

A geothermal well has been partially drilled. Staff recommends that the present permittee, Exploration Engineering, Inc. be relieved of further responsibility for abandoning the well.

ENVIRONMENTAL INFORMATION:

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

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

EXHIBIT: A. Location Map.

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. ADM. CODE 15061 BECAUSE IT IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL. ADM. CODE 15378.
2. DENY FURTHER EXTENSION OF GEOTHERMAL PROSPECTING PERMIT PRG 6096.1 TO EXPLORATION ENGINEERING, INC.
3. RELIEVE THE PERMITTEE OF FURTHER RESPONSIBILITY FOR ABANDONING THE WELL AND RELEASE THE PERMITTEE'S SURETY BOND.

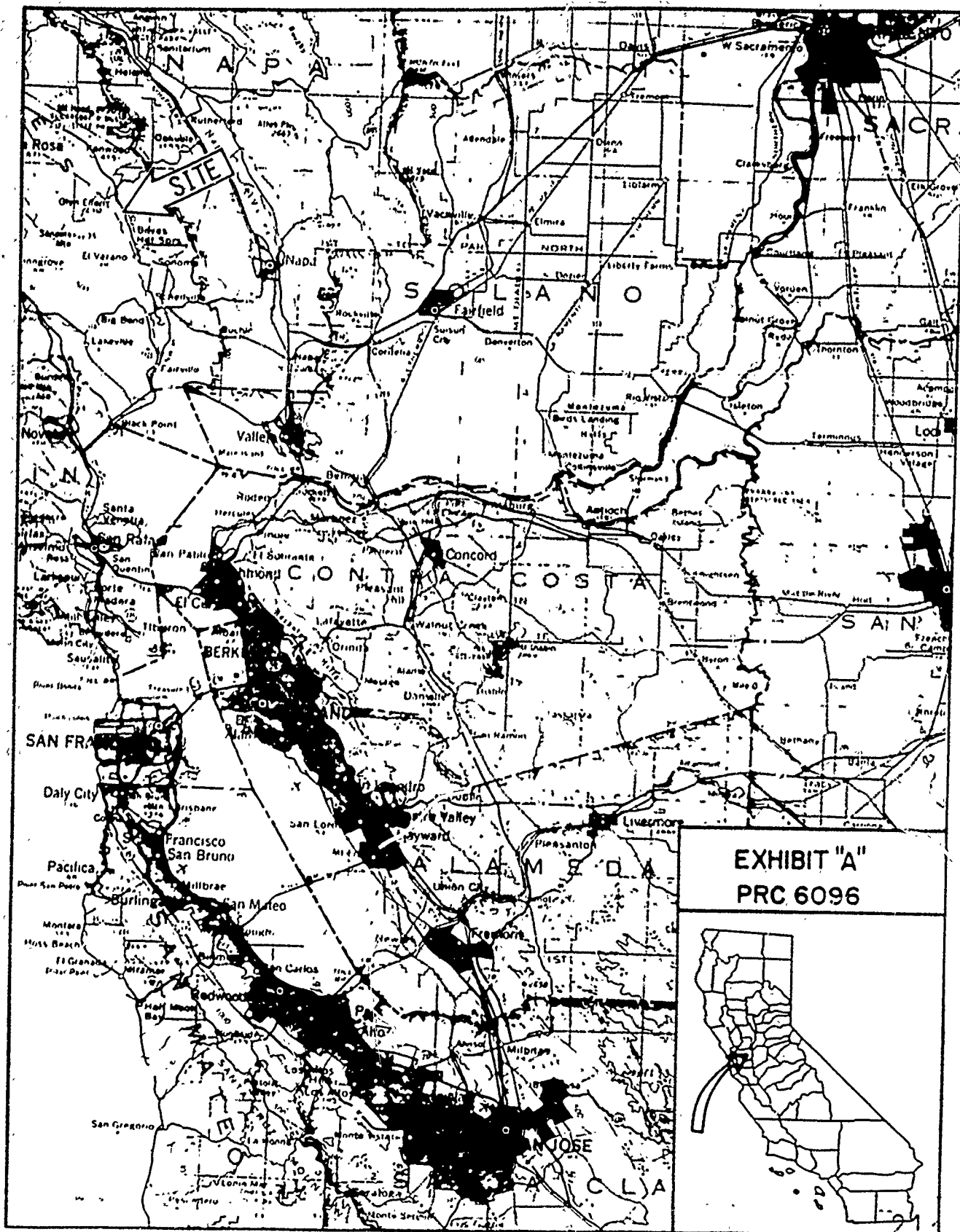


EXHIBIT "A"
PRC 6096