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MEETING
STATE LANDS COMMISSION
STATE OF CALIFORNIA

STATE CAPITOL
ROOM 127
SACRAMENTO, CALIFORNIA

THURSDAY, AUGUST 29, 1985
10:20 P.M.

ORIGINAL

Reported by:
Cathleen Slocum, C.S.R.
License No. 2822

MEMBERS PRESENT

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Walter Harvey, representing Kenneth Cory, State Controller,
Acting Chairperson

Laura Schlietmann, representing Leo T. McCarthy,
Lieutenant Governor

Nancy Ordway, representing Jesse R. Huff, Director
of Finance

STAFF PRESENT

Claire Dedrick, Executive Officer

Robert Hight, Chief Counsel

Jane Smith, Secretary

ALSO PRESENT

David Judson, Deputy Attorney General

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PROCEEDINGS

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3 ACTING CHAIRPERSON HARVEY: The meeting of the State
4 Lands Commission will be in order. The first item on our
5 agenda is confirmation of the minutes of the last two, I
6 guess, meetings, July 25th and July 30th.

7 COMMISSIONER ORDWAY: Motion.

8 ACTING CHAIRPERSON HARVEY: Without objection, the
9 minutes will be adopted.

10 The report of the Executive Officer. Clare.

11 EXECUTIVE OFFICER DEDRICK: The Executive Officer's
12 Report is in writing.

13 ACTING CHAIRPERSON HARVEY: We have it in writing.

14 We'll adopt it into the record by reference.

15 Thank you. Next item on our --

16 Small announcement.

17 MR. HIGHT: Mr. Chairman, if I could make an
18 announcement for the record that the Lieutenant Governor's
19 Office will be acting in a nonvoting capacity.

20 ACTING CHAIRPERSON HARVEY: Thank you.

21 For the record, the following items are off the
22 agenda. Items C9a and d, 18, 19, 20 and 22 on the consent
23 agenda.

24 Items 24, 25 and 39 off the balance of the agenda.

25 COMMISSIONER ORDWAY: May I ask if the consent

1 items are off the consent calendar or are they off the
2 agenda?

3 EXECUTIVE OFFICER DEDRICK: Off the agenda.

4 COMMISSIONER ORDWAY: Off the calendar entirely.

5 I will move --

6 ACTING CHAIRPERSON HARVEY: We've just stricken
7 them.

8 COMMISSIONER ORDWAY: I will move C1 through C21
9 with those items that are off.

10 ACTING CHAIRPERSON HARVEY: Without objection then
11 Items C1 to C22 --

12 COMMISSIONER ORDWAY: 22 is off.

13 ACTING CHAIRPERSON HARVEY: 22 is off.

14 Again, in an attempt to move the meeting along, I
15 have before me people who want to speak on Agenda Items 18,
16 19 and 20 which have been stricken. I have someone on Agenda
17 Item 23 and two people on Agenda Item 21. Is there anyone in
18 the audience that wants to speak on any of the other items on
19 the agenda?

20 COMMISSIONER ORDWAY: Which item?

21 FROM THE AUDIENCE: Item 31.

22 ACTING CHAIRPERSON HARVEY: We'll take time then
23 when we get to Item 31 --

24 COMMISSIONER ORDWAY: Can someone provide the
25 gentleman with a slip, please?

1 ACTING CHAIRPERSON HARVEY: I have it.

2 Next item on our agenda, Agenda Item 23, GRI
3 Exploration Corporation. I understand we have Mr. Domenic
4 Falcone who wants to speak.

5 MR. FALCONE: Good morning. I'm Domenic Falcone,
6 Senior Vice President for GRI Exploration Corporation and
7 Executive Vice President for Geothermal Resources
8 International, Inc. which is the parent company of GRI
9 Exploration Company.

10 The purpose of my being here is to speak briefly to
11 the Commission's decision last month to submit or have staff
12 submit to the company default notices relative to several
13 leases in the Geysers area primarily because the terms of the
14 lease required certain drilling to take place and due to the
15 terms of the lease as well as the market in the Geysers at
16 the present time the company determined that it was
17 inappropriate to drill such leases at this point. The
18 company has however drilled leases in the Geysers both state
19 and fee leases at the present time. In fact, has drilled
20 three wells on state lands which leases are not subject to
21 the default notices at this point in time and we fully expect
22 they will not be in the future.

23 The thing that I wanted to just inform the
24 Commission about at the present time is the fact that we are
25 serious geothermal people. We have since, been in business,

1 in the geothermal business since 1966. We're one of the
2 first companies to explore and develop in the Geysers and in
3 fact sell steam to P.G. & E. at Unit 15 in the Geysers.

4 We have spent approximately 80 to 100 million
5 dollars to date in the Geysers exploring and developing
6 property and have arrangements with the Central California
7 Power Agency to buy steam from several plant areas in the
8 Geysers. One of those plant areas includes a state lease on
9 which we have drilled two successful geothermal wells.

10 The problem that we have at this point in time as to
11 the further development in the Geysers area, as I said, has
12 to do a bit with the fact that in 1981 when we got involved
13 in what is known as a farm out which assumedly is a term,
14 it's a term of art in the natural resources business, but
15 what it means is you get a chance to earn an interest in
16 someone else's property.

17 We spent twenty-five million dollars over the next
18 two years and in 1983 we actually bought the leases that were
19 owned by Aminoil in the Geysers including state leases for
20 another 25 million dollars and have spent at least another
21 40 million dollars since then and that doesn't include other
22 things that we have spent additional monies on to get up to
23 the number of 80 to 100 million dollars.

24 When we acquired those leases, we certainly acquired
25 them knowing that the state lease was a fairly onerous lease

1 and that in fact was very difficult for any commercial
2 corporation, i.e., a publicly held company such as ourselves,
3 to make any money from those leases. The net profits
4 interest plus the royalty on four or five of those are so
5 high that it just was impossible to proceed and still be able
6 to justify to one's shareholders that you weren't throwing
7 money not necessarily away, but you certainly were not
8 spending your money in the most sensible fashion.

9 Consequently, we spent a year with staff trying to
10 renegotiate the terms of the leases. The primary thing we
11 tried to renegotiate was the net profits interest and the
12 staff and the Commission of course approved several, a number
13 of extensions on the drill by date while the negotiations
14 took place.

15 The Commission, as I said last month, decided that
16 it was not interested in continuing to extend drill by dates
17 and in fact we were unable to renegotiate the provisions of
18 the net profits interest and consequently the default notices
19 were approved and sent out. I believe that they actually go
20 into, probably formal forfeit sometime the end of this month
21 which is the reason why we at least wanted to come here and
22 explain to you that we really do not want those leases to be
23 terminated. But we have no choice and we and the state have
24 negotiated as I said extensively in good faith to try and
25 come up with terms that were economic to be able to establish

1 commercial terms of the lease so that we could justify going
2 ahead and drilling wells. As I said, the markets for steam
3 in the Geysers at the present time is very soft. I'm sure
4 you're well aware of the fact that the utilities in the state
5 are in the view that they have excess electricity at the
6 present time and consequently the market for steam even if we
7 had it which indeed we do is not readily accessible certainly
8 to us at this point.

9 What we really wanted to try to achieve during the
10 course of the negotiations was not only to establish a, what
11 was to us anyway and hopefully at some point to the staff, a
12 sensible net profits interest in terms of the lease but also
13 to establish a drilling program that made sense within the
14 framework of being able to finally sell your resource. You
15 do not develop natural resources and then sit there and hold
16 them for ten years while you've got some costs in the ground.
17 It just doesn't make any sense.

18 So we also try to make arrangements that would allow
19 for our drilling programs to meet the market needs. And we
20 once again were unsuccessful in achieving that unfortunately.
21 Now with these leases being taken back by the state,
22 therefore the properties will be back without burden of
23 leases to any operating company at this point in time, I
24 think that if we can't, if we can't and I think it's probably
25 too late to convince anybody that we should try again to

1 renegotiate the leases, I'm a little concerned as to what the
2 state is going to do next. Getting the leases back and
3 there are freeing the properties from the burdens of leases
4 is all very well and good, but those properties should be put
5 back up for lease at some appropriate time. And one of the
6 things I guess that troubles us is that we can't properly
7 plan our own strategies going forward because we don't really
8 know where the state is coming from as far as the future of
9 these leases.

10 These leases happen to be right in the heart of a
11 number of our exploration and development programs and now
12 they are going to be gone and I think we are probably the
13 most sensible lessees under the terms under these particular
14 lands.

15 They're not large enough to really establish a
16 really strong exploration and development block of property.
17 And I guess what goes around comes around and maybe we'll see
18 the leases back on the market at some point in time but we at
19 this point are quite at a loss as to how to proceed with our
20 own programs.

21 It appears as though we may have to drill around the
22 properties perhaps or skip over them in some fashion, while
23 still wishing that we could do some exploration and
24 development work on those properties. If the market comes
25 back, which I think we all expect will be the case at some

1 point in time, at least we'll be ready to sell.

2 We have a venture with the CCPA group that makes it
3 a reasonable bet anyway that we've got a decent marketplace
4 when the marketplace is available. Right now they don't see
5 any great need for additional electricity either. SMUD I
6 think is of the view at the present time, they are one of the
7 members of the CCPA group, that their needs are well taken
8 care of for the next few years. But they certainly expected
9 that geothermal was going to be there when they wanted it to
10 be there and they will be a marketplace.

11 We are going to have to develop other properties ex
12 the state at this point and I don't think that's good for us
13 and I don't think it's good for the state either. But I
14 guess, as I said, barring renegotiation of the terms,
15 including the economics as well as the development programs,
16 we would certainly hope that the state at least the staff
17 will come out with a plan for those leases in the not too
18 distant future.

19 Even if the plan says you won't see them again for
20 the next two or three years, that's something at least we can
21 understand and when they come back up for bid I would also
22 hope that some consideration would be given to the terms of
23 the leases to be put into a more oh, I hate to use the word
24 "sensible", but sensible type of framework for entities such
25 as ourselves. So that going forward you won't get stuck in

1 the situation where you've got certain obligations that make
2 no sense in today's world.

3 Leases with landowners who are fee landowners as
4 adverse to state landowners, do not require some of the
5 things that the state leases require. They take more into
6 account, the fact that this is a geothermal resource, it is
7 not an oil and gas resource. We can't market steam by
8 putting it into a truck or putting it into a gas pipeline and
9 delivering it to someone to heat a house. We have to find
10 it, develop it, and wait for someone to build a power plant.
11 And I can really think that the leases are certainly less
12 than perfect and I would say in some cases less than even
13 adequate.

14 So I would like to at least see a program as well as
15 perhaps a new lease which takes into account, you know, the
16 people in the businesses point of view as well as the state's
17 point of view. Because it's all very well and good to want
18 something, but if it doesn't work for both sides, I just
19 don't think that the state properties are going to get
20 developed very expeditiously, and I assume that the state is
21 still interested in having those properties out for lease and
22 for development in order to generate the revenues that the
23 various I guess teacher's funds, et cetera, expect to receive
24 out of the royalties and the net profits interest that come
25 from those particular properties. But they won't get them

1 unless we are selling or someone is selling that resource to
2 someone who is buying it and paying for it. And that's the
3 kind of thing we're looking for at this point in time.

4 We would like very much to still have the leases
5 under more economic terms for ourselves, but failing that we
6 would surely like to see what is the intention of the state
7 going forward and under what types and terms of conditions we
8 could expect to see those leases come back to the
9 marketplace.

10 ACTING CHAIRPERSON HARVEY: Thank you, Mr. Falcone.

11 I think that we are pretty much aware of those
12 points that you have raised. We do appreciate your input. I
13 think we fully understand it and I'm sure at some point in
14 time you will see the answer to all your questions coming
15 forth not only from the staff but from the Commission itself.

16 I don't think there's anything else for us to do
17 today. There is some action I guess that the Commission will
18 eventually have to take, but that will be at the next
19 meeting.

20 EXECUTIVE OFFICER DEDRICK: Yes. Staff recommends
21 that you defer action until the next meeting.

22 ACTING CHAIRPERSON HARVEY: Thank you.

23 MR. FALCONE: Thank you.

24 EXECUTIVE OFFICER DEDRICK: I can't argue with Mr.
25 Falcone's choice of words in saying that the leases need to

1 be more sensible.

2 ACTING CHAIRPERSON HARVEY: I didn't say a word.

3 Okay.

4 Item 24 was stricken. Item 25 was stricken.

5 Item 26 is a settlement agreement with Cal-Pox
6 Incorporated and a denial of an application for a lease. If
7 no one wishes to speak, unless there is objection, we will
8 approve that item.

9 Do you want to say something, Mr. Hight?

10 MR. HIGHT: Yes, Mr. Chairman. In this action you
11 are also acting as Land Bank Commissioners. Just need that
12 for the record.

13 ACTING CHAIRPERSON HARVEY: Item 27, Mini
14 Development Corporation, approval of a salvage permit. I
15 understand that there are some federal permits yet to be
16 obtained. Unless there is objection, we can approve the
17 application --

18 COMMISSIONER ORDWAY: Conditioned upon.

19 ACTING CHAIRPERSON HARVEY: --subject to the
20 appropriate permits.

21 Item 28, San Francisco International Airport
22 Hometels Limited, approval of secured party-lender agreement.
23 Unless there is objection, that is approved.

24 Item 29, City of Long Beach, approval of a final
25 report and closing statement of a plan of development. I

1 think there's a copy of that with us. Without objection,
2 that will be adopted and approved.

3 Item 30, Scientific Surveys, Incorporated, approval
4 of a non-exclusive Geophysical Survey Permit on tide and
5 submerged lands. Unless there is objection, that item now is
6 approved. You may proceed.

7 Item 31, Chevron USA. I have two people in the
8 audience with interest in that.

9 One, Kit Armstrong from Chevron USA who is I gather
10 here to answer questions if they come up.

11 Kit, you here?

12 MS. ARMSTRONG: Right here, sir.

13 ACTING CHAIRPERSON HARVEY: Do you have any
14 presentation you want to make?

15 MS. ARMSTRONG: No.

16 ACTING CHAIRPERSON HARVEY: Mr. Richard Turner, an
17 attorney with Turner and Sullivan. Would you identify
18 yourself for the record?

19 MR. TURNER: Yes. Mr. Chairman, members, I'm Dick
20 Turner of Turner and Sullivan, Sacramento. We represent the
21 Sandyland Protective Association which is the association
22 that in turn represents all the beach front property owners
23 in Carpenteria.

24 The only purpose for my making any statement at this
25 time, knowing that Chevron has withdrawn its request for

1 3150, the lease offshore at Carpenteria, is to ask that the
2 findings, that you eliminate any reference to 3150 in the
3 findings that you will adopt here today.

4 Since you have no application before you with
5 respect to 3150, I don't think the Commission has any
6 jurisdiction to make findings with reference to 3150 and I
7 would ask that you delete those references from your
8 findings.

9 COMMISSIONER ORDWAY: Can we do that?

10 ACTING CHAIRPERSON HARVEY: Can we do that Mr.
11 Hight?

12 EXECUTIVE OFFICER DEDRICK: You can do it. I think
13 that it's unnecessary, Mr. Chairman. The certification of
14 the EIR certifies a document upon which decisions are partly
15 made. In the case of lease number 3150 which Mr. Turner is
16 interested in, it is clear that because of public
17 controversy, a site specific EIR must be done. There are
18 problems that must be resolved with both local government and
19 the people in the community. Both State Lands staff and the
20 Chevron Corporation are well aware of that.

21 This action of certifying the EIR on all four while
22 only granting operations on three, does not predispose you to
23 approving that forth item number 3150 in the future.

24 ACTING CHAIRPERSON HARVEY: Okay. So what we are
25 doing, we are certifying the EIR on four sites. We are

1 approving the resumption of drilling on three only with I
2 guess the understanding that a subsequent EIR report on 3150
3 will be forthcoming before we can do anything with it.

4 MR. TURNER: I understand that process, Mr.
5 Chairman. I just wanted the administrative record to reflect
6 that on behalf of my clients we object to any findings with
7 reference to 3150 and we also object to the certification of
8 the EIR with respect to 3150.

9 ACTING CHAIRPERSON HARVEY: The record will so
10 reflect.

11 MR. TURNER: Thank you.

12 ACTING CHAIRPERSON HARVEY: Since we have had
13 someone, we might want to do this one with a motion.

14 COMMISSIONER ORDWAY: I will move it.

15 ACTING CHAIRPERSON HARVEY: Without --

16 COMMISSIONER ORDWAY: One question though. You
17 said it is clear from the EIR that a site specific EIR would
18 have to be done?

19 EXECUTIVE OFFICER DEDRICK: One of the requirements
20 of CEQA is that when there is public controversy the EIR must
21 be done.

22 COMMISSIONER ORDWAY: I just wanted to make sure that
23 that's very clear.

24 EXECUTIVE OFFICER DEDRICK: I think so.

25 COMMISSIONER ORDWAY: Then I will move Item 31.

1 ACTING CHAIRPERSON HARVEY: Then Item 31 has been
2 moved, seconded and approved.

3 Item 32, modification of the 1985-86 Plan of
4 Development for the City of Long Beach. Unless there is
5 objection, that item will be approved.

6 Item 33, a second modification. Without objection
7 that one will be approved.

8 Item 34, Contra Costa County request for exception
9 from competitive bid procedures. Unless there is objection,
10 that item is approved.

11 Item 35, State Lands Commission proposed sale of
12 royalty crude oil, Belmont Offshore. Without objection, that
13 item will be approved.

14 Item 36, Honey Lake Exploration, a denial without
15 prejudice of an application for proposed negotiated
16 subsurface oil and gas lease. Without prejudice, and without
17 objection, that application is being denied.

18 Item 37, City of Long Beach, we have a report before
19 us. We will adopt that report by reference.

20 Item 38, stands State Lands approve a report bearing
21 actual revenue for 1984-'85. We have it in writing. We will
22 adopt it by reference without objection.

23 Item 39 is off the agenda.

24 Item 40, San Diego County LAFCO, consideration of
25 descriptions and consent to incorporation of tide and

1 submerged lands in the proposed Cities of San Dieguito and
2 Solana Beach, et cetera. Without objection then, that item
3 is adopted and approved.

4 Item 41, Ideal Basic Industries, Inc., authorizing
5 the staff to conduct a public meeting on the proposed
6 settlement of a title dispute. Unless there is objection,
7 the staff is so authorized or without objection, the staff is
8 so authorized.

9 COMMISSIONER ORDWAY: Or unless there's objection.

10 (Laughter.)

11 ACTING CHAIRPERSON HARVEY: Okay.

12 Item 42, Nelson and Sloan, authority to litigate to
13 abate an unauthorized extraction of state minerals in San
14 Diego County. Without objection, the staff is authorized to
15 litigate.

16 Item 43, to authorize the Executive Officer to enter
17 into a contract with a real estate consultant to advise the
18 Commission on development options in the Playa Vista area of
19 Los Angeles County. Without objection, the Executive Officer
20 is so authorized.

21 Item 44, Arnold Travis, et al, to approve and
22 authorize the execution of a boundary settlement, et cetera.

23 Do you want to speak, Mr. Hight?

24 MR. HIGHT: Once again, Mr. Chairman, you'd be
25 acting as Land Bank Commissioners on accepting \$429,000.

1 ACTING CHAIRPERSON HARVEY: The record will so
2 reflect. The item is approved.

3 Is there anything else to come before the
4 Commission?

5 EXECUTIVE OFFICER DEDRICK: Mr. Chairman, I have
6 discovered a typo on Page 2 of Item 31, third line under
7 "summary" --

8 ACTING CHAIRPERSON HARVEY: Item 31. Hold on.

9 EXECUTIVE OFFICER DEDRICK: --where it reads "PRC
10 3189," that number should read "3184."

11 ACTING CHAIRPERSON HARVEY: Okay. That correction
12 will be noted.

13 Any other business to come before the Commission? If
14 not, we stand adjourned.

15 Thank you.

16 (Thereupon, the State Lands Commission meeting
17 was adjourned at 10:42 a.m.)

CERTIFICATE OF SHORTHAND REPORTER

--oOo--

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 meeting of the State Lands Commission was reported in shorthand by me, Cathleen Slocum, 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 hearing, nor in any way interested in the outcome of said hearing.

IN WITNESS WHEREOF, I have hereunto set my hand this 12 day of September, 1985.

Cathleen Slocum
CATHLEEN SLOCUM
Certified Shorthand Reporter
License No. 2822