

MINUTE ITEM

10/27/77
Priddy

15. GEOTHERMAL TASK FORCE REPORT ON LEASING OF STATE LANDS -
W7355.6.

During consideration of Calendar Item 15 attached, Mr. William F. Northrop, Executive Officer, explained that the Geothermal Task Force was preparing to recommend an amendment to the Geothermal Resources Act that public agencies be allowed to apply for prospecting permits or leases of State lands for Geothermal development. The staff had recommended, as an alternative to this proposal, that State agencies be given first right of refusal on steam produced from State lands developed by the private sector.

During the ensuing discussion, the Commissioners inquired of several staff members including Allen D. Willard, Supervising Mineral Resources Engineer, and Matthew V. Brady, Staff Counsel, as to the reasons for the staff's recommendation. After discussing some of the potential impacts that would occur if the Geothermal Task Force's recommendation was implemented by the Legislature, Mr. Northrop, suggested that consideration of this item be deferred.

Chairman Cory, in lieu of approving the staff's recommendations, directed the staff to discuss with the legislature several of the questions raised, including the issue of priorities and priority rights and their impact on the marketplace.

Attachment: Calendar Item 15 (2 pages)

CALENDAR ITEM

15.

10/77
W 7355.6
Priddy

GEOHERMAL TASK FORCE REPORT
LEASING OF STATE LANDS

The State Geothermal Task Force was created pursuant to Assemblyman Kapiloff's bill, AB 3590, of the 1976 Legislative Session. The Task Force is charged with the responsibility of studying all aspects of geothermal development in California and preparing a report of its findings. The Secretary for Resources and the Director of the Office of Planning and Research are required to transmit the report to the Legislature and the Governor.

The Geothermal Task Force, in its draft report, has recommended that the Public Resources Code be amended to allow public agencies to lease State lands for geothermal development. Assembly Bill 791, authored by Assemblyman Kapiloff, proposed such an amendment, but the bill was defeated in the Senate Committee on Governmental Organization. The Commission took a neutral position on the bill.

This recommendation would allow federal, state and local governmental agencies to get involved in geothermal exploration and development, a field that has traditionally fallen within the domain of private industry. Geothermal exploration and development is a high-risk venture requiring large capital expenditures with no return for many years, if ever. Careful consideration should be given as to whether governmental funds were intended to be spent for such projects.

The main proponent for such a change is the Department of Water Resources, which feels that it can obtain cheaper power by exploring and drilling for geothermal resources itself, rather than purchasing power (which they have trouble contracting for in any event).

One way to ensure that Department of Water Resources would be able to obtain geothermal energy would be to grant governmental agencies the right of first refusal on any steam produced on State leases. This would allow Department of Water Resources to buy steam from State lessees (private enterprise) and build their own generating plants, assuring Department of Water Resources of a new source of power that would be more economical than present sources, but would have no risks involved. Existing law would allow the Commission discretion to include this "right of first refusal" in future leases.

CALENDAR ITEM NO. 15. (CONTD)

Staff Counsel believes that such a "right of first refusal" could be included within with the Commission leases, as a part of the other discretionary lease terms and conditions, under its present statutory authority, although it has suggested that such be clarified and mandated by the legislature.

The Task Force is holding hearings on the draft report on November 9 and 10. Because the Commission was represented on the Task Force, if the Commission remains silent it will naturally be assumed that such a recommendation has been concurred in by the Commission. It seems, therefore, that there are three options: (1) remain silent; (2) testify in opposition to such a recommendation, or (3) propose a counter recommendation that public agencies have the right of first refusal on geothermal resources produced from State leases.

Based on the staff's knowledge of geothermal operations and costs, and the difficulties that Assemblyman Kapiloff encountered with his amendment to the Geothermal Resource Act via AB 791, staff recommends that option three be selected with a recommendation for appropriate legislation.

IT IS RECOMMENDED THAT THE COMMISSION AUTHORIZE THE EXECUTIVE OFFICER TO OPPOSE THE PROPOSED GEOTHERMAL TASK FORCE RECOMMENDATION REGARDING STATE AGENCY LEASING OF STATE LANDS FOR EXPLORATION AND DEVELOPMENT OF GEOTHERMAL RESOURCES AND TO PROPOSE AS AN ALTERNATIVE THAT FUTURE LEASES ISSUED BY THE COMMISSION PROVIDE THAT PUBLIC AGENCIES HAVE THE RIGHT OF FIRST REFUSAL OF GEOTHERMAL RESOURCES PRODUCED FROM STATE LANDS AND, FURTHERMORE, THAT THE TASK FORCE OBTAIN CLARIFYING LEGISLATION IN FURTHERANCE OF THE LATTER PROPOSAL.