

MEETING  
STATE OF CALIFORNIA  
STATE LANDS COMMISSION

STATE CAPITOL  
ROOM 126  
SACRAMENTO, CALIFORNIA

TUESDAY, NOVEMBER 21, 2006  
2:04 P.M.

KATHRYN S. KENYON, CSR  
CERTIFIED SHORTHAND REPORTER  
LICENSE NUMBER 13061

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.

INDEX

	<u>PAGE</u>
I. OPEN SESSION	1
II. CONFIRMATION OF MINUTES FOR THE TELECONFERENCE MEETING OF NOVEMBER 1, 2006	1
III. EXECUTIVE OFFICER'S REPORT	2
IV. CONSENT CALENDAR C01-C03, C05-C13, C15-C48, C50-C53	11
PULLED FROM CONSENT FOR DISCUSSION, Item 54: SLAWSON EXPLORATION COMPANY, INC. DBA: DONALD C. SLAWSON EXPLORATION COMPANY, INC. (APPLICANT): Consider application for a negotiated subsurface (no surface use) Oil and Gas Lease, Sacramento River, Colusa, and Sutter Counties. (W40927) (A 2; S 4)	12
V. PUBLIC COMMENT	
VI. CLOSED SESSION - No Closed Session	
VII. Adjournment	19
VIII. Reporter's Certificate	20



1 Executive Officer's Report.

2 Mr. Thayer, may we have your report?

3 EXECUTIVE OFFICER THAYER: Thank you, Mr. Chair.

4 And good afternoon, members of the Commission.

5 I have three items I wanted to report on:

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

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

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

21 Staff notes that the oil facilities, which were  
22 the subject of the condition in the August hearing, are in  
23 the process -- there's a trend for them being turned over  
24 to smaller and smaller operators. So we see of this  
25 concern, that we're having to pay much closer attention to

1 the capabilities of the new companies or the new assignees  
2 on these new leases.

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

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

15           CHAIRPERSON WESTLY: Thank you.

16           Ms. Sheehan?

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

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

1 company to a smaller company. But that's where we are.

2 ACTING COMMISSIONER SHEEHAN: Thanks.

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

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

21 CHAIRPERSON WESTLY: Great. Thank you, Paul.

22 EXECUTIVE OFFICER THAYER: The third issue --  
23 slightly less happy issue is that the -- you will recall  
24 that the Commission adopted a resolution expressing  
25 concerns over the once-through cooling issue for --

1 predominantly for power plants along the coast.

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

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

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

23           Another option would be to take some of the same  
24 policies that's in that resolution and put it into  
25 regulations. Again, I have some concerns about that,



1 because it would begin to get us involved in water quality  
2 issues that we don't really have the expertise for. You  
3 will recall that that resolution relied predominantly on  
4 carrying out the requirements of other agencies. And it  
5 would seem to me that it would be best if those other  
6 agencies continued to have primary responsibility over  
7 those sorts of issues.

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

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

21           Thank you.

22           CHAIRPERSON WESTLY: Thank you, Mr. Thayer.

23           On that last point, I just want to reiterate, I  
24 think that the State Lands Commission should continue to  
25 stand firm on making sure that we address the

1 environmental damage caused by once-through cooling. This  
2 is an important issue. I know, Secretary Chrisman shares  
3 my concerns, but we had passed a very similar motion on  
4 the Oceans Commission. And I'm proud to be a leader in  
5 that area. And I hope we will continue to be a leader in  
6 that area.

7 Any other comments from my colleagues?

8 Ms. Sheehan?

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

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

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

24 And I think that's the proper regulatory way. It  
25 will be a little torturous for us to have to go through

1 some regulations, and I think the problem belongs at the  
2 Board.

3 So -- okay.

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

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

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

20 ACTING COMMISSIONER SHEEHAN: And I guess -- I  
21 guess what I want to say is, your final point is sort of  
22 the critical one: That people are on notice about the  
23 summary of the Commission in coming forward. So whether  
24 it be done, you know, even though the resolution, OAL  
25 found, I guess, just a couple of clauses insufficient in

1 terms of from a legal determination; I think the message  
2 has been sent.

3 EXECUTIVE OFFICER THAYER: Absolutely.

4 ACTING COMMISSIONER SHEEHAN: Thanks.

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

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

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

20 EXECUTIVE OFFICER THAYER: In discussions with  
21 your staff on this issue, and I understand it's of great  
22 concern to the Chair, just the thought that a lot of --  
23 well, a lot of our property is defined by the mean high  
24 tideline. And as the ocean rises, that line is going to  
25 move inland. So it raises questions.

1           If we approve the seawall, does that mean that our  
2 future right to land behind that seawall is extinguished,  
3 because the water doesn't go there? There are a whole  
4 variety of issues like that, that are important to how the  
5 Commission does its business. So I think the  
6 Commission -- or the Chair and Commission are entirely on  
7 point to be concerned about this issue. And it's  
8 something we'll look at and bring it back to the  
9 Commission.

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

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

22           Are there are any other comments from the other  
23 commissioners?

24           If not, the next order of business will be the  
25 Adoption of the Consent Calendar.

1           And I would like to call on our Executive Officer,  
2 Mr. Thayer, to indicate which items have been removed from  
3 the consent calendar.

4           EXECUTIVE OFFICER THAYER: Thank you, Mr. Chair.

5           Those items would be 4, 14, 49. We won't hear  
6 those items today, but bring them back probably on the  
7 consent calendar, again, at a future meeting.

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

9           EXECUTIVE OFFICER THAYER: Correct.

10          CHAIRPERSON WESTLY: Got it.

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

14          ACTING COMMISSIONER McCARTY: I can probably do  
15 that during the votes, after the -- I can abstain on those  
16 measures. I would move the consent calendar to pull Item  
17 54 for discussion.

18          ACTING COMMISSIONER SHEEHAN: I will second that  
19 motion.

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

24          Is that the motion?

25          All in favor, please say "aye."

1 (Ayes.)

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

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

6 EXECUTIVE OFFICER THAYER: Thank you, Mr. Chair.

7 I would like to call on Paul Mount, chief of our  
8 Resources Management Division, to present that item.

9 MR. MOUNT: Good afternoon, Commissioners.

10 My name is Paul Mount. I'm the Chief of Mineral  
11 Resource Management Division. Item 54 is consideration of  
12 an application for negotiated subsurface use by Slawson  
13 Exploration.

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

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

24 The State would receive approximately 22 percent  
25 royalty on the unit. And we would have to lease about

1 80.3 acres to Slawson Exploration.

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

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

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

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

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

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

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

25 MR. KING: Thank you. I'm David King. I'm the



1 land manager for Slawson Exploration.

2 CHAIRPERSON WESTLY: Great.

3 And would you like to speak for or against?

4 MR. KING: Yes. Our operations here will be  
5 drilled on private property, which we've obtained a  
6 surface use agreement from Mr. Durst. We would be  
7 approximately 150 feet from the river, to the west of the  
8 river. We would drill a vertical well to approximately  
9 2700 feet. At such time we would put a mud motor, which  
10 is a directional drilling tool, and then we would drill at  
11 approximately a 20-degree angle to encounter the Forbes  
12 sand, which is a gas-producing sand, at approximately  
13 around 700 feet of sand. We would be drilling this  
14 well -- as I said, it's a directional well, so we could  
15 encounter several sand intervals that we expect to contain  
16 carbon.

17 CHAIRPERSON WESTLY: Okay. Thank you very much.

18 Why don't you hold on there for a minute in case  
19 there are any questions.

20 Are there any other members of the public who  
21 would like to speak?

22 Okay. At this point, let me just voice my view.  
23 I am going to vote no on this issue. I've consistently  
24 voting no against new oil leases for drilling. And in the  
25 state of California -- and I have concerns about whether

1 this is the best stewardship to use public lands for oil  
2 extraction. I think our public lands -- Trust lands  
3 should be used and kept to water-related uses, open space,  
4 and recreation whenever possible.

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

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

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

15 Is that correct, Mr. Thayer?

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

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

25 ACTING COMMISSIONER SHEEHAN: Okay.

1 MR. MOUNT: Traditionally, the Commission has  
2 approved these projects, because, in fact, they were  
3 natural gas. So there was very little controversy  
4 surrounding these.

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

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

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

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

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

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

1 one direction.

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

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

15           MR. KING: That's correct.

16           CHAIRPERSON WESTLY: Mr. McCarty.

17           ACTING COMMISSIONER McCARTY: Thank you, Chair  
18 Westly.

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

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

25           CHAIRPERSON WESTLY: Thank you.

1 I think if there are no other members of the  
2 public who would like to speak, or no other questions from  
3 my colleagues, what I would like to do is call for a roll  
4 call vote, if I could.

5 ACTING COMMISSIONER SHEEHAN: We need a motion.

6 CHAIRPERSON WESTLY: Forgive me.

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

10 ACTING COMMISSIONER McCARTY: Second that motion  
11 to vote no.

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

14 (Ayes.)

15 EXECUTIVE OFFICER THAYER: Opposed?

16 ACTING COMMISSIONER SHEEHAN: Opposed.

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

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

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

23 CHAIRPERSON WESTLY: Terrific.

24 At this point, are there any speakers who wish to  
25 address the Commission during this public period?

1 I know there are -- just to be clear on this,  
2 there was one member of the public who wanted to speak on  
3 Item C20. But this was approved on the consent calendar.

4 Anything else, members from the public?

5 All right. That concludes the open meeting.

6 I note for the record that there is not a closed  
7 session today. And therefore, the meeting is now  
8 adjourned. And I would like to thank all of the staff and  
9 the members of the public being here today.

10 Thank you.

11 (The State Lands Commission meeting  
12 adjourned at 2:27 p.m.)

13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

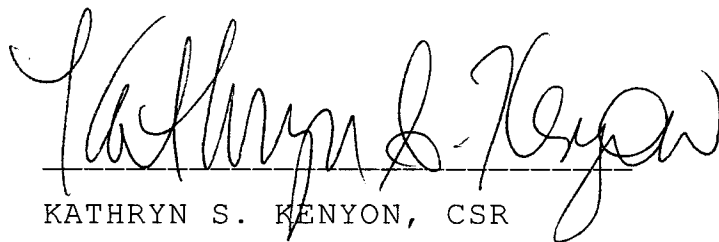
## 1 CERTIFICATE OF REPORTER

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

4 That I am a disinterested person herein; that the  
5 foregoing California State Lands Commission meeting was  
6 reported in shorthand by me, Kathryn S. Kenyon, a  
7 Certified Shorthand Reporter of the State of California,  
8 and thereafter transcribed into typewriting.

9 I further certify that I am not of counsel or  
10 attorney for any of the parties to said meeting nor in any  
11 way interested in the outcome of said meeting.

12 IN WITNESS WHEREOF, I have hereunto set my hand this  
13 2nd day of December, 2006.

14  
15  
16  
17  
18  
19  
20  
21 

22 KATHRYN S. KENYON, CSR

23 Certified Shorthand Reporter

24 License No. 13061  
25