



November 6, 2009

The Honorable Ted Kulongoski  
160 State Capitol  
900 Court Street  
Salem, Oregon 97301-4047

Re: Lease of state lands on the Skipanon Peninsula in  
Warrenton, Oregon

Dear Governor Kulongoski,

On behalf of Columbia River Business Alliance and our member businesses in Clatsop County, we request that you conduct an investigation into the Department of State Land's (DSL) outrageously undervalued lease of state land for the purpose of a Liquefied Natural Gas (LNG) terminal on the Skipanon River in Warrenton.

DSL leased 92 acres of state land to the Port of Astoria, which subleased the land to Calpine LNG, for \$38,400 per year. The express purpose of the lease was for an LNG terminal, which is a heavy industrial operation that requires a deep water port. As you know, industrial land on the Columbia River is extremely valuable, especially a planned deep water port with easy access to the shipping channel. Yet, DSL appraised the 92 acre parcel at \$384,000. The \$38,400 per year is based on 10% of the value.

Columbia River Business Alliance  
PO Box 682  
Astoria, Oregon 97103

Mr. Governor, please investigate why Oregon valued 92 acres of industrial land with a deep water port at only \$384,000, and then leased it away to an LNG company.

Comparable leases are 3000% more expensive than DSL's lease.

Site	Acres (uplands)	Annual Lease	Price per acre
Coos Bay LNG <sup>1</sup>	147	\$1,920,000	\$13,061
Tongue Point (Astoria) <sup>2</sup>	30	\$350,000	\$11,666
Skipanon	92	\$38,400	\$418

While Coos Bay and Tongue Point are similar in price per acre, Skipanon is approximately 3000% less expensive. Using a comparable lease price of \$11,000 per acre, the Skipanon lease should be at least \$1 million dollars per year.<sup>3</sup> DSL issued the lease for a 5-year term with the option of the lessee to review for 30 years plus an additional 30 years. Therefore, over the 65 year lease period, **this error is costing the Common School Fund and our taxpayers approximately \$62.5 million dollars**, but greatly benefiting the LNG company.

The 2004 land appraisal is based on the "highest and best use" for a golf course, but DSL knew the planned use was an LNG terminal. Shockingly, DSL utilized this same appraisal for the LNG lease, without reevaluating the "highest and

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<sup>1</sup> <http://www.portofcoosbay.com/lng.htm> ("The option payment from Jordan Cove increased to \$160,000 per month during this period.")

<sup>2</sup> <http://www.dailyastorian.info/main.asp?SectionID=2&SubSectionID=398&ArticleID=65228&TM=2190.121> ("Port seals deal on North Tongue Point")

<sup>3</sup> The Skipanon site is likely even more valuable than Tongue Point because Skipanon has access for deep draft vessels, like LNG tankers. Tongue Point has a tarmac and other improvements, but no deep draft access. Even if the Tongue Point improvements add significant value, it's not worth 3000% more than Skipanon.

best use" of the property as an LNG terminal. The appraisal of the land for a golf course is completely irrelevant to the value of land for a marine industrial port with deep draft access to the shipping channel. In fact, the appraisal is based on comparable sales, all of which are for *residential, not industrial* properties.

The lease agreement between the State of Oregon and the Port is for a "Marine Industrial Purposes," which is defined as "the construction and operation of a liquefied natural gas (LNG) importing, shipping, berthing, storage and regasification facility." See Upland lease agreement 26311LE § 5.1 and definitions. Therefore, the state knowingly leased the parcel for marine industrial purposes at a far undervalued price. In fact, the appraisal did not even analyze the value of the property for marine industrial use. The words "deep draft" or "shipping" are not mentioned in the appraisal. Why did the state not conduct an appraisal for the purpose of industrial land, the same purpose for which they leased the land? It is not satisfactory to say that DSL based the appraisal on the current zoning when the lease itself expressly allows an LNG terminal.

Calpine CEO Peter Hansen thought the lease was such a sweetheart deal that he saw no need to negotiate when DSL offered \$38,400.<sup>4</sup> The low lease allowed the project to stay alive during Calpine's bankruptcy when the investment firm Leucadia bought lease deal.<sup>5</sup> Hansen, now CEO of Oregon LNG, stated, "...the lease rate was never really a negotiation

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<sup>4</sup> The Clatsop County District Attorney and the Oregon Department of Justice conducted an investigation on the fraudulent conditions under which the Port of Astoria subleased the Skipanon property to Calpine LNG. The transcripts of that investigation show that Peter Gearin, then Port Director, committed misconduct by obtaining payment from Calpine for his then-girlfriend in exchange for pushing the lease deal through. Calpine CEO Peter Hansen was also deposed. Mr. Hansen's comments are from those depositions transcripts

<sup>5</sup> Campbell (DOJ): "Did Gearin make any effort, do you remember if he came to you with a higher lease rate?"

Hansen: "No."

Campbell: "Never, never even tried?"

Hansen: "It was never a negotiation about lease rate, it was 'here's the price'. There was not do you want it or can you live with this or..."

Campbell: "With a benefit of hindsight, do you think Calpine would have paid more for the lease?"

Hansen: "Yeah, I think Calpine probably would, that's the good news. Well, good news bad news, I think what would have happened had we paid more."

because when I looked at what I paid elsewhere, why would we negotiate that.”<sup>6</sup>

As taxpayers in the State of Oregon with interest in the best use of state resources, we demand an investigation into DSL's action.

In addition, we request that you assist the Port of Astoria, which entered into a terrible lease deal through the fraudulent actions of its former director, Peter Gearin. Due to the circumstances surrounding that sublease, the State of Oregon should revoke the lease, and renegotiate a proper lease with the current Port Commissioners. We believe there is strong support from the Port of Astoria for a lease renegotiation.

At the very least that DSL is required to reevaluate the lease and appraise the land at a fair market value for its intended purpose - a marine industrial terminal. Section 4.2 of the lease states, "On fifth (5th) year anniversary of the Commencement Date the Annual Rent **shall be adjusted based on the then current fair market value of the bare Land** as determined by the parties' agreement and if no such agreement can be reached then by a State certified appraiser selected by Tenant and approved by Landlord." It is clear that the fair market value is not \$38,400 per year. At the very least, the State should demand an adjustment.

Sincerely,

Peter Huhtala  
Executive Director  
503 468-8038

Cc: Louise Solliday, Department of State Lands

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<sup>6</sup> Hansen deposition transcript at 21.