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MEETING

STATE LANDS COMMISSION

STATE OF CALIFORNIA

STATE CAPITOL

ROOM 447

SACRAMENTO, CALIFORNIA

ORIGINAL

THURSDAY, MARCH 24, 1983

10:10 A.M.

CATHLEEN S. CUM, C.S.R.
License No. 2822

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MEMBERS PRESENT.

Peter Pelkofer, Acting Chairperson,
representing Kenneth Cory, Controller
Michael Franchetti, Director of Finance
Leo T. McCarthy, Lt. Governor

MEMBERS ABSENT

None

STAFF PRESENT

Claire Dedrick, Executive Officer
James Trout, Assistant Executive Officer
Robert Hight
W. M. Thompson
Don J. Everitts
Al Willard
Jane Smith, Secretary

ALSO PRESENT

Jan Stevens, Deputy Attorney General

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Regular Calendar (continued)

Item 34 43

Item 35, off calendar

Item 36 43

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Item 40 45

Appearance of Mr. Dickerson
and Mr. Wykoff noted.

Appearance of Tony Lopez,
representing City of San
Mateo, also noted.

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P R O C E E D I N G S

--000--

ACTING CHAIRPERSON PELKOFER: Call the meeting of the State Lands Commission to order.

Do you take roll or just acknowledge the presence of those that are here?

All right.

Staff, since I haven't chaired this Commission for some period of time, if I violate your normal procedure, please interrupt me and tell me that we're not doing it the right way.

We'll begin then with the first item.

MR. HIGHT: The Consent Calendar.

ACTING CHAIRPERSON PELKOFER: Those are Items 1 through 19. Any of the Commissioners have any concerns or want to raise any issues with that item?

ASSISTANT EXECUTIVE OFFICER TROUT: Mr. Chairman, I think we should point out both to the audience and the other Commissioners that Item C19, sub I, Linson, Patton and another party, they've asked to have that taken off. So the Linson, Patton, Farrar Buick-GMC would be taken off of that item; and also staff recommends that Items 27 and 35 be deleted from the calendar.

ACTING CHAIRPERSON PELKOFER: All right. Without objection, those items will be taken off the calendar.

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As to the other items in the Consent Calendar up to Item 19, any comments? If not, without objection, those items will be deemed approved.

Next item on the regular calendar is Item 20, Shareholders' Liquidating Trust, approval of an assignment and amendment of commercial leases.

Any question on those items? Staff, any comments? Commissioners, comment?

Anyone in the audience on Item 20?

Hearing none, and without objection, Item 20 is approved.

Item 21, the City of Santa Barbara, approval of expenditure of revenues in excess of \$200,000.

Any comments from staff, Commissioners, the audience? Anyone in the audience on Item 20 (sic).

Hearing no objection, Item 21 is approved.

Item 22, Mrs. Edna Patterson, and (it's an authorization for a waiver of the State school land sales restriction.

Any comment from staff, audience, Commissioners?

Hearing none, without objection, that item is approved.

Item 23, the City of Long Beach, approval of the eleventh modification of the Plan of Development and Operations and Budget.

1 Anything on that, staff, Commissioners? Anyone
2 in the audience on Item 23?

3 Without objection, approved.

4 Item 24, City of Long Beach, request for action
5 on bids for sale of crude oil allocation to Tract 1, Long
6 Beach Unit.

7 Any comment? Anyone on that? In the audience?

8 Without objection, Item 24 is approved.

9 Item 25, the State Lands Commission, rejection
10 of four bids for geothermal resources leases in Lake and
11 Mendocino Counties.

12 Any comment from anyone on that item? Let's
13 see. Mr. Hays, you wish to address the Commission?

14 MR. HAYS: Yes, I do.

15 ACTING CHAIRPERSON PELKOFER: Have a seat please.

16 MR. HAYS: My name is Randall Hays. I am the
17 City Attorney for the City of Redding, as well as General
18 Counsel for MSR Public Power Agency.

19 MSR has been the bidder on the parcel W 40013.

20 You have before you a staff recommendation that
21 this particular bid be rejected at this time. We feel that
22 staff has focused only on one issue. They feel that the
23 bid is non-competitive. We, however, feel that there are
24 other issues that the Commission should focus on in this
25 matter. Broadly stated, those are the objectives of the

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MSR Public Power Agency and the leasehold characteristics.

The MSR Public Power Agency is a joint powers agency made up of the Modesto Irrigation District, the City of Santa Clara and the City of Redding. Each of those entities provide electricity to its citizens and the commercial developments in those areas. The citizens involved amount to something in excess of 200,000 residents involved.

The major objective of MSR is not to develop steam itself, but to produce electricity from the geothermal resource. We have other projects in The Geysers area. In the MSR program there is no intermediate steam supplier. We are involved in the exploration and development of our own steam supply in order to develop the electrical energy.

Because MSR would develop its own power plant, it is certainly likely that a facility would be brought on line earlier than one which has a separate steam supplier, possibly in common parlance, a speculator, and a separate power plant owner. The bid itself represents a 12 and a half percent royalty with a 12 percent net profits basis and we feel that because of the above these particular dollars would accrue to the State several days earlier than they might otherwise accrue.

By accepting the bid of MSR, the Commission

1 will be assisting this public power agency in meeting its
 2 objectives of providing clean, economical energy to the
 3 citizens of California. At the same time, we feel like
 4 our stated revenues will be generated earlier.

5 Now, with regard to leasehold characteristics,
 6 in the past the State has awarded geothermal leases where
 7 only one bid has been received. I would refer you to
 8 State Parcel PRC 6114. Further, the extremely high
 9 percentage of net profits bid that the State has previously
 10 received don't necessarily reflect the value of the
 11 resource. The extremely high net profits bids of the past
 12 may have occurred for other reasons. Basically, there
 13 might have been tax advantages for the private investors
 14 to be involved and from a corporate structure they were
 15 able to talk about the large net profits on this particular
 16 situation while it had a beneficial effect on the
 17 corporation?

18 One of the important features that we feel that
 19 you should consider is the location of this particular
 20 unit of ground, as well as its size. It is 320 acres in size,
 21 smaller than optimal to support a conventional geothermal
 22 plant. It is as well several miles northwest of the
 23 proven production area. In other words, it's moved out
 24 from the area where land that does not geologically
 25 possibly provide the same information that has been

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1 developed in the main developed area of The Geysers.

2 In July of 1982, the U.S. Bureau of Land
3 Management offered several geothermal leases for
4 competitive bidding. Two of the parcels that were offered
5 by them are immediately adjacent to this Parcel W 40013.
6 They are as well substantially larger in size than this
7 parcel. The successful bidders offered cash bonuses of
8 \$318 per acre for Parcel 28 as it was called in their bid
9 which was 2548 acres and \$1,002 for Parcel 27 which was
10 1573 acres. Although the State does not bid in this
11 method, it is possible to estimate an equivalent cash value
12 using the net profits percentage. I'd like to give you
13 those figures that MSR has developed.

14 MSR has estimated that a 12 percent net profits
15 interest bid ranges from an equivalent cash value of
16 \$10,000 per acre to \$16,000 per acre. This is substantially
17 higher than the accepted Federal bids.

18 We would urge you that based on the objectives
19 of MSR and on the leasehold characteristics that the
20 Commission not follow the staff's recommendation but
21 instead accept the 12 percent of net profits bid by MSR
22 on Parcel W 40013.

23 Thank you.

24 ACTING CHAIRPERSON PELKOFER: Comment by
25 Commissioners?

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COMMISSIONER McCARTHY: I have some questions.

ACTING CHAIRPERSON PELKOFER: Mr. McCarthy,

COMMISSIONER McCARTHY: City Attorney Hays makes the point that there's precedent in the past and in other situations where there's only been one bidder. I think I heard him make that point in his presentation. Do you want to respond to that.

EXECUTIVE OFFICER DEDRICK: Yes. This is one of the reasons why we're recommending that we stop and take a new look at our geothermal leasing program. We have received in the past very good bids. They've been getting worse as time goes on and we think there are two basic reasons for that. One of them is the problem of surface owner matching which we've discussed which is statutory. The other is that we feel that our leasing program is getting ahead of development which is what Mr. Hays pointed out. These parcels are, in this case, some distance from a proven resource. We would like the opportunity to take a new look at the direction the geothermal leasing program should be going. As you know, we've just received another 15, 1800 acres of lands from the Federal Government in The Geysers area. The bids are bad enough, but there's certainly no urgency to go to lease on these parcels. We think the State should be getting more out of them than the recent bids have shown and -- I guess, does that

1 answer your question, Governor?

2 COMMISSIONER McCARTHY: Have we rejected other
3 bids, geothermal leases, where there was only one bid?

4 EXECUTIVE OFFICER DEDRICK: Is Moose there?

5 MR. HIGHT: I don't believe we've rejected any
6 in the past.

7 EXECUTIVE OFFICER DEDRICK: Mr. Thompson and
8 Mr. Everitts are the experts on this.

9 MR. THOMPSON: I think in essence the bid that
10 they're referring to ~~where~~ there was only one single bidder
11 was I think the last one that was awarded and this will
12 give you an indication of where the bidding was going.

13 The main problem you see in this map up here is
14 we are getting quite a ways from the development, and,
15 therefore, net profit bids really lose their true impact.

16 COMMISSIONER McCARTHY: Are you addressing my
17 first point? I have a couple of questions regarding the
18 level of the bids. The first point I want to make is that
19 we went forward with a process calling for bids. One
20 bid was made and I appreciate the fact that that bid is
21 outrageous. Mr. Hays makes an argument in the latter part
22 of his presentation that they're competitive dollars. But
23 on the first point I'm addressing the process itself. Have
24 we up to this point accepted a single bid, and the answer
25 to that is yes?

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1 MR. THOMPSON: One instance.

2 MR. EVERITTS: One instance and that was the last
3 sale we had.

4 COMMISSIONER McCARTHY: So there has only been
5 one other time where this occurred?

6 MR. EVERITTS: Yes.

7 EXECUTIVE OFFICER DEDRICK: Mr. McCarthy, at that
8 meeting at which that occurred, the Commission expressed
9 real dissatisfaction with the way the process was going.
10 That was about a year ago if my memory serves.

11 MR. EVERITTS: It was --

12 MR. THOMPSON: The concern was that lots of times
13 there was only going to be one bid because the person who
14 had the right of first refusal on the landowner's side was
15 more or less in the driver's seat.

16 COMMISSIONER McCARTHY: Why did we go forward
17 with the process again?

18 MR. EVERITTS: The process and progress and
19 we hoped maybe we were wrong and they'd come back to, well,
20 we thought more competitive bidding.

21 MR. THOMPSON: There's another issue here. In
22 effect you're tying up lands for a long period of time.
23 For example, MSR has had another parcel here for two and
24 a half years and has not drilled on it. We are just now
25 getting through and --

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1 COMMISSIONER McCARTHY: How is that related to
2 this point?

3 MR. THOMPSON: You raised the point of what we
4 were doing in the overall plan.

5 COMMISSIONER McCARTHY: The fact that MSR has
6 another piece of land that they haven't drilled on for
7 two and a half years. That may be related. I don't see
8 it immediately. Tell me how it's related to this issue
9 of this --

10 MR. THOMPSON: It relates to the overall problem
11 that we have gotten ourselves into a situation of getting
12 too fast on our leasing and going too far out.

13 MR. EVERITTS: I think the point, part of the
14 point is, here is an area generally that's the productive
15 area in The Geysers area. This is where the electricity is
16 being generated. Here is a series of leases that we've
17 issued which really nothing's been done on. We think at
18 this point they're probably inadequately explored. Now,
19 we came out to another area really frontier land and we
20 think we got ahead of ourselves in our leasing program
21 because we don't know what's going to lie between here and
22 there and we ought to find out what we've got here which
23 very well may increase the value of this. We incidentally
24 don't agree with the number we just heard from MSR as to
25 the comparative value of the bids.

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COMMISSIONER McCARTHY: That's another issue in a minute.

Okay. So maybe you're having second thoughts now about even having gone forward on the process --

MR. THOMPSON: We definitely are, yes. Yes, we are.

MR. EVERITTS: Yes.

COMMISSIONER McCARTHY: -- of leases of land here.

Okay. Why don't we address the second point now and if there's a little interchange here between your staff, Ms. Dedrick, and Mr. Hays on his calculation of the return to the State from these leases.

MR. THOMPSON: Well, again, we have to qualify all these as being a strict guessing game. You're trying to guess at what the land is worth when you're quite a ways away from any drilling activity that tells you whether there's a resource there or not.

COMMISSIONER McCARTHY: You're saying that Mr. Hays' factoring is too speculative?

MR. THOMPSON: He's trying to translate a bonus bid on Federal lands into a net profits concept on State lands. His correlation may be good. It may not be good.

COMMISSIONER McCARTHY: Mr. Hays, do you want to add anything to that point?

MR. HAYS: If you want technical data on that,

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1 I would have Mr. Jim Wazlaw address you who is an engineer
2 with SAI Engineers.

3 The calculations that were done were based upon
4 the Federal bids that were on parcels immediately adjacent
5 to this piece of ground, were not off in another countryside
6 making the calculations. So maybe Mr. Wazlaw could address
7 the technical --

8 COMMISSIONER McCARTHY: Has there been any
9 conversation between you and -- I'm sorry, Mr. Wazlaw?

10 MR. WAZLAW: Wazlaw.

11 COMMISSIONER McCARTHY: -- and our staff on the
12 Commission prior to your calculations and your assessment?

13 MR. WAZLAW: Yes.

14 COMMISSIONER McCARTHY: So there's just basic
15 disagreement on how those dollar numbers were reached?

16 MR. WAZLAW: I might be able to add a little to
17 that. We've met with the Lands Commission --

18 COMMISSIONER McCARTHY: Why don't you use a
19 microphone?

20 MR. WAZLAW: We've met with the Lands Commission
21 staff on several occasions in the last few months and we've
22 shown them the type of analysis we did. As Mr. Thompson
23 said, they're based on many assumptions and the assumptions
24 can vary quite a bit. But, as Randy Hays mentioned,
25 depending on the assumptions we use, we get an equivalent

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1 cash bonus -- and I can comment on the equivalency of it
2 in a moment; it is and it isn't -- of 10 to 16 dollars
3 an acre.

4 The Lands Commission staff did not necessarily
5 agree that it was 10 to 16,000 dollars an acre, although
6 with some rough calculations that they did, it got up into
7 the several thousands of dollars an acre, 3 to 4,000 dollars
8 an acre. Now, if you compare that to the Federal bids
9 even, it's still an order of magnitude higher than the
10 recently bid or Aminoil matched the Federal parcel just
11 to the southwest of the parcel in question. That went for
12 \$318 an acre. Immediately to the north, Union Oil
13 successfully bid to the Federal Government \$1,002 an acre.
14 So whether it's 10 to 16 as we might propose, or even
15 the 3 to 4 that the Lands Commission staff proposed, it's
16 substantially higher than the Federal bids.

17 MR. THOMPSON: If there were to be a well drilled
18 on the property line between these two properties and
19 it produced steam at a commercial rate, then both properties
20 would be worth more than the net profits bid or the bonus
21 bid. If it turned out to be a hole with no temperature
22 and no steam, then both bids would be too high. This is
23 the spectrum you have here of 180 degrees apart.

24 ASSISTANT EXECUTIVE OFFICER TROUT: I think,
25 Governor, you may recall that the State has felt or at

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1 least the staff of the Commission has felt that the
 2 Federal leasing system is not a very effective system.
 3 It tends to give the resource away. Therefore, comparisons
 4 with the Federal system tend to always look good because
 5 they tend to give the resource away.

6 COMMISSIONER McCARTHY: Their process on
 7 geothermal leasing is similar to the process on offshore
 8 oil drilling?

9 ASSISTANT EXECUTIVE OFFICER TROUT: Yes. The
 10 Geothermal Leasing Act, or Geothermal Steam Act is patterned
 11 very much after the Mineral Lease Act, and they tend to
 12 give it away.

13 MR. THOMPSON: Conversely, if you want to go to
 14 net profits type bidding, you have to have enough informa-
 15 tion so that one can really evaluate the resource. Right
 16 now this is strictly speculative.

17 COMMISSIONER McCARTHY: Do you want to respond
 18 to that?

19 MR. WAZLAW: Yes. The Federal Government does --
 20 I'm not going to defend the policies of the Federal
 21 Government, but occasionally the Federal Government does
 22 receive very high bids and occasionally they reject a bid.
 23 I'm trying to think. Several miles east there was a bid
 24 up near \$10,000 an acre to the Federal Government, lease
 25 sale. It was in the midst of one of the major developer's

1 properties, and they didn't want anybody else to have it, I
2 presume. It must be good, so they bid high. So they do
3 get high bids at proven properties.

4 COMMISSIONER McCARTHY: I just have an impression
5 that the overall pattern of the Federal leasing bids they
6 don't drive too hard a bargain.

7 MR. WAZLAW: That's quite possible.

8 MR. THOMPSON: They have so much acreage that they
9 can afford to make money on the bonus bidding in dry holes,
10 non-productive properties.

11 MR. HAYS: If I might, I would like to make a
12 response to the statement that was made with regard to the
13 non-drilling of a parcel owned by MSR. The parcel itself
14 is a little parcel containing 40 acres. We have to
15 negotiate access through property owned by Aminoil. I would
16 like to point out to the Commission that south of that,
17 down on property I think that is probably behind a chair,
18 MSR has property commonly called the Abril property and we
19 have successfully bid on some Federal leases in that area,
20 and to date we've spent in excess of \$10 million on the
21 drilling program. So I don't think that we can be
22 characterized as not dealing with the lease --

23 COMMISSIONER McCARTHY: That's the point I was
24 going to get to was I don't remember which one of our staff
25 made the point, but I got the impression that there was

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1 virtually inaction for two and a half years. Is that what
2 you meant to convey?

3 MR. THOMPSON: In other words, that lease will
4 expire in about another six months. Also in the same
5 area --

6 COMMISSIONER McCARTHY: How would you characterize
7 what action they've taken on the lease so far, what action
8 MSR has taken? How diligently have they pursued?

9 MR. THOMPSON: Do you have any response for that?

10 EXECUTIVE OFFICER DEDRICK: Al.

11 MR. EVERITTS: To my knowledge they haven't
12 pursued it.

13 MR. WILLARD: They haven't pursued anything.

14 COMMISSIONER McCARTHY: Well, I just heard a
15 witness from MSR say they've spent \$10 million. Perhaps
16 we should get a little clearer --

17 MR. THOMPSON: He meant on other parcels.

18 MR. HAYS: With regard to the 40-acre parcel,
19 MSR has not done anything other than to try to get access
20 to the ground since it is surrounded by Aminoil. That
21 has made it rather difficult to do.

22 COMMISSIONER McCARTHY: Is that a fair response?

23 MR. THOMPSON: In 1980 also a bunch of leases
24 were issued in between this deal. There has been no
25 drilling on those. We have this problem of prospecting

1 permits of these leases being tied up for a three-year
2 initial term. After three years they must then relinquish.
3 We've got some properties coming up here that are probably
4 going to have to be relinquished because of this lack of
5 drilling.

6 COMMISSIONER McCARTHY: I think the issue has
7 been raised that MSR has not been diligent on this other
8 piece of leased ground. Your response to that is it's
9 surrounded by Aminoil and, therefore, you have some
10 difficulty getting access to it?

11 MR. HAYS: That's correct.

12 COMMISSIONER McCARTHY: Have you been refused
13 access to it by Aminoil?

14 MR. HAYS: Yes, we have, as well as by the
15 landowner.

16 MR. EVERITTS: The landowner of the 40-acre
17 parcel will not allow them to use the surface. We have
18 to --

19 COMMISSIONER McCARTHY: What does the bidding
20 process mean, then? What rights do they have having won
21 that bid? I'm missing something here. If we have a
22 bidding process and they win and then they're refused
23 access, what do we do about that?

24 MR. HIGHT: The bidding process -- my problem
25 is I don't know exactly what happens. The bidding process

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1 requires access. The Commission's power and authority in
2 that area gives the successful bidder the access. I don't
3 know what the exact problem is here. I'll have to
4 investigate that.

5 COMMISSIONER McCARTHY: Mr. Hays, have you
6 advised the Commission in timely fashion you did not gain
7 access?

8 MR. HAYS: The Commission staff has been aware of
9 that from rather early on, yes.

10 I think the statement that was made is misleading.

11 COMMISSIONER McCARTHY: The only reason I'm
12 pursuing this point is I take it it was raised in the
13 context of MSR's past performance in not diligently
14 pursuing another winning bid that they had.

15 MR. THOMPSON: No. MSR is a pattern of the
16 other ones we have in the same area. In other words,
17 there isn't drilling going on because it's far enough away
18 from the development that no one is going to drill there
19 for a while.

20 COMMISSIONER McCARTHY: That's not the testimony
21 we just heard. We were told there wasn't activity there
22 because they can't gain access to the property.

23 MR. THOMPSON: MSR is one of a series of parcels
24 in here that were done the last time bids were awarded that
25 we're having trouble with also.

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1 EXECUTIVE OFFICER DEDRICK: It's two general
2 points. I think the point you're to make is why in the
3 world would we lease something, would anybody even pick
4 up a lease if they didn't have surface access. I'm not
5 certain I can answer that question, but we might be able to.
6 Bob --

7 COMMISSIONER McCARTHY: Let me just tell you the
8 basis of why I'm even bothering to ask all these questions
9 because normally I go along with the staff recommendation
10 in something like this.

11 I am concerned with the bidding process in any
12 State agency. I recently wrote a letter to General Services
13 Department about their full bidding process inviting people
14 into spend money in the bidding process and then throwing
15 out a low bidder. This is a little different case. There's
16 only one bidder here. But I take it that is permitted under
17 the law and that was known generally and we did not attempt
18 to change State law and did not attempt to stop this process.
19 We made the conscious judgment that they could bid. Now
20 they come in with a bid and I appreciate there can be
21 certainly grounds on which we would reject that bid. I'm
22 trying to understand what they are here and so far I'm
23 not convinced, frankly, why we should put this public
24 utility or a private utility, anybody, put them through the
25 bidding process, the cost that entails. If we're going to

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1 reject them, we have to have pretty solid policy grounds.
2 Maybe I'm just not grasping it yet.

3 EXECUTIVE OFFICER DEDRICK: Governor, I think
4 that an important point is that the Commission retains
5 discretion to reject bids. The bidders are aware of that
6 at the time they enter the bidding process. The
7 Commission has rejected bids in other places. Whether
8 we've rejected them recently on geothermal or not, you have
9 that discretion.

10 COMMISSIONER McCARTHY: I understand we have the
11 discretion and the point I'm trying to make is that I have
12 seen the discretion not used well at the General Services
13 Department in past years and I am just trying to see, I'm
14 trying to see if I think when we invite people to make
15 bids, we better have solid policy grounds, well-founded,
16 to reject the bid. We knew that there might be only one
17 bid under the law. We invited the bid. Now, I'm just
18 trying to understand what are our policy reasons for
19 rejecting this single bid. I've heard the testimony.
20 I'm not sure I understand.

21 EXECUTIVE OFFICER DEDRICK: Well, the primary
22 reason that staff is recommending this whole package be
23 rejected is that we really feel, and I think the testimony
24 today supports that, that our leasing program has gotten
25 too far ahead of proven reserves and, therefore, the bids

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1 are getting very low.

2 Point to the developed area, Al, down here
3 and the area where MSR is working on a plant behind Lynn's
4 chair, there are plants in that area. There are wells
5 producing. Now, we're talking about leasing in an area
6 where there are no proven wells and we're getting very poor
7 bids as a result of that. You are probably unaware that
8 the Extractive Division was reorganized last year. Moose
9 Thompson became Chief and Mr. Everitts Deputy Chief.
10 One of the results of that reorganization has been taking
11 a lot closer look at various things, particularly the
12 geothermal program. As a result of the discussions before
13 the Commission about a year ago, I made that a priority
14 for Mr. Thompson and Mr. Everitts to take a hard look at
15 the geothermal situation and see what we should be doing
16 about it at the State Lands Commission. This rejection of
17 these bids is an outgrowth or is a result of that
18 reevaluation of our whole program. The geothermal leasing
19 program had kind of just grown like topsy and it wasn't
20 really being looked at very carefully.

21 In terms of the revenue to the State, I think
22 we should look at geothermal as a long-term resource.
23 We are about a half owner, we own just about half of the
24 productive or possibly productive land up there. We can
25 afford to be cautious in going forward on leasing. I think

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1 that as a matter of State policy, obviously, you people have
2 that authority and responsibility. But I think what we
3 would recommend is we're looking down the road at that
4 resource. Our people feel that it will become more valuable
5 as time goes on even if the surface owner legal problem
6 isn't solved. But at the moment, it's pretty obvious
7 that we're getting low bids, tying up lands for three years
8 with very little activity on a variety of parcels, not just
9 the one MSR has because there is the financial impetus
10 right now for development in that portion of the field.

11 That's the reason for our recommendation, our
12 basic reason for recommending you reject all these bids.

13 ACTING CHAIRPERSON PEKLOFER: Mr. Franchetti.

14 COMMISSIONER FRANCHETTI: I have some questions
15 to ask of Mr. Hays. You're the City Attorney of Redding;
16 is that correct?

17 MR. HAYS: That's correct.

18 COMMISSIONER FRANCHETTI: And Redding is a member
19 of MSR Public Power. Does that supply power to Redding?

20 MR. HAYS: That is the intent of that agency.

21 COMMISSIONER FRANCHETTI: A municipal utility?

22 MR. HAYS: Yes. As a matter of fact, MSR just
23 purchased a 28 percent interest in a coal-fired unit in
24 Arizona and is presently developing the transmission grid
25 for that power.

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1 COMMISSIONER FRANCHETTI: What portion -- well,
2 let me start this way. How soon or can you tell us would
3 MSR be looking to develop this parcel that you've submitted
4 this bid on?

5 MR. HAYS: I frankly don't have any hard informa-
6 tion on that at all. The Commission has not, at this
7 point, because of the unknown situation with regard to this
8 bid, assigned any staff to develop a development program
9 at all for this particular piece of ground.

10 COMMISSIONER FRANCHETTI: So is it fair to say
11 that MSR has no idea if this is going to generate any
12 power at all?

13 MR. HAYS: I think that statement could be made
14 with regard to any land in that area because you drill a
15 hole and you hope you find steam. So to say that you're
16 sure that a parcel is going to develop power is difficult
17 to do.

18 COMMISSIONER FRANCHETTI: On what share of the
19 MSR power generating source, you might say, would this
20 type of parcel be? How much would MSR be relying upon
21 electricity generated from this source in comparison to
22 other sources such as the coal source or nuclear or what
23 ever you happen to have?

24 MR. HAYS: Nuclear we lost on. We tried that.
25 Right now the resource for the members of MSR consist of

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1 PG&E, Western Area Power Administration and Hetch-Hetchy
2 if I remember correctly. The goal of those groups is to
3 develop to the extent possible independence from other
4 suppliers of energy. So the number is one that goes
5 up based upon the availability of resources.

6 COMMISSIONER FRANCHETTI: Is there an overall
7 plan to have 50 percent this and 10 percent this type
8 thing? Are you aware of that?

9 MR. HAYS: The general manager would be a better
10 person to answer that question. I don't have a figure
11 for you. I'm sorry. Mr. Wazlaw may have some information.

12 MR. WAZLAW: I'd like to add that at least two
13 members of MSR belong to another municipal power agency,
14 the Northern California Power Agency. Recently the
15 Northern California Power Agency brought on line a 110
16 megawatt geothermal power plant in The Geysers which is the
17 first non-PG&E plant. So the members of MSR are quite
18 serious about producing electricity with geothermal
19 power.

20 As was mentioned briefly a few minutes ago,
21 MSR is diligently pursuing development of a 1500-acre
22 parcel several miles south of the parcel in question here.
23 Within a period of less than two years it sunk in excess
24 of \$10 million into the property to develop it finally
25 with some success. That too was a step-out area. So the

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1 is some seriousness on the part of the members of MSR
2 to develop.

3 COMMISSIONER FRANCHETTI: Now, if these leases
4 were to be issued and no -- perhaps this is a question
5 to ask of Claire -- and no action were taken, how long
6 would the rights be that MSR and Aminoil would have?

7 EXECUTIVE OFFICER DEDRICK: Two years or three.

8 MR. THOMPSON: Three years.

9 COMMISSIONER FRANCHETTI: Three years. And if
10 nothing were to happen during that period of time --

11 MR. THOMPSON: And there's very little cash flow
12 to the State in that meantime.

13 COMMISSIONER FRANCHETTI: What sort of action
14 would they have to take to comply with the lease to keep
15 the lease going?

16 MR. THOMPSON: They would have to prepare an EIR
17 and drill some wells.

18 COMMISSIONER FRANCHETTI: Do you think, Mr. Hays,
19 that MSR is going to do that in this three-year period of
20 time or is this sort of speculative?

21 MR. HAYS: I don't think it's a speculative
22 venture at all. I think MSR is serious about its program.
23 I think what we boil down to here today, it seems to me,
24 is somewhat of the chicken and an egg argument. We're
25 talking about the price going up when you know more about

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1 the resource. The proven way to find out about the resource
2 is to drill wells. We presently find ourselves, as Mr.
3 Jazlaw pointed out, drilling in what is considered to be
4 a step-out area. It is somewhat removed from the main
5 fault lines and we find ourselves educating geologists.

6 COMMISSIONER FRANCHETTI: Is anyone here from
7 Aminoil? No one's here from Aminoil.

8 EXECUTIVE OFFICER DEDRICK: I don't think so.

9 COMMISSIONER FRANCHETTI: That's all I have.

10 COMMISSIONER McCARTHY: One other question.
11 How do these percentages compare to your past experience
12 on geothermal?

13 MR. HIGHT: Extremely low.

14 COMMISSIONER McCARTHY: Got any numbers for any
15 specific projects?

16 MR. HIGHT: With a high of 97 and the average
17 somewhere in the high 40s.

18 COMMISSIONER McCARTHY: The average --

19 MR. THOMPSON: Al, if 12 percent were awarded, this
20 would be the lowest net profits that have ever been awarded?

21 MR. WILLARD: Right. Yes. Immediately adjacent
22 here is 70 percent, 80 percent and 97 percent adjacent to --
23 this parcel is located over here. So we have received
24 significantly higher bids in the vicinity.

25 COMMISSIONER McCARTHY: Those higher bids that you

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1 received, those were on sites close to where finds had
2 already been made because there was an investment in
3 exploration?

4 MR. WILLARD: Not really. The major development,
5 again, is down here in existing leases. The trend certainly
6 looks this way and --

7 MR. EVERITTS: The higher bids are closer. They
8 may not be that much closer, a mile or two.

9 MR. WILLARD: But they certainly offset these
10 parcels.

11 COMMISSIONER McCARTHY: Is your bidding pattern --
12 we've discussed this with offshore oil leases somewhat.
13 Is the bidding pattern here that the percentages go lower
14 the greater the distance from the find so that maybe the
15 probability of not hitting something is high?

16 MR. THOMPSON: Not necessarily the probability,
17 it's the uncertainty. A bidder doesn't know if he has to
18 put a higher, higher risk factor in his bid. Therefore,
19 he has to discount it more and more.

20 COMMISSIONER McCARTHY: Are we involved in a
21 tradeoff where these two bidders, Aminoil and MSR, are
22 going to sink more money into these sites and possibly not
23 come up with anything?

24 EXECUTIVE OFFICER DEDRICK: That's always a risk.

25 COMMISSIONER McCARTHY: Is that the argument for

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1 lower percentages? You accept that? You're saying these
2 percentages even so are still too low?

3 EXECUTIVE OFFICER DEDRICK: I think even so they
4 are still too low. After all, the adjacent parcels, as
5 Al just pointed out, have had pretty high bids on them and
6 those bids were accepted by the Commission.

7 MR. THOMPSON: If you're going to go get profits,
8 maybe it's better for both sides to wait until you get
9 more and more information. So in effect you're not going
10 to have to drill some wells out there if it's not commercial
11 or if it is commercial, then the State should really get
12 a higher return on it.

13 COMMISSIONER McCARTHY: How would we obtain that
14 additional information?

15 MR. THOMPSON: The pattern is beginning to develop
16 coming out there right. There are development plans for
17 leases issued in 1977 that are just going through the mill
18 right now on 5217.

19 COMMISSIONER McCARTHY: So you mean the peripheral
20 areas immediately peripheral where the finds have already
21 been made, you've determined those and then move out.

22 MR. THOMPSON: Right. And when you see that the
23 lease issued in 1977 is just now going to come into
24 fruition in a development plan almost six years later, this
25 is a slow process because it is a risk business as far as

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1 drilling wells.

2 ACTING CHAIRPERSON PEKLOFER: Well, the Commission
3 is gathering information as well because as they move out,
4 if there's no steam found, then they won't really be leasable.

5 MR. THOMPSON: You're not going to lose any money
6 here because in effect the lease rentals are so low that
7 if you don't award the bids, you're not going to have any
8 revenue loss.

9 ACTING CHAIRPERSON PEKLOFER: Okay.

10 MR. EVERITTS: There's no revenue until there's
11 production essentially.

12 EXECUTIVE OFFICER DEDRICK: So that happens either
13 way.

14 ACTING CHAIRPERSON PEKLOFER: Is the staff
15 basically saying that regardless of all this information
16 that we've been discussing, they still think the bid price
17 is too low? Is that the basic position?

18 EXECUTIVE OFFICER DEDRICK: Yes.

19 MR. THOMPSON: And it will be in the State's
20 economic interests to wait and rebid these later on.

21 COMMISSIONER McCARTHY: May I ask this question?
22 Do we -- I guess this is public information -- do we
23 provide the history of bids in this area to new bidders
24 so that they have the most information they can have in
25 front of them before they go through the entire bidding

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1 process?

2 MR. THOMPSON: This is all public information.

3 MR. EVERITTS: It is public information. It is
4 available. We have not sent a list out with a notice bid.

5 MR. HAYS: But I will add that anybody that does
6 bid does check the record.

7 COMMISSIONER McCARTHY: So you were aware of the
8 history of the bidding percentages?

9 MR. HAYS: Yes, we were, but I think some other
10 questions have to be asked of staff. Are these bids that
11 they talk about that are 80 and 90 percent would lead one
12 to believe that they're good resources. What has happened
13 on those resources? A fairly large number of them have
14 not resulted in any drilling program.

15 MR. EVERITTS: That's part of our problem. Why
16 get some more leases that aren't going to have any drilling
17 on them?

18 MR. HAYS: The high bid does not guarantee it's
19 going to develop into a resource or a drilling program.

20 COMMISSIONER McCARTHY: How many of the bids, on
21 that point, how many of the bids here -- I've got a list of,
22 oh, gosh, it's over a dozen that do range, the low bid was,
23 as I read this, was 22.76 percent up to that 97.5. How
24 many of these have come in, have been finds?

25 MR. WILLARD: Just one has.

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1 MR. HAYS: And the one he's pointing at is 47
2 percent.

3 ACTING CHAIRPERSON PELKOFER: Well, are the rest
4 at a point where you would have production or a find?

5 MR. WILLARD: They're in that drilling term, that
6 first three-year period.

7 MR. EVERITTS: Mr. Thompson mentioned earlier
8 that there's a few of them that have been terminated within
9 a very short time. There's just no way they can drill --

10 COMMISSIONER MCCARTHY: So this whole leasing
11 program started three years ago. Were any of these
12 leases earlier than that?

13 MR. THOMPSON: Almost six years ago.

14 EXECUTIVE OFFICER DEDRICK: Point out where there
15 is production on State leases so that the Commission can
16 get a perspective as to what we're doing. What percentage
17 of that territory is State owned? It's most of it.

18 MR. WILLARD: This is all State here.

19 MR. EVERITTS: The cross-hatched area is State
20 lands.

21 EXECUTIVE OFFICER DEDRICK: Okay. In reevaluating
22 the geothermal program, as I've discussed earlier, various
23 problems appeared. One of them is the problem of too high
24 a net profits bid that doesn't get anywhere. The other is
25 too low a net profits bid that doesn't get anywhere. Another

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1 is some statutory requirements on the minimum sizes which
 2 we are attempting to correct in the Legislature this year.
 3 As you can see, some of those parcels are rather small and
 4 broken up. We need to have some method of consolidating,
 5 so to speak, unitizing the parcels with other owners.
 6 We are not the only owner in the area. To do that we have
 7 to develop formulas that will be functional but will work
 8 for the geothermal producers as well as for the State and
 9 the other owners.

10 I feel very strongly about this particular
 11 project because I think that on the whole both State law
 12 and the contracts for geothermal are extremely wasteful of
 13 the resource. For instance, the way the State or any other
 14 owner gets paid for the steam is on the amount of electricity
 15 generated. Now, properly with that kind of a resource where
 16 it has to run all the time -- you can't shut in a geothermal
 17 well when electricity isn't required and then turn it back
 18 on -- properly that should be base load power. It is not
 19 normally, it is not consistently used as base load power.
 20 In years such as this one where there's a lot of hydro,
 21 that steam is literally actually wasted. It's vented into
 22 the atmosphere. Now, that's throwing away a resource.
 23 There's got to be a better way to handle that.

24 One of the things that staff's thought about is
 25 it would be extremely nice if we could wheel the energy

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1 from the geothermal area to Wilmington Oil Field and be
2 able to utilize that. State law is not at all helpful on
3 the question of wheeling power. I think that we really need
4 to seriously look at the long-term future of this geothermal
5 producing area and have the Commission come to a policy
6 decision as to what's the best way to go, whether we go
7 to the Legislature on some of the more critical issues such
8 as the surface matching provision which of course would be
9 very, very unpopular with a great many people or not is an
10 area that we really haven't discussed with you since you've
11 been Commissioners.

12 I think the most orderly thing to do is to simply
13 reject these bids and come back to you with a briefing as,
14 a broader briefing, as to the very many ramifications of
15 this geothermal resource that we manage for the people and
16 go forward with a program that is more consistent with
17 resource conservation and with reasonable return to the
18 State.

19 COMMISSIONER MCCARTHY: All right. Let me make
20 one concluding remark, two pieces. Number one, I think we
21 should try to have a program that moves forward aggressively
22 and allows geothermal leasing. This is a generally
23 acceptable source of energy and I think we're going to have
24 trouble with other sources of energy that we're counting
25 upon and I think we should try to speed ahead with this.

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1 I think there are ways we can do it.

2 I think the second piece is I really think we
3 have to take whatever steps we need to do to advise potential
4 bidders as to what we're going to do in situations like
5 this. I don't want to encourage people to bid, private
6 sector, public sector, to bid and expend money. These
7 folks are expending money from local governments. I don't
8 know how much they spent. But if it was \$100,000, it's
9 something that should be avoided.

10 EXECUTIVE OFFICER DEDRICK: Governor, a way to
11 solve that problem is a procedure the Commission just
12 recently adopted in royalty oil sales and that's to set
13 a minimum. What are you going to accept? If you're not
14 going to accept less than 47 percent, then say so.

15 COMMISSIONER McCARTHY: That's fine. I think
16 something like that should be done in this instance so
17 these folks know whether they should even be bidding or
18 not.

19 MR. THOMPSON: Also, if we get some direction
20 from the Commission as to whether they would like some
21 kind of bonus payments or higher rental payments so some
22 revenues are coming into this State during this three-year
23 period for two things, for State revenue, and also for
24 higher motivation to drill.

25 ACTING CHAIRPERSON PEKLOFER: Unless there's

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1 some other comments, Mr. Franchetti.

2 MR. HAYS: Mr. Wazlaw has a comment about the
3 income situation.

4 MR. WAZLAW: One comment, two really. First of
5 all, I guess to reiterate, the high bids near a hundred
6 percent, one would think they're pretty suspect from a
7 business-wise standpoint. So there may have been other
8 reasons to bring a high percentage bid into the game here
9 which raises the average up to what we heard was near 40.
10 Somebody bidding a hundred percent of their profits has
11 got some good reasons for doing so.

12 Secondly, the members of MSR Public Power Agency
13 in the late 1970s on their geothermal power plant that is
14 now operating embarked on a new procedure to purchase steam
15 from a developer. No longer would they purchase steam on
16 a kilowatt-hour basis. They purchased it on a pound-per-
17 hour basis necessitating more efficient power plants.
18 So the NCPA power plants operating today in The Geysers
19 is up to 25 percent more efficient than the existing
20 operations in The Geysers. So what you're seeing the
21 muni's doing and it may be economic sense why they're
22 doing it is to build efficient plants which are extending
23 the life of that resource.

24 ACTING CHAIRPERSON PELKOFER: Okay.
25 Mr. Franchetti.

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1 COMMISSIONER FRANCHETTI: I hate to drag this
2 on, but I do have a couple of questions that are important
3 to my vote.

4 Where are the Aminoil parcels? They're higher
5 bids. Are they right next to this parcel or what?

6 MR. EVERITTS: Here's --

7 COMMISSIONER FRANCHETTI: I can see. That's
8 fine. I'm interested in the three bids for 22, 21 percent.
9 How close are they to the MSR bid?

10 MR. WILLARD: Right next door.

11 EXECUTIVE OFFICER DEDRICK: On page 123D there's
12 a map.

13 COMMISSIONER FRANCHETTI: Are they closer to the
14 developed fields?

15 MR. THOMPSON: Some are closer. Some are farther
16 away. Some are almost parallel. Point them out again.

17 MR. WILLARD: Here's the closer one and here's
18 the development down here.

19 MR. THOMPSON: Point out the MSR.

20 MR. WAZI/AV: You might look at the relative
21 size of them, too.

22 COMMISSIONER FRANCHETTI: Do we have any rationale
23 why their bids are almost twice as high as the MSR bid?

24 MR. HAYS: There's a couple. There are a couple.
25 One is that the parcels involved are considerably larger.

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1 So you have a better possibility of finding a resource.
2 Secondly, they are involved in a program of unifying
3 properties, with which they had interest in.

4 COMMISSIONER FRANCHETTI: An effort to tie up
5 properties then for a period of time?

6 MR. THOMPSON: A common argument to that is if the
7 parcel is too small, then you should wait until development
8 comes around it and then you can unitize it better.

9 COMMISSIONER FRANCHETTI: Is it possible to vote,
10 Mr. Chairman, on these bids individually?

11 EXECUTIVE OFFICER DEDRICK: Certainly.

12 ACTING CHAIRPERSON PELKOFER: I don't see any
13 reason why not. I was going to raise that possibility as
14 well when we're ready to do that.

15 COMMISSIONER FRANCHETTI: I would like to vote
16 on them individually. We can put the Aminoil one together,
17 but the MSR one I'd like to vote separately.

18 ACTING CHAIRPERSON PELKOFER: Staff, have you
19 anything further?

20 On the item, what's the pleasure, to take each
21 of the bids separately for a vote?

22 All right, let's do that then if you'd like to do
23 that. I don't have the breakdown sheet in my materials
24 for some reason, so would staff indicate parcels?

25 MR. THOMPSON: Al, could you give the parcel

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numbers?

ACTING CHAIRPERSON PELKOFER: Mr. Hight, the

Aminoil parcel numbers are --

MR. THOMPSON: W --

MR. EVERITTS: W 40 --

COMMISSIONER FRANCHETTI: I intend to vote in favor of the MSR bid. I simply want to vote that separately. I don't intend to vote in favor of the other three.

MR. THOMPSON: The MSR parcel then is W --

MR. EVERITTS: W 40013.

ACTING CHAIRPERSON PELKOFER: Shall we consider that first then?

COMMISSIONER FRANCHETTI: All right.

COMMISSIONER McCARTHY: May I ask one more question before we proceed?

If the Commission did accept the bid by MSR, are we causing ourselves any legal problems as far as the Aminoil bids are concerned?

MR. HIGHT: No, I don't see any.

MR. STEVENS: It's discretionary.

ACTING CHAIRPERSON PELKOFER: Do I have a motion for acceptance or rejection of the MSR bid?

COMMISSIONER FRANCHETTI: I will move to accept the MSR bid.

COMMISSIONER McCARTHY: Second.

1 ACTING CHAIRPERSON PELKOFER: I have a motion and
2 a second. Do you formally call the roll or just ask for --

3 All right. All in favor?

4 (Ayes.)

5 ACTING CHAIRPERSON PELKOFER: Okay. I have two
6 votes and the bid is accepted.

7 Do you wish to consider the others as a group?

8 COMMISSIONER FRANCHETTI: That's fine.

9 ACTING CHAIRPERSON PELKOFER: The other items, the
10 other bids under Item 25.

11 COMMISSIONER McCARTHY: I move we accept the
12 staff recommendation of the other three.

13 COMMISSIONER FRANCHETTI: I second that.

14 ACTING CHAIRPERSON PELKOFER: We have a motion
15 and a second. All in favor?

16 (Ayes.)

17 ACTING CHAIRPERSON PELKOFER: Motion passes for
18 rejection of the other items.

19 COMMISSIONER McCARTHY: They didn't come.
20 Apparently they don't feel too passionately about it.

21 MR. HAYS: Thank you very much for your time.

22 ACTING CHAIRPERSON PELKOFER: Okay. Move on to
23 Item 26, Geotubic, Inc., approval of geological/geophysical
24 survey permits.

25 Any comments from the staff, Commissioners?

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1 Anyone in the audience on this item?

2 If not, without objection, we'll approve Item 26.

3 I understand Item 27 is to be taken off calendar
4 or we did take it off calendar.

5 EXECUTIVE OFFICER DEDRICK: 27 is ---

6 ACTING CHAIRPERSON PELKOFER: Is that correct?

7 EXECUTIVE OFFICER DEDRICK: The action that we
8 were going to require has now been taken by the permittee.

9 ACTING CHAIRPERSON PELKOFER: Fine. Item 28,
10 Walter H. Wheeler, approval of a prospecting permit. Any
11 comments from staff, Commissioners?

12 Anyone in the audience on Item 28?

13 If not, approved without objection.

14 Item 29, Carl Austin, approval of a one-year
15 extension of prospecting permit. Any comments, staff,
16 Commissioners, audience?

17 Item 29 is approved without objection.

18 Item 30, Harold Ladd Pierce, authorization to
19 offer lease to extract oil and gas. I understand that
20 staff has one comment on that.

21 MR. HIGHT: Yes, Mr. Chairman. We received a
22 phone call late yesterday afternoon from the County of
23 Ventura. They were objecting to the Environmental
24 Impact Report and we told them that two years ago they had
25 approved it and at which point they said they would get

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1 back to us this morning. Apparently they still, I guess,
2 have some concerns. I think it is staff's recommendation
3 that since this is only the authorization to offer the
4 area for bid, staff has adequately complied with the
5 environmental regulations and that any further development
6 would require a full-phase Environmental Impact Report
7 at which time the County could make any comments if they
8 are changing their minds in any fashion.

9 ACTING CHAIRPERSON PELKOFER: And we note then
10 their objection for the record at this point in time and
11 they will have an opportunity to be involved and comment
12 as the process proceeds; is that what you're saying?

13 MR. HIGHT: Correct.

14 ACTING CHAIRPERSON PELKOFER: Commissioners, any
15 comments on that? Anyone in the audience?

16 All right. Without further objection and with
17 that note, Item 30 will be approved.

18 Item 31, Northern Michigan Exploration Company,
19 award of a negotiated oil and gas lease. Any comments
20 from staff, Commissioners?

21 Anyone in the audience on Item 31?

22 A gentleman is approaching. Yes, sir.

23 MR. GRIFFITH: My name is Bill Griffith,
24 Department of Fish and Game, Region 2.

25 I was here just to clarify any questions that

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1 might have come up and I'm surprised that you didn't hear
 2 from anybody else. I got about three phone calls, one
 3 from a radio station up in Chico. I think there was some
 4 misunderstanding just in the way the notice was worded.
 5 But if you don't have any questions or problems --

6 ACTING CHAIRPERSON PELKOFER: Anyone here with
 7 objection or interest in Item 31?

8 COMMISSIONER FRANCHETTI: I will raise a question.
 9 Who should we expect to be hearing from?

10 (Laughter.)

11 MR. GRIFFITH: Apparently the misunderstanding
 12 arose out of the wording that it was a notice of intent
 13 to adopt negative declaration and people thought that there
 14 was going to be drilling on Gray Lodge Wildlife Area and they
 15 couldn't understand how you could go for a negative
 16 declaration. I would certainly agree with that concept.
 17 What they didn't understand was that drilling was offsite
 18 on private land on a slant underneath. So we have no
 19 problem for our surface interests at Gray Lodge and we
 20 reviewed this from your staff's presentation. There was
 21 no problem at all. They were far enough away from the Heron
 22 Rookery that was in that general area and no problem.

23 ACTING CHAIRPERSON PELKOFER: We're not interfer-
 24 ing, they will not be interfering with the wildlife
 25 refuge.

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1 MR. GRIFFITH: Right.

2 ACTING CHAIRPERSON PELKOFER: That's the staff's
3 understanding as well?

4 EXECUTIVE OFFICER DEDRICK: Yes.

5 ACTING CHAIRPERSON PELKOFER: That's why they're
6 recommending approval.

7 All right. If there's no objection, anyone else
8 wish to comment?

9 Without further objection, Item 31 is approved.

10 Item 32, City and County of San Francisco Parks
11 and Recreation, application for a dredging permit.

12 Anyone here to comment on that item? Of interest to
13 Commissioners, comments? None.

14 Hearing no objection, Item 32 will be approved.

15 Item 33, the County of Marin Department of Parks,
16 approval of a one-year dredging permit. Anyone wish to
17 comment on that item? No comments.

18 Without objection, Item 33 is approved.

19 Item 34, approval of a five-year dredging permit
20 there. Anyone wish to comment on that item? Without
21 objection from Commissioners, that item will be approved.

22 EXECUTIVE OFFICER DEDRICK: Item 35 is pulled.

23 ACTING CHAIRPERSON PELKOFER: Item 35 is off
24 calendar.

25 Item 36, James W. Williamson, approval of

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1 authorization for the staff of the State Lands Commission
2 and the Attorney General to take certain steps relative to
3 litigation. Comments on this by anyone?

4 Without objection, Item 36 is approved.

5 37, James Grossi, compromise title settlement.
6 Anyone here to comment on that?

7 Without objection --

8 MR. HIGHT: Mr. Chairman, for the record, I
9 should point out that Item 37 you are acting as the
10 Land Bank Trustee Commissioners and there will be \$25,900
11 that will go into the Land Bank Fund.

12 (Thereupon a discussion was held
13 off the record.)

14 ACTING CHAIRPERSON PELKOFER: Without objection
15 then, Item 37 will be approved.

16 I'm not even going to try to pronounce this!

17 EXECUTIVE OFFICER DEDRICK: Massoud Khosrowpanah.

18 ACTING CHAIRPERSON PELKOFER: Item 38, approval
19 of a compromise title settlement in this item. Any objection
20 any comment on Item 38?

21 Without objection, Item 38 is approved.

22 John Anderson, approval of an incorporation of
23 a new City of East Palo Alto. Okay. Fine.

24 Item 39, anyone have a comment, objection on
25 Item

1 Without objection, 39 is approved.

2 40, CenTex West, Incorporated, authorization
3 to settle lawsuit. Okay, we have --

4 COMMISSIONER FRANCHETTI: What item?

5 ACTING CHAIRPERSON PELKOFER: Item 40. We have
6 an indication that we have in attendance persons who wish
7 to comment on this item, testify, just note the appearances.

8 MR. DICKERSON: Just wish to note the appearances,
9 your Honor. If there were any objections, then I would
10 address the Commission.

11 ACTING CHAIRPERSON PELKOFER: Okay. Mr. Wykoff
12 and Mr. Dickerson are present.

13 Anyone have any statement, objection?

14 Yes, sir.

15 MR. LOPEZ: No objections. I'd like to make
16 note that Tony Lopez representing the City of San Mateo
17 is also here.

18 ACTING CHAIRPERSON PELKOFER: All right. We'll
19 reflect Mr. Lopez is here as well.

20 All right. Without objection, no comments from
21 the Commissioners, Item 40 is approved.

22 EXECUTIVE OFFICER DEDRICK: Excuse me just a
23 moment.

24 MR. HICHT: Item 40 is a Land Bank item in which
25 you're acting as Land Bank Trustees.

1 ACTING CHAIRPERSON PELKOFER: That will be noted
2 for the record.

3 Item 41, Salvatore Niosi, approval of a compromise
4 title settlement agreement.

5 ASSISTANT EXECUTIVE OFFICER TROUT: Mr. Chairman,
6 it should be noted that inadvertently a statement that's
7 critical to this item was left out and that is that this
8 settlement parcel has been filled and reclaimed and is no
9 longer subject to tidal action. With that placed in the
10 record, staff does recommend the approval of the agreement.

11 ACTING CHAIRPERSON PELKOFER: With that amendment
12 noted, without objection, Item 41 is approved.

13 Item 42 is an information item.

14 EXECUTIVE OFFICER DEDRICK: That's correct. No
15 action required. It's to inform you that the current
16 status of an investigation that was asked for about a year
17 ago into our bonding practices and how the amount of money
18 involved relates to the actual expenditures you have to
19 put out if the State had to collect on a bond. We will be
20 coming to you later with a recommendation to correct the
21 problems.

22 ASSISTANT EXECUTIVE OFFICER TROUT: Mr. Chairman,
23 there's one final piece of business that needs to be
24 taken care of. In getting started we omitted the confirma-
25 tion of the minutes of February 28th. We ask you to

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1 consider that point before you adjourn.

2 ACTING CHAIRPERSON PELKOFER: All right. Do I
3 have a motion on confirmation of minutes, please?

4 COMMISSIONER FRANCHETTI: Moved.

5 ACTING CHAIRPERSON PELKOFER: Mr. Franchetti
6 and second the motion. Minutes are approved.

7 Any further business?

8 Meeting adjourned.

9 (Thereupon this meeting of the
10 State Lands Commission was
11 adjourned at approximately 11:15 a.m.)

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CERTIFICATE OF SHORTHAND REPORTER

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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 State Lands Commission meeting 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 18 day of April, 1983.

Cathleen Slocum
CATHLEEN SLOCUM,
Certified Shorthand Reporter
License No. 2822