MEETING

STATE LANDS COMMISSION
STATE OF CALIFORNIA

STATE CAPITOL
ROOM 447
SACRAMENTO, CALIFORNIA

ORIGINAL

THURSDAY, MARCH 24, 1983
10:10 A.M.

CATHLEEN SIMON, C.S.R.
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PETERS SHORTHAND REPORTING CORPORATION
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TELEPHONE (916) 972-9804
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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Item 34

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Item 39

Item 40

Appearance of Mr. Dickerson and Mr. Wykoff noted.

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

Item 41

Item 42

Approval of Minutes of February 28, 1983

Adjournment

Certificate of Shorthand Reporter

---006---
ACTING CHAIRPERSON PELKOER: 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 PELKOER: 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 1, 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 PELKOER: All right. Without objection, those items will be taken off the calendar.
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.
Anything on that, staff, Commissioners? Anyone in the audience on Item 23?

Without objection, approved.

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

Any comment? Anyone on that? In the audience? Without objection, Item 24 is approved.

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

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

MR. HAYS: Yes, I do.

ACTING CHAIRPERSON PELKOFER: Have a seat please.

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

MSR has been the bidder on the parcel W 40013.

You have before you a staff recommendation that this particular bid be rejected at this time. We feel that staff has focused only on one issue. They feel that the bid is non-competitive. We, however, feel that there are other issues that the Commission should focus on in this matter. Broadly stated, those are the objectives of the
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
will be assisting this public power agency in meeting its objectives of providing clean, economical energy to the citizens of California. At the same time, we feel like our stated revenues will be generated earlier.

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

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

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

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

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

Thank you.

ACTING CHAIRPERSON PELKOFER: Comment by Commissioners?
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.
answer your question, Governor?

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

EXECUTIVE OFFICER DEDRICK: Is Moose there?

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

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

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

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

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

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

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

MR. EVERITTS: Yes.

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

MR. EVERITTS: It was --

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

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

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

MR. THOMPSON: There's another issue here. In effect you're tying up lands for a long period of time. For example, MSR has had another parcel here for two and a half years and has not drilled on it. We are just now getting through and --
COMMISSIONER McCARTHY: How is that related to this point?

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

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

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

MR. EVERITTS: I think the point, part of the point is, here is an area generally that's the productive area in The Geysers area. This is where the electricity is being generated. Here is a series of leases that we've issued which really nothing's been done on. We think at this point they're probably inadequately explored. Now, we came out to another area really frontier land and we think we got ahead of ourselves in our leasing program because we don't know what's going to lie between here and there and we ought to find out what we've got here which very well may increase the value of this. We incidentally don't agree with the number we just heard from MSR as to the comparative value of the bids.
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,
I would have Mr. Jim Wazlaw address you who is an engineer with SAI Engineers.

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

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

MR. WAZLAW: Wazlaw.

COMMISSIONER McCarthy: -- and our staff on the Commission prior to your calculations and your assessment?

MR. WAZLAW: Yes.

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

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

COMMISSIONER McCarthy: Why don't you use a microphone?

MR. WAZLAW: We've met with the Lands Commission staff on several occasions in the last few months and we've shown them the type of analysis we did. As Mr. Thompson said, they're based on many assumptions and the assumptions can vary quite a bit. But, as Randy Hays mentioned, depending on the assumptions we use, we get an equivalent
cash bonus -- and I can comment on the equivalency of it in a moment; it is and it isn't -- of 10 to 16 dollars an acre.

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

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

ASSISTANT EXECUTIVE OFFICER TROUT: I think, Governor, you may recall that the State has felt or at
least the staff of the Commission has felt that the Federal leasing system is not a very effective system. It tends to give the resource away. Therefore, comparisons with the Federal system tend to always look good because they tend to give the resource away.

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

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

MR. THOMPSON: Conversely, if you want to go to net profits type bidding, you have to have enough information so that one can really evaluate the resource. Right now this is strictly speculative.

COMMISSIONER McCARTHY: Do you want to respond to that?

MR. WAZLAW: Yes. The Federal Government does -- I'm not going to defend the policies of the Federal Government, but occasionally the Federal Government does receive very high bids and occasionally they reject a bid. I'm trying to think. Several miles east there was a bid up near $10,000 an acre to the Federal Government, lease sale. It was in the midst of one of the major developer's
properties, and they didn't want anybody else to have it, I presume. It must be good, so they bid high. So they do get high bids at proven properties.

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

MR. WAZLAW: That's quite possible.

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

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

COMMISSIONER McCarthy: That's the point I was going to get to was I don't remember which one of our staff made the point, but I got the impression that there was
virtually inaction for two and a half years. Is that what you meant to convey?

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

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

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

EXECUTIVE OFFICER DEDRICK: Al.

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

MR. WILLARD: They haven't pursued anything.

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

MR. THOMPSON: He meant on other parcels.

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

COMMISSIONER McCARTHY: Is that a fair response?

MR. THOMPSON: In 1980 also a bunch of leases were issued in between this deal. There has been no drilling on those. We have this problem of prospecting.
permits of these leases being tied up for a three-year initial term. After three years they must then relinquish. We've got some properties coming up here that are probably going to have to be relinquished because of this lack of drilling.

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

MR. HAYS: That's correct.

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

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

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

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

MR. HIGHT: The bidding process -- my problem is I don't know exactly what happens. The bidding process
requires access. The Commission's power and authority in that area gives the successful bidder the access. I don't know what the exact problem is here. I'll have to investigate that.

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

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

I think the statement that was made is misleading.

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

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

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

MR. THOMPSON: MSR is one of a series of parcels in here that were done the last time bids were awarded that we're having trouble with also.
EXECUTIVE OFFICER DEDRICK: It's two general points. I think the point you're to make is why in the world would we lease something, would anybody even pick up a lease if they didn't have surface access. I'm not certain I can answer that question, but we might be able to. Bob --

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

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

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

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

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

Point to the developed area, Al, down here
and the area where MSR is working on a plant behind Lynn's
chair, there are plants in that area. There are wells
producing. Now, we're talking about leasing in an area
where there are no proven wells and we're getting very poor
bids as a result of that. You are probably unaware that
the Extractive Division was reorganized last year. Moose
Thompson became Chief and Mr. Everitts Deputy Chief.

One of the results of that reorganization has been taking
a lot closer look at various things, particularly the
geothermal program. As a result of the discussions before
the Commission about a year ago, I made that a priority
for Mr. Thompson and Mr. Everitts to take a hard look at
the geothermal situation and see what we should be doing
about it at the State Lands Commission. This rejection of
these bids is an outgrowth or is a result of that
reevaluation of our whole program. The geothermal leasing
program had kind of just grown like topsy and it wasn't
really being looked at very carefully.

In terms of the revenue to the State, I think
we should look at geothermal as a long-term resource.

We are about a half-owner, we own just about half of the
productive or possibly productive land up there. We can
afford to be cautious in going forward on leasing. I think
that as a matter of State policy, obviously, you people have that authority and responsibility. But I think what we would recommend is we're looking down the road at that resource. Our people feel that it will become more valuable as time goes on even if the surface owner legal problem isn't solved. But at the moment, it's pretty obvious that we're getting low bids, tying up lands for three years with very little activity on a variety of parcels, not just the one MSR has because there is the financial impetus right now for development in that portion of the field.

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

ACTING CHAIRPERSON PERLOFER: Mr. Franchetti.

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

MR. HAYS: That's correct.

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

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

COMMISSIONER FRANCHETTI: A municipal utility?

MR. HAYS: Yes. As a matter of fact, MSR just purchased a 28 percent interest in a coal-fired unit in Arizona and is presently developing the transmission grid for that power.
COMMISSIONER FRANCHETTI: What portion -- well, let me start this way. How soon or can you tell us would MSR be looking to develop this parcel that you've submitted this bid on?

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

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

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

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

MR. HAYS: Nuclear we lost on. We tried that. Right now the resource for the members of MSR consist of
PG&E, Western Area Power Administration and Hetch-Hetchy if I remember correctly. The goal of those groups is to develop to the extent possible independence from other suppliers of energy. So the number is one that goes up based upon the availability of resources.

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

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

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

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

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

EXECUTIVE OFFICER DEDRICK: Two years or three.

MR. THOMPSON: Three years.

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

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

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

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

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

MR. HAYS: I don't think it's a speculative
venture at all. I think MSR is serious about its program.
I think what we boil down to here today, it seems to me,
is somewhat of the chicken and an egg argument. We're
talking about the price going up when you know more about
the resource. The proven way to find out about the resource is to drill wells. We presently find ourselves, as Mr. Dziewa pointed out, drilling in what is considered to be a step-out area. It is somewhat removed from the main fault lines and we find ourselves educating geologists.

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

EXECUTIVE OFFICER DEDRICK: I don't think so.

COMMISSIONER FRANCHETTI: That's all I have.

COMMISSIONER MCCARTHY: One other question. How do these percentages compare to your past experience on geothermal?

MR. HIGHT: Extremely low.

COMMISSIONER MCCARTHY: Got any numbers for any specific projects?

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

COMMISSIONER MCCARTHY: The average --

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

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

COMMISSIONER MCCARTHY: Those higher bids that you
received, those were on sites close to where finds had
already been made because there was an investment in
exploration?

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

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

MR. WILLARD: But they certainly offset these
parcels.

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

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

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

EXECUTIVE OFFICER DEDRICK: That's always a risk.

COMMISSIONER McCARTHY: Is that the argument for
lower percentages? You accept that? You're saying these percentages even so are still too low?

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

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

COMMISSIONER McCARTHY: How would we obtain that additional information?

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

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

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

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

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

ACTING CHAIRPERSON PEKLOFER: Okay.

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

EXECUTIVE OFFICER DEDRICK: So that happens either way.

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

EXECUTIVE OFFICER DEDRICK: Yes.

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

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

MR. THOMPSON: This is all public information.

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

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

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

MR. HAYS: Yes, we were, but I think some other questions have to be asked of staff. Are these bids that they talk about that are 30 and 90 percent would lead one to believe that they're good resources. What has happened on those resources? A fairly large number of them have not resulted in any drilling program.

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

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

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

MR. WILLARD: Just one has.
MR. HAYS: And the one he's pointing at is 47 percent.

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

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

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

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

MR. THOMPSON: Almost six years ago.

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

MR. WILLARD: This is all State here.

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

EXECUTIVE OFFICER DEDRICK: Okay. In reevaluating the geothermal program, as I've discussed earlier, various problems appeared. One of them is the problem of too high a net profits bid that doesn't get anywhere. The other is too low a net profits bid that doesn't get anywhere. Another
is some statutory requirements on the minimum sizes which we are attempting to correct in the Legislature this year. As you can see, some of those parcels are rather small and broken up. We need to have some method of consolidating, so to speak, unitizing the parcels with other owners. We are not the only owner in the area. To do that we have to develop formulas that will be functional but will work for the geothermal producers as well as for the State and the other owners.

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

One of the things that staff's thought about is it would be extremely nice if we could wheel the energy
from the geothermal area to Wilmington Oil Field and be able to utilize that. State law is not at all helpful on the question of wheeling power. I think that we really need to seriously look at the long-term future of this geothermal producing area and have the Commission come to a policy decision as to what's the best way to go, whether we go to the Legislature on some of the more critical issues such as the surface matching provision which of course would be very, very unpopular with a great many people or not is an area that we really haven't discussed with you since you've been Commissioners.

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

COMMISSIONER McCARTHY: All right. Let me make one concluding remark, two pieces. Number one, I think we should try to have a program that moves forward aggressively and allows geothermal leasing. This is a generally acceptable source of energy and I think we're going to have trouble with other sources of energy that we're counting upon and I think we should try to speed ahead with this.
I think there are ways we can do it.

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

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

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

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

ACTING CHAIRPERSON PEKLOFER: Unless there's
some other comments, Mr. Franchetti,

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

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

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

ACTING CHAIRPERSON PELKOFER: Okay.

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

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

MR. EVERITTS: Here's --

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

MR. WILLARD: Right next door.

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

COMMISSIONER FRANCHETTI: Are they closer to the developed fields?

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

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

MR. THOMPSON: Point out the MSR.

MR. WAZIAW: You might look at the relative size of them, too.

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

MR. HAYS: There's a couple. There are a couple. One is that the parcels involved are considerably larger.
So you have a better possibility of finding a resource. Secondly, they are involved in a program of unifying properties, with which they had interest in.

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

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

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

EXECUTIVE OFFICER PEDRICK: Certainly.

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

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

ACTING CHAIRPERSON PELKOFER: Staff, have you anything further?

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

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

MR. THOMPSON: Al, could you give the parcel
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.
ACTING CHAIRPERSON PELKOFER: I have a motion and a second. Do you formally call the roll or just ask for --
All right. All in favor?
(Ayes.)

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

Do you wish to consider the others as a group?

COMMISSIONER FRANCHETTI: That's fine.

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

COMMISSIONER MCCARTHY: I move we accept the staff recommendation of the other three.

COMMISSIONER FRANCHETTI: I second that.

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

(Ayes.)

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

COMMISSIONER MCCARTHY: They didn't come.

Apparently they don't feel too passionately about it.

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

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

Any comments from the staff, Commissioners?
Anyone in the audience on this item?

If not, without objection, we'll approve Item 26.
I understand Item 27 is to be taken off calendar
or we did take it off calendar.

EXECUTIVE OFFICER DEDRICK: 27 is ----

ACTING CHAIRPERSON PELKOFER: Is that correct?
EXECUTIVE OFFICER DEDRICK: The action that we
were going to require has now been taken by the permitee.

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

Anyone in the audience on Item 28?

If not, approved without objection.

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

Item 29 is approved without objection.

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

MR. HIGHT: Yes, Mr. Chairman. We received a
phone call late yesterday afternoon from the County of
Ventura. They were objecting to the Environmental
Impact Report and we told them that two years ago they had
approved it and at which point they said they would get
back to us this morning. Apparently they still, I guess, have some concerns. I think it is staff's recommendation that since this is only the authorization to offer the area for bid, staff has adequately complied with the environmental regulations and that any further development would require a full-phase Environmental Impact Report at which time the County could make any comments if they are changing their minds in any fashion.

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

MR. RIGHT: Correct.

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

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

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

Anyone in the audience on Item 31?

A gentleman is approaching. Yes, sir.

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

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

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

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

(Laughter.)

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

ACTING CHAIRPERSON PELKOFER: We're not interfering, they will not be interfering with the wildlife Refuge.
MR. GRIFFITH: Right.

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

EXECUTIVE OFFICER DEDRICK: Yes.

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

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

Without further objection, Item 31 is approved.

Item 32, City and County of San Francisco Parks and Recreation, application for a dredging permit. Anyone here to comment on that item? Of interest to Commissioners, comments? None.

Hearing no objection, Item 32 will be approved.

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

Without objection, Item 33 is approved.

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

EXECUTIVE OFFICER DEDRICK: Item 35 is pulled.

ACTING CHAIRPERSON PELKOFER: Item 35 is off calendar.

Item 36, James W. Williamson, approval of
authorization for the staff of the State Lands Commission and the Attorney General to take certain steps relative to litigation. Comments on this by anyone?

Without objection, Item 36 is approved.

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

Without objection --

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

(Therupon a discussion was held off the record.)

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

I'm not even going to try to pronounce this.

EXECUTIVE OFFICER DEDRICK: Massoud Khosrowpanah.

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

Without objection, Item 38 is approved.


(Item 39), anyone have a comment, objection on
Without objection, 39 is approved.

40° Century West, Incorporated, authorization to settle lawsuit. Okay, we have --

COMMISSIONER FRANCHETTI: What item?

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

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

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

Anyone have any statement, objection?

Yes, sir.

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

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

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

EXECUTIVE OFFICER DEDRICK: Excuse me just a moment.

MR. HILL: Item 40 is a Land Bank item in which you're acting as Land Bank Trustees:
ACTING CHAIRPERSON PELKOFER: That will be noted for the record.

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

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

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

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

ASSISTANT EXECUTIVE OFFICER TROUT: Mr. Chairman, there's one final piece of business that needs to be taken care of. In getting started we omitted the confirmation of the minutes of February 28th. We ask you to...
consider that point before you adjourn.

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

COMMISSIONER FRANCHETTI: Moved.

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

Any further business?

Meeting adjourned.

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

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CERTIFICATE OF SHORTHAND REPORTER

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,
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