MEMBERS PRESENT

Walter Harvey, representing Kenneth Cory, State Controller,
Acting Chairperson

Laura Schlichtmann, representing Leo T. McCarthy,
Lieutenant Governor

Nancy Ordway, representing Jesse R. Huff, Director of Finance

STAFF PRESENT

Claire Dedrick, Executive Officer

Robert Hight, Chief Counsel

Jane Smith, Secretary

ALSO PRESENT

David Judson, Deputy Attorney General
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PROCEEDINGS

ACTING CHAIRPERSON HARVEY: The meeting of the State Lands Commission will be in order. The first item on our agenda is confirmation of the minutes of the last two, I guess, meetings, July 25th and July 30th.

COMMISSIONER ORDWAY: Motion.

ACTING CHAIRPERSON HARVEY: Without objection, the minutes will be adopted.

The report of the Executive Officer. Clare.

EXECUTIVE OFFICER DEDRICK: The Executive Officer's Report is in writing.

ACTING CHAIRPERSON HARVEY: We have it in writing. We'll adopt it into the record by reference.

Thank you. Next item on our --

Small announcement.

MR. HIGHT: Mr. Chairman, if I could make an announcement for the record that the Lieutenant Governor's Office will be acting in a nonvoting capacity.

ACTING CHAIRPERSON HARVEY: Thank you.

For the record, the following items are off the agenda. Items C9a and d, 18, 19, 20 and 22 on the consent agenda.

Items 24, 25 and 39 off the balance of the agenda.

COMMISSIONER ORDWAY: May I ask if the consent
items are off the consent calendar or are they off the agenda?

EXECUTIVE OFFICER DEDRICK: Off the agenda.

COMMISSIONER ORDWAY: Off the calendar entirely.

I will move --

ACTING CHAIRPERSON HARVEY: We've just stricken them.

COMMISSIONER ORDWAY: I will move C1 through C21 with those items that are off.

ACTING CHAIRPERSON HARVEY: Without objection then Items C1 to C22 --

COMMISSIONER ORDWAY: 22 is off.

ACTING CHAIRPERSON HARVEY: 22 is off.

Again, in an attempt to move the meeting along, I have before me people who want to speak on Agenda Items 18, 19 and 20 which have been stricken. I have someone on Agenda Item 23 and two people on Agenda Item 21. Is there anyone in the audience that wants to speak on any of the other items on the agenda?

COMMISSIONER ORDWAY: Which item?

FROM THE AUDIENCE: Item 31.

ACTING CHAIRPERSON HARVEY: We'll take time then when we get to Item 31 --

COMMISSIONER ORDWAY: Can someone provide the gentleman with a slip, please?
ACTING CHAIRPERSON HARVEY: I have it.

Next item on our agenda, Agenda Item 23, GRI Exploration Corporation. I understand we have Mr. Domenic Falcone who wants to speak.

MR. FALCONE: Good morning. I'm Domenic Falcone, Senior Vice President for GRI Exploration Corporation and Executive Vice President for Geothermal Resources International, Inc. which is the parent company of GRI Exploration Company.

The purpose of my being here is to speak briefly to the Commission's decision last month to submit or have staff submit to the company default notices relative to several leases in the Geysers area primarily because the terms of the lease required certain drilling to take place and due to the terms of the lease as well as the market in the Geysers at the present time the company determined that it was inappropriate to drill such leases at this point. The company has however drilled leases in the Geysers both state and fee leases at the present time. In fact, has drilled three wells on state lands which leases are not subject to the default notices at this point in time and we fully expect they will not be in the future.

The thing that I wanted to just inform the Commission about at the present time is the fact that we are serious geothermal people. We have since, been in business,
in the geothermal business since 1966. We're one of the
first companies to explore and develop in the Geysers and in
fact sell steam to P.G. & E. at Unit 15 in the Geysers.

We have spent approximately 80 to 100 million
dollars to date in the Geysers exploring and developing
property and have arrangements with the Central California
Power Agency to buy steam from several plant areas in the
Geysers. One of those plant areas includes a state lease on
which we have drilled two successful geothermal wells.

The problem that we have at this point in time as to
the further development in the Geysers area, as I said, has
to do a bit with the fact that in 1981 when we got involved
in what is known as a farm out which assumedly is a term,
it's a term of art in the natural resources business, but
what it means is you get a chance to earn an interest in
someone else's property.

We spent twenty-five million dollars over the next
two years and in 1983 we actually bought the leases that we're
owned by Aminoil in the Geysers including state leases for
another 25 million dollars and have spent at least another
40 million dollars since then and that doesn't include other
things that we have spent additional monies on to get up to
the number of 80 to 100 million dollars.

When we acquired those leases, we certainly acquired
them knowing that the state lease was a fairly onerous lease
and that in fact was very difficult for any commercial corporation, i.e., a publicly held company such as ourselves, to make any money from those leases. The net profits interest plus the royalty on four or five of those are so high that it just was impossible to proceed and still be able to justify to one's shareholders that you weren't throwing money not necessarily away, but you certainly were not spending your money in the most sensible fashion.

Consequently, we spent a year with staff trying to renegotiate the terms of the leases. The primary thing we tried to renegotiate was the net profits interest and the staff and the Commission of course approved several, a number of extensions on the drill by date while the negotiations took place.

The Commission, as I said last month, decided that it was not interested in continuing to extend drill by dates and in fact we were unable to renegotiate the provisions of the net profits interest and consequently the default notices were approved and sent out. I believe that they actually go into, probably formal forfeit sometime the end of this month which is the reason why we at least wanted to come here and explain to you that we really to not want those leases to be terminated. But we have no choice and we and the state have negotiated as I said extensively in good faith to try and come up with terms that were economic to be able to establish
commercial terms of the lease so that we could justify going ahead and drilling wells. As I said, the markets for steam in the Geysers at the present time is very soft. I'm sure you're well aware of the fact that the utilities in the state are in the view that they have excess electricity at the present time and consequently the market for steam even if we had it which indeed we do is not readily accessible certainly to us at this point.

What we really wanted to try to achieve during the course of the negotiations was not only to establish a, what was to us anyway and hopefully at some point to the staff, a sensible net profits interest in terms of the lease but also to establish a drilling program that made sense within the framework of being able to finally sell your resource. You do not develop natural resources and then sit there and hold them for ten years while you've got some costs in the ground. It just doesn't make any sense.

So we also try to make arrangements that would allow for our drilling programs to meet the market needs. And we once again were unsuccessful in achieving that unfortunately. Now with these leases being taken back by the state, therefore the properties will be back without burden of leases to any operating company at this point in time, I think that if we can't, if we can't and I think it's probably too late to convince anybody that we should try again to
renegotiate the leases, I'm a little concerned as to what the state is going to do next. Getting the leases back and
there ore freeing the properties from the burdens of leases is all very well and good, but those properties should be put
back up for lease at some appropriate time. And one of the things I guess that troubles us is that we can't properly plan our own strategies going forward because we don't really know where the state is coming from as far as the future of these leases.

These leases happen to be right in the heart of a number of our exploration and development programs and now they are going to be gone and I think we are probably the most sensible lessees under the terms under these particular lands.

They're not large enough to really establish a really strong exploration and development block of property. And I guess what goes around comes around and maybe we'll see the leases back on the market at some point in time but we at this point are quite at a loss as to how to proceed with our own programs.

It appears as though we may have to drill around the properties perhaps or skip over them in some fashion, while still wishing that we could do some exploration and development work on those properties. If the market comes back, which I think we all expect will be the case at some
point in time, at least we'll be ready to sell.

We have a venture with the CCPA group that makes it a reasonable bet anyway that we've got a decent marketplace when the marketplace is available. Fight now they don't see any great need for additional electricity either. SMUD I think is of the view at the present time, they are one of the members of the CCPA group, that their needs are well taken care of for the next few years. But they certainly expected that geothermal was going to be there when they wanted it to be there and they will be a marketplace.

We are going to have to develop other properties ex the state at this point and I don't think that's good for us and I don't think it's good for the state either. But I guess, as I said, barring renegotiation of the terms, including the economics as well as the development programs, we would certainly hope that the state at least the staff will come out with a plan for those leases in the not too distant future.

Even if the plan says you won't see them again for the next two or three years, that's something at least we can understand and when they come back up for bid I would also hope that some consideration would be given to the terms of the leases to be put into a more oh, I hate to use the word "sensible", but sensible type of framework for entities such as ourselves. So that going forward you won't get stuck in
the situation where you've got certain obligations that make
no sense in today's world.

Leases with landowners who are fee landowners as
adverse to state landowners, do not require some of the
things that the state leases require. They take more into
account, the fact that this is a geothermal resource, it is
not an oil and gas resource. We can't market steam by
putting it into a truck or putting it into a gas pipeline and
delivering it to someone to heat a house. We have to find
it, develop it, and wait for someone to build a power plant.
And I can really think that the leases are certainly less
then perfect and I would say in some cases less than even
adequate.

So I would like to at least see a program as well as
perhaps a new lease which takes into account, you know, the
people in the businesses point of view as well as the state's
point of view. Because it's all very well and good to want
something, but if it doesn't work for both sides, I just
don't think that the state properties are going to get
developed very expeditiously, and I assume that the state is
still interested in having those properties out for lease and
for development in order to generate the revenues that the
various I guess teacher's funds, et cetera, expect to receive
out of the royalties and the net profits interest that come
from those particular properties. But they won't get them
unless we are selling or someone is selling that resource to someone who is buying it and paying for it. And that's the kind of thing we're looking for at this point in time.

We would like very much to still have the leases under more economic terms for ourselves, but failing that we would surely like to see what is the intention of the state going forward and under what types and terms of conditions we could expect to see those leases come back to the marketplace.

ACTING CHAIRPERSON HARVEY: Thank you, Mr. Falcone.

I think that we are pretty much aware of those points that you have raised. We do appreciate your input. I think we fully understand it and I'm sure at some point in time you will see the answer to all your questions coming forth not only from the staff but from the Commission itself.

I don't think there's anything else for us to do today. There is some action I guess that the Commission will eventually have to take, but that will be at the next meeting.

EXECUTIVE OFFICER DEDRICK: Yes. Staff recommends that you defer action until the next meeting.

ACTING CHAIRPERSON HARVEY: Thank you.

MR. FALCONE: Thank you.

EXECUTIVE OFFICER DEDRICK: I can't argue with Mr. Falcone's choice of words in saying that the leases need to
be more sensible.

ACTING CHAIRPERSON HARVEY: I didn't say a word.
Okay.

Item 24 was stricken. Item 25 was stricken.

Item 26 is a settlement agreement with Cal-Pox Incorporated and a denial of an application for a lease. If no one wishes to speak, unless there is objection, we will approve that item.

Do you want to say something, Mr. Hight?

MR. HIGHT: Yes, Mr. Chairman. In this action you are also acting as Land Bank Commissioners. Just need that for the record.

ACTING CHAIRPERSON HARVEY: Item 27, Mini Development Corporation, approval of a salvage permit. I understand that there are some federal permits yet to be obtained. Unless there is objection, we can approve the application --

COMMISSIONER ORDWAY: Conditioned upon.

ACTING CHAIRPERSON HARVEY: --subject to the appropriate permits.

Item 28, San Francisco International Airport Hometels Limited, approval of secured party-lender agreement. Unless there is objection, that is approved.

Item 29, City of Long Beach, approval of a final report and closing statement of a plan of development. I
think there's a copy of that with us. Without objection, that will be adopted and approved.

Item 30, Scientific Surveys, Incorporated, approval of a non-exclusive Geophysical Survey Permit on tide and submerged lands. Unless there is objection, that item now is approved. You may proceed.

Item 31, Chevron USA. I have two people in the audience with interest in that.

One, Kit Armstrong from Chevron USA who is I gather here to answer questions if they come up.

Kit, you here?

MS. ARMSTRONG: Right here, sir.

ACTING CHAIRPERSON HARVEY: Do you have any presentation you want to make?

MS. ARMSTRONG: No.

ACTING CHAIRPERSON HARVEY: Mr. Richard Turner, an attorney with Turner and Sullivan. Would you identify yourself for the record?

MR. TURNER: Yes. Mr. Chairman, members, I'm Dick Turner of Turner and Sullivan, Sacramento. We represent the Sandyland Protective Association which is the association that in turn represents all the beach front property owners in Carpenteria.

The only purpose for my making any statement at this time, knowing that Chevron has withdrawn its request for
3150, the lease offshore at Carpenteria, is to ask that the findings, that you eliminate any reference to 3150 in the findings that you will adopt here today.

Since you have no application before you with respect to 3150, I don't think the Commission has any jurisdiction to make findings with reference to 3150 and I would ask that you delete those references from your findings.

COMMISSIONER ORDWAY: Can we do that?

ACTING CHAIRPERSON HARVEY: Can we do that Mr. Hight?

EXECUTIVE OFFICER DEDRICK: You can do it. I think that it's unnecessary, Mr. Chairman. The certification of the EIR certifies a document upon which decisions are partly made. In the case of lease number 3150 which Mr. Turner is interested in, it is clear that because of public controversy, a site specific EIR must be done. There are problems that must be resolved with both local government and the people in the community. Both State Lands staff and the Chevron Corporation are well aware of that.

This action of certifying the EIR on all four while only granting operations on three, does not predispose you to approving that forth item number 3150 in the future.

ACTING CHAIRPERSON HARVEY: Okay. So what we are doing, we are certifying the EIR on four sites. We are
approving the resumption of drilling on three only with I
guess the understanding that a subsequent EIR report on 3150
will be forthcoming before we can do anything with it.

MR. TURNER: I understand that process, Mr.
Chairman. I just wanted the administrative record to reflect
that on behalf of my clients we object to any findings with
reference to 3150 and we also object to the certification of
the EIR with respect to 3150.

ACTING CHAIRPERSON HARVEY: The record will so
reflect.

MR. TURNER: Thank you.

ACTING CHAIRPERSON HARVEY: Since we have had
someone, we might want to do this one with a motion.

COMMISSIONER ORDWAY: I will move it.

ACTING CHAIRPERSON HARVEY: Without --

COMMISSIONER ORDWAY: One question though. You
said it is clear from the EIR that a site specific EIR would
have to be done?

EXECUTIVE OFFICER DEDRICK: One of the requirements
of CEQA is that when there is public controversy the EIR must
be done.

COMMISSIONER ORDWAY: I just wanted to make sure that
that's very clear.

EXECUTIVE OFFICER DEDRICK: I think so.

COMMISSIONER ORDWAY: Then I will move Item 31.
ACTING CHAIRPERSON HARVEY: Then Item 31 has been moved, seconded and approved.

Item 32, modification of the 1985-86 Plan of Development for the City of Long Beach. Unless there is objection, that item will be approved.

Item 33, a second modification. Without objection that one will be approved.

Item 34, Contra Costa County request for exception from competitive bid procedures. Unless there is objection, that item is approved.

Item 35, State Lands Commission proposed sale of royalty crude oil, Belmont Offshore. Without objection, that item will be approved.

Item 36, Honey Lake Exploration, a denial without prejudice of an application for proposed negotiated subsurface oil and gas lease. Without prejudice, and without objection, that application is being denied.

Item 37, City of Long Beach, we have a report before us. We will adopt that report by reference.

Item 38, State Lands approve a report bearing actual revenue for 1984-'85. We have it in writing. We will adopt it by reference without objection.

Item 39 is off the agenda.

Item 40, San Diego County LAFCO, consideration of descriptions and consent to incorporation of tide and
submerged lands in the proposed Cities of San Dieguito and Solana Beach, et cetera. Without objection then, that item is adopted and approved.

Item 41, Ideal Basic Industries, Inc., authorizing the staff to conduct a public meeting on the proposed settlement of a title dispute. Unless there is objection, the staff is so authorized or without objection, the staff is so authorized.

COMMISSIONER ORDWAY: Or unless there's objection.

(Laughter.)

ACTING CHAIRPERSON HARVEY: Okay.

Item 42, Nelson and Sloan, authority to litigate to abate an unauthorized extraction of state minerals in San Diego County. Without objection, the staff is authorized to litigate.

Item 43, to authorize the Executive Officer to enter into a contract with a real estate consultant to advise the Commission on development options in the Playa Vista area of Los Angeles County. Without objection, the Executive Officer is so authorized.

Item 44, Arnold Travis, et al, to approve and authorize the execution of a boundary settlement, et cetera.

Do you want to speak, Mr. Hight?

MR. HIGHT: Once again, Mr. Chairman, you'd be acting as Land Bank Commissioners on accepting $429,000.
ACTING CHAIRPERSON HARVEY: The record will so reflect. The item is approved.

Is there anything else to come before the Commission?

EXECUTIVE OFFICER DEDRICK: Mr. Chairman, I have discovered a typo on Page 2 of Item 31, third line under "summary" --

ACTING CHAIRPERSON HARVEY: Item 31. Hold on.

EXECUTIVE OFFICER DEDRICK: --where it reads "PRC 3189," that number should read "3184."

ACTING CHAIRPERSON HARVEY: Okay. That correction will be noted.

Any other business to come before the Commission? If not, we stand adjourned.

Thank you.

(Thereupon, the State Lands Commission meeting was adjourned at 10:42 a.m.)
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 meeting of the State Lands Commission 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 12 day of September, 1985.

CATHLEEN SLOCUM
Certified Shorthand Reporter
License No. 2822