MEETING
STATE LANDS COMMISSION
STATE OF CALIFORNIA

STATE CAPITOL
ROOM 447
SACRAMENTO, CALIFORNIA

THURSDAY, MARCH 6, 1986
10:01 A.M.

ORIGINAL

Reported by:
Cathleen Slocum, C.S.R.
License No. 2822

PETERS SHORTHAND REPORTING CORPORATION (916) 362-2345
MEMBERS PRESENT

Lizabeth Rasmussen, Acting Chairperson, representing Kenneth Cory, State Controller

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

Susan Wallace, representing Leo T. McCarthy, Lieutenant Governor

MEMBERS ABSENT

NONE

STAFF PRESENT

Claire Dedrick, Executive Officer

Robert Hight, Chief Counsel

James Trout, Assistant Executive Officer

Lance Kilzy

W. M. Thompson

Jane Smith, Secretary

ALSO PRESENT

Dave Judson, Deputy Attorney General
INDEX

Page

Proceedings

I. Confirmation of Minutes for the Meeting of January 23, 1986, Special Meetings of February 13, 1986 and February 14, 1986 1

II. Report of Executive Officer 2

III. Consent Calendar C1, C3 through C12, C14 2

IV. Regular Calendar

Agenda Item 25 - State Lands Commission (Party) 2

Assemblyman Dave Elder 3

Agenda Item C2 - Richard and Nancy Gorkosky (Applicants) 7

Mr. Kiley
Ronald King
Discussion 7 8 9

Agenda Item 15 - Holland & Mercurio (Applicants) 11

Agenda Item 16 - All American Pipeline Company (Applicant) 15

Agenda Item 17 - Selden L. Perry (Applicant) 15

Agenda Item 18 - Off Calendar

Agenda Item 20 - Geothermal Resources International (Applicant) 17

Agenda Item 19 - Geothermal Resources International (Applicant) 17

Agenda Item 21 - Metropolitan Water District of Southern California (Applicant) 18

Agenda Item 22 - Southern California Edison Company (Applicant) 18

Agenda Item 23 - Ocean Front Oil Company (Lessee) 18
<table>
<thead>
<tr>
<th>Agenda Item</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>24</td>
<td>State Lands Commission (Party)</td>
</tr>
<tr>
<td>26</td>
<td>MSR Public Power Agency (Applicant)</td>
</tr>
<tr>
<td></td>
<td>James Wazlaw, SAI Engineers</td>
</tr>
<tr>
<td></td>
<td>Discussion</td>
</tr>
<tr>
<td>27</td>
<td>Informative Item: Chevron U.S.A., Inc. (Operator)</td>
</tr>
<tr>
<td>28</td>
<td>Geo 3 Inc. (Applicant)</td>
</tr>
<tr>
<td>29</td>
<td>Mr. &amp; Mrs. Rolla Buck, Conrad Harley (Applicants)</td>
</tr>
<tr>
<td>30</td>
<td>City of Eureka and Redevelopment Agency of the City of Eureka (Parties)</td>
</tr>
<tr>
<td>31</td>
<td>City of Redding (Applicant)</td>
</tr>
<tr>
<td>32</td>
<td>City of Anderson (Applicant)</td>
</tr>
<tr>
<td></td>
<td>Walt McNeil, City of Redding Discussion</td>
</tr>
<tr>
<td>33</td>
<td>State Lands Commission (Applicant)</td>
</tr>
<tr>
<td>34</td>
<td>Adjournment</td>
</tr>
<tr>
<td>35</td>
<td>Certificate of Shorthand Reporter</td>
</tr>
</tbody>
</table>

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ACTING CHAIRPERSON RASMUSSEN: Call the meeting to order.

This is the State Lands Commission regular meeting. The first item of business is the confirmation of the minutes of the meeting of January 23rd and the special meetings on February 13th and February 14th.

COMMISSIONER ORDWAY: Motion.

ACTING CHAIRPERSON RASMUSSEN: There's a motion. Are there any questions or corrections to the minutes? Hearing none, the minutes are approved by consensus.

Item two is the report of the Executive Officer.

COMMISSIONER ORDWAY: For the record Mr. Hight could you indicate who's voting this morning?

For the record, Mr. Hight --

ACTING CHAIRPERSON RASMUSSEN: Would you like to indicate to Mr. Hight who's voting this morning?

COMMISSIONER ORDWAY: Mr. Hight, I always vote.

MR. HIGHT: For the record, Lizabeth Rasmussen will be sitting in a non-voting capacity and --

COMMISSIONER ORDWAY: And chairing the meeting for us.

MR. HIGHT: -- and chairing the meeting for us.

ACTING CHAIRPERSON RASMUSSEN: Thank you for
bringing that up.

Item two, the report of the Executive Officer.

EXECUTIVE OFFICER DEDRICK: No report this morning, Commissioner.

ACTING CHAIRPERSON RASMUSSEN: All right. Item three is the consent agenda Items C-1 through C-14.

I have received a request to speak from Ronald King on Item C-2. So I think we should pull that item and put it on the regular agenda.

COMMISSIONER ORDWAY: I will move Item --

ACTING CHAIRPERSON RASMUSSEN: And C-13 is off the agenda.

COMMISSIONER ORDWAY: Unless there are any requests from the audience or any additional comments from staff, I will move Item C-1, C-2 through 12, and C-14, C-3 through 12.

ACTING CHAIRPERSON RASMUSSEN: Are there any questions on any of those items, anyone that wishes to address the Commission on these items?

If not, they will be approved as presented. Hearing none, that is the order.

Item C-2.

EXECUTIVE OFFICER DEDRICK: Excuse me, Commissioner.

On the regular calendar, Item 18 is off calendar.

ACTING CHAIRPERSON RASMUSSEN: Right. Thank you.
Mr. Elder is here, Assemblyman Elder from Long Beach to take up Item 25. So we'd like to take that item up first, if this is a good time for Mr. Elder.

Nice to see you again.

Assemblyman Elder: Well, thank you very much. I'm still vertical. I'm a little under the weather. I appreciate you taking me up out of order. I don't really I'm basically here to receive information rather than to impart it. So if you would have your staff proceed as they normally do.

Acting Chairperson Rasmussen: All right.

Mr. Thompson: As I talked to you earlier this morning, Assemblyman Elder, we have received four letters back, two by the same person, since the last meeting and the one from Armstrong Petroleum, I guess the first letter they were objecting to the bill itself as we interpret the letter and the second one I guess they're going along with the bill with, application with certain reservations.

The letters from ARCO and Union are pretty much the same tone. We now have a problem that they want to be reimbursed for the cost of administering, passing the funds on to royalty interest owners.

Right now we don't understand how that would be done. I don't know whether that would require some bill through the Assembly to appropriate money for it or what it
would be. We'll have to do some legal research on that. We
still haven't heard from two or three of the non-operating
contractors in Track 1 and several other working interest
owners in the town lot.

ASSEMBLYMAN ELDER: What would be the impact of the
change in oil prices that were -- how is the current
reduction in oil prices likely to affect the field as it
relates to this issue?

MR. THOMPSON: It will extend the pay back period
because in effect you're really paying back in past dollars
owed. So the less valuable each barrel of oil is the longer
it takes to pay that back which in that particular case then
places the state in a little more jeopardy in extending the
pay back time and a little more risk exposure to the state.
Of course the actual royalty of the interest owners will be
cut just like all people because the oil price drop.

ASSEMBLYMAN ELDER: The amount that's owed in those
cases is a fixed amount for each royalty owner, but since
they'll be receiving payments from cheaper oil, therefore,
lower payments, it will take longer to pay off that sum of
money; is that true?

COMMISSIONER ORDWAY: That's correct.

MR. THOMPSON: That's the second step that I really
can't comment because the way that the working interest owner
pays the royalty owner is a lease issue, not a Long Beach
Unit contract issue. Under the Long Beach contract we only talk to the working interest owner, and that pay back will be deferred because the value of the product will be less per barrel to pay back the dollar amount, yes.

ASSEMBLYMAN ELDER: The State Lands Commission basically has implemented the requirements of AB 2568.

MR. THOMPSON: And the City of Long Beach.

ASSEMBLYMAN ELDER: And Long Beach. So that the only impediment to having the benefits of that bill inure to the royalty owners is the willingness or lack of willingness on the part of the unit operators to pass it through; is that true?

MR. THOMPSON: The working interest owners that are interested, yes.

ASSEMBLYMAN ELDER: And so far we have been underwhelmed by their reaction.

MR. THOMPSON: I think that's a good characterization of it.

ASSEMBLYMAN ELDER: So as far as the City of Long Beach and the State of California is concerned and the royalty owners, we did the best we could given the circumstances.

MR. THOMPSON: And we're going to continue to try and we'll put it on next month and report back to you then as we have this month.
ASSEMBLYMAN ELDER: But the decline in oil prices tends to extend the length of pay back period in any event.

MR. THOMPSON: Yes, but there have been certain parcels that have been paying out as if going along and also on a fairly short term basis still at only a matter of months.

ASSEMBLYMAN ELDER: All right. I guess we've provided the legal framework for this to go forward. It seems that the state is willing, the City of Long Beach is willing and of course townlotters are willing, it's just a question of the people who are actually producing out of the field being not only willing but actually doing something and it seems at this point that they're not.

So I think we've more narrowly defined where the concern should be expressed as far as the town lot people are concerned and that is with the working interest owners and not with the public agencies that they pay taxes to.

MR. THOMPSON: Thank you.

ACTING CHAIRPERSON RASMUSSEN: Thank you, Mr. Elder.

Any other questions?

ASSEMBLYMAN ELDER: Thank you very much.

COMMISSIONER ORDWAY: I'll move Item 25.

ACTING CHAIRPERSON RASMUSSEN: Item 25 is an information item. There is no action required. We appreciate you coming by.
ASSEMBLYMAN ELDER: Thank you.

ACTING CHAIRPERSON RASMUSSEN: Let's return to Item C-2 that was removed from the consent agenda and take that up at this time.

EXECUTIVE OFFICER DEDRICK: Yes, Commissioners.

Mr. Kiley, Chief of the Land Management and Conservation Division will present this item.

MR. KILEY: C-2 is a lease for an area opposite an area called Kings Island Lagoon or Kings Island which is down in the Delta area. It's, just for general location, down not too far from Tracy and it's near the Clifton Court Forebay which is a part of the State Water Project.

The island itself is a natural berm that appeared in around the channel of the old, well, it's called Old River which is part of the old channel of the San Joaquin River in the old days and there are various cuts around the channel that were done by dredgers during the 1800's, and there is an area which we believe was illegally filled out just south of King Island that's abutting the area around Clifton Court Forebay. And we propose to lease that to some people for recreational facilities of various kinds.

Mr. King has come in and talked to the staff on one occasion and probably talked to them by phone on numerous occasions and he contests our ownership of this.

As we understand it, Mr. King doesn't claim to have
any record title interest in any part of this parcel, but he is involved in some litigation which could possibly, conceivably affect the title to the parcel.

So with that I'll let him present his side of the story. We do believe based on the information that we have that the state owns this parcel. Everything we have seen to date leads us to believe that we own this parcel.

ACTING CHAIRPERSON RASMUSSEN: All right. Thank you.

Mr. King.

MR. KING: Thank you. I'm not sure how to start with this. I disagree with a number of things --

COMMISSIONER ORDWAY: Mr. King, why don't you start by giving your name for the record.

MR. KING: Ronald King.

COMMISSIONER ORDWAY: Thank you.

MR. KING: He's calling it San Joaquin River and it's not. It's Old River. He's 20 miles off base there.

The berm in the center of the river was formed naturally by the river. It's there since I can remember. I have pictures of my mother standing on that berm pregnant with me. I was almost born there.

My father and my grandfather died on this island.

We have been on this property for almost a half a century.

The river has changed its course through time. In
the early 1800's the river ran several hundred feet to the south of where it runs now. The center of the river being the county line. That's the true basis for my argument because I believe the county line, everything on that side of the San Joaquin County, and we've been paying taxes on that property for half a century. That gives me adverse possession against it if it is in fact yours which I don't think it is.

These are all items that are subject to a lot of discussion and argument. I believe it's mine.

ACTING CHAIRPERSON RASMUSSEN: Do you have any documentation? Have you been able to provide --

MR. KING: I'm in a very precarious position due to the short notice involved in this. I was informed of this meeting less than 24 hours ago. I was informed originally that it would be postponed.

COMMISSIONER ORDWAY: Given that you have had short notice, we do have a regular scheduled meeting of the Lands Commission on the 24th I believe of this month, the 24th or 25th, 24th. Why don't we put this item over until then and give you some time to provide information to staff.

We would probably ask given the amount of time that staff would need to work it up that you have any type of documentation, proof of ownership or whatever documents you have to staff no later than the 15th of March. Would that...
provide you --

MR. KING: Could I have a little more time than that, please.

COMMISSIONER ORDWAY: I believe we have to act on this item prior to the 26th or 27th of this month. So in order to do that we would have to do that at the 24th meeting.

MR. KING: Okay.

EXECUTIVE OFFICER DEDRICK: 884 runs at the end of March. So the staff would need time to review it. We'd be happy to put it over and review any documentation Mr. King has. We've asked for such documentation in the past I believe. If we can get the documentation in, we'll be happy to look at it and be prepared to give you our best judgment at the next Commission meeting.

MR. KING: That's acceptable then.

COMMISSIONER ORDWAY: I would move then that this item be put over without prejudice until the 24th.

ACTING CHAIRPERSON RASMUSSEN: That will be the order then.

MR. KING: And I would receive notice of that?

COMMISSIONER ORDWAY: Public notice goes out ten days before and I assume that during the intervening time you'll be dealing with staff to provide documentation and conversation and answering any questions that staff may
MR. KING: I'm still waiting on the file from the State Lands Commission on the entire piece of property. That's part --

EXECUTIVE OFFICER DEDRICK: Let me suggest, Commissioner, that today before you leave, Mr. King, that you go to the State Lands Commission Office at the end of this meeting with our people and get together today and determine what documentation, give you what documentation you feel you need, determine what documentation we would need to recognize if it's there, your claim, and make sure that those documents are in the State Lands Commission working office by the fifteenth of the month so that the state would have time to review it. But if you go in today, I think that staff would be happy to sit down with you and settle any communication problems we may have.

MR. KING: Thank you. I like that. That sounds very productive. Thank you again.

COMMISSIONER ORDWAY: You're welcome.

ACTING CHAIRPERSON RASMUSSEN: Let's move to the rest of the regular calendar.

Item 15, please.

I understand we have some additional language on this item.

EXECUTIVE OFFICER DEDRICK: Yes. The Holland and
Mercurio is the applicant and this is for, we must recede, remove a Commission's former action and change it to take care of some facts which apparently we weren't aware of at the time.

Mr. Kiley has information that will present the item and also some suggested language changes that have been negotiated in the last few days.

MR. KILEY: There are some disputed ownership questions over this pier. It's a pier on Lake Tahoe and the original intent of the staff was to lease it to the person who was immediately adjacent littoral owner and during the intervening period two other parties have come forward and claimed that they had an interest in the pier.

We have worked out language, non-prejudicial language for the permit with the attorneys for the parties who are objecting which we think is going to be acceptable to everybody. Unless somebody here wishes to have it read into the record, it's probably not necessary.

We think it's acceptable to all the parties. It was drafted by, substantially drafted by the two parties who were objecting.

We have made one minor change to it to limit it only to those two parties who are immediately adjacent to this pier and as far as I know that's going to be okay with everybody.
The two things, one of them is just a non-prejudicial clause saying that the permit is not prejudicial to their rights and cannot be used in a court action regarding their rights. The other one is basically a commitment by the Commission to amend the permit should either of these two parties acquire by a final judgment in a court of competent jurisdiction the right to use this pier, and the Commission would then amend that and authorize that amendment.

ACTING CHAIRPERSON RASMUSSEN: Are there any questions of Commissioners? Anyone wishing to address the Commission on this item?

Need your name and who you represent for the record, please.

MR. KAMINSKI: Bruce Kaminski, attorney for George Montgomery, one of the owners of the pier whose name will not appear on the permit.

I would like to hear the language that is going to officially go in the permit. Although we did help draft the language, I understand that Dave Hadly, counsel for the Commission had a couple of word changes that I heard about but haven't --

MR. KILEY: That he did. I didn't realize that you were here Mr. Kaminski. Let me read it to you.

The first paragraph is unchanged. The secon'
paragraph would read: "This permit shall be amended by the State Lands Commission to include as co-permittees either of the immediately adjacent littoral property owners who shall establish ownership, use or other rights in the pier either by the final judgment by a court of final jurisdiction or by agreement with Holland and Mercurio."

I would probably add one other thing in here to make it say either or both of the immediately adjacent owners. Is that acceptable to you?

MR. KAMINSKI: Is it clear from the record that my client and Mr. Balsdon's group are the immediately adjacent littoral owners?

MR. KILEY: It is now.

MR. KAMINSKI: That's fine with me.

ACTING CHAIRPERSON RASMUSSEN: You're comfortable with that language then?

MR. KAMINSKI: I would just say that for the record that Mr. Montgomery and Mr. Lean, counsel for the Balsdon group, officially protest the issuance of the permit to the Holland and Mercurio group since the three groups together own the pier, but we have worked out some language which would, which is acceptable to us since the Commission has decided that it must issue a permit at this time.

MR. KILEY: The staff feels that the Commission should have some kind of a permit out here to cover itself
with liability insurance if for no other reason. This pier
does exist. It sits out there with nothing at the present
time and we believe that it needs some kind of permitting
action.

ACTING CHAIRPERSON RASMUSSEN: All right. I'm
comfortable with that. Any questions?

COMMISSIONER ORDWAY: I'll move it with the amended
language.

ACTING CHAIRPERSON RASMUSSEN: All right. It's been
moved and deemed approved by consensus.

Thank you very much.

Item 16.

EXECUTIVE OFFICER DEDRICK: Item 16 is request to
amend some previous findings and revise the land description
on the location of the All American Pipeline as it approaches
the old channel of the Colorado River in Riverside County.

ACTING CHAIRPERSON RASMUSSEN: Any questions on Item
16?

COMMISSIONER ORDWAY: Motion.

ACTING CHAIRPERSON RASMUSSEN: Item 16 has been
moved.

EXECUTIVE OFFICER DEDRICK: Item 17, I'm going to
ask Mr. Trout to give you the detail on this item. Selden
Perry is the applicant.

MR. TROUT: Mr. Perry needs to dredge the channel in
front of his marina and has asked for a ten-year permit. We wanted to combine the dredging with a marina lease. We weren't able to do that within the time he needs to do his dredging.

Mr. Perry has since the publication of the calendar agreed to a one year one thousand yard permit and it is exempt from CEQA under Class 4 maintenance dredging. So that we would ask the Commission to instead of the action in the recommendation, that the Commission find that the project is categorically exempt and authorize the issuance of a one year dredging permit.

EXECUTIVE OFFICER DEDRICK: The Commission should understand that as a rule the Executive Officer, it is felt, has the authority to issue small dredging permits that are under the CEQA limit, that are therefore exempt from CEQA so that they are ministerial and normally we would have done that in this instance except that the property wasn't under lease.

Since it is on the calendar and before you and to make everything neat, I would prefer that you take the action that Mr. Trout has described.

COMMISSIONER ORDWAY: Motion.

ACTING CHAIRPERSON RASMUSSEN: Any other questions or concerns?

EXECUTIVE OFFICER DEDRICK: Thank you.

ACTING CHAIRPERSON RASMUSSEN: Item 17 is approved
as presented.

Item 19 is off the calendar and I understand that Item 20 perhaps should be taken before Item 19.

EXECUTIVE OFFICER DEDRICK: Yes, I think so. Item 20 is the request for your approval of the acceptance of seven quitclaim deeds to geothermal parcels in the Geysers. Item 19 is the reduction of the bond to Geothermal Resources Inc. as a result of having given up seven parcels. And I appreciate it if you'd take the action in that order, Item 21 and then Item 19.

COMMISSIONER ORDWAY: Motion.

ACTING CHAIRPERSON RASMUSSEN: Are there any questions on 20 then? Moved. Item 20 is approved as presented.

Item 19.

COMMISSIONER ORDWAY: Motion on 19.

ACTING CHAIRPERSON RASMUSSEN: Questions on 19? Item 19 is approved as presented.

Item 21.

EXECUTIVE OFFICER DEDRICK: Item 21 is a request by the Metropolitan Water District for an exemption from the competitive bid procedure for the leasing of subsurface oil and gas on property where both the surface and the minerals are owned by the Metropolitan Water District.

ACTING CHAIRPERSON RASMUSSEN: Any questions on Item
COMMISSIONER ORDWAY: Motion.

ACTING CHAIRPERSON RASMUSSEN: Item 21 is approved as presented.

Just for a second I think on Item 17 I made the statement that it was approved as presented and that's probably not actually correct.

EXECUTIVE OFFICER DEDRICK: That's correct, you were not correct.

ACTING CHAIRPERSON RASMUSSEN: I'm correct that I was incorrect. So it was moved as amended and I'd just like to clarify that for the record. It was approved as amended.

Item 22, please.

EXECUTIVE OFFICER DEDRICK: This is Southern California Edison Company, a modification to the State's right of surface entry and for mineral reservation on some land in San Bernardino County.

ACTING CHAIRPERSON RASMUSSEN: Any questions on 22?

COMMISSIONER ORDWAY: Motion.

ACTING CHAIRPERSON RASMUSSEN: 22 is approved as presented.

Item 23.

EXECUTIVE OFFICER DEDRICK: Item 23, Ocean Front Oil Company, acceptance of a quiestiam lease for an oil and gas lease in Orange County.
ACTING CHAIRPERSON RASMUSSEN: Any questions on 23?

COMMISSIONER ORDWAY: Motion.

ACTING CHAIRPERSON RASMUSSEN: 23 is approved as presented.

Item 24.

EXECUTIVE OFFICER DEDRICK: Item 24 are the actual revenues for the first six months of '85-'86 and the estimates for '85-'86, '86-'87 and '87-'88.

Mr. Thompson is most up to speed on this daily changing number and with your permission I'd like him to present the item.

ACTING CHAIRPERSON RASMUSSEN: Please proceed.

MR. THOMPSON: I think the numbers there are self-explanatory. I think the most graphic way of showing it though is probably in one of these curves.

COMMISSIONER ORDWAY: Excuse me, Moose, but my packet has Exhibit A unavailable at the time of print.

EXECUTIVE OFFICER DEDRICK: I apologize Commissioners, we should have given those first thing this morning. I thought I had.

MR. THOMPSON: I almost got away with it, didn't I?

COMMISSIONER ORDWAY: Came real close.

ACTING CHAIRPERSON RASMUSSEN: Give us just a minute to look these over.

Not particularly encouraging is it?
EXECUTIVE OFFICER DEDRICK: No.

ACTING CHAIRPERSON RASMUSSEN: Do you have any questions?

COMMISSIONER ORDWAY: What do you indicate are the losses for '86-'87?

MR. THOMPSON: I think we were right around $400 million.

EXECUTIVE OFFICER DEDRICK: The projection, current projection prior to today is $425 million, the projection as of today is a $185 million of revenue. I have to do the arithmetic.

COMMISSIONER ORDWAY: 240 million.

EXECUTIVE OFFICER DEDRICK: Yes.

ACTING CHAIRPERSON RASMUSSEN: By the way, if there's anyone in the audience that has not received this, we do have copies of this available for anyone who's interested.

EXECUTIVE OFFICER DEDRICK: Of course, the '87-'88 revenue estimates are down proportionately.

This is, the assumptions are listed in the from seven or eight assumptions upon which this is based.

MR. THOMPSON: Again, to get back, I think the easiest way to show this graphically is to realize that this is a drop in revenue per barrel and in cost per barrel in Long Beach Unit which is a major part.

In February crude oil price was $22.05. For
February it is going to be $18.50. Our postings for March 1st are $13.45. So you can see this drop and what you're looking at is your net profits between the black line and the red line. So it's more, change in the revenue is more than just a change in oil prices because you're looking at this net profit point. These revenue estimates are based on $13.00. We do not know where bottom is as far as product prices or crude oil prices.

EXECUTIVE OFFICER DEDRICK: Moose, excuse me, the court reporter cannot hear you. Could you -- I don't know what you can do about it.

MR. THOMPSON: I don't think there's any point in going over this. Basically we're looking at the difference between the change in crude oil prices against fixed operating costs in the Long Beach Unit.

EXECUTIVE OFFICER DEDRICK: Commissioners, for your information also revenue to the State Teachers' Retirement System will also be depressed. As you can see those figures for geothermal revenues which were projected at about 11.3 million for this year are now projected at seven million. The reason for that is that the contract price for geothermal, for electricity produced from geothermal steam, as part of its formula, is dependent to some extent on the price of oil which is used for the generation of electricity.
So that's a direct cost relationship. The depression therefore is also due to the decrease in the price of oil.

ACTING CHAIRPERSON RASMUSSEN: And the State Teachers' Retirement System is aware of projections?

EXECUTIVE OFFICER DEDRICK: They will be as of today. We do not -- that's right, we release this to no one until this Commission accepts the figures.

ACTING CHAIRPERSON RASMUSSEN: All right.

MR. THOMPSON: Just to give you an idea here, part of this formula for the steam pricing is fossil fuel prices and we understand right now that some of the utilities are looking at buying low sulfur Indonesian crude for around $12, $13, $14 a barrel and pressuring the gas suppliers come down to around a little over $2 a mcf for gas. So this will have a definite impact on steam sale prices.

EXECUTIVE OFFICER DEDRICK: One other thing I'd like to reiterate which Moose did point out to you is that we don't know that this is over yet.

COMMISSIONER ORDWAY: When do you plan on giving us another revenue estimate?

EXECUTIVE OFFICER DEDRICK: We can give you revenue estimates on a regular basis and once a week will not be impossible at all.

COMMISSIONER ORDWAY: Could I ask probably for the purposes of this Commission that we take action or that we
have another official revenue estimate at our April meeting?

EXECUTIVE OFFICER DEDRICK: Yes, you may.

COMMISSIONER ORDWAY: So that it can then be sort of on the record as part of the May revision.

EXECUTIVE OFFICER DEDRICK: Certainly.

MR. THOMPSON: Clare, the Legislative Analyst is asking us for a revised one by April 15. Does the Commission want to clear that before we turn it over to the Legislative Analyst?

COMMISSIONER ORDWAY: I would like the Commission to act on anything before it goes public. So whatever the appropriate date -- I don't know when the April meeting is.

EXECUTIVE OFFICER DEDRICK: Can I get back to you? The April meeting will be after that, but we will have a March meeting and -- wait a minute, this is the March meeting.

COMMISSIONER ORDWAY: The March meeting at the end of the month is, it is only a couple of weeks away. So I'm not sure how much additional information --

EXECUTIVE OFFICER DEDRICK: What I think we could do, Commissioners, is to hold a special meeting if necessary to approve the figure that we'll be required to give the legislature on the 15th of April.

COMMISSIONER ORDWAY: We're being requested to give the legislature; right?
EXECUTIVE OFFICER DEDRICK: Yes.

MR. THOMPSON: And we will also advise you in the March meeting as to any crude oil price changes in the meantime that will affect us.

COMMISSIONER ORDWAY: Fine.

ACTING CHAIRPERSON RASMUSSEN: Any other questions?

All right. Item 24 is approved as presented then, accepted.

Item 25 we've already discussed.

Item 26, please.

EXECUTIVE OFFICER DEDRICK: Item 26 is a, the staff is recommending a rejection of a request for the extension on a drill-by date on a geothermal lease of the MSR public power agency in the Geysers. You have a request from the vice president of SAI Engineering representing MSR to speak.

ACTING CHAIRPERSON RASMUSSEN: All right. Mr. Wazlaw. I need your name and who you're representing for the record, please.

MR. WAZLAW: My name is James Wazlaw. I'm with SAI Engineers, Incorporated.

We are in the midst and the final throes of negotiating with the MSR Public Power Agency to be the sublessees of their geothermal leases in the Geysers. What we will do as sublessees will be to develop the geothermal leases and to build and operate some small power plants on the leases.
We are within, within a month or so of closing on the sublease agreements. Just as a bit of a background, SAI has power sales agreements with PG&E for up to 50 megawatts of electricity. We currently have transmission line allocations for 20 megawatts of that 50 and we're awaiting the additional 30 megawatts.

Lease 6398 is in close proximity to one of our power plant sites and we feel that it could be valuable to us to supply one of those plants in the future.

What we have done is to offer the staff some information in return for considering a lease extension to 6398. The information consists of some deep well log information from lands south of the 6398. We feel that this information may be valuable to the staff during the valuation of federal-state indemnity land swap programs.

In addition we have some reservoir information on 6398 that we just developed in the past month. We request an extension to the lease.

ACTING CHAIRPERSON RASMUSSEN: All right. Thank you Mr. Wazlaw.

Any questions?

COMMISSIONER ORDWAY: I have a couple of questions. I have just a summary of the terms of your lease. You went into lease on March 24th of '83 and you had three years to put in an exploratory well which I assume has not been done...
to date?

MR. WAZLAW: That's correct.

COMMISSIONER ORDWAY: That could have reasons. But one of the other provisions was that you were to submit annually a plan of development and operation. According to the information that I have here that's not been done.

MR. WAZLAW: That's correct.

COMMISSIONER ORDWAY: So I'm sort of hard pressed to give an extension to a lease when the terms of the lease have not been complied with. I can -- there probably are reasons for not being able to drill within the three year period, but I am hard pressed to see why there are reasons why you can't talk to us once a year and tell us what's happening. So I am not real receptive to extending a lease.

MR. WAZLAW: The only thing I can say to that is that the MSR Public Power Agency was progressing rather rapidly with geothermal development in the area on their own.

COMMISSIONER ORDWAY: Did they ignore other provisions of leases that they had?

MR. WAZLAW: I don't know.

MR. THOMPSON: I'd like to comment on that. In your calendar Item 19, this is a wrap up of some GRI leases and part of that was the geothermal lease PRC 5903 which was also issued to MSR in the past. They did no drilling on that and assigned it on to GRI and GRI did not drill and therefore you
took the action to quitclaim that lease also. So their action in the past on other leases has not been to drill.

MR. WAZLAW: I'd like to add that the, a little summary of the MSR program over the past few years. MSR is a public power agency. They had embarked on a geothermal development program of their down on the Geysers. They drilled three wells about three miles south of the lease in question. One of those wells is commercial. One was a producer but not in commercial quantities. Since MSR conducted that geothermal development program, they joined with another agency, the Central California Power Agency. That agency dealt in some much larger acreages and some much larger projects.

As we understand it, the MSR Public Power Agency has decided to remain with the Central California Power Agency in future geothermal developments. That's why they had no further interest in these others.

MR. THOMPSON: I would like to point out that MSR is part of CCPA. CCPA was offered geothermal steam development prospects for area number three and CCPA declined those. So it seems to me that we do not have a positive direction towards development.

COMMISSIONER ORDWAY: I'm looking exclusively at this calendar item and not at any other and you have yet to convince me that there is a good reason to give you another
six months --

MR. WAZLAW: Well, one of the things.

COMMISSIONER ORDWAY: --when the terms of the lease
that you've been under for three years have not been complied
with.

MR. WAZLAW: That's correct.

MR. THOMPSON: And it would not be possible I don't
think even if you extended the six months for a well to be
drilled any sooner than two to three years from now even if
they were willing to drill a well.

MR. WAZLAW: What the extension would do would be to
give us some time to come to you with a program of either
unitization or other such option.

MR. THOMPSON: But in the meantime you'd have to go
through the EIR process for the well and you'd have to go
to through for roads and everything like that. So you're not
looking at drilling a well for quite a few years down the
road?

MR. WAZLAW: Not in six months, that's for certain.

MR. THOMPSON: Or not even in several years?

MR. WAZLAW: I don't know. I'd like to add if I
ought that the SAI engineers subsidiary SAI Geothermal is the
only developer in the Geysers that is a nonutility developer
and it is the only developer in the Geysers with a PG&E
Standard Offer 4 that would allow it to sell electricity to
PG&E at favorable rates.

We don't think that there are any developers operating in the Geysers right now that have that ability to sell electricity, therefore to build a power plant or to use state steam. We think that we're close to the only company willing to do that in the Geysers in the near future.

COMMISSIONER ORDWAY: I'd like to ask a clarification from staff if they can answer it. This lease terminates March 24th, 1986. Should it terminate on that date is there anything that would prevent this company from applying for a new lease under new terms?

MR. THOMPSON: At the particular time when it's reissued for lease, yes.

EXECUTIVE OFFICER DEDRICK: We would more likely put this lease and the others that have been recently quitclaimed up for bid and so there is nothing that would prohibit this company from bidding at that time.

ACTING CHAIRPERSON RASMUSSEN: There's nothing here that would keep this company from participating in a future --

EXECUTIVE OFFICER DEDRICK: That's correct.

MR. WAZLAW: As it turns out, MSR and then SAI Geothermal will acquire the right to the surface with the landowner of this property. If it were to go out to bid, it's quite likely SAI would be the only bidder on it.
MR. THOMPSON: And that brings up the real issue we have here. It seems unrealistic to the staff that the landowner has the right for evergreen right of second choice in there. If they don't comply with it the first lease term we think they should never have another chance at it. We'll try and take care of this legislatively, but the Commission may be faced with this in the future. We don't think that just because you have the surface landowner and come in and match a bid the first time that you can go back a second and third and fourth time and still sit on these and have that exclusive right.

COMMISSIONER ORWAY: Currently that is legal?

EXECUTIVE OFFICER DEDRICK: Currently the law.

Well --

MR. THOMPSON: Not exactly.

EXECUTIVE OFFICER DEDRICK: Currently the law says that there is a matching provision. The question as to how many times you can match has never been clarified.

COMMISSIONER ORWAY: I'm going to move to deny this request for a six month extension.

ACTING CHAIRPERSON RASMUSSEN: The staff's recommendation is being moved. Are there any other questions or concerns? I agree wholeheartedly with the comments that Miss Ordway has made and Item 26 is approved as presented by the staff and the request for the extension is denied.
MR. WAZLAW: Thank you.

ACTING CHAIRPERSON RASMUSSEN: Thank you. Item 27 is an information item.

EXECUTIVE OFFICER DEDRICK: Item 27 is deferment of drilling operations for Chevron Corporation on State oil and gas leases in Santa Barbara County along the channel.

ACTING CHAIRPERSON RASMUSSEN: Item 27, are there any questions? Item 27 is accepted as an information item.

Item 28, please.

EXECUTIVE OFFICER DEDRICK: This is approval of a nonexclusive geological survey permit on tide and submerged lands under the jurisdiction of the Commission under our normal permit program for geophysical exploration. Geo 3 is the applicant.

ACTING CHAIRPERSON RASMUSSEN: Any questions or comments on Item 28?

COMMISSIONER ORDWAY: Motion.

ACTING CHAIRPERSON RASMUSSEN: Item 28 is approved as presented.

Item 29.

EXECUTIVE OFFICER DEDRICK: Is the Bucks, Mr. Harley and the Stephens for approval of four prospecting permits for minerals other than oil, gas and geothermal, sand and gravel in Imperial County. This is normally hard rock minerals.

ACTING CHAIRPERSON RASMUSSEN: Any questions on Item
COMMISSIONER ORDWAY: Motion.

ACTING CHAIRPERSON RASMUSSEN: 29 is approved as presented.

Item 30.

EXECUTIVE OFFICER DEDRICK: Mr. Hight will carry the legal items.

MR. HIGHT: Item 30 is the authorization by the City of Eureka to terminate some sovereign interests in a 1.7 acre parcel of land. In return the city will pay 62,000 into a trust fund which is to be used to buy land that will be subject to the trust. The area now is high and dry, so it is not useful for trust purposes.

ACTING CHAIRPERSON RASMUSSEN: All right. Any questions on 30? 39 is approved as presented.

Item 31.

MR. HIGHT: Is an annexation by the City of Redding to an area along the Sacramento River. We have no known opposition to that annexation.

EXECUTIVE OFFICER DEDRICK: In this instance the Commission approves the --

MR. HIGHT: The description and consents as property owners.

COMMISSIONER ORDWAY: So what we are doing is basically verifying the description?
MR. HIGHT: Approving the legal sufficiency of the description and approving as property owner along the Sacramento River of --

COMMISSIONER ORDWAY: With the ultimate decision obviously for annexation being their local LAFCO?

MR. HIGHT: Correct.

COMMISSIONER ORDWAY: Motion.

ACTING CHAIRPERSON RASMUSSEN: All right. No questions, no further questions, Item 31 is approved as presented.

Item 32, please.

MR. HIGHT: Item 32 is the consent of the Commission for the annexation of an area across from the City of Anderson on the Sacramento River to the City of Anderson. As you'll recall, the Commission previously approved the legal sufficiency of the description and this item is directed to the Commission's consent as landowner. I think the City of Redding and some other people are here to speak on this item.

ACTING CHAIRPERSON RASMUSSEN: Thank you. I have one notice here from Thomas Hart and Dan Haskins that they are here to respond to staff and any concerns that are raised. This is from the City of Anderson.

Are there any questions or comments that anyone would like --

COMMISSIONER ORDWAY: I would like to just --
MR. MCNEIL: I'm here from the City of Redding.

COMMISSIONER ORDWAY: Would you like to make a statement.

MR. MCNEIL: Yes. Yes, I would.

ACTING CHAIRPERSON RASMUSSEN: We need you to come forward to the microphone, please. We need your name and who you represent, please.

MR. MCNEIL: My name is Walt McNeil. I'm a Deputy City Attorney for the City of Redding.

I would just like to make a statement for the record that the City of Redding opposes the request for annexation by the City of Anderson and respectfully requests that the State Lands Commission deny their consent to this request.

I have submitted extensive written opposition to this request. I don't think it would be fruitful to review every point that was brought out in that written opposition because it is so extensive. Maybe I could just comment on the staff's, what appears to be the staff's approach to the issues here and recap the salient points of my argument against this request.

It would appear that the staff has considered whether or not the City of Anderson will adequately protect the state's public trust interest in the river channel itself, but has decided not to consider the purpose or motives of the annexation nor to consider the effect on the
adjacent properties to the river channel. The City of Redding's concern in this regard I think is obvious when the facts are known.

Almost one-third of the total annexation area that is involved in this matter and probably a mile out of the two and half miles of river shoreline are tied up in property that the City of Redding is currently in the process of purchasing for a wastewater treatment facility. It's a wastewater treatment facility that would be located directly across from the City of Anderson.

An environmental impact report has been prepared on this. It is currently the subject of some ongoing litigation as to whether or not the environmental impact report is adequate. Nonetheless, that's what the controversy centers on.

It's the City of Redding's contention that it is appropriate for the State Lands Commission to consider the effect of the annexation on the adjacent properties and what is planned and intended for those properties in terms of the planning and land uses by the City of Anderson and the land uses proposed by the City of Redding.

I'd like to point out three items in terms of the possible impact on the adjacent lands. One is that the City of Anderson has pre-zoned this property. That pre-zoning would become effective immediately upon approval of the
ultimate annexation by the LAFCO Commission.

That pre-zoning has done two things. It has eliminated the county's General Plan classification of greenway along border areas on the river where riparian habitat is located and where I would submit that the public trust easement that this Lands Commission is concerned with extends.

If that pre-zoning takes effect upon annexation you're looking at the possibility of potential development in the area located in riparian habitat where the public trust interest lies.

The second point I'd like to make is that a portion of this area is currently located within an airport specific plan. The Redding Municipal Airport is about a mile, mile and half north of this area and the impact area for the airport dips into the river and part of the area that you're considering today. And if the airport master plan consultant's recommendations are followed, the planning area will be expanded to include the entire section of river that you're considering today.

My concern on behalf of the City of Redding is that the City of Anderson has by its pre-zoning demonstrated its disregard for the airport specific plan. They have increased the densities in this area and it demonstrates a lack of concern for appropriate planning for the areas immediately
adjacent to the river that is subject to your request.

The third point I'd like to make about the effect on adjacent lands is that the City of Redding is currently in the process of purchasing this property that makes up about a mile of the river bank. If this annexation request is approved and the City of Redding purchases the property that we're looking at for a wastewater treatment facility, in effect you're going to have shore zone and riparian habitat in the jurisdiction of the City of Redding controlled by the City of Redding with the City of Anderson having jurisdiction over the section of the riverbed immediately adjacent to it. As I want to bring out in a second, that's going to be eminently hostile jurisdiction.

From a planning standpoint, I don't think it makes sense to separate that shore zone and riparian habitat that would be in Redding's jurisdiction from the jurisdiction over the river channel that you're considering placing in the hands of Anderson.

Part of my purpose in being here today is to request that if you do not deny the request in whole, that you at least consider carving out, if you will, that section of the river immediately adjacent to the property that the City of Redding is acquiring.

I think that under the Government Code which defines the general purposes of what the Lands Commission is to do.
and looking at these requests, it is completely appropriate for you to consider the effects of the annexation on adjacent lands and on the potential boundaries and jurisdictions of other cities that are in that immediate vicinity.

Now, our second basis for opposing this I think is the essential motive behind the annexation. It's our view that the annexation is in itself simply a vehicle to oppose the siting of a wastewater treatment facility. It's the belief of the City of Anderson that by annexing this territory, by taking over jurisdiction of this area, that they can prevent the City of Redding to locating a regional wastewater treatment facility at this location.

I've think demonstrated at length in the written opposition that was submitted, that the ordinary considerations that go into an annexation request simply aren't present in this case. What you have is an annexation that's being used as a maneuver in conjunction with a lawsuit to prevent a wastewater treatment facility from being built.

I would request that the Lands Commission not take sort of a tunnel vision view of these issues and look only at the river channel. I would ask that you examine the motives of the annexation request and the effects of the annexation on the adjacent lands in considering whether or not to approve or deny this request.

ACTING CHAIRPERSON RASMUSSEN: All right. Miss.
Ordway has some questions.

COMMISSIONER ORDWAY: Just to refresh my memory, a question of staff. When we consent as landowners, what are the guidelines that we look at?

MR. FOSSUM: Well, as the property owner your primary concern would be what's in the best interests of the state in managing these properties. Whether the City of Anderson can provide the kind of police power protections to the property better than the County of Shasta would.

The items when we draft a calendar item, staff, the entire staff reviews it, the planning unit, the management unit, the legal unit and the boundary people all review those items to see whether or not they in fact reflect staff's belief that this is in the best interests of the state to consent to such a change in police power authority.

In this instance we have a portion of the Sacramento River adjacent to this already within Anderson's jurisdiction. The main part of the downtown Anderson is a stone's throw almost from this area and the river.

The City of Redding is a number of miles, the main part of the City of Redding at least is quite a few miles to the north. There is an area that Redding has annexed at their airport that stretches a great deal to the south and within a mile of the area that's proposed for annexation here. However, LAFCO has taken the position, and it's been
the staff of LAFCO's position for a number of years that this is properly within the sphere of influence of the City of Anderson.

COMMISSIONER ORDWAY: That's not what I'm asking. You answered my question. In my three years of sitting on the Lands Commission I have never known the Lands Commission to be myopic. I have, however, watched them struggle through some very difficult questions of trying to be appropriate as to what their own jurisdiction is. Local governments are responsible for land use decisions. It is not the responsibility of this Commission. What we are responsible for is protecting the lands that we have jurisdiction over.

This, any action we take today should we approve the staff recommendation would not obviously be the final action and I think your local LAFCO are the people that you need to be dealing with.

As a landowner, I mean, I have no problem consenting to have Anderson look over our interests there. And LAFCO, Shasta County LAFCO will decide whether or not that's going to finally happen.

ACTING CHAIRPERSON RASMUSSEN: I would add that we can't act on the basis of some future plans that are plans only and really have not come to any fruition at all.

MR. McNEIL: If I could respond to that. I have tried to find whatever legislative authority or legal
authority there is that defines the scope of what it is that you should consider.

COMMISSIONER ORDWAY: We do have rather broad based authority, I will admit to that. However, when one looks at other provisions of the law, particularly those that deal with land use decisions, you don't see listed that the State Lands Commission is sort of on the top of that list. I've always been led to believe, unless my knowledge of government is wrong, that truly is local government's responsibility.

I have opposed legislation that has wanted to put unique parcels of it in the property of the state or in some way overriding locals. I think that's a proper local responsibility.

MR. MCNEIL: I was only going to point out the reason I believe you had this authority was that in Government Code Section 56108 it does refer to some, your ability to look beyond simply just protecting your own proprietary interest in the public lands. It does say: However, in the interest of insuring an orderly and equitable pattern of offshore boundaries, the State Lands Commission may establish angles and other courses for each offshore boundary it deems necessary considering any regularity of the shoreline, other geographical features, the effect of incorporation or annexation of the offshore or submerged lands on the uplands of the city or proposed city and
adjoining territory and the existing and potential boundaries of other cities and of unincorporated communities.

And my only point is we're looking at an annexation request that is going to have effect on, if not existing, the potential boundaries of the City of Redding which is a mile out of the two and half miles of the shoreline.

MR. FOSSUM: If I could respond to that, I think the staff has done that. In looking at the boundaries as we've approved them last month here, we looked at the particular descriptions to see whether or not they would provide an equitable pattern of annexation. There have been problems in waterways in the past where boundaries have gone down the middle of a waterway, for example, and you have two different jurisdictions trying to determine what's the best way to police a particular waterway and that has caused problems.

In this instance, to some degree, the fact that the existing annexation boundaries for Anderson go at one point along the bank and at another point in the middle, it seems to be appropriate the staff believes to put the entire bed of the Sacramento River at this location adjacent to Anderson using Anderson's police power jurisdiction. Just as coincidentally Redding's has now been added to the north of Redding, certain areas have been included in Redding's jurisdiction.

Your comment that, on the consideration of the
effect on the adjacent lands, whereas the State Lands
Commission's jurisdiction does only reach to the bed of the
river, we do look at the impacts that are taking place
adjacent to there. We are very concerned what goes on there,
but our final decision that has to be made by the Commission
is whether this particular annexation is in the state's best
interest not the adjacent property owners.

In this instance we've, the staff has felt that
Anderson would take care of this property and police it in a
much greater, show greater concern over the property because
of its proximity to the city.

You did also mention that the planned development by
Anderson in their pre-zoning would allow more intense
development of the area then the current riparian habitat,
but I think that the planning by the City of Redding to put a
wastewater treatment plant is also a development that would
have an impact on that riparian habitat as well.

We can't control that. We are concerned, but we
can't control other people's property interests.

ACTING CHAIRPERSON RASMUSSEN: All right. Are there
any other questions of Mr. McNeil.

Does the City of Anderson wish to make any
statements or respond in any way?

MR. HART: Only if there are any questions from the
Commission.
ACTING CHAIRPERSON RASMUSSEN: All right, thank you. Any questions, concerns?

COMMISSIONER ORDWAY: I'll move Item 32.

ACTING CHAIRPERSON RASMUSSEN: Item 32 is moved as presented by the staff and is approved as presented by the staff.

Item number 33. Thank you all.

EXECUTIVE OFFICER PEDRICK: It's an authorization to amend the interagency agreement between the State Lands Commission and the State Teachers' Retirement System.

COMMISSIONER ORDWAY: Who's going to present this? I'm sorry, I didn't get a chance to read this. Would someone present it?

EXECUTIVE OFFICER PEDRICK: Bob, would you --

MR. HIGHT: The State Teachers' Retirement System has requested our assistance in evaluating various gas properties in Texas and we had a $25,000 contract and it has now been amended. The Teachers' Retirement would seek to amend it to 70,000 to augment that investigation.

ACTING CHAIRPERSON RASMUSSEN: They are paying us?

MR. HIGHT: Right.

EXECUTIVE OFFICER PEDRICK: That's correct. The Teachers' Retirement System is paying us to have our auditors and oil and gas engineers review properties owned by the
State Teachers' Retirement System.

COMMISSIONER ORDWAY: How long will that take?

EXECUTIVE OFFICER DEDRICK: Well, they've been at it for how long?

MR. HIGHT: I don't have a good feel for it, but I would think another six months. Mark Meier who is the attorney working on it will --

MR. MEIER: Mark Meier. This is considered to be an ongoing management proposal for as long as STRS will be owning that property. This particular agreement only goes to the end of the fiscal year however.

COMMISSIONER ORDWAY: And you report back to who on what?

MR. MEIER: We report to the STRS Board.

ACTING CHAIRPERSON RASMUSSEN: If I can jump in here, the purpose of this was to have some expertise in the oil and gas land management aspects and have someone look at these properties and report back to the State Teachers' Retirement System as to their value and what the State Teachers' Retirement System might want to do with these properties, whether they want to sell them or dispose of them. So this may be the end of it after this particular part of the contract or it may be ongoing with the State Lands Commission participating in the management of these lands somewhat.
MR. MEIER: State Lands staff does have expertise that STRS does not have.

COMMISSIONER ORDWAY: Could we have a report back on this in a couple of months?

EXECUTIVE OFFICER DEDRICK: Yes. Be happy to do that Commissioner.

ACTING CHAIRPERSON RASMUSSEN: Any other questions?

All right. Item 33 is approved. And that completes the agenda of the regular meeting and the regular meeting is adjourned.

(Thereupon the Meeting of the State Lands Commission was adjourned at 11:00 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 by me, Cathleen Slocum, and hereinafter transcribed into typewriting.

I further certify that I am not of counsel or attorney for any of the parties to said meeting no. in any way interested in the outcome of said meeting.

IN WITNESS WHEREOF, I have herein set my hand this 21st day of March, 1986.

Cathleen Slocum
Certified Shorthand Reporter
License No. 2822