

MINUTE ITEM

This Calendar Item No. 23
was approved as Minute Item
No. 23 by the State Lands
Commission by a vote of 2
to 0 at its 8/29/85
meeting.

MINUTE ITEM

23

08/29/85
Hoagland
PRC 5819
PRC 5862
PRC 5903
PRC 5999
PRC 6080
PRC 6081
PRC 6114

PRESENTATION BY APPLICANT AND CONSIDERATION OF
POSSIBLE ACTIONS RELATING TO POTENTIAL DEFAULT OF
SEVEN GEOTHERMAL LEASES IN LAKE, MENDOCINO,
AND SONOMA COUNTIES

During consideration of Calendar Item 23, attached, Mr. Domenic Falcone, Senior Vice President, GRI Exploration Corporation, appeared before the Commission to outline GRI's past efforts in the Geysers to date. Mr. Falcone also recommended that the Commission consider rebidding the leases with some consideration to the wording of the terms and conditions of the leases.

Acting Chairman, Walter Harvey thanked Mr. Falcone for his presentation.

Upon motion duly made by Commission-Alternate Ordway and seconded by Acting Chairman Walter Harvey, the Resolution in Calendar Item 23 was approved as presented by a vote of 2-0.

Attachment: Calendar Item 23.

CALENDAR PAGE

MINUTE PAGE

2403

CALENDAR ITEM

A 2, 8

23

S 2, 4

08/29/85
PRC 5819
PRC 5862
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Hoagland

PRESENTATION BY APPLICANT AND CONSIDERATION OF POSSIBLE
ACTIONS RELATING TO POTENTIAL DEFAULT OF SEVEN GEOTHERMAL
LEASES IN LAKE, MENDOCINO AND SONOMA COUNTIES

APPLICANT:

GRI Exploration Corporation
545 Middlefield, Road, Suite 200
Menlo Park, California 94025

BACKGROUND INFORMATION:

State Geothermal leases PRC's 5819, 5862, 5903, 5999, 6114, 6080 and 6081 were issued by competitive bidding between 1980 and 1982, assigned to Aminoil USA, Inc. and subsequently assigned to Geothermal Resources International (GRI) and its subsidiary GRI Exploration Corporation in November 1983.

Shortly thereafter, early in 1984, GRI informed State Lands staff that they would not do exploratory drilling as required under the primary drilling term of the lease unless the lease terms were modified, specifically requesting substantial reduction in the royalty and net profit percentage to be paid the State. The exploration has been further hindered by delays in geothermal electrical generation plant construction by Central California Power Association (CCPA), GRI's partner. The staff has conducted on-going negotiations with GRI to resolve a number of

(ADDED 08/23/85)

-1-

CALENDAR PAGE	119
MINUTE PAGE	2404

CALENDAR ITEM NO. 23 (CONT'D)

problems related to proposed changes in lease terms, charges into the net profit accounts and operations of the leases. During the negotiations, the drilling obligations have been extended several times. Staff had not been able to reach an agreement with GRI on net profit percentage reduction and future operations of the leases acceptable to Commissioners. Therefore, at the July meeting, staff sought authorization to notify the lessee that the drilling terms of the leases, including all extensions granted by the Commission, expired on August 2, 1985 without commercially valuable deposits of geothermal resources being discovered and was as a result in default under each lease.

At the July meeting, Mr. Peter A. Hansen, Vice President-Land for GRI appeared and asked that rather than be declared in default by the Commission, GRI be given an extension of the drilling obligations to permit them to make a presentation to the Commission.

The Commission approved the staff recommendation authorizing the default and the notice was mailed August 2, 1985. Failure to cure the default by commencing drilling operations on each lease within 30 days may cause cancellation of the leases. The Commission also urged GRI to appear at the August meeting to make a presentation in regard to these leases.

The Commission may take the following actions at this time:

- A. Extend the time for the lessee to cure the default.
- B. Defer any action regarding cancellation or extensions of time to perform until the September meeting.

IT IS RECOMMENDED THAT THE COMMISSION:

1. DEFER ANY ACTION REGARDING CANCELLATION OR EXTENSIONS OF TIME TO PERFORM UNTIL THE SEPTEMBER MEETING.

(ADDED 08/23/85)

-2-

CALENDAR PAGE	119.1
MINUTE PAGE	2405