

MINUTE ITEM

This Calendar Item No. 24
was carried over from Item
No. 24 of the State Lands
Commission by vote of 2
to 0 at its 9/26/85
meeting.

MINUTE ITEM

24

09/26/85
PRC 5819
PRC 5862
PRC 5903
PRC 5999
PRC 6114
PRC 6080
PRC 6081
Hoagland

AUTHORIZATION TO CANCEL SEVEN GEOTHERMAL LEASES
FOR FAILURE TO COMPLY WITH DRILLING TERMS

During consideration of Calendar Item 24, attached, Mr. Allan Littman, attorney from the law firm of Pillsbury, Madison and Sutro, representing M & T Geothermal Trust, appeared to outline M & T's involvement with Geothermal Resources International (GRI), and to ask the Commission to delay cancellation of the leases for 60 days. Mr. Littman felt that, before the Commission authorized cancellation of the leases, M & T should be given the opportunity to investigate their standing to take over the leases. Mr. Littman alleged that staff of the Commission had made a verbal commitment to him that would have given M & T the opportunity to take over the leases when negotiations with GRI broke down. Executive Officer Dedrick stated that, at no time, in meetings or discussions with staff, was a verbal commitment made to Mr. Littman.

Mr. Littman indicated that M & T and GRI were currently involved in negotiations with respect to M & T's rights to GRI's lease holdings.

Both Acting Chairwoman Rasmussen and Commission-Alternate Ordway stated that, while M & T may have claims against GRI, M & T is not a party to any of the leases between GRI and the State Lands Commission.

Upon motion made by Commission-Alternate Ordway and seconded by Acting Chairwoman Rasmussen, the Resolution in Calendar Item 24 was approved, as presented, by a vote of 2-0.

Attachment: Calendar Item 24.

CALENDAR PAGE _____
MINUTE PAGE 2772

CALENDAR ITEM

24

A 2, 8

S 2, 4

09/26/85
PRC 5819
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AUTHORIZATION TO CANCEL SEVEN GEOTHERMAL LEASES
FOR FAILURE TO COMPLY WITH DRILLING TERMS

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 problems related to proposed changes in lease

CALENDAR ITEM NO. 24 (CONT'D)

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. The notice provided that 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.

At the Commission meeting on August 29, 1985, Mr. Dominic J. Falcone, Senior Vice President of Geothermal Resources International (GRI), asked to make a brief statement regarding the seven leases. He indicated that development had not proceeded at the pace provided for in the leases for two main reasons. First, he said the market for electricity generated by geothermal energy was soft and companies could not justify drilling wells to meet lease commitments when they knew there would be no market for the energy. Secondly, he said terms of the leases were so onerous as to make the project uneconomic and attempts to negotiate new terms with staff had failed. He said his

company would like to retain the leases but it appeared that further negotiation would not be productive at this time and what his company now requested was to be advised as to the plans for reissue of the leases. He said he felt they should be reissued, and his firm needed to know what schedule the Commission was considering so his company could plan its activities.

After hearing this presentation, Chairman Harvey told Mr. Falcone that staff would be developing a program to reissue these leases. The Commission then voted to approve the staff recommendation to take no action regarding extensions of time or cancellations until the September meeting. The leases were all in default as of September 5, 1985. Since GRI has indicated that they would not develop the state leases without a change in terms and that it appeared that further negotiation would be unsuccessful, it is the recommendation of staff that the seven leases be cancelled because they are in default as a result of failure to meet the drilling obligations under the leases.

AB 884:

N/A.

OTHER PERTINENT INFORMATION:

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (14 Cal. Adm. Code 15061), the staff has determined that this activity is exempt from the requirements of the CEQA because it is not a "project" as defined by CEQA and the State CEQA Guidelines.

Authority: P.R.C. 21065 and 14 Cal. Adm. Code 15378.

EXHIBIT:

A. Site Map.

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL ADM. CODE 15061 BECAUSE IT IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL. ADM. CODE 15378.

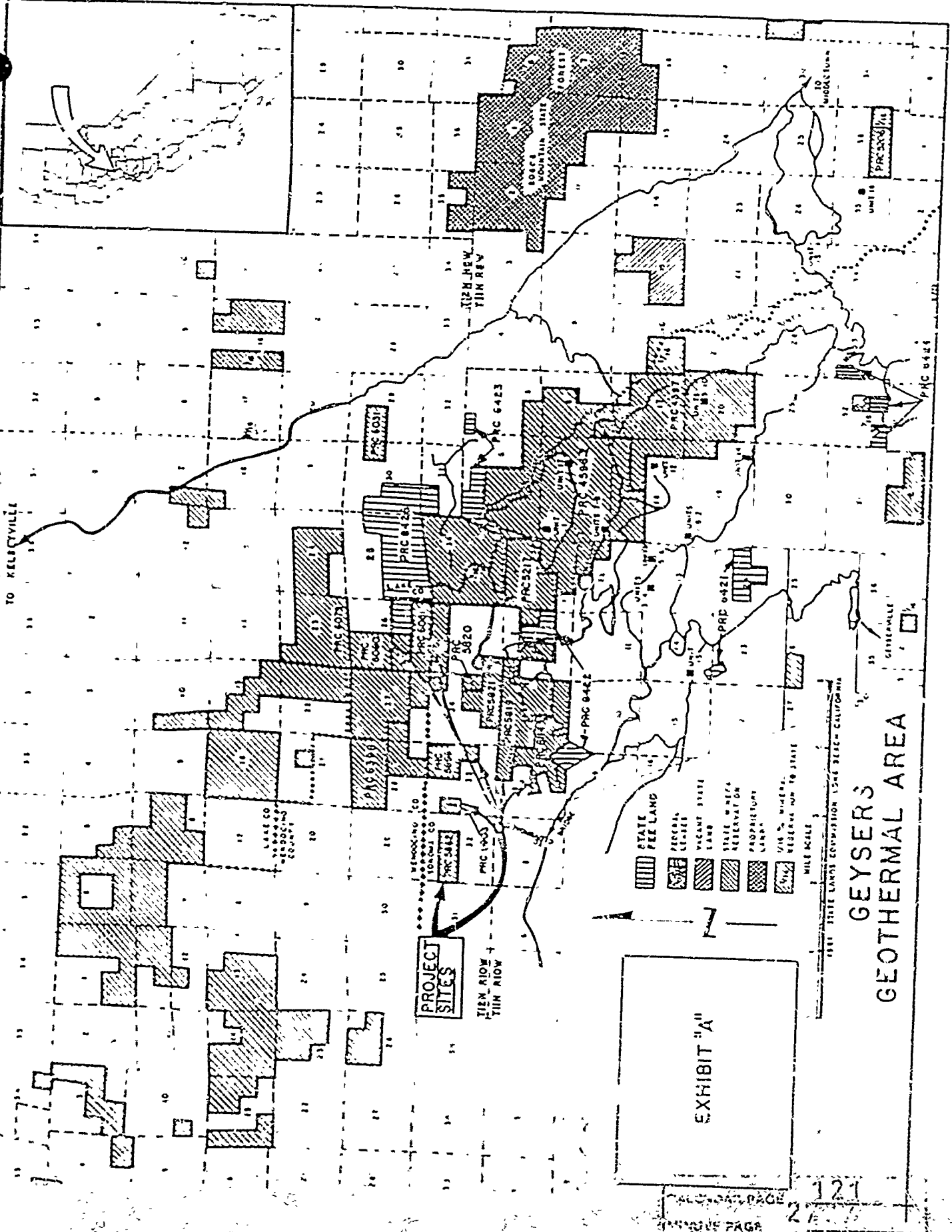
CALENDAR ITEM NO. 24 (CONT'D)

2. DETERMINE THAT GRI EXPLORATION CORPORATION HAS FAILED TO COMMENCE DRILLING OPERATIONS ON STATE GEOTHERMAL LEASES PRC'S 5819, 5862, 5903, 5999, 6114, 6080 AND 6081 WITHIN THIRTY (30) DAYS OF WRITTEN NOTICE OF DEFAULT DATED AUGUST 2, 1985.
3. AUTHORIZE CANCELLATION OF STATE GEOTHERMAL LEASES PRC'S 5819, 5862, 5903, 5999, 6114, 6080 AND 6081 FOR FAILURE TO COMMENCE DRILLING OPERATIONS IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THE LEASES.

120
3786

TO KELSVILLE

GEYSERS GEOHERMAL AREA



- STATE LAND
- PERSONS LEASED
- VACANT STATE LAND
- STATE WILDLIFE RESERVATION
- RESERVATION
- VIA WILDLIFE RESERVATION TO STATE

EXHIBIT "A"