

MINUTE ITEM

This Calendar Item No. 28
was approved as Minute Item
No. 28 by the State Lands
Commission by a vote of 2
to 1 at its 7/25/85
meeting.

MINUTE ITEM

28

07/25/85
PRC 5819
PRC 5862
PRC 5903
PRC 5999
PRC 6080
PRC 6081
PRC 6114
Willard

Authorize Notification of Default of Drilling Obligations
Under Geothermal Leases PRC 5819, 6114, 5862, 5903,
5999, 6080 and 6081, Lake, Mendocino and Sonoma Counties

During consideration of Calendar Item 28 attached, Assistant Executive Officer Trout requested that Recommendation 2 be amended to include reference to Lease PRC 5999. Reference to this lease had been inadvertently omitted from the item.

Mr. Pete Hansen, President of GRI Exploration, read a statement for the record asking the Commission to approve a one month extension of the drilling commitment dates to allow GRI to make a more informed presentation at the Commission's August meeting without GRI being in default.

Assistant Executive Officer Trout clarified that staff was requesting approval to issue notices of default initiating a 30-day time clock requiring GRI to cure the default within 30-days or risk termination of the leases. At the August meeting the Commission could then vote to extend the leases or take any action it deems appropriate.

Both Commissioners assured Mr. Hansen that they looked forward to GRI's presentation at the August meeting and hoped that progress could be made to avoid termination of the leases at that time.

Upon motion made by Commission-Alternate Ordway and Seconded by Acting Chairwoman Rasmussen, the following Resolution was approved, as amended, by a vote of 2-0:

THE COMMISSION:

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

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2. AUTHORIZES THE EXECUTIVE OFFICER TO NOTIFY GRI EXPLORATION CORPORATION, UNDER STATE GEOTHERMAL LEASES PRC'S 5819, 5862, 5903, 5999, 6080, 6081, AND 6114 ON AUGUST 2, 1985 THAT THEY HAVE FAILED TO COMPLY WITH THE DRILLING OBLIGATIONS UNDER THESE LEASES AND ARE IN DEFAULT PURSUANT TO SECTION 33 OF THE LEASES AND FURTHER THAT FAILURE TO CURE THE DEFAULT WITHIN 30 DAYS OF RECEIPT OF THE NOTICE MAY CAUSE CANCELLATION OF THE LEASES.

Attachment: Calendar Item 28.

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07/25/85
PRC 5819
PRC 5862
PRC 5903
PRC 5999
PRC 6080
PRC 6081
Willard

AUTHORIZE NOTIFICATION OF
DEFAULT OF DRILLING OBLIGATIONS
UNDER GEOTHERMAL LEASES
PRC'S 5819, 6114, 5862, 5903, 5999, 6080 AND 6081
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, 6114, 5862, 5903, 5999, 6080 and 6081 were leased by competitive bidding between 1980 and 1982 and with the exception of PRC 5903 which was issued to MSR Public Power Agency, all of these leases were acquired by Aminoil USA, Inc. and assigned to Geothermal Resources International (GRI) and its subsidiary GRI Exploration Corporation in 1983.

Since acquisition of these leases by GRI, staff of the Commission has been conducting ongoing negotiations over such issues as approval of a steam sales agreement, allocation of costs between various net profits leases, pooling of certain leases for drilling obligations and consolidation (unitization) of leases with modified net profits rates and accounting procedures. GRI's position has been throughout the negotiations that without a reduction in the competitive bid net profits percentages on these leases they would not commit to exploration or development of the leases.

(ADDED 07/17/85)

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Terms of the lease provide that within three years of the effective date of the lease the lessee shall drill a geothermal well or the Commission may cancel the lease and cause forfeiture of the bond (blanket bond \$500,000). Because of the continuing negotiations between staff and GRI as the three year drilling terms expired the drilling obligations for these leases were all extended. PRC's 5862, 5903, and 5999 were extended to October 1984, again to June 30, 1985 and again through July 31, 1985. PRC 5819 was extended to June 30, 1985 and again through July 31, 1985. The three year drilling term for PRC's 6080 and 6081 expired on November 9, 1984 and was extended to August 1, 1985.

Because staff has been unable to conclude a negotiated agreement with GRI over terms for operation of these leases and does not foresee any possible agreement with further negotiations and because all of the extended drilling terms will have expired at the end of July, staff is seeking authorization to notify the lessee on August 2, 1985, that they are in default under the terms of the leases. Upon notification the lessee has 30 days to cure the default by commencement of drilling operations. If GRI fails to commence drilling operations within the 30-day period the Commission may proceed to cancel 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 the activity is not a "project" as defined by CEQA and the State CEQA Guidelines.

Authority: PRC 21080(a), PRC 21065 and Cal. Adm. Code 15378.

(ADDED 07/16/85)

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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 THE ACTIVITY IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL. ADM. CODE 15378.
2. AUTHORIZE THE EXECUTIVE OFFICER TO NOTIFY GRI EXPLORATION CORPORATION, UNDER STATE GEOTHERMAL LEASES PRC'S 5819, 6114, 5862, 5903, 6080 AND 6081 ON AUGUST 2, 1985 THAT THEY HAVE FAILED TO COMPLY WITH THE DRILLING OBLIGATIONS UNDER THESE LEASES AND ARE IN DEFAULT PURSUANT TO SECTION 33 OF THE LEASES AND FURTHER THAT FAILURE TO CURE THE DEFAULT WITHIN THIRTY DAYS OF RECEIPT OF THE NOTICE MAY CAUSE CANCELLATION OF THE LEASES.

(ADDED 07/16/85)

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