

MINUTE ITEM

This Calendar Item No. 44
was approved as Minute Item
No. 44 by the State Lands
Commission by a vote of 3
to 2 at its 9/23/91
meeting.

CALENDAR ITEM

A 2, 8
S 4, 5

44

09/23/91
PRC 5217
Willard

NOTICE OF DEFAULT
FOR FAILURE TO COMPLY WITH GEOTHERMAL
RESOURCES LEASE ROYALTY OBLIGATIONS, P.R.C. 5217,
SONOMA COUNTY

LESSEE:

GRI Exploration Corporation and
GRI Development Corporation
c/o Coldwater Creek Operator Corporation
1400 N. Dutton, Suite 23
Santa Rosa, California 95401

AREA, TYPE LAND AND LOCATION:

Approximately 434 acres of reserved mineral interest land in
the northwestern portion of The Geysers Geothermal Steam
Field, Sonoma County.

BACKGROUND:

Geothermal Lease PRC 5217 was issued by competitive bidding in
1976. George P. Post, an individual, was the high bidder with a
bid of 47.77 percent of net profits in addition to a royalty of
ten percent of gross revenue from the sale of steam and an annual
rent of \$1 per acre. Pursuant to the provisions of PRC
Section 6912(b), the surface owner matched the high bid, and was
awarded the lease. The surface owner then assigned the lease to
Aminoil USA, Inc. Aminoil subsequently assigned the lease to GRI
Exploration Corporation (GRIE) and GRI Development Corporation
(GRID), subsidiaries of Geothermal Resources International, Inc.
which provided guarantees that it would be fully responsible for
its subsidiaries.

On May 31, 1989, the Commission found the Lessees in breach of
leases PRC 5217, PRC 5820 and PRC 5821 concerning a number of
issues (see Exhibit A - letter dated May 31, 1989). On June 23,
1989, the Lessees petitioned for protection from their creditors
pursuant to Chapter 11 of the U.S. Bankruptcy Code. The matter
is still pending before the Court. Upon filing of the petition,
all efforts of the Commission to enforce prepetition obligations,
including the breaches noticed on May 31, were stayed under the

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bankruptcy law, pending the debtors' (Lessees') decision to assume or reject the leases. However, the Lessees were obligated by order of the Court to continue payment of all post-petition royalties. To date, the Lessees have not made any progress on reorganization and in anticipation of possible abandonment of the leases, have initiated withholding of royalty payments (June and July royalty due August 1 and September 1, respectively) to be used for compliance with environmental requirements pertaining to abandonment of the lease. Under the leases such costs are not deductible from royalties. The Court has ordered that all royalty payments being withheld be deposited in a separate interest bearing account pending resolution of a motion set for hearing on October 29, 1991.

In the event the bankruptcy case is dismissed and the stay lifted, the State should be in a position to immediately pursue its remedies under the lease for failure to pay royalties due on August 1, and September 1, 1991, and for each successive date that royalties are due but not paid.

AB 884:

N/A.

OTHER PERTINENT INFORMATION:

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (14 Cal. Code Regs. 15061), 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: P.R.C. 6804, P.R.C. 21065 and 14 Cal. Code Regs. 15378.

EXHIBIT:

- A. Letter dated May 31, 1989.

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THIS ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. CODE REGS. 15061 BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL. CODE REGS. 15378.
2. AUTHORIZE NOTIFICATION OF GRI EXPLORATION CORPORATION AND GRI DEVELOPMENT CORPORATION, LESSEE, UNDER GEOTHERMAL RESOURCES LEASE P.R.C. 5217 (1) THAT THEY HAVE FAILED TO

COMPLY WITH THE ROYALTY PROVISIONS OF THE LEASE COMMENCING WITH THE PAYMENT DUE AUGUST 1, AND SEPTEMBER 1, 1991, AND ARE IN DEFAULT UNDER THE TERMS OF THE LEASE, AND THAT EACH SUCCEEDING MONTH FOR WHICH ROYALTY PAYMENTS ARE NOT MADE, WHEN DUE, SHALL CONSTITUTE AN ADDITIONAL BREACH OF THE LEASE TERMS; AND (2) THAT UPON LIFTING OF THE STAY THEY WILL HAVE 90 DAYS TO COMPLY WITH THE LEASE PROVISIONS.

STATE LANDS COMMISSION

LEO T. McCARTHY, *Lieutenant Governor*
GRAY DAVIS, *Controller*
JESSE R. HUFF, *Director of Finance*

EXECUTIVE OFFICE
1807 - 13th Street
Sacramento, California 95814
CLAIRE T. DEDRICK
Executive Officer



File Ref: PRC 5217, / 5820
5821

May 31, 1989

Mr. Peter Hansen, Vice-President
Geothermal Resources International
1825 South Grant Street, Suite 900
San Mateo, California 94402

Dear Mr. Hansen:

As you were advised by telephone on May 19, 1989 and by letter dated May 23, 1989, the staff of the State Lands Commission has recommended to its Commissioners that GRI Exploration Corp. and GRI Development Corp. (collectively referred to as GRI) be given formal notice that they are in breach of several of their lease obligations and that these breaches should be cured immediately.

You were informed by Notice dated May 19, 1989 that the Commission would meet on May 31, 1989 to consider the staff's recommendation. The Commission did meet on that date; considered the staff's recommendations; and has found GRI in breach of the following obligations.

LEASE NO. PRC 5217

1. Delinquent Royalties. GRI has failed to pay royalties to the Commission in accordance with the Steam Sales Agreement approved by the Commission on March 22, 1984. GRI is required to pay a royalty equal to 10 percent of gross revenue from the sale of steam from the leased property (lease paragraph 4 (a)), and such steam sales may only be made pursuant to steam sales contracts that have first been approved by the Commission (lease paragraph 9(c)). Subsequent to the commencement of production in 1988, GRI began making royalty payments on steam sales pursuant to a steam sales contract bearing a date of June 1, 1984. Neither the Commission nor its staff had previously been advised of this second steam sales contract, nor had the Commission approved it. The unapproved steam sales contract provides for a lower sales price for the State's steam and would therefore result in reduced royalty payments to the State by GRI. Although GRI has subsequently

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requested approval of the second steam sales contract, current and past royalties must be paid to the Commission in accordance with the steam sales contract approved by the Commission on March 22, 1984. Through the end of March 31, 1989, the delinquent royalties, exclusive of penalty and interest, total \$54,946.98.

2. Sale of Steam Under Unapproved Contract. The sale of steam pursuant to a contract that has not been approved by the Commission, as outlined above, is itself a breach of the lease (lease paragraph 9(c)).

3. Failure to Comply with Drilling Requirement. GRI has failed to drill additional wells on the leased property and has not received a deferment of the drilling obligation, in violation of lease paragraph 8(b).

4. Net Profits Statements. GRI has failed to provide the Commission with the monthly accounting statements concerning the net profits account provided for by Exhibit C of the lease, in violation of lease paragraph 19(a).

5. Late Payments and Failure to Pay Penalty and Interest. GRI has failed to make timely royalty payments in accordance with the due date provided for by lease paragraph 4(a). Further, GRI has failed to pay the penalty and interest that is due on these late payments under lease paragraph 7, subparagraphs (a) and (b). To date, the following royalty payments have been received late by the Commission.

<u>Month</u>	<u>Date Due</u>	<u>Date Received</u>	<u>Amount</u>
March 1988	4-25-88	6-27-88	\$ 3,429.37
April 1988	5-25-88	6-27-88	14,697.31
May 1988	6-25-88	7-12-88	41,043.85
June 1988	7-25-88	8-09-88	73,010.02
July 1988	8-25-88	8-31-88	75,436.75
September 1988	10-25-88	11-01-88	47,944.01
October 1988	11-25-88	11-29-88	62,026.04
December 1988	1-25-89	1-27-89	66,475.35
January 1989	2-25-89	3-03-89	73,545.31
February 1989	3-25-89	3-31-89	52,526.25
March 1989	4-25-89	4-26-89	82,974.88

The penalty due for these late payments totals \$32,630.54. The accrued interest on these late payments, and the above-discussed underpayments, totals \$5,909.80 as of May 31, 1989. The foregoing amounts are calculated based on royalties due under the steam sales contract approved by the Commission on March 22, 1984.

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LEASES PRC NOS. 5820 and PRC 5821

6. Failure to Comply with Drilling Requirement. GRI has failed to drill wells on the leased property in conformity with the drilling requirement of lease paragraph 9(a)(1) in both leases and has not received a deferment of drilling obligations.

7. Net Profit Statements. GRI has failed to provide the Commission with the monthly accounting statements concerning the net profits account provided for by Exhibit C of the leases, in violation of lease paragraph 20(a) of both leases.


8. Failure to Develop a Market for Geothermal Resources. GRI has failed to proceed diligently to develop a market for the geothermal resources on these leases, in violation of lease paragraph 9(b) of both leases.

9. Failure to Submit Plans of Development and Operation. Lease paragraph 10(a) of both leases requires the annual preparation and submission for approval by the State Lands Commission of a plan of development and operation. GRI has not submitted this plan.

In addition to finding GRI in breach of the lease, the Commission hereby requests that GRI take whatever steps are necessary to come into compliance with the lease terms.

This notice initiates the 90-day period for cure of the breaches as stated in the Breach and Cancellation provisions of the leases. However, the State Lands Commission reserves the right to seek whatever other remedies are available at law.

Sincerely,


CLAIRE T. DEDRICK
Executive Officer

cc: J. Trout

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