

MINUTE ITEM

This Calendar Item No. 20
was approved as Minute Item
No. 20 by the State Lands
Commission by a vote of 3
0 at its 2/5/92
meeting.

CALENDAR ITEM

A 2, 8

20

02/05/92

S 4, 5

PRC 5217

PRC 5820

PRC 5821

Willard

APPROVE ASSIGNMENTS OF GEOTHERMAL RESOURCES
LEASES PRC 5217, PRC 5820 AND PRC 5821
SONOMA COUNTY

ASSIGNOR (LESSEE):

GRI Exploration Corporation and
GRI Development Corporation
c/o Mr. Thomas E. Lumsden
Coopers and Lybrand
333 Market Street
San Francisco, California 94105

ASSIGNEE:

Central California Power Agency No. 1 (CCPA)
Attn: Mr. Ken Byers
P.O. Box 15830
Sacramento, California 95852-1830

AREA, TYPE LAND AND LOCATION:

Approximately 674 acres (PRC 5217 - 434 acres, PRC 5820 -
40 acres, and PRC 5821 - 200 acres) of reserved mineral
interest land in the northwestern portion of The Geysers
Geothermal Steam Field, Sonoma County.

BACKGROUND:

PRC 5217 was leased by competitive bidding in 1976. George P.
Post, an individual, was the high bidder with a bid of
47.77 percent of net profit 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
P.R.C. Section 6912(b), the surface owner matched the high bid,
was awarded the lease, and 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 has provided guarantees that it would be fully responsible
for its subsidiaries.

PRC 5820 and PRC 5821 were issued by competitive bidding in 1980.
Lease PRC 5820 was issued to Geothermal Power Corporation, as

highest bidder, for a net profit bid of 72.5 percent. Lease PRC 5821 was issued to the surface owner, Squaw Creek Investment Company, for a net profit bid of 76.1 percent. Both leases were assigned to Aminoil USA, Inc. and then assigned to GRIE and GRID. On February 9, 1982, the Commission approved the pooling of lease PRC 5820 (40 acres) with PRC 5821 (200 acres) so that the parcels could be developed jointly under a single drilling obligation and, for purposes of royalty and net profit calculations, production would be allocated to the respective leases in the proportion that the acreage in the lease bears to the total acreage in the pool.

In 1986, the Lessee secured financing from a consortium of note holders for whom Morgan Guaranty Trust Company of New York (Morgan) acts as agent. Those lenders extended secured financing of approximately \$60 million for the development of the steam field and repayment is secured with the lenders collateral including the leasehold interests of the steam leases.

All steam gathered by the Lessee is sold to CCPA, which receives the steam at the power plant that CCPA built within the steam field. CCPA, whose members consist of public utility districts or municipalities in Northern California, built its power plant, at a cost in excess of \$200 million, specifically for the purpose of receiving the Lessee's steam and generating power therefrom. The power generated in CCPA's plant is used by its member utilities to provide power to the public in Sacramento, Modesto, and Santa Clara. Steam production began in March 1988. The State has received \$725,300 royalties through April 1989 (prepetition bankruptcy).

On May 31, 1989, the Commission authorized notification of GRI that they had failed to comply with the provisions of the leases and were in default, and requested compliance by the lessee of the specified lease provisions. The default notice listed delinquent royalties, sales of steam under an unapproved contract, failure to comply with drilling requirements, submission of net profit statements, late payments with failure to pay penalty and interest, failure to develop a market for the resource under two of the leases and failure to submit annual plans of development and operation.

On June 23, 1989, the Lessee filed for protection from creditors under Chapter 11 of the Federal Bankruptcy Code. Since that time, the Lessee have attempted to develop a plan of reorganization for management of its assets. The primary asset of the Lessee is a geothermal steam gathering project in The

Geysers Steam Field, the Coldwater Creek Project (Plant Areas A-1 and A-2). The project includes both private and State lands leased to the Lessee for development of geothermal resources as shown on the map attached as Exhibit "A". Subsequent to the bankruptcy filings, Morgan further loaned in excess of \$3 million for specific well and field maintenance work.

The lessees, Morgan, and CCPA have attempted to develop a plan which would allow for the Lessee's continued operation of the steam field and provide for maximum recovery under the loan requirements. Morgan finally withdrew from these negotiations, concluding that such a reorganization was not feasible. CCPA continued discussions with the Lessee with an objective of acquiring the steam leases from the Lessee and merging the operation of the power plant with the steam field. These negotiations were concluded and, on December 17, 1991, CCPA filed a joint motion with the Lessee for court approval of the assumption and assignment to CCPA of the steam leases and other assets pursuant to a definitive asset purchase agreement. The court has set March 6, 1992 for a hearing on this motion.

Staff has entered into a letter agreement, attached as Exhibit "B", with CCPA subject to approval of the court in the motion to assume and assign the leases, approval of CCPA's members, and approval by the Commission. The purpose of this agreement is to clarify and set forth specific conditions under which CCPA will assume the State leases. These conditions include:

1. New steam sales price of \$1.00 per thousand pounds, effective April 1, 1992.
2. Six-month period for re-evaluation of the steam sales price.
3. If the State and CCPA cannot agree on the price to be determined under No. 2 above, the State may request the matter to be resolved under binding arbitration.
4. Steam sales price adjustment based on annual changes in the GNP implicit price deflator.
5. Drilling obligations in accordance with existing lease terms with a development plan submitted within six months and good faith negotiations on acceptance of the plan for six months following receipt of the plan.

6. A most favored nations clause increasing the price to be paid for the State's steam, if CCPA agrees to pay a higher price for non-State steam.
7. CCPA will cure all outstanding monetary defaults on the date of assignment, totalling \$830,400 (subject to final accounting to April 1, 1992).
8. CCPA will give first consideration to leasing additional State lands if it is decided to expand the leaseholdings.
9. Renegotiation of the steam sales price at the end of the primary lease term in 1997.
10. On an annual basis, until an agreement is reached under No. 5 above, CCPA agrees to use a minimum of 50 percent of the available steam as determined on the assignment date, subject to force majeure.

All other terms and conditions of State geothermal resources leases PRC 5217, PRC 5820, and PRC 5821 will remain unchanged and in full force and effect.

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), 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: P.R.C. 6804, P.R.C. 21065 and 14 Cal. Code Regs. 15378.

EXHIBITS:

- A. Location Map.
- B. Letter Agreement.

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THE 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. APPROVE THE ASSIGNMENTS FROM GRI EXPLORATION CORPORATION AND GRI DEVELOPMENT CORPORATION (LESSEE/ASSIGNOR) TO CENTRAL CALIFORNIA POWER AGENCY NO. 1 (ASSIGNEE) OF ALL OF GRI'S INTEREST IN STATE GEOTHERMAL RESOURCES LEASES PRC 5217, PRC 5820, AND PRC 5821. THE GEYSERS GEOTHERMAL STEAM FIELD, SONOMA COUNTY. COMMISSION APPROVAL OF THIS ASSIGNMENT IS GIVEN UPON THE CONDITIONS THAT:
 - A. THE ASSIGNMENT WILL NOT RELEASE THE ASSIGNOR FROM ANY OBLIGATION TO THE COMMISSION UNDER THE LEASE, ANY CONDITIONS IN ANY ASSIGNMENT AGREEMENT TO THE CONTRARY NOTWITHSTANDING;
 - B. THAT THE ASSIGNEE WILL BE BOUND BY THE LEASE, INCLUDING ANY MODIFICATIONS AND COLLATERAL AGREEMENTS, TO THE SAME EXTENT AS THE ASSIGNOR, ANY CONDITIONS IN ANY ASSIGNMENT AGREEMENT TO THE CONTRARY NOTWITHSTANDING; AND;
 - C. THIS ASSIGNMENT APPROVAL IS SUBJECT TO THE U.S. BANKRUPTCY COURT APPROVAL OF THE LESSEE'S MOTION TO ASSUME AND ASSIGN THE GEOTHERMAL LEASES TO CENTRAL CALIFORNIA POWER AGENCY NO. 1.
3. APPROVE THE LETTER AGREEMENT BETWEEN CENTRAL CALIFORNIA POWER AGENCY NO. 1 AND THE STATE, DATED JANUARY 7, 1992, ATTACHED HERETO AND BY REFERENCE MADE A PART HEREOF CLARIFYING AND INTERPRETING CERTAIN PROVISIONS OF GEOTHERMAL RESOURCES LEASES PRC 5217, PRC 5820, AND PRC 5821.

EXHIBIT B

PRC 5217
PRC 5820
PRC 5821

CCPA

CENTRAL CALIFORNIA POWER AGENCY No. 1

A No. 1

January 7, 1992

VIA FACSIMILE TRANSMISSION
HARD COPY TO FOLLOW

Mr. Paul B. Mount II
Chief, Mineral Resources
Management Division
State Lands Commission
245 West Broadway, Suite 425
Long Beach, CA 90802

Re: Letter Agreement Regarding Assumption and
Assignment of State Leases (Lease Nos. 5217,
5820 and 5821)

Dear Mr. Mount:

Subject to the Court's approval of the Debtors' motion to assume and assign the leases to CCPA, and the final approval of the State Lands Commission, CCPA, and CCPA's members, the State and CCPA agree to accept the following terms:

1. Interpret the pricing provisions of the leases to establish a new steam price of \$1.00 per thousand pounds. The royalty and net profits provisions are to remain as stated in the original leases, as amended.

2. If six months after the assumption and assignment the cost to CCPA and its members of competing power supply sources would justify a steam price under these leases greater than \$1.00 per thousand pounds of steam, CCPA and the State will renegotiate the steam price; provided, however, that the price per thousand pounds of steam would not be less than \$1.00. CCPA and its members agree to cooperate and provide the State with any data and information that is not privileged relative to such renegotiation.

3. If within six months after the commencement of negotiations as provided in paragraph 2 the parties cannot come to agreement on the steam price, the State in its sole and absolute discretion may elect binding arbitration; provided, however, that if the State elects arbitration, the arbitrator may

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determine a price greater or less than \$1.00 per thousand pounds, taking into account the cost to CCPA and its members of competing power supply sources.

4. Provide a nine-month adjustment to steam price based upon the change in the GNP implicit price deflator, using a base of April 1, 1992, with the adjustment to be made on January 1, 1993; thereafter, provide an annual GNP adjustment to be made each January 1.

5. Determine drilling obligations according to current lease provisions, and determine steam production, in both cases through submission by CCPA of a development plan to the SLC within 180 days after the assumption and assignment of the leases to CCPA, followed by good faith negotiations for a period of 180 days after receipt of the plan by the State.

6. Amendment of the leases to include a most favored nations clause that would provide that the State would receive at least as high a steam price on which royalties are based under the State leases as CCPA would pay as a steam price on which royalties are based under other leases.

7. On the date of assumption and assignment, CCPA would cause satisfaction of the cures necessary for assignment of the leases to CCPA, specifically the monetary defaults which exist at the time of the assumption and assignment of leases to CCPA. Subject to confirmation, those items, as of October 31, 1991, are as specified in subparts a through d of paragraph 7 of Mr. Warren's December 24 letter:

(a) Payment of pre-petition royalties withheld for May and June 1989, in the amount of \$78,015.74.

(b) Payment of post-petition royalties withheld for the months of June, July, August, September and October, 1991, in the amount of \$307,895.02 and such further amounts withheld since October until the date of assignment.

(c) Payment of the difference in the steam sales price (original approved steam sales contract versus combined steam sales agreement) for the period of March, 1988, to the date of assignment. Through October 1991, this amounts to \$199,710.91.

(d) Payment of all penalties and interest on the above amounts.

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8. If in the future CCPA decides to lease additional lands in the Geysers, CCPA will in good faith give first consideration to leasing lands owned by the State.

9. Renegotiate the steam sales price in this agreement at the end of the primary lease term in 1997.

10. On an annual basis, until a final agreement is reached pursuant to paragraph 5 above, CCPA shall use a minimum of 50% of the steam available as of the date of assumption and assignment from the State Lands Leases (Lease Nos. 5217, 5820 and 5821), subject to force majeure. The parties intend that this shall be an interim agreement only and shall have no precedent value.

If these terms are acceptable to you, please so indicate by signing this letter below and returning a copy to me. CCPA has scheduled a special Commission meeting to be held on January 8, 1992, in order to authorize Mr. Byers to execute this Letter Agreement on CCPA's behalf. I look forward to hearing from you soon.

Sincerely,

Eric V. Toolson jg

ERIC V. TOOLSON
SACRAMENTO MUNICIPAL UTILITY DISTRICT

AGREED AND ACCEPTED:

Paul B. Mount

PAUL B. MOUNT II
CHIEF, MINERAL RESOURCES
MANAGEMENT DIVISION
STATE LANDS COMMISSION

AGREED AND ACCEPTED:

Kenneth Byers

KENNETH BYERS
DIRECTOR
CCPA No. 1

APPROVED AS TO FORM:

James R. Frey

JAMES R. FREY
STAFF COUNSEL
STATE LANDS COMMISSION

APPROVED AS TO FORM:

Julia L. Jenness

JULIA L. JENNESS
DOWNEY BRAND SEYHOUR
& ROHWER

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