

[4310-MR-P]

**DEPARTMENT OF THE INTERIOR**

**Minerals Management Service**

**30 CFR 206**

**RIN 1010-AC59**

**Geothermal Resources: Proposal to Convene Discussions to Develop Consensus on Royalty Valuation Approaches**

**AGENCY:** Minerals Management Service, Interior.

**ACTION:** Request for Comments, Solicitation of Interest.

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**SUMMARY:** In conjunction with the President's National Energy Policy on renewable energy resources, MMS proposes to convene discussions with geothermal producers and other stakeholders to explore the possibility of developing a consensus on geothermal royalty valuation approaches. The discussions will be in the form of public workshops and written comments and will be open for both electrical generation and direct-use valuation. Should consensus be reached, MMS will propose a rulemaking to amend the existing valuation regulations. However, before fully committing to this process, MMS wishes to gauge the extent to which geothermal producers and other stakeholders desire new or modified royalty valuation approaches.

Accordingly, MMS at this time requests the following information: (1) comments on the need for new or modified valuation procedures; (2) an expression of interest in holding workshops to discuss alternative valuation procedures, with the goal of developing a consensus on new or modified approaches; and (3) suggestions for alternatives or modifications to the existing procedures, with the objective of maintaining royalty neutrality.

**DATES:** You must submit comments on or before [INSERT DATE 30 DAYS AFTER PUBLICATION IN THE **FEDERAL REGISTER**].

**ADDRESSES:** Address your comments and suggestions regarding this proposal to Paul Knueven, Manager, Records and Information Management Team.

By regular U.S. mail: Center for Excellence, Minerals Revenue Management, Minerals Management Service, P.O. Box 25165, MS 320B2, Denver, Colorado 80225-0165; or

By overnight mail or courier: Center for Excellence, Minerals Revenue Management, Minerals Management Service, Building 85, Room F421, Denver Federal Center, Denver, Colorado 80225-0165; or

By email: MRM.comments@mms.gov. Please submit Internet comments as an ASCII file and avoid the use of special characters and any form of encryption. Also, please include “Attn: Geothermal Proposal 2003” and your name and return address in your Internet message. If you do not receive a confirmation that we have received your Internet message, call the contact person listed below.

**FOR FURTHER INFORMATION CONTACT:** Sharron L. Gebhardt at telephone (303) 231.3211, fax (303)231.3781, email sharron.gebhardt@mms.gov, or P.O. Box 25165, MS320B2, Denver Federal Center, Denver, Colorado 80225-0165.

**SUPPLEMENTARY INFORMATION:**

**I. Background:** The current geothermal valuation rules (30 CFR § 206.350 *et seq.*) have been in effect since January 1, 1992. One of the primary reasons for promulgating the current rules was to establish procedures to value the increasing volume of geothermal production used by lessees in their own power plants or direct-use facilities; that is, production not subject to sales transactions, or the so-called “no-sales” resources. After considering all the comments,

MMS adopted the netback procedure for valuing the no-sales electrical generation resources and the alternative fuel method for valuing the no-sales direct-use resources (56 FR 57256, November 8, 1991). These two procedures have now become the predominant methods of valuing geothermal production from Federal leases for royalty purposes.

In response to concerns raised by stakeholders over declining royalties in 1999, MMS reopened the geothermal valuation rules to public comment to consider alternatives to both the netback procedure and the alternative fuel method (Advance Notice of Proposed Rulemaking, 64 FR 45213, August 19, 1999). However, owing to successful resolution of the concerns that prompted this action, as well as no clear consensus from industry to alter the existing rules, MMS withdrew the proposed rulemaking (65 FR 49957, August 16, 2000).

On May 17, 2001, the President released his National Energy Policy (NEP) which emphasized the importance of renewable energy in contributing to the nation's electricity supply. In response to recommendations in the NEP, the Departments of the Interior and Energy co-sponsored a national conference in Washington, D.C., on November 28, 2001, to hear testimony on opportunities to expand renewable energy production from public lands. A follow-up conference was held in Palm Springs, California, on February 27, 2002, for more in-depth discussions of the issues raised in November. Few industry representatives at either conference commented on the current Federal geothermal valuation methods. However, those representatives that did speak raised concerns about the effects of royalty valuation on project costs.

**II. Proposal and Request:** In response to the comments made at the conferences, and to further the NEP's goal of increasing production of renewable energy on public lands, MMS proposes to convene informal discussions among geothermal producers and other stakeholders to

explore the possibility of developing a consensus on geothermal royalty valuation approaches for the no-sales resources. The discussions will be in the form of public workshops and written comments. Valuation of both electrical generation and direct-use resources will be open to discussion. Should consensus be reached, MMS will propose a rulemaking to amend the existing valuation regulations.

However, before MMS can fully commit to this process, we wish to gauge the extent to which geothermal producers and other stakeholders desire new or modified royalty valuation approaches. In this regard we request responses to the following questions:

1. Is there a need for new or modified geothermal royalty valuation approaches, especially for the no-sales resources? Why or why not.
2. Are you interested and would you participate in public workshops to discuss alternative valuation procedures, with the goal of developing a consensus on new or modified approaches?
3. What alternatives or modifications to the existing valuation procedures do you propose?

(See further discussion under “Goals of Valuation Alternatives” below.)

Depending on the responses to questions 1 and 2, MMS will schedule public workshops in spring or summer of 2003. MMS proposes two workshops, one in Denver, Colorado, and the other in either Sacramento, California, or Reno, Nevada. Please indicate your preference. We will consider other locations if there is enough interest.

**III. Goals of Valuation Alternatives:** The goals of any proposed alternatives to the current valuation procedures, particularly with respect to the no-sales resources, should be threefold. First, the proposed method should derive a value of the resource that reflects its market value. Second, the proposed method should be easy to apply and readily verifiable.

Third, the proposed method should not cause a significant royalty reduction for both present and future production; that is, it should be relatively revenue neutral.

If you propose an alternative valuation method, please describe it in sufficient detail to provide an understanding of its workings and effects. Please use examples where possible.

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Date

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Associate Director for  
Minerals Revenue Management