Dear Geothermal Reporter:

This letter addresses reporting instructions on the Report of Sales and Royalty Remittance (Form ONRR-2014) for Class I Leases producing geothermal resources used to generate electricity. The Office of Natural Resources Revenue issued a Dear Geothermal Reporter letter dated April 28, 2010 covering the reporting of Classes I, II, and III Leases. This letter reiterates and clarifies the April 28, 2010 letter on proper reporting of Class I Leases only for generating and transmission deductions and details revised instructions for reporting the sales type code on the Form ONRR-2014.

Generating and Transmission Deductions

Most Class I lessees use the geothermal resources in your company’s or your affiliate’s power plant for the generation and sale of electricity to an unaffiliated purchaser. Therefore, in accordance with regulation at 30 CFR § 1206.352(b)(1)(i), the netback method for calculating geothermal royalty allows you to include your company’s or your affiliate’s applicable generating and transmission deductions. See examples below for proper reporting of generating and transmission deductions on the Form 2014.

Class I Geothermal Leases (Netback Method):

- Use Product Code 31, 32, 33, or 34 and Transaction Code (TC) 01 to report sales volumes of electricity generated by use of geothermal resources in the Sales Volume field on the Form ONRR-2014, and report the entire amount of gross proceeds from those electricity sales in the Sales Value field on the Form ONRR-2014.
- Report the applicable generation and transmission deductions (allowances) using the processing allowance field and the transportation allowance fields, respectively.
  - You must multiply the applicable deductions by the royalty rate and enter that calculated amount into the applicable allowance fields on the Form 2014.

The regulation at 30 CFR § 1206.352(b)(1)(i) states that under no circumstances may the deductions reduce the royalty value of the geothermal resource to zero. ONRR further clarified that it does not allow the combined allowances to exceed 99% of the electricity gross proceeds (sales value).

Example 1:

- Royalty rate = 10%
- Electricity gross proceeds (sales value) = $5,000.00
- Generating deductions (processing allowance) = $500.00
- Wheeling/transmission deductions (transportation allowance) = $500.00
  - Multiply the allowances by the royalty rate and report that amount into the respective fields (i.e., $500 * .10 = $50).

1 Product code 31 = Electrical generation, kWh
2 Product code 32 = Electrical generation, thousands of pounds (generally applicable only to dry steam resources)
3 Product code 33 = Electrical generation, MMBtu
4 Product code 34 = Electrical generation, other measurement unit approved by ONRR
Example 2:
- Royalty rate = 10%
- Electricity gross proceeds (sales value) = $5,000.00
- Generating deductions (processing allowance) = $3,000.00
- Wheeling/transmission deductions (transportation allowance) = $3,000.00
  - The deductions (allowances) are greater than the electricity gross proceeds (sales value);
    $5,000.00 - $3,000.00 - $3,000.00 = ($1,000.00)
  - As stated above, per ONRR’s regulations, under no circumstances may the deductions reduce the royalty value to below zero; therefore,
  - You must determine and report the deductions (allowances) so that the total allowances do not exceed the 99% limitation. Therefore, report your generating deduction (processing allowance) in its entirety and determine the wheeling/transmission deduction (transportation allowance) so that the total allowances do not exceed the 99% limitation;
    $5,000 * 99% = $4,950 * 10% royalty rate = $495.

<table>
<thead>
<tr>
<th>Product Code</th>
<th>Sales Volume</th>
<th>Sales Value</th>
<th>Royalty Value Prior to Allowances</th>
<th>Processing Allowance Deduction</th>
<th>Transportation Allowance Deduction</th>
<th>Royalty Value Less Allowances</th>
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</thead>
<tbody>
<tr>
<td>31</td>
<td>88450</td>
<td>5000.00</td>
<td>500.00</td>
<td>50.00</td>
<td>50.00</td>
<td>400.00</td>
</tr>
</tbody>
</table>

This requirement is effective with the first sales month after the date of this letter. ONRR will not apply this reporting requirement retroactively.

Please refer to 30 CFR Part 1210 for regulatory guidance on geothermal reports and forms. Contact ONRR Reporting and Solid Mineral Services if you have any questions regarding submission of the Form 2014. Your Reporting and Solid Mineral Services contact can be found at http://onrr.gov/FM/PDFDocs/royassign.pdf.

Sincerely,

[Signature]

LeeAnn Martin
Manager
Solid Minerals and Reporting Services