



United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Minerals Revenue Management
P.O. Box 25165
Denver, Colorado 80225-0165
www.mrm.mms.gov



MAY 23 2006

Dear Geothermal Reporters:

Subject: Recouping Rents against current Geothermal Royalties

This letter provides you with information on how to recoup rentals paid on a geothermal lease against royalties, as provided for in Section 230 of the Energy Policy Act of 2005, signed into law on August 8, 2005.

Rental payments made at the beginning of a lease year can be recouped against net royalties reported and paid for the lease in the same year.

Report the advance rental credit to MMS by using transaction code 05 on the Report of Sales and Royalty Remittance (Form MMS-2014). Frequently, payors make their rent payments several months in advance of the actual due date. If you do this, remember that you cannot recoup rent payments until you report and pay royalties within the lease year that the rent applies to. Also, you must report and pay the rent even if you anticipate that the rent will be recouped during the first month of the lease year.

When you report and pay monthly royalties, you can recoup these rent payments against net royalties reported and paid for the lease in the same lease year using a Transaction Code 25. One hundred percent of the current month's net royalties reported may be offset against the rent payment within the same lease year, subject to no more than the rent payment.

If, at the end of the lease year, the royalty amount you paid is less than the initial rent payment amount, you cannot recoup the remaining rent balance against royalties in future lease years.

This change is effective beginning with your next geothermal lease rental payment and lease year.

If you have additional questions regarding the payment and recouping of geothermal rents, contact your Royalty Error Correction representative listed at:

www.mrm.mms.gov/ReportingServices/PDFDocs/coassign.pdf

More extensive royalty reporting instructions can be found at:

www.mrm.mms.gov/ReportingServices/RepServhome.htm

Sincerely,

Lorraine F. Corona
Reporting Services Manager

