ALAMEDA
POWER & TELECOM

OCT 1999

October 11, 1999

Mr. David S. Guzy, Chief
Rules and Publication Staff
Minerals Management Service
Royalty Management Program
P.O. Box 25165, MS 3021
Denver, CO 80255

Subject: Netback Procedure - Geothermal Resources

Dear Mr. Guzy:

Alameda Power & Telecom (Alameda) welcomes the opportunity to respond to the request for comments from the U.S. Minerals Management Service (MMS) regarding the use of the Netback procedure to value geothermal resources.

Alameda is a member of the Northern California Power Agency (NCPA), and in addition, we are a participant and owner in the geothermal facilities operated by NCPA at The Geysers geothermal field in northern California. Consequently, we receive our share of electricity produced by NCPA. We also pay a share of the costs to operate those geothermal facilities, including the royalties paid to the MMS for the steam being produced from the BLM leases.

For the years 1986 through 1998, Alameda contributed approximately $9,067,000 of the $53,708,335 the Agency paid in royalties to the MMS on behalf of all its geothermal facility participant owners. All those royalty payments were based on the steam being valued in accordance with the contracts signed in 1977 and 1980. This payment method has been in continuous use, even though the actual sale of steam ceased in late 1985 when NCPA bought the steam wells that supply its geothermal power plants.

When the Netback procedure was introduced by the MMS in 1988 as the preferred method to value geothermal resources not sold under an arms-length contract, we were not able to switch to the new valuation method. The Agency and the MMS were unable to clearly establish an appropriate market value of the electricity being produced, as it was being used exclusively by the public agencies for their customers.

2000 Grand Street
P.O. Box H
Alameda, CA 94501-0263

Phone 510-748-3901
Fax 510-748-3975

A Department of the City of Alameda

Consequently, the royalty payment rate on steam production continued to rise after 1988. Meanwhile, others' royalties fell along with the price of electricity. This resulted in the NCPA project owners collectively paying royalties to the MMS at a rate twice as high as private companies that were selling their steam to PG&E.

However, with the passage of AB 1890, the deregulation of the California electric market removed the previous pricing problem. Electricity prices are now posted each day by the California Power Exchange. These prices establish the value of electricity within each geographic region. With this change in March 1999, NCPA was able to initiate use of the Netback procedure to calculate royalty payments based on electricity value on behalf of its members.

The privately owned companies that perform identical operations on adjoining BLM lands at The Geysers sell electricity to this same market. We believe continuation of the Netback procedure is a necessary part of staying competitive in the now deregulated electrical energy business. It is also fair in that all producers are under the same set of rules.

We expect that by the use of the Netback, our future geothermal royalty payments will be less than previous over the near term. In the long term, the royalty payments will rise as the price of electric power increases.

We believe the Netback procedure is a fair method of valuing geothermal steam production. It reflects the now deregulated electric market. Royalty payments will rise as deductions, such as depreciation, are exhausted and rise and fall with the electric market prices. Furthermore, the Netback procedure allows our public utility to compete in the open market and allows for the production of clean geothermal energy. We know of no reason why the Netback procedure of valuing geothermal resources should be changed.

NCPA and its members need to be afforded the use of the same regulations as all others for us to be equally competitive with the private interests in the geothermal, oil, and gas business. We need to keep geothermal electricity competitive in California's rapidly changing electric market.

Sincerely,

Thomas P. Evans
General Manager

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CC: Roger Fontes, NCPA
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