

GEOTHERMAL RESOURCES COUNCIL

TED J. CLUTTER
Executive Director

October 18, 1999

Mr. David S. Guzy
Chief, Rules and Publications Staff
Minerals Management Service
Royalty Management Program
Denver, CO 80225

By FAX Only

Subject: Proposed Rulemaking On The Valuation Of Federal Geothermal Resources

Thank you, for the opportunity to respond to the Advanced Notice of Proposed Rule Making. The Geothermal Resources Council (GRC) is an International Organization of Geothermal professionals with members in over 30 different countries. One of the goals of the GRC is to encourage development of geothermal resources. It is within this context that the GRC is responding to the MMS Notice of Proposed Rule Making.

It is the understanding of the GRC that the Mineral Management Service may soon initiate changes to certain specific geothermal royalty regulations of the Department of Interior, Minerals Management Service (MMS). These changes are intended to increase the royalty payments required to be paid by the operating companies that utilize the public's geothermal resources to produce electricity in an environmentally preferred manner.

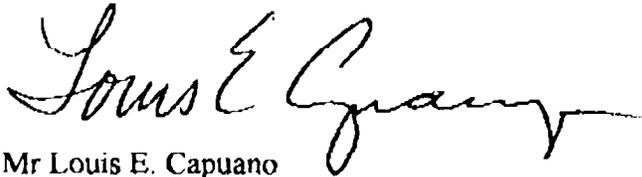
Increased costs of geothermal production will make our electricity less competitive in the open market. To not be competitive in today's market will result in less electricity being generated and eventually fewer jobs within this industry. Geothermal is struggling to stay competitive. As an example, there are currently no new geothermal wells being drilled in the continental United States. Increasing geothermal federal royalties will only serve to make geothermal even less competitive. Given geothermal power's many environmental benefits, would not society benefit from lower costs for geothermal energy?

The geothermal industry believes that the existing regulations have worked reasonable well. The current approaches even offer some benefits to society. One of its advantages is that they are market-based. In today's dynamic electricity market, a market-based formula will yield more dynamic returns. At the moment, with low prices in the market,

such a formula may provide reduced returns. However, in a higher priced market the federal royalties may be higher than they would be under other methods. This type of formula has the advantage of placing the least burden upon producers in market downturns, while extracting greater returns during market upturns. It is also less likely to place undue pressure on consumer prices as well.

To summarize, we believe that numerous other benefits of geothermal energy production should be taken into account along with the negative effects on the industry would result from increased royalties. Royalties paid on geothermal resources produced from federal lands should be treated the same as royalties from fee lands. Please do not hesitate to contact Mr. Ted Clutter, the GRC Executive Director at (530) 758-2360, if you have any questions.

Sincerely;

A handwritten signature in black ink, appearing to read "Louis E. Capuano". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Mr Louis E. Capuano
GRC President