



COUNTY OF LAKE

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October 15, 1999

Mr. David S. Guzy, Chief
Rules and Publication Staff
Minerals Management Service
Royalty Management Program
P.O. Box 25165, MS 3021
Denver, Colorado 80225

RE: **Valuation of Geothermal Resources**

Dear Mr. Guzy:

I appreciate having this opportunity to provide comments in response to the "Advanced Notice of Proposed Rulemaking" for valuation of geothermal resources produced on federal lands.

As I am sure you are aware, for many years the County of Lake has received a share of the geothermal royalty revenues paid by geothermal companies to the federal government. This revenue has been particularly important to our County in terms of helping to mitigate various local impacts of geothermal development

Beginning in 1980, when the County first began receiving a share of the geothermal royalties, the royalties were calculated based on the "arms-length" valuation method which provided fair and just compensation. Recently, however, the geothermal companies in Lake County have switched to the "netback" valuation method. This change has resulted in a dramatic reduction in royalties. The reduction has been so devastating to our county it is vital that immediate intervention take place.

Clearly, the netback valuation method is not consistent with the purpose or intent of the Geothermal Steam Act of 1970. It is inconceivable that Congress ever intended for geothermal companies to extract valuable natural resources from publicly owned federal lands without properly compensating the public.

Any possible argument by the geothermal industry to the effect that it cannot afford to pay an appropriate amount of royalties is, in my opinion, without merit. This is a multi-million dollar

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industry and payment of royalties to the federal government is simply a small cost of doing business. The only thing that non-payment of royalties will result in is an increase in profits for the geothermal companies, at the expense of the general public.

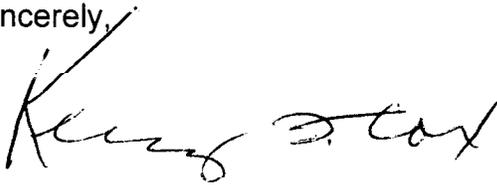
Recommended Valuation Method

Of the three alternative valuation methods proposed in the Federal Register, in my opinion the "rate of return" method offers the best way of determining the value of geothermal resources. This method provides a fixed relationship between electrical price and geothermal value and has similarities to the arms length method which was successfully followed for many years.

The rate of return formula appears to be the most equitable and realistic valuation method available at this time. I strongly urge the MMS to enact this method in place of the netback method at the earliest possible date.

Thank you very much for your efforts relative to this most important issue.

Sincerely,

A handwritten signature in black ink, appearing to read "Kelly F. Cox". The signature is written in a cursive style with a large initial "K" and a long horizontal stroke extending to the right.

Kelly F. Cox
County Administrative Officer