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October 18, 1999

*By Fax(303-231-3385);Original by Mail*

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

*Re: Advanced Notice of Proposed Rulemaking, Valuation of  
Federal Geothermal Resources, 64 Fed. Reg. 45213  
(August 19, 1999).*

Dear Mr. Guzy:

On behalf of the California State Controller's Office, I am writing to express SCO's support for the Minerals Management Service's decision to re-evaluate the 1992 geothermal valuation regulations. As MMS is aware, during the 1991 rulemaking leading up to those rules, SCO opposed their adoption because of the impact on federal royalty revenues. SCO predicted then that many of the provisions MMS now highlights in its advanced notice would serve to drain royalty revenues. Unfortunately, while at the time both SCO's and MMS' ultimate goal was revenue neutrality, our respective economic analyses on the 1992 rules differed.

SCO understands that more recently several California counties have expressed concern about the drastic reduction in geothermal royalty revenues. MMS's rapid response to their concerns is to be commended.

Geothermal resources are an important alternative source of clean energy, but they are also an important source of revenue to state and local governments. While geothermal production should be encouraged, the geothermal royalty program was not intended by Congress to serve as a means of providing back door subsidies to the industry. Rather Congress wanted the public to receive its full and fair share from private companies granted the privilege of operating on

David S. Guzy  
October 18, 1999  
Page 2

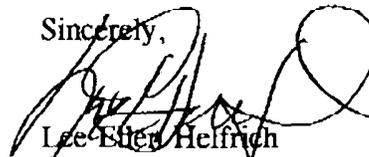
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publicly owned lands. Accordingly, SCO believes that the guiding benchmark of this rulemaking should be the adoption of valuation methodologies and safety nets that put the federal government back in the same economic position it was in prior to the application of the 1992 regulations, but provide for sufficient flexibility to respond to marketing changes that might reduce royalties.

As a delegate of the Secretary, SCO looks forward to working closely with MMS on developing proposed new geothermal valuation rules. Changes in the industry may require a more detailed investigation into methodologies and safety nets that will better guarantee that royalty beneficiaries receive their full and fair share, while increasing administrative efficiency. Several new ideas were floated during the workshop in Sacramento, that are unfortunately still vague and undeveloped, especially in terms of their ultimate royalty impact.

While a full scale review of all potential methodologies may prove beneficial, it is also an invitation to delay. SCO believes that MMS is in a position now to correct the more egregious, revenue-draining features of the 1992 rules on an expedited basis. SCO thus would encourage MMS to propose these changes quickly, while continuing to evaluate whether broader re-structuring is needed.

Sincerely,

A handwritten signature in black ink, appearing to read "Lee Ellen Helfrich". The signature is stylized and somewhat cursive, with a large loop at the end.

Lee Ellen Helfrich