

October 14, 1999

TURLOCK IRRIGATION DISTRICT
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Don Pedro Dam and
Powerhouse



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

Subject: Netback Procedure – Geothermal Resources

Dear Mr. Guzy:

The Turlock Irrigation District (TID) welcomes the opportunity to respond to the MMS request for comments regarding the use of the Netback procedure to value geothermal resources.

TID is a member of the Northern California Power Agency (NCPA) and, in addition, we are a participant 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 produced from the BLM leases.

For the years 1986 through 1998, TID contributed approximately \$6,925,000 of the \$53,708,335 that NCPA paid in royalties to MMS on behalf of all its geothermal facility participants. 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. NCPA and 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. 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, the passage of AB1890, the restructuring 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 Geyser sell electricity to this same market. We believe continuation of the Netback procedure is a necessary part of staying competitive in restructured electrical energy business.

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 competitive electric energy 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 now 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 in order 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,

TURLOCK IRRIGATION DISTRICT



Kenneth A. Weisel
Energy Resources
Scheduling Manager