Chapter 3
Valuation Standards for Electrical Generation

This chapter describes the standards in 30 CFR 1206.352 for valuing geothermal resources used to generate electricity. These resources generally consist of steam, hot water, and hot brines. ONRR valuation standards classify contracts for the sale according to the resource’s disposition:

- You sell geothermal resources under an arm’s-length contract.
- You do not sell your geothermal resources but use them to generate electricity in your own power plant.

Valuation standards for resources sold under an arm’s-length contract focus on the contract’s gross proceeds, with the conditions that the gross proceeds reflect total consideration and reasonable value. (See “Exceptions to acceptance of arm’s-length gross proceeds” on page 2-10.)

3.1 If You Sell Geothermal Resources at Arm’s-Length that the Purchaser Uses to Generate Electricity

As a general rule, you determine the value of the electrical generation resources sold under an arm’s-length contract as the gross proceeds accruing under that contract and the regulations at 30 CFR 1206.352. After gross proceeds are determined you calculate the royalty on the resource one of two separate ways.

- You multiply the gross proceeds times the lease royalty rate,
- or multiply gross proceeds times the royalty rate BLM prescribes.
**EXAMPLE 3-1**

Valuing Geothermal Resources Sold Under an Arm’s-Length Contract to a Power Plant. As a lessee of a Federal lease, you sell geothermal production to a non-affiliated power plant operator. Your lease royalty rate is 12.5%.

**Summary Data**

<table>
<thead>
<tr>
<th>Lease</th>
<th>Sales Contract</th>
<th>Contract Type (AL)</th>
<th>Production (thousands lbs)</th>
<th>Price ($/thousand lbs)</th>
<th>Gross Proceeds Revenue ($/thousand lbs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal</td>
<td>Green Power Utility</td>
<td>Arm’s length</td>
<td>1,402</td>
<td>$1.80</td>
<td>$2,523.60</td>
</tr>
</tbody>
</table>
3.2 If You Use the Geothermal Resources in Your Own Power Plant for the Generation and Sale of Electricity- Netback Method

When there is no arm’s length sale of geothermal resources to a non-affiliated purchaser, in general you will use “the netback method,” or gross proceeds from electricity sales less applicable deductions. See Chapter 2, Section 2.9.1 for detailed information on what ONRR regards as arm’s length sales for royalty purposes.

As a general rule, you determine the value of geothermal resources used to generate electricity in your own power plant as the gross proceeds accruing to you.
from the arm’s-length sale of electricity less applicable generation and transmission deductions (30 CFR 1206.352). However, you must satisfy the following two conditions to justify the contract gross proceeds (or contract prices) as value:

1. The sales contract must reflect the total consideration actually transferred, either directly or indirectly, from the buyer to the seller (30 CFR 1206.361(b)). Total consideration is synonymous with the full definition and intent of gross proceeds as discussed in section 2.7.2 Gross Proceeds. However, the value can never be less than the gross proceeds, including any additional consideration you receive. We may require you through audit to certify that your arm’s-length contract includes all of the consideration paid to you by the buyer, either directly or indirectly, for the geothermal resource.

2. The gross proceeds received under the contract must reflect reasonable value (30 CFR 1206.361(b)). If ONRR determines through audit that the gross proceeds do not reflect the reasonable value of the resource because of misconduct by or between the contracting parties, or because you have otherwise breached your duty to market the production to the mutual benefit of yourself and the Federal Government, ONRR may require you to increase the gross proceeds to reflect any additional consideration. ONRR may require you to use another valuation method in the regulations applicable to dispositions other than under an arm’s-length contract.

3. See Chapter 4 in this handbook for more detailed information and examples on the netback method.

### 3.2.1 Electricity Value

The electricity value is the total amount of revenues (gross proceeds) that you receive under your sales contract for the delivery of electricity during your accounting month. In most cases this amount includes your energy payment, capacity payment, and bonus capacity payment. Any other monies or consideration exchanged for the delivery of electricity may also affect the electricity value; the principles of total consideration and reasonable value apply to electricity sales as they do to the sales of geothermal fluids.

### 3.2.2 Cost Reimbursements

Any cost reimbursements that you receive for the construction and/or operation of your power plant and/or transmission line offset the corresponding costs. For example, if your electricity purchaser reimburses you for operating the power
plant, that reimbursement offsets your annual operation and maintenance (O&M) costs. If your purchaser or some other entity gives you a non-recoupable grant to build the transmission line, that grant offsets your transmission-line capital investment. Cost reimbursements include manufacturer’s rebates, insurance payments, and court awards (generally principal amounts exclusive of interest) where the awards relate to recovered damages for capital and O&M costs, including downtime awards.

3.3 Credit for “in-kind” delivery of electricity to states or counties

All lessees may take a credit against royalties owed on geothermal resources for delivery of electricity “in-kind” to states and counties that receive a portion of royalty revenues rather than full payment in monies.

Please contact ONRR Royalty Valuation at royaltyvaluation@onrr.gov if you have any questions on how to do these calculations.

3.4 Near Term Production Incentives

ONRR will provide for a 50 percent reduction in royalty, for four years, on any new production or qualified expansion projects for Class 1 lessees that did not modify their lease terms to the new royalty calculation method. New or expanded production must have begun by August 7, 2011. See BLM regulations at 43CFR subpart 3212 for more information.

3.5 Improper Valuations

If during an audit or compliance review ONRR finds that you improperly determined value, we will direct you to correct your value or prescribe a different valuation procedure (30 CFR 1206.361(a)). You will be liable for any difference between the royalties paid and the royalties due under the value that ONRR determines, plus late payment interest on underpaid amounts pursuant to 30 CFR 1218.302. If the corrected value or prescribed valuation procedure results in an overpayment, ONRR will give you instructions for taking a credit. You are not entitled to interest on royalty overpayments.

A value determination by ONRR is not an appealable decision or order under 30 CFR part 1290. If you received an order requiring you to pay royalty on the same basis as the value determination, you may appeal that order under 30 CFR part 1290.
3.6 How Do I Request a Value Determination or Gross Proceeds Determination?

If you are unsure of your valuation procedure, you may request a value determination from ONRR (30 CFR 1206.364). Send your valuation requests to us at the address given in Appendix A. Include a description of your operation, copies of sales contracts, and any other information pertinent to the valuation of your geothermal production. You must continue to pay royalties on production while we make our value or gross proceeds determination.

If you request an alternative valuation method, you must propose the valuation method you intend to use and include all information supporting your proposal. Remember, you must receive our approval to use an alternative valuation method and explain why the first method (netback) is unworkable. You may use your proposed valuation method for royalty calculations until we issue a decision. If we approve your proposed valuation method, you must use that method until one of the following occurs:

- The circumstances of your production and/or utilization change, at which time you must notify us with a new valuation request.
- ONRR instructs you to use a different valuation method.
- ONRR issues new valuation regulations.

If ONRR disapproves your proposed valuation method, we will prescribe a method to you. You must then adjust all your past royalty reports to reflect the prescribed method (30 CFR 1206.364). If our prescribed method results in additional royalty due, you must pay the additional royalty plus interest. If our prescribed method results in royalty overpayments, we will give you instructions for taking a credit against future royalty payments. You are not entitled to interest on royalty overpayments.

3.7 Recordkeeping and Availability

You must save all data and records relevant to your royalty valuation (30 CFR 1206.360). Therefore, keep the following documents:

- All contracts related to the sale or purchase of geothermal resources.
- All contracts related to the sale, purchase, generation, and transmission of electricity generated from the geothermal resource.
- Any other contracts or other items that may bear on the valuation of the resource or are necessary to support your valuation.
3.7 Dismantlement Cost Refunds

At the end of your project’s life, and upon completion of dismantlement and salvage operations, you may take a one-time annual *dismantlement cost refund* of royalties equal to the royalty amount of actual power plant and transmission line dismantlement costs that exceed your salvage income (30 CFR 1206.353(o) and 1206.354(o)). Calculate the refund as follows:

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\text{Dismantlement Cost Refund} = \text{Royalty Rate} \times (\text{Dismantlement Costs} - \text{Salvage Income})
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Contact your ONRR payor representative for instructions on taking the refund.