



# STATE OF UTAH

## UTAH STATE TAX COMMISSION

210 North 1950 West Salt Lake City, Utah 84134

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October 18, 1999

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

RE: Valuation of Federal Geothermal Resources

Dear Mr. Guzy:

In response to the Federal Register dated August 19, 1999, *Advance notice of proposed rulemaking*, Utah would like to take this opportunity to comment on the use of the netback procedure to value geothermal resources.

The first alternative valuation method presented in the Federal Register (a) Modification of the existing netback valuation procedure, could re-establish a valuation methodology that reflects the market value of geothermal resources. The current netback method of allowing the lessee to take twice the Standard and Poor's BBB industrial bond rate on capital investments gives the lessee an unfair market advantage and corrodes the revenue stream. All other minerals that have an allowance provision are only allowed one times the Standard and Poor's BBB rating. This proposed method of adjusting the rate of return would be easy to apply and readily verifiable.

The limits currently in place which allow for a combined generating and transmission deduction up to 99 percent of the lessee's monthly gross proceeds is overly generous to the lessee and should be revisited to reduce the limit to a more equitable level.

After implementing these adjustments to both the rate of return and the limits currently in place, the projected royalty stream should be computed to determine if it returns the State and County agencies to the same level of revenue that existed in the past. The current regulations are no longer revenue neutral given the dynamics of the industry.

We appreciate the opportunity you have given us to comment on Valuation of Federal Geothermal Resources as stated in the Federal Register. If you want additional comments regarding the above items or wish to discuss them further, please give me a call at (801) 297-4608.

Respectfully,

Inge-Lise T. Goss, CPA  
Manager 205 Program