

Committee on Resources,

Subcommittee on Energy & Mineral Resources

[energy](#) - - Rep. Barbara Cubin, Chairman

U.S. House of Representatives, Washington, D.C. 20515-6208 - - (202) 225-9297

Witness Statement

Testimony of Ross D. Ain
Senior Vice President
Caithness Energy LLC
Resources Committee
of the
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Subcommittee on Energy and Mineral Resources
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Honorable Chairwoman, Members of the Subcommittee, thank you for this opportunity to present the views of Caithness Energy, LLC, regarding the challenges and opportunities involved in the development of geothermal energy on public lands.

Caithness Energy, LLC, is one of the Nation's largest independent power producers utilizing renewable resources for power production. Our operating renewable energy portfolio includes over 465 MW's of geothermal projects, 160 MW's of solar projects and 210 MW's of wind projects. Non-renewable projects include 315 MW's of gas-turbine projects in operation and over one thousand additional megawatts of generation at varying stages of development.

In the early 1980s, with increased awareness of environmental issues, Caithness made the decision to utilize its experience in resource exploration to enter the geothermal power industry. For nearly a decade, we concentrated our efforts almost exclusively on the development of three geothermal projects: the 270 MW's Coso Geothermal Project in California, and the 25 MW's Dixie Valley and 12.5 MW's Steamboat Geothermal Projects both in Nevada. Since that time, Caithness has acquired additional geothermal interests in California and Nevada.

Caithness has a unique perspective on geothermal development on public lands because we have approximately 243 MW's of our production on lands leased from BLM, 180 MW's of production from lands at the United States Naval Air Weapons Center at China Lake, California and approximately 42 MW's located on private land.

As can be attested by the other experts today, geothermal resources in the Western United States are found within the vast expanse of Federally-controlled land. These resources underline not only land controlled by the Bureau of Land Management, but as our experience demonstrates, they are also found on lands controlled by the Department of Defense through its various departments and agencies. In order to maximize the production of energy from geothermal resources, both types of land should be open to development.

We certainly recognize that energy resources within military reservations should be developed only in a manner fully consistent with their primary function and military mission. That being said, we believe that greater uniformity of policy and administration of both types of land would, consistent with military uses, greatly enhance opportunities of geothermal power development.

There are three principal recommendations we would respectfully suggest that the Subcommittee consider with regard to geothermal development on land subject to military reservation:

- (1) Uniform policies on securing and maintaining the leasehold estate, except as dictated by military needs.
- (2) Uniform royalty structures.
- (3) Centralized administration of the lease and royalty programs.

Other witnesses have testified to the difficulty in permitting new geothermal energy projects. Reducing unnecessary barriers to entry is one critical element to the successful exploitation of this clean domestic resource. The three policies mentioned above will greatly assist in reducing risks, speeding up development and eliminating unnecessary administrative costs both to developers and the Federal government. It would provide for a uniform royalty payment schedule that will fairly compensate the United States while giving developers a known cost factor to incorporate into their financial calculations, reducing risk, uncertainty and delays.

With regard to uniform policies on securing and maintaining leases for geothermal development, the BLM policies provide for competitive and non-competitive leasing. The 1988 legislative amendment to the Steam Act provides for lease tenure by production. These policies work well to encourage investment on non-military Federal lands. Together these give some certainty to those interested in development, and security in the knowledge that if you produce you can stay. Policies on land administered by the Department of Defense are far less clear. In our case at Coso, for example, the lease has fixed terms with renewals at the Navy's discretion, which is a disincentive for further development of these lands.

With regard to royalty payment structure, the Congress passed the Geothermal Steam Act that provides for royalty payment levels determined appropriate for both the United States and the developers. The industry supported the adoption of federal royalty regulations in 1992 governing BLM leases because, prior to that, there was no consistency in royalty administration, and that was discouraging investment in geothermal energy. There does not appear to be any valid Federal interest in allowing case by case negotiation of royalties on military lands, as has occurred with our projects at China Lake. It creates greater uncertainty, risk, higher costs, all of which retard geothermal development.

In fact, rather than paying more in royalties on military reservations, developers should probably pay less in royalties because of the additional difficulties and costs in developing, operating and maintaining projects within the constraints appropriately imposed by the military authorities both to protect project personnel and primary military mission. Examples of these additional costs are additional security procedures, off-site control rooms, additional restrictions on opportunities for scheduled maintenance when contrasted with facilities on BLM leases, and other configuration costs such as transmission line restrictions. Operating on military reservations clearly involve higher capital and operating costs. Paying higher royalties than otherwise applicable on BLM lands is not consistent with optimizing the development of this resource and other Congressionally determined policies.

Finally, administration of the leases and royalty payments should be consolidated into one entity to lower costs and promote uniform application of Federal policies. It seems to us that MMS should be that entity. That is not to say that mission critical concerns on military reservations should be ignored. Quite the contrary, geothermal development should only be allowed if consistent with the military purposes of the reservation and only in accordance with safe and secure procedures. However, once permitted to occur the level of, and administration of, royalty payments should be uniform and consolidated within one Federal agency.

In summary, we believe that there are untapped geothermal resources available in the Western United States on land held by the Department of Defense and these resources can be developed in a manner fully consistent with the primary military function of those reservations. To facilitate such development, we would recommend that the Congress consider the consolidation of the administration of those leases under the BLM and conform leasing and royalty payment policies to those presently required by the BLM, subject to consistency with military mission. We think these changes would encourage greater geothermal development of Federal land, reduce federal cost of administration, and provide appropriate level of royalty payments consistent with Congress' determination under the Geothermal Steam Act.

Thank you.

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