

GEOHERMAL ROYALTIES

A royalty calculated at 2.5% of the royalty value of the geothermal energy is payable under the legislation. It is worth noting that the royalty rate for petroleum royalties is 10 to 12.5%. The royalty value is generally the well-head value which is defined as the value of the geothermal energy at the valve station, as agreed or, in default of agreement within such period as the Minister allows, the valve station as determined by the Minister as being the wellhead.

The value of the geothermal energy at the wellhead is not defined under the legislation and is established through a separate arrangement based on established principles, as is currently the case for petroleum projects. The wellhead value is calculated by subtracting post well-head costs from the gross value of all geothermal energy produced during the royalty period. The post wellhead costs are costs of processing, storing and transporting the geothermal energy. Costs that are not deductible are those of exploration, drilling and recovering the geothermal energy. The Government plans to place all geothermal royalties in a low emissions fund that will be used for specific low emission projects.