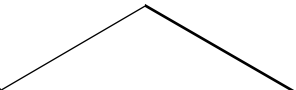




Topics Covered

- } Geothermal Regulation
- } Legal Issues
- } Legislative Update
- } ERCOT Interactions





Geothermal Regulation

} Geothermal Resources Act of 1975

} TEX. NAT. REC. CODE § 141

} “It is declared to be the policy of the State of Texas that the rapid and orderly development of geothermal energy and associated resources located within the State of Texas is in the interest of the people of the State of Texas”

Geothermal Regulation

- } By-product

- } TEX. NAT. REC. CODE § 141.003

- } (4) “Geothermal energy and associated resources” means:

- } (A) products of geothermal processes, embracing indigenous steam, hot water and hot brines, and geopressured water;
 - }



Geothermal Regulation

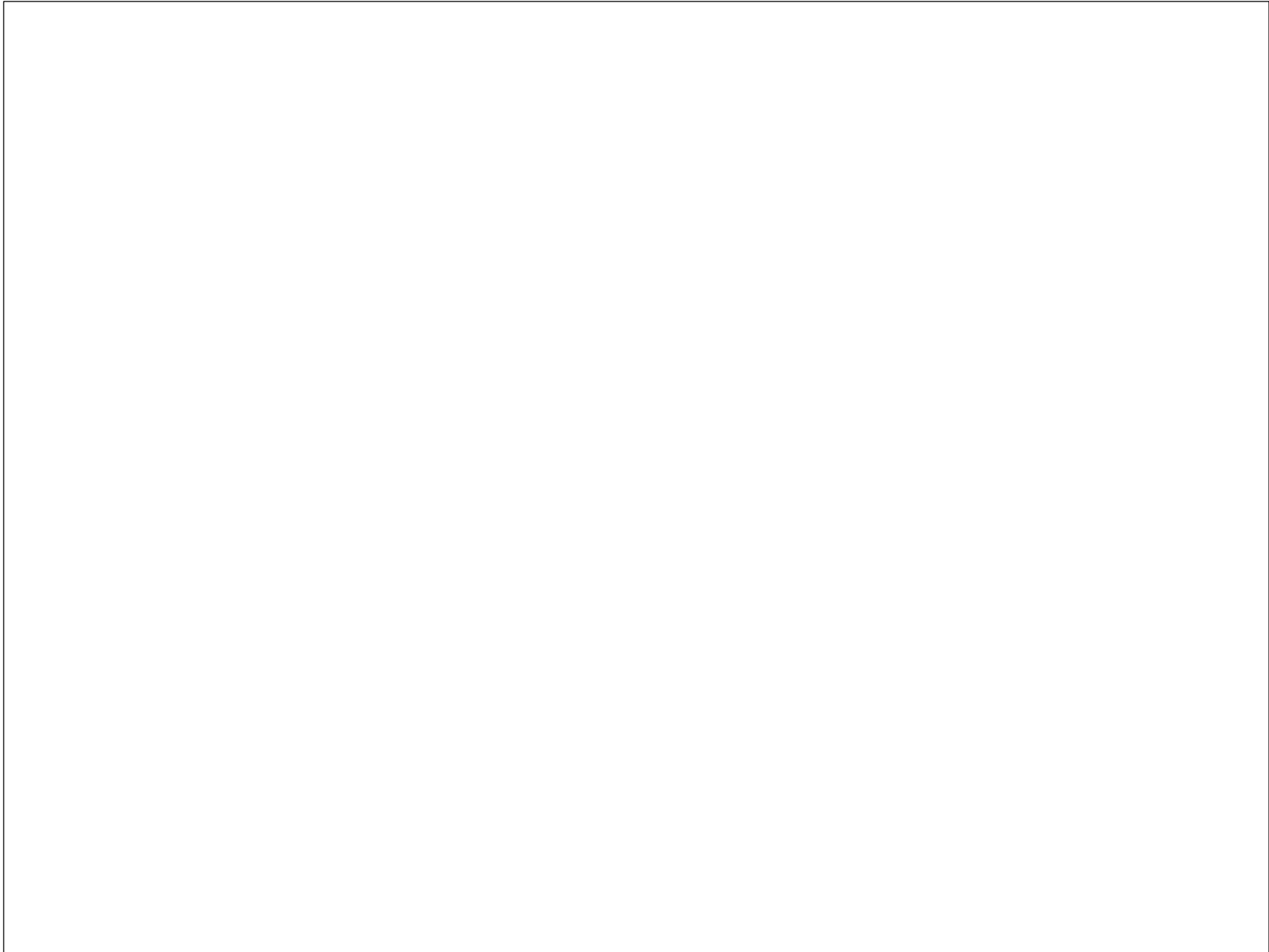
- } Tax Code – “incidentally produced”
 - } TEX. TAX CODE §§ 201.060 & 201.063
 - } Oil and gas “incidentally produced” through production of geothermal energy resources are exempt from their Production Taxes
 - } But, see Comptroller’s Rules



Geothermal Regulation

- } General Land Office
 - } Subchapter C. Exploration and





Legal Issues

- } Other Minerals

- } Ordinary Meaning

- } Moser v. US Steel (1984)

- } Severance after June 27, 1984

- } “Severance of minerals in an oil, gas and other minerals clause includes all substances within the ordinary and natural meaning of that word, whether their presence or value is known at the time of severance”

Legal Issues

- } The Rule of Capture
 - } Texas recognizes ownership in place of resources, but Texas also recognizes absolute ownership at the surface of a rightful well
 - } If a rightful well drains a neighboring tracts resources, the neighbor has no cause of action. The neighbor's recourse is to drill and produce
 - } What about heat?



Legislative Update

- } HB 3583 (Strama)
 - } Would restructure our RPS to give incentives to renewables capable of serving peak demand
 - } 10,880 by 2022
 - } 5,000 from sources capable of serving peak demand
 - } 5,880 from other renewable sources
- } HB 3701 (Lucio III)
 - } Would require cooperatives to allow interconnection of distributed renewable generation



ERCOT Interactions

- } Electric Reliability Council of Texas, Inc.
 - } Operates the transmission (>60kv) grid representing 85% of Texas load
 - }



ERCOT Interactions

- } Likely interactions

- } Interconnection

- } <10MW = PUCT substantive rule 25.211- 212

- } >10MW = ERCOT Planning Guide Section 5

- } Membership

- } Representation on TAC and Board

- } Locational Marginal Price



ERCOT Interactions

- } ERCOT does not have a preference for any particular type of generation
 - } Our concern is reliability
- } ERCOT is available to help developers understand any of our requirements or processes answer questions about options to market output
- } Joel Mickey
 - } Director, Market Design and Development
 - } jmickey@ercot.com
 - } (512) 248-3925



Questions?