MINUTE ITEM
This Calendar Item No C29 was approved as Minute Item No. 29 by the California State Lands Commission by a vote of 3 to 0 at its 12-03-07 meeting.

Minute Item
C29

12/03/07
W 40001
J. Velez
D. Mercier
D Brown

CALIFORNIA STATE LANDS COMMISSION
(APPLICANT)

Item C29 was moved from Consent to Regular.

Consent Calendar Item 29: Staff presented a report to the Commission a staff presentation was made to the Commission pertaining to a supplemental report to the Joint Legislative Budget Committee on the Commission's Mineral and Land audit program. The Commission approved the report, and the Lt. Governor also agreed to prepare and send a letter to Finance about funding for additional auditors, by a vote of 3-0

CALENDAR ITEM

C29

12/03/07
W 40001
J. Velez
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D. Brown

Supplemental Report to the Joint Legislative Budget Committee on the Commission's Mineral and Land Audit Program.

CALIFORNIA STATE LANDS COMMISSION
(APPLICANT)

CALIFORNIA STATE LANDS COMMISSION

SPECIAL STAFF REPORT

MINERAL AND LAND AUDIT PROGRAM

JANUARY 2008

CALIFORNIA STATE LANDS COMMISSION

John Garamendi, Lieutenant Governor
John Chiang, State Controller
Michael C. Genest, Director of Finance

Paul D. Thayer
Executive Officer

Submitted to:

The California State Legislature

000107
CALENDAR PAGE

MINUTE PAGE

Preface

This report was prepared pursuant to Item 3560-001-0001 (1) of the Supplemental Report of the 2006 Budget Act, which states, "On or before January 10, 2008, the State Lands Commission shall report to the chairs of the appropriate policy committees and the fiscal committees in both houses on its audit program, including information on the number of leases, the revenue generated from each leases, and the frequency with which each is audited given current staffing. The department shall also report on the amount of additional revenues generated by each audit."

This report is responsive to the approved Mineral and Land Auditor IV budget change proposal (BCP) that began July 1, 2006, for a two year limited-term. It also satisfies the request by the Legislative Analyst's Office that the State Lands Commission submit a report on its audit program, on or before January 10, 2008, to the chairs of the appropriate policy committees and fiscal committees in both houses of the Legislature. The information requested in the report includes the number of leases, the revenue generated from each lease, the frequency with which each is audited given current staffing and the amount of additional revenues generated by each audit.

California State Lands Commission

The California State Lands Commission (CSLC) is composed of the Lieutenant Governor, the State Controller and the State Director of Finance. The CSLC was established in 1938, and its authority is set forth in Division 6 of the California Public Resources Code. The CSLC is assisted by a staff of more than 200 specialists in mineral resources, land management, boundary determination, petroleum engineering and the natural sciences. The staff is supervised by an Executive Officer appointed by the CSLC.

The two divisions of the CSLC that require auditors are the Mineral Resources Management Division (MRMD) and the Land Management Division (LMD). MRMD manages energy and mineral resource development on at least 160 oil, gas, geothermal and hard mineral leases covering more than 153,000 acres of state-owned lands. MRMD's goals are to ensure public safety, protect the environment, and maximize revenue. MRMD staff includes specialists in petroleum engineering, geology, drilling and production operations, civil engineering, structural engineering, resource economics, mining and leasing. The LMD has primary responsibility for the surface management of all sovereign and school lands in California. This responsibility includes the identification, location and evaluation of the State's interest in these lands and the leasing and management of these lands.

Audit Program Background

The first California tidelands oil well was drilled in 1896 in Santa Barbara County. Within 10 years, there were about 400 wells on the beach and just offshore. At that time, no State laws governed the extraction of oil and gas from State-owned lands and no revenues accrued to the State.

In 1921, the Legislature authorized the issuance of prospecting permits and leases for oil and gas development of the State's tide and submerged lands by the Surveyor General, the predecessor of the CSLC. Exclusive jurisdiction over all oil and gas development on the State-owned property was given to the CSLC by the Legislature in 1938.

The State now administers more than 100 sites on which oil companies have drilled some 1,000 wells that produce oil and gas from State lands. The State's lessees pay to the State a royalty on each barrel of oil that is removed. In addition, over 1,300 wells produce oil from granted tidelands in the City of Long Beach. The City receives a substantial share of the net profits from the oil operations and pays a substantial portion of these net profits to the State.

The revenues received from these oil and gas operations are deposited in the State's General Fund. The Legislature specifies in section 6217 of the Public Resources Code the revenue allocation. The State has received over $6 billion in revenues from the extraction of oil and gas from State lands.

Most of the CSLC's auditing effort is focused on the revenues it receives from its oil and gas leases. This report, therefore, will address primarily these audits. The initial step in performing an audit is to understand fully the pertinent provisions of the lease. The most important provision is that setting forth the manner in which the State will participate in the revenues generated by the lease operations. The State's participation involves either a percentage share of the gross value of the produced substances (royalty) or a percentage share of the net profits from the lease operations. Other important lease provisions include the lessee's obligations to account for production volumes and valuations and for allowable costs to be deducted from those revenues and the methods of those cost allocations.

Valuation has taken on more importance because of the increased use of a percentage of the spot market (NYMEX) price in valuing crude oil sales rather than using posted prices (posted prices are provided by some refineries that purchase the oil). State leases typically provide that the lessee shall account for and pay to the State in money as royalty on oil a percentage of the current market price of all oil removed or sold from the leased lands. They further provide that the current market price never shall be less than the highest price in the nearest field at which oil of like gravity and quality is being sold in substantial quantities. Moreover, the current market price shall be determined by the State and shall include any premium or bonus paid for the oil. Typically, the posted price represents the "floor" for oil valuation purposes, and the ceiling is price received by the lessee when it sells the oil.

Historically, State lease production had been sold at posted prices and verification of crude oil valuation had been a relatively straightforward process. In the last decade or so, however, the number of companies posting oil prices in California has declined. Many companies have either ceased posting altogether or have ceased posting in major fields where State leases are located (Huntington Beach, Wilmington, Ellwood). As a result, it has become necessary to use other fields where there are postings for purposes of royalty oil valuation.

The trend toward sales contracts using the NYMEX price has made oil valuation more complex, as these contracts typically contain provisions for market adjustments and gravity adjustments (gravity is a measure of the quality of oil). Valuation may be further complicated by the inclusion of location differentials and transportation costs.

Because of the dramatic reduction in staff size over the last twelve years (from 7.0 auditors to 2.0 culminating with the section 4.10 vacancy sweep of the 2003-04 and from 1.0 clerical to none), CSLC auditing staff has been unable to meet a reasonable 3 to 5 year audit frequency. Redirection of an administrative support position increased the number of auditors to 3.0, including two specialists and one working supervisor. This was augmented in July 2006 with the two-year limited-term position.

The current audit staff, including the limited term position, is only able to conduct audits in reaction to a discovered problem or a transfer of the lessee. Accounting records are frequently lost or disposed of after three or four years. Some lessees are entitled under the terms of their leases to deduct certain processing and transportation costs from the royalties they pay to the State. Because of minimal State oversight, the propriety of these deductions frequently cannot be ascertained. The large amounts of revenues involved, the complexity of the deductions and the limited language addressing these deductions in the leases increase the potential for excessive deductions. Record oil and gas prices are making oil and gas financial auditing more critical. Oil prices have tripled in the last four years from $20-25 per barrel to the current level of $75+ per barrel, increasing the overall revenue to the State. With more money at stake, the importance of monitoring royalty accounting and payment under the State leases is all the more critical. During this time of record oil and gas prices, the likelihood of large recoveries increases, but only with timely audits. A four year statute of limitations requires an appropriately staffed audit program now to ensure the State does not lose its opportunity to capture all royalties/revenue due to the General Fund.

Several of the most recent audits were conducted prior to lease assignments (exhibit 1). These pre-lease assignment audits are necessary if the prior lessee is to be relieved of its monetary obligations under the lease. The largest revenue source, expected to be over $200 million in 2007-08, is the Long Beach Unit. The CSLC is mandated by statute to conduct annual auditing of the Long Beach Unit operations. Fulfilling this audit mandate requires one position each year dedicated just to this one operation. With the current staffing levels of three auditors and this mandatory workload, many state leases may never be audited. Two additional positions, along with the extension of the limited term position, will permit more frequent and timely audits, including at least 1 to 2 more audits annually depending the size and type of facility/lease. See Exhibit 2 for estimated workload for three and six auditors.

Statutory Responsibilities

The primary responsibility of the CSLC's Mineral and Land Audit Section is to perform financial and compliance audits to ensure that the State receives royalties, rents and other compensation due under its leases and that the State lessees otherwise comply with applicable laws and the terms of their leases. Chapter 138, Statutes of 1964, 1st E.S. mandates annual audits of the Long Beach Unit. These audits are required as part of meeting the Commission's obligations to the public to safeguard State assets. The Long Beach Unit is the CSLC's largest source of revenue, providing over $200 million per year. Current audit staffing levels do not provide sufficient personnel to satisfy the statutory requirement to conduct annual audits of the Long Beach Unit operations. Most recently this has been because of protracted audit issues in the Long Beach operations and/or other higher priority projects needing immediate attention such as the financial reviews of businesses prior to major lease assignments.

Laws and General Lease Terms

CSLC leases typically provide that the lessee shall keep and have in its possession books and records showing the production and disposition of all hydrocarbons and other minerals produced from the leased lands and shall permit the State or its agents to examine these books and records at all reasonable times. The leases also typically contain a provision requiring the lessee to file with the State true and correct copies of all sales contracts for the disposition of hydrocarbons and other minerals produced from the leased lands and to furnish monthly to the State true royalty statements in whatever form the State prescribes. At a minimum, the statements shall show for the hydrocarbon production for each calendar month the amount, gravity and market price of all oil and the amount and market price of all gas substances removed or sold from the leased lands and the number of days each well is on production.

Statute of Limitations

The applicable statute of limitations in California for recovery of unpaid royalties under mineral leases is four years. (Code Civ. Proc., sec. 337.) Actions to recover unpaid royalties under mineral leases are in most jurisdictions actions under a written contract. (See, *e.g.*, *Neel v. Killam Oil Co., Ltd.* (Tex. App. 2002) 88 S.W.3d 334, 342; *Indian Territory Illuminating Oil, Co v. Killingsworth* (Okla. 1935) 51 P.2d 505, 507.) The recovery of underpaid royalties may be an action under a written contract or an action on an account stated. Either way, the breach would occur when the royalties were due and not paid, and the period for bringing an action should begin running from that time. (See *Rehbock v. Reservior Hill Gasoline Co.* (1936) 14 Cal.App.2d 233, 236-37.) The statute of limitations furthermore drives the need to have an appropriately staffed auditing program that will ensure all leases are reviewed on a timely bases within a period of recovery. As the revenues continue to increase, the recovery or loss of recovery due to lack of audits also increases. This equates to potential loss of revenue owed to the General Fund.

Historical Audit Revenue Recovery/Savings

To provide insight into future claims, Exhibit 1 shows the average dollars per personnel year (PY) recovered or saved as the result of audits for calendar year 2004 through August 2007[1]. While, as expected, the average per PY varies from year to year, over the most recent period, the average is $1.861 million per PY (over $21.9 million total). It is reasonable to conclude from the results of these audits that more revenues due the State (perhaps many millions more) would have been uncovered if the CSLC were able to conduct more audits.

One of the primary goals of the audit program is to ensure that all payments to the State are accurate. Audit findings leading to the recovery of additional revenues involve the incorrect valuation of a mineral or energy resource and the incorrect allocation of allowable and unallowable production and transportation costs. Each audit has its own unique aspects, but most audits show a combination of lessee misallocations of costs, misinterpretations of lease terms and clerical errors, and not paying the State market value for oil.

[1] Amounts recovered reflect additional revenues collected by the State. Amounts saved reflects the difference between the amount claimed by the State's lessees as overpayment of royalties under the leases and the amount allowed by the State. In each case, the State is economically benefited by the auditor's work.

Lease Information

The results of the most recent audits can be found in Exhibit 1, Currently the total number of oil and gas, geothermal, mineral, and dredging leases that produce revenue is 63. (see Revenue Summary chart Exhibit 3). Given the current level of staffing, only the 14 largest leases will be audited over a seven year cycle (see Exhibit 2). All other leases would be audited only upon lease assignment, (delaying the scheduled audits) or public complaint. To perform all audits and ensure that other leases that within the four year statute of limitation can be accomplished with additional three positions.

Revenue Lost Due to Audit Omissions

The Attorney General's Office filed a lawsuit seeking recovery of underreported royalties from State dredging leases in Northern California in response to a third party complaint. The State's inability to audit these dredging leases helped to create this situation. Fortunately, at the time of this writing, the lawsuit is pending court approval of a settlement agreement, which will bring substantial additional revenue to the State. Also included in the settlement are provisions for the keeping of certain explicit records regarding the extraction of resources and pricing upon which future revenues will be based. All of these provisions will facilitate future auditing; however, auditing staff must be available to perform the work. A clearly articulated consequence of position reductions made by the CSLC when those mandatory cuts were made was the prediction that just such a circumstance would occur. Had it not been for the third party complaint, this situation would have continued unabated. The CSLC audit of these leases in 2002 would not have occurred as scarce audit resources were being directed in favor of higher valued oil and gas audits, had the compliant not been made.

Current audits of oil and gas operations are very time-consuming due to complex issues involving oil and gas transportation and processing costs. Moreover, manpower shortages have prevented staff from auditing for several years other significant operations, including two major geothermal operations, as well as numerous hard mineral and commercial operations. Many of the benefits from frequent and thorough audits programs are difficult to quantify. For example, the mere existence of a robust state auditing program likely will result in more accurate reporting and payment of revenues due the State. As more audits are made, staff receives more inquiries from as yet unaudited lessees seeking confirmation of the accuracy of their reporting.

Conclusion and Recommendation

Staffs' historical audit recovery success of $1.861 million per PY provides insight into the amount of additional revenue that can be gained by accelerating the audit plan. Also, the four year statute of limitations, statutory responsibilities, and the policy of auditing lessees prior to lease assignments all make conducting audits in a timely manner very valuable to the State. With oil prices at an all time high and extremely unlikely to retreat given the current state of world affairs, the State's exposure has never been greater. It is poor policy, at this time, to prevent the Commission from fully executing an audit schedule that will ensure that audits are conducted on a timely basis and that the opportunity to recover underreported revenue is not lost because of the statute of limitations. To achieve this level of auditing, 3.0 additional staff positions will be required.

Exhibit 1

2004	PY	Recovery/Savings ($1,000)	Recovery Per PY
Lessee			
TOPKO[1]	0.5	$200	
Nuevo	1.0	$0	
Long Beach Unit Power Plant[2]	0.75	$3,500	
Misc. Lease Errors Found & Corrected	0.75	$75	
Total	**3.0**	**$3,775**	$1,258
2005		**Recovery/Savings**	
Nuevo/PXP[3]	1	$0	
Venoco[4]	0.5	$0	
City of Redondo Beach[5] (est.)	0.7	$0	
Misc. Lease Errors Found & Corrected	0.75	$25	
Total	**3.0**	**$25**	$8
2006		**Recovery/Savings**	
Nuevo/PXP (settled)	1.00	$3,800	
Long Beach Unit	0.80	$0	2 yr LT Position
City of Redondo Beach[5] (est.)	1.00	$5,000	
Misc. Lease Errors Found & Corrected	0.75	$30	
Total	**3.6**	**$8,830**	$2,487
2007 (7 months, Jan-Aug)		**Recovery/Savings**	
Venoco[6] (est.)	0.40	$4,858	
Calpine /Rosetta	0.40	(3,794)	
Calpine/Rosetta[7]	0.20	2,076	
Berry Petroleum	0.40	500	
Long Beach Unit Amine Plant[8]	0.50	$5,650	2 yr LT Position
Misc. Lease Errors Found & Corrected	0.40	$45	
Total	**2.3**	**$9,335**	$4,059
Grand Total	**11.8**	**$21,965**	**$1,861**

$ Per PY	
Revenue	$1,861
Cost[9]	$150
Economic Value Added (EVA)	**$1,711**

Notes:

1) Future savings - TOPKO was not measuring and allocating the oil produced properly, etc.
2) Reduced interest charge on financing, double billing for labor, improper charging for tools,...
3) Nuevo claimed allowable deductions that were not historically taken or permitted. CSLC auditors challenged deductions taken by Nuevo.
4) Venoco took deductions that, per a legal settlement, are not allowable. Many unresolved issues.
5) Monies misallocated per the Trust Agreement. These recoveries don't flow into the general fund. Also, other nonmonetary benefits.
6) Estimate updated to include the period 7-2003 thru 6-2007. Venoco was charging $8.46 per MMBTU for gas processing costs. After staff's audit the charge was reduced to $3.63 per MMBTU. Staff is currently conducting an audit of other processing expenses.
7) After further evaluation, staff reduced Calpine/Rosettas' claim ($5.870 million) by $2,076 million.
8) Staff challenged Oxy and the City of Long Beach that the State should pay roughly 100% for an Amine Plant to make the natural gas saleable.
9) Assumed $150,000 per py fully loaded salary

Exhibit 2

California State Lands Commission
Mineral Resources Management Division
Financial Auditor Unit Workload for Largest Revenue Leases

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Current Audit Staffing Level	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**
7 year cycle to audit all large revenue leases								
Long Beach Unit	1	1	1	1	1	1	1	1
Misc errors found and corrected	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Sand and Gravel	0.5						0.5	0.5
TOPKO	1							1
Rincon Oil (PRC 145/410/1466)		0.5					0.5	
Oxy (PRC 186) & AERA (PRC 91 etc)		1						
Geysers (PRC 5206)			0.5					
Geyers Power Co. LLC (PRC 4596/4597)			1					
City of LB DOP				0.5				
Rosetta-415 (Calpine)				1				
DCOR (PRC 3033/3095)					1.5			
AERA (PRC 7820)						1		
Venoco (PRC 3120/3242) Platform Holly						0.5	0.5	

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Proposed Audit Staffing Level	**6**	**6**	**6**	**6**	**6**	**6**	**6**	**6**
3 year cycle to audit all large revenue leases, plus other smaller leases								
Supervision and Audit report Review	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Long Beach Unit	1	1	1	1	1	1	1	1
Misc errors found and corrected	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Sand and Gravel (Hanson)	0.5				0.5			
TOPKO	1		0.5		0.5		0.5	
Rincon Oil (PRC 145/410/1466)	0.5				0.5			
Oxy (PRC 186) & AERA (PRC 91 etc)	1				1			
Geysers (PRC 5206)	0.5				0.25	0.25		
Geyers Power Co. LLC (PRC 4596/4597)	0.75	0.25				1		
City of LB DOP		0.5		0.5		0.5		0.5
Rosetta-415 (Calpine)		1			1			
DCOR (PRC 3033/3095)		1.5				1.5		
AERA (PRC 7820)		1				1		
Venoco (PRC 3120/3242) Platform Holly			1.25	0.25			1	0.5
No. CA gas			1	0.5			1	0.5
Sand and Gravel (other)			0.5				0.25	0.25
School Lands Minerals			1	1			1	0.5
School Lands oil & gas				0.5			0.5	
Berry Petro				0.25				0.25
AERA (PRC4736)				0.25				0.25
Surface leases % gross profits				1	0.5			1.5

Exhibit 3

CALIFORNIA STATE LAND COMMISSION
REVENUE PRODUCING LEASES

Huntington Beach, Santa Barbara, Belmont and Long Beach Operations
Oil and Gas Revenue, January 2004 through June 2007

PRC Number	Lessee	ANNUAL REVENUES Total C.Y. 2004	Total C.Y. 2005	Total C.Y. 2006	*January - June 2007*	Year of Last *Audit*
Huntington Beach						
1482	Breitburn Energy	$ 16,935.48	$ 22,093.19	$ 24,145.74	$ 12,120.76	Unknown
3033	DCOR	$ 3,656,186.54	$ 4,248,367.94	$ 4,642,209.66	$ 1,962,184.73	2005
3095	DCOR	$ 2,058,397.20	$ 2,369,751.29	$ 2,672,808.94	$ 1,058,179.54	2005
4736 NB	AERA	$ 6,479.33	$ 8,254.72	$ 8,833.03	$ 3,857.65	1996
4736 SB	AERA	$ 24,943.72	$ 29,817.76	$ 36,494.76	$ 16,714.58	1996
7820	AERA	$ 15,647,103.35	$ 19,155,909.50	$ 19,668,221.45	$ 8,993,049.93	1996
TOTAL		$ 21,410,045.62	$ 25,834,194.40	$ 27,052,713.58	$ 12,046,107.19	
Belmont						
186	OLBI	$ -	$ 1,357,496.97	$ 4,311,483.25	$ 2,642,484.58	2006
Santa Barbara						
145	Greka	$ 90,177.19	$ 57,478.39	$ 48,609.98	$ 21,206.03	1992
410	Greka	$ 154,489.40	$ 51,585.45	$ 67,678.34	$ 13,924.56	1992
735	Berry	$ 470,049.20	$ 531,748.45	$ 709,358.09	$ 277,195.88	1992
1466	Greka	$ 424,478.41	$ 264,469.12	$ 323,149.61	$ 108,236.03	1992
3120	Venoco	$ 1,064,123.39	$ 1,872,749.53	$ 1,960,644.92	$ 1,197,140.89	2007
3242	Venoco	$ 5,615,476.30	$ 6,836,238.58	$ 7,703,605.00	$ 2,662,960.63	2007
3314	Berry	$ 191,790.26	$ 216,480.67	$ 265,916.12	$ 142,617.08	1992
5310	McPherson Oil company	$ 248,560.30	$ 426,470.31	$ 447,400.35	$ 193,308.89	Unknown
TOTAL		$ 8,259,144.45	$ 10,257,220.50	$ 11,526,362.41	$ 4,616,589.99	
Long Beach	OLBI	$ 139,117,644.65	$ 208,415,855.06	$ 263,989,459.65	$ 101,856,420.56	2006

Northern California Gas Revenue
January 2004 through June 2007

28	Souther California Gas Co.	$ 17,683.89	$ 14,170.92	$ 12,363.40	$ 11,241.24	1988
190	Calpine	$ 9,057.75	$ 9,010.48	$ 6,993.35	$ 3,798.15	Unknown
415	Calpine/Rosetta	$ 6,136,624.12	$ 6,289,669.41	$ 4,367,541.03	$ 1,650,004.62	2007
2628	Venoco	$ 2,418.41	$ 6,916.29	$ 4,306.02	$ 3,454.92	Unknown
2908	Texcal	$ 6,863.55	$ 81,525.51	$ 55,330.60	$ 29,025.11	Unknown
2990	Texcal	$ 6,292.57	$ 179,075.96	$ 131,889.28	$ 30,248.13	Unknown
3340	Vintage	$ 2,458.17	$ 4,043.55	$ 3,717.41	$ 2,207.78	Unknown
3743	Venoco	$ 79,986.28	$ 102,658.30	$ 79,388.85	$ 38,305.20	Unknown
3791	R.E.S.C.	$ 7,323.60	$ 9,365.69	$ 8,185.85	$ 4,203.93	Unknown
5995	Loto Energy II LLC	$ 112,175.90	$ 145,512.50	$ 130,848.20	$ 75,225.33	Unknown
6426	Calpine	$ 18,449.97	$ 18,347.46	$ 14,244.90	$ 7,736.56	Unknown
7318	Tri-Valley	$ 4,018.17	$ 8,504.54	$ 5,391.50	$ 2,310.91	Unknown
7542	Towne Exploration Company	$ -	$ 4,096.13	$ 6,498.39	$ 3,649.54	Unknown
7657	Tri-Valley	$ 36,598.14	$ 26,514.26	$ 15,665.57	$ 7,081.62	Unknown
8349	Towne	$ 60,677.36	$ 152,950.64	$ 101,954.37	$ 39,434.80	Unknown
8377	Oxy	$ 22,179.55	$ 224,251.23	$ 136,805.91	$ 96,542.04	Unknown
8573	Towne Exploration Company	$ 2,598.20	$ 49,213.38	$ 22,192.18	$ 11,730.56	Unknown
8587	Towne Exploration Company	$ 851.33	$ 7,550.37	$ 2,433.70	$ 906.22	Unknown
8605	Orchard Petroleum Inc.	$ -	$ -	$ 10,452.77	$ 7,774.95	Unknown
8619(8349)	Towne Exploration Company	$ -	$ 313,912.69	$ 125,126.23	$ 47,327.05	Unknown
8654	Orchard Petroleum Inc.	$ -	$ -	$ 16,158.93	$ 12,019.32	Unknown
8694	Towne Exploration Company	$ -	$ -	$ 18,310.17	$ 9,264.67	Unknown
TOTAL		$ 6,526,256.96	$ 7,647,289.31	$ 5,275,798.61	$ 2,093,492.65	

Exhibit 3

CALIFORNIA STATE LAND COMMISSION
REVENUE PRODUCING LEASES

Geothermal, Minerals and Dredging Revenues January 2004 through August 2007

					August 2007	
39 4596	Geysers Power Co., LLC	**$ 2,393,597.62**	**$ 3,004,939.60**	**$ 3,283,436.37**	**$ 2,361,157.94**	1990
40 4597	Geysers Power Co., LLC	**$ 969,830.55**	**$ 1,135,319.04**	**$ 1,154,916.38**	**$ 919,362.95**	1990
41 5206	Geysers Power Co., LLC	**$ 1,063,213.66**	**$ 1,195,354.98**	**$ 1,266,698.99**	**$ 521,880.35**	1998
42 6422	Geysers Power Co., LLC	$ 44,202.36	$ 41,522.78	$ 66,464.73	$ 49,259.96	Unknown
43 6423	Geysers Power Co., LLC	$ 346.00	$ 346.00	$ 346.00		Unknown
44 7179	Geysers Power Co., LLC	$ 9,250.83	$ 10,470.91	$ 10,645.76	$ 8,381.03	Unknown
45 7621	Magma Power Company	$ 41,848.02	$ 49,516.91	$ 44,206.51	$ 37,046.43	Unknown
46 7845	Silverado Geothermal Resources, Inc.	$ 64,751.44	$ 77,028.03	$ 51,828.24	$ 60,438.85	Unknown
47 8556	Geysers Power Co., LLC	$ 16,580.00	$ 38,980.00	$ 27,780.00	$ 52,650.00	Unknown
48 8573	Towne Exploration Company			$ 640.00	$ 3,200.00	Unknown
TOTAL		**$ 4,603,620.48**	**$ 5,553,478.25**	**$ 5,906,962.98**	**$ 4,013,377.51**	
MINERALS						
49 736	US Borax	$ 21,822.00	$ 21,822.05	$ 40,157.35	$ 47,689.05	Unknown
50 5464	US Borax	$ 195,659.65	$ 170,814.81	$ 202,071.53	$ 159,473.40	Unknown
51 7301.2	Nelson and Sloan/Hanson	$ 36,745.13	$ 7,500.00	$ 133,046.82	$ 298,862.87	Unknown
52 7945.2	Granite Construction	$ 61,875.76	$ 69,718.48	$ 78,630.04	$ 32,780.84	Unknown
53 8039.2	Newmont Mining Company	$ 3,290.00	$ 3,290.00	$ 3,290.00	$ 3,290.00	Unknown
54 8253.2	Sigma Stone Company	$ 160.00	$ 45,425.18	$ 229,406.76	$ 103,471.19	Unknown
55 8272.2	Washington Group International	$ 10,588.55	$ 18,371.45	$ 15,980.00	$ 16,580.00	Unknown
56 8322.2	Protech Minerals, Inc.	$ 3,365.00	$ 3,365.00	$ 3,365.00	$ 3,365.00	Unknown
TOTAL		**$ 333,506.09**	**$ 340,306.97**	**$ 705,947.50**	**$ 665,512.35**	
DREDGING						
57 709	Hanson	$ 163,015.84	$ 552,425.14	$ 1,510,855.36	$ 271,555.44	2002
58 2036	Hanson	$ 394,173.24	$ 231,566.10	$ 1,030,780.72	$ 612,305.28	2002
59 5534	Morris Tug & Barge	$ 43,852.45	$ 39,111.73	$ 4,511,905.15	$ 46,292.92	Unknown
60 5733	Harbor Sand & Gravel	$ 66,677.83	$ 48,286.95	$ 60,873.66	$ 78,481.03	Unknown
61 5871	Harbor Sand & Gravel	$ 90,354.42	$ 143,185.02	$ 121,815.78	$ 119,568.89	Unknown
62 7779	Hanson	$ 201,067.50	$ 797,942.99	$ 1,494,020.85	$ 849,192.27	2002
63 7780	Hanson	$ 106,556.09	$ 156,034.01	$ 464,772.57	$ 179,824.94	2002
64 7781	Hanson	$ 39,853.14	$ 96,089.59	$ 109,520.30	$ 97,281.81	2002
TOTAL		**$ 1,105,550.51**	**$ 2,064,641.53**	**$ 9,304,544.39**	**$ 2,254,502.58**	
	Total Annual Revenues	**$ 181,355,768.76**	**$ 261,470,482.99**	**$ 328,073,272.37**	**$ 130,188,487.41**	
	% Increase		**44%**	**25%**		

Audits in progress or scheduled to be performed within the next two fiscal years are highlighted in blue.

1) Applies to PRCs 3033 and 3095 combined.

2) Applies to PRCs 3120 and 3242 combined.

3) Audit initiated but not completed due to unavailability of records.