

MINUTE ITEM

This Calendar Item No. C07 was approved as Minute Item No. 07 by the California State Lands Commission by a vote of 3 to 2 at its 11-01-06 meeting.

**CALENDAR ITEM
C07**

A 8,10

11/01/06

S 4,5

PRC 8207.1

J. McComas

TERMINATION AND APPROVAL OF AN AGREEMENT AND CONSENT TO ENCUMBRANCING OF LEASE

LESSEE/APPLICANT:

Lodi Gas Storage, LLC, a Delaware Limited Liability Company
1822 West Kettleman Lane, Suite 3
Lodi, California 95242

SECURED PARTY LENDERS:

J P Morgan Chase Bank, N. A.
Prudential Investment Management, Inc.
Caisse de Depot et placement du Quebec

COLLATERAL AGENT:

Deutsche Bank Trust Company Americas
Attn: Richard L. Buckwalter, Vice President
Mail Stop: NYC60-2710
60 Wall Street, 27th Floor
New York, NY 10005

AREA, LAND TYPE, AND LOCATION:

1.34 acres, more or less, of sovereign lands in the Mokelumne, North and South Mokelumne Rivers and Georgiana, Three Mile, Jackson, and Tomato Sloughs, near the city of Lodi, Sacramento and San Joaquin counties.

AUTHORIZED USE:

Use and maintenance of a 24-inch high-pressure natural gas pipeline connecting the existing Pacific Gas and Electric Line 401 at Sherman Island to the Lodi Gas Field located approximately 5.4 miles northeast of the city of Lodi to provide natural gas storage and hub services to natural gas consumers, utilities, and marketing companies.

LEASE TERM:

20 years, beginning September 19, 2000.

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CONSIDERATION:

\$1,070 per year; with the State reserving the right to fix a different rent periodically during the lease term, as provided in the lease.

SPECIFIC LEASE PROVISIONS:

Liability Insurance with coverage of no less than \$1,000,000.

Bond: \$20,000

OTHER PERTINENT INFORMATION:

1. Applicant has a right to use the uplands adjoining the lease premises.
2. On September 19, 2000, the California State Lands Commission (CSLC) approved the issuance of a 20-year General Lease – Right of Way Use to Lodi Gas Storage, LLC, for the installation of a directionally bored single 24-inch diameter high-pressure gas pipeline under the Mokelumne, North and South Mokelumne Rivers, and Georgiana, Three Mile, Jackson, and Tomato Sloughs, near the city of Lodi, Sacramento and San Joaquin counties.
3. Lodi Gas Storage obtained an indebtedness in the amount of \$50,000,000 for improvements that were acquired, constructed, repaired or reconstructed by Lodi Gas Storage. On February 5, 2001, the Commission approved an "Agreement and Consent to Encumbrancing of Lease" to Lease No. PRC 8207.1. The Deed of Trust, Security Agreement, Assignment of Revenues and Contracts and Fixture Filing were executed by Lodi Gas Storage for the benefit of Newcourt Capital USA, Inc., as Beneficiary.
4. A Corporation Assignment of Deed of Trust from Newcourt Capital USA, Inc., to WHP Acquisition Company, LLC, was recorded on April 24, 2001, and the First Amended and Restated Deed of Trust, Security Agreement, Assignment of Revenues and Contracts and Fixture Filing executed by Lodi Gas Storage for the benefit of WHP Acquisition Company, LLC, was recorded on August 24, 2001. Subsequently a Corporation Assignment of Deed of Trust from WHP Acquisition Company, LLC to Lodi Finance, LLC was recorded on November 26, 2003. These assignments were not formally approved by the CSLC.

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5. Lodi Gas Storage intends to enter into a new financing arrangement with certain Secured Party Lenders and Collateral Agent in order to refinance the loans for approximately \$145,000,000 for the expansion of the Lodi Gas Storage facility. Lodi Gas Storage intends to partially secure the loan by the Commission's lease.
6. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (Title 14, California Code of Regulations, section 15061), the staff has determined that this activity is exempt from the requirements of the CEQA because the activity is not a "project" as defined by the CEQA and the State CEQA Guidelines.

Authority: Public Resources Code section 21065 and Title 14, California Code of Regulations, section 15378.

EXHIBIT:

- A. Location Map

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDING:

FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15061 BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY PUBLIC RESOURCES CODE SECTION 21065 AND TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15378

AUTHORIZATION:

1. AUTHORIZE TERMINATION OF THE "AGREEMENT AND CONSENT TO ENCUMBRANCING OF LEASE" ISSUED TO LODI GAS STORAGE, LLC, AND NEWCOURT CAPITAL USA, INC. (D/B/A/ CIT-STRUCTURED FINANCE) APPROVED BY THE COMMISSION ON FEBRUARY 5, 2001; EFFECTIVE WITH THE EXECUTION OF A NEW "AGREEMENT AND CONSENT TO ENCUMBRANCING OF LEASE", AUTHORIZED HEREUNDER.
2. AUTHORIZE EXECUTION BY THE EXECUTIVE OFFICER OR HIS DESIGNEE OF AN "AGREEMENT AND CONSENT TO

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ENCUBRANCING OF LEASE" ALLOWING LESSEE'S RIGHT, TITLE AND INTEREST IN LEASE NO. PRC 8207.1 PLEDGED AS PARTIAL SECURITY FOR A LOAN IN THE AMOUNT OF \$145,000,000, IN FAVOR OF J P MORGAN CHASE BANK, N. A, PRUDENTIAL INVESTMENT MANAGEMENT, INC., AND CAISSE DE DEPOT ET PLACEMENT DU QUEBEC AS SECURED-LENDERS AND DEUTSCHE BANK TRUST COMPANY AMERICAS, AS COLLATERAL AGENT.

Location Map

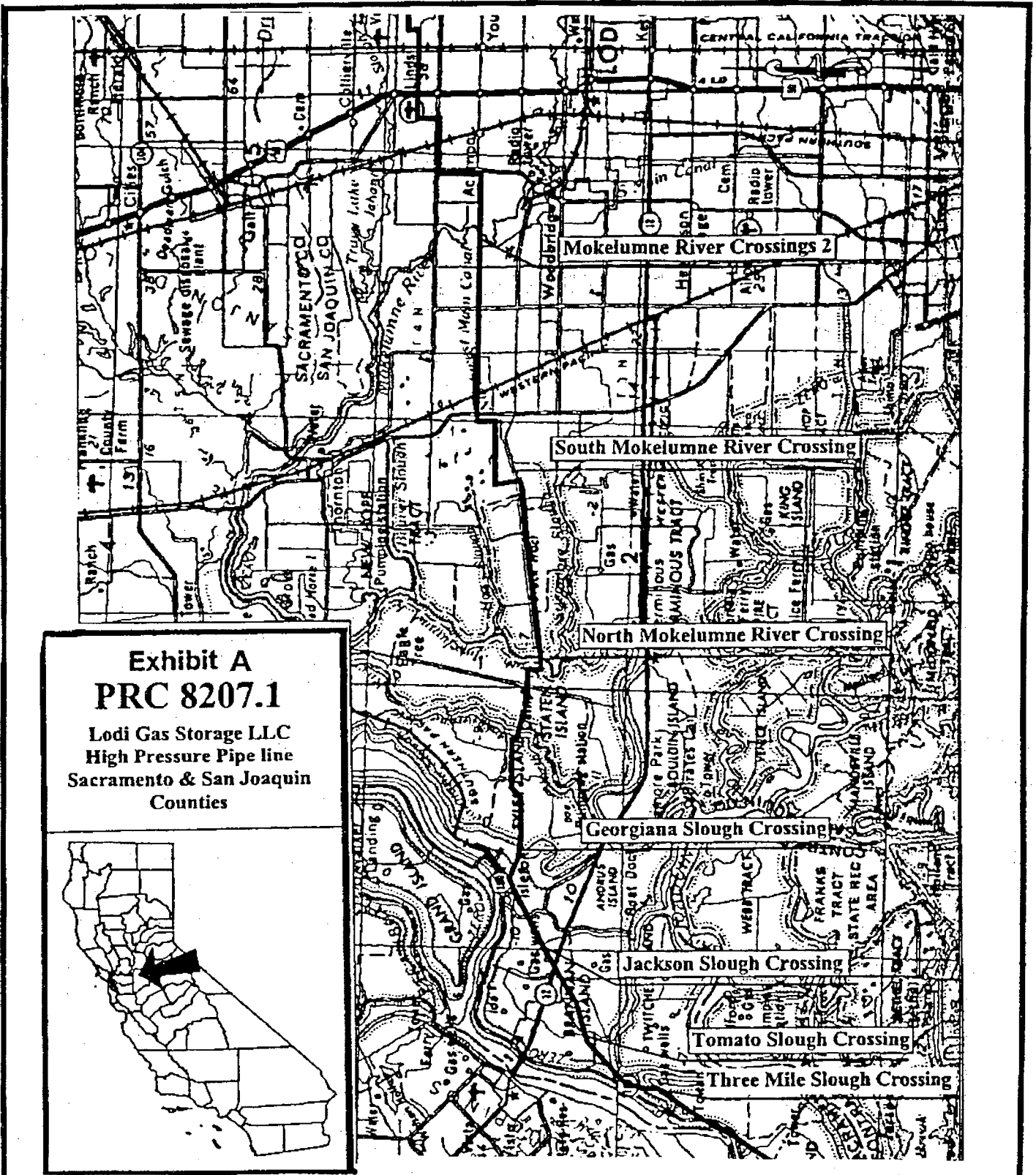


Exhibit A
PRC 8207.1
 Lodi Gas Storage LLC
 High Pressure Pipe line
 Sacramento & San Joaquin
 Counties



EXHIBIT CONSTRUCTED FROM USGS QUAD

This exhibit is solely for purposes of generally defining the lease premises, is based on unverified information provided by lessee or other parties, and is not intended to be, nor shall it be construed to as a waiver or limitation of any state interest in the subject or any other property

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TKL 1/6/2005