

**CALENDAR ITEM
C36**

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S.Young

GENERAL LEASE - RIGHT OF WAY USE

APPLICANT:

Gill Ranch Storage LLC
220 NW Second Avenue
Portland, OR 97209

AREA, LAND TYPE, AND LOCATION:

Sovereign lands in the San Joaquin River and in Fresno Slough, near the town of Mendota, Madera and Fresno Counties.

AUTHORIZED USE:

Construction, use, operation, and maintenance of a 30-inch diameter steel natural gas pipeline shown on the attached Exhibit A, and described in Exhibit B.

LEASE TERM:

20 years, beginning February 1, 2010.

CONSIDERATION:

\$275 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:

Insurance:

Liability insurance in the amount of no less than \$10,000,000.

Bond:

1. Surety Bonds: \$150,000
2. Construction Performance Bond: \$250,000

Other:

1. Applicant is required to submit for Commission staff's review and approval the final engineering design and construction plans at least 90 days prior to construction for those portions of the project crossing sovereign lands.

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2. Applicant will comply with all existing and subsequently enacted laws or regulations promulgated by the Federal government including, but not limited to the Department of Transportation or the National Transportation Safety Board or any other governmental agency, whether Federal, State or local, having lawful authority and jurisdiction over the pipelines.
3. Applicant will comply with the mitigation-monitoring program as contained in Exhibit C.
4. Applicant will indemnify the Commission from liability and agrees to reimburse the Commission for all reasonable costs and attorney's fees that the Commission may incur in connection with the defense of any action brought against the Commission challenging the issuance of the Lease, any provision of the Lease, the interpretation or enforcement of the conditions of the Lease, or any other matter related to the Lease or its issuance. The total obligation will not exceed \$1,000,000.
5. All plans for the future abandonment and/or removal of the pipelines within the Lease Premises must be reviewed and approved by the Commission. The Commission may, at its discretion, require the Lessee to enter into an abandonment agreement and to reimburse the Commission for all costs associated with the preparation of the agreement.
6. During the construction and installation of the pipeline, Applicant will take appropriate safety measures to insure the integrity of the existing six-inch diameter natural gas pipeline, located on the Lease Premises beneath the bed of the San Joaquin River, and subject to Lease No. PRC 7410.1, issued to California Gas Gathering.

BACKGROUND INFORMATION:

Gill Ranch and Pacific Gas and Electric Company (PG&E), under a Joint Project Agreement, are proposing development, construction, and operation of the Gill Ranch Gas Storage Project (Project). Gill Ranch is a subsidiary of Northwest Natural Gas Company. The Project is a planned underground natural gas storage facility to be located primarily in Madera County. As part of the Project, PG&E will construct an electric substation and an 115kV electric power line that will deliver electricity to the Project's central compressor station and other facilities at the station site. The power line will be co-located with existing PG&E distribution lines along county roads for nearly 80 percent of the proposed route.

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The Project will utilize depleted reservoirs in the existing gas field, the Gill Ranch Gas Field (Gas Field). The Gill Ranch Storage Field (Storage Field) is located within the Gas Field approximately 20 miles west of Fresno. The Project is designed for 20 billion cubic feet (Bcf) of working gas and 650 million cubic feet per day (MMcfd) of peak deliverability.

Elements of the Project include the Storage Field, gas injection and withdrawal wells, observation and monitoring wells, salt-water disposal well, a compressor station, the 27-mile 30-inch diameter natural gas pipeline, a 9.75-mile 115-kV transmission line, and an electric substation. The Storage Field (the wells and compressor station) is located primarily in western Madera County and a portion crosses under the San Joaquin River into Fresno County. The town of Firebaugh is located approximately eight miles southeast of the Storage Field. The total acreage for surface facilities within the Storage Field would be approximately 22 acres. The land surface within the boundary of the Storage Field is approximately 5,020 acres. Existing gas production will continue from two wells in the Storage Field.

Gill Ranch is proposing to construct an approximate 27-mile, 30-inch diameter steel natural gas pipeline, as part of the Project, between PG&E's existing Line 401 near Interstate 5 and a proposed compressor station site near the town of Mendota. The pipeline would be designed to transport up to 650 Million Standard Cubic Feet per Day of gas (MMscfd). The pipeline would be constructed under the San Joaquin River and Fresno Slough, within the Commission's leasing jurisdiction, using horizontal directional drilling (HDD) techniques. Approximately 25 miles of pipeline would be located in Fresno County and approximately two miles would be located in Madera County. The pipeline would pass approximately two miles south of the town of Mendota. Gill Ranch would have 75 percent ownership of the pipeline, and PG&E would have 25 percent ownership of the pipeline. Gill Ranch is the sole applicant for the General Lease- Right-of Way Use (Lease). On the Commission's consideration and authorization of the Lease, Gill Ranch will submit an application to the Commission for an assignment to PG&E of a 25% interest in the Lease. The proposed application for the assignment would be scheduled for the Commission's consideration at a later date.

Land uses along the pipeline corridor are primarily agriculture or agricultural processing facilities. Other land uses along the pipeline corridor include the Mendota Wildlife Management Area and the Alkali Sink Ecological Reserve. The pipeline would avoid construction in both areas. The pipeline crossing at the San Joaquin River is within the area of the San Joaquin River Restoration

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Program – Mendota Pool Bypass, and Reach 2B Channel Improvements Project. This project is currently in the planning and environmental review phase.

A portion of the proposed pipeline within the bed of the San Joaquin River will be installed approximately 35 feet below an existing six-inch diameter natural gas pipeline subject to General Lease – Right of Way, No. PRC 7410.1, issued to California Gas Gathering, Inc. and authorized by the Commission in 1990. The existing lease expires on June 30, 2020.

The Commission's Mineral Resource Management Division is currently processing a request from Gill Ranch for a Natural Gas Storage Lease (sub-surface development only) for gas storage under the San Joaquin River in Fresno and Madera Counties. This item will be scheduled for consideration by the Commission at a future meeting.

Gill Ranch and PG&E submitted applications to the California Public Utilities Commission (CPUC) in 2008 for this project. On October 29, 2009, the CPUC, the project's lead agency under the California Environmental Quality Act (CEQA), adopted a Mitigated Negative Declaration and issued a Certificate of Public Necessity for the project.

OTHER PERTINENT INFORMATION:

1. Applicant has the right to use the uplands adjoining the lease premises.
2. A Mitigated Negative Declaration (MND) SCH# 2009071057 was prepared by the California Public Utilities Commission and adopted on October 29, 2009 for this project. California State Lands Commission's staff has reviewed such document.
3. A Mitigation Monitoring Program was adopted by the CPUC on October 29, 2009 (attached as Exhibit C). The California State Lands Commission has reviewed such document.
4. This activity involves lands which have NOT been identified as possessing significant environmental values pursuant to Public Resources Code sections 6370, et. seq. However, the Commission has declared that all lands are "significant" by nature of their public ownership (as opposed to "environmentally significant"). Since such declaration of significance is not based upon the requirements and criteria of Public Resources Code Sections 6370, et seq., use classifications for such lands have not been designated. Therefore, the finding of the project's consistency with the use classification as required by Title 2, California Code of Regulations, Section 2954 is not applicable.

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APPROVALS OBTAINED:

California Public Utilities Commission, U.S. Army Corps of Engineers, U.S. Fish and Wildlife Service, State Historic Preservation Officer, Central Valley, Regional Water Quality Control Board, State Water Resources Control Board, California Department of Conservation-Division of Oil, Gas, and Geothermal Resources, California Department of Transportation, California Department of Fish and Game, San Joaquin Valley Air Pollution Control District, County of Madera, County of Fresno.

EXHIBITS:

- A. Location and Site Map
- B. Land Description
- C. Mitigation Monitoring Program

PERMIT STREAMLINING ACT DEADLINE:

June 8, 2010

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDING:

Find that a Mitigated Negative Declaration SCH# 2009071057 and a Mitigation Monitoring Program were prepared by the California Public Utilities Commission and adopted on October 29, 2009 for this project and that the Commission has reviewed and considered the information contained therein.

Adopt the Mitigation Monitoring Program, as contained in Exhibit C, attached hereto.

AUTHORIZATION:

Authorize issuance of a General Lease – Right of Way Use, to Gill Ranch Storage LLC, beginning February 1, 2010, for a term of 20 years, for the construction, use, operation, and maintenance of a 30-inch diameter steel natural gas pipeline as shown on Exhibit A (for reference purposes only) and described in Exhibit B attached and by this reference made a part hereof; consideration in the amount of \$275 per year; with the State reserving the right to fix a different rent periodically during the lease term, as provided in the Lease; General Liability Insurance in the amount of no less than \$10,000,000; Surety Bonds totaling \$150,000; and a Construction Performance Bond in the amount of \$250,000.