

**CALENDAR ITEM
C15**

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04/06/11
WP 5438.1
W 26416
M. Clark

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**AMENDMENT TO MASTER LEASE NO. PRC 5438.1
(AMENDMENT NO.17) AND ISSUANCE OF A NEW
GENERAL LEASE – RIGHT OF WAY USE**

LESSEE:

Pacific Gas and Electric Company (PG&E)
P. O. Box 770000
Mail Code N10A
San Francisco, California 94177

APPLICANT:

Foothill Energy, LLC
1200 Smith Street
Houston, Texas 77002

AREA, LAND TYPE, AND LOCATION:

PG&E Master Lease:

Various rivers, sloughs and creeks located throughout the State.

New Lease:

0.26 acres, more or less, of sovereign land in Nurse and Cross Slough, adjacent to Assessor's Parcel No. 46-170-06 and 46-170-09, near city of Dixon, Solano County.

AUTHORIZED USE:

Master Lease:

Use and maintenance of various existing natural gas gathering and pipelines.

New Lease:

Installation, use, maintenance and operation of a three-inch diameter natural gas gathering pipeline encased within the existing deactivated six-inch diameter natural gas pipeline, known as Line 182C and as shown on Exhibit A.

CALENDAR ITEM NO. **C15** (CONT'D)

LEASE TERM:

Master Lease:

20 years, beginning January 1, 1978, with two ten-year renewal options. The lease is in holdover and a new lease is being negotiated.

New Lease:

20 years, beginning April 6, 2011 or upon the close of sale of Line 182C, but in no event later than October 1, 2011.

CONSIDERATION:

New Lease:

\$100 per year, with the State reserving the right to fix a different rent periodically during the lease term, as provided in the lease.

AMENDMENT OF MASTER LEASE NO. PRC 5438.1:

Delete a parcel of land with an existing six-inch diameter natural gas gathering pipeline, known as Line 182C and described as Exhibit "A-68" from the Master Lease. All other terms and conditions of the lease shall remain in effect without amendment.

SPECIFIC LEASE PROVISIONS (NEW LEASE):

Insurance: Liability insurance with combined single limit coverage of no less than \$2,000,000.

Bond: \$20,000

Other:

1. The lease contains special provisions for the installation of the pipe in pipe, a staff engineering review of the in-water site remediation plan prior to operation of the pipeline, future repair or modification, abandonment plans, and compliance with all existing and future federal, state, and local regulations.
2. The lease provides that the term will begin upon formal notification of the transfer of ownership by the parties. If the sale is not consummated by October 1, 2011, the amendment and new lease will be voided without further Commission action.

CALENDAR ITEM NO. **C15** (CONT'D)

OTHER PERTINENT INFORMATION:

1. Applicant will have the right to use of the uplands adjoining the lease premises upon the beginning date of the Lease.
2. On June 19, 1946, the Department of War authorized a permit to the Pacific Public Service Company (PPSC) for the installation of a six-inch diameter natural gas pipeline (pipeline) across Nurse Slough. In 1954 the pipeline was acquired by the PG&E and beginning August 2, 1961, the Commission issued a lease to PG&E for the pipeline. Subsequently, on January 26, 1978, the Commission authorized Master Lease No. PRC 5438.1 to PG&E that incorporated various natural gas pipelines, including line 182C, throughout the State into one lease. That lease has expired and is in holdover while a new Master Lease is being negotiated. PG&E has contacted Commission staff indicating their intention to sell Line 182C to Foothill Energy. LLC (Applicant). PG&E is now applying for an amendment to the Master Lease to delete the right of way with Line 182C from the lease and the Applicant is applying concurrently for a new General Lease – Right of Way Use for Line 182C. Upon Commission approval of the amendment and the new lease, the parties will close the sale.
3. The existing six-inch diameter pipeline was installed to service natural gas to one rural customer to the west of Nurse Slough from PG&E's main line. The sale of the pipeline involves ending natural gas service to the customer with the Applicant providing private propane tank service on the upland not related to the pipeline. The Applicant proposes to use the existing pipeline crossing to transport natural gas from the Applicant's gathering lines at well sites nearby to PG&E's main system approximately three miles East of the crossing thereby reversing the flow.
4. The existing pipeline was installed by burial within the bed of Nurse Slough to a depth of approximately five-feet and was cathodically protected. The Applicant performed a recent underwater survey, and it was determined that portions of the pipeline have become exposed due to scouring over the years along an approximate 90-foot stretch on the south side of Nurse Slough. There are portions of the pipeline that are suspended up to four-feet above the mud line. The inspection of the exposed pipeline has shown that the pipeline integrity has not been compromised; however, the Applicant proposes to remedy this issue as part of the new installation process by wrapping the exposed pipeline with an impermeable wrap and reburial of the exposed pipeline by placing rock under the suspended portions and covering the pipeline with a concrete blanket. The Applicant will then use the existing pipeline as casing for a

CALENDAR ITEM NO. **C15** (CONT'D)

new three-inch diameter flex pipeline. This installation will consist of inserting flexible pipe into the casing on one side of the upland, then pulling it through the existing pipeline casing to the opposite side of Slough. Prior to the installation of the new flex pipe the existing casing pipeline casing will be cleaned of any obstruction by use of a pigging device (metal and/or plastic plug the diameter of the pipeline that is pushed through the pipeline).

5. **Amend Master Lease PRC 5438.1:**

Pursuant to the Commission's delegation of authority and the State CEQA Guidelines [Title 14, California Code of Regulations, section 15060(c)(3)], the staff has determined that this activity is not subject to the provisions of CEQA because it is not a "project" as defined by CEQA and the State CEQA Guidelines.

Authority: Public Resources Code section 21065 and Title 14, California Code of Regulations, sections 15060 (c)(3) and 15378.

6. **Issuance of a New Lease:**

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 CEQA as a categorically exempt project. The project is exempt under Class 2, Replacement or Reconstruction; Title 14, California Code of Regulations, section 15302 (c).

Authority: Public Resources Code section 21084 and Title 14, California Code of Regulations, section 15302 (c).

7. **Modification of the Existing Pipeline:**

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 CEQA as a categorically exempt project. The project is exempt under Class 4, Minor Alterations Land; Title 14, California Code of Regulations, section 15304 (f).

Authority: Public Resources Code section 21065 and Title 14, California Code of Regulations, section 15304 (f).

8. This activity involves lands identified as possessing significant environmental values pursuant to Public Resources Code sections 6370, et seq., but such activity will not affect those significant lands. Based

CALENDAR ITEM NO. **C15** (CONT'D)

upon the staff's consultation with the persons nominating such lands and through the CEQA review process, it is the staff's opinion that the project, as proposed, is consistent with its use classification.

FURTHER APPROVALS REQUIRED:

Central Valley Flood Protection Board
Department of Fish and Game
U.S. Army Corps of Engineers

EXHIBITS:

- A. Site and Location Map
- B. Legal Description

RECOMMENDED ACTION:

It is recommended that the Commission:

CEQA FINDING:

Amend Master Lease PRC 5438.1:

Find that the activity is not subject to the requirements of CEQA pursuant to Title 14, California Code of Regulations, section 15060 (c)(3) and 15378.

Issuance of a New Lease:

Find that the activity is exempt from the requirements of CEQA pursuant to Title 14, California Code of Regulations, section 15061 as a categorically exempt project, Class 2, Replacement or Reconstruction; Title 14, California Code Of Regulations, section 15302 (c).

Modification of the Existing Pipeline:

Find that the activity is exempt from the requirements of CEQA pursuant to Title 14, California Code of Regulations, section 15061 as a categorically exempt project, Class 4, Minor Alterations to Land; Title 14, California Code of Regulations, section 15304 (f).

SIGNIFICANT LANDS INVENTORY FINDING:

Find that this activity is consistent with the use classification designated by the Commission for the land pursuant to Public Resources Code sections 6370, et seq.

AUTHORIZATION:

1. Authorize the amendment of Master Lease No. PRC 5438.1, a General Lease-Right of Way Use, to delete a parcel of sovereign land from the

CALENDAR ITEM NO. **C15** (CONT'D)

Master Lease, known as Line 182C and described as Exhibit "A-68", effective April 6, 2011 or upon closure of sale of Line 182C by PG&E, but in no event later than October 1, 2011.

2. Authorize issuance of a General Lease – Right of Way Use to Foothill Energy, LLC, effective April 6, 2011 or upon closure of sale of Line 182C, but in no event later than October 1, 2011, for a term of 20 years, for the installation, use, maintenance and operation of a three-inch diameter natural gas gathering pipeline encased within an existing deactivated six-inch diameter natural gas pipeline as shown on Exhibit A (for reference purposes only) and as described in Exhibit B attached and by this reference made a part hereof; annual rent in the amount of \$100, with the State reserving the right to fix a different rent periodically during the lease term, as provided in the lease; liability insurance for combined single limit coverage of no less than \$2,000,000; and surety bond in the amount of \$20,000.