

ORGANIZATIONS

Letter O1



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California Public Utilities Commission
c/o Judith Ilke, Project Manager
101 Embarcadero, Suite 210
San Francisco, CA 94105

November 9, 1999

RE: Lodi Gas Storage Project

Attention: Judith Ikle

The following comments to the Draft EIR are made on behalf of the Cosumnes River Preserve. This Preserve is dedicated to the restoration of wetlands and oak riparian forest, flood conveyance improvement, sustainable farming and wildlife friendly farming. Staten Island is part of the Preserve, which cooperates in sustainable Delta Farming objectives as well as compatible and wildlife friendly farming practices.

The Draft EIR considers the impacts of four pipeline alignments to support the LGS Project. Three of the four alignment alternatives cross the Preserve through Staten Island. Each of the three would result in conflicts in the management of agriculture and the management of winter habitat for waterfowl.

The Draft EIR did not identify the scope of habitat being impacted by the pipeline on Staten Island. The management of the Island for winter habitat for waterfowl is extremely successful. For over thirty years Staten Island has provided habitat for millions of waterfowl. The Island is considered one of the most important wintering areas for waterfowl in the north Delta. Over 20,000 tundra swans, 16,000 sandhill cranes and over 100,000 ducks, geese and shorebirds depend on the Island as refuge a, roosting habitat and feeding area each winter. The disturbance to the farm operation, which creates habitat for the birds and the disturbance to roosting or feeding waterfowl resulting from the three alternatives is not a desirable outcome.

The Draft EIR did not identify the potential impacts to the large concentrations of waterfowl on Staten Island and on the Woodbridge Wildlife Management Area on Brack Tract as a result of construction or maintenance of pipeline. These areas hold large concentration birds during the September to March period. The areas act as both roosting and feeding areas. They are flooded for habitat or farmed almost year round.

The pipeline construction impacts did not address in specific terms the impacts to the management of a farm operation or wildlife habitat operation. The maintenance requirements on the pipeline did not indicate the specific impacts, which would occur to the farm operation or the habitat management operation. The assessment of risk to Delta Islands such as Staten Island did not provide quantitative data as to potential levee failure or weakening as a result of the drilling. Any loss of levee stability on Staten would adversely affect long term plans for the management of the Island for habitat by the Preserve.

The Cosumnes River Preserve has partnered with M&T Staten Ranch to improve and sustain wetland habitat on Staten Island. M&T has a long history of wildlife friendly farming practices which have resulted large areas of seasonally flooded farmland benefiting, the state threatened Greater sandhill crane, the tundra swan, northern pintail as well as thousands of other wintering waterfowl. Avoidance of Staten Island as a route for another utility corridor would be a preferred outcome. The Preserve strongly recommends the use of the Public Right of Way Route Alternative as the route for the pipeline.

Sincerely,

Rick Cooper
Preserve Manager

Cooperators

Bureau of Land Management • Ducks Unlimited • California Department of Fish and Game • California Department of Water Resources
California Wildlife Conservation Board • County of Sacramento, Department of Regional Parks, Recreation and Open Space • PacTrust • The Nature Conservancy

Responses to Comments from Cosumnes River Preserve— Rick Cooper

- O1-1. The draft EIR considered impacts on habitat resulting from implementation of the proposed project and alternatives. Staten Island contains several thousand acres of farmland and other lands. Project construction would affect no more than about 20 acres over a relatively short period of time. Given the large amount of habitat on Staten Island, the large amount of similar habitat throughout the Delta, and the very temporary nature of the disturbance, the impact of project construction on agricultural habitat is considered less than significant.
- O1-2. Given the current schedule, if approved by the CPUC, project construction would not occur until after March 2000. There is no evidence that agricultural habitat, which makes up most of the 700,000-acre Delta area, is a limiting factor for waterfowl populations. In addition, as described above, areas affected on Brack Tract and Staten Island would be relatively small and such impacts would be temporary. No significant impacts are anticipated.
- O1-3. Construction impacts would be temporary and would not be expected to significantly alter farming or wildlife habitat operations. Maintenance activities would also not be expected to result in any impacts; maintenance activities consist largely of monitoring the right-of-way to identify any potential issues. If maintenance were required, it would likely be site-specific and temporary and not result in any significant impacts.
- O1-4. It is not possible to quantitatively assess the potential for levee failure or weakening. Several state and local agencies have significant jurisdictional authority over such drilling activities and the Applicant will be required by state law to comply with appropriate engineering and construction practices.
- O1-5. Comment noted. The Public Right-of-Way Route Alternative is fully considered in the draft EIR.

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ANN L. TROWBRIDGE

November 10, 1999

VIA ELECTRONIC MAIL, FACSIMILE & U.S. MAIL

Judith C. Ikle¹
California Public Utilities Commission
Energy Division
505 Van Ness Avenue, Room 4007
San Francisco, California 94102

Re: Lodi Gas Storage Project, Application No. 98-11-012: Comments on
Draft Environmental Impact Report
Our Ref. : 09490.00000

Dear Ms. Ikle¹:

Lodi Gas Storage, LLC (LGS) welcomes this opportunity to provide comments on the Draft Environmental Impact Report (EIR) for the proposed Lodi Gas Storage Project, which the California Public Utilities Commission (CPUC or Commission), as lead agency under the California Environmental Quality Act (CEQA), has circulated for review and comment. LGS commends the CPUC and Jones & Stokes, the contractor who assisted in preparation of the Draft EIR, for the thorough identification and analysis of potential environmental impacts associated with the project. LGS agrees with the CPUC's conclusion in the Draft EIR that the incorporation of LGS' proposed design features and mitigation measures, as well as the additional mitigation measures developed by the CPUC, will avoid or substantially reduce any potential significant environmental effects associated with the project.

LGS supports the Draft EIR and submits the following comments primarily for purposes of clarification and to propose modifications to specified mitigation measures which would result in fewer environmental impacts than the measures contained in the Draft EIR. In addition to comments relating directly to the Draft EIR, LGS is also submitting responses to some of the comments which were made at the public meetings and hearings, again, primarily for purposes of clarification and amplification.

1. General Comment Regarding CEQA Process

At the outset, LGS would like to express its appreciation for the CPUC's careful and thoughtful implementation of the CEQA process. As the record in this proceeding reflects, LGS has had many discussions regarding the project location and configuration with landowners in the project area since filing its Application one year ago. LGS has modified and refined the project based on input received during those discussions in its efforts to design a project which avoids or has minimal effects in the community and on the environment. The result is a project which goes beyond CEQA's requirements for mitigation of potential significant impacts.

The CPUC, in turn, has incorporated LGS' modifications into the project description and alternatives to the proposed project, as appropriate, and has developed a preferred alternative which addresses the majority of the comments which have been raised by members of the community and other interested parties. LGS believes the process to date has resulted in a project and a Draft EIR which embody the goals CEQA is intended to achieve: identification and mitigation of potential environmental effects and maximization of public input.

LGS urges the CPUC to continue to diligently implement CEQA in responding to comments it receives relating to the Draft EIR and in preparing the Final EIR.

2. Substantive Comments on Draft EIR

a. California Gas Storage Policy

The Draft EIR provides a thorough discussion of the natural gas storage industry in California and touches on important policies relating to the development of independent gas storage facilities. (Draft EIR, pp. ES-1 - ES-2, 1-2 - 1-3, 2-2.) LGS provides these comments to amplify that discussion by highlighting the Legislature's and the CPUC's policies in favor of competition in gas storage and encouraging the entry of independent storage providers.

The CPUC's policy, first articulated in the Storage Decision (D.93-02-013), envisions full-fledged competition in storage services among independent providers and regulated utilities. In the Storage Decision, the CPUC adopted a "let the market decide" approach to storage. Under this approach, the decision whether a storage facility is needed is left to the market. A key consideration cited by the CPUC in applying that principle to independent storage providers is, as is the case with the Lodi Gas Storage project, that the risk of the success or

O2-1

failure of a project is borne entirely by project investors rather than by ratepayers. Approval of the LGS project will expand the base of competition by bringing a second independent provider of storage services into the market since CPUC adoption of the Storage Decision six years ago. (The Wild Goose project in Butte County was the first project approved by the Commission.)

The Storage Decision followed AB 2744 (1992 Statutes, Chapter 1337), the California Legislature's benchmark pronouncement on natural gas storage policy. In AB 2744, the Legislature expressed its support for the creation of an open and competitive market for storage services and advocated that the CPUC expeditiously order the provision of unbundled storage service by the existing investor-owned utilities and encourage the development of independent gas storage companies.

The CPUC and the state Legislature have both formally adopted policies which support and encourage the development of a competitive gas storage market. The CPUC took a first step to implement these policies in its decisions relating to the certification of the Wild Goose underground storage facility in Butte County. This project provides the CPUC with a second opportunity to advance recognized state storage policy.

b. Gas Present in Reservoir

The Draft EIR correctly notes that the Lodi Gas Field, which was used for production of natural gas until 1972, still contains some gas. (Draft EIR, pp. ES-3, 2-1.) LGS wants to clarify that the natural gas which remains in both reservoirs in the formation cannot be produced economically and will not be used in the marketplace. LGS estimates that approximately 3.14 billion cubic feet of gas remain in each reservoir. 2.86 billion cubic feet of gas will be added to each reservoir for use as base or cushion gas. This base gas will not be removed from the reservoir during project operation and will be maintained to keep the waterfront level above the spill point. (The "spill point" is the water/reservoir formation interface that keeps the gas in the formation.) Each reservoir has a working gas capacity of 6 billion cubic feet, for a total project capacity of 12 billion cubic feet. The working gas will be injected, stored and withdrawn by LGS' customers. (LGS Application, Appendix H, pp. 3-2, 3-19.)

O2-1
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O2-2

Judith C. Ikle
November 10, 1999
Page 4

c. Airport Land Use Issues

As stated in the Draft EIR, the proposed project is generally consistent with applicable general plan designations and local zoning ordinances. (Draft EIR, Impact 3.1-5, p. 3.1-17.) The Draft EIR indicates, however, that a portion of the compressor facility site and the pipeline segment may conflict with the San Joaquin County Airport Land Use Plan (ALUP), which prohibits natural gas switching facilities and natural gas pipelines in airport zones where these project components (or portions thereof) would be located. While the Draft EIR correctly observes that there is some uncertainty regarding interpretation of the ALUP and its applicability to the Lodi project, it concludes the potential conflicts are significant impacts which may be reduced to a less-than-significant level through implementation of Mitigation Measure 3.1-3, which calls generally for Airport Land Use Commission review of the project, ALUP amendment and/or relocation of the affected project components. (See, e.g., Draft EIR, Impact 3.1-26—Preferred Alternative, pp. 3.1-34 - 3.1-35.)

LGS notes that since preparation of the Draft EIR, it has received a Determination of No Hazard to Air Navigation (Aeronautical Study No. 99-AWP-1603-OE) from the Federal Aviation Administration for the compressor facility and associated pipeline segment. This means that neither project component exceeds any applicable obstruction or height requirements. With respect to land use, LGS notes that because only a portion of the compressor facility site (one-half acre of an approximately 10 acre site) conflicts with the land use plan, LGS plans to locate the compressor facility on the portion of the site which does not conflict with the plan, thereby resolving this land use concern.

O2-3

LGS will comply with the provision of Mitigation Measure 3.1-3 that requires review by the Airport Land Use Commission for both the compressor facility and the pipeline segment which will be located at Lind Airport. LGS assumes that the procedural requirements set forth in the State Aeronautics Act (Cal. Pub. Util. Code §§ 21670 et seq.) for such review will apply, although reference to those requirements appears to have been inadvertently omitted from the Draft EIR. LGS suggests that the Final EIR clarify that those procedures will apply to any Airport Land Use Commission review.

O2-4

LGS also suggests that the requirement that the issuance of bid documents for construction be delayed until Airport Land Use Commission approval is obtained be deleted. LGS notes that the project will require many permits, approvals and authorizations before construction may begin. LGS cannot and will not begin construction until those permits, approvals and authorizations are secured. A great deal of coordination will be necessary to ensure the necessary

authorizations are in place and construction contractors are lined up and available to begin work as soon as possible thereafter. While it is reasonable to require that LGS not begin construction until necessary authorizations are obtained, LGS should not be precluded from issuing construction bid documents before it receives any such authorizations, including Airport Land Use Commission review.

O2-4

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d. Mitigation Measure 3.1-2: Pipeline Burial Depth

This mitigation measure requires that LGS bury the project pipeline at a depth of 8 feet on lands that are considered suitable for grape production but that have not previously been deep-ripped, unless LGS reaches agreements with individual landowners that allow for a shallower pipeline burial depth. (In any event, the pipeline would be buried a minimum of 4 feet.) The mitigation measure provides that the determination as to which lands are suitable for grape production will be made in consultation with local experts, such as the University of California Cooperative Extension and local agricultural associations.

LGS intends to comply with the substance of this mitigation measure, even though it requires speculation regarding future land uses and, therefore, goes beyond the requirements of CEQA and is not necessary to mitigate significant impacts. However, while LGS plans to implement this measure, it is concerned that the process for determining which lands are considered suitable for grape production is somewhat vague with respect to identification of the consulting parties and the time for conducting such consultation. LGS recommends that an objective, third-party expert be designated for purposes of such consultation. In the interest of avoiding disputes over this issue in the future, LGS suggests replacing the last sentence of the first paragraph with the following sentence:

Suitability of lands for grape production will be determined in consultation with a University of California Cooperative Extension Farm Advisor with expertise in grape production. Such consultation will be completed as soon as practicable after issuance of a certificate of public convenience and necessity.

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e. Mitigation Measure 3.7-2: Control of Noxious and Invasive Weeds and Pests During Construction

This mitigation measure requires that LGS implement a number of programs to prevent the spread of noxious and invasive weeds and pests during construction. One action item requires that LGS test soil from each field for phylloxera before excavation for pipeline construction.

O2-6

LGS understands that the goal of this mitigation measure is to prevent the spread of phylloxera from affected soils to non-affected soils. LGS appreciates the importance of this goal and intends to comply with this mitigation measure. LGS believes, however, that the requirement that each field be tested for phylloxera is overly broad. For instance, in the Lodi area, LGS understands that phylloxera affects only grape plants. Thus, the Final EIR should clarify that the mitigation measure is limited to fields where grape crops are planted.

In addition, LGS understands that phylloxera is a problem for native root stock, but not for phylloxera-resistant root stock. LGS further understands that for most of the year, field testing for phylloxera is not feasible because the organisms are extremely difficult to detect. Therefore, the best approach to dealing with phylloxera during construction involves thoroughly cleaning the construction equipment used to dig or move dirt (including hand tools) before the equipment moves from one vineyard to the next. Soils from a particular vineyard should either remain in that vineyard or, if they must be temporarily removed from that vineyard, be segregated from other soils and returned to the vineyard they came from. Based on the foregoing, LGS recommends that this mitigation measure be revised in the Final EIR to recognize the difficulties associated with field testing for phylloxera, and require equipment cleaning and proper soils management in lieu of field testing.

LGS recommends that the fourth and fifth bullets of the mitigation measure be replaced with the following language:

In order to prevent the spread of phylloxera that may be present during construction, all tools and equipment involved in the digging, handling or moving of soils must be washed completely free of soil prior to being moved from one vineyard to another vineyard. All soil excavated from a particular vineyard should, to the extent available space is present, remain in that vineyard. If any excavated soil must be removed from a vineyard during construction due to space restrictions, that soil must be segregated from soils from other vineyards until it can be returned to the vineyard it came from. This mitigation measure is only necessary on parcels that are planted with vineyards, since phylloxera is not present on parcels planted with other crops or devoted to other uses.

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f. Mitigation Measure 3.10.2: Well Construction Schedule

In its Application, LGS proposed using one mobile drilling rig to drill the injection and withdrawal wells. The proposed well construction schedule contemplated that the one drilling rig would operate 24 hours per day, 7 days per week. It was estimated that it would take approximately 10 weeks to drill all of the wells using one rig.

Mitigation Measure 3.10.2 restricts well drilling activity to between the hours of 7:00a.m. and 7:00p.m., unless LGS receives authorization from "each household potentially significantly affected" to employ a different schedule. It also requires that LGS use the identified noise-reducing construction practices. LGS believes the construction practices are useful and appropriate. LGS concerned that the proposed well construction schedule change will result in increased environmental impacts compared to LGS' proposed schedule.

Specifically, LGS is concerned because the restricted hour schedule contained in the mitigation measure would approximately double the amount of time necessary to construct the wells. We have attached two timelines which compare schedule impacts associated with operating in accordance with the mitigation measure with operating 24 hours per day, 7 days per week. (Attachment A.) The first table was prepared by one of LGS' drilling consultants and shows the various tasks that are required and what may be accomplished each day for a well under both schedules. The bar chart was prepared by LGS and shows the overall difference between the two schedules. It assumes using two drilling rigs in the field at the same time (which reduces the schedule proposed in the Application, based on the use of one rig, by approximately 2 weeks). Both schedules assume ideal conditions.

Doubling the construction schedule means that the attendant traffic impacts, albeit less than significant, will be extended. They will also be increased slightly because the crews and services will have to come and go each day. In addition, and most importantly, if a drilling rig is in the middle of certain critical tasks, underreaming the hole in the reservoir sand, or placing the screen and gravel pack liner, for example, at 7:00 p.m., it will not be possible to simply stop work. Such tasks must be completed or the well could be lost. If a well is lost because of a schedule shut down, it will result in a delay of 11 to 13 days. For purposes of illustration, if LGS were to lose 20% of the wells (2 of the 10) due to the proposed restricted hour schedule, the rigs would be in the field an additional month.

O2-7

In light of the potential for delay of well completion and the resulting extension of noise and traffic impacts, LGS recommends that the CPUC revise this measure to allow LGS to conduct well drilling activities 24 hours per day, 7 days per week, using two drilling rigs. As an alternative, LGS recommends revising this measure to allow work to occur past 7:00p.m. when a critical task has begun and must be completed. LGS will make every effort to plan drilling activities so that such critical tasks will not be started unless there is reasonable time available to complete them prior to 7:00p.m.; however, this flexibility is necessary to address unanticipated contingencies.

O2-7

g. Mitigation Measure 3.12-1: Implementation of Landscape Plan

The third bullet under this Mitigation Measure requires that LGS plant landscape buffers prior to construction. This timeframe is not feasible. LGS commits to making every effort to establish vegetative buffers as soon as possible. It is planning to use a significant number of large, more mature trees, which likely will require several months' lead time to acquire. Further, LGS cannot begin construction until after issuance of a certificate of public convenience and necessity and other construction authorizations. LGS will try to coordinate the beginning of construction with other activities, such as landscaping, but should not be required to delay construction until arrival of the trees. Because LGS is ordering larger trees, this portion of the Measure's goal of facilitating the rapid establishment of a mature landscape buffer around project facilities will be met or even furthered. Therefore, LGS' construction activities should not be delayed pending the arrival of these larger trees. LGS requests that this bullet be modified in the Final EIR to require that LGS plant the landscape buffer as soon as practicable after issuance of a certificate of public convenience and necessity.

O2-8

3. Minor Technical Comments

a. Schedule for CPUC Review of Project

Section 1.5.5 of the Draft EIR, Final EIR Certification, provides that written and oral comments received on the Draft EIR will be addressed in a "response-to-comments" document that, together with the Draft EIR, will constitute the Final EIR. It continues that "[a] proposed decision on the application will be drafted and released for public comment subsequent to the potential certification of the Final EIR." Paragraph 7 on page 1-9 indicates that "[f]ollowing the completion of all required hearings and the entire EIR process, the Administrative Law Judge will issue a proposed decision on LGS' application"

O2-9

These two sections of the Draft EIR could be construed as meaning that a Final EIR would have to be certified prior to issuance of a Proposed Decision for review and comment. Procedurally, this is not required nor would it be the most efficient use of the Commission's time if it means the Commission has to act twice on the project at two different meetings (i.e., once to consider the Final EIR and once to consider a Decision on the project.) In the course of its discussions with the Applicant regarding scheduling issues, CPUC staff has stated that it is the Commission's usual handling of such matters to certify the Final EIR and issue a decision on the project at the same business meeting. CEQA allows certification of a Final EIR and project approval to occur in that order at a single meeting. (CEQA Guidelines § 15090.) The Final EIR should address this scheduling issue.

O2-9

b. Alternate Compressor Facility Site Plan

Figure 2-13, the Alternate Compressor Facility Site Plan, shows the compressor building with two engine driven compressor units. It also shows two additional units which will be installed at the same site in the future. While the Site Plan provides an accurate representation of the facility layout, LGS is concerned that the use of the term "Future Expansion" may cause confusion with respect to the scope of the project being analyzed in the Draft EIR. In fact, the potential impacts of the units which are identified as part of the "Future Expansion" are being analyzed in the Draft EIR. LGS plans to develop the compressor facility in two phases. At full build-out, the compressors will have a combined rating of 18,500 horsepower. The Draft EIR analyzes the potential impacts of the compressor facility based on the full build-out scenario. The Final EIR should clarify that there is no future construction planned for the compressor facility which is not already considered in the Draft EIR.

O2-10

c. Required Permits, Approvals and Reviews

Section 2.6 of the Draft EIR refers to a Table 2-2, which appears to contain a list of all of the potentially applicable permits, approvals and reviews for the project which are referenced in Section 2.3, Section 2.6 and Chapter 3 of the document. The Table appears to have been inadvertently omitted from the Draft EIR and should be included in the Final EIR.

O2-11

d. DOT's Airport Land Use Planning Handbook

CEQA requires that a lead agency must use the Airport Land Use Planning Handbook published by the Department of Transportation (Handbook), when preparing an EIR for a project situated within airport comprehensive land use plan boundaries. (Cal. Pub. Res. Code § 21096(a).) The Handbook appears to have

O2-12

O2-12
been inadvertently omitted from the list of references contained at the end of Section 3.1 of the Draft EIR, Land Use, Planning and Agricultural Resources and should be included in the Final EIR.

e. Paleontologic Resources, Impact 3.3-4

The discussion in the Draft EIR under Paleontologic Resources Impact 3.3-4 deals with the potential of the project to adversely affect paleontological resources as a result of mechanical excavation and boring during construction of the pipeline and indicates that the potential impact is significant. The Draft EIR concludes, however, that because the proposed project includes the development and implementation of a paleontological resources discovery and management plan as part of its construction monitoring program, no mitigation is required. It does not quantify the impact as less than significant after implementation of this program. The Draft EIR appears to have inadvertently omitted the logical conclusion that this potential impact is considered less than significant upon implementation of the paleontological resources discovery and management plan. This point should be clarified in the Final EIR.

O2-13
f. Mitigation Measure 3.4-1, Use of Concrete Coated Pipe or Concrete Pipe Collars in Specified Areas

Mitigation Measure 3.4-1 requires that LGS use weighted pipe in all areas subject to inundation during a 100-year flood event where saturated soils would not prevent the pipeline from floating. The discussion under Impact 3.4-6 correctly notes that LGS has proposed using concrete coating, collars or other suitable methods to weight the pipeline in such areas. It appears that the use of other suitable weighting measures, as an alternative to concrete coating or collars, was inadvertently left out of Mitigation Measure 3.4-1. LGS requests that this corrected in the Final EIR.

O2-14
4. Responses to Comments Made at Public Meetings and Public Hearings

a. Information Regarding the Applicant

At the public meetings held to take comments on the Draft EIR, and at the public participation hearings held to take comments on all aspects of LGS' application, several parties expressed concern that the project applicant, Lodi Gas Storage, LLC, lacked the qualifications to develop and operate a gas storage project. Community members also questioned LGS' commitment to the community.

Judith C. Ikle'
November 10, 1999
Page 11

LGS wants to emphasize that while it was formed last year for the purpose of developing the Lodi Gas Storage project and is a relatively new entity, the individuals responsible for the organization and operation of the project have substantial experience developing and operating natural gas storage facilities and pipelines. As described in the application and in sworn testimony, the three principals forming LGS and its parent corporation -- Western Hub Properties (WHP) -- Larry Bickle, John Strom and Chris Jones, previously formed and operated Tejas Power corporation -- later TPC Corporation (TPC). Under the direction of the three principals, TPC developed the Moss Bluff (Texas), Egan (Louisiana) and Tioga (Pennsylvania) salt cavern gas storage projects. TPC was also one of the largest independent natural gas pipeline companies in the Gulf of Mexico. TPC, a New York Stock Exchange Company, was sold to PacifiCorp in the spring of 1997. (LGS Application, p. 2, Rebuttal Testimony of Thomas R. Dill, Att. A, p. 1.)

Thomas R. Dill, the President of LGS, has extensive experience in the development, ownership and operation of natural gas gathering and processing facilities and natural gas storage facilities. David J. Bergquist, a WHP Vice President and the person responsible for the design, construction and operation of the project, also has substantial experience in the natural gas industry, having participated in the design, construction and management of underground gas storage projects, gas compression/dehydration plants, pipelines and meter stations. (LGS Application, Appendix D, Testimony of Thomas R. Dill and Appendix E, Testimony of David J. Bergquist.)

Based on the foregoing, the concern that LGS has no experience in the storage industry is unfounded. The project proponents have an in-depth knowledge of the natural gas storage and pipeline industry, as well as a demonstrated record of success.

With respect to LGS' commitment to the local community, LGS has worked hard, and continues to do so, to develop constructive relationships with the local community. It has devoted significant resources toward obtaining input from affected landowners regarding project siting and design issues, and has refined various aspects of the project and the pipeline route to address as many concerns as possible.

It is LGS' goal to have a role in the community as a viable business concern. It has demonstrated its commitment to becoming an active, productive member of the community by joining the Lodi Chamber of Commerce and other community and county organizations, and by meeting and talking with local

business persons and groups, including many representatives of the wine grape community.

LGS recognizes and respects the singular importance of the agricultural community, including the wine grape industry, in the context of the local economy, history and culture, and is committed to constructing and operating the project in a manner that will not materially impair or interfere with the industry's operations.

b. Need for Project: Project Benefits

Several commenters have questioned the need for LGS' project. Area landowners and residents are also concerned that the project will not result in benefits to the local community.

With respect to the question of need for the project, LGS, relying on the Commission's adoption of a "let the market decide" policy, has consistently maintained that the Storage Decision eliminated the requirement that at-risk, independent storage providers demonstrate project need and that the issue of the need for the project is therefore beyond the scope of this proceeding. However, the March 3, 1999 Scoping Memo requested that LGS provide additional information on the need issue, which LGS summarizes here.

The primary goal of California's policy encouraging the development of independent gas storage projects is to assure the kind of competition that will promote efficiency, thereby improving the quality of gas storage services and ultimately lowering the cost of natural gas delivered to California consumers. As stated by the Commission in support of the "let the market decide" policy for storage, its goal is "[t]o achieve and maintain access to diverse gas sources so that all gas customers in California can obtain adequate, reliable, reasonably priced gas supplies." (Storage Decision at p. 12.) The LGS project, as an independent storage project, will make a substantial contribution to the attainment of that competitive gas storage goal. The project will also provide the following market benefits:

- The traditional function of market area natural gas storage is as a replacement for the construction of natural gas pipelines. To meet peak day natural gas demands, either gas pipelines of sufficient size to serve these demands must be constructed from the supply area to the market area, or the same peak day needs can be met by a combination of natural gas storage and substantially less additional pipeline capacity from the supply area than would

otherwise have to be constructed. The latter combination serves peak day gas needs at a substantially lower cost by maximizing the utilization of costly pipeline assets. It also carries with it significant environmental benefits by reducing the need for new pipeline facilities.

- Gas storage services from the LGS project could also be used by pipeline transporters to optimize their firm transportation requirements on upstream natural gas pipelines. This optimization is achieved by operating existing pipelines at constant load factors while any gas not consumed by the marketplace is injected and later withdrawn when needed. Transporters also reduce unit costs via this gas purchase strategy by spreading the fixed cost of their firm transportation contracts across a larger quantity of gas.
- The LGS project will also play an important role in providing balancing services to PG&E customers. PG&E has implemented a number of operational flow orders (OFOs) since the implementation of PG&E's Gas Accord on April 1, 1998. It has done so as a means of attempting to deal with day-to-day gas system imbalances, i.e., those occasions on which gas *consumption* does not match up with gas *deliveries*. LGS proposes to provide competitive balancing services that would afford PG&E system transporters an effective alternate means of managing day-to-day gas supplies, thus obviating or reducing the need for OFOs. The constant load factor made possible by the gas storage balancing alternative should also reduce fuel consumption on PG&E's system by allowing PG&E to maintain a higher average system pressure.
- With the advent of electric restructuring in California, the need for storage which can match changes in electric loads has increased. The California Energy Commission now has before it eight new power facility licensing cases with an anticipated twelve additional applications in the wings. These new facilities, if constructed, will have a major impact on PG&E gas system requirements. Electric generation facilities also are now bidding into power markets on an hourly basis and, in some cases, even in intra-hour (real-time) markets. These units have no way of knowing how much gas they will use in time to match LDC nomination deadlines. During Operational and Emergency Flow Orders, the potential charges incurred by operating electric units can be a

strong impediment to resource availability and/or result in substantially higher electric generation fuel costs, with corresponding higher electricity costs for California consumers. There also have been circumstances where concerns about gas availability have caused significant electric price increases as well as reliability concerns at the California ISO. In fact, the ISO has even implemented emergency procedures based on concerns over gas shortages. Additional access to gas storage, especially the kind of high deliverability storage services offered by LGS, will enhance gas availability for electric generators, with corresponding benefits for electric consumers.

- As a result of the current pipeline oversupply and the limited storage facilities available in the areas immediately adjacent to customer loads, noncore customer load swings are currently being handled either by: (1) shippers creating out of balance situations on the PG&E system, or (2) changes in flows from the supply basins. The flow of gas on peak days, however, requires an inherently unreliable combination of an existing operational pipeline network and supply standing by in the supply basins. This is evidenced by PG&E's December, 1998 curtailments of some commercial and industrial customers. Assuring additional supply in storage facilities adjacent to actual consumption locations will provide reliable supply in the event of loss of pipeline facilities or curtailment of wellhead production.
- Without natural gas storage, gas consumers in California must purchase gas supplies from producers at the time of consumption. Producers, or marketing companies acting as their agents, can charge higher prices during periods of high demand. However, customers utilizing the LGS project will be able to purchase natural gas during off-peak periods when producers have excess gas supply and are therefore discounting their prices to avoid shutting in production. Indeed, LGS' high injection capabilities will allow customers to take advantage of day-to-day price volatility, including predictable weekend versus weekday gas price spreads. California consumers will benefit from this lowering of the overall cost of gas, either directly, as gas consumers, or indirectly as consumers of products manufactured with natural gas.

The LGS project will also further the Legislature's and the Commission's goals and objectives of creating competitive services in the natural gas business.

Thus, the need for the project is clear. (LGS Application, pp. 30-31 and Appendix D, Testimony of Thomas R. Dill, pp. 5-7; Supplemental Testimony of Thomas R. Dill (Ex. 5), Att. A, pp. 5-8.)

Further, as described, the project will provide benefits to consumers and the natural gas industry throughout the state of California. The project will also result in local benefits. Specifically, the project will generate approximately \$700,000 in annual tax revenues which will flow to schools and local government. In addition, LGS will spend approximately \$1.5 million locally for maintenance and office expenses and community activities on an annual basis.

c. Public Safety

At the public meetings and hearings, many people expressed concern about the safety of the project and the potential for an explosion because it involved the use of natural gas. In fact, the record that has been developed in this proceeding and the Draft EIR could not be clearer with respect to the safety features associated with the design and operation of the project. LGS will not repeat that information here, but notes that a detailed discussion of project safety is contained in the Rebuttal Testimony of David J. Bergquist, Att. A, pp. 5-10 (Exhibit 4) and in Section 3.9 of the Draft EIR.

d. Air Quality

Several local landowners have expressed concern about the potential public health and safety and air quality impacts from the compressor station.

LGS wants to emphasize (as the Draft EIR recognizes) that air emissions for this project, and all projects in the area, are regulated by the San Joaquin Valley Unified Air Pollution Control District (SJVUAPCD). The SJVUAPCD manages the quality of the air in the entire air basin, as well as at the local level.

In the San Joaquin valley, regional air quality is affected mainly by the presence of high levels of ozone, which produce the haze commonly associated with smog. Ozone is not directly emitted by this project or from vehicles. What internal combustion engines do emit, though, are compounds that are ozone precursors. These compounds react with ultraviolet light in the upper levels of the atmosphere to form ozone – a process that takes several hours to complete. Therefore, ozone is not actually created near the source of emissions, but at some distance away after the compounds have mixed with the air. That is why they are considered regional pollutants.

Judith C. Ikle
November 10, 1999
Page 16

The SJVUAPCD manages the levels of ozone in the air basin through the use of pollutant-specific emission limits and by issuing emission credits, or offsets. The SJVUAPCD is also concerned with local air quality. To assess a facility's potential or actual impact to air quality, it performs a health risk analysis.

The Lodi Gas Storage project was originally designed to comply with all of the requirements of the SJVUAPCD. After further discussions with citizens in the area, LGS committed to add equipment, at considerable expense, which will reduce emissions of CO (carbon monoxide), the compound associated with the LGS project with the greatest potential to impact local air quality, by 90%.

LGS is pleased that recent technological advances have allowed it to go beyond the requirements. When completed, this project will emit only 23% of the emissions that would normally be allowed by the SJVUAPCD and LGS will obtain offsets that will reduce the emissions in the air basin as a whole.

5. Conclusion

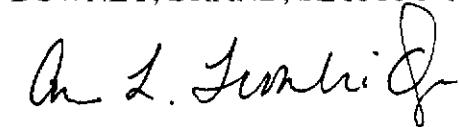
In sum, LGS supports the Draft EIR and appreciates the opportunity to submit these comments which are intended to result in clarification or amplification of specified points in the Draft EIR and to propose revisions to certain mitigation measures which would result in fewer environmental impacts than the measures contained in the Draft EIR. LGS also greatly appreciates the input provided by the community, and has attempted to address the concerns raised at recent public meetings and hearings held on the Draft EIR and the project. LGS continues to believe this is a good project for the citizens of California and the local project area, and looks forward to moving toward approval of the project.

Judith C. Ikle
November 10, 1999
Page 17

If you have any questions regarding these comments, please contact me or David Bergquist at (281)679-3597.

Very truly yours,

DOWNEY, BRAND, SEYMOUR & ROHWER LLP



Ann L. Trowbridge

Attachment

ALT:alt

#294751

cc: Thomas R. Dill
David J. Bergquist

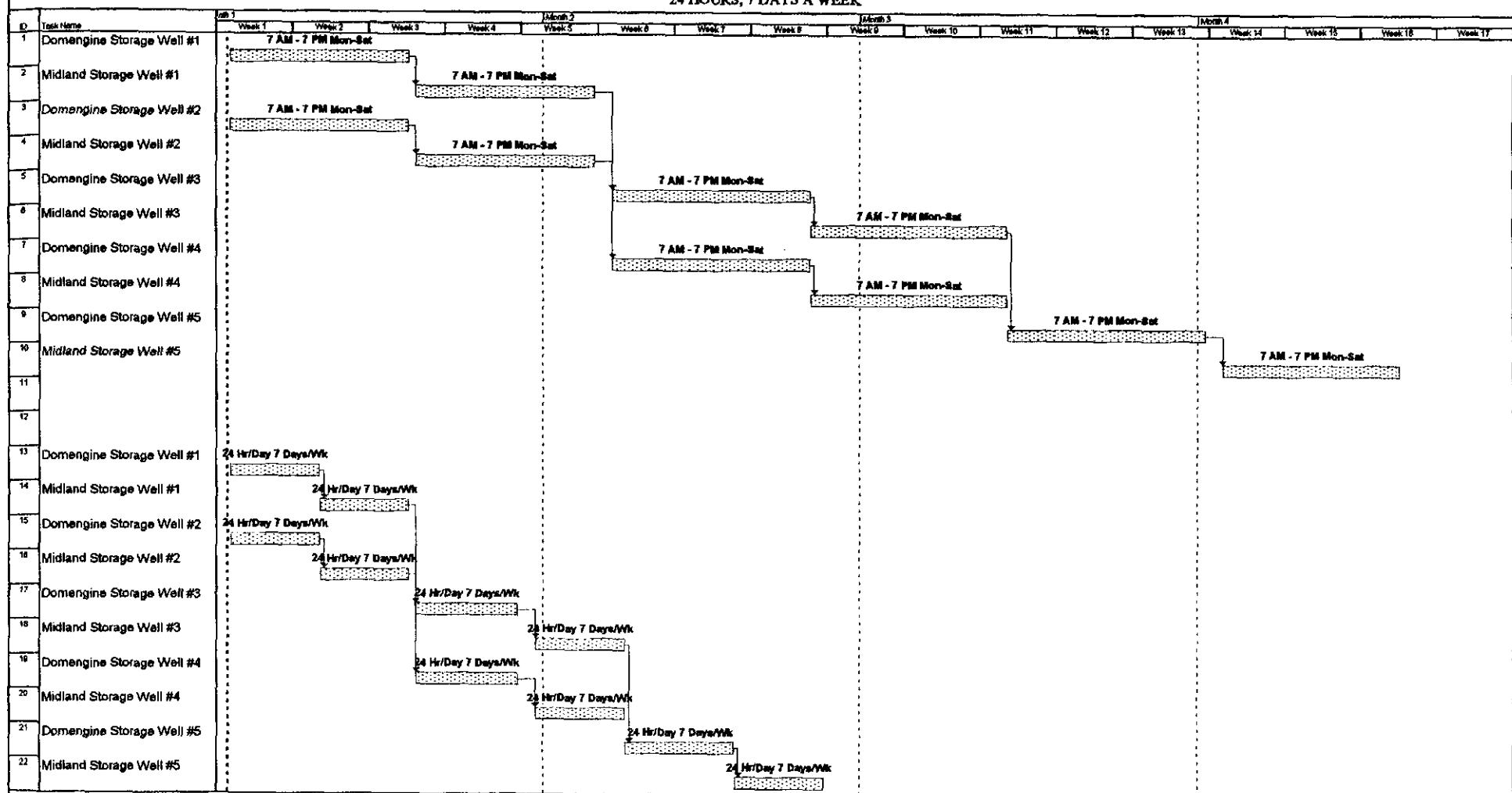
ATTACHMENT A

Lodi Gas Storage Project

Timeline Comparison between 24 hrs/day & 12 hrs/day drilling operations

	24 hrs/ day drilling	12 hrs/day drilling no Sundays
Monday	Move in rig. Rig up shut in.	Move in rig. Start rig up. Shut in.
Tuesday	Spud. Drill 17" hole to 300'. Run 13-3/8" Casing.	Finish rigging up. Drill to 300'. Pull to surface. Shut in.
Wednesday	Cement casing. Install BOE and test. Drill out 12-1/4" hole. Drill to 1800'	Run in hole. Clean hole. Pull out. Run 13-3/8" casing. Cement casing.
Thursday	Finish hole to TD. Run logs. Run in hole. Clean hole.	Install BOE and test. Run in hole.
Friday	Run 8-5/8" casing. Cement casing. Install BOE and Test.	Drilled 12-1/4" hole to 1500'. Pull to shoe. Shut in.
Saturday	Drill 7-7/8" hole to required depth. Log. Under ream hole.	Drill to TD. Pull to shoe. Shut in.
Sunday	Run liner. Gravel pack liner. Circulate hot water.	Shut in.
Monday	Finish gravel packing. Clean rig. Release rig.	Run in hole. Circulate and condition hole. Run logs.
Tuesday		Run in hole. Circulate and condition hole. Pull out. Run 8-5/8" casing and cement.
Wednesday		Install BOE and test.
Thursday		Drill 7-7/8" to TD. Log hole. Pull to shoe. Shut in
Friday		Run in hole. Under ream hole. Clean hole. Pull out to shoe. Shut in.
Saturday		Run liner in hole.
Sunday		Shut in.
Monday		Gravel pack liner.
Tuesday		Circulate hot water. Clean rig.
Wednesday		Finish cleaning rig. Release rig.

LODI GAS STORAGE PROJECT
SCHEDULE COMPARISON
DAYLIGHT ONLY MONDAY – SATURDAY
VERSUS
24 HOURS, 7 DAYS A WEEK



Responses to Comments from Downey, Brand, Seymour & Rohwer LLP—Ann L. Trowbridge

- O2-1. The comment amplifies the discussion of the natural gas storage industry and the development of independent gas storage facilities presented in the Executive Summary and Section 1, “Introduction” of the draft EIR. Because the comment concurs with the information presented in the draft EIR, no change to the draft EIR is required.
- O2-2. The comment clarifies the amount and fate of natural gas remaining in the reservoirs, following abandonment of gas production activities after 1972; the same reservoirs proposed by LGS to be used as gas storage reservoirs. The comment notes that an estimated 3.4 billion cubic feet of gas remain in each reservoir and that this gas will remain in the formation because it cannot be produced economically. Additionally, and as described in Section 2.4.8, “System Operations”, the comment amplifies the discussion of base gas in the operation of the storage reservoir. Because the comment concurs with the information contained in the draft EIR, no change to the draft EIR is required.
- O2-3. Comment noted. Chapter 2, “Clarification of Major Issues”, of the final EIR contains additional information about airport planning issues. The CPUC concurs that the procedural requirements set forth in the State Aeronautics Act (Cal. Pub. Util. Code Section 21670 et seq.) will likely apply to any Airport Land Use Commission review. This review is the purview of another agency and the CPUC assumes that this agency will appropriately carry out its review requirements.
- O2-4. The text of Mitigation Measure 3.1-3 has been revised to address the comment. See Chapter 3, “Revisions to the Draft EIR”.
- O2-5. The text of Mitigation Measure 3.1-2 has been revised to address the comment. See Chapter 3, “Revisions to the Draft EIR”.
- O2-6. The text of Mitigation Measure 3.7-2 has been revised to address the comment. See Chapter 3, “Revisions to the Draft EIR”.
- O2-7. The text of Mitigation Measure 3.10-2 has been revised to address the comment. See Chapter 3, “Revisions to the Draft EIR”.
- O2-8. The comment concerns Mitigation Measure 3.12-1, “Develop and implement landscaping and site design plan”. Specifically, the commenter contends that given the Applicant’s intent to plant large-size trees, the requirement to consider planting landscaping prior to the construction of project facilities may delay construction if the trees are unavailable at the time of construction. The intent of the mitigation measure is to ensure the rapid establishment of a mature landscape buffer around project facilities such that both construction and operation of facilities are screened from adjacent viewsheds. To this end, the early planting (i.e., prior to construction) should be considered in developing an effective landscape buffer. Through early planning and coordination with local nurseries,

the necessary landscaping can be arranged for without delaying the schedule for construction of project facilities. Because this mitigation is feasible through early planning and coordination, no change to the draft EIR is recommended.

- O2-9. The comment concerns the schedule for CPUC review of the project. As discussed in the draft EIR, Section 1.5, “EIR Process”, and Section 1.6, “CPUC Application Process”, the CPUC typically certifies the final EIR on a project prior to issuing a decision on the project; however, as correctly noted by the commenter, CEQA (CEQA Guidelines Section 15090) provides for certification of the EIR and approval of the project by the lead agency, in that order, at a single meeting.
- O2-10. The comment concerns Figure 2-13, "Alternate Compressor Facility Site Plan" of this draft EIR. The figure depicts the compressor building with two engine driven compressor units and identifies two additional units to be installed on the site in the future. The commenter notes that the use of the term “future expansion” in relationship to the two additional compressor units may cause confusion regarding the scope of the project being analyzed. Although the alternate compressor site would be developed in two phases, the draft EIR analyzes the potential impacts of the compressor facility based on full build-out, which includes the construction and operation of four compressor units with a combined rating of 18,500 horsepower. There is no future construction planned for the compressor facility that is not analyzed in the draft EIR.
- O2-11. The commenter notes that Table 2-2, “Potentially Applicable Project Permits and Other Approvals”, which contains a listing of the potentially applicable permits, reviews, and approvals for the project was inadvertently omitted from the draft EIR. This table is presented in Chapter 3, “Revisions to the Draft EIR” of the final EIR.
- O2-12. CEQA (Guidelines Section 15154[a]) requires that the lead agency use the Airport Land Use Handbook published by Caltrans, Division of Aeronautics, during preparation of the EIR relative to potential airport-related safety hazards and noise problems. As this handbook was used to evaluate potential airport-related safety issues, it should have been cited in Section 3.9, “Public Health and Safety”; the revised text is presented in Chapter 3, “Revisions to the Draft EIR”.
- O2-13. This comment concerns Impact 3.3-4, “Potential Destruction of Unique Paleontological Resources”. Although the analysis indicates that the potential to unearth paleontological resources during project construction activities is significant, the analysis concludes that because the project includes the development and implementation of a paleontological resources discovery and management plan as part of construction monitoring, no further mitigation is required. The commenter correctly notes that the EIR does not identify the significance of this impact with the inclusion of the paleontological resources discovery and management plan. The inclusion of this program into the proposed project reduces this impact to a less-than-significant level. Chapter 3, “Revisions to the Draft EIR”, of this final EIR, presents the revised text of Impact 3.3-4.

O2-14. The text of Mitigation Measure 3.4-1 has been changed to reflect the impact discussion on page 3.4-23 of the draft EIR. The revised text for this mitigation measure is presented in Chapter 3, “Revisions to the Draft EIR”, of this final EIR.

The commenter’s letter also provides additional information requested during or relevant to the public meetings and public participation hearings on the project. This information was used by the CPUC in responding to comments on the draft EIR.