

PUBLIC UTILITIES COMMISSION

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August 8, 2011

Mr. Jim Kiefer
Director Project Development
Central Valley Gas Storage, LLC
3333 Warrentville Road, Suite 130
Lisle, Illinois 60532

Subject: Central Valley Natural Gas Storage Project - (Application No. 09.08.008) – Variance Request #4

Dear Mr. Kiefer:

On July 8, 2011, Central Valley Natural Gas Storage (CVGS) requested a variance from the California Public Utilities Commission (CPUC) for modification of construction method associated with pipeline crossing at the Natural Resources Conservation Service (NRCS) wetland conservation easement, west of the Colusa Trough and south of the Sacramento National Wildlife Refuge.

The CPUC voted on October 14, 2010 to approve the CVGS Project (Decision D10-10-001) and a Notice of Determination was submitted to the State Clearinghouse (SCH# 2010042067).

The CPUC also adopted a Mitigation, Monitoring, Compliance and Reporting Program (MMCRP) to ensure compliance with all mitigation measures imposed on the CVGS Project during implementation. The MMCRP also acknowledges that changes to project requirements may be needed and that a Variance Request would be required for these activities. This letter documents the CPUC's thorough evaluation of all activities covered in this variance, and that no new impacts or increase in impact severity would result from the requested variance activities.

Variance #4 for modification of construction method from open cut trench to horizontal directional drill for a 660-foot portion of the pipeline alignment is granted by CPUC for the proposed activities based on the factors described below.

CVGS Variance Request. Excerpts from the CVGS Variance Request, received July 8, 2011 are presented below (indented):

CVGS is now proposing to cross the entire NRCS wetland conservation easement owned by Gunnersfield Enterprises (660-foot-long) using the horizontal directional drill (HDD) method. This method will substantially avoid all surface impacts. The original proposed construction method was an open cut trench method.

Boring under the wetland conservation easement would avoid all surface disturbances and the need for long-term monitoring. The bore will be approximately

1,000 feet long and approximately 25 feet below the surface. The entry and exit sites will be located approximately 100 to 150 feet east and west of the wetland conservation easement.

CPUC Evaluation of Variance Request.

In accordance with the MMCRP, the subject variance request was reviewed by CPUC to confirm that no new impacts or increase in impact severity would result from the requested variance activities.

The following discussion summarizes this analysis for aesthetic, agricultural, biological, cultural, paleontological, hydrological resources, sensitive land uses/noise and other issue areas. A list of bulleted conditions is presented to define additional information and clarifications regarding mitigation requirements.

Aesthetic Resources – The addition of one HDD site to the pipeline construction alignment may require nighttime lighting during drilling activities. To avoid potential nighttime lighting impacts resulting from HDD activities, CVGS and its contractors will implement the protective measures noted below in the conditions section. No new impacts or increase in impact severity for aesthetics are anticipated with the implementation of the conditions.

Agricultural Resources – The modification from open cut trench to HDD across the NRCS wetland conservation easement will result in a reduction of 1.8 acres of temporary impacts to Prime Farmland and a reduction of 5.9 acres impacts to Unique Farmland from those impacts identified in the Final Initial Study/Mitigated Negative Declaration (FMND). The FMND identified 50.6 acres of temporary impacts to Prime Farmland and 127.3 acres of temporary impacts to Unique Farmland. Temporary impacts to Prime and Unique Farmland would be less than significant because the impacted land would be restored to preconstruction conditions, and landowners would be compensated for temporary crop loss due to project construction. No new impacts or increase in impact severity for agricultural resources are anticipated.

Biological Resources - According to biological reports and surveys completed for the proposed work spaces, the HDD work area supports suitable habitat for a variety of species. Suitable habitat for these species was confirmed during biological surveys completed in June; however, none of these special-status species were directly observed. To avoid potential impacts to these species, nesting birds and other wildlife species, CVGS and its contractors will implement the protective measures noted below in the conditions section. No new impacts or increase in impact severity for biological resources are anticipated with the implementation of the conditions.

Hazardous Materials – The generation of hazardous materials resulting from HDD activities (drilling mud) has the potential to impact to the public or environment via the release of hazardous materials into the environment. To avoid potential hazardous materials impacts resulting from HDD activities, CVGS and its contractors will implement the protective measures noted below in the conditions section. No new impacts or increase in impact severity are anticipated with the implementation of the conditions.

Hydrological Resources – The HDD proposed in this variance will involve an approximately 1,000-foot-long bore hole approximately 25 feet below the surface. There is

the likelihood for construction of the proposed HDD to create short-term sedimentation impacts. Runoff from the staging areas may carry sediments to nearby water bodies resulting in significant impacts. Best Management Practices (BMPs) will be installed in accordance with the SWPPP Storm Water Pollution Prevention Plan (SWPPP). No impacts to hydrological resources are anticipated with the implementation of the conditions noted below.

Cultural & Paleontological Resources – The proposed HDD work area is located within the limits of the area surveyed as part of the FMND prepared for the CVGS Project. No known resources are known to be present in the area proposed for the additional HDD site. In the event of an unanticipated discovery of archaeological materials, all ground-disturbing work within the immediate area of the discovery will be suspended. Any new discoveries shall be managed in compliance with the measures identified in the MMCRP. No new impacts or increase in impact severity for cultural resources is anticipated.

As identified in the CEQA documentation prepared for the proposed project, underground project components could directly disturb or destroy previously unknown paleontological resources or unique geologic features during ground-disturbing activities occurring within the Riverbank and Modesto formations. With implementation of APM CR-4, which requires CVGS to provide paleontologic resources training to construction workers and stop work if resources are discovered; no new impacts or increase in impact severity for paleontological resources are anticipated.

Sensitive Land Uses/Noise. The requested variance activities eliminate surface impacts from an approximately 660-foot-long pipeline segment through the NRCS wetland conservation easement. No sensitive land uses are located in proximity to the proposed HDD. No concerns noted under this variance.

Other Issue Areas. No concerned noted under this variance.

Conditions of Variance Approval.

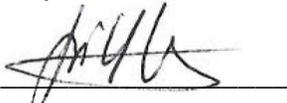
The conditions presented below shall be met by CVGS and its contractors:

1. All applicable project mitigation measures, APM's, and permit conditions shall be implemented. Some measures have on-going/time-sensitive requirements and shall be implemented prior to and during construction where applicable.
2. Copies of all relevant permits, compliance plans, and this Variance approval shall be available on site for the duration of construction activities.
3. Conduct biological monitoring in compliance with APM BIO-3. Biological monitoring is required to occur immediately preceding and during active construction as part of required biological monitoring activities.
4. In compliance with Mitigation Measure AES-1, night lighting for construction at the horizontal directional drilling (HDD) drilling sites, if required, shall be fully shielded and directed away from residential areas. Lights shall be turned off in areas where they are no longer needed.

5. In compliance with Mitigation Measure HAZ-1, Central Valley will contain drilling mud and cuttings from well drilling and HDD in portable tanks and will remove and dispose of these at approved facilities for this type of waste.
6. In compliance with APM BIO-8, pre-construction surveys by a qualified biologist for nesting birds shall occur between January 15 and August 15. If active nests are found, follow protocols in APM BIO-8.
7. All project personnel, shall be provided an environmental briefing focused on resources in the area, erosion control requirements, and the limits of the work area. A log shall be maintained on-site with the names of all crew personnel trained. All participants will receive a hard-hat sticker for ease of compliance verification.
8. All complaints received by CVGS in regard to the staging area shall be logged and reported immediately to the CPUC. This includes complaints relevant to noise, etc. Complaints shall also be forwarded immediately to Colusa County. If complaints cannot be resolved, activities at the site may need to be modified, depending on the nature of the complaint.

Please contact me if you have any questions.

Sincerely,



Eric Chiang
CPUC Environmental Project Manager
Central Valley Gas Storage Project

cc: *D. Hochart and S. Eckardt, Dudek*
S. Bushnell-Bergfalk, ICF
J. Kiefer, Central Valley Gas Storage, LLC
N. McIntire and H. Salvage, Flour Inc.