Exhibit G: Statement of Overriding Considerations

EXHIBIT G: STATEMENT OF OVERRIDING CONSIDERATIONS

1.1 INTRODUCTION TO STATEMENT OF OVERRIDING CONSIDERATIONS

The California Environmental Quality Act (CEQA) requires a lead agency to balance the benefits of a project against the unavoidable environmental effects of such project in determining whether to approve the project. Since the Final EIR identifies significant impacts of the Cabrillo Port LNG Deepwater Port (the Project) that cannot feasibly be mitigated to below a level of significance, Class I impacts, the California State Lands Commission (CSLC), as the lead agency, must state in writing its specific reasons for approving the Project in a "Statement of Overriding Considerations" pursuant to sections 15043 and 15093 of the State CEQA Guidelines.

Based on the Final EIR, and other information provided by BHP Billiton LNG International Inc. (BHPB, or the Applicant) and gained through the public involvement process which is recorded in the administrative record, this Statement of Overriding Considerations provides the specific reasons supporting the approval of this Project by the lead agency. State CEQA Guidelines section 15093(a) notes that, "If the specific economic, legal, social, technological, or other benefits of a proposed project outweigh the unavoidable adverse environmental effects, the adverse environmental effects may be considered 'acceptable'."

This Statement of Overriding Considerations presents the beneficial impacts derived from the Project, reasons for approving the Project, and a list of the specific significant effects on the environment attributable to the Project that cannot feasibly be mitigated to below a level of significance.

1.2 ADOPTION OF STATEMENT OF OVERRIDING CONSIDERATIONS BY THE LEAD AGENCIES

The CLSC has balanced the benefits of this project against significant unavoidable impacts that would remain after mitigation is applied and adopt this Statement of Overriding Considerations.

As noted in Chapter 5, the effects in all resource areas were evaluated to determine any significant or unavoidable impacts. In general, most adverse impacts associated with the proposed Project are anticipated to be short-term and/or localized, or would be reduced to below their significance criteria by implementation of feasible mitigation measures. Impacts and mitigation measures are identified and discussed throughout Chapter 4 of the Final EIR in their respective sections. A summary of all impacts and mitigation is provided in Table 6.1-1 in Chapter 6 of the Final EIR, "Conclusions and Recommendations."

1.3 ENVIRONMENTAL EFFECTS OF THE PROJECT THAT CANNOT BE MITIGATED TO LESS THAN SIGNIFICANT

Although the Applicant has revised the proposed Project in several ways since the issuance of the March 2006 Revised Draft EIR in response to agency and public comments (Project changes are presented in Chapter 1), twenty significant Project impacts that cannot be mitigated to below their significance criteria remain.

The Final EIR found that although the likelihood of an accident is very low, there are unavoidable public safety impacts including the potential for accidental release of LNG (unignited flammable vapor) offshore at the DWP or of natural gas (potentially flammable) from the onshore facilities that could result in irreversible damage either offshore or onshore.

Class I Air Impacts include exceeding emissions thresholds in Ventura and Los Angeles Counties during construction, the potential for exceeding air quality standards in the case of an accident, and the potential for LNG carriers and support vessels to contribute to ambient ozone impacts in the areas located downwind of the Project.

Marine mammals could be adversely affected by noise, and there is a possibility that individual marine and terrestrial mammals, such as sea turtles, birds, and fish could be injured or killed. An irreversible or irretrievable effect on the overall species baseline populations is, however considered unlikely.

In addition, Class I agriculture, aesthetics, noise, recreation, and water quality impacts were identified.

All Class I impacts, as defined under the CEQA, are listed below within the following categories: 1) Temporary – returns to baseline conditions after the activity stops; 2) Short-term – returns to baseline conditions on its own within one year of the activity; 3) Long-term – returns to baseline conditions after restoration and monitoring; and 4) Permanent – never returns to baseline conditions.

<u>Temporary impacts include the following six impacts:</u>

- **Impact AIR-1.** Project construction activities in Ventura and Los Angeles Counties would generate emissions that exceed quantitative thresholds for criteria pollutants in designated air quality nonattainment areas.
- **Impact AIR-2.** Onshore Project construction activities would generate particulate emissions that could cause or contribute to existing or projected violations of ambient air quality standards.
- **Impact AIR-3.** An LNG spill from the FSRU or a pipeline rupture would result in a natural gas release and/or a fire that could cause temporary increases in ambient air concentrations of criteria pollutants in excess of air quality standards, expose sensitive receptors and the general public to substantial concentrations of toxic air contaminants, and/or create objectionable odors.

- **Impact NOI-4.** HDB at the shore crossing and HDD or other drilling techniques at onshore waterways and intersection crossings could temporarily increase noise levels for sensitive receptors. Noise levels could exceed local noise ordinances or permit conditions
- **Impact NOI-5.** HDB, HDD, boring, trenching, and other construction activities could temporarily create vibration levels at sensitive receptors
- **Impact NOI-6.** Site preparation, pipeline installation, and construction of aboveground facilities could temporarily increase noise levels for sensitive receptors, such as schools and residences. Noise levels may exceed county and/or city noise ordinances or permit conditions during the installation of the onshore pipeline and associated structures.

Short term impacts include the following impact:

- **Impact WAT-5b:** An accidental release of diesel fuel to marine waters violates Federal and State water quality standards or objectives.

Long term impacts include the following six impacts:

- **Impact BioMar-6.** An accidental release of a natural gas, fuel, or oil could cause morbidity or mortality of marine biota, including fish, invertebrates, seabirds, and special status species such as sea turtles, through direct contact or ingestion of the material.
- **Impact BioMar-8.** A release of LNG, natural gas, fuel, or oil could cause injury or mortality of marine mammals through direct contact or ingestion of the material.
- **Impact PS-2.** A high-energy collision of another vessel with the FSRU or an LNG carrier or an intentional attack could cause a rupture of the Moss tank(s) holding LNG, leading to a release of an unignited flammable vapor cloud that could extend beyond the 1,640-foot (500 m) radius safety zone around the FSRU, impact any members of the boating public in the identified potential impact area, and impact boats traveling in the Traffic Separation Scheme.
- **Impact PS-3.** Fishing gear could become hung up on the pipeline and potentially damage one or both of the subsea pipelines. Similar damage may occur due to a seismic event or subsea landslide.
- **Impact PS-4.** The potential exists for accidental or intentional damage to the onshore pipelines or valves carrying odorized natural gas. Damage, fires, and explosions may occur due to human error, equipment failure, natural phenomena (earthquake, landslide, etc.). This would result in the release of an odorized natural gas cloud at concentrations that are likely to be in the flammable range.
- **Impact PS-5.** In the event of an accident, there is a greater likelihood of injury, fatality, and property damage near Center Road Pipeline MP 4.1, an HCA.

<u>Permanent impacts include the following seven impacts:</u>

- **Impact AES-3.** The FSRU would change the visual character of the ocean view for recreational boaters.
- **Impact AGR-2.** Expansion of the Center Road Valve Station in Ventura County would require conversion of approximately 0.1 acre (0.04 ha) of agricultural land to non-agricultural uses.
- **Impact AIR-5.** Emissions of NOx and ROC generated from LNG carriers, tugboats, and the crew/supply vessel operating in California Coastal Waters could contribute to ambient ozone impacts in the areas located downwind of the Project.
- **Impact BioMar-5.** Noise from construction and operation vessels or equipment could disrupt migrations; interfere with or mask communications, prey and predator detection, and/or navigation; cause adverse behavioral changes; or result in temporary or permanent hearing loss.
- **Impact NOI-2.** Recreational boaters and fishers at certain distances from the facility could hear noise generated by FSRU operations over the long-term.
- **Impact NOI-3.** LNG carriers, crew boats and supply vessels, or helicopters could temporarily increase noise levels for sensitive receptors, such as recreational boaters and fishers.
- **Impact REC-3.** The presence of the Project would alter the recreational experience of recreational boaters, including tourists and visitors on whale-watching trips and other visitors to the Channel Islands National Park.

1.4 BENEFICIAL IMPACTS OF THE PROJECT THAT MEET PROJECT OBJECTIVES (CLASS IV).

The State CEQA Guidlines at section 15093 indicates that beneficial impacts of the project may be noted in the Statement of Overriding Considerations.

The overall Project purpose, need, and objectives are to increase the natural gas supply in California, and to increase natural gas supply reliability and diversity. Each of these benefits is discussed in 1.4.1 and 1.4.2 below.

Additional benefits to air quality and the regional economy are discussed in 1.4.3 and 1.4.4 through 1.4.5, respectively.

1.4.1 Improving the Reliability and Diversity of California's Natural Gas Supply

The California Energy Commission (CEC) estimates that California's demand for all uses of natural gas will grow by approximately 0.7 percent annually from 2006 to 2016, even after taking into account maximum increased conservation and the use of renewable energy. According to the CEC's 2005 Natural Gas Assessment Update, California's total annual consumption of natural gas was 2,200 billion cubic feet in 2003; by 2013, natural gas demand in the State is projected to reach 2,400 billion cubic feet,

in part as a result of the growing use of natural gas for electricity generation. The CEC has thus recommended that California secure and diversify its sources of natural gas to ensure a sufficient and reliable supply of natural gas.

With respect to natural gas, the 2005 Integrated Energy Policy Report states:

> California clearly needs to increase the diversity of its natural gas supply portfolio. Being at the end of a long interstate pipeline network, California must also have access to a variety of sources. LNG is one such potentially cost-competitive and reliable source. . . . LNG simultaneously presents natural gas supply opportunities, additional infrastructure capacity into the West Coast, and coastal industrial development challenges. In considering LNG projects currently proposed for California, the state must address safety, environmental, and gas quality issues associated with these projects in an efficient and equitable manner (CEC 2005b).

The 2005 Natural Gas Assessment Update states:

> The State should also pursue strategies to generate 33 percent of its electricity from renewable energy. Even with these aggressive actions, however, the statewide demand for natural gas will continue to grow by at least one percent per year requiring additional natural gas imports into the State.

The State of California's Energy Action Plan II: Implementation Road Map for Energy Policies encourages the development of additional in-state natural gas storage to enhance reliability and mitigate price volatility. The CPUC recently reaffirmed that both the State's Integrated Energy Policy Report and Energy Action Plan recognize the need for additional natural gas supplies from LNG terminals on the West Coast:

> "However, even with strong demand reduction efforts and our goal of 20% renewables for electric generation by 2010, demand for natural gas in California is expected to roughly remain the same, rather than decrease, over the next 10 years. This is because, a substantial portion of the other 80% of electric generation (not met by renewable energy sources) will need natural gas as its fuel source, and natural gas will still be needed for the growing number of residential and business customers of the natural gas utilities." (Peevey 2006)

The corresponding benefits of the Project are that it will accomplish this goal of increasing the reliability and the diversity of the supply of natural gas for domestic consumption for the lifetime of the Project (maximum 40 years).

1.4.2 Controlling Natural Gas Costs in California

Fuel costs are one of the underpinnings of the California economy. One way to reduce the cost of fuel is to ensure competition among fuel sources:

> "Rising natural gas prices directly affect California's economy and consumers. High gas prices increase consumers' cost of living and reduce their purchasing power for other goods and services. Californians feel the effects of rising natural

> gas prices with more expensive home heating and electricity bills, and higher prices for food and consumer goods. According to a 2004 Mortgage Bankers Association Economic Commentary, "High energy prices act as a tax on consumers…that …tend[s] to slow consumer spending…"
>
> "California relies upon imports to meet 85 percent of its demand for natural gas. In the future, California will face growing competition from other Western States and the Midwest for natural gas supplies and interstate pipeline capacity. To compete successfully against other states, California consumers will be expected to pay higher natural gas prices and pipeline transportation rates.
>
> Today's high natural gas prices reflect declining supplies, increased competition from other states to satisfy the regional natural gas demand, and the dominance of the U.S. natural gas market upon California prices. In the future, natural gas prices can be expected to continue increasing unless demand is lowered or imports increase to boost available supplies." (CEC 2005b)

The Cabrillo Port Project will provide an increase in natural gas imports to the state and thereby ensure competition and help keep the price of natural gas affordable for Californians.

1.4.3 Benefits to Achieving Statewide Air Quality Goals

In response to consultations initiated during the environmental process, the Air Resources Board, in a memorandum dated October 4, 2005, stated,

"The Air Resources Board (ARB) staff support efforts to secure natural gas supplies to meet California's current and future natural gas demands. Natural gas is a clean air strategy that has significantly contributed to the air quality improvements California has achieved. We believe that natural gas needs to continue to be a clean air strategy in order for California to meet our air quality goals."

The analysis of Air Quality in Section 4.6 of the Final EIR, specifically Impact AIR-5 , concludes that the proposed Project would create a net increase in NO_x emissions from marine vessel traffic The proposed Project would also create a net increase in ROC emissions from marine vessel traffic. These net increases in offshore ozone precursor emissions have the possibility of contributing to ambient ozone impacts on shore within Ventura County and Los Angeles County, both of which are designated as nonattainment areas for ozone. The emissions of ozone precursors from project marine vessels represent a significant and unavoidable impact (Class I).

With due consideration of the above described analysis, the augmentation and diversification of California's supplies of natural gas as discussed in Section 1.4.1, would, on balance, facilitate and continue California's progress toward meeting its statewide air quality goals.

1.4.4 Beneficial Impacts from Project Construction on Tax Revenue

Project Construction would result in a beneficial impact on local tax revenue.

The Project is expected to have a substantial but temporary direct economic impact of pumping $83 million into the regional economy. This impact does not include additional economic impacts from multiplier effects. To the extent that specialized LNG civil works and equipment are imported from outside the region, the multiplier effect would be reduced. The FSRU would be constructed in either Finland or the Far East, where shipyards have the capacity to construct the specialized vessel.

The largest direct expenditures, estimated to be $50 million over the 8-month construction period, would come from locally procured supplies, equipment, materials, and services. In addition, terminal services would be procured locally to support the FSRU and pipeline construction ($31.9 million.). These expenditure categories would comprise 98 percent of the total construction period expenditures.

Approximately $1 million in construction payroll would enter the regional economy by increasing the disposable incomes of workers, households, and businesses directly or indirectly affected by the Project.

In addition to the direct economic impacts a range of indirect and total economic impacts would be generated by the initial direct construction expenditures. Since the size of the gross multiplier that should be applied is uncertain, a range of total potential economic impacts is presented.

During construction, the indirect economic impacts or temporary benefits to the regional economy would range between $42 million and $125 million, depending on multiplier effects. Direct expenditures can potentially generate between $125 and $208 million in total non-recurrent economic impacts over the 8-month construction period. While temporary, these economic benefits from the Project are substantial.

Expected tax revenues generated during construction represent one-time benefits to state and local governments. Tax revenues would be generated from the taxes on goods, services, and materials and supplies purchased locally. In addition, the State of California would receive state payroll taxes. The impacts from these construction-phase tax revenues are temporary and moderate in size.

The State of California could expect to receive a one-time tax benefit of approximately $3.2 million during construction. The majority of this fiscal benefit would originate in the estimated $50 million in spending on locally procured materials and supplies. In addition, State payroll taxes derived from the construction period payroll and sales taxes on goods and services purchased locally by workers would generate tax revenues. While substantial in size, the construction period tax revenues are a one-time event.

1.4.5 Beneficial Impacts from Project Operation on Tax Revenue

Project operations would result in a beneficial impact on local tax revenue.

During operations, the Project would generate an annual direct economic benefit of $13.3 million for the regional economy. This direct economic impact does not include any multiplier effect (indirect impacts). The annual direct economic impact is moderate in size and long-term in nature and would last for the Project's duration.

Salaries represent the largest share of the annual direct expenditures. It is estimated that annual regional spending on goods and services by the 30 (off-FSRU shift) workers would total $1.3 million per year. This spending estimate is based on 30 percent of $ 4.2 million per year in annual direct wages (out of total labor costs of $5.7 million) that would be spent on housing, food, and onshore entertainment between shifts.

Supplies purchased locally to sustain operations ($2.3 million/year) represent 17 percent of direct annual expenditures. Expenditures for marine terminal services ($2.2 million/year) represent tugboat operations (standby tugboat and crew, $1.9 million) and loading masters ($0.3 million/year).

During facility operations indirect economic impacts or annual recurrent benefits to the regional economy would be between $6.7 million and $20 million, depending on multiplier effects. Direct expenditures would generate between $20 and $33.6 million in total recurrent economic impacts over the life of the facility, depending on multiplier effects. These annual recurrent economic benefits from Project operations are long-term but moderate in size.

Annual tax revenues would accrue to state and local governments on a recurrent basis. Estimated annual tax revenues from the Project could defray some of the costs/expenditures arising from Project operations.

Workers would spend part of their wages on local goods and services. The State of California could receive $171,696 annually from payroll taxes. These tax revenues were estimated at 4.0 percent of the total annual payroll of $4,292,400. The 4 percent includes state withholding and California disability withholding.

At the state and local level, the estimated tax revenues would not significantly alter public revenues. Operating period tax revenues are relatively small compared to other tax revenue sources.

The Applicant has also pledged additional community assistance to each community in which it has a presence. In a letter to the Applicant's stakeholders, the company's Chief Executive Officer, Chip Goodyear, stated that: "One of our key community performance measures is our commitment to spend 1 percent of our pre-tax profits (on a 3-year rolling average) on community programs. I am pleased to report that, in the 2 years since we made this commitment, we have exceeded this target."

1.5 OVERRIDING CONSIDERATIONS CONCLUSION

The CSLC finds that the beneficial, additional source of natural gas to be provided by the Cabrillo Port LNG Deepwater Port Project, the diversification of the State's gas supply, the benefit to California meeting its air quality goals, and the related stability

benefits to the California economy, as well as the temporary and longer-term tax revenue benefits of this Project, outweigh the unavoidable adverse environmental effects discussed above. The CSLC therefore finds that in light of these benefits, the adverse environmental effects of the Project are acceptable.