

EXHIBIT E – PG&E Line 406/407 Natural Gas Pipeline Project
STATEMENT OF OVERRIDING CONSIDERATIONS
ENVIRONMENTALLY SUPERIOR ALTERNATIVE
(THE PROPOSED PROJECT AS MODIFIED BY OPTIONS I AND L)

AUGUST 11, 2009

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. The Final Environmental Impact Report, hereinafter referenced as the Final EIR, identifies significant impacts of the PG&E Line 406/407 Natural Gas Pipeline Project (Project or proposed Project) that cannot feasibly be mitigated to below a level of significance (Class I impacts). The Final EIR consists of the April 2009 Draft EIR, comments received during the 45-day public comment period, responses to those comments, and changes to the text of the Draft EIR. Therefore, 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 CEQA Guidelines.

Based on the Final EIR, information provided by Pacific Gas & Electric Company (PG&E, or the Applicant), and information gained through the public involvement process that is documented in the administrative record, this Statement of Overriding Considerations provides the specific reasons supporting the approval of this Project by the CSLC. 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.

ADOPTION OF STATEMENT OF OVERRIDING CONSIDERATIONS BY THE LEAD AGENCY

The CLSC has balanced the benefits of this Project against significant unavoidable impacts that would remain after mitigation is applied. The CSLC adopts this Statement

of Overriding Considerations with respect to the impacts identified in the Final EIR that cannot be reduced, with mitigation stipulated in the Final EIR, to a less than significant level.

Although the Applicant has designed the proposed Project to minimize environmental effects, and the CSLC has imposed additional mitigation measures to further reduce impacts, the following Project impacts remain that would be considered significant following application of all feasible mitigation (Class I impacts):

- Impact AQ-1: Construction or Operation Emissions Exceeding Regional Thresholds. The Project would result in construction or operational emissions that exceed quantitative significance thresholds (including quantitative thresholds for ozone precursors) established by air pollution control districts in which the Project would be constructed.
- Impact AQ-2: Construction or Operation Emissions Exceeding State or Federal Standards. The Project would result in emissions that substantially contribute to an exceedance of a State or Federal ambient air quality standard.
- Impact HAZ-2: System Safety and Risk of Serious Injuries and Fatalities Due to Project Upset. The Project would expose people to an increased risk of existing or potential hazards, including upset and accident conditions involving the risk for fires, explosions, or the release of natural gas into the environment
- Impact LU-2: Result in Safety Risk to Nearby Land Uses. The proposed Project would expose people to an increased risk of existing or potential hazards, including upset and accident conditions involving the risk for fires, explosions, or the release of natural gas into the environment.

Impacts and mitigation measures are identified and discussed throughout section 4 of the Final EIR. A summary of all impacts and mitigation measures is provided in the Mitigation Monitoring Program (MMP) in Appendix A of the Final EIR.

The Final EIR found for the air quality impacts (AQ-1 and AQ-2) that:

None of the operational air quality thresholds are anticipated to be exceeded. However, construction emissions for all four major segments of the proposed Project would exceed the local air districts significance thresholds for NO_x. In addition, Line 407 East, the DFM, and Line 407 West would exceed the FRAQMD's threshold for ROG.

Applicant Proposed Measures (APMs) AQ-1 through AQ-11 reduce potential emissions from project construction. However, implementation of these APMs would not reduce construction impacts to less than significant. Implementation of APM AQ-1 will reduce expected NO_x emissions by 20 percent, but due to the magnitude of NO_x emissions, a 20 percent reduction would not reduce the impact to less than significant. Insufficient details and/or lack of a methodology prevent the quantification of reductions under APM

AQ-2, APM AQ-3, APM AQ-4, APM AQ-5, APM AQ-7, APM AQ-8, and APM AQ-11. APM AQ-10 is an enhanced compliance measure for an existing registration requirement. As a result, MMs AQ-1a through AQ-1d are required to be implemented.

(1) The following mitigation measures address the Air Quality Impacts:

MM AQ-1a. Fugitive PM₁₀ Control. The following components shall be incorporated into the Dust Control Plan specified in APM AQ-3:

- Reduce speed on unpaved roads to less than 15 mph; and
- Apply soil stabilizers to inactive areas.

MM AQ-1b. NO_x Mitigation Menu. If, after completing the comprehensive inventory list identified in APM AQ-1 and associated fleet-wide NO_x and PM emission reductions, Project emissions still exceed the air district thresholds for NO_x, PG&E shall implement one or a combination of the following mitigation measures (as directed by the applicable air district) to achieve a reduction in NO_x to less than the applicable air district's daily threshold of significance for construction:

- Install diesel catalytic reduction equipment (Cleaire Lean NO_x Catalyst or equivalent) on some or all of the fleet of construction equipment during the construction Project;
- Install the same Lean NO_x Catalyst on third-party diesel equipment operating within the Yolo-Solano/Sacramento nonattainment area for a period not less than one year of operation; or
- Pay a mitigation fee to the respective local air districts to offset NO_x emissions which exceed the applicable thresholds after all other mitigation measures have been applied.

MM AQ-1c. PCAPCD Mitigation. In addition to the applicable APMs and MM AQ-1a and MM AQ-1b, the following measure shall be implemented for all construction activities occurring in Placer County:

- a) PG&E shall submit a Construction Emission / Dust Control Plan to the PCAPCD. This plan must address the minimum Administrative Requirements found in section 300 and 400 of the PCAPCD Rule 228, Fugitive Dust. PG&E shall not break ground prior to receiving PCAPCD approval of the Construction Emission / Dust Control Plan.
- b) PG&E shall submit to the PCAPCD a comprehensive inventory (i.e. make, model, year, emission rating) of all the heavy-duty off-road

equipment (50 horsepower or greater) that will be used an aggregate of 40 or more hours for the construction project. The inventory shall be updated, beginning 30 days after any initial work on the site has begun, and shall be submitted on a monthly basis throughout the duration of the project, except that an inventory shall not be required for any 30-day period in which no construction activity occurs. At least three business days prior to the use of subject heavy-duty off-road equipment, the project representative shall provide the PCAPCD with the anticipated construction timeline including start date, and name and phone number of the property owner, project manager, and on-site foreman.

- c) PG&E shall provide a plan to the PCAPCD for approval by the PCAPCD demonstrating that the heavy-duty (>50 horsepower) off-road vehicles to be used in the construction project, including owned, leased and subcontractor vehicles, will achieve a project-wide fleet-average 20 percent NOx reduction and 45 percent particulate reduction compared to the most recent CARB fleet average. Acceptable options for reducing emissions may include use of late model engines, low-emission diesel products, alternative fuels, engine retrofit technology, after-treatment products, and/or other options as they become available.
- d) PG&E shall suspend all grading operations when fugitive dust exceeds PCAPCD Rule 228, Fugitive Dust, limitations. The prime contractor shall be responsible for having an individual who is CARB-certified to perform Visible Emissions Evaluations (VEE). This individual shall evaluate compliance with Rule 228 on a weekly basis. It is to be noted that fugitive dust is not to exceed 40 percent opacity and not go beyond property boundary at any time. If lime or other drying agents are utilized to dry out wet grading areas, they shall be controlled as to not exceed PCAPCD Rule 228, Fugitive Dust, limitations.
- e) PG&E shall prepare an enforcement plan and submit to the PCAPCD for review, in order to weekly evaluate project-related on- and off-road heavy-duty vehicle engine emission opacities, using standards as defined in California Code of Regulations, Title 13, Sections 2180-2194. The CARB-certified individual that is hired by PG&E to perform VEE, shall routinely evaluate project-related off-road and heavy-duty on-road equipment emissions for compliance with this requirement. Operators of vehicle and equipment found to exceed opacity limits will be notified by the PCAPCD and the equipment must be repaired within 72 hours.

- f) PG&E shall suspend all grading operations when wind speeds (including instantaneous gusts) exceed 25 miles per hour and dust is impacting adjacent properties.
- g) PG&E shall use CARB ultra low sulfur diesel fuel for all diesel-powered equipment. In addition, low sulfur fuel shall be utilized for all diesel-fueled stationary equipment.

MM AQ-1d. SMAQMD Mitigation. In addition to the applicable APMs and MM AQ-1a and MM AQ-1b, the following measure shall be implemented for all construction activities occurring in Sacramento County:

- a) PG&E shall provide a plan, for approval by CSLC and SMAQMD, demonstrating that the heavy-duty (>50 horsepower) self-propelled off-road vehicles to be used in construction, including owned, leased and subcontractor vehicles, will achieve a project-wide fleet average of 20 percent NOx reduction and 45 percent particulate reduction compared to the most recent CARB fleet average at the time of construction. (SMAQMD provides that acceptable options for reducing emissions may include use of newer model year engines, low-emission diesel products, alternative fuels, engine retrofit technology, after-treatment products, and/or other options as they become available.)
- b) PG&E shall submit to CSLC and SMAQMD a comprehensive inventory of all off-road construction equipment, equal to or greater than 50 horsepower, that will be used an aggregate of 40 or more hours during any portion of the construction project. The inventory shall include the horse power rating, engine production year, and projected hours of use for each piece of equipment. The inventory shall be updated and submitted monthly throughout the duration of the construction, except that an inventory shall not be required for any 30-day period in which no construction activity occurs. At least 48 hours prior to the use of subject heavy-duty off-road equipment, PG&E shall provide SMAQMD with the anticipated construction timeline including start date, and the name and phone number of the project manager and on-site foreman.
- c) PG&E shall ensure that emissions from all off-road diesel powered equipment used on the project site do not exceed 40 percent opacity for more than three minutes in any one hour. Any equipment found to exceed 40 percent opacity (or Ringelmann 2.0) shall be repaired immediately, and SMAQMD shall be notified within 48 hours of identification of non-compliance equipment. A visual survey of all in-operation equipment shall be made at least weekly, and a monthly summary of the visual survey results shall be submitted throughout the

duration of the project, except that the monthly summary shall not be required for any 30-day period in which no construction activity occurs. The monthly summary shall include the quantity and type of vehicles surveyed as well as the dates of each survey. The SMAQMD and/or other officials may conduct periodic site inspections to determine compliance. Nothing in this section shall supersede other SMAQMD or state rules or regulations.

And/or: If at the time of construction, the SMAQMD has adopted a regulation applicable to construction emissions, compliance with the regulation may completely or partially replace this mitigation. Consultation by PG&E with SMAQMD prior to construction will be necessary to make this determination.

- (2) Implementation of mitigation measure AQ-1a would reduce the Project's construction-generated PM₁₀ to less than significant. Implementation of mitigation measure AQ-1b would reduce the Project's construction-generated NO_x impact to less than significant for the YSAQMD, FRAQMD, SMAQMD, and PCAPCD.
- (3) MM AQ-1c and MM AQ-1d were requested by the PCAPCD and SMAQMD, respectively, to further reduce air quality impacts associated with construction of the project in their respective jurisdictions. MM AQ-1c is applicable to all construction activities that would occur in Placer County, and would further reduce fugitive PM emissions (dust) and equipment exhaust emissions from project construction. MM AQ-1d is applicable to all construction activities that would occur in Sacramento County, and would further reduce construction equipment-generated emissions.
- (4) While both ROG and NO_x are required for the formation of ozone and the reduction of either precursor affects the amount of ozone generated, the relationship between ROG and NO_x concentrations and the formation of ozone is nonlinear. Although implementation of MM AQ-1b would likely reduce ROG emissions associated with the Project, the amount of vicarious ROG reductions from implementation of the mitigation measure is unknown. Currently, there are no programs for offsetting construction emissions of ROG and impacts would be significant and unavoidable (Class I).
- (5) According to the Draft Sacramento Regional 8-Hour Ozone Attainment and Reasonable Further Progress Plan (Draft 8-Hour Plan), reductions in NO_x emissions are more effective at reducing high ozone levels in downwind areas than ROG reductions, based on a ton-per-ton comparison (CARB 2008c). However, reductions of both ROG and NO_x are required to reach attainment of the ozone standards. Therefore, since the Project's construction would continue to exceed the regional ROG thresholds, the Project would substantially

contribute to the existing exceedance for Federal and State ozone standards for the years of construction. Impacts would be significant and unavoidable (Class I).

The Final EIR found for the risk of safety impacts (HAZ-2 and LU-2) that:

Natural gas could be released from a leak or rupture. If the natural gas reached a combustible mixture and an ignition source was present, a fire and/or explosion could occur, result in possible injuries and/or deaths.

The risk threshold used is a one in a million (1:1,000,000) chance of a serious injury or fatality (used by the California Department of Education for school sites). During operation, there would be individual risks to building occupants, residential, commercial, and school sites, as well as to vehicle occupants.

Individual Risk of Serious Injuries or Fatalities: The overall total annual project anticipated individual frequency of serious injury or fatality, taking into account the entire pipeline route, is approximately 6.1×10^{-5} before mitigation. This represents a 1:16,000 likelihood of a serious injury or fatality annually, which is roughly 60 times greater than the generally accepted criteria of 1:1,000,000.

(1) PG&E has proposed, as a part of their project, to install the pipeline to meet or exceed the current pipeline regulations (49 CFR 192). Some of the particulars, which are also included on Pages 4.7-36 and 4.7-37 of the Final EIR, include:

- Thicker Pipe Wall Thickness – PG&E Intends to install minimum 0.375-inch wall thickness pipe on the 30-inch diameter segments. A large portion of the proposed pipeline would consist of 0.375-inch-wall thickness steel pipe (Grade X-65) designed for a Maximum Allowable Operating Pressure (MAOP) of 975 pounds per square inch gauge (psig). For Class 1 areas, the minimum regulated pipe wall thickness is 0.3125-inch; 0.375-inch wall thickness pipe is proposed, 20% greater than the minimum required. For Class 2 areas, the minimum regulated pipe wall thickness is 0.375-inch; 0.406-inch wall thickness is proposed, 8% greater than the minimum required. For Class 3 areas, the minimum regulated wall thickness is 0.4875-inch; 0.500-inch wall thickness is proposed, 3% greater than the minimum required. The additional wall thickness will provide added strength. The four area classifications are defined as follows:

Class 1: A location with ten or fewer buildings intended for human occupancy;

Class 2: A location with more than ten but less than 46 buildings intended for human occupancy;

Class 3: A location with 46 or more buildings intended for human occupancy or where the pipeline lies within 300 feet (100 yards) of any building or small well defined outside area occupied by 20 or more people during normal use; and

Class 4: A location where buildings with four or more stories aboveground are prevalent.

- **Weld Inspection** - The project as proposed would include full penetration circumferential welds of all pipe joints, radiographic inspection of all circumferential welds, and external coating of all weld joint areas to protect them from external corrosion. The regulations (49 CFR 192.243) require only 10 percent, 15 percent and 100 percent nondestructive testing of welds in Class 1, Class 2, and Class 3 / 4 areas respectively. This additional testing will help to ensure structural integrity.
- **Other Inspection** - The project as proposed would include inspections and testing for cathodic protection, valve testing, pipeline patrols, and leak surveys on a regular basis.
- **Greater Depth of Cover** – As noted on page 4.7-36 of the Final EIR, the Applicant has proposed a minimum depth of cover of 60 inches (5-feet). 49 CFR 192.327 establishes the minimum depths of required cover. For Class 1 areas, a minimum of 30 inches of cover is required. For Class 2, 3, and 4 areas, a minimum depth of cover of 36 inches is required. As noted on page 57 of the System Safety and Risk of Upset report, which was prepared by EDM Services, Inc. for the proposed Project and is included as a part of Appendix H of the Final EIR, “Pipelines with a depth of cover of 48-inches or greater experienced a 30% reduction in third party caused incidents.”

(2) The required regulations, along with PG&E Project features that meet or exceed the minimum requirements, would reduce risks of project upset. However, additional measures are required to attempt to further reduce the proposed Project impacts.

Mitigation Measures for Impact HAZ-2: Unacceptable Risk of Existing or Potential Hazards

MM HAZ-2a. Corrosion and Third Party Damage Mitigation. The following shall be required:

- Line pipe shall be manufactured in the year 2000 or later;
- Before placing the pipeline into service, PG&E would perform post-construction geometry pig surveys, which would locate any construction related dents.

- PG&E shall prepare and implement an Operation and Maintenance Plan in accordance with the requirements in Title 49 CFR Part 192. Within the first 6 months of placing the pipeline into operation, PG&E shall conduct a baseline internal inspection with a high resolution instrument (smart pig) of the pipeline in order to obtain baseline data for the pipeline.
- Following the baseline inspection, internal inspections with a high resolution instrument (smart pig) would be conducted on a periodic basis, at a minimum of one inspection every 7 years, or sooner if the evidence suggests that significant corrosion or defects exist or if any new Federal or State regulations require more frequent or comparable inspections.
- PG&E shall prepare an Emergency Response Plan that would be coordinated and tested (through drills and exercises) with local fire/police departments and emergency management agencies.

MM HAZ-2b Installation of Automatic Shutdown Valves.

PG&E plans to install remotely operated valves at the Capay Station and the Yolo Junction Station, which would help to control the flow of gas into Lines 406 and 407. PG&E shall also install automatic shutdown valves in three locations: Power Line Road MLV Station No. 752+00 (which includes the Riego Road Regulating Station), Baseline Road/Brewer Road MLV Station No. 1107+00, and Baseline Road Pressure Regulating Station No. 1361+00. These automatic shut down valve locations would enhance public safety protection in the planned populated areas, which include schools and other existing and planned developments. The automatic shutdown valves shall be controlled such that they will automatically go to the closed position should the parameters associated with a line rupture be identified by the local control system (e.g., rapid rate of pressure loss or line pressure falling below an established set point). If deemed necessary by PG&E, the automatic closure feature may be over-ridden by the pipeline controller, if the controller determines that the impacts can be minimized by operating in another manner.

(3) The project design features and the proposed mitigation measures in the Final EIR (MM HAZ-2a and MM HAZ-2b) reduce the risk by roughly 50 percent. However, the individual overall risk, taking into account the entire pipeline route, would be approximately 1:30,000, which still exceeds individual risk significance thresholds by a factor of thirty. In addition, the sensitive receptors located within certain distances described in this section along the proposed Project alignment would be significantly

impacted due to risks of explosion, torch fires, and flash fires. For purposes of CEQA, a sensitive receptor is considered to be a location that houses or attracts children, the elderly, people with illnesses, or other large groups of people. Examples of sensitive receptors include hospitals, residences, convalescent facilities, schools, and parks. System safety and risk of serious injuries and fatalities due to project upset and safety risks to nearby land uses would be significant and unavoidable (Class I).

BENEFICIAL IMPACTS OF THE PROJECT THAT MEET PROJECT OBJECTIVES

The State CEQA Guidelines, Section 15093(a) requires the decision-making agency to balance, as applicable, the economic, legal, social, technological, or other benefits of a proposed project against its unavoidable environmental risks when determining whether to approve the project.

PG&E's Sacramento Valley Local Gas Transmission System currently serves approximately 675,000 customers located in some of the highest growth counties in California, including Sacramento, Sutter, Placer, and El Dorado counties. PG&E's current load growth forecast for the system anticipates an average annual increase of 19,890 new gas customers over the next 10 years and a total increase in demand of 135 million cubic feet per day for residential customers and 22 million cubic feet per day for small commercial customers. PG&E's existing transmission system within the Sacramento Valley region no longer provides sufficient capacity to deliver reliable natural gas service to existing customers or to extend service to planned development in the region. PG&E has indicated that without the addition of this Project, customer service reliability will be at risk and unplanned core customer outages could occur as early as 2009/2010. PG&E's local gas transmission system serving Yolo, Sacramento, El Dorado, Placer, Sutter, Yuba, and Nevada counties has operated at maximum capacity over the last several years and has required an escalating amount of annual investments in pipeline capacity to maintain customer service reliability and serve new customers. The main objectives of the Project include the following:

- Provide greater capacity and service reliability to the existing gas transmission and distribution pipeline system while minimizing costs to PG&E's customers;
- Extend natural gas service to planned residential and commercial developments in Placer, Sutter, and Sacramento counties;
- Install Project facilities in a safe, efficient, environmentally sensitive, and cost-effective manner; and
- Locate the pipeline to minimize the potential of environmental impacts resulting from damage by outside sources. Outside forces include impact by mechanical equipment, such as bulldozers and backhoes; earth movements due to soil settlement, washouts, or geological hazards; weather effects, such as winds, storms, and thermal strains; and willful damage.

Meeting the project objectives would avoid possible gas curtailments in the region served by the proposed Project.

Benefits to the Local Economy

Some short-term benefits to the local community would be anticipated from Project construction. Property, office space, construction trailers, and equipment could be leased locally. The local labor force could also benefit from the Project's need for construction laborers. When available, up to 58 percent of the construction workforce would be local workers. Local business would benefit from the short-term influx of workers who need temporary housing, meals, and make local purchases. This activity is expected to generate local sales tax.

OVERRIDING CONSIDERATIONS CONCLUSION

Over the life of the pipeline, the probability of a pipeline release that would result in a fire varies from 3.2% for a rupture to 7.5% for a puncture (1-inch diameter hole); while the probability of a pipeline release that would result in an explosion varies from 2.0% for a rupture to 4.7% for a puncture. The probability of a puncture or rupture over the life of the pipeline is low and has been used in the probabilistic risk assessment, the results of which are summarized below. The overall project pre-mitigation likelihood of serious injury or fatality is approximately 1:16,000, which is roughly sixty times greater than the risk significance threshold of 1:1,000,000. The pre- and post-mitigation risk posed by each of the individual line segments, except the distribution feeder main (DFM), exceeds the individual risk significance criteria. The project design features and the proposed mitigation measures (MM HAZ 2-a and MM HAZ 2-b) reduce the risk by approximately 50 percent. The overall project anticipated individual risk would still be approximately 1:30,000, which exceeds the individual risk significance threshold of 1:1,000,000 by a factor of 30.

The Final EIR found that although the probability of a pipeline release is very low, there are unavoidable individual public safety impacts from the proposed project. Project design features and measures have been implemented to reduce the risks of explosion, torch fires, and flash fires. However, the risks remain significant and unavoidable even after mitigation.

The project objectives include increasing natural gas service reliability to existing customers in the Sacramento Valley region and providing service to new residential and commercial developments over the next 25 years. The Project is needed, in part, to service the following growth areas in Sacramento, Sutter, and Placer Counties:

- The Metro Air Park - an 1,800-acre commercial development just east of the Sacramento airport. The parcel is bound by West Elverta Road to the north, Lone Tree Road to the east, Interstate 5 to the south, and Powerline Road to the west

and would consist of commercial uses that support airport related activity (hotels, car rental companies);

- The Sutter Pointe Project - designates 7,500 acres of the 10,500-acre Industrial/Commercial Reserve area in southern Sutter County for residential, industrial, commercial, and educational development;
- The Placer Vineyards Project - development of a planned 5,230-acre, mixed-use, master-planned community with up to 14,132 residential units, 101 acres of office development, 166 acres of retail commercial centers, and approximately 920 acres of new parks and open space in the southwest corner of Placer County; and
- The Sierra Vista Specific Plan - proposed to consist of approximately 2,100 acres of residential and commercial uses, schools, parks, and open space located west of Fiddymont Road, north of Baseline Road, and south of the City of Roseville's existing boundary.

The CSLC finds that the beneficial improvement in regional gas distribution, the avoidance of possible gas curtailments from insufficient local system capacity, the ability to provide natural gas service to planned developments, as well as the benefits of the proposed project to the local economy, outweigh the unavoidable adverse effects of construction air emission impacts and an accidental fire or explosion resulting from a pipeline rupture.

The CSLC, therefore, finds that in light of these benefits, that the adverse environmental effects and risks associated with the Project are acceptable. The data to support the overriding factors are found in the Introduction, Project Description, Land Use, Hazardous Materials, and Population and Housing sections of the Final EIR.