

**CALENDAR ITEM
C84**

A 25, 29, 31

06/28/10

W 40948

W 26343

J. Smith

S 12, 14, 16

M. Hamilton

**CONSIDER ISSUANCE OF AN UNDERGROUND
NATURAL GAS STORAGE LEASE,
FRESNO AND MADERA COUNTIES**

APPLICANTS:

Gill Ranch Storage, LLC
Attn.: Mr. Denny Henderson
220 NW Second Avenue, 11th Floor
Portland, OR 97209

Pacific Gas and Electric Company
Attn.: Mr. Glen M. Lubcke
Land and Environmental Management
1455 E. Shaw Avenue
Fresno, CA 93710

AGENT:

PPC Land Consultants
Attn: Mr. Douglas Pollak
P.O. Box 1060
Dixon, CA 95620

AREA, LAND TYPE, AND LOCATION:

About 71.6 acres of sovereign lands lying several thousand feet below the San Joaquin River in Sections 21, 22 and 28, T13S, R16E, MDM, in Fresno and Madera Counties (see Exhibit A, attached hereto).

SUMMARY:

Gill Ranch Storage, LLC (75%) (Operator) and Pacific Gas and Electric Company (PG&E) (25%), collectively referred to as the Company, propose to develop an

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underground natural gas storage facility at a location about twenty miles west of the city of Fresno in Fresno and Madera Counties within the depleted Gill Ranch Gas Field. The storage facility lies several thousand feet below the surface with a portion of the facility extending beneath the San Joaquin River. Staff is requesting that the California State Lands Commission (Commission) enter into the Gill Ranch Natural Gas Storage Lease, attached as Exhibit C, to permit the Company to inject, store and withdraw natural gas from the storage reservoir that lies beneath the state lands as described in Exhibit A (attached hereto).

PROPOSED ACTION:

The Company has requested the use of the depleted reservoir underneath a portion of the San Joaquin River to inject, store and withdraw natural gas. Commission staff has reviewed the request and has negotiated the Gill Ranch Natural Gas Storage Lease (Exhibit C, attached hereto) that contains the following provisions:

1. The State's ownership share of the storage reservoir shall be 1.433 percent (1.433%). The ownership share of the storage reservoir has been determined according to the best judgment of the State and the Company.
2. For each annual rental period beginning on January 1 of each succeeding year during the term of the Lease, the Company shall pay to the State in advance, as rent for the next 12-month period, the greater of Ten Thousand Dollars (\$10,000.00) (the "Minimum Rent") or 1.433 percent (1.433%) of four percent (4%) of projected gross income for that next 12-month period.
 - (a) The Minimum Rent shall be adjusted upward on each anniversary of the Rental Payment Date by five percent (5%).
 - (b) The rental for each 12-month rental period shall be due and payable no later than March 15 for each annual rental period for which it is assessed. At the end of each 12-month rental period, the Company shall adjust the rent for that previous 12-month period to reflect the actual gross income for that period.
3. The Company shall pay a royalty of one-sixth (1/6th) of the value of all Excess Gas withdrawn from the Storage Reservoir. Excess Gas is that amount of natural gas withdrawn that exceeds 101 percent (101%) of the amount of natural gas injected during the preceding five (5) year period.

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4. The Lease shall be effective at 12:00 a.m. on July 1, 2010, and shall continue in effect for a term of 49 years until 12:00 a.m., July 1, 2059.

STATUTORY AND OTHER REFERENCES:

- A. Public Resources Code section 6815.

OTHER PERTINENT INFORMATION:

1. In addition to the Gill Ranch Natural Gas Storage Lease (underground component), there is a surface component (not on State-owned land) that entails the construction and operation of a compressor station, up to 15 new injection/withdrawal wells at four well pads, and up to eight observation/monitoring wells at five well pads, an approximately 27-mile underground pipeline that will connect the storage reservoir with PG&E's transmission system, and an approximately nine-mile electric power line to deliver electricity to the compressor site. This surface component has been reviewed and approved by the California Public Utilities Commission (Lead Agency) on October 29, 2009 and reviewed by Commission staff on November 17, 2009 (W 26343).
2. A Mitigated Negative Declaration (MND), SCH #2009071057, was prepared and adopted for this project on October 29, 2009, by the California Public Utilities Commission. The California State Lands Commission's staff has reviewed the document.
3. A Mitigation Monitoring Program was adopted by the California Public Utilities Commission on October 29, 2009 (attached as Appendix I to the MND). The California State Lands Commission's staff has reviewed the document.
4. This activity involves lands which have NOT been identified as possessing significant environmental values pursuant to Public Resources Code sections 6370, et seq. However, the Commission has declared that all lands are "significant" by nature of their public ownership (as opposed to "environmentally significant"). Since the declaration of significance is not based upon the requirements and criteria of Public Resources Code Sections 6370 et seq., use classifications for such lands have not been designated. Therefore, the finding of the project's consistency with the use classification as required by Title 2, California Code of Regulations, Section 2954 is not applicable.

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5. In addition, a portion of the Gill Ranch Field lies within the jurisdiction of the Sacramento and San Joaquin Drainage District (SSJDD). The SSJDD plans to model its lease after the lease that is Exhibit C (attached hereto).

EXHIBITS:

- A. Legal Description
- B. Location Map
- C. Gill Ranch Natural Gas Storage Lease

PERMIT STREAMLINING ACT DEADLINE:

N/A

RECOMMENDED ACTION:

It is recommended that the Commission:

CEQA FINDINGS:

1. Find that a Mitigated Negative Declaration (MND), SCH #2009071057, and a Mitigation Monitoring Program were prepared and adopted for this project by the California Public Utilities Commission on October 29, 2009, and that the Commission has reviewed and considered the information contained therein.
2. Adopt the Mitigation Monitoring Program, Appendix I to the MND, as contained on file in the Sacramento office of the California State Lands Commission.

AUTHORIZATION:

1. Approve the issuance of a Natural Gas Storage Lease to the Gill Ranch Storage, LLC, and Pacific Gas and Electric Company for a term of 49 years beginning July 1, 2010, as more particularly set forth in Exhibit C, attached hereto.
2. Authorize the Executive Officer or his designee to execute any documents necessary to implement the Commission's action.