

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

**Application by Sacramento Natural Gas
Storage, LLC for a Certificate of Public
Convenience and Necessity for
Construction and Operation of Natural
Gas Storage Facilities and Requests for
Related Determinations**

**Application No. 07-04-__
(filed April 9, 2007)**

**APPLICATION BY SACRAMENTO NATURAL GAS STORAGE, LLC
FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY FOR
CONSTRUCTION AND OPERATION OF NATURAL GAS STORAGE FACILITIES**

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**Application No. 07-04-__
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FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY FOR
CONSTRUCTION AND OPERATION OF NATURAL GAS STORAGE FACILITIES**

Sacramento Natural Gas Storage, LLC (“**SNGS**” or “**Applicant**”), pursuant to California Public Utility Code (“**Code**”) Sections 829, 853(a), 1001 and 1002, and Rules 2.1 through 2.5 and 3.1 of the California Public Utilities Commission (“**Commission**”) Rules of Practice and Procedure (“**Rules**”), respectfully requests that the Commission:

1. Issue to Applicant, as a public utility gas corporation, a Certificate of Public Convenience and Necessity (“**CPCN**”) for the construction and operation of the Sacramento Natural Gas Storage Facility (the “**SNGS Facility**”) in Sacramento County, California, including wells, pipelines, piping, equipment, instrumentation, buildings, access road and other components required to support the conditioning, measurement and movement of natural gas into and out of underground gas storage and interconnections with Pacific Gas and Electric Company’s (“**PG&E’s**”) Lines 400/401, PG&E’s Line 108, PG&E’s Mather Distribution Feeder Main, and the Sacramento Municipal Utility District’s (“**SMUD’s**”) Line 700;
2. Authorize SNGS to charge market-based rates for storage services supplied by the Sacramento Natural Gas Storage Facility;
3. Adopt a Mitigated Negative Declaration and issue a Notice of Determination pursuant to the California Environmental Quality Act (“**CEQA**”) for the Sacramento Natural

Gas Storage Facility based on the studies presented in the Proponent’s Environmental Assessment (“**PEA**”); and

4. Determine that Applicant’s financing is exempt from the requirements of Code Sections 818 and 851 and the Commission’s Competitive Bidding Rule.

I. OVERVIEW

A. The Applicant: Sacramento Natural Gas Storage, LLC

Applicant is a California limited liability company wholly owned by California Natural Gas Storage, LLC, also a California limited liability company. The current officers of SNGS are: Jim Fossum, Chairman of the Board of Members; and Donald B. Russell, President. Mr. Fossum was instrumental in the development of the Lodi Gas Storage Facility, for which the Commission issued a CPCN in its Decision (“**D.**”)00-05-048. Mr. Russell has managed natural gas storage facilities in the Gulf Coast region and has participated in the development of three natural gas storage projects under the regulatory jurisdiction of the Federal Energy Regulatory Commission.

B. Proposed SNGS Facility

The proposed SNGS Facility will utilize a depleted natural gas reservoir located mostly within the City of Sacramento (“**City**”) and partly within an adjacent unincorporated area of the County of Sacramento (“**County**”). All surface facilities and equipment will be located within the City limits, except for metering and gas conditioning equipment to be located at the interconnection with PG&E Line 108 at the so-called “**Morrison Creek Cross-Tie.**” A map showing the general location of the proposed SNGS Facility is included as Figure 2-1 in the PEA provided as **Exhibit 1** to the Application.

The proposed Sacramento Natural Gas Storage Facility will include the underground natural gas storage reservoir; the wellhead site; the compressor site; one buried 18-inch interconnection pipeline between the wellhead and compressor site; a 16-inch buried interconnection pipeline between the compressor site and SMUD Line 700, which will serve, via leased capacity, to provide an interconnection with PG&E’s Line 400/401 and a delivery connection with PG&E’s Line 108 at the Morrison Creek Cross-Tie; and a 16-inch buried

interconnection pipeline between the compressor site and PG&E's Mather Distribution Feeder Main (“**Mather DFM**”).

This depleted gas field, referred to as the “**Florin Gas Field**” is located approximately 3,750 feet below ground surface and is capped by a shale unit ranging from 150 to 500 feet in thickness. The field is a water-drive reservoir that was produced by three entities during an eight-year production period ending in approximately 1987. More than 8 billion cubic feet (“**bcf**”) of natural gas were extracted during that period. Each of the five extraction wells and three non-producing wells were properly abandoned under the supervision of the California Department of Conservations, Division of Oil, Gas and Geothermal Resources.

The proposed SNGS Facility will include up to six injection/withdrawal wells, one water disposal well and one observation well. The wells will be directionally drilled to assure optimal entry into the reservoir. Up to 8 bcf of natural gas will be injected, of which approximately 7.5 bcf will be working gas and the remainder will be cushion gas.

C. Need for Proposed Facilities

The Commission, together with the California Energy Commission, has emphasized the continuing state-wide need for natural gas storage projects in *Energy Action Plan II*, adopted in October 2005. Governor Schwarzenegger also has called specifically for in-state natural gas storage capacity increases as an element of a sustainable energy policy in California.

D. Section 1002 Factors

Applicant has been diligent in briefing community leaders about the proposed SNGS Facility and in conducting general outreach to the affected residential and business communities. Operation of the proposed SNGS Facility is consistent with the historical gas production from the Florin Gas Field and the current industrial uses of the Florin Depot Industrial Park, in which the compressor station is proposed to be located. The assessment presented in the PEA shows that the environmental impacts resulting from the proposed Facility will be insignificant, including any impacts on the closest community park facility.

E. Proposed Market-Based Rates

Consistent with the policy followed by the Commission in its prior approvals of independent natural gas storage facilities, Applicant requests that the Commission authorize Applicant to offer its services at market-based rates.

F. CEQA Compliance

The assessment presented in the PEA shows that the environmental impacts resulting from the proposed Facility will be insignificant. Proposed SNGS Facility design features that will serve to avoid or otherwise mitigate potential environmental effects include:

- (1) Location of the compressor station and wellhead structures within industrialized areas to avoid or minimize visual and noise impacts;
- (2) use of electric motors rather than combustion engines to power the compressors and drilling rigs to avoid emissions of air pollutants and minimize noise;
- (3) compliance with all federal, state and local design and construction standards and planning processes to protect public and employee health and safety;
- (4) directional drilling for pipeline construction at creek and road crossings; and
- (5) construction scheduling limits for the benefit of surrounding communities.

G. Requested Exemptions

Consistent with its request for the Commission's approval of market-based tariffs for services, Applicant also requests that the Commission determine that Applicant is exempt from the requirements of Code Sections 818 and 851 in connection with Applicant's financing of the development of the proposed SNGS Facility. Applicant further requests that the Commission either determine that the Competitive Bidding Rule is not applicable to Applicant's circumstances, or exempt Applicant from the Competitive Bidding Rule with respect to any negotiated debt financing that Applicant undertakes for the development and construction of the proposed SNGS Facility.

II. APPLICANT INFORMATION

A. Sacramento Natural Gas Storage, LLC

The legal name of Applicant is Sacramento Natural Gas Storage, LLC. SNGS is a California limited liability company having its principal place of business at 2981 Gold Canal Drive, Rancho Cordova, California 95670. Applicant's Certificate of Formation is provided as **Exhibit 2** attached hereto and incorporated herein by reference.

SNGS is 100% owned by California Natural Gas Storage, LLC, a California limited liability company. The current officers of SNGS are: Jim Fossum, Chairman of the Board of Members; and Donald B. Russell, President.

B. Designated Contacts for Applicant

The designated contacts for questions concerning this Application and for service of pleadings are:

ALFRED F. JAHNS
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With a copy to:
Jim Fossum
Sacramento Natural Gas Storage, LLC
2981 Gold Canal Drive
Rancho Cordova, CA 95670
Telephone: (916) 859-4730
Facsimile: (916) 859-4740
E-mail: jfossum@cngsllc.com

III. DESCRIPTION OF FACILITY

A. Location and Description of Facility Components

The proposed Sacramento Natural Gas Storage Facility will utilize a depleted natural gas reservoir located mostly in the City of Sacramento ("**City**") and partly in an adjacent unincorporated area of the County of Sacramento ("**County**"). All surface facilities and equipment will be located within the City limits, except the metering and gas conditioning equipment to be located at the interconnection with PG&E Line 108 at the Morrison Creek Cross-Tie. A map showing the general location of the proposed SNGS Facility is included as Figure 2-1 in the PEA.

The proposed SNGS Facility will include the underground natural gas storage reservoir; the wellhead site; the compressor site; one buried interconnection pipeline between the wellhead and compressor site; a buried interconnection pipeline between the compressor site and SMUD Line 700, which will serve, via leased capacity, to provide an interconnection with PG&E's Line 400/401 and a delivery connection with PG&E's Line 108, at the Morrison Creek Cross-Tie, and will also serve as a direct customer interconnection with SMUD; and an interconnection pipeline between the compressor site and PG&E's Mather DFM.

1. **The Natural Gas Reservoir**

The underground natural gas storage facility will be created using the original natural gas field reservoir from which natural gas was produced from 1980 to 1987. The reservoir is located in Winters sand, at a depth of approximately 3,750 feet below ground surface. A shale unit, approximately 150 to 500 feet thick, caps the structure, and protects the fresh water table located thousands of feet above the cap rock stratum.

This depleted Florin Gas Field was produced by three entities during the eight-year production period. More than 8 bcf of natural gas were extracted during that period. The field is a water-drive reservoir that provided a relatively constant well pressure throughout its productive life. By 1987 the field was depleted to a point where a substantial amount of water was being produced with the gas being extracted, and there was not enough natural gas left to justify the costs of production. By 1993, each of the five extraction wells and three non-producing wells had been properly abandoned under the supervision of the California Department of Conservations, Division of Oil, Gas and Geothermal Resources.¹ No additional natural gas has been produced from the Florin Gas Field since that time.

The Florin Gas Field underlies approximately 269 acres of surface land. Approximately two-thirds of the overlying surface area contains residential parcels (695 parcels); approximately one-quarter of the overlying surface area contains commercial or industrial parcels (40 parcels); and the remainder of the overlying surface area is owned by the City (10 parcels).

¹ A summary report of the well abandonment documentation is provided at **Exhibit 3** to this Application.

The zoning classifications of the land overlying the Florin Gas Field are shown in Figure 3.9-2 in the PEA.

2. The Wellhead Site

SNGS will establish the wellhead site on a 3.8-acre parcel of land located close to the center of the Florin Gas Field on industrial east side of Power Inn Road. The wellhead site will contain up to six injection/withdrawal wells, one well for disposal of the small amount of water that will be extracted with the stored natural gas, and one observation well. The production of water with the natural gas will be the result of the Florin Gas Field being a water-drive gas field. A wellhead site schematic drawing is provided as Figure 2.5 in the PEA.

All of the natural gas wells will be drilled and completed under the supervision of, and in accordance with all requirements of, the Division of Oil, Gas and Geothermal Resources, California Department of Conservation. Each well will be permitted individually. For public and worker safety, wells will be equipped with the latest technology for safety equipment, in compliance with or exceeding applicable requirements.

The wellhead site parcel is zoned for industrial use; however, it is located within view of residential property and the Danny Nunn Memorial Park (a City recreational park). SNGS therefore plans to erect an eight-foot high, decorative masonry wall along the west and south sides of the wellhead site to shield the wellhead site from public view, and to create landscaped areas with sidewalks, curbs and gutters along Power Inn Road, on the west side of the wellhead site, and along Junipero Street, on the south side of the wellhead site. SNGS plans to install an 8-foot high chain link security fence on the north and east sides of the wellhead site. A rendering of the wellhead site from the perspective of the intersection of Power Inn Road and Junipero Street is provided as Figure 2-6 in the PEA.

The wellhead site will be graveled to maintain access. The site will be staffed on an as-required basis, and will be equipped with 24-hour per day surveillance devices and a security gate.

3. The Compressor Station

The SNGS Facility control center and compressor station will be constructed approximately one mile from the proposed wellhead site on a 5-acre parcel located within the Florin Depot Industrial Park (“**Depot Park**”), which is an industrial park at the former site of the Sacramento Army Depot. The closest residential property is approximately 2,250 feet away, and there are existing industrial buildings between the proposed compressor station site and closest residences. A compressor station site schematic is provided as Figure 2.7 in the PEA.

The compressor station will be connected to the wellhead site by an 18-inch, underground pipeline, further described below, which will carry the natural gas to and from the storage reservoir. The compressor station will include two electric-drive compressors, each paired with a 3500-horsepower motor, with a possible third, standby electric-drive compressor paired with a motor of up to 3500-horsepower. The motors and compressors will be housed in a warehouse-type building, to blend with the surrounding industrial facilities. As shown in the noise impact analysis included in the PEA at Section 3.10, at full load during compression cycles, the noise from the compressor station will be approximately 35 decibels (“**dba**”) at the nearest residential receptor (which is a level below the existing ambient daytime level of approximately 76 dba and the City’s nighttime standard of 50 dba).

The compressor station site will also contain the main control building, a maintenance structure, an electric vault and the ancillary equipment necessary to ensure the delivery of “pipeline-quality” gas to the SNGS Facility customers, including glycol dehydration systems, gas filters/separators, a vent stack, and storage tanks for various liquids used in the daily operations. All injections into and withdrawals from storage will be controlled from the compressor station site. All of the systems will be designed and operated in compliance with all applicable air emission requirements of the Sacramento Metropolitan Air Quality Management District, as is described in Chapter 3.3 of the PEA.

The compressor station site will be surrounded by a security fence with an electronically-controlled gate, will be staffed at all times, and will be equipped with

surveillance technology to maintain security. The site will be graveled to maintain accessibility.

4. **Connection Pipeline: Compressor Station to Wellhead Site**

The compressor station will be connected to the wellhead site by a bi-directional flow, 18-inch, steel pipeline that will be buried at a minimum depth of six feet below ground surface. The total length of this pipe will be approximately 5,600 feet. The pipeline will first run west from the compressor station for a very short distance, and then turn south along the western edge of Depot Park, then continue southeast parallel to the Union Pacific Railroad right-of-way, then west to Power Inn Road and, finally, south to the wellhead site. The pipeline will be designed to operate at maximum allowable operating pressure of 1,900 pounds per square inch, gross (“**psig**”). The pipe will be installed using traditional trenching techniques, except for the relatively short distance(s) that will be bored beneath the Union Pacific Railroad tracks, the adjacent Morrison Creek Channel and Elder Creek Road, and possible additional short borings, as necessary, to avoid wetland areas. The pipeline will be designed and installed in compliance with all applicable requirements administered by the U.S. Department of Transportation, Office of Pipeline Safety, under the Natural Gas Pipeline Safety Act, and with all additional applicable requirements under Commission Rule 112-E. The proposed pipeline route is shown in Figure 2-2 in the PEA.

5. **Interconnections with the PG&E System**

The SNGS Facility will be connected with the PG&E natural gas pipeline system at three locations: Line 400/401 (via a capacity to be leased by SNGS on the existing SMUD Line 700, which connects to Line 400/401 along County Road 29 near County Road 88 in Winters, California); Line 108 (also via a capacity to be leased by SNGS on the existing SMUD Line 700); and the Mather DFM. The Line 400/401 and Mather DFM connections will be utilized for deliveries to the SNGS Facility. The Mather DFM and Line 108 connection will be used for deliveries of gas to customers on the PG&E local transmission and distribution system.

The new pipelines for the connections with the SMUD Line 700 and the Mather DFM each will be a 16-inch, steel pipeline that will be buried to a minimum depth of six feet below ground surface. These pipeline connections will each be approximately 3,500 feet in length and will be designed and installed in compliance with all applicable requirements administered by the U.S. Department of Transportation, Office of Pipeline Safety, under the Natural Gas Pipeline Safety Act, and with all additional applicable requirements under Commission Rule 112-E. The pipelines will be co-located, six feet apart, in a twenty-foot right-of-way and will be installed using traditional trenching techniques. SNGS plans to locate the respective meters for the PG&E Line 400/401 and Mather DFM connections at the compressor station. The proposed pipeline route is shown in Figure 2.2 in the PEA. SNGS also plans to install metering equipment at the existing interconnection between the PG&E Line 108 and the SMUD Line 700 (the Morrison Creek Cross-Tie) to measure deliveries into PG&E Line 108. SNGS also plans to install gas conditioning equipment at the Morrison Creek Cross-Tie to allow any necessary reductions in the heat rating of gas delivered into PG&E Line 108.

The Morrison Creek Cross-Tie is located on a one-acre site owned by SMUD. The site is fenced, gated, equipped with surveillance equipment for security purposes, and graveled to maintain accessibility. The location of the Morrison Creek Cross-Tie is shown in Figure 2-8 in the PEA.

6. Interconnection with SMUD Line 700

The pipeline interconnection between the compressor station and SMUD Line 700, described above, will also serve as a direct customer connection allowing SNGS to receive shipments for storage directly from, and to make deliveries directly to, SMUD.

B. Surface and Subsurface Rights

1. Wellhead Site Surface Rights

SNGS has entered into a purchase agreement to acquire the fee interest in the approximately 3.8-acre parcel on which the wellhead site will be located (northeast quadrant

of the intersection of Junipero Street and Power Inn Road). The acquisition is scheduled to close in November 2007.

2. **Compressor Station Surface Rights**

SNGS has negotiated an option to enter into a 40-year sublease agreement with the Depot Park master leaseholder² covering the approximately-5 acres of undeveloped land to be used for locating the compressor station, the main control station building, the pipeline header system, the dehydration equipment, other ancillary equipment, and roadway access.

3. **Pipeline Rights-of-Way**

a. Compressor Station/Wellhead Site Connection

SNGS has negotiated an easement option agreement with the master leaseholder of Depot Park that will allow SNGS to obtain the necessary rights of way to construct, operate and maintain a portion of the 18-inch pipeline connection between the compressor station and the wellhead site. The remainder of this pipeline connection is proposed to be located within or parallel to railroad or utility rights of way; SNGS plans to obtain the necessary pipeline easements from the additional landowners along those portions of proposed pipeline route.

b. Connection with PG&E Distribution Line

The easement option agreement between SNGS and the landowner of the Park Depot will also allow SNGS to obtain the necessary rights of way to construct, operate and maintain the 16-inch pipeline interconnection between the compressor station and PG&E's Mather DFM along Fruitridge Road.

c. Connection with PG&E Line 108

SNGS will obtain the necessary access and equipment collocation rights from SMUD for the meter and gas quality adjustment equipment to be installed at the existing pipeline tie-in between the PG&E Line 108 and SMUD Line 700, at the Morrison Creek Cross-Tie.

² Depot Park is owned by the City of Sacramento and leased under a master lease.

SNGS will obtain these rights in connection with its long-term capacity lease agreement with SMUD for use of capacity on SMUD Line 700.

d. Connection with SMUD Line 700

The easement option agreement between SNGS and the landowner of the Park Depot will also allow SNGS to obtain the necessary rights of way to construct, operate and maintain the 16-inch pipeline connection between the compressor station and SMUD's Line 700 along Fruitridge Road.

4. **Storage Rights**

SNGS is in the process of obtaining the subsurface storage rights necessary for the Facility. In California, the right to store natural gas in a geological formation belongs to the owner of the surface property, unless that right has been severed. The surface area that overlies the reservoir encompasses approximately 269 acres. Of that total area, approximately two-thirds is zoned for residential purposes and encompasses 695 residential parcels; approximately one-quarter is zoned and used for commercial or industrial purposes and encompasses 40 parcels; and the remainder is owned by the City and encompasses 10 parcels. SNGS is in the process of negotiating storage lease agreements with the landowners and is conducting an extensive community outreach program in an effort to reach its goal of 100% voluntary participation in the storage leasing program.

C. Interconnections with PG&E

PG&E has completed a preliminary system impact study for the proposed interconnections; no insurmountable issues have been identified in that study or the further discussions between SNGS and PG&E to date.

D. Construction Schedule

Subject to the Commission's approval of the CPCN and to obtaining all other necessary Facility permits and approvals, SNGS plans to begin construction in spring 2008 and anticipates completion of construction within six to nine months thereafter. SNGS has targeted November 2008 to have the storage facility on-line, ready to support the winter

heating season. A description of the construction sequence and methods is provided in Chapter 2.5 of the PEA.

E. Competitors/Area of Service

Following are names and addresses of all existing storage service entities with which the proposed facility is likely to compete.

Lodi Gas Storage, LLC
1021 Main Street, Suite 1500
Houston, TX 77002

Wild Goose Storage Inc.
1800, 855-2nd Street SW
Calgary, Alberta AB, Canada T2P 2S5

Pacific Gas and Electric Company
77 Beale Street
San Francisco, CA 94105

Southern California Gas Company
633 W. Fifth Street
Los Angeles, CA 90071

El Paso Natural Gas Company
304 Texas Street
El Paso, TTX 79901

Transwestern Pipeline Company
P.O. Box 2521
Houston, Texas 77001

PG&E Gas Transmission Northwest
2100 SW River Parkway
Portland, OR 97201

Mojave Pipeline Company
P.O. Box 10269
Bakersfield, CA 93389

Kern River Gas Transmission Company
295 Chipeta Way
Salt Lake City, UT 84158

Questar Southern Trails Pipeline Company
180 East 100 South
P.O. Box 45360
Salt Lake City, UT 84145

SNGS will provide the natural gas storage services at the SNGS Facility, which will be located partly in the City of Sacramento and partly in the County of Sacramento.

The address of the City is:

City of Sacramento
Attn: City Manager
915 I Street, New City Hall, Fifth Floor
Sacramento CA 95814

The address of the County is:

County of Sacramento
Attn: County Executive
700 H Street, Room 7650
Sacramento, CA 95814

In accordance with Rules 3.1(b) and 1.9, and as will be shown in the Certificate of Service to be filed, all of the above-named entities will be properly served with a Notice of Availability of this Application.³ A map showing the locations of the proposed Facility elements in relation to entities with which the proposed SNGS Facility is likely to compete is provided as **Exhibit 4** to this Application.

F. Franchises; Health and Safety Permits

It will not be necessary to obtain any franchises in connection with the construction and operation of the Facility. All permits planned to be obtained for the Facility are listed in the PEA at Chapter 2.7. A Phase I Environmental Assessment covering the wellhead site is provided as **Exhibit 6** to this Application. The extensive investigations of environmental conditions at the Depot Park, where the compressor station is proposed to be located, are documented in the PEA.

³ In accordance with the authorization and direction of Assistant Chief Administrative Law Judge Michelle Cooke in this matter, service of the Notice of Availability of the Application will follow the publication of the Application by the Commission on its website, to allow for identification of the “URL” in the Notice. Promptly upon service of the Notice of Availability, SNGS will file a Certificate of Service with the Commission.

IV. PUBLIC CONVENIENCE AND NECESSITY

A. The Proposed Facility Is Necessary

1. Presumptive Need

Since its approval of Decision No. D.93-02-013, 48 CPUC2d 107 (the “**Storage Decision**”), the Commission has consistently recognized a presumed need for competitive storage projects, because the owners of such projects operate at their own financial risk. D.06-03-012 (March 2, 2006); D.02-07-036 (July 17, 2002); D.00-05-048 (May 18, 2000); D.97-06-091 (June 25, 1997). Furthermore, the Commission, together with the California Energy Commission, has emphasized the continuing state-wide need for natural gas storage projects in *Energy Action Plan II*, adopted in October 2005, in stating that “California must also promote infrastructure enhancements, such as additional pipeline and storage capacity” and included in the “KEY ACTIONS” list the objective to “[e]ncourage the development of additional in-state natural gas storage to enhance reliability and mitigate price volatility.”⁴ Governor Schwarzenegger also has called specifically for in-state natural gas storage capacity increases as an element of a sustainable energy policy in California.⁵

2. Demonstrated Need

The SNGS Facility is proposed to be located in strategic proximity to growing utility, commercial, industrial and governmental loads. The proposed location will allow deliveries to PG&E customers through PG&E’s local transmission and distribution pipelines, thereby reinforcing the reliability of PG&E’s services to non-core customers; the proposed location will also serve to relieve constraints on SMUD’s gas supply system.

a. Public Sector Noncore Loads

Public sector noncore loads in the vicinity of the proposed SNGS Facility include the California Department of General Services heating and cooling plant in downtown Sacramento, which serves at least 22 state buildings; the U.C. Davis Medical Center in Sacramento; the Sacramento State University campus; the Department of Motor Vehicles

⁴ *Id.* at 13.

⁵ Letter dated August 23, 2005 from Governor Arnold Schwarzenegger to the Hon. Don Perata, President pro tempore of the Senate.

headquarter building; the Folsom State Prison; and Sacramento Regional Transit (for the CNG Bus Fleet).

b. Private Sector Noncore Loads

Private sector noncore loads in the vicinity of the proposed SNGS Facility include the Sutter Medical Center, which is undertaking a major facilities expansion project; Kaiser Permanente Medical Facilities; Campbell's Soup Plant; Crystal Cream and Butter Company; Mather Commerce Center; the Farmer's Rice Cooperative; various rock quarries (for asphalt production and aggregates drying).

c. Utility Loads

The existing SMUD load includes the Campbell Soup Cogeneration Plant; the Carson Ice-Gen Plant; the Proctor and Gamble Cogeneration Plant; and the first 500 MW phase of the Cosumnes Power Plant. Development of the second 500 MW phase of the Cosumnes Power Plant depends on increasing SMUD's natural gas supply delivery capacity.

d. Regional Gas Transmission Capacity Constraints

PG&E is planning to undertake several large local transmission projects in the Sacramento area to address capacity constraints.⁶ With respect to two of the planned projects, the Line 406 and Line 407 projects, PG&E has agreed to hold workshops pursuant to the Commission's settlement Rule 12 to determine if there are any synergies with a local storage project that could reduce or defer PG&E's planned investments.

B. The Proposed Facility Satisfies All Section 1002 Factors

Pursuant to section 1002(a) of the Code, the Commission gives consideration to community values, recreational and park areas, historical and aesthetic values, and influence on the environment, in connection with deciding whether to grant a certificate pursuant to section 1001 of the Code. The Commission views its obligation to consider these factors as being independent of its obligations under the California Environmental Quality Act.⁷

⁶ PG&E Application and Request for Approval of "Gas Accord IV" Settlement Agreement, Application No. 07-03-012 filed on March 15, 2007, at 11-12.

⁷ E.g., D. 06-03-012, *mimeo*, at 35-36, quoting *Re Southern California Edison Co.*, D.90-09-059, 37 CPUC2d 413, 453.

1. Community Values

In its prior decisions, the Commission has looked to the views of the local community and the positions of the elected representatives of the area in evaluating the implications of a proposed project in relation to community values.⁸

Applicant has briefed the City Councilperson, County Supervisor and State Legislators representing the area of interest for the project. All have been generally encouraging of the proposed SNGS Facility. The City Councilperson emphasized the importance of public safety and environmental protections, and of fair compensation for the storage rights to be obtained from the City and private property owners. Public safety and environmental issues are comprehensively addressed in this Application. SNGS is pursuing voluntary storage rights lease transactions with the City and all affected private property owners, and has the goal of obtaining all necessary storage rights on a voluntary basis.

The City of Sacramento has been cooperative in discussions on the leasing of storage rights, the initiation of local permitting processes, and the leasing of property at Depot Park, which the City owns and has leased to a developer/tenant. This is most important as all of the proposed construction at the well site, the compressor station and the new pipeline interconnections with PG&E and SMUD are within the jurisdiction of the City.

Applicant has conducted several meetings with respective leaderships of the principal citizens groups whose lands overlie the reservoir, and plans to conduct the first community-at-large meeting within the next month. Applicant is also planning to undertake additional community outreach with respect to the proposed SNGS Facility. Applicant also has met with the Power Inn Alliance, Planning and Zoning Advisory Committee, which has recommended that the Power Inn Alliance go on record in support of the proposed SNGS Facility. The Power Inn Alliance represents the business interests in the vicinity of the planned surface features of the proposed SNGS Facility.

Approximately 200 persons would be employed on the construction of the proposed SNGS Facility. SNGS estimates that more than two-thirds of this labor force will be local labor, with the remainder being technical experts from outside the Sacramento area.

⁸ E.g., D.06-03-012, *mimeo*, at 42-43; D.00-05-048, *mimeo*, at 28.

Approximately twelve persons will be employed on a permanent basis to operate the facility after construction is completed.

SNGS estimates that the SNGS Facility would generate at least \$300,000 per year in local property taxes, as well as increased revenues from employment taxes and sales taxes on supplies and equipment. Furthermore it will provide significant additional income to the City and affected property owners from ongoing annual lease payments.

2. Recreation and Park Areas

As is further described in Section III.A., above, the closest recreation and park area is the Danny Nunn Memorial Park, a city park that overlies the Florin Gas Field, and is located approximately 150 feet from the proposed wellhead site. The wellhead site will be shielded from view from the Danny Nunn Memorial Park by an eight-foot high, decorative masonry wall along the west and south sides of the wellhead site. Noise levels from the wellhead site at the Park are expected to be negligible.

The compressor station will be located within an industrial park setting approximately 4,500 feet from Danny Nunn Memorial Park, and will not be visible from the Park. Noise levels from the compressor station at the Park are expected to be negligible.

3. Historical and Aesthetic Values

Operation of the proposed SNGS Facility is consistent with the historical gas production from the Florin Gas Field and the current industrial uses of the Depot Park. Once constructed, the structural elements within the compression station site and wellhead site of the SNGS Facility will be located within industrialized areas and shielded from the view of residential, commercial and recreational uses. The metering and gas conditioning equipment to be added at the existing Morrison Creek Cross-Tie will be inconspicuous in the existing valve station setting.

4. Influence on the Environment

The assessment presented in the PEA shows that the environmental impacts resulting from the proposed Facility will be insignificant. The Facility has been designed to be constructed and operated to avoid, or otherwise mitigate to less than significant levels, the potential environmental impacts from the construction and operation of the Facility.

Implementation of a monitoring plan will provide a continuing basis for evaluating effects from the Facility on the environment.

Facility design features that will serve to avoid, or otherwise mitigate to less than significant levels, the potential environmental effects include: (1) Location of the compressor station and wellhead structures within industrialized areas to avoid or minimize visual and noise impacts; (2) use of electric motors rather than combustion engines to power the compressors and drilling rigs to avoid emissions of air pollutants and minimize noise; (3) compliance with all federal, state and local design and construction standards and planning processes to protect public and employee health and safety; (4) directional drilling for pipeline construction at creek and road crossings; and (5) construction scheduling limits for the benefit of surrounding communities.

V. PROJECT COSTS AND FINANCING

A. Costs

The Commission's Rule 3.1(f) provides for the Applicant to submit a statement detailing the anticipated fixed and operating costs associated with a proposed Facility, as part of the Applicant's showing that the proposed Facility is in the public interest and is economically feasible. The Commission, however, previously has waived these requirements in approving independent natural gas storage facilities that will provide services pursuant to market-based rates.⁹ Accordingly, SNGS requests the Commission's waiver of the Rule 3.1(f) requirements in connection with this Application.

SNGS nonetheless understands the need for the Commission to be provided with a reasonable estimate of the anticipated cost of the construction of the proposed SNGS Facility, for a determination of the fee to be assessed for reimbursement of its environmental review. For that limited purpose, SNGS estimates the cost of construction of the Facility to be approximately \$40 million.

⁹ D. 06-03-012, *mimeo*, at 40-41; and D.00-05-048, *mimeo*, at 56-57 and 115-116 (Conclusions of Law Nos. 14 – 16); D. 98-06-083 (June 18, 1998), *mimeo*, at 11–13 (Conclusions of Law).

B. Economic Feasibility and Financing

The Commission's Rule 3.1(f) requires Applicant to provide statements or exhibits showing that the proposed project is economically facility. This information is included in Exhibit 5, which is being filed under seal pursuant to Applicant's Motion for Leave to File under Seal and Maintain Confidentiality of Financial Information, filed concurrently with this Application.

Rule 3.1(g) requires Applicant to provide exhibits showing its financial ability to develop and operate the Facility, including it proposed financing structure. This required information is also included in Exhibit 5.

C. General Order 104-A Requirement

The Commission's Rule 3.1(i) requires Applicant to include a statement corresponding to the statement required by Section 2 of General Order No. 104-A, as applicable. Applicant states that there is no material financial interest to report in connection with the proposed SNGS Facility under the requirements of General Order No. 104-A.

VI. MARKET-BASED RATES

Rule 3.1(h) requires Applicant to provide a statement of the rates proposed to be charged for its proposed services. Consistent with the policy followed by the Commission in its approvals of independent natural gas storage facilities since D. 93-02-013, Applicant requests that the Commission authorize Applicant to offer its services at market-based rates.¹⁰

As the Commission has found with respect to other independent natural gas storage service providers in California, SNGS will lack both the market power and physical capacity to drive its competitors from the storage market. If the proposed SNGS Facility is approved by the Commission, SNGS will be the smallest gas storage provider in California, with a market share of the state's total storage working inventory of approximately 3.4% and a market share of the total northern California storage working inventory of approximately

¹⁰ See D.06-03-012, *mimeo*, at 40-41; D.02-07-036 (July 17, 2002), *mimeo*, at 16-30; D.00-05-048, *mimeo*, at 56-57 and 115-116 (Conclusions of Law Nos. 14 – 16); D.98-06-083, *mimeo*, at 11–13 (Conclusions of Law).

7.7%.¹¹ Moreover, in addition to other underground storage service providers, there are other suppliers of services competing with underground storage, including pipeline capacity and utility gas balancing service.¹² And, finally, ratepayers will not be at risk if expected demand for the SNGS Facility's gas storage and withdrawal services fails to materialize.¹³

VII. STORAGE SERVICE DATA

Rule 3.1(k)(1) requires a gas utility seeking authority to construct a pipeline to provide certain service information. The SNGS Facility is designed to withdraw gas from PG&E's Line 400/401, and to deliver gas through PG&E's Line 108 and PG&E's Mather DFM. The SNGS Facility will also have a direct customer interconnection with SMUD through the SMUD Line 700. Firm injection capacity is planned to reach approximately 100 MMcfd; withdrawal capacity is planned to reach approximately 200 MMcfd. The gas injected into the SNGS Facility from PG&E's transmission and distribution system may be assumed to meet PG&E's gas quality requirements. The gas withdrawn from the SNGS Facility will be treated as necessary to meet PG&E's gas quality specifications.

Copies of summaries of all contracts for gas storage services will be made available to the Commission for inspection on a confidential basis in accordance with the provisions of Rule 3.1(K)(1), Code Section 583 and General Order No. 66-C.

¹¹ See California Public Utilities Commission and California Energy Commission, Natural Gas Market Study (February 8, 2006) at 21, Table B. 5-4. The market share calculations also take into account the 5.5 bcf of working storage inventory proposed for the Kirby Hills Facility and approved by the Commission in Decision 06-03-012 after the issuance of the Natural Gas Market Study.

¹² See, e.g., D.02-07-036, *mimeo*, at 21-22.

¹³ The lack of ratepayer exposure was the reason expressed by the Commission for approving market-based rates in connection with its granting of a CPCN for the Kirby Hills Facility in Decision 06-03-012, *mimeo*, at 52 (Conclusion of Law No. 5).

VIII. PROPONENT'S ENVIRONMENTAL ASSESSMENT

Applicant has included the required Proponent's Environmental Assessment as **Exhibit 1** to this Application, in a separate volume. The PEA includes all information and studies required under the Commission's Information and Criteria List. Taking into account the mitigation measure proposed to reduce all potentially significant impacts to less than significant levels, the PEA supports the Commission's approval of a Mitigated Negative Declaration for the SNGS Facility.

IX. REQUESTS FOR EXEMPTIONS

Consistent with its request for the Commission's approval of market-based tariffs for services, Applicant also requests that the Commission determine that Applicant is exempt from the requirements of Code Sections 818 and 851 in connection with Applicant's financing of the development of the proposed SNGS Facility.

Code Section 829 authorizes the Commission to exempt any public utility from the general requirement, under Code Section 818, for the Commission's approval of the utility's financing transactions if the Commission "finds that the application thereof to such public utility . . . is not necessary in the public interest." Similarly, Code Section 853(b) authorizes the Commission to exempt any public utility from the general requirement, under Code Section 851, for the Commission's approval any encumbrance of the utility's property if the Commission "finds the application thereof with respect to the public utility . . . is not necessary in the public interest."

Applicant will bear the entire financial risk of the proposed SNGS Facility, and will not have captive customers to finance the Project. If the Commission approves Applicant's request to establish market-based rates for its storage services, market competition will serve to restrain the cost of capital that Applicant will be able to incur and still compete effectively. Accordingly, the Commission's supervision of Applicant's financing arrangements is not necessary to protect either Applicant's prospective customers or the public interest.

Applicant further requests that Commission find that the Commission's Competitive Bidding Rule, as modified by Resolution F-616 dated October 1, 1986, is not applicable to

Applicant's circumstances,¹⁴ or, alternatively, that Applicant should be granted an exemption from the Competitive Bidding Rule with respect to any negotiated debt financing that Applicant undertakes for the development and construction of the proposed SNGS Facility. This will enable SNGS to obtain debt financing on the most favorable available terms. The Commission routinely has exempted utilities from the Competitive Bidding Rule to facilitate negotiated debt financing, recognizing that such debt cannot be obtained pursuant to a competitive bidding process.¹⁵

X. PROCEDURAL MATTERS

A. Proposed Category

Consistent with the Commission's categorization determinations with respect to previous applications for approval of the construction of natural gas storage facilities, Applicant recommends that the appropriate categorization of this proceeding is "ratesetting."

B. Hearing

Applicant respectfully submits that the information presented in this Application is sufficient to support the authorizations and exemptions requested by Applicant, as well as the Commission's adoption of a Mitigated Negative Declaration in connection with those determinations.

C. Issues to be Considered

The basic issues associated with the authorizations requested by Applicant are: (1) whether SNGS has demonstrated that it can be granted a Certificate of Public Convenience and Necessity for the proposed construction and operation of the SNGS Facility in accordance with the requirements of Code Section 1001; (2) whether SNGS has demonstrated that market-based rates are appropriate for its operation of the SNGS Facility; (3) whether the PEA adequately supports the Commission's adoption of a Mitigated Negative Declaration under CEQA in connection with granting the authorizations requested by

¹⁴ By its terms The Competitive Bidding Rule applies only to utilities with bond ratings of "A" or higher (item 6 of Resolution No. F-616). *E.g.*, D.02-04-054, *mimeo*, at 10-11. Applicant does not have a bond rating and is not proposing to issue bonds to finance the development and construction of the SNGS Facility.

¹⁵ *E.g.*, D.06-07-035, *mimeo*, at 8-10.

Applicant; and (4) whether the exemptions requested by Applicant in connection with its financing of the development of the proposed SNGS Facility are in the public interest.

D. Proposed Schedule

Application Filed	April 9, 2007
Public Notice	April 14, 2007
Application Deemed Complete	May 10, 2007
Protests and Responses on Application	May 14, 2007
Reply to Protests and Responses	May 24, 2007
Pre-hearing Conference	June 4, 2007
Mitigated Negative Declaration Completed	September 10, 2007
Proposed Decision	September 10, 2007
Commission Decision	November 12, 2007

E. Compliance with Application Requirements

Following is a listing of the particular requirements of the Rules applicable to the contents of this Application, paired with references to the corresponding elements of this Application that are responsive to those requirements.

Rule 1.5	–	Throughout
Rule 1.6	–	Title Page
Rule 1.7	–	Throughout
Rule 1.8	–	Page 28
Rule 1.9	–	Certificate of Service
Rule 1.11	–	Verification of Application
Rule 2.1	–	Pages 1-2, Sections II, X and XI
Rule 2.2	–	Section II

- Rule 2.3 – Exhibit 4 (filed with Applicant’s concurrent Motion for Leave to File under Seal and Maintain Confidentiality of Financial Information)
- Rule 2.4 – Exhibit 1
- Rule 3.1(a) – Section III and Exhibit 1
- Rule 3.1(b) – Section III.E and Certificate of Service
- Rule 3.1(c) – Section III.E
- Rule 3.1(d) – Section III.F
- Rule 3.1(e) – Section IV
- Rule 3.1(f) – Section V.A and V.B
- Rule 3.1(g) – Exhibit 5 (filed with concurrent Motion for Leave to File under Seal and Maintain Confidentiality of Financial Information)
- Rule 3.1(h) – Section VI
- Rule 3.1(i) – Section V.C
- Rule 3.1(k) – Section VII

XI. EXHIBITS

- Exhibit 1 Proponent’s Environmental Assessment dated April 5, 2007 (submitted under separate cover)
- Exhibit 2 Certificate of Formation of Sacramento Natural Gas Storage, LLC
- Exhibit 3 Summary Report of Well Abandonment
- Exhibit 4 Map showing the proposed Sacramento Natural Gas Storage Facility location in relation to public utilities and other entities with which the services provided by the Facility are likely to compete

- Exhibit 5 Financial Information (filed with concurrent Motion for Leave to File under Seal and Maintain Confidentiality)
- Exhibit 6 Phase I Environmental Site Assessment dated January 26, 2007 (wellhead site).

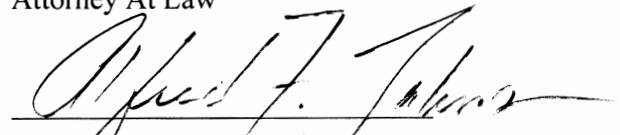
XII. REQUESTS FOR AUTHORIZATIONS

On the basis of the foregoing, Applicant respectfully requests that the Commission issue an order, to become effective upon the date of issuance, to accomplish the following:

1. Issue to Applicant, as a public utility gas corporation, a Certificate of Public Convenience and Necessity, pursuant to Code Section 1001, for the construction and operation of the SNGS Facility as described herein;
2. Authorize SNGS to charge market-based rates for storage services supplied by the SNGS Facility;
3. Adopt a Mitigated Negative Declaration and issue a Notice of Determination, pursuant to CEQA, on the studies presented in the PEA, with respect to the proposed construction and operation of the SNGS Facility; and
4. Determine that Applicant's proposed financing is exempt from the requirements of Code Sections 818 and 851 and the Commission's Competitive Bidding Rule.

Respectfully submitted,

ALFRED F. JAHNS
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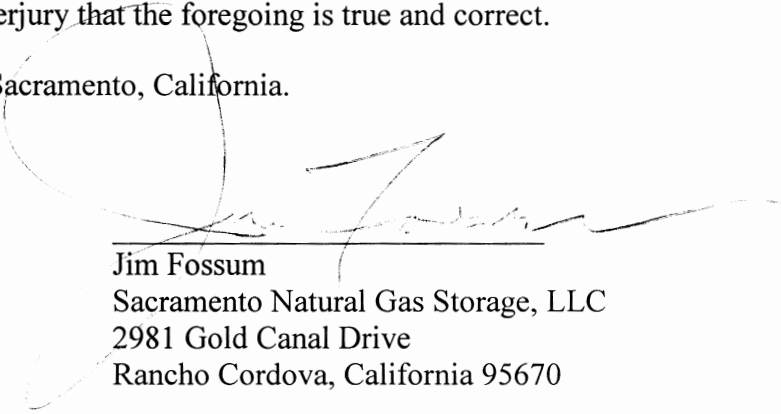
Dated: April 5, 2007

VERIFICATION OF APPLICATION

I, Jim Fossum, declare that I am the Chairman of the Board of Members of Sacramento Natural Gas Storage, LLC (“**Applicant**”), and that I am authorized to make this verification on behalf of Applicant. The statements in the foregoing document are true of my own knowledge, except as to matters which are therein stated on information or belief, and as to those matters I believe them to be true.

I declare under penalty of perjury that the foregoing is true and correct.

Executed April 4, 2007, at Sacramento, California.



Jim Fossum
Sacramento Natural Gas Storage, LLC
2981 Gold Canal Drive
Rancho Cordova, California 95670

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Application by Sacramento Natural Gas Storage, LLC for a Certificate of Public Convenience and Necessity for Construction and Operation of Natural Gas Storage Facilities and Requests for Related Determinations

Application No. 07-04-__
(filed April 9, 2007)

**NOTICE OF AVAILABILITY
OF
APPLICATION BY SACRAMENTO NATURAL GAS STORAGE, LLC
FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY FOR
CONSTRUCTION AND OPERATION OF NATURAL GAS STORAGE FACILITIES**

On April 9, 2007, Sacramento Natural Gas Storage, LLC (“**SNGS**”) filed an Application for a Certificate of Public Convenience and Necessity (“**CPCN**”), and for related determinations, to authorize the construction and operation of a natural gas storage facility (the “**SNGS Facility**”), to be located partly in the City of Sacramento and partly in the unincorporated area of the County of Sacramento, California. SNGS is serving this Notice of Availability of the Application pursuant to Rule 1.9(c) of the Rules of Practice and Procedure of the California Public Utilities Commission (“**Commission**”).

The Application requests that the Commission: (1) issue to Applicant, as a public utility gas corporation, a CPCN for the construction and operation of the SNGS Facility; (2) authorize SNGS to charge market-based rates for storage services supplied by the SNGS Facility; (3) adopt a Mitigated Negative Declaration and issue a Notice of Determination pursuant to the California Environmental Quality Act for the proposed SNGS Facility based on the studies presented in the Proponent’s Environmental Assessment included as part of the Application; and (4) determine that Applicant’s financing is exempt from the requirements of Code Sections 818 and 851 and the Commission’s Competitive Bidding Rule.

The proposed SNGS Facility will utilize the depleted Florin Gas Field and has been designed for a working storage capacity of up to 7.5 billion cubic feet, with injection capacity of up to 100 million cubic feet per day and withdrawal capacity of up to 200 million cubic feet per day. The proposed SNGS Facility will include the underground natural gas storage reservoir; the wellhead site; the compressor site; an interconnection pipeline between the wellhead and compressor site; an interconnection pipeline between the compressor site and Sacramento Municipal Utility District Line 700, which will serve, via leased capacity, to provide an interconnection with Pacific Gas and Electric Company's ("PG&E's") Line 400/401 and a delivery connection with PG&E's Line 108 at the Morrison Creek Cross-Tie; and an interconnection pipeline between the compressor site and PG&E's Mather Distribution Feeder Main.

The Application is available on the Commission's website at:

[To be completed after posting of the Application to the Commission's website.]

Pursuant to Rule 1.9 of the Commission's Rules of Practice and Procedure, SNGS will, upon request, provide a copy of the Application on a CD or in hard copy. Requests should be submitted in writing by e-mail or facsimile transmission to the undersigned.

ALFRED F. JAHNS
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Telephone: (916) 443-5000
Facsimile: (916) 483-5002
E-mail: ajahns@jahnsatlaw.com

Dated: April __, 2007

CERTIFICATE OF SERVICE BY MAIL

I hereby certify that I have this day served a Notice of Availability of Application No. 07-04-__ on each party named in the service list attached hereto by first-class mail with postage prepaid pursuant to the Commission's Rules of Practice and Procedure.

Executed on April __, 2007, at Sacramento, California.

Alfred F. Jahns

SERVICE LIST

Lodi Gas Storage, LLC
1021 Main Street, Suite 1500
Houston, TX 77002

City of Sacramento
Attn: City Manager
915 I Street, New City Hall, Fifth Floor
Sacramento CA 95814

Wild Goose Storage Inc.
1800, 855-2nd Street SW
Calgary, Alberta AB, Canada T2P 2S5

County of Sacramento
Attn: County Executive
700 H Street, Room 7650
Sacramento, CA 95814

Pacific Gas and Electric Company
77 Beale Street
San Francisco, CA 94105

Southern California Gas Company
633 W. Fifth Street
Los Angeles, CA 90071

El Paso Natural Gas Company
304 Texas Street
El Paso, TTX 79901

Transwestern Pipeline Company
P.O. Box 2521
Houston, Texas 77001

PG&E Gas Transmission Northwest
2100 SW River Parkway
Portland, OR 97201

Mojave Pipeline Company
P.O. Box 10269
Bakersfield, CA 93389

Kern River Gas Transmission Company
295 Chipeta Way
Salt Lake City, UT 84158

Questar Southern Trails Pipeline Company
180 East 100 South
P.O. Box 45360
Salt Lake City, UT 84145