

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



May 4, 2004

Agenda ID #3528

TO: PARTIES OF RECORD IN APPLICATION 04-03-030

This is the draft decision of Administrative Law Judge (ALJ) Econome. It will be on the Commission's agenda at the meeting on May 27, 2004. The Commission may act then, or it may postpone action until later.

When the Commission acts on the draft decision, it may adopt all or part of it as written, amend or modify it, or set it aside and prepare its own decision. Only when the Commission acts does the decision become binding on the parties.

Pursuant to Public Utilities Code § 311(g)(3) and Rule 77.7(f)(9) of the Rules of Practice and Procedure, the public review and comment period is reduced to 10 days and no reply comments will be accepted.

Parties to the proceeding may file comments on the draft decision as provided in Article 19 of the Commission's "Rules of Practice and Procedure." These rules are accessible on the Commission's website at <http://www.cpuc.ca.gov>. In addition to service by mail, parties should send comments in electronic form to those appearances and the state service list that provided an electronic mail address to the Commission, including ALJ Econome at jjj@cpuc.ca.gov. Finally, comments must be served separately on the Assigned Commissioner, and for that purpose I suggest hand delivery, overnight mail, or other expeditious methods of service.

/s/ ANGELA K. MINKIN
Angela K. Minkin, Chief
Administrative Law Judge

ANG:jva

Attachment

171650

Decision **DRAFT DECISION OF ALJ ECONOME (Mailed 5/4/2004)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of LODI GAS STORAGE, L.L.C. To Amend Its Certificate of Public Convenience and Necessity for Construction and Operation of Gas Storage Facilities. (U-912-G)

Application 04-03-030
(Filed March 26, 2004)

**OPINION AMENDING CERTIFICATE OF
PUBLIC CONVENIENCE AND NECESSITY**

I. Summary

This decision grants Lodi Gas Storage, L.L.C.'s (LGS) application to amend its certificate of public convenience and necessity (CPCN) to: (1) change the total capacity of the operation from 18 billion cubic feet (Bcf) to 21 Bcf; (2) authorize the drilling of two new wells from an existing well site to access that capacity; and (3) authorize the drilling of two replacement wells on existing well sites to replace two existing wells that are no longer performing adequately, and that will be remove from service and plugged.

II. Background

A. The CPCN

Decision (D.) 00-05-048 granted LGS a CPCN to develop, construct, and operate an underground natural gas storage facility and ancillary pipeline and to provide firm and interruptible storage services at market-based rates. As part of the approved project, LGS was authorized to construct up to 11 gas injection/withdrawal wells. The decision also certified the Final Environmental

Impact Report (FEIR) for the project, and conditioned the CPCN on the conditions and mitigations set forth in the FEIR, as well as additional conditions.

In D.03-08-048, the Commission modified D.00-05-048 to allow LGS to construct two new wells. In that instance, we acted on LGS' letter to the Executive Director requesting a variance, but rather than approving a variance, we issued an addendum to the FEIR. We also directed that in the future, LGS present such requests to the Commission through the application process. LGS has complied with this request by the instant application.

B. The Application

In this application, LGS requests that its CPCN be amended to: (1) change the existing total capacity of the operation from 18 Bcf to 21 Bcf, consistent with current geologic analysis and operating experience; (2) authorize the drilling of two new wells from existing Well Site #3 to access that capacity; and (3) authorize the drilling of two replacement wells on existing well sites to replace two existing wells that are no longer performing adequately and will be removed from service and plugged.

In support of its request, LGS states that the two recently authorized wells have been completed. According to LGS, analysis of the data the wells have generated, in conjunction with new geological analysis and review, reveal that the size and character of the reservoir are different than originally estimated. LGS has also determined that the facility can be operated with greater efficiency in meeting the storage needs of Northern California.

The additional geological analysis has revealed a gas field with greater capacity than previously estimated. LGS has concluded that there is up to three Bcf of additional working gas capacity in the reservoir. In order to access this additional working gas, LGS proposes to drill two additional wells on an

existing well site to access the northern portion of the Midland reservoir. This section of the field is isolated from the remainder of the reservoir by a fault that was detected from the analysis of geologic data.

LGS also requests replacing two existing wells that are no longer performing adequately with replacement wells. LGS has concluded that two existing injection/withdrawal wells at existing well sites need to be reconfigured to correspond to the physical dimensions of the reservoir. This will entail plugging two existing wells and drilling two replacement wells on existing well sites to access different bottom locations in the reservoir in order to realize the originally approved firm deliverability and injection capacities of the gas storage facility.

C. Procedural Background

LGS filed this application on March 26, 2004 and requested expeditious treatment so that the activity authorized by this decision could commence in sufficient time to assist in meeting California's gas storage needs for the upcoming winter peaking season. To do so, LGS requested that the Commission consider this application on its May 27, 2004 agenda.¹

The Chief Administrative Law Judge (ALJ) issued a ruling shortening the response time to the application. Wild Goose Storage Inc. (Wild Goose) filed a response, to which LGS replied. There was no other response or protest to the application. Because the party who responded to the application is on the service list of A.98-11-012, May 4, 2004 ALJ ruling directed the Commission's

¹ LGS served the application on the service list of Application (A.) 98-11-012, which was the LGS application for a CPCN to construct and operate the Lodi Gas Storage Project, as well as on all land owners whose property is implicated by the gas storage reservoir.

Process Office to establish the official service list for this application, consisting of the service list of A.98-11-012 as of the date of this ruling.

This matter was preliminarily scoped in the application and no party objected to the preliminary scoping. We adopt the scope of the issues set forth in the application and affirm the categorization for this proceeding is ratesetting and that hearings are not necessary, as set forth in Resolution ALJ 176-3131, dated April 1, 2004.

III. Discussion

A. Approval of LGS' Request

The Commission staff has concluded that the preparation of an Addendum to the LGS FEIR is appropriate under California Environmental Quality Act (CEQA) Guidelines Section 15164. CEQA Guideline Section 15164 allows the lead agency to prepare an Addendum to a previously certified environmental document under certain conditions. These conditions essentially provide that the proposed changes to the project must not be substantial, must not create new impacts or substantially increase that severity of previously identified effects, and must not require mitigations beyond those previously identified and adopted by the project.

LGS' proposed physical modifications will not result in any new, previously undisclosed impacts, or an increase in the severity of previously disclosed impacts, and are within the scope of the project approved by the FEIR.. Other than the modifications associated with drilling from existing well sites, LGS states that there will be no new surface or environmental impacts. The proposed activity will not require mitigations beyond those previously identified and adopted in D.00-05-048 and D.03-08-048, and will not require the modification of any of LGS' existing permits.

We believe that it is reasonable to conclude that the proposed amendments to the CPCN do not require mitigations beyond those previously identified and adopted for the project. All mitigation measures employed during the initial construction and the subsequent drilling of two additional wells in 2003 will be used during the drilling and completion of the proposed two new wells and two replacement wells. The addition of three Bcf of capacity will require no modification to surface facilities beyond the two new wellheads and piping to interconnect them to existing flow lines on Well Site #3.

We understand that the resulting operations associated with the four wells will not require modifications to existing permits. Adding three Bcf of working capacity may have a minor increase on the operation of the four existing compressors and two existing dehydrators through increased injection and withdrawal requirement. However, LGS is currently operating significantly below the limits of permits and anticipates being able to continue to do so. Should there be higher fuel usage requirements associated with the proposed modifications, we believe that this will not require any changes in air emissions permits issued to LGS.

B. Wild Goose's Response

Wild Goose, one of LGS' competitors, timely filed a response. The response requests that the Commission direct LGS to amend its application to address the issue of the extent (if any) which the increase in the working capacity of the reservoir, in conjunction with the additional and retrofitted wells, will impact the injection and withdrawal capabilities of the storage facility. Wild Goose also seeks to ascertain if it is LGS' intent to alter those maximum certificated capabilities, and then requests that parties be afforded more time to

respond to an amended application so as to fully assess the information's implications for market participants.

LGS replies that there is no need to amend the application because it is not requesting that its certificated maximum firm deliverability and injection capacities be changed from what the Commission authorized in D.00-05-048. LGS reiterates that it will operate the three Bcf of increased storage capacity within its existing certificated daily maximum firm deliverability and injection capacities.² LGS had its President verify its reply comments in order to give the Commission maximum assurance on this issue. Given LGS's reply, we find no need to direct LGS to amend its application or provide further information as to this request.

Accordingly, we will consider and approve the Addendum to the FEIR prepared by the Commission's Energy Division attached as Attachment A, and amend the CPCN authorized by D.00-05-048, as modified by D.03-08-048, as set forth in the Ordering Paragraphs of this decision.

² LGS explains that if there is a market demand for the additional three Bcf of storage capacity, then, depending on customer injection and withdrawal patterns, there may be a minor increase in the operation of existing compressors and dehydrators. According to LGS, this is not because of a change to certificated maximum firm deliverability and injection capacities, but rather because the total amount of gas being injected and withdrawn on either a seasonal or annual basis may change as a result of the increase in the storage capacity of the reservoir. LGS explains that the statement in its application cited by Wild Goose is intended to show that an increase in the storage capacity of the reservoir will not require a change in the air emissions permits issued to LGS by the San Joaquin County Unified Air Pollution Control district since the projected emissions increase from operation of the facility will be well within limits of the existing permits.

IV. Comments on the Draft Decision

The draft decision of the ALJ in this matter was mailed to the parties in accordance with Section 311(g)(3) of the Public Utilities Code and Rule 77.7 of the Rules of Practice and Procedure. Pursuant to Rule 77.7(f)(9), the time for comments was reduced to ten days, and no reply comments were accepted. We reduced the public review and comment period so that the proposed decision could be placed on the Commission's Agenda for May 27, 2004. Public necessity requires this approach because the public interest is served by addressing this issue in sufficient time for the activity authorized by today's decision to commence to assist in meeting California's gas storage needs for the winter peaking season.

V. Assignment of Proceeding

Geoffrey F. Brown is the Assigned Commissioner and Janet A. Econome is the assigned ALJ in this proceeding.

Findings of Fact

1. LGS has requested an amendment to its CPCN approved in D.00-05-048 and modified in D.03-08-048.

2. All necessary CEQA review of the proposed project changes is encompassed by the FEIR certified by D.00-05-048.

3. Commission Energy Division staff prepared an Addendum to the FEIR that concludes that the project changes described in Attachment A should have no significant environmental impact and will require no new mitigation measures.

Conclusions of Law

1. The Addendum to the FEIR contained in Attachment A to this order should be approved.

2. The CPCN issued in D.00-05-048, as modified in D.03-08-048, should be amended to authorize construction of the project as set forth by Ordering Paragraphs and the Addendum.

3. Public necessity requires reducing the comment period to the draft decision because the public interest is served by addressing this issue in sufficient time for the activity authorized by today's decision to commence to assist in meeting California's gas storage needs for the winter peaking season.

4. Because it is necessary for the activity authorized by this decision to commence as soon as possible, this decision should be effective immediately.

O R D E R

IT IS ORDERED that:

1. Decision (D.) 00-05-048, as modified by D.03-08-048, is again modified to amend the certificate of public convenience and necessity (CPCN) of Lodi Gas Storage, L.L.C. (LGS) to: (1) change the existing total capacity of the operation from 18 billion cubic feet (Bcf) to 21 Bcf; (2) authorize the drilling of two new wells from existing Well Site #3 to access that capacity; and (3) authorize the drilling of two replacement wells on existing well sites to replace two existing wells that are no longer performing adequately and will be removed from service and plugged, and as more fully described in the Addendum to the Final Environmental Impact Report (FEIR) attached as Attachment A.

2. LGS shall implement all applicable mitigation measures as certified in the FEIR for the project activities described in the Addendum.

3. This proceeding is closed.

This order is effective today.

Dated _____, at San Francisco, California.

ATTACHMENT A

Page 1

**ADDENDUM PREPARED IN ACCORDANCE WITH THE
CALIFORNIA ENVIRONMENTAL QUALITY ACT
CALIFORNIA PUBLIC UTILITIES COMMISSION
APPLICATION 04-03-030**

**LODI GAS STORAGE, LLC'S APPLICATION FOR A CERTIFICATE OF
PUBLIC CONVENIENCE AND NECESSITY FOR THE CONSTRUCTION
AND OPERATION OF GAS STORAGE FACILITIES**

Summary

Pursuant to the California Environmental Quality Act (CEQA) Guidelines Section 15164, the California Public Utilities Commission (Commission) has prepared this Addendum to the Final Environmental Impact Report (FEIR) published for Lodi Gas Storage (LGS) and adopted under Decision (D.) 00-05-048 as modified pursuant to the Addendum approved by D.03-08-048.

LGS has requested changes to its existing gas storage facilities. The Commission studied and approved LGS's 1998 application to develop gas facilities after completing and adopting an FEIR in May 2000. The Commission approved an Addendum to the FEIR in August 2003. The Commission staff reviewed the requested project modifications and concluded that they will not result in any new, previously undisclosed impacts, or undisclosed impacts of greater severity. Accordingly, the Commission finds that the preparation of an Addendum pursuant to CEQA Guidelines Section 15164 is appropriate for the modified LGS project.

This document presents an overview of the project, summarizes the proposed changes, and recommends no further environmental analysis or documentation.

ATTACHMENT A**Page 2****Original Project Description**

In November 1998, LGS filed Application (A.) 98-11-012 with the Commission seeking a CPCN to authorize the development and operation of an underground natural gas storage facility and ancillary pipeline approximately 5.4 miles northeast of Lodi in San Joaquin County, California. D.00-05-048 certified the FEIR for the project and conditioned the CPCN on the conditions and mitigations established therein.

The original project, as constructed, consisted of:

- ❑ An underground storage reservoir covering approximately 1,450 acres northeast of Lodi;
- ❑ Eleven gas injection/withdrawal wells to enable customers to inject/withdraw gas several times a day;
- ❑ Three observation wells to monitor the reservoirs;
- ❑ A water separation and compressor facility;
- ❑ A 33 mile pipeline that traverses agricultural lands and waterways;
- ❑ Gas pipelines buried at least four feet underground.

Project, as Modified

In July 2003, the LGS submitted a variance request to the Commission seeking permission to drill two new wells. Rather than approving the variance, the Commission issued an Addendum to the FEIR authorizing the drilling of the new wells. Under D.03-08-048, the Commission found that the drilling of the new wells would not create any new environmental impacts or substantially increase the severity of previously identified significant impacts.

Proposed Modifications

Subsequent to the development and operation of the new wells LGS determined that the size and the character of the gas field are different than originally estimated. LGS also determined that the facility can be operated with greater efficiency in meeting the gas storage needs of Northern California.

ATTACHMENT A**Page 3**

On March 26, 2004, LGS submitted A.04-03-030 requesting that its CPCN be amended to: (1) change the existing total capacity of the operation from 18 (billion cubic feet) Bcf to 21 Bcf, consistent with current geologic analysis and operating experience; (2) authorize the drilling of two new wells from existing Well Site #3 to access that capacity; and (3) authorize the drilling of two replacement wells on existing well sites to replace two existing wells that are no longer performing adequately and will be removed from service.

LGS representatives explained to Commission staff that while they request amendments to the LGS CPCN to allow the drilling of two new and two replacement wells, they continue to explore the economic feasibility of those proposed wells and whether they can withdraw gas at the optimum level through measures more cost effective than drilling new wells. LGS requests the modified CPCN so that it can respond quickly once it identifies the best means of withdrawing gas at the optimum level.

Impacts of the Proposed Modifications

The proposed modifications to drill new or replacement wells are expected to have short-term construction impacts, including dust, noise and increased traffic, of the same type as described and analyzed in the Draft EIR published by Jones & Stokes in September 1999.

The mitigation measures adopted in the FEIR and used during the construction of the existing project should prevent new, previously undisclosed impacts, and should not exacerbate previously disclosed impacts.

Recommendations

With the implementation of existing mitigation measures, the proposed project modifications should have no significant environmental impact (See Table ES-1, Summary of Environmental Impacts and Mitigation Measures) <ftp://ftp.cpuc.ca.gov/gopher-data/enviro/lodi/draft-eir/execsum.doc.PDF> in the Executive Summary of the Draft EIR. As a result, no further analysis or documentation is required.

(END OF ATTACHMENT A)