

Controversial natural gas storage plan goes to PUC

Melanie Turner, Sacramento Business Journal, 7-2-10

Another milestone has been reached in a controversial project to store natural gas underground in south Sacramento.

A final environmental impact report on the project, proposed by Sacramento Natural Gas Storage LLC, was released last month by the Public Utilities Commission. The PUC is expected to make a decision on the project late this year.

The EIR found that not building the project is the “environmentally superior” alternative. It stated that the project poses “significant and unavoidable” impacts including the potential for gas leaks and groundwater contamination. Not building the project, however, would mean not providing “an emergency natural gas supply” to the Sacramento Municipal Utility District.

Formed in 2007, Sacramento Natural Gas Storage proposes to pump up to 7.5 billion cubic-feet of natural gas into a depleted natural gas reservoir about three-quarters of a mile underground in a residential and industrial area of south Sacramento.

Even if the PUC approves the project, the company would be required to obtain a special regulatory permit from the city.

“The city has the right to say no,” said Tom Buford, senior planner with the community development department. “If they don’t get a special permit, they don’t operate.”

A PUC lawyer will review the report and draft a “proposed decision” for the commission to consider, PUC spokesman Andrew Kotch said, adding that the commission hopes to reach a decision by late this year.

Sacramento Natural Gas projects its revenue from the project to be about \$15 million a year.

“We don’t own the gas. We store it for our customers,” said Don Russell, the company’s president. “They pay a rental or storage service charge.”

If the project is approved, the company’s work force of two would expand to 15 or 20, and next spring about 200 construction workers would begin a year-long job to build the project, Russell said.

Meanwhile, after 14 months of additional review, the environmental report concludes that “the proposed project is not considered environmentally preferable due to the potential consequences of release of natural gas within an area containing a substantial population.

“Gas migration could result in groundwater impacts, health effects and potentially flash fires or explosions,” the report says.

Utilities use natural gas storage for seasonal and emergency supplies. SMUD has signed a 20-year contract to store 4 billion cubic feet of natural gas at the site.

Constance Slider, a community advocate who works with the Avondale Glen Elder Neighborhood Association, said her biggest concern is public safety. Residents also worry home values will drop once gas is pumped into the ground.

Remy Thomas Moose & Manley LLP and Legal Services of Northern California are working pro bono for the neighborhood association, which hopes to stop the project.

While some neighbors say the risks are too great, the company says the project would be safe and bring a number of benefits to the region, from energy security and jobs to much-needed natural gas supply reserves, which could help lower energy costs.

About 50 percent of SMUD's electricity comes from natural gas generation.

SMUD is able to play the gas commodity market, buying gas when it's cheap to store and use later, because it has a connection to a gas storage facility in a rural area between Redding and Sacramento, said Jim Shetler, assistant general manager, energy supply.

But if SMUD were to lose capacity as a result of an interruption to its own pipeline, or Pacific Gas and Electric Co.'s main line, which its system is tied to, the utility would lose about half of its capacity if it didn't have closer gas reserves.

"In the summer, that could have a major impact," Shetler said.

Land owners also benefit, the company says. Under state law, property owners control underground storage rights. So Sacramento Natural Gas would lease those rights, proposing an annual payment of 4 percent of gross revenue to the land owners, or about \$700,000 a year. So far, about 75 percent of the land owners — there are 760 parcels — have leased their rights.

He said he's "delighted" with the final environmental report, saying errors in the draft were corrected — while acknowledging three of four impacts remain "significant and unavoidable."

As for the potential for gas to leak to the surface, Russell said if a leak were to occur it would take "tens of millions of years for the gas to migrate to the surface."

Sacramento City Councilman Kevin McCarty said those voting on the project will need to give it a lot of thought.

"Originally we had some concerns about safety," McCarty said. "The final EIR outlined that those concerns are real. ... Does a project like this make sense in an urban area? Or should we look at alternatives?"

SMUD has been evaluating alternatives, including extending its pipeline 14 miles to link to a Lodi Gas Storage LLC facility between Galt and Lodi. "There are economic and environmental impacts of doing that," Shetler said.

SMUD also has looked at building a redundant pipeline so it would have two lines into the PG&E line.

When Sacramento Natural Gas approached SMUD a few years ago, the utility was unaware of the depleted underground natural gas reservoir in Sacramento. The contract with Sacramento Natural Gas gives SMUD between 30 and 60 days of a backup supply.

"That would have a major reliability improvement," Shetler said.

While the EIR also examined three alternative sites for gas storage in the region, Shetler said "most of those are pretty expensive and probably not viable alternatives."

“We’ve always said it has to be safe and pass environmental and regulatory hurdles,” he added. “At this stage, we’re waiting to see what the PUC’s final decision is.”

The site where Sacramento Natural Gas plans to pump gas, known as the Florin Gas Field, produced natural gas until 1988.