

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

Application of Central Valley Gas Storage, LLC
for a Certificate of Public Convenience and
Necessity for Construction and Operation of
Natural Gas Storage Facilities

Application No. 09-08-____
(Filed August 5, 2009)

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

PUBLIC VERSION

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Dated: August 5, 2009

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EXHIBITS

- Exhibit A – Organizational Documents of Central Valley Gas Storage, LLC and Organizational Chart of Nicor Inc. and Major Subsidiaries
- Exhibit B – Annual Report, Proxy and Financial Statements of Nicor Inc.
- Exhibit C – Map of Project including Other Entities Likely to Compete
- Exhibit D – Proponent’s Environmental Assessment (PEA)
- Exhibit E – Central Valley Tariff
- Exhibit F – Notice of Availability
- Exhibit G – Certificate of Service
- Exhibit H – Verification Affidavit
- Exhibit I – List of Permits and Approvals

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Pursuant to California Public Utilities Code sections 829, 853, 1001 and 1002 and Rules 2.1 through 2.5 and 3.1 of the Rules of Practice and Procedure of the California Public Utilities Commission (“CPUC” or the “Commission”), Central Valley Gas Storage, LLC (“Central Valley”) respectfully submits this Application requesting that the Commission:

1. Issue to Central Valley a Certificate of Public Convenience and Necessity (“CPCN”) for authority to develop, construct, and operate an underground natural gas storage facility in Colusa County, California, including the facilities necessary to connect such project to Pacific Gas and Electric Company’s (“PG&E”) Line 400/401 natural gas transmission system (together, the “Project”);
2. Authorize Central Valley to provide firm and interruptible gas storage services at market-based rates;
3. Determine that Central Valley is a public utility gas company under California Public Utilities Code sections 216 and 222; and
4. Adopt a Mitigated Negative Declaration and issue a Notice of Determination pursuant to the California Environmental Quality Act (“CEQA”) for the Central Valley Project.

I. EXECUTIVE SUMMARY

A. The Applicant: Central Valley Gas Storage, LLC

The exact legal name of the applicant is Central Valley Gas Storage, LLC, a limited liability company formed under the laws of the State of Delaware in February, 2008 for the purpose of developing the Central Valley gas storage Project in Colusa County, California. Central Valley is an indirectly wholly owned subsidiary of Nicor Inc. (“Nicor”). Nicor is a publicly traded company listed on the New York Stock Exchange (symbol: GAS). Central Valley is a wholly owned subsidiary of Nicor Energy Ventures, which in turn is a wholly owned subsidiary of Nicor. Neither Nicor, nor any of its affiliates, conducts any business or owns any assets, besides Central Valley, in the state of California or on the West Coast with the exception of a very limited amount of business conducted by Nicor Services of California, LLC (“NSC”).¹ Central Valley is a separate legal entity and is dedicated exclusively to developing and operating the Project and serving the California market.

B. Proposed Facility Description

Central Valley is seeking the Commission’s authorization to construct and operate an underground natural gas storage facility in Colusa County, California, approximately 60 miles northwest of the City of Sacramento, that will provide firm and interruptible storage services at market-based rates beginning in 2010. The Project facilities will consist of: (1) an 8 Bcf underground natural gas storage field and associated injection/withdrawal, observation and salt water disposal wells; (2) a compressor station

¹ Specifically, Nicor Services of California, LLC offers an Appliance Safety Inspection product through QCorps Residential, Inc d/b/a White Fence Company. Sales of this service in prior years as well as in 2009 have been negligible.

with three 3,550 horsepower (“hp”) gas-fired compressors; (3) a 14.7 mile, 24-inch natural gas pipeline to transport gas to and from the storage field to an interconnection with PG&E’s Line 400/401 transmission pipeline; (4) a 300-foot, 12-inch gas pipeline, a meter skid and rental compressor unit to permit Central Valley to temporarily transport gas for injection into the storage field as base gas and initial fill to 5.5 Bcf before the pipeline to PG&E’s Line 400/401 is completed; and (5) a metering station located near PG&E’s Line 400/401.

C. CEQA Compliance

Consistent with Commission Rule 2.4 and CEQA, Central Valley is submitting a Proponent’s Environmental Assessment (“PEA”)² which evaluates all potential environmental impacts of the Central Valley Project. Central Valley has been communicating and coordinating with staff of the Environmental Section of the Commission’s Energy Division in the preparation of the PEA. The PEA includes all information and studies required under the Commission’s Information and Criteria List, and follows the Commission’s latest PEA Checklist for natural gas storage facilities. The PEA includes a full description of the proposed construction of the Project, including preliminary design, engineering, and land use.

D. Market-Based Rates

The Commission should authorize Central Valley to charge market-based rates. Market based rates are appropriate because Central Valley is a new entrant with no pre-existing customer base and therefore lacks market power, and because market-based rates are consistent with the Commission’s policy and practice for competitive gas storage

² See Exhibit D.

providers. Neither Central Valley, nor any of its affiliates, owns any other energy-related assets or business interests in California or on the West Coast.

The significant amount of independent gas storage capacity at market-based rates currently available and scheduled to become available prior to the Central Valley's additional 8 Bcf coming on line supports a determination that Central Valley lacks market power. The addition of Central Valley's new capacity (particularly from a new market entrant) will render the Northern California gas storage market more competitive consistent with the Commission's policy.

E. Request for CPCN

Central Valley respectfully requests the Commission to issue a CPCN authorizing Central Valley to construct and operate the Project and to offer gas storage services at market-based rates. Central Valley anticipates completing construction of the Project, beginning gas injections in September 2010 and commencing firm operations in November 2011 to meet California's existing demand for natural gas storage as evidenced by customers' subscriptions during the open season. Therefore, Central Valley requests the Commission to process this Application and to issue a CPCN no later than May 31, 2010.

II. APPLICANT

A. Central Valley Gas Storage, LLC

Central Valley Gas Storage, LLC, is a Delaware limited liability company, formed in February 2008, and has its principal place of business at 3333 Warrenville Rd, Suite 630, Lisle, IL 60532. Central Valley plans to have an operations office at the

Project site. Central Valley received licenses to do business in California and Illinois on February 13, 2008. Central Valley's Articles of Organization and Certificates to do business in California and Illinois are attached as Exhibit A to this Application.

The current management of Central Valley is as follows:

President	Stephen Cittadine
Vice President, General Counsel and Secretary	Daniel McNamara
Treasurer	Douglas Ruschau

Central Valley is a wholly owned subsidiary of Nicor Energy Ventures, which in turn is a wholly owned subsidiary of Nicor. Nicor has been part of the fabric of the communities in northern Illinois and the Chicago suburbs for over five decades. Its major wholly owned subsidiaries are: (1) Northern Illinois Gas Company d/b/a Nicor Gas Company, a local distribution gas company located in Illinois and regulated by the Illinois Commerce Commission, and which owns and operates approximately 150 Bcf of storage capacity in Illinois; (2) Nicor Energy Ventures Company, which has various subsidiaries including Nicor Services, LLC, a retail gas marketer and an HVAC warranty, maintenance and repair provider in Illinois and 15 other states; Prairie Point Energy, LLC, a retail gas marketer in Illinois and Nicor Enerchange, LLC, a wholesale and retail gas marketer located in Illinois that conducts business primarily in the Midwest; and (3) Tropical Shipping USA, LLC, a containerized cargo carrier located in Palm Beach, Florida that conducts business in the Caribbean and the Bahamas. Additionally, Nicor Horizon, LLC holds a 50-percent interest in Horizon Pipeline Company, an interstate natural gas pipeline located in Illinois. Horizon Pipeline Company is a joint venture

managed both operationally and administratively by Kinder Morgan Energy Partners, LP, which holds the other 50-percent ownership interest. An organizational chart of Nicor and its major subsidiaries is attached as Exhibit A to this Application.

Central Valley will contract with Nicor Enerchange, LLC to manage the administration of tariff services and marketing from its Illinois office. Nicor Enerchange, LLC is a wholly owned subsidiary of Nicor Energy Ventures Company, and has over 15 years of experience in administering gas transportation and storage services. Currently, Nicor Enerchange, LLC manages Nicor Gas Company's Federal Energy Regulatory Commission ("FERC") certificated interstate transportation and storage services pursuant to a FERC approved Operating Statement (tariff).

Central Valley is not a publicly traded company, and accordingly does not have Securities and Exchange Commission ("SEC") filed financial statements or proxy statements. Consistent with Commission Rule 3.1(i), Central Valley is submitting the 2008 Annual Report, the latest proxy statement and 2008 SEC Form 10-K financial statements of its parent company Nicor.³

³ See Exhibit B.

B. Designated Contact for Central Valley

All notices and communications concerning this proceeding should be addressed to the following persons:

Christopher A. Schindler
Hogan & Hartson LLP
Columbia Square, 555 Thirteenth Street
NW Washington, DC 20004
Telephone: (202) 637-5723
Facsimile: (202) 637-5910
E-mail: CASchindler@hhlaw.com

Daniel McNamara
Vice President, General Counsel
and Secretary
Central Valley Gas Storage LLC
1844 Ferry Rd
Naperville, IL 60563
(630) 718-2981
dmcnama@nicor.com

Stephen Cittadine
President
Central Valley Gas Storage LLC
3333 Warrenville Rd, Ste 630
Lisle, IL 60532
(630) 245-7845
scittad@nicor.com

III. PROJECT DESCRIPTION

A. Location and Surface Description

Central Valley is proposing to convert the depleted Princeton Gas Field, near the unincorporated town of Princeton in Colusa County, California, into a high-deliverability, multi-cycle storage field. The Project is located approximately 60 miles north and west of the City of Sacramento and will require approximately 246.5 acres of new land use (including temporary workspace and permanent right of way) to construct the Project facilities, access roads and staging areas. The Project area is situated along the west side of the Sacramento Valley, immediately west of the Sacramento River; it is generally bound by State Route (SR) 45 and the Sacramento River to the east and the base of the North Coast Ranges foothills to the west. The Sacramento National Wildlife Refuge

Complex is located north of the Project area, and the Delevan National Wildlife Refuge is found north and south of the Project area. Both of these wildlife refuges are federal lands that are managed by the U.S. Fish and Wildlife Service, Pacific Region. The Project area is located near these two wildlife refuges, but it does not overlap with any federal land. All of the land to be used for the Project is under private ownership. Further description of the Project location and surface conditions is included in the PEA,⁴ in accordance with Rule 3.1(a).

B. Production History and Geology

Central Valley intends to convert the depleted Princeton Gas Field to gas storage. The Princeton Gas Field was discovered in December 1953 and produced approximately 9.7 Bcf of natural gas from 1954 to 1991 from five wells. Currently, three wells are suspended (not producing but open) and the remaining wells have been plugged and abandoned. In addition, Central Valley drilled a test well in May 2009 which is cased and has not been completed. The now depleted underground gas reservoir lies in the Upper Kione/Wild Goose sands at a depths ranging from 1,980 to 2,280 feet from the surface, and has an area of approximately 677 acres, including buffer acreage. The productive gas reservoir is composed of a sequence of five hydrologically separate sandstone layers that lie within the Kione Formation of the late Cretaceous age. These sands are no longer capable of producing commercial quantities of gas as all wells have watered out. This reservoir is ideal for storage because the Kione sandstone exhibits the

⁴ See Exhibit D.

high porosity and permeability that are needed for high rates of storage injection and withdrawal.⁵

C. Surface and Subsurface Rights

California law provides that the surface owner has the right to store natural gas in a subsurface geological formation unless that right has been separately conveyed by deed or another conveyance.⁶ The surface owner's exercise of its rights must not unreasonably interfere with a mineral owner's right to explore for and produce oil and gas.⁷

Central Valley continues to secure temporary surface use agreements and permanent ROW easements from landowners. The entire Project area (approximately 246.5 surface acres) will require acquisition of new ROW (which includes temporary work space and permanent ROW) and surface leases. This acreage includes the areas needed to construct the Project facilities, access roads, and staging areas.

Central Valley is finalizing the acquisition of rights to use the underground formation to store gas (approximately 677 acres) from the appropriate property owners through underground gas storage lease agreements. At the time of filing, Central Valley has successfully negotiated lease agreements with six of the eleven surface landowners and is in the process of completing negotiations with two additional surface landowners. The amount of land held by these eight landowners represents approximately 88 percent of the acreage comprising the storage reservoir and buffer zone. In addition, Central

⁵ For more information on the geology of the Princeton Gas Field, see Richard Thesken, *Bounde Creek and Princeton Gas Fields*, California Department of Conservation, Division of Oil, Gas and Geothermal Resources, Publication No. TR45. For more details about the geological composition of the gas field area, please refer to Chapter 2 of the PEA.

⁶ *Lodi Gas Storage*, D. 00-05-048 (2000).

⁷ *Cassinis v. Union Oil Co.*, 14 Cal.App.4th 1770, 1780 (1993).

Valley has reached agreement with landowners both for the site for the compressor station as well as the well pad. The storage leases will remain in effect until Central Valley chooses to surrender them.

D. Description of the Project Facilities

1. Storage Field and Reservoir

Central Valley is proposing to convert the depleted Princeton Gas Field into a high-deliverability, multi-cycle storage field. In the first year of operation, the storage field will have a capacity of 5.5 Bcf and within four years will ramp-up to a capacity of 8 Bcf. The field and surface facilities have been designed to achieve a maximum withdrawal and injection capability of up to 300 MMscf/d. For the field to meet its design withdrawal rates, Central Valley is proposing to inject 0.5 Bcf of base gas.

Central Valley arrived at its estimates of working capacities, base gas capacity, injection and withdrawal rates, and storage well requirements by completing detailed reservoir simulation studies of all of the reservoir layers. The model was calibrated by history-matching available gas production and pressure data from the field during the primary production cycle. Once a history match was achieved, the model was used for predictive purposes and for running sensitivities on the number and placement of injection/withdrawal wells.

Central Valley anticipates operating within a reservoir pressure range of 400 to 1,400 psi in order to achieve the design working capacities and to displace water from the reservoir. The maximum operating pressure of 1,400 psi reflects a pressure gradient of approximately 0.65 psi/ft (reservoir pressure divided by the depth to the top of the

reservoir) or approximately 40 percent greater than original pressure. In accordance with section 1724.9 of the California Department of Conservation, Division of Oil, Gas and Geothermal Resource (“DOGGR”) regulations, prior to commencing gas injections, Central Valley will utilize core samples from the cap rock and conduct threshold pressure tests in order to confirm that the planned maximum operating pressures will not compromise the integrity of the storage reservoir and that an adequate margin of safety in the maximum operating pressure is established. Central Valley drilled a test well in May 2009 and was able to recover core samples for cap rock testing. A suite of wire-line logs and pressure tests were run in order to acquire additional reservoir data to assist in well planning and field development and analysis of the data is ongoing.

2. Wells

Central Valley is proposing to drill a total of nine injection/withdrawal (I/W) wells to achieve the field design injection and withdrawal rates of up to 300 MMscf/d. The wells will be drilled from a remote well pad located south of the compressor station. The remote well pad will be connected to the compressor station by approximately 1,400 feet of 16-inch high-pressure gas gathering lines.

Central Valley is also proposing to convert up to four existing gas wells (including the recently drilled test well) and up to two plugged gas wells to use as observation wells. Prior to converting these wells, Central Valley will determine the integrity of well casing and wellhead equipment and will perform any remedial work required to convert the wells for use as observation wells for gas storage.

To dispose of salt water that Central Valley anticipates will be produced during the withdrawal of gas, Central Valley proposes to construct one salt water disposal well to re-inject salt water into the water-bearing formation that lies below the target storage zone. A salt water storage/surge tank will be on site to temporarily collect excess volumes of salt water that cannot be immediately injected.

Central Valley will comply with all applicable DOGGR regulations in constructing the I/W, observation and disposal wells.

3. Compressor Station

The compressor station will be located on a 10-acre site at the eastern end of the Project area. The site is located approximately 1.2 miles south of the unincorporated town of Princeton. The proposed site is currently a cultivated rice field. The compressor station will consist of: (1) three 3,550 hp Caterpillar 3612 LE natural gas engines with a combined total of 10,650 hp to drive three Ariel JGC/6 reciprocating gas compressors; (2) three gas-fired dehydration units and reboilers; (3) three natural gas aftercoolers; (4) safety and emergency shut down devices; (5) a 640-kilowatt (kW) standby gas-fired generator; (6) metering and regulation facilities; (7) an electric motor control center and utility building; (8) an auxiliary building to contain the control room, office and shop area; (9) an electrical distribution line; and (10) a domestic water well.

The compressors will be installed in a building designed to minimize noise emissions and all compressor facilities will be designed such that the equipment noise does not exceed applicable Colusa County noise standards. The compressor drivers will be equipped with Best Available Control Technology emission controls in order to meet

Colusa County Air Pollution Control District (“CCAPCD”) emission requirements. The compressor building will be guarded by fire, heat and gas detection systems that, when activated, will commence an alarm sequence with automatic shut down controls of the compressor station.

The current development plan of 8 Bcf working capacity requires that three units be installed initially. Central Valley has designed the compressor station to permit the incorporation of a fourth compressor unit in order to accommodate future expansion of the storage facilities. Installation of the fourth expansion unit is contingent upon market demand and reservoir technical considerations and would be subject to a future application to the Commission.

The compressor station is designed to provide up to 300 MMscf/d of withdrawal and injection capacity. The compressors will be used for both injection and withdrawal purposes and will be available 24 hours per day, 7 days per week. Central Valley anticipates a performance profile for the field that assumes that customers use their capacity for three full cycles per year—injecting their capacity until full, followed by withdrawing the same, and repeating three times per year - 65 days in and 55 days out. All three compressors are designed to operate during peak flow times for both injection and withdrawal.

The compressor station will also contain a 640-kW, natural-gas fuelled standby generator. The standby generator will be installed and operated to meet all CCAPCD air quality and Colusa County noise requirements.

4. Pipelines and PG&E Interconnections

Central Valley proposes to construct 14.7 miles of 24-inch pipeline to connect the storage field with PG&E's Line 400/401 transmission pipeline near PG&E's Delevan compressor station. The interconnection with PG&E will provide Central Valley customers with access to Alberta, Rockies, San Juan, and Permian supplies through the numerous pipelines that connect to PG&E. Customers holding Central Valley capacity also will have access to potential supplies from new liquefied natural gas facilities under development on the West Coast.

a. PG&E Line 172 Connection Line

In order to inject gas before construction of the pipeline to PG&E's Line 400/401 is completed, Central Valley proposes to install approximately 300 feet of 12-inch pipeline to temporarily connect the storage field to PG&E's Line 172, a distribution line that runs along the east side McAusland Road. Most of this temporary connector pipeline will be located inside the remote well pad site running in an easterly direction towards McAusland Road. Gas received from Line 172 will provide for the necessary base gas injections and early injection and conditioning cycle to displace the water in the reservoir so Central Valley can meet its startup schedule. Central Valley will not deliver gas back into Line 172. Central Valley anticipates operating this temporary pipeline from September 2010 to the end of October 2011, prior to the completion of the main pipeline. Central Valley will disconnect and remove the meter facilities upon completion of this initial phase, as required by PG&E. During the fall/winter of 2011/2012 Central Valley expects to be able to take its first receipts and deliveries from Line 400/401 via the new 24-inch main pipeline.

b. Gas Pipeline and Interconnection with PG&E Line 400/401

Central Valley proposes to interconnect with PG&E's Line 400/401 transmission pipeline several hundred feet south of the PG&E Delevan compressor station via a 24-inch-diameter, 14.7-mile-long gas pipeline. The pipeline will be bidirectional, allowing natural gas to flow to and from the gas field. The permanent pipeline easement will be 30 feet wide and cover approximately 54 acres of land. The pipeline design will be in accordance with 49 CFR Part 192 of the U.S. Department of Transportation requirements to meet a maximum allowable operating pressure of 1,070 psig and to address potential seismic-induced stresses. The line is expected to be constructed of API 5L grade X-60 or X-65 pipe with 14-16 mil thickness Fusion Bond Epoxy (FBE) coating as the primary method of defense against corrosion. Cathodic protection will also be employed as an additional method of corrosion protection.

5. Electric Power Line

In order to provide power to the compressor station, Central Valley anticipates connecting into an existing PG&E 12-kilovolt (kV) line along Dodge Road. PG&E will design, install and maintain this component. Power will be routed to the compressor station by a 3,500-foot-long distribution line that will run from the compressor station south along McAusland Road to the PG&E line at Dodge Road. The power line connection may be a buried cable or an overhead line on existing poles along McAusland Road depending upon PG&E's requirements and finalization of design details.

E. Preliminary Engineering and Design Information

Pursuant to Public Utilities Code section 1003, preliminary engineering and design information for the Project is included in Chapter 2 of the PEA, attached as Exhibit D to this Application.

F. Construction Schedule

Central Valley expects construction of the Project to begin shortly after it receives all the necessary permits and approvals. Construction activities will occur in compliance with all federal, state and local laws and regulations. Construction is expected to begin in June 2010, and the Project is expected to begin initial gas injections on an interruptible basis in September 2010. By November 2011, Central Valley expects to have all facilities operational and be in a position to provide firm service. A description of the construction methods is included in Chapter 2 of the PEA, attached as Exhibit D.

G. Competitors/Area of Service

In accordance with Rule 3.1(b), below are the names and addresses of all entities with which Central Valley is likely to compete in the provision of natural gas storage services:

1. Pacific Gas and Electric Company
Law Department
Attn: Judi K. Mosley
77 Beale Street
San Francisco, CA 94105

2. Southern California Gas Company
Attn: Richard M. Morrow
555 W. Fifth Street, Suite 1400
Los Angeles, CA 90013

3. Lodi Gas Storage, LLC
c/o James W. McTarnaghan
Duane Morris, LLP
One Market, Suite 2000
San Francisco, CA 94105
4. Wild Goose Storage Inc.
c/o Jeanne B. Armstrong
Goodin MacBride Squeri Day & Lamprey LLP
505 Sansome Street, Suite 900
San Francisco, CA 94111
5. El Paso Natural Gas Company
P.O. Box 1087
2 North Nevada Avenue
Colorado Springs, CO 80944
6. Transwestern Pipeline Company
711 Louisiana, Suite 900
Houston, TX 77002
7. Gas Transmission Northwest
1400 SW 5th Avenue, Suite 900
Portland, OR 97201
8. Mojave Pipeline Company
Western Pipelines
P.O. Box 1087
Colorado Springs, CO 80944
9. Kern River Gas Transmission Company
2755 E. Cottonwood Parkway, Suite 300
Salt Lake City, UT 84121
10. Questar Southern Trails Pipeline Company
180 East 100 South
P.O. Box 45360
Salt Lake City, UT 84145
11. Sacramento Natural Gas Storage, LLC
c/o Law Office of Alfred F. Jahns
3436 American River Drive, Suite 12
Sacramento, CA 95864

12. Gill Ranch Storage, LLC
220 NW Second Avenue
Portland, OR 97029

Central Valley will perform its storage services from its storage facility, which will be located in the County of Colusa. The facility will be located on McAusland Road between Paradise and Southam Roads in the County of Colusa. See Exhibit D. As shown in the Certificate of Service, all the entities identified above have been served with a copy of the this Application in accordance with the Commission's Rule 3.1(b). In addition, all owners of land where the Project is located and of adjacent land will be served with the Notice of Availability, a copy of which is attached as Exhibit F hereto. A list of affected landowners is included in Appendix A to the PEA, attached as Exhibit D.

H. Map

Pursuant to Rule 3.1(c), a map illustrating the proposed Project location in relation to other public utilities and other entities with which Central Valley is likely to compete, is attached as Exhibit C to this Application.

I. Regulatory Approvals

In addition to seeking CPCN, Central Valley is also coordinating with the appropriate local, state, and federal agencies to obtain all necessary permits. Because CPUC approval is an essential prerequisite for the Project, and because CPUC is the lead agency for CEQA, the additional permits will generally be obtained subsequent to the CPCN. Nevertheless, in order to coordinate and expedite all necessary approvals, Central Valley is working with the following agencies to obtain all necessary permits:

- **Local agencies:** Colusa County Planning and Building Department, Colusa County Public Works Department, Colusa County Environmental Health Department, Colusa County Air Pollution Control District, and Glenn-Colusa Irrigation District. Since the Project is located in an unincorporated area of Colusa County, no city approvals are required.
- **State agencies:** California Department of Conservation, Division of Oil, Gas and Geothermal Resources (DOGGR), State Water Resources Control Board, State Historic Preservation Office pursuant to the National Historic Preservation Act (NHPA), California Department of Transportation (Caltrans), Regional Water Quality Control Board, California Department of Fish and Game (DFG), and Reclamation Board.
- **Federal agencies:** U.S. Army Corps of Engineers and U.S. Fish and Wildlife Service (USFWS).

Pursuant to Rule 3.1(d), the list of all permits and approvals that may be required for the Project is attached as Exhibit I to this Application.

J. PG&E Interconnection Agreements

In accordance with California's gas storage policy, PG&E is required, upon request, to interconnect independent storage facilities with its gas transmission system as if the storage provider were a gas customer, absent a clear showing that such interconnection would impair its ability to serve existing customers.⁸ Pursuant to that policy, Central Valley has been working with PG&E to establish an interconnection with PG&E's Line 401 at a point approximately 14 miles west of the Project to provide for the receipt and delivery of gas stored in the Project.

PG&E has already performed a preliminary study of the proposed interconnection and will provide a detailed design of the proposed interconnection at a later date. PG&E's preliminary analysis indicates that PG&E's existing system will be able to

⁸ *Storage Decision*, D.93-02-013 (1993 Cal. PUC LEXIS 66, ¶44-45).

accommodate the proposed injection and withdrawal volumes for the Project. Central Valley fully expects that good faith negotiations with PG&E will continue and that the parties will enter into an interconnection agreement and an operating and balancing agreement during the construction phase of the Project.

K. Project Costs

Commission's Rule 3.1(f) calls for an applicant to submit a statement detailing the estimated costs of the proposed construction and the estimated annual costs, both fixed and operating associated therewith. In the past, the Commission has waived this requirement for independent storage providers who sought to use market-based rates. The Commission has held that when a competitive storage provider will be charging market based rates and lacks market power, there is no need for it to file any cost justification for its tariffs: "As in the Wild Goose Decision, Lodi need not file any cost justification with its tariffs."⁹

Central Valley will not serve captive ratepayers and is seeking to provide gas storage services at market-based rates. Central Valley has no customer base and its shareholders will bear 100 percent of the economic risk of the Central Valley Project. Nicor, Central Valley's indirect parent, has the financial ability to obtain the necessary financing to construct and operate the Project. Nicor is a publicly traded company on the New York Stock Exchange and is included in the S&P 500. Nicor has an S&P Commercial Paper rating of A-1+ and a Corporate Credit Rating of AA.

⁹ D.00-05-048 at 39 (citing D.98-06-083 at 3-6).

Central Valley respectfully requests that the Commission waive the cost data requirement of Rule 3.1(f), just as it did for Wild Goose Storage Inc. (“Wild Goose”) and Lodi Gas Storage, LLC (“LGS”), and confirm that cost statements are not required from Central Valley.

In order to assist the Commission in determining the fee required to reimburse the Commission for its environmental review of the proposed Project as required by the California Environmental Quality Act, Central Valley estimates for this limited purpose only, that the cost of constructing the Central Valley Project will be in the range of \$78 million.

L. Cost Cap

Section 1005.5(a) of the Public Utilities Code provides that the Commission must specify a maximum cost deemed to be reasonable and prudent for the facility in any certificate authorizing the proposed transaction where the estimated costs of construction of a utility exceeds \$50 million, but the Commission has waived this requirement for independent natural gas storage providers who bear all risks of a project.¹⁰ As described above, Central Valley seeks to provide natural gas storage services at market-based rates and has no captive ratepayers. The owners of Central Valley bear 100 percent of the risk in this Project. Thus, in accordance with its precedent, Central Valley requests the Commission to waive the cost cap requirement of section 1005.5(a).

¹⁰ See D.02-07-036, Conclusion of Law 9; D.00-05-048, Conclusion of Law 16.

M. General Order 104-A Requirement

Central Valley is not listed on a national stock exchange, but Nicor, its indirect parent is listed. Therefore, pursuant to Rule 3.1(i), a copy of the latest proxy statement sent to stockholders of Nicor is attached in Exhibit B to this Application.

IV. PUBLIC CONVENIENCE AND NECESSITY

As demonstrated below, Central Valley’s proposed construction and operation of the Project is required by the “present or future public convenience and necessity”¹¹ Central Valley Project meets the criteria of the “presumptive showing of need” under the *Storage Decision* because Central Valley will assume all of the financial risks of the Project. In addition to meeting the “presumptive showing of need,” the Project also meets a traditional needs test based on market conditions and economic feasibility. The Project also meets all of the requirements of the Public Utilities Code Section 1002. The Commission should, therefore, grant Central Valley a CPCN authorizing construction and operation of the Project.

A. The Proposed Central Valley Project is Necessary

1. Presumptive Need

In its *Storage Decision*,¹² the Commission adopted a “let the market decide” policy for the construction of new gas storage facilities, holding that as long as the applicant was willing to assume the entire financial risk of the Project, there was no need for the Commission to decide whether a need on the traditional resource basis existed for such a facility. The *Storage Decision* created a “presumptive showing of need”

¹¹ Cal. Pub. Util. Code § 1001.

¹² D.93-02-013.

established by the builders and users of the new project accepting all of the risk of the unused new capacity.¹³ That presumptive showing has been made here, as Central Valley and its owners rather than captive customers bear all of the financial risk for the Project. Central Valley meets the requirements for a “presumptive showing of need.” It also meets the requirements of a traditional needs test, as described below.

2. Need Demonstrated by Market Conditions

In the past, the Commission has also found that the benefits of competitive gas storage include increased gas supply reliability, increased availability of storage, the potential for reduced energy price volatility, and the potential for reduced need for new gas transmission facilities.¹⁴ Those benefits are equally, if not more, present today. The Commission has recently stated that there is a need for additional natural gas storage capacity in California. The Energy Action Plan II (“EAP II”), adopted by the CPUC and California Energy Commission (CEC) in 2005, states that a “key action” for California is to “[e]ncourage the development of additional in-state natural gas storage to enhance reliability and mitigate price volatility.”¹⁵ In the 2008 Energy Action Plan Update (“EAP Update”), the CPUC and CEC reaffirmed that “adequate natural gas transmission and storage infrastructure are important to ensuring the reliability of California’s natural gas supplies.”¹⁶

¹³ D.02-07-036 at 8.

¹⁴ D.00-05-048 at 28.

¹⁵ EAP II at 13.

¹⁶ EAP Update at 17.

The EAP Update also states:

A diverse portfolio of natural gas supplies and reliable deliveries of those supplies will be particularly important as we increasingly rely on natural gas as the lowest-emission fossil fuel for thermal power plants and other industrial, commercial, and residential applications.¹⁷

The Project will add to the diversity of California's gas supply portfolio; this diversity can add protection against price shocks, and can act as a physical hedge by allowing purchasers to buy gas when the supply is adequate and the price is low, inject it into the Project, and withdraw it for use when supplies are scarcer and prices are higher.

The Project will also contribute to more reliable deliveries. Upstream disruptions in the gas supply will have a reduced impact, because customers will be able to withdraw gas from storage to meet at least some of their needs.

Finally, there is clear demand for more market-based gas storage. Central Valley received a robust response to the open season it held in May 2008, indicating strong interest in the Project. During the open season, Central Valley received 17 bids totaling 26 Bcf of working capacity interest. Central Valley is currently in the process of negotiating binding storage services agreements for the full capacity required to move forward with the Project.

Public Utilities Code section 1002.5 reads:

In issuing a certificate of convenience and necessity for additional natural gas pipeline capacity proposed for construction within this state, the commission shall consider the state's need to provide sufficient and competitively priced natural gas supplies for both present and anticipated future residential, industrial, commercial, and utility demand. When it finds that it is in the state's best interests to do so, the commission shall expeditiously issue

¹⁷ *Id.*

certificates of convenience and necessity for those additional natural gas pipeline capacity projects.

While this Project is not purely a pipeline capacity project, the effect of the additional storage is to increase the effective capacity of California's gas pipeline system. Accordingly, the Commission should consider the state's need to provide sufficient and competitively priced natural gas supplies for both present and anticipated future demand, and should expeditiously issue a CPCN to Central Valley for this Project.

B. Public Utilities Code Section 1002

Public Utilities Code section 1002 requires the Commission, in granting a CPCN pursuant to section 1001, to consider the following factors: (1) community values; (2) recreational and park areas; (3) historical and aesthetic values; and (4) influence on the environment.

1. Community Values

The Project is located in an unincorporated, primarily agricultural area, on the site of a former natural gas field that was producing gas from 1954 to 1991. The closest unincorporated town is Princeton, which is 1.2 miles from the Project's compressor site, and the closest incorporated city is Colusa – located 11 miles from the compressor site. The City of Colusa has a population of 5,698 (2006) and Colusa County has a population of 21,302 (July 2007). (See Exhibit C) Accordingly, the Project will have a *de minimis* impact, if any, on community values.

Notwithstanding its *de minimis* impact on community values, Central Valley has been working, and continues to work, diligently and cooperatively with the local property owners to acquire the remaining leasehold subsurface and surface rights and interests

required for the Project. A substantial number of the known property owners have been contacted and are participating in negotiations with Central Valley.

Central Valley has conducted a significant public awareness program for the project and is continuing those efforts. Central Valley has joined the Colusa County Chamber of Commerce, the Economic Development Corporation, and has been interviewed by local newspaper on three occasions. Central Valley has also made short presentations at Colusa County Board of Supervisors meetings regarding general project status.

The largest public meeting location in Colusa County is the County Fair, which is attended widely by county residents. Central Valley was a participant at the fair, and had a centrally located information booth. The key objective at the Colusa County Fair was to advertise upcoming public informational meetings. In addition, posters were placed in public buildings in Maxwell, Princeton, and Colusa. The informational meetings were also advertised in the local press. The Colusa County Chamber of Commerce publicized the event with a broadcast email to all members in the county. Invitations were sent via US Postal Service to all identified landowners for surface rights and pipeline easements, as well as to all elected and appointed officials and concerned citizens who had requested that they be informed of project status.

Public informational meetings were held in Princeton and Maxwell on June 10 and 11, respectively. A total of approximately 100 interested people attended the meetings. The format of the public meetings was an open house, with about six informational stations. Optional attendance lists were maintained.

Central Valley expects that the Project will generate approximately 370 jobs during the construction phase. The majority of the labor-force to fill these jobs will be drawn from the local communities with some jobs filled from outside the area as needed. In addition to new jobs, the Project will generate increased tax revenues, including employment and sales taxes from supplies and equipment. Approximately 6-8 new permanent jobs will be created for the Project; five or more of which will be located at the Project for operational purposes.¹⁸

2. Recreational and Park Areas

Although the Project is located near recreational and park areas, it is not located on any such areas. The construction and operation of the Project will not impact, or interfere with the use of, any recreational and park areas surrounding the Project area.

3. Historical and Aesthetic Values

For much of its recent history, the site was used for natural gas production, so the proposed use for gas storage is consistent with the site's recent historic character. Nothing of any known historic significance exists on the site.¹⁹ Although there may be some aesthetic impact as a result of the Project, those impacts are minimal due to the largely underground nature of the Project, the consistency with the prior use of the site, and its location. To the extent that visual impacts exist, they can be mitigated as described in Chapter 3.1 of the PEA.

¹⁸ Administrative services will be performed by Central Valley affiliates pursuant to contractual arrangements.

¹⁹ See Exhibit D.

4. Influence on the Environment

The Project will have a relatively minor environmental impact, as discussed in more detail in Chapter 3 of the PEA, attached as Exhibit D. Central Valley hired ICF Jones & Stokes early in the planning process to perform an environmental constraints analysis in order to identify potentially sensitive resource issues and constraints, to assist Central Valley in designing the Project to minimize potential impacts on landowners and environmental resources and to avoid the Sacramento and Delevan National Wildlife Refuges. After considering several alternatives, Central Valley chose a pipeline route which avoids or substantially lessens the environmental impact of the Project. Specifically, Central Valley proposes to follow an existing pipeline ROW (Wild Goose Storage) for the majority of the route. The pipeline route and facility locations avoid or minimize resource impacts, and, where possible, meet the various landowners' needs and restrictions.

Additionally, the Project will be designed to meet the seismic safety standards of the 2007 California Building Code which became effective on January 1, 2008. Specific design measures may include (but are not limited to) special foundation design, additional bracing and support of upright facilities (e.g., tanks, exhaust stacks), and weighting the pipeline in areas of potential liquefaction. Automated shutdown and venting controls will limit the secondary effects of equipment damage. Project facilities and foundations will be designed to withstand changes in soil density. The Project also will be designed to meet the requirements of 49 CFR Part 192 of the U.S. Department of Transportation's Office of Pipeline Safety (which provides oversight of pipeline and natural gas facility construction, operation, and safety) and DOGGR requirements (which

provides oversight of design, installation, and operation of gas wells and underground gas injection projects).

C. Public Utilities Code Sections 216 and 222

Additionally, Central Valley respectfully requests that the Commission determine Central Valley is a “public utility” as that term is defined in the California Public Utility Code. Section 216 of the Code provides that whenever any “gas corporation . . . performs a service for, or delivers a commodity to, the public or any portion thereof for which any compensation or payment whatsoever is received, that . . . gas corporation . . . is a public utility subject to the jurisdiction, control, and regulation of the commission.”²⁰ Likewise any “gas corporation” that “delivers any commodity to, any person, private corporation, municipality, or other political subdivision of the state, that in turn either directly or indirectly, immediately or mediately, performs that service for, or delivers that commodity to, the public or any portion thereof, that person or corporation is a public utility subject to the jurisdiction, control, and regulation of the commission.”²¹ “Gas corporation” is defined as every corporation or person owning, controlling, operating, or managing any gas plant for compensation within this state²² “Gas plant” includes “all real estate, fixtures, and personal property, owned, controlled, operated, or managed in connection with or to facilitate the production, generation, transmission, delivery, underground storage, or furnishing of gas, natural or manufactured, except propane, for light, heat, or power.”²³

²⁰ Cal. Pub. Util. Code § 216(a).

²¹ *Id.* at § 216(b).

²² *Id.* at § 222.

²³ *Id.* at § 221.

According to these definitions, Central Valley will be a “gas corporation” that owns, controls, operates and manages “gas plant” for compensation within California. Central Valley will perform services and/or deliver gas to the public for compensation or will perform services of delivering gas to private corporations, municipalities or political subdivisions of California, which will in turn perform that service or deliver gas to the public. As such, Central Valley satisfies the definition of “public utility” in the Code and the Commission should find that Central Valley will be a “public utility” with all the rights and obligations set forth in the Code.

V. MARKET-BASED RATES

Central Valley seeks to provide natural gas storage service at market-based rates. The Commission has in the past approved the use of market-based rates for independent gas storage providers.²⁴ The Commission should approve Central Valley’s proposal to charge market-based rates for its storage services because Central Valley lacks market power and because such approval would be consistent with the Commission’s precedent approving market-based rates for other independent storage providers in the same market.

A. Central Valley Lacks Market Power

In approving market-based rates for LGS – a new entrant, to the California natural gas storage market – the Commission found that LGS did not have market power based on the following three facts: (a) LGS is a newcomer to the California gas storage market; (b) LGS starts out with a customer base of zero; and (c) LGS is not in a position to force any of the other utilities to exit the market.²⁵ Based on the fact that these three facts are

²⁴ See D.97-06-091, modified by, D.98-06-083; D.02-07-036; D.00-05-048; D.06-03-012; D.08-02-035.

²⁵ See D.00-05-048.

present in Central Valley's proposal, the Commission should find that Central Valley also lacks market power.

First, Central Valley is a new entrant into an already competitive market. There are established providers of the same product (firm and interruptible gas storage services) in the same geographic California market. Neither Central Valley nor any of its affiliates has any contractual rights or obligations related to the gas storage industry in California or on the West Coast. Additionally, other than the *de minimis* appliance services business conducted by NSC, Central Valley has no affiliates doing business in California at all, so Central Valley could not potentially exercise market power by acting in concert with its affiliates.

Second, Central Valley is a new storage provider and starts with a customer base of zero.

Third, as a new entrant, Central Valley will not be in the position to force any of the other utilities to exit the market because Central Valley will be adding a relatively small amount of incremental capacity to a market with well-established competitors.

Based on these three facts, Central Valley lacks market power, and it is therefore appropriate for the Commission to authorize Central Valley to offer its services at market-based rates.

B. Market-Based Rates Are Consistent With Commission Policy

The Commission has a long-standing policy of approving market based rates for competitive gas storage facilities.²⁶ As the Commission stated in its 2006 decision approving LGS' second gas storage facility:

As part of its application, LGS has requested that it be authorized to charge market-based prices for the storage and hub services that will be supplied by the Facility. Because such authority would be consistent with the pricing authority for LGS's existing facilities near Lodi, and also with the policies we have followed since Decision (D.) 93-02-013 to promote competitive gas storage facilities, we will grant the market-based pricing authority that LGS requests.²⁷

The Commission granted market-based rate authority to Wild Goose in 1997²⁸ and confirmed that Wild Goose could continue to charge market-based rates in 2002.²⁹ In 2002, Wild Goose was no longer a new entrant, but rather an established provider, and the Commission's expressed some concerns about Wild Goose's potential to exercise market power.³⁰ Nevertheless, the Commission found it appropriate to continue to allow Wild Goose to charge market-based rates, indicating a strong policy in favor of market-based rates for competitive gas storage.

Central Valley should also be allowed to charge market based rates, just as all applicants to date have been afforded such treatment. Central Valley's most direct (and entrenched) competitors are providing service under market-based rates, so barring Central Valley from doing so would be extraordinarily inequitable.³¹ Central Valley will have to compete with established storage providers in Northern California. Wild Goose

²⁶ See D.97-06-091, modified by, D.98-06-083; D.02-07-036; D.00-05-048; D.06-03-012; D.08-02-035

²⁷ D.06-03-012 at 2.

²⁸ See D.97-06-091.

²⁹ See D.02-07-036.

³⁰ See *id.* at 17.

³¹ New entrants Sacramento Natural Gas Storage, LLC and Gill Ranch Storage, LLC have also requested authorization to charge market based rates.

Storage and LGS have been providing natural gas storage in Northern California at market-based rates since 1997 and 2002, respectively. Wild Goose is currently authorized to provide 29 Bcf of working gas capacity,³² while LGS has two facilities, one with 12 Bcf of working capacity,³³ and a second with approximately 17.5 Bcf of working capacity.³⁴ In addition, Sacramento Natural Gas Storage, LLC (“Sacramento Natural Gas”) currently has an application pending before the Commission to provide 7.5 Bcf of working gas capacity,³⁵ and Gill Ranch Storage, LLC (“Gill Ranch”) has an application pending to provide 20 Bcf of working gas capacity, with 15 Bcf to be provided at market-based rates.³⁶ Accordingly, the Commission’s well-established policy to allow competitive natural gas storage providers to charge market based rates should be applied to Central Valley as it has to other competitors.

VI. TARIFF

Central Valley respectfully requests approval of its proposed tariff to provide firm and interruptible storage services at market-based rates on an open access and non-discriminatory basis.³⁷ The proposed tariff is substantially similar to the LGS tariff, which has been previously approved by the Commission. Additionally, the proposed tariff has been updated pursuant to General Order 96-B, General Rule 8, which was issued subsequently to LGS’ tariff approval. The substantive differences are as follows:

³² See D.02-07-036.

³³ See D.00-05-048.

³⁴ See D.06-03-012 (approving 5.5 Bcf of working capacity); D.08-02-035 (approving 12 Bcf of working capacity).

³⁵ See A.07-04-013.

³⁶ See A.08-07-032. The remaining 5 Bcf would be controlled by PG&E.

³⁷ Central Valley’s proposed tariff is attached as Exhibit E.

First, Central Valley has not designed its nomination procedures because it has not yet contracted with the provider that will develop the web-based nomination procedure. However, Central Valley has had discussions with a web-based nominations provider with over 10 years experience in developing electronic bulletin boards for the natural gas industry, and Central Valley intends that the systems and procedures will be very similar to those of other California storage providers. Furthermore, Central Valley's nomination procedure will be designed to work in conjunction with PG&E's nomination and scheduling requirements and deadlines -- just as other California storage providers do today. Central Valley will file its nomination procedure with the Commission for approval prior to commencing service. (Page 94-G).

Second, Central Valley will not offer hourly rights. Therefore, the concepts of hourly injection and withdrawal quantities have been eliminated.

Third, Central Valley clarified the shipper's rights and obligations regarding a billing dispute. (Page 14-G).

Fourth, Central Valley clarified that the FSS Service Charge also may include the monthly Inventory Demand Rate, the monthly Injection Demand Rate and the Monthly Withdrawal Demand Rate. (Page 46-G).

Fifth, Central Valley has designed the ISS Service Charge to allow for a combination of charges for the Total Contract Quantity, the Inventory and the Commodity, as opposed to LGS' tariff, which only allows for the ISS Service Charge to be based on one of those three components. (Page 53-G).

Sixth, Central Valley clarified the difference among “Requests,” which are requests for service, “Nominations,” which are nominations on Central Valley’s system and “nominations,” which are nominations on PG&E’s system and “Confirmations” which are confirmations on Central Valley’s system and “confirmations” which are confirmations on PG&E’s system. These terms were used intermittently for the same purpose in LGS’ approved tariff. (Pages 58-G, 63-G and throughout the tariff).

Seventh, the definition of Force Majeure was expanded to include acts of terrorism and government ordered evacuations. (Page 60-G).

Eighth, the concept of Maximum Daily Quantity was added. (Page 62-G).

Finally, Central Valley has provided more detail for Appendix FSS and Appendix ISS. In addition, a blank Exhibit A to the Appendix FSS has been included in order to address any phased-in services during the Storage Facility’s ramp up of its initial operations.

VII. PHASING IN OF STORAGE CAPACITY

As part of the operational development of a new underground storage field the working capacity of the storage field will gradually increase as gas continues to displace water in the reservoir over a four-year period. Therefore, there will be a gradual “phasing-in” of firm service. Specifically, Central Valley believes that it will be able to provide 5.5 Bcf of working capacity the first year of operation and will phase in the balance of the capacity as operation permits to provide a total working capacity of 8 Bcf. Central Valley has addressed this issue during negotiations of the precedent agreements with some of the potential shippers.

The parties involved in the phasing in of capacity are satisfied that they will be able to work together cooperatively during the phase-in stage of the Project's development to resolve any issues that may arise. The phasing in of shippers' rights will not be an issue once the storage field is fully operational at its maximum certificated working capacity of 8 Bcf. Therefore, Central Valley does not propose to change the pro forma storage service agreements as set forth in the tariff, but rather shall include phase-in language only in the initial storage service agreements. If the initial service agreements have deviations from the pro forma agreements, Central Valley will file those on a confidential basis for Commission approval.

VIII. AFFILIATE TRANSACTION RULES AND REPORTING

Central Valley, consistent with the Commission's general approach toward other new entrants to the competitive gas storage market, should be exempt from the Commission's affiliate transaction rules. As the Commission stated in addressing LGS's application:

An issue also exists as to whether LGS should be exempt from compliance with the Commission's Affiliate Transaction Rules. Pursuant to D.99-09-002, the Commission has modified the Affiliate Transaction Rules so that the utilities which were respondents to that proceeding, and any other utilities which the Commission subsequently designates, should be subject to the Affiliate Transaction Rules. D.99-09-002 did not require Wild Goose to comply with the Affiliate Transaction Rules at this time because, among other reasons, Wild Goose was not a respondent to the Affiliate Transaction proceeding (Rulemaking 97-04-011/Investigation 97-04-012), and did not possess market power in the California gas storage market or the ability to cross-subsidize Wild Goose's affiliates with ratepayer assets. Although no party raises the issue of whether LGS should be subject to the Affiliate Transaction Rules, because LGS was also not a respondent to the Affiliate Transaction proceeding, and it does not possess market power in the California gas storage market or the ability to cross-subsidize LGS'

affiliates with ratepayer assets at this time, we do not now apply the Affiliate Transaction Rules to LGS.³⁸

Similarly, Central Valley, as a new utility, was not a respondent to any of the Commission's affiliate transaction rule proceedings, does not possess market power in the California gas storage market, and lacks the ability to cross-subsidize its affiliates with ratepayer assets.

The Commission also followed a similar approach in the Wild Goose case,³⁹ in response to a petition for modification of its original CPCN:

WGSJ [Wild Goose] operates under a regime of market-based rates, rather than traditional cost-based rates. We agree with the company that many of the requirements of the annual reports contemplate cost-based ratemaking and serve little purpose in the Commission's regulation of WGSJ. The company's request here is supported by the same facts that we noted in D.98-06-083 when we exempted WGSJ from the requirement to file cost justifications for its tariffs. In that decision, we stated that:

- WGSJ charges market-based rates, not cost-based rates;
- The company is not subject to a traditional cost-of-service, rate-of-return regulatory framework;
- Ratepayers bear no risk for WGSJ's investment and operations; the company operates at complete risk to its shareholders (WGSJ has no ratepayers in the usual sense; all customers take service voluntarily, and all have other competitive options);
- WGSJ has no market power and a negligible ability to engage in predatory pricing; and
- It is unnecessary to place a high regulatory burden on a new entrant, such as WGSJ. (D.00-12-030, pp. 4-5, citing to D.98-06-083, pp. 5-6.)

Again, these same factors apply here. Central Valley is requesting market-based, not cost-based rates, and will not be subject to traditional cost-of-service, rate-of-return

³⁸ D.00-05-048 at 65-66.

³⁹ In addition to relief from the affiliate transaction rules, Wild Goose also obtained relief from the reporting requirements of General Order (GO) 65-A, GO 77-M, and GO 104-A.

regulation. Ratepayers will bear no risk for Central Valley's investment and operations, Central Valley has no market power and a negligible ability to engage in predatory pricing, and Central Valley is a new entrant.

In short, Central Valley is in the same position as LGS and Wild Goose when they first entered the competitive gas storage market. As such, Central Valley should be exempted from the Commission's affiliate transaction rules. In addition, there should be no prohibitions on an affiliate being a customer of Central Valley. Any such affiliated customers would be treated the same as any non-affiliated customers and of course, would be afforded no preferential access to information or services.

Subsequently, in the wake of the California energy crisis, and after LGS and Wild Goose had become established participants in the gas storage market, the Commission did impose certain company-specific affiliate transaction restrictions on Wild Goose⁴⁰ and LGS.⁴¹ The Commission has continued to impose those restrictions on LGS because: "[n]othing in the application here suggests that the gas storage injection and withdrawal markets are any less concentrated today than they were when D.03-02-071 was decided."⁴²

Here, however, by the time Central Valley's Project becomes operational, the markets will be significantly less concentrated due to the anticipated entry of Sacramento Natural Gas and Gill Ranch, as described above, as well as the entry of Central Valley.

⁴⁰ D.02-07-036 at 17-21.

⁴¹ D.03-02-071 at 17-18.

⁴² D.06-03-012 at 30; *see also*, D.08-02-035 at 29.

In addition, Central Valley will be a new entrant, and Central Valley's potential market share (even fully subscribed) will be much smaller than that of Wild Goose or LGS.

Accordingly, the record in this proceeding and the Commission's standard policy and practice in this area support an exemption for Central Valley from the affiliate transaction rules. Central Valley has no affiliate utilities or marketers operating in California. To the extent its affiliate, Northern Illinois Gas Company d/b/s Nicor Gas Company (a local distribution company) is providing tariff services to customers under cost-based rates, Nicor Gas Company as a public utility is subject to regulation by the Illinois Commerce Commission.

Central Valley understands that, even though it will have no market power, no cost of service rates, and no ability to cross-subsidize its affiliates to the detriment of its California customers, the Commission has a duty to ensure that future developments do not create potential issues. Accordingly, in lieu of the affiliate transaction rules and the reporting requirements of General Order (GO) 65-A, GO 77-M and GO 104-A, Central Valley will voluntarily provide reports to the Commission similar to those required of Wild Goose, in D.02-07-036, and LGS, in D.03-02-071 and D.06-03-012.⁴³

Specifically, Central Valley will provide prompt notification to the Commission of the following: (1) Central Valley's own purchase of other natural gas facilities, transmission facilities, or substitutes for natural gas, like liquefied natural gas facilities; (2) an increase in the storage capacity or in the interstate or intrastate transmission

⁴³ The revised requirements imposed on Lodi in D.08-01-018 are inapplicable, as they were adopted as part of a settlement addressing a transfer of control that raised concerns about a potential "commonality of interest" between Lodi and Wild Goose. No such issues are present here.

capacity held by affiliates of its parent, Nicor, or a successor, to the extent any such increase is in or directly connected to California; and (3) a merger or other acquisition involving affiliates of Nicor or a successor and another entity that owns gas storage or transmission facilities or facilities that use natural gas as an input, such as electric generation, to the extent any such facilities are in or directly connected to California.

In addition, Central Valley will provide the Commission with quarterly transaction summaries for all short-term transactions (one year or less). The transaction summaries will list, for all tariff services, the purchaser, the transaction period, the type of service (e.g. firm, interruptible, balancing, etc.), the rate, the applicable volume, whether there is an affiliate relationship between Central Valley and the customer, and the total charge to the customer. For long-term transactions (longer than one year) in compliance with the pro forma agreements, Central Valley will submit for informational purposes the actual individual service agreement for each transaction within 30 days of the date of commencement of service on a confidential basis.⁴⁴ For all transactions that deviate from the pro forma agreements, Central Valley will submit the individual service agreements for approval prior to commencement of service on a confidential basis.

All reports will be provided to the Director of the Commission's Energy Division, and the reports, or portions of the reports, may be submitted under the confidentiality and nondisclosure provisions of General Order 66-C and California Public Utilities Code §583.

⁴⁴ See, e.g., D.02-07-036 at 20.

IX. STORAGE SERVICE DATA

In compliance with the Commission's Rule 3.1(k), Central Valley submits that:

1. The Project is designed to receive gas from, and deliver gas to, PG&E's Line 400/401 natural gas transmission system. The maximum storage withdrawal and injection capability will be 300 MMscf/d. Gas delivered into PG&E's transmission system must meet PG&E's gas quality requirements.
2. Copies of summaries of all contracts for gas storage services will be made available to the Commission or any authorized employee thereof for inspection on a confidential basis in accordance with General Order 66-C and California Public Utilities Code §583. Central Valley shall not be required to state the terms and provisions of individual contracts in this Application, pursuant to Rule 3.1(k)(1)(B). If such terms and conditions are provided to the Commission, they shall remain confidential and not be made public or available for public inspection.

X. PROPOSED CATEGORY, ISSUES, AND SCHEDULE

This application should be categorized as rate setting under Commission Rules 1.3 and 7.1. The issues to be addressed include the definition of the physical facilities and the services to be provided (including the ramping up of the capacity of the field), authorization for market-based rates and associated tariffs, and reporting requirements. Additionally, based on the PEA's findings that all environmental impacts are either insignificant or can be reduced to an insignificant level through proposed mitigation measures, the Central Valley Project should be issued a Mitigated Negative Declaration.

Central Valley respectfully submits that this Application, including the PEA and all other Exhibits, provides a complete and sufficient record necessary for Commission's determination that public convenience and necessity require the construction and operation of the Central Valley Project. There are no contested material issues of fact, so

evidentiary hearings are not needed. In case the Commission determines a need for a hearing, Central Valley proposes the following schedule:

Application Filed	August 5, 2009
Public Notice	August 10, 2009
Application Deemed Complete	September 4, 2009
Protests Due	September 9, 2009
Reply to Protests	September 21, 2009
Pre-hearing Conference (if required)	October 1, 2009
Mitigated Negative Declaration Completed	November 19, 2009
Proposed Decision Issued	March 31, 2010
Final Decision Issued	May 31, 2010

Central Valley respectfully requests the Commission to issue its decision with the time limits of the above proposed schedule.

XI. COMPLIANCE WITH PROCEDURAL REQUIREMENTS

A. Commission's Rules

The chart below provides a list of applicable CPUC Rules with references to sections of this Application where Central Valley provided information to comply with these Rules.

CPUC Rule	Application Reference
Rule 2.1	pp. 1, 41- 42.
Rule 2.1(a)	Section I.(A) and Section II.
Rule 2.1(b)	Section II.(B).
Rule 2.1(c)	Section X.
Rule 2.2	Section I.(A), Section II.(A) and Exhibit A.
Rule 2.3	Exhibit B.
Rule 2.4	Section I.(C) and Exhibit D.
Rule 3.1(a)	Section III.(A)-(F) and Exhibit D.

Rule 3.1(b)	Section III.(G).
Rule 3.1(c)	Section III.(H) and Exhibit C.
Rule 3.1(d)	Section III.(I) and Exhibit I.
Rule 3.1(e)	Section IV.
Rule 3.1(f)	Section III.(K).
Rule 3.1(g)	Section III.(K) and Exhibit B.
Rule 3.1(h)	Section V.
Rule 3.1(i)	Section II.(A), Section III.(M) and Exhibit B.
Rule 3.1(k)	Section IX.

B. Service

Central Valley has mailed a copy of this Application to all utilities, corporations, persons or other entities, whether publicly or privately operated, with which the proposed construction is likely to compete, and of the cities or counties within which service will be rendered in the exercise of the requested certificate. In addition, Central Valley has mailed the Notice of Availability, attached as Exhibit F hereto, to all known owners of record of all land that the Project will encompass and adjacent land. A Certificate of Service certifying that a copy of the Notice of Availability has been mailed to each such person named is attached as Exhibit G hereto.

XII. CONCLUSION AND REQUEST FOR RELIEF

Central Valley respectfully requests that the Commission issue an order that:

1. Grants Central Valley a Certificate of Public Convenience and Necessity for construction and operation of the Project;
2. Determines that Central Valley is a public utility gas corporation under Public Utilities Code sections 216 and 222;

3. Grants Central Valley authority to charge market based rates for firm and interruptible natural gas storage services;
4. Approves Central Valley's proposed tariff;
5. Approves Central Valley's proposed reporting requirements;
6. Adopts a Mitigated Negative Declaration and issues a Notice of Determination, pursuant to CEQA on the data presented in the PEA, with respect to the proposed construction and operation of the Project;
7. Determines that Central Valley is exempt from the requirements of Code Sections 818 and 851 and the Commission's Competitive Bidding Rule because Central Valley will assume all financial risks of the Project; and
8. Determines that Central Valley is exempt from filing any financial reports required of public utilities with traditional cost based rates and any and all, other necessary approvals and authorizations for Central Valley to become a public utility, operate the Project and provide market-based gas storage services.

Respectfully Submitted,

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Attorneys for Central Valley Gas Storage, LLC

August 5, 2009

EXHIBIT A

**ORGANIZATIONAL DOCUMENTS OF
CENTRAL VALLEY GAS STORAGE LLC**

EXHIBIT A

ORGANIZATIONAL CHART OF NICOR INC. AND MAJOR SUBSIDIARIES

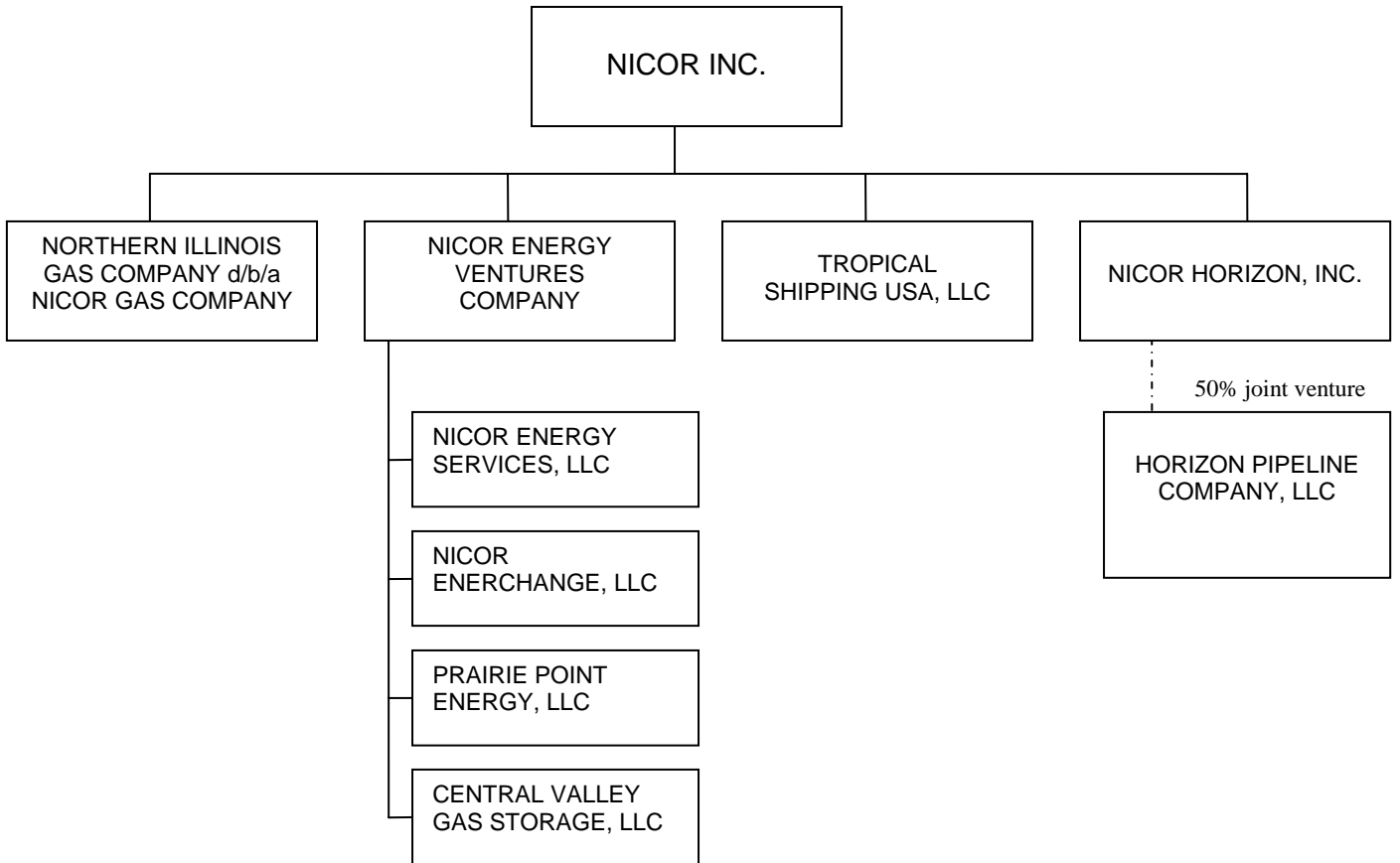


EXHIBIT B

ANNUAL REPORT

2008 FORM 10-K AND PROXY STATEMENT OF NICOR INC.

EXHIBIT C

MAP OF PROJECT INCLUDING OTHER ENTITIES LIKELY TO COMPETE

EXHIBIT D

PROPONENT'S ENVIRONMENTAL ASSESSMENT ("PEA")

[See Attached]

EXHIBIT E
CENTRAL VALLEY TARIFF

EXHIBIT F

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

Application of Central Valley Gas Storage, LLC
for a Certificate of Public Convenience and
Necessity for Construction and Operation of
Natural Gas Storage Facilities

Application No. 09-08-____
(Filed August 5, 2009)

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

On August 5, 2009, Central Valley Gas Storage, LLC (“Central Valley”) filed an Application for a Certificate of Public Convenience and Necessity (“CPCN”) to authorize the construction and operation of an underground natural gas storage facilities (the “Project”), to be located in Colusa County, California, approximately 60 miles north and west of the City of Sacramento. Central Valley 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 Central Valley a CPCN for authority to develop, construct, and operate the Project;
2. Authorize Central Valley to provide firm and interruptible gas storage services at market-based rates;
3. Determine that Central Valley is a public utility gas company under California Public Utilities Code sections 216 and 222; and
4. Adopt a Mitigated Negative Declaration and issue a Notice of Determination pursuant to the California Environmental Quality Act for the Central Valley Project.

The proposed Central Valley Project will convert the depleted Princeton Gas Field, near the unincorporated town of Princeton in Colusa County, California, into an underground natural gas storage field with (1) a working storage capacity of up to 8 Bcf and associated injection/withdrawal, observation and salt water disposal wells; (2) a compressor station with three 3,550 horsepower (“hp”) gas-fired compressors; (3) a 14.2

mile, 24-inch natural gas pipeline to transport gas to and from the storage field to an interconnection with PG&E's Line 400/401 transmission pipeline; and (4) a 300-foot, 12-inch gas pipeline, a meter skid and rental compressor unit to permit Central Valley to temporarily transport gas for injection into the storage field as base gas and initial fill to 5.5 Bcf before the pipeline to PG&E's Line 400/401 is completed; and (5) a metering station located near PG&E's Line 400/401.

The complete 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, Central Valley 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.

Christopher A. Schindler
Hogan & Hartson LLP
555 Thirteenth Street, N.W.
Washington, DC 20004
Telephone: (202) 637-5723
Facsimile: (202) 637-5910
E-mail: CASchindler@hhlaw.com

August 5, 2009

EXHIBIT G

CERTIFICATE OF SERVICE BY MAIL

I hereby certify that I have this day served a copy of this Application No. 09-08-___ 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 and that I have this day served by first-class mail with postage prepaid a Notice of Availability of this Application, attached as Exhibit F to the Application, on each landowner named on Appendix A to the Proponent's Environmental Assessment, attached as Exhibit D to the Application.

Executed on August 5, 2009, at Washington, D.C.

Christopher A. Schindler
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Washington, DC 20004
Telephone: (202) 637-5723
Facsimile: (202) 637-5910
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SERVICE LIST

The City of Colusa, CA
City Clerk
415 Webster St.
Colusa, CA 95932

County Manager of Colusa County, CA
546 Jay St.
Colusa, CA 95932

Pacific Gas and Electric Company
Law Department
Attn: Judi K. Mosley
77 Beale Street
San Francisco, CA 94105

Southern California Gas Company
Attn: Richard M. Morrow
555 W. Fifth Street, Suite 1400
Los Angeles, CA 90013

Lodi Gas Storage, LLC
c/o James W. McTarnaghan
Duane Morris, LLP
One Market, Suite 2000
San Francisco, CA 94105

Wild Goose Storage Inc.
c/o Jeanne B. Armstrong
Goodin MacBride Squeri Day & Lamprey LLP
505 Sansome Street, Suite 900
San Francisco, CA 94111

El Paso Natural Gas Company
P.O. Box 1087
2 North Nevada Avenue
Colorado Springs, CO 80944

Transwestern Pipeline Company
711 Louisiana, Suite 900
Houston, TX 77002

Gas Transmission Northwest
1400 SW 5th Avenue, Suite 900
Portland, OR 97201

Mojave Pipeline Company
Western Pipelines
P.O. Box 1087
Colorado Springs, CO 80944

Kern River Gas Transmission Company
2755 E. Cottonwood Parkway, Suite 300
Salt Lake City, UT 84121

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

Sacramento Natural Gas Storage, LLC
c/o Law Office of Alfred F. Jahns
3436 American River Drive, Suite 12
Sacramento, CA 95864

Gill Ranch Storage, LLC
220 NW Second Avenue
Portland, OR 97029

EXHIBIT H
VERIFICATION AFFIDAVIT

Application of Central Valley Gas Storage, LLC
for a Certificate of Public Convenience and
Necessity for Construction and Operation of
Natural Gas Storage Facilities

Application No. 09-08-____
(Filed August 5, 2009)

State of Illinois)
) SS:
County of DuPage)

I, Stephen Cittadine, being duly sworn on my oath, depose and state that I am the President of Central Valley Gas Storage LLC, that as such I am authorized to make this verification on behalf of Central Valley Gas Storage LLC. I have read the foregoing application and that the statements contained therein are true and correct to the best of my knowledge, information and belief based upon representations by Central Valley Gas Storage LLC personnel.

Stephen Cittadine
President of Central Valley Gas Storage, LLC

Subscribed and sworn to before me, the undersigned Notary Public, this ____ day of _____ 2009

My commission expires: _____

Notary's signature

EXHIBIT I

LIST OF PERMITS AND APPROVALS

Agency	Type of Permit or Approval
Federal	
U.S. Army Corps of Engineers (USACE)	Section 404 of the Clean Water Act—Letter authorizing the use of nationwide permits (possibly No. 12 and 33) for the discharge of fill material into waters of the United States
U.S. Fish and Wildlife Service (USFWS)	Section 7 of the Federal ESA—Biological Opinion for potential take of federally listed species
State	
California Department of Conservation, Division of Oil, Gas and Geothermal Resources (DOGGR)	Permit to drill wells and conduct well operations Authorization to inject produced water Permit to operate Princeton Gas Field as a storage field
California Department of Fish and Game (DFG)	Streambed Alteration Agreement under Section 1602 of the California Fish and Game Code to trench through drainages that qualify as waters of the State Concurrence under Section 208 for potential impacts on state-listed wildlife species
California Department of Transportation (Caltrans), District 3	Encroachment permits for installing the pipeline under I-5
California Public Utilities Commission (CPUC)	CPCN—Approval to construct and operate the natural gas facility CEQA—Adoption of a mitigation negative declaration or certification of an environmental impact report for the proposed project
Reclamation Board	Encroachment permit for installation of the gas pipeline under the Colusa Trough
Central Valley Region Water Quality Control Board (RWQCB)	Section 401 of the CWA—Water Quality Certification required as part of Section 404 permit from USACE
State Water Resources Control Board (SWRCB)	Section 402 of the CWA—National Pollutant Discharge Elimination Systems Permit for the disturbance of more than 1 acre of land
State Historic Preservation Office (SHPO)	Section 106 of the National Historic Preservation Act (NHPA)—required to comply with Section 404 of the CWA
Local	
Colusa County Air Pollution Control District (CCAPCD)	Authority to Construct/Permit to Operate (to cover compressor station emissions)
Colusa County Environmental Health Department	Water well permit for the compressor station
Colusa County Planning and Building Department	Building permits for compressor station and metering station
Colusa County Public Works Department	Grading permit for all project components Encroachment and transportation permits may be required for construction within a public right of way and for hauling any loads that exceed legal limits Non-residential development permit to construct a structure (compressor station) in an area determined to be a special flood hazard (Zone A)
Glenn-Colusa Irrigation District	Conduit crossing/encroachment permit to install the gas pipeline under the Glenn-Colusa Canal

