

1: Introduction

1.1 Introduction

Southern California Gas Company (SCG), a regulated California utility, submitted an application to the California Public Utilities Commission (CPUC) to decommission and sell its Montebello Gas Storage Facility (MGSF, SCG Station No. 14) located in the cities of Montebello and Monterey Park, California (See Figures 1.1-1 and 1.1-2). The CPUC must determine whether to authorize the proposed project that includes:

- Recovery and sale of cushion gas
- Decommissioning of the facility
- Sale of all facility assets under California Public Utilities Code 851

The MGSF consists of several sites:

- Main Facility (29 ac of land)
- East Site (11 ac of land)
- 14 Townsite Lots

This Initial Study was prepared in accordance with §15063 of the California Environmental Quality Act (CEQA) Guidelines to evaluate the potential environmental consequences of the project. The CPUC is issuing this Draft Mitigated Negative Declaration and Initial Study to all Parties of Record in Application No. 00-04-031, potentially affected agencies, and other interested members of the public.

1.2 Background

The MGSF is an underground reservoir for the storage of approximately 40 billion cubic feet (Bcf) (at standard temperature and pressure) of natural gas. In addition to the reservoir, there are various above ground facilities including buildings, storage tanks and

well heads that are integral to the field's operation. SCG has operated the MGSF since 1956.

The MGSF was once an integral component of the Company's overall system for the storage and delivery of natural gas to its Los Angeles service area. Based on SCG's evaluation of their overall system needs, they determined that the MGSF is no longer required to ensure the adequate delivery of natural gas to their service area. On January 16, 1998, SCG filed an application with the CPUC, including a Proponent's Environmental Assessment (PEA) seeking approval to sell the MGSF.

After initial review of the application, Commission staff asked that an amendment to the original PEA be filed to address environmental impacts associated with abandonment of the facility and potential future uses of the facility's lands allowed by existing land use regulations. SCG filed the amendment on June 29, 1998.

A controversy later arose that resulted in an Order Instituting Investigation into the operations and practices of SCG (I.99-04-022) by the CPUC's Consumer Services Division (CSD). The investigation concluded with a Settlement (Decision 00-09-034) reached between SCG and the CSD on September 7, 2000.

A PEA comprised of the January 16, 1998 PEA and its June 29, 1998 amendment was submitted to the CPUC in April 2000. A Revised Supplement to the PEA, consisting of revisions to the April 2000 PEA was submitted in July 2000.

1.3 Project Summary

PROJECT OBJECTIVES

Application 00-04-031 was filed by SCG on April 20, 2000. In this application, SCG sought authorization from the Commission pursuant to Public Utilities Code Section 851 to sell its property at the West Montebello gas storage field, including all working and cushion gas in storage, to the highest bidder in a sealed bid process. SCG also proposed to establish a confidential reserve price and to salvage and abandon the field itself if no bid submitted exceeded the reserve price.

In its limited protest filed May 30, 2000 in response to the application, the Office of Ratepayer's Advocates (ORA) suggested that the parties explore the alternative of having SCG immediately proceed to withdraw and sell all of the gas in storage that was feasible and economical to recover, and to then salvage the remaining property.

The signatories to the Settlement filed November 20, 2000, pursuant to Rules 51 through 51.10 of the Commission's Rules of Practice and Procedure, agreed to a revision of the application consistent with the suggestion made by ORA in its limited protest.

The following is an excerpt from that Settlement:

There is every reason to conclude that SCG does not need to retain ownership and operation of the field to provide just, reasonable, adequate and efficient utility service. While Southern California Edison (SCE) and Southern California Generation Coalition (SCGC) raised some concerns about this subject in 1998, SCG has now operated three and a half years, since April 1997, without having cycled gas in or out of the field, and there have been no impacts on quality of service to customers. Even at recent high gas demand levels, utilization of SCG's storage inventory capacity is well below SCG's inventory capacity

without Montebello, and use of withdrawal capacity has been well below SCG's withdrawal capacity without Montebello. Retention or sale of Montebello would have no impact on San Diego Gas & Electric's (SDG&E) capacity to meet the maximum daily demand for gas on SDG&E's system.

Furthermore, SCG's testimony shows that if the capacity of the field were ever needed in the future, it would be more efficient to provide that capacity from additions to the capacity of other existing SCG fields. The inefficiency of continuing to maintain the West Montebello field has only been magnified over recent periods by the substantial increase in the market price of natural gas.

The Settlement is also in the public interest in its treatment of the removal of the cost of ownership and operation of Montebello from current rates. The Settlement's 70/30 allocation between core and noncore customers of ratepayer gain-on-sale is reasonable in light of the general allocation of storage costs between core and noncore customers over the course of several past BCAP decision cycles. The Settlement's provision allocating authorized margin reduction between customer classes on the basis of the last BCAP's class allocation of "scalar" costs is in the public interest because that is how Montebello cost in rates today is allocated between customer classes.

It is therefore the Settlement that established the Project objectives to:

- Recover and sell cushion gas
- Decommission the facility
- Sell all facility assets

PROJECT PROCESS FOR DECOMMISSIONING AND SALE OF MGSF

SCG would not immediately sell all of its property at the MGSF. Rather, SCG would withdraw, as quickly as possible and economically reasonable, all remaining working and cushion gas in storage at the field. Working gas would be withdrawn and included in the portfolio of gas supplies sold by SCG to its gas procurement customers at tariffed rates. Cushion gas withdrawn from storage would be sold by SCG on the open market (to marketers of gas, for example) at market price.

The existing assets can generally be characterized as:

- Stored natural gas
- Undeveloped land
- Equipment and structures

In brief, the decommissioning would include:

- Recovery and sale of stored gas
- Abandonment of all wells
- Demolition and removal of all surface improvements, such as buildings
- Sale of remaining assets (principally land)

A detailed description of the facility, the decommissioning stages, and the assets to be sold is presented in Section 2, Project Description.

1.4 Regulatory Framework

A variety of public agencies in addition to the CPUC exercise varying types of authority over the MGSF's operation and sale as described briefly below.

CPUC CEQA REVIEW

The CPUC's discretionary authority to approve or deny the proposed decommissioning and sale of the MGSF assets is defined as a project under provisions of CEQA. As a project, the CPUC must conduct an environmental evaluation (Initial Study) of the proposal to identify any potentially significant environmental impacts that may result from the project's implementation. As part of the environmental analysis, the CPUC must also identify mitigation measures that can feasibly reduce the potentially significant environmental impacts to a less than significant level.

Before taking action on the proposed project, the CPUC must first review and consider this Initial Study and accompanying Mitigated Negative Declaration (MND) and adopt the MND with mitigation measures.

If, following their review of the Initial Study and MND the CPUC were to conclude that there were additional areas of potential environmental impact, or that not all of the mitigation measures were reasonably feasible, the CPUC could require the preparation of an Environmental Impact Report (EIR) prior to taking action on the application.

OTHER RESPONSIBLE AGENCIES

In addition to the CPUC's role as Lead Agency for the proposed project, there are other agencies that have responsibility for specific aspects of the project. These types of agencies are referred to as Responsible Agencies, and their roles are briefly described below.

Division of Oil, Gas, and Geothermal Resources

The Division of Oil, Gas, and Geothermal Resources (DOGGR) has general oversight authority for wells and associated facilities. On July 10, 1986 DOGGR issued a Project Approval Letter, including operating conditions, to SCG giving authority to operate the underground storage project.

Among DOGGR's roles are the granting of approvals for any operation to drill a new well or to alter the casing on an existing well, the review and approval of well abandonment plans, the conduct of field inspections during and after well abandonment operations, and the issuance of certification that wells have been properly abandoned and that all well remnants have been properly cleaned up and removed.

DOGGR also receives monthly reports from well operators that indicate the volume of gas injected and withdrawn, the amount of oil and water produced from each well, and the well's pressure. Also included in DOGGR's responsibilities are the regular inspection of wells, piping, and tanks and the semi-annual witnessing of tests of well safety shut down systems.

California Public Utility Commission's Safety Branch Division

The California Public Utility Commission's Safety Branch Division enforces federal Department of Transportation (DOT) pipeline safety rules (CFR Part 192) for design, construction, operation, and maintenance of all gas piping and compressors that fall under the definition of transmission piping in the Code of Federal Regulations (CFR) Part 192.

Cities of Montebello and Monterey Park

The MGSF is located in the cities of Montebello and Monterey Park. The cities exercise land use police powers over all lands and uses within their respective cities through the General Plan, zoning and building permits.

The current gas storage operation was initially permitted by the City of Montebello on August 1, 1955 by way of a Special Use Permit. Following the initial permit, the city issued a Conditional Use Permit on June 17, 1957. These permits:

- Establish limitations on noise at the facility's boundaries
- Define the hours allowed for various types of activities
- Establish guidelines for the building design
- Establish requirements for landscaping and screening vegetation
- Address public nuisance issues such as traffic, odor, dust, and vibration

In addition to permitting operating of the MGSF as a facility for the storage of natural gas, the permits state that the production of liquid from the storage reservoir is allowed only as an activity incidental to the gas storage operation.

The permits are valid as long as gas storage operations continue and the operator abides by the conditions established in the permits.

It should be noted that the City of Monterey Park has not issued any permits to the MGSF inasmuch as the only activity of the MGSF within Monterey Park is situated below ground. There are no above ground facilities associated with the MGSF in the City of Monterey Park except for several well heads.

After decommissioning and sale, the cities would continue to have jurisdictional authority over use of the various MGSF properties. Under provisions of the current General Plan and zoning regulations the various properties can be developed with either residential (Montebello) or industrial (Monterey Park) uses. Approval of those types of uses would require separate actions by the cities, including review under provisions of CEQA.

South Coast Air Quality Management District

The South Coast Air Quality Management District (SCAQMD) regulates emissions from the MGSF. The facility is permitted as a federal Environmental Protection Agency (EPA) Title V facility, and currently is under the RECLAIM regulations. Annual and quarterly reports of all air emissions are submitted to the SCAQMD. When the compressors are actively running, periodic source tests are required to ensure that the units do not exceed their emission limits. Any change to air emitting equipment requires a permit from the SCAQMD.

County of Los Angeles

The City of Montebello contracts with the County of Los Angeles to oversee SCG's hazardous material and hazardous waste plans and practices. SCG is required to maintain a current Business Plan. The County inspects SCG's hazardous waste containment area, gasoline storage and dispensing equipment, and fire prevention and fire fighting equipment. The County of Los Angeles Health Services Department has issued a hazardous waste permit for the facility and oversees its implementation.

Any release of hazardous materials to the environment (including crude oil) over the reporting threshold must be reported to one or more of the following agencies, depending on the material released and the release location:

- DOGGR
- California Department of Fish and Game
- Los Angeles County Flood Control
- California Office of Emergency Services
- United States Coast Guard

State Water Resources Control Board

The State Water Resources Control Board requires SCG to have a Storm Water Pollution Prevention Plan, and annual reports are filed with the Regional Water Quality Control Board. SCG is also required to have a current Spill Prevention Control and Countermeasure Plan.

County of Los Angeles Sanitation

The Los Angeles County Sanitation Department has issued a permit to SCG to discharge waste water to the industrial sewer. The Sanitation District performs regular inspections to ensure that the wastewater quality standards specified in the permit are met.

SMARA

The Surface Mining and Recovery Act (SMARA) regulates operating and abandoned mines and quarries. The Main Facility site was a gravel quarry when SCG purchased it. SMARA was determined not to apply to the Main Facility, as the site had not been used for a quarry since before 1976. No measures are required for restoration of the high steep slopes along the western perimeter of the site.

Operating Industrial Inc. Landfill

New Cure is remediating the Operating Industries Inc. (OII) Landfill adjacent to the Main Facility and has installed and will be installing several groundwater-monitoring wells. Licenses allow New Cure and the United States EPA access to these wells and sites, with the access to be maintained after sale of the property.

California Occupational Safety and Health Administration

The California Occupational Safety and Health Administration (Cal/OSHA) regulates the safety of equipment and operations. Cal/OSHA performs inspections of equipment and issues permits for pressurized air vessels at the MGSF.

Montebello Fire Department

The Montebello Fire Department performs regular inspections of active wells and other facilities to ensure that no fire hazard is present. The Fire Department also issues well abandonment permits independent of DOGGR permits and inspects the final capping of wells prior to providing final approval of the permit.