

STAFF REPORT

52

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08/23/19
PRC 8863.1
R. Collins
J. Fabel

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ASSIGNMENT AND AMENDMENT OF LEASE

LESSEE/ASSIGNOR:

Gill Ranch Storage, LLC

APPLICANT/ASSIGNEE:

SENSA Holdings, LLC

AREA, LAND TYPE, AND LOCATION:

Sovereign land in the San Joaquin River and Fresno Slough, near Mendota, Fresno and Madera Counties.

AUTHORIZED USE:

Use, operation, and maintenance of a 30-inch-diameter steel natural gas pipeline.

LEASE TERM:

20 years, beginning February 1, 2010.

CONSIDERATION:

\$1,789 per year, with the State reserving the right to fix a different rent periodically during the lease term, as provided in the lease.

PROPOSED AMENDMENT:

Amend the lease to:

- Increase the surety bond from \$50,000 to \$250,000.

All other terms and conditions of the lease shall remain in effect without amendment.

STAFF ANALYSIS AND RECOMMENDATION:

Authority:

Public Resources Code sections 6005, 6216, 6301, 6501.1, and 6503;
California Code of Regulations, title 2, sections 2000 and 2003.

STAFF REPORT NO. 52 (CONT'D)

Public Trust and State's Best Interests Analysis:

On February 1, 2010, the Commission authorized a General Lease – Right-of-Way Use to Gill Ranch Storage, LLC (Gill Ranch) for construction, use, and maintenance of a 30-inch-diameter steel natural gas pipeline ([Item C36, February 1, 2010](#)). The lease will expire on January 31, 2030. Gill Ranch is a wholly-owned subsidiary of Northwest Natural Gas Storage, LLC, an Oregon limited liability company. On December 10, 2010, the Commission authorized assignment of a 25 percent undivided interest in the lease to Pacific Gas & Electric Company (PG&E) ([Item C19, December 10, 2010](#)).

On June 20, 2018, Northwest Natural Gas Storage, LLC, and SENSEA Holdings, LLC (SENSEA) executed a purchase and sale agreement with regard to Gill Ranch. SENSEA is a Delaware limited liability company created in 2017 for the purpose of acquiring, owning, and operating natural gas storage facilities. SENSEA is wholly-owned by Sciens eCORP Natural Gas Storage Holdings, LLC, which in turn is owned 50 percent by eCorp Storage, LLC, and 50 percent by Sciens Natural Gas Holdings, LLC.

Paragraph 10 of Section 3 (General Provisions) of the lease considers any sale that results in a change of controlling persons over the lessee as an assignment requiring Commission authorization. The lessee will remain Gill Ranch; however, the ownership interest controlling Gill Ranch will change from Northwest Natural Gas Storage, LLC, to SENSEA. SENSEA, the Applicant, is now applying for an assignment of Lease No. PRC 8863.1 under the change of control provision. Gill Ranch has been and remains in full compliance with the terms of the lease and agrees to remain bound by the terms, conditions, covenants, and agreements contained in the lease.

The lease currently requires a surety bond in the amount of \$50,000 to ensure performance of the terms and conditions of the lease. SENSEA was created in 2017 and does not have a history of financial performance. In order to ensure that Gill Ranch will continue to meet its obligations, including abandoning and decommissioning its pipelines, the Applicant agreed to increase its bond to cover the full cost to decommission its pipeline crossings, as calculated by staff. Staff recommends the Commission amend the lease to increase the surety bond to \$250,000. Consistent with the lease, the Lessee provided staff with pipeline testing and inspection reports dated August 28, 2017. Staff reviewed the testing and inspection reports and found the results consistent with safe operations.

STAFF REPORT NO. 52 (CONT'D)

The proposed lease assignment and amendment do not alienate the State's fee simple interest and would not substantially interfere with Public Trust needs and values at this location. The pipeline is buried 75 to 100 feet underground and does not interfere with navigation, recreation, fishing, or other Public Trust uses.

Climate Change:

This section of the San Joaquin River is not tidally influenced and would not be subject to sea-level rise. As stated in *Safeguarding California Plan: 2018 Update* (California Natural Resources Agency 2018), climate change is projected to increase the frequency and severity of natural disasters related to flooding, drought, and storms. In rivers, more frequent and powerful storms can result in increased flooding conditions and damage from storm-created debris. Conversely, prolonged droughts could dramatically reduce river flow and water levels, leading to loss of public access and navigability. Climate change will further influence riverine areas by changing erosion and sedimentation rates, and flooding and storm flow. Runoff will likely increase scour, decreasing bank stability at a faster rate.

The leased right-of-way include an existing 30-inch-diameter gas pipeline crossing the San Joaquin River and Fresno Slough near the city of Mendota. The pipeline is buried where it crosses the river and slough. Without adequate fill cover over the pipeline, increased flows and scour would result in the removal of the existing fill, posing a risk to uncovering and exposing the pipeline. Regular maintenance and inspection of the pipeline, as required by the terms of the lease, and the considerable depth at which the pipeline is buried, reduce the likelihood of severe structural damage or degradation over the term of the lease.

Conclusion:

For all the reasons above, staff believes the assignment and amendment of this lease will not substantially interfere with Public Trust needs and values at this location, at this time, and for the foreseeable term of the proposed lease; and is in the best interests of the State.

OTHER PERTINENT INFORMATION:

1. The 30-inch-diameter steel, natural gas pipeline transports natural gas to PG&E's gas transmission and distribution systems. Gill Ranch operates as an independent natural gas storage provider subject to the jurisdiction of the California Public Utilities Commission (CPUC). PG&E retains its 25 percent interest in the lease.

STAFF REPORT NO. 52 (CONT'D)

2. The Applicant has applied to the CPUC for approval to purchase Northwest Natural Gas Storage, LLC's, interest in Gill Ranch (CPUC Application No. 18-07-019). Consideration by the CPUC is pending. Public Utilities Code section 854(a) requires [CPUC] authorization before a regulated entity may "merge, acquire, or control...any public utility organized and doing business in this state." The CPUC investigates whether the sale will allow Gill Ranch to maintain safe operations, preserves the financial capacity to respond to safety concerns, and complies with CPUC regulations. The Applicant expects a final determination in either the 3rd or 4th quarter of 2019. The Applicant has requested that the Commission proceed with considering the change of control assignment so escrow can close on the sale upon approval by the CPUC. Staff concurs that CPUC approval is not needed for purposes of the Commission's approval of the assignment of controlling interest because it is a lease administration function separate and apart from the regulatory considerations made by the CPUC over the whole of Gill Ranch's operations. By its terms, the proposed amendment is only effective upon close of the sale meaning that it is conditioned on the CPUC approving the transfer of ownership over Gill Ranch.
3. Approval or denial of the application to assign and amend the lease is a discretionary action by the Commission. Each time the Commission approves or rejects a use of sovereign land, it exercises legislatively delegated authority and responsibility as trustee of the State's Public Trust lands as authorized by law. Upon expiration or prior termination of the lease, the lessee has no right to a new lease or to renewal of any previous lease.
4. This action is consistent with Strategy 1.1 of the Commission's Strategic Plan to deliver the highest levels of public health and safety in the protection, preservation, and responsible economic use of the lands and resources under the Commission's jurisdiction.
5. The assignment of the lease and lease amendment are not projects as defined by the California Environmental Quality Act because they are administrative actions that will not result in direct or indirect physical changes in the environment.

Authority: Public Resources Code section 21065 and California Code of Regulations, title 14, sections 15378, subdivision (b)(5).

EXHIBIT:

- A. Site and Location Map

STAFF REPORT NO. 52 (CONT'D)

RECOMMENDED ACTION:

It is recommended that the Commission:

PUBLIC TRUST AND STATE'S BEST INTERESTS:

Find that the proposed assignment and amendment will not substantially impair the public rights to navigation and fishing or substantially interfere with Public Trust needs and values at this location, at this time, and for the foreseeable term of the lease; and is in the best interests of the State.

AUTHORIZATION:

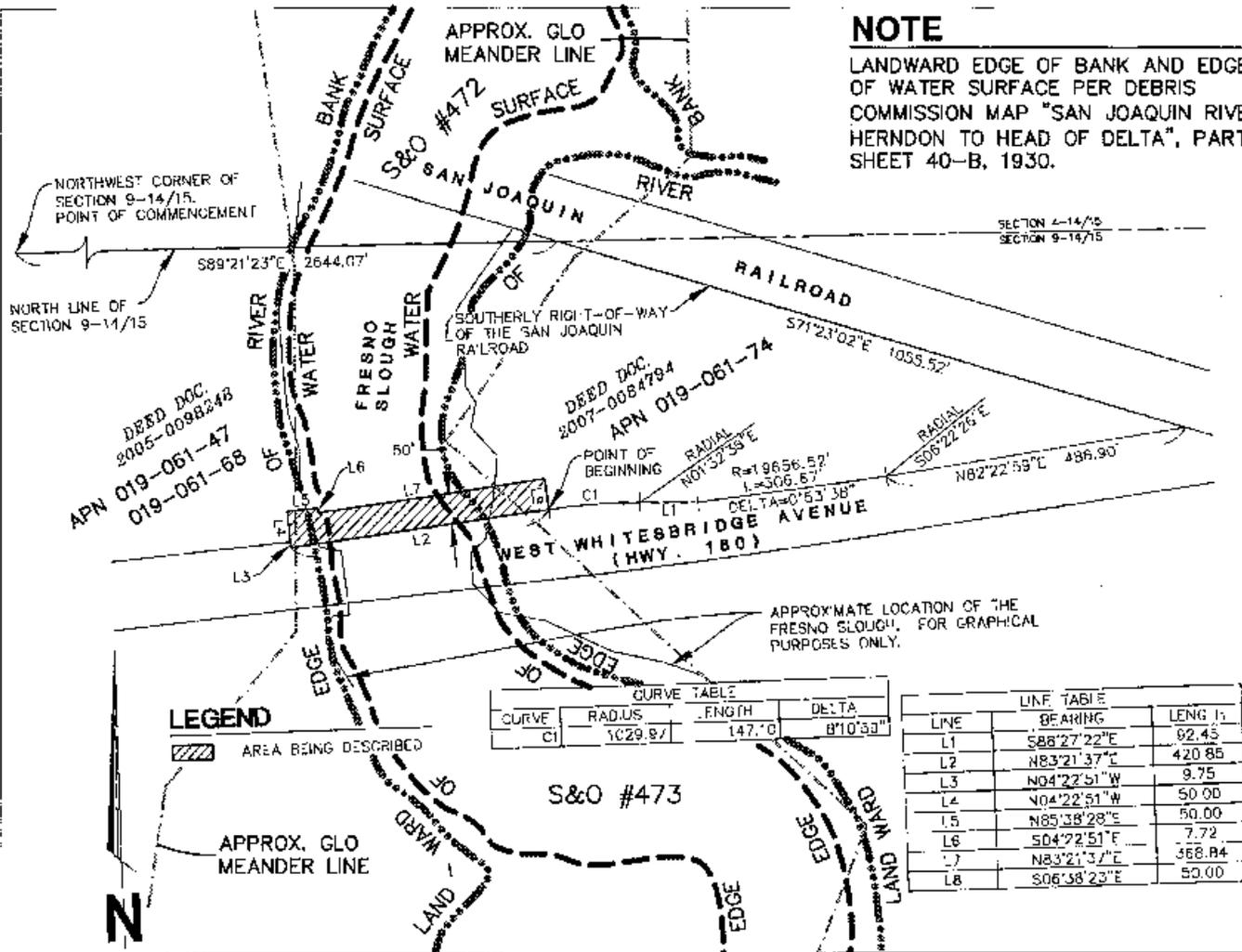
1. Authorize the assignment of controlling interest in Gill Ranch Storage, LLC, from Northwest Natural Gas Storage, LLC, to SENSEA Holdings, LLC. The Lessee will remain Gill Ranch Storage, LLC; effective August 23, 2019.
2. Authorize the amendment of Lease No. PRC 8863.1, a General Lease – Right-of-Way Use, of sovereign land, as described in Exhibit A, Site and Location Map (for reference purposes only), to increase the surety bond from \$50,000 to \$250,000; all other terms and conditions of the lease will remain in effect without amendment; effective the date of execution by both parties.

NO SCALE

SHEET 1 of 2

NOTE

LANDWARD EDGE OF BANK AND EDGE OF WATER SURFACE PER DEBRIS COMMISSION MAP "SAN JOAQUIN RIVER, HERNDON TO HEAD OF DELTA", PART I, SHEET 40-B, 1930.



GILL RANCH STORAGE LLC, PIPELINE CROSSING

NO SCALE

LOCATION

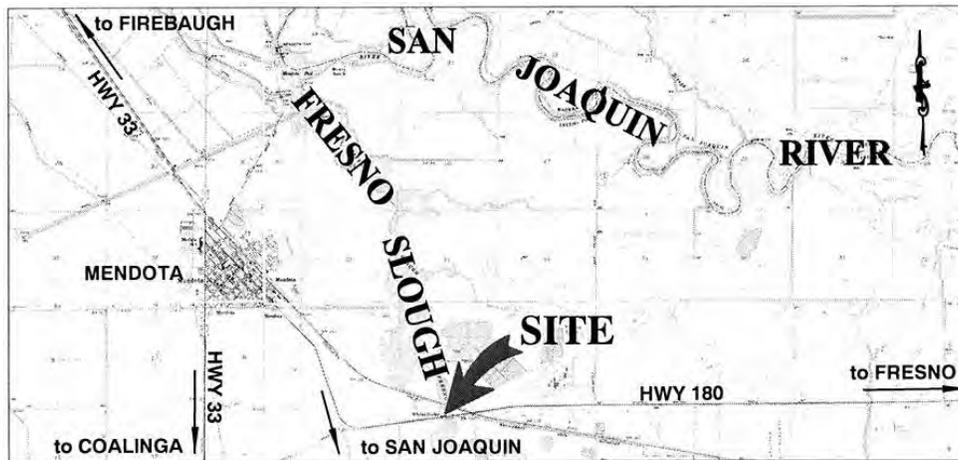


Exhibit A

PRC 8863.1
 GILL RANCH
 STORAGE LLC
 GENERAL LEASE -
 RIGHT-OF-WAY USE
 FRESNO COUNTY



This Exhibit is solely for purposes of generally defining the lease premises, is based on unverified information provided by the Lessee or other parties and is not intended to be, nor shall it be construed as, a waiver or limitation of any State interest in the subject or any other property.

NO SCALE

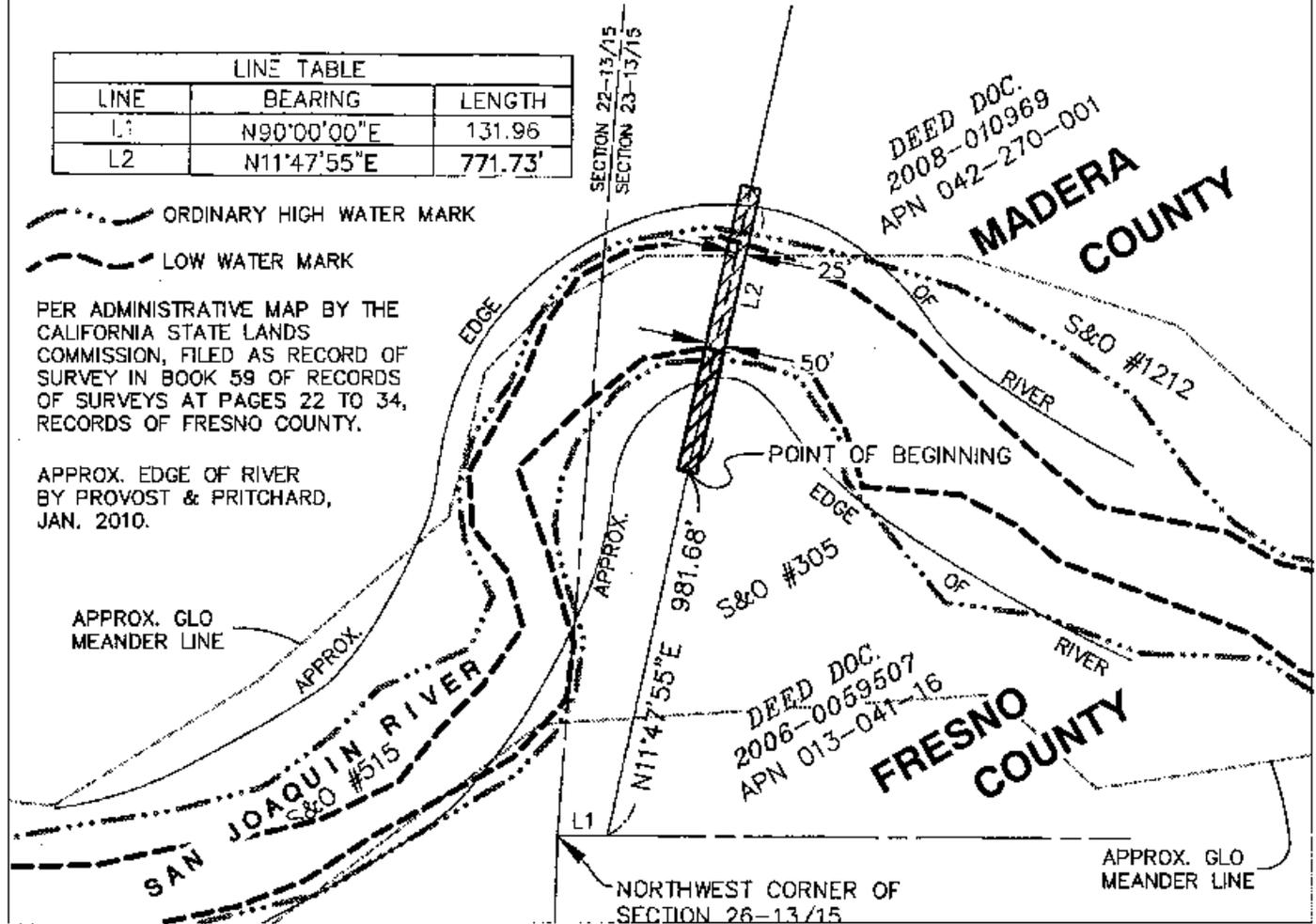
SHEET 2 of 2

LINE TABLE		
LINE	BEARING	LENGTH
L1	N90°00'00"E	131.96
L2	N11°47'55"E	771.73'

--- ORDINARY HIGH WATER MARK
 - - - LOW WATER MARK

PER ADMINISTRATIVE MAP BY THE CALIFORNIA STATE LANDS COMMISSION, FILED AS RECORD OF SURVEY IN BOOK 59 OF RECORDS OF SURVEYS AT PAGES 22 TO 34, RECORDS OF FRESNO COUNTY.

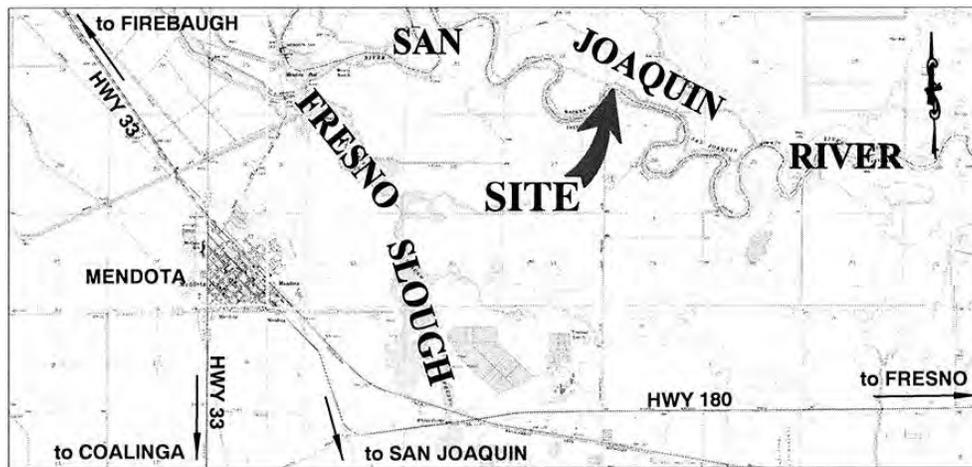
APPROX. EDGE OF RIVER BY PROVOST & PRITCHARD, JAN. 2010.



GILL RANCH STORAGE LLC, PIPELINE CROSSING

NO SCALE

LOCATION



MAP SOURCE: USGS QUAD

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Exhibit A

PRC 8863.1
 GILL RANCH STORAGE LLC
 GENERAL LEASE -
 RIGHT-OF-WAY USE
 FRESNO & MADERA
 COUNTIES

