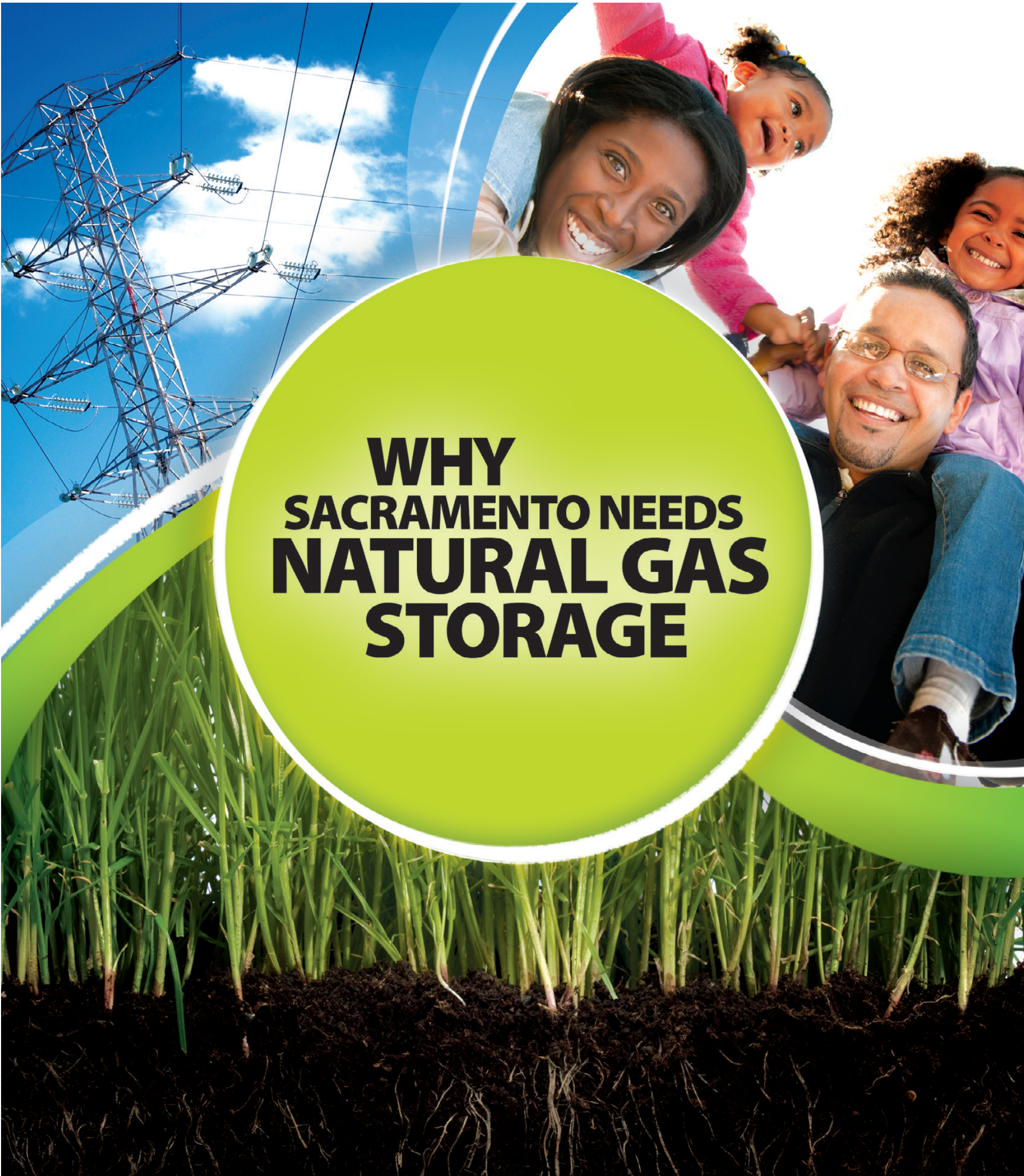




WHY SACRAMENTO NEEDS NATURAL GAS STORAGE

NATURAL GAS PROJECT

providing reliable, safe storage for natural gas is critical for Sacramento

DEAR FELLOW SACRAMENTAN:

As Sacramento has grown into a vital metropolis, the area's energy consumption has soared as well. Sacramentans need a safe, sustainable power source to meet this growing demand. We also need energy policies that protect the environment and make Sacramento a greener city. In short, we need **sustainable, environmentally conscious energy practices that work and make sense**. Natural gas, the cleanest, readily available fuel alternative, is a key part of that strategy.

However, the natural gas used today by the Sacramento Municipal Utility District to generate local electricity comes via a pipeline from outside of California. That supply is continuously at risk from interruptions in production or disruptions along the pipeline. Super-high demand has already caused brownouts. And without a place to store natural gas, we're exposed to price volatility and potential rate increases.

So **providing reliable, safe storage for natural gas is critical for Sacramento**.

Our company, Sacramento Natural Gas Storage, proposes to use an existing dry natural-gas reservoir three-quarters of a mile underground in the partially depleted and now dormant Florin Gas Field. SMUD, which has been working since the energy crisis a decade ago to explore gas-storage alternatives, is supporting this important effort. The stored natural gas will also provide SMUD with a buffer against volatile price fluctuations on the open market, which, in turn, **will help keep electricity rates down**.

We strongly believe this project will ensure a secure, reliable gas supply for the Sacramento area. The facility will store up to 7.5 billion cubic feet of natural gas, supplying SMUD with adequate storage for the fuel needed to power its electrical generating plants and providing natural gas for other utilities, state government and local businesses. We'll use safe, cutting-edge technology and environmentally sound design and operations to safely store and access this vital supply of natural gas in sandstone deep underground.

We will financially compensate area homeowners and **create new jobs to help stimulate the local economy**. In fact, 75 percent of area property owners have already signed up to participate. We will also give thousands of dollars back to the community to support local projects and activities once the SNGS facility is up and running through Our Neighborhood Partnership, the Community Foundation, administered by community residents. And SNGS, unlike many other new businesses, is not asking for any tax breaks or other government subsidies.

The pages that follow tell the SNGS project story: why implementing this solution to our natural-gas supply needs is so important, the scientific facts behind the methodology, health and safety issues, and community benefits. We also discuss how residents and companies can get involved in the project and help us secure a reliable source of natural gas that guarantees our ability to meet Sacramento's power needs.

WE HOPE YOU'LL JOIN US!

Donald B. Russell
President
Sacramento Natural Gas Storage, LLC

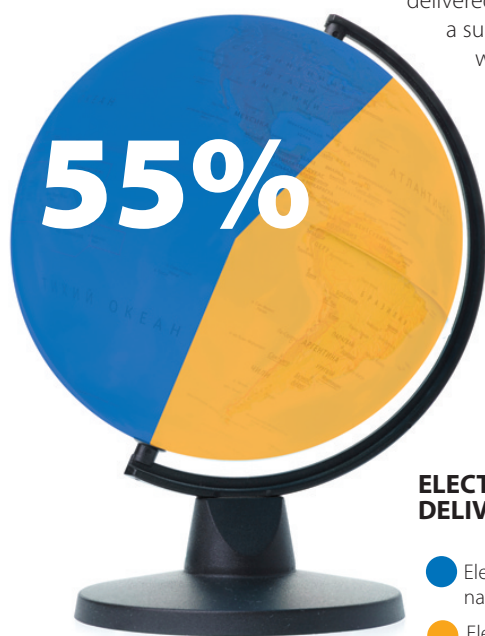


WHY NATURAL GAS?

by
Wendy
Alexander

The Sacramento Municipal Utility District supplies more than 20 percent of the electricity needs for its nearly 600,000 customers using diverse, renewable energy sources such as wind, water and solar. While the utility will continue its commitment to expand use of these renewable resources, SMUD needs a fuel supply that is dependable regardless of weather conditions.

Natural gas provides the energy source for roughly 55 percent of the electricity delivered by SMUD. Natural gas is a sustainable resource that, when compared to oil or coal, provides a better, less polluting energy source for fuel.



ELECTRICITY DELIVERED BY SMUD

- Electricity generated with natural gas
- Electricity generated by other sources

SNGS: A Positive Move for Sacramento!

The SNGS project provides a win-win situation for Sacramento by:

- Helping to stabilize the local economy with **200+ new construction jobs**
- Providing **revenue streams to homeowners** in the immediate and adjacent area
- Creating a foundation to give **money back to the community**
- Providing ongoing revenue for the city's general fund
- Using safe, cutting-edge technology and **environmentally friendly** design and operation methods
- Working closely as **a good neighbor with the community, local businesses** and government regulators

PIPE DREAMS

SMUD depends largely on delivery of natural gas from Canada and the Southwest through a network of thousands of miles of pipeline. Timely delivery of that gas supply is always at risk of interruption due to a production shutdown or potential pipeline break because of: 1) natural or man-made events (e.g., earthquakes or terrorist attacks), or 2) excessive demands for gas during extreme weather conditions. This type of scenario has indeed happened before, when intense summer temperatures have resulted in brownouts around the state.

SMUD needs a fuel supply that is dependable regardless of weather conditions.

Sacramento needs a reliable energy source that will generate enough power to keep residents cool through Sacramento's long, hot summers and warm during the cold winter months, without the danger of brownouts or service disruptions. Creating a gas-storage reserve will reduce or eliminate our reliance on the pipeline, especially during peak demand times that overload the system.

Storing natural gas in secure sandstone rock formations thousands of feet below the surface also protects our economy from potentially damaging interruptions caused by natural disasters and helps eliminate the threat from terrorists. Storage facilities using depleted or partially depleted naturally occurring reservoirs have been in operation for decades throughout the country, providing a safe, cost-effective way to meet energy needs.



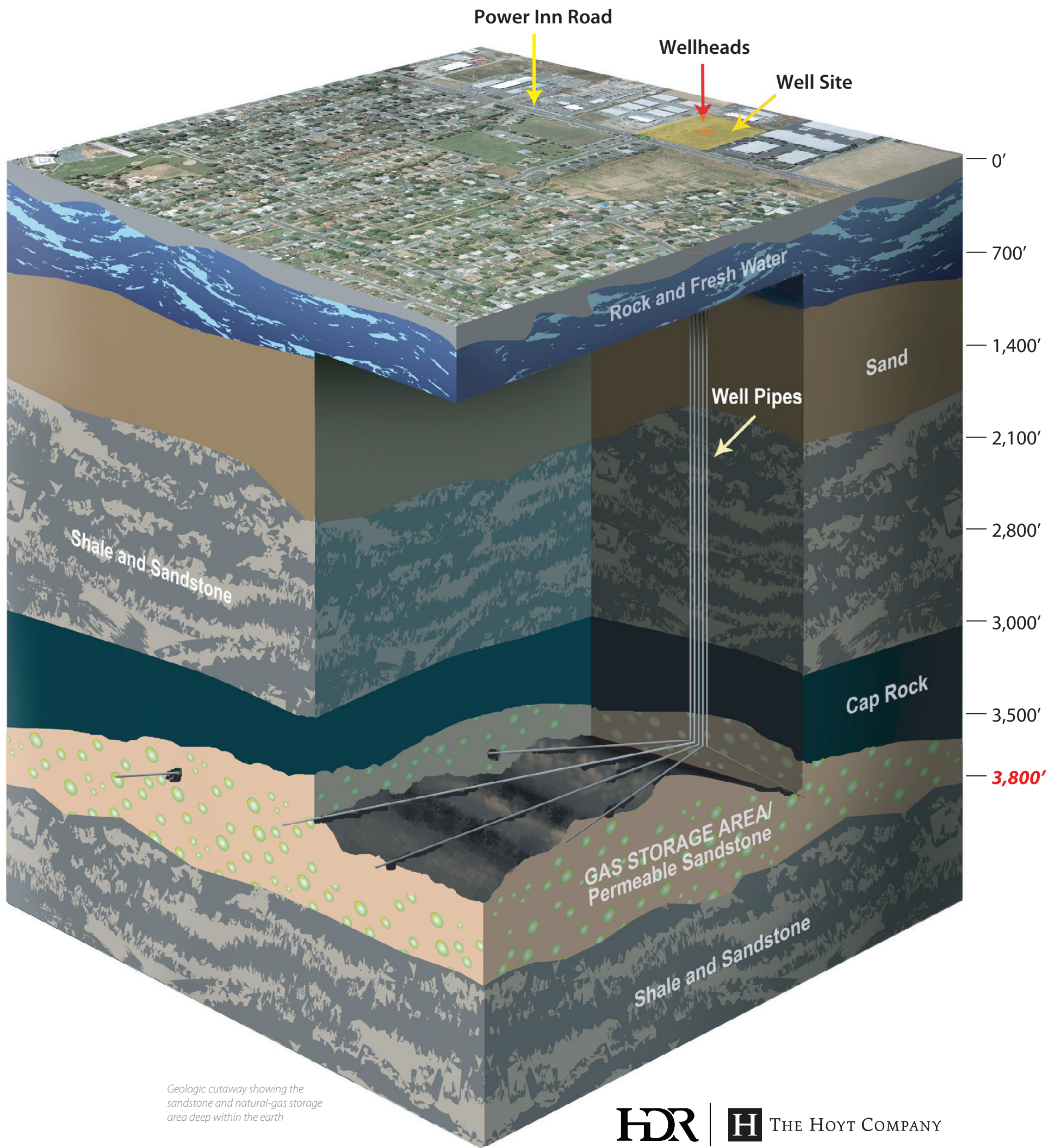
The Sacramento Natural Gas Storage project will utilize the partially depleted, dormant Florin Gas Field to safely store this vital new supply of dry, clean-burning natural gas. Millions of years old, this natural-gas field was drilled during the 1980s and produced more than 8 billion cubic feet of natural gas used largely to power the nearby Procter & Gamble plant. The new SNGS storage facility will exemplify a clean, green, safe industry and bring a reliable energy source to Sacramento. The region will benefit from having critical supply reserves, which will mitigate curtailments or brownouts and help control energy costs.



Above: Area map showing Sacramento Natural Gas Storage surface facilities and Florin Gas Field at Power Inn Road and 53rd Avenue.

Left: Example of a pipeline used for transporting natural gas to Sacramento from outside California.

Photos provided by HDR



Geologic cutaway showing the sandstone and natural-gas storage area deep within the earth

HDR

H

THE HOYT COMPANY

THE MAGIC OF SANDSTONE

by
Wendy
Alexander

While sandstone is a rock, it differs from solid rock, like cap rock. Sandstone is a porous material that has a magical quality: the ability to absorb gases and liquids, similar to the way a sponge absorbs water. While sandstone does not expand or contract, its porosity makes it ideal for storing natural gas.

While sandstone does not expand or contract, its porosity makes it ideal for storing natural gas.

SOME ADDITIONAL INTERESTING FACTS:

- The underground sandstone reservoir at Florin Gas Field that SNGS proposes to have its natural-gas storage facility in **has held natural gas—naturally—for millions of years.**
- The reservoir is partially depleted, so **the sandstone layer still contains billions of cubic feet of natural gas.**
- The facility has been **dormant since the 1980s**, and no gas has been taken out since that time.
- When natural gas is reinjected into the reservoir, it can again be stored as it has been for millions of years and used as needed to generate electricity.

AT A GLANCE: SACRAMENTO NATURAL GAS STORAGE PROJECT

The SNGS project will provide natural-gas storage by reinjecting natural gas into the dormant Florin Gas Field some 3,800 feet underground. The new facility will be located in the southeast portion of the city of Sacramento, below Danny Nunn Park (at Power Inn Road and 53rd Avenue). Construction will include three components needed to operate a natural-gas storage facility:

- **A wellhead site, including injection and withdrawal wells**
- **Compressor station**
- **Around 2.5 miles of pipeline connections from the wells to the compressor station and from the station to existing natural-gas pipelines operated by SMUD**

Initially, up to 7.5 billion cubic feet of natural gas will be injected into the reservoir. Natural gas will then be withdrawn according to customer needs. Surface facility operations will be housed in two industrial-zoned sites away from residential neighborhoods; the compressor station will be in nearby Depot Park. Underground pipeline construction will take place primarily in existing utility rights-of-way, not in the streets, and no streets or sidewalks will be dug up.



Above: A wellhead site.

FACILITY OPERATION SAFEGUARDS

SNGS will operate safely, using scientific knowledge and proven procedures:

- Storing natural gas underground is a long established practice (since World War II), with more than 300 comparable facilities operating safely all over the country.
- SNGS will use cutting-edge technology and will be **strictly regulated and monitored** for adherence to safety procedures by city, state and federal agencies.
- The natural depository is located three-quarters of a mile underground, well below the water table and underneath a thick layer of solid cap rock.
- The geology of the dry underground storage field is seismically stable.
- Gas will be stored in a layer of permeable, porous sandstone.
- Since no oxygen is present in this layer of sandstone, **there is no risk of explosion.**

HEALTH+SAFETY

by Wendy Alexander

At SNGS, the safety of local residents is priority No. 1. Scientific evidence confirms that the best and safest method of storing natural gas is in an underground reservoir like the one in Sacramento. Other U.S. cities with comparable underground storage facilities have had phenomenal safety records.

MYTH: *The SNGS project poses health and safety risks to residents.*

FACTS: The SNGS project will be strictly regulated and monitored by the California Public Utilities Commission. Operations will be similar to when Florin Gas Field was safely supplying gas in the 1980s. In its most recent environmental impact report, the CPUC concluded that groundwater impacts were “unlikely to occur,” no health effects were identified and the risk of torch or flash fires was “less than significant.”

MYTH: *The natural gas will leak from the reservoir and migrate to the surface.*

FACTS: Any migration of natural gas from the reservoir, three-quarters of a mile below the surface, would occur in “geologic time,” over tens or hundreds of millions of years. Before beginning this incredibly long journey, the gas would have to escape from its sandstone reservoir. Mother Nature has trapped natural gas for millions of years with a solid layer of rock that overlies the sandstone. This cap rock is still there, keeping the natural gas from heading to the surface. The EIR states that the potential for gas migration is “remote.”

MYTH: *If the natural gas migrates to the surface, it will contaminate the aquifer of potable water above.*

FACTS: The EIR concluded that leakage of stored gas into the overlying groundwater or to the ground surface is “unlikely to occur.” The groundwater in the area falls under the jurisdiction of two small, private water districts that provide less than 1 percent of Sacramento’s supply. Any potential contamination would not occur for millions of years. However, should natural gas ever be detected, the water would be cleaned and filtered in a conventional process already widely used to remove gas and other elements from domestic water supplies.

At SNGS, the safety of local residents is priority No. 1.

MYTH: *If the gas migrates, this will cause a risk of cancer or fire.*

FACTS: Natural gas does not cause cancer. So the natural gas from the facility is just as safe as the gas already being used for heating and cooking in homes all over Sacramento. The natural reservoir is not an empty cave, but rather a layer of sandstone into which we will reinject natural gas. Since the reservoir contains no oxygen, there is no risk of a fire. And, as pointed out, the risk of gas migration is almost nonexistent.

MYTH: *The bedrock will crack if Sacramento experiences an earthquake, causing gas to escape.*

FACTS: Professional engineers and geophysicists have determined that it would take an earthquake with a magnitude of 8.8 on the Richter scale to possibly crack the cap rock, something that has never happened in the history of California. In fact, the probability of having an 8.8 earthquake is calculated at one in 2 billion.

MYTH: *The bedrock will crack if there is too much pressure once the reservoir is filled.*

FACTS: The Florin Gas Field reservoir had enough storage space to allow at least 8.3 billion cubic feet of natural gas to be extracted in the 1980s. SNGS has requested a permit to reinject 7.5 billion cubic feet of gas, about 10 percent less than what the reservoir has held for millions of years. This means that there will be sufficient safe capacity for many years to come. SNGS will also comply with state regulations that limit pressure.

MYTH: *The Florin Gas Field site was chosen because it is below a poor neighborhood of Sacramento.*

FACTS: Reservoir sites around the country have been selected because they offer optimally sized, naturally occurring formations in which to house natural gas. The primary criteria for selecting a depleted reservoir are the size, porosity, permeability and depth of the sandstone foundation. Storage facilities have been located below low-income and middle-class neighborhoods as well as wealthy areas, such as those in Santa Barbara and St. Louis.

MYTH: *The project construction will create too much noise for area residents.*

FACTS: The city of Sacramento’s code regarding standard nighttime noise from any source is limited at 50 decibels. Drilling operation noise is predicted to be a maximum of 49 to 50 decibels at the nearest residence (the average nighttime noise level along Power Inn Road is 76 decibels). SNGS will install a temporary sound barrier near its drilling operation and will also build a permanent, 10-foot-high masonry wall around the site before drilling begins. The wall will act as a sound barrier, much like the sound walls along major roadways.

GOVERNMENT OVERSIGHT

Several local, state and federal agencies will closely monitor the SNGS project construction and operation to ensure that the facility is built and run safely, including:

- The City of Sacramento fire, police, and planning and building departments
- California Public Utilities Commission; the Division of Oil, Gas & Geothermal Resources; and the Office of Emergency Services
- U.S. Department of Transportation
- Office of Pipeline Safety



SUPPORTING OUR COMMUNITY

by
Wendy
Alexander

SNGS is a community-oriented enterprise. As a good neighbor, we're working with residents, local businesses and environmental regulators to make sure our natural-gas storage project benefits the residents who live above the facility, the environment and the entire Sacramento area. SNGS will meet a vital regional need—bringing energy security and reliability as well as economic benefits, including jobs—without adverse impacts to the community.

The SNGS project will create high-paying jobs, both during construction and operation of the facility.

NEIGHBORHOOD BENEFIT:

Property owners possess rights to storage of gas under their land. The SNGS project provides substantial income for storage rights to landowners in the immediate neighborhood: They receive a signing bonus and annual lease payments or can negotiate sale of storage rights. Most homeowners who leased storage rights to SNGS have each received \$1,000. Business owners who have leased storage rights received \$1,000 per acre at time of signing and a second payment in April 2010. Around 75 percent of property owners in the project area—some 1,000 residents—have already signed 575 leases, and since the release of the environmental impact report,

more continue to sign on. SNGS lease payments are generous: 62 percent more than market value.

ECONOMIC BENEFIT:

The SNGS project will create high-paying jobs, both during construction and operation of the facility. The \$60 million facility will stimulate the local economy by generating new property-, sales- and income-tax revenues, and by helping to keep electricity rates down. These economic benefits will continue as long as SNGS operates (up to 50 years or more).

ENVIRONMENTAL BENEFIT:

As a U.S. Green Building Council member, SNGS believes that green design protects the environment and public health, increases worker productivity and reduces operating costs. The SNGS facility will use green energy and store natural gas in the safest, smartest manner—in storage that is already there. These sustainable, environmental practices benefit the community and make good “green” policy sense. SNGS is also proud to be a green-energy partner with SMUD, committed to use at least 50 percent renewable-energy-generated electricity to run its large compressors.

In addition, SNGS is pursuing a Leadership in Energy and Environmental Design certification for the new facility. The coveted LEED designation reflects the highest benchmark for environmentally conscious projects worldwide. The LEED system rates a project's environmental impact at a Certified, Silver, Gold or Platinum level. SNGS is aiming for a Gold

rating, and if received, this will be the first underground natural-gas storage facility in the country to earn a LEED certification.

COMMUNITY BENEFIT:

From the start, SNGS has enlisted the cooperation of neighborhood leaders, business groups and area utility companies. We've sought to educate and involve the local community in the project and work closely with city, county and state officials, as well as government oversight agencies.

We're excited about Our Neighborhood Partnership, a special program that will provide annual funding for the 501(c)3 nonprofit Community Foundation to help finance local projects and community activities. SNGS has pledged \$25,000 to the foundation during the project startup phase and one-quarter of a percent of annual gross revenues once the facility is fully operational—approximately \$25,000 to \$44,000 or more per year to invest in youth sports leagues, scholarships for neighborhood high-school students, park improvements and neighborhood security measures.

BENEFITS!

BENEFITS TO PROPERTY OWNERS & THE COMMUNITY:

- Creation of Community/Neighborhood Foundation and ongoing, annual financial funding
- Storage rights leases for property owners and the city
- \$ Signing bonuses
- \$ Annual payments
- Increased tax revenue to the city
- New jobs
- New landscaping, sidewalks
- Expanded neighborhood security patrols
- Security of energy supply



Members of the Inter Soccer Club holding a \$2,500 check from Sacramento Natural Gas Storage at a neighborhood picnic in Danny Nunn Park, hosted by the company.

Photos provided by HDR

WORKING TOGETHER

by Wendy Alexander

Bringing safe, reliable energy to Sacramento

PROJECT CUSTOMER



Sacramento Municipal Utility District has been providing public power to the Sacramento region since 1946. SMUD serves some 592,000 customers and a total population of about 1.1 million over a 900-square-mile service territory that encompasses Sacramento County and a small portion of Placer County. The utility has been recognized nationally for its renewable-energy programs that help to increase energy efficiency, protect the environment, reduce global warming and lower costs to its customers. As currently planned, SMUD will use approximately half of the storage capacity of the reservoir. Other customers will come onboard once the project is approved.

OUR COMPANY



Sacramento Natural Gas Storage, LLC, was formed in 2007 for the sole purpose of establishing, owning and operating an underground natural-gas storage facility to serve the Sacramento metropolitan area. SNGS is a small, community-oriented enterprise owned and managed by longtime Sacramento residents who have many years of experience

developing natural-gas storage facilities and who are actively involved in civic affairs.

At SNGS, we believe that energy systems must serve society's current needs in a cost-effective way that maximizes use of renewable-energy sources, but also respects the environment and the community's overall resources. Our energy leaders must do everything in their power to support and expand energy-conservation efforts of all kinds and at every level. Our government leaders must endorse and fund research that will result in new equipment, technologies and systems to sustain reliable, renewable-energy-based utility systems. Clean-burning natural gas is the "bridge" fuel that will help facilitate our nation's transformation to an environmentally friendly, productive and self-sustaining society.

THE NEXT STEP

The California Public Utilities Commission has already issued a favorable environmental impact report. The CPUC is expected to make a decision on granting the SNGS project a Certificate of Public Convenience and Necessity by the end of 2010. Once that certification is received, the next step will be to seek approval from the city of Sacramento Planning Commission and then the city council, with construction anticipated to begin in spring 2011.

FOR MORE INFORMATION

on the Sacramento Natural Gas Project, contact:

PROJECT COMMUNICATIONS:

Elizabeth Hughes
1325 J Street, Suite 1300
Sacramento, CA 95814
(916) 448-2440
elizabeth.hughes@sacnaturalgas.com

NEIGHBORHOOD PARTNERSHIP:

Tom Burruss
(916) 392-0154
tomburruss@comcast.net

MEDIA CONTACT:

Jeff Raimundo, Townsend Raimundo Besler & Usher
1717 I Street
Sacramento, CA 95814
(916) 444-5701
jeffr@trbu.com

SNGS OFFICE AND LEASING CONTACT:

William Fossum, SNGS leasing representative
8031 Fruitridge Road, Suite B
Sacramento, CA 95820
(916) 388-2088
dbaker@cngsllc.com, wfossum@cngsllc.com

STATE OF CALIFORNIA PUBLIC UTILITIES COMMISSION

To request additional information on the environmental impact report or to be added to the mailing list, please contact the CPUC:

Project fax and voicemail: (800) 371-8797
Website: www.cpuc.ca.gov/environment/info/dudek/sngs/SNGS_Home.htm

HOW YOU CAN GET INVOLVED

IF YOU ARE A LANDOWNER IN THE SNGS-FACILITY NEIGHBORHOOD and want to get involved with the SNGS project, please give us a call at (916) 388-2088.

IF YOU ARE A LOCAL RESIDENT OR BUSINESS OWNER, OUR NEIGHBORHOOD PARTNERSHIP NEEDS YOUR INPUT! The partnership is governed by a board of directors led by 23 members of the community. While the partnership continues to explore ways to invest \$44,000 or more per year into the neighborhood, they want to hear from you!

Please take this opportunity to help improve the quality of life for you and your neighbors by sharing your ideas on how to support local programs and activities. Our board encourages you to attend its monthly meetings:

First Monday of each month, 7-9 p.m.
Power Inn Alliance Office
5310 Power Inn Road, Suite A
Sacramento, CA 95820



Sacramento Natural Gas Storage representatives hosting a neighborhood information meeting.

Photo provided by HDR