

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of)
BLUEWATER GAS STORAGE, LLC, for a)
certificate of public convenience and necessity to)
acquire, construct, own, and operate a natural gas)
storage facility in Columbus and Wales Townships,)
St. Clair County, Michigan, and for approval of)
natural gas storage rates.)
_____)

Case No. U-13776

At the July 8, 2003 meeting of the Michigan Public Service Commission in Lansing,
Michigan.

PRESENT: Hon. Laura Chappelle, Chairman
Hon. David A. Svanda, Commissioner
Hon. Robert B. Nelson, Commissioner

ORDER APPROVING SETTLEMENT AGREEMENT

On May 2, 2003, Bluewater Gas Storage, LLC, (Bluewater), filed an application, with prefiled testimony and exhibits, pursuant to 1923 PA 238, as amended, MCL 486.251 et seq., requesting issuance of a certificate of public convenience and necessity to own and operate a natural gas storage field in Columbus and Wales Townships, St. Clair County, and requesting approval of gas storage service rates.

As described in the application, the proposed project envisions the acquisition of property and property interests, the conversion of a depleted Silurian Niagaran reservoir into a storage facility, and the drilling of new wells and construction of necessary improvements to operate the facility. The Columbus 3 reservoir is a Silurian Niagaran reef found at a subsurface depth between 2,830

and 3,230 feet. It covers approximately 549 acres with a maximum buildup of 385 feet. The reef is 1.93 miles long with a north-south orientation and 0.47 miles wide. The Columbus 3 field is located in Sections 3, 4, 9, and 10, T05N, R15E, Columbus Township, and Sections 33 and 34, T06N, R15E, Wales Township, all in St. Clair County.

Pursuant to due notice, a prehearing conference was held on May 29, 2003 before Administrative Law Judge Daniel Nickerson, Jr. Bluewater and the Commission Staff participated in the proceedings. Panhandle Eastern Pipe Line Company filed, and subsequently withdrew, a petition for leave to intervene. In addition, several persons submitted comments, but they did not seek to intervene as parties.

Subsequently, the parties submitted a settlement agreement resolving all issues in this case. According to the terms of the settlement agreement, attached as Exhibit A, the parties agree that (1) the proposed storage field will serve the public convenience and necessity, (2) it will meet the requirements of the Michigan Gas Safety Standards if constructed, maintained, and operated as proposed in the application and agreed to in the settlement agreement, and (3) the proposed gas storage rates are reasonable and should be approved. The settlement agreement further specifies a number of monitoring safeguards and provisions related to safety and noise abatement. It provides that no authorization is being sought for a pipeline connecting with the storage facility in this application, but that Bluewater will file a separate application relating to the pipeline.

The Commission FINDS that:

a. Jurisdiction is pursuant to 1923 PA 238, as amended, MCL 486.251 et seq.; 1969 PA 165, as amended, MCL 483.151 et seq.; 1909 PA 300, as amended, MCL 462.2 et seq.; 1919 PA 419, as amended, MCL 460.51 et seq.; 1939 PA 3, as amended, MCL 460.1 et seq.; 1969 PA 306, as

amended, MCL 24.201 et seq.; and the Commission's Rules of Practice and Procedure, as amended, 1999 AC, R 460.17101 et seq.

b. The settlement agreement is reasonable and in the public interest, and should be approved.

c. The proposed facilities will meet the requirements of the Michigan Gas Safety Standards if constructed, maintained, tested, and operated as described in the application and provided in the settlement agreement.

d. The proposed storage field will serve the public convenience and necessity.

e. If developed and operated as set forth in the application and the settlement agreement, the proposed field will be safe for development and operation of gas storage.

f. The gas storage rate provisions set forth in the settlement agreement are reasonable and should be approved.

THEREFORE, IT IS ORDERED that:

A. The settlement agreement, attached as Exhibit A, is approved.

B. Bluewater Gas Storage, LLC, is granted a certificate of public convenience and necessity to acquire, construct, own, and operate the Columbus 3 natural gas storage field in Columbus and Wales Townships, St. Clair County, as described in the application and subject to the terms and conditions of the settlement agreement and the requirements of Section 2, 1923 PA 238, as amended, MCL 486.252.

C. Bluewater Gas Storage, LLC, shall file a separate application at the earliest practicable date, but in any event no later than six months after issuance of this order, for a certificate authorizing its connecting pipeline and related facilities, pursuant to 1929 PA 9, as amended, MCL 483.101 et seq.

D. Bluewater Gas Storage, LLC, is authorized to implement the storage rate provisions set forth in Appendix B of the settlement agreement.

E. Bluewater Gas Storage, LLC, shall file, within 30 days, tariff sheets consistent with Appendix B of the settlement agreement.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so in the appropriate court within 30 days after issuance and notice of this order, pursuant to MCL 462.26.

MICHIGAN PUBLIC SERVICE COMMISSION

/s/ Laura Chappelle
Chairman

(S E A L)

/s/ David A. Svanda
Commissioner

/s/ Robert B. Nelson
Commissioner

By its action of July 8, 2003.

/s/ Robert W. Kehres
Its Acting Executive Secretary

D. Bluewater Gas Storage, LLC, is authorized to implement the storage rate provisions set forth in Appendix B of the settlement agreement.

E. Bluewater Gas Storage, LLC, shall file, within 30 days, tariff sheets consistent with Appendix B of the settlement agreement.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so in the appropriate court within 30 days after issuance and notice of this order, pursuant to MCL 462.26.

MICHIGAN PUBLIC SERVICE COMMISSION

Chairman

Commissioner

Commissioner

By its action of July 8, 2003.

Its Acting Executive Secretary

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the Matter of the Application of
BLUEWATER GAS STORAGE, LLC,
a Delaware limited liability company, for a
Certificate of Public Convenience and Necessity
to acquire, construct, own and operate a natural
gas storage facility in Columbus and Wales
Townships, St. Clair County, Michigan and for
approval of natural gas storage rates.

Case No. U-13776

SETTLEMENT AGREEMENT

On May 2, 2003, Bluewater Gas Storage, LLC ("Bluewater"), filed an Application accompanied by supporting written testimony of seven (7) witnesses and thirty-one (31) proposed exhibits in Case No. U-13776 requesting authority from the Michigan Public Service Commission ("Commission") as follows: (i) for a certificate of public convenience and necessity ("Certificate"), pursuant to 1923 PA 238, as amended, MCL 486.251 et seq ("Act 238"), to acquire, construct, own and operate facilities, property and interests in property, including acreage, surface and subsurface, for use as a natural gas storage field in Columbus and Wales Townships, St. Clair County, Michigan described below and in more detail in the Application and Testimony filed in this matter ("Project"); and (ii) for approval of gas storage service rates, pursuant to 1909 PA 300, as amended, MCL 462.2 et seq ("Act 300"); 1919 PA 419, as amended, MCL 460.51 et seq ("Act 419"); and 1939 PA 3, as amended, MCL 460.1 et seq ("Act 3"). Bluewater made a supplemental filing on May 14, 2003, of a revised page 2 of the Application.

The Project will be the conversion of a depleted Silurian Niagaran reservoir, using new wells and necessary improvements to operate as a gas storage facility. The Columbus 3 reservoir is a Silurian Niagaran reef found between 2830 and 3230 feet measured depth. It covers approximately 549 acres with a maximum buildup of 385 feet. The reef is 1.93 miles long with a north-south orientation and is approximately .47 miles wide. The portion of the Salina – Niagaran formation which will be used for storage is described as “all formations and strata therein from the top of the A-2 Carbonate Formation to the top of the Clinton Formation”. The Columbus 3 Field (“Field”) is located in Sections 3, 4, 9 and 10, T05N, R15E, Columbus Township and Sections 33 and 34, T06N, R15E, Wales Township, all in St. Clair County, Michigan. The Columbus 3 reservoir boundary and Columbus 3 Field boundary including buffer zone are depicted in the map attached as Appendix A.

Pursuant to the Amended Notice of Hearing, a prehearing conference in Case No. U-13776 was held before Administrative Law Judge (“ALJ”) Daniel E. Nickerson, Jr., on May 29, 2003. Bluewater presented a Proof of Mailing of the Amended Notice of Hearing issued by the Commission on May 13, 2003 and two Affidavits of Publication reflecting that a copy of the Amended Notice of Hearing was published in a daily newspaper of general circulation in St. Clair County and in the *Michigan Oil and Gas News*. Both the Proofs of Mailing of Notice of Hearing and the Affidavits of Publication were accepted by ALJ Nickerson without objection. At the prehearing conference, the Michigan Public Service Commission Staff (“Commission Staff”) entered its Appearance. David C. Gerling-in his capacity as attorney for Frank and June LeTarte, owners of 40 acres of mineral rights in Section 34, Wales Township, St. Clair County, Michigan-entered an Appearance pursuant to Rule 207 of the Rules of Practice and Procedure before the Commission, R 460.17207 (Rule 207). Norman D. Beauchamp-in his capacity as attorney for underground gas

storage owners, mineral owners and surface owners in Columbus III Field-also entered an Appearance pursuant to Rule 207. The Koziara Family Limited Partnership, represented by Eugene H. Koziara, General Partner entered an appearance pursuant to Rule 207. Panhandle Eastern Pipe Line Company (“Panhandle”) filed a Petition to Intervene but withdrew the Petition on May 28, 2003. There were no other Appearances or Petitions to Intervene in the proceedings.

Subsequently, the parties discussed and resolved the issues in this case and, as a result, have memorialized and incorporated their understanding into this Settlement Agreement (“Agreement”). This Agreement identifies the rights and obligations of the parties concerning the acquisition, construction, ownership and operation of the Project in Sections 3, 4, 9 and 10, T05N, R15E, Columbus Township and Sections 33 and 34, T06N, R15E, Wales Township, all in St. Clair County, Michigan. This Agreement is filed pursuant to Section 78 of the Administrative Procedures Act of 1969, as amended, MCL 24.278, and Rule 333 of the Rules of Practice and Procedure before the Commission, R 460.17333.

WHEREFORE, the parties, through their respective representative or legal counsel, agree as follows:

1. The requested certificate of public convenience and necessity to acquire, construct, own and operate the Project in Sections 3, 4, 9 and 10, T05N, R15E, Columbus Township and Sections 33 and 34, T06N, R15E, Wales Township, all in St. Clair County, Michigan, is in and will serve the present or future public convenience and necessity and the Field is safe for development and operation of gas storage.

2. The natural gas storage rates and method incorporated in Bluewater’s proposed

tariff attached hereto as Appendix B are reasonable and should be approved by the Commission.

3. The parties agree the map, Appendix A, and the type of construction of the Project as described in the Application and Testimony of Applicant should be approved.

4. The Project will serve the present or future public convenience and necessity and the Field is safe for development and operation of gas storage.

5. The Certificate will not cover the connecting transmission pipeline. Bluewater shall file a separate Application with the Commission at the earliest practicable date, but in any event no later than 6 months after issuance of a Commission order approving this Agreement and granting a Certificate as requested in the Application and referenced herein, for a Certificate for its connecting pipeline and related facilities, under 1929 PA 9; MCL 483.101 *et seq* ("Act 9").

6. Under the circumstances presented, including the field history and geological features addressed in Bluewater's testimony, the Storage Reservoir Pressuring Program described in Bluewater's Construction, Operation and Maintenance Plan is reasonable and may be implemented as proposed as set forth in Appendix C. Bluewater shall carry out all proposed pressure monitoring and reporting functions and agrees to provide Staff with annual volume injected and withdrawn, inventory data and pressure data, as well as reports regarding any problems with storage operations including gas migration and wellbore integrity.

7. All facilities will be constructed, maintained, and operated in a manner which meets and satisfies the requirements of the Michigan Gas Safety Standards and applicable Commission rules. Specific safety features will include emergency shut down systems, advanced fire detection, suppression and extinguishing capability and standby power sources. Noise impact will be limited by housing the engine and compressor packages in an enclosed building with noise reduction performance. Compressor intake and exhaust will be muffled and cooler fan, heater

burner and valve noise levels will be specified to meet required noise criteria. The Staff will be notified when noise complaints are addressed. Solutions will be provided to the Staff.

8. Groundwater around the gas storage facility and **wellhead** locations will be monitored based upon a Groundwater Monitoring Plan approved by the Commission Staff,

9. Payment of royalty will be in accordance with the written agreement of the owners of such interests.

10. A **downhole** inspection program will be followed providing that corrosion logs and neutron logs will be run on new gas storage wells and oil wells before the wells enter service. The wells will also be pressure tested to 125% of the maximum expected **wellbore** pressure. Thereafter, the logs will be run at three year intervals for the first six years and at **five** year intervals thereafter. The **wellheads** will be protected by installation of either surface safety valves or subsurface safety valves.

11. Based on Bluewater's proposal, including safety measures and testing and monitoring programs, the Commission Staff agrees the Project is safe for development and operation as a gas storage **field** provided that the **field** is constructed, operated and adheres to all specifications in the Applicant's case

12. The proposed storage field shall be operational within three (3) years of the date of the Commission order approving this Agreement and granting the Certificate. Bluewater will file for a renewal or extension of the Certificate if it fails to comply with this three-year deadline for operation and still wishes to proceed with the Project.

13. This Agreement is intended for **final** disposition of the issues in this proceeding and the parties hereto join in respectfully requesting the Commission to expeditiously issue an order approving this Agreement and to issue an Act 238 Certificate as provided in this Agreement. It is

the opinion of the parties to this proceeding that this Agreement is in the public interest and represents a fair and reasonable resolution of this proceeding, will aid the expeditious conclusion of this case, and minimize the time and expense which would otherwise have to be devoted to this matter by the Commission and the parties.

14. Each party to this proceeding agrees not to appeal, challenge, or contest the Act 238 Certificate approved by the Commission in this case if it is the result of a Commission order accepting and approving this Agreement without material modification.


15. For the sole purpose of submitting this Agreement to the Commission, the parties waive compliance with the provisions of Section 81 of the Administrative Procedures Act of 1969, as amended, *MCL* 24.28 1.

16. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original and all of which, when taken together, shall constitute one and the same document, The signature to any counterpart shall be deemed a signature to, and may be appended to, any other counterpart.

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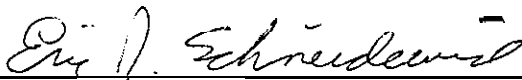
**MICHIGAN PUBLIC SERVICE COMMISSION
STAFF**

Dated: 6/20, 2003

By: 
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Staff
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BLUEWATER GAS STORAGE, LLC

Dated: 6/20, 2003

By: 
Eric J. Schneidewind (P-20037)
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APPENDIX B

Exhibit B

Page 1 of 2

Availability:

Underground natural gas storage service will be made available to all customers desiring service to the extent that:

Bluewater Gas Storage, LLC has determined that sufficient, uncommitted storage capacity is available to provide the service requested by the customer.

Bluewater Gas Storage, LLC and the customer have executed a contract for storage service under this rate schedule.

A customer requesting service on this rate shall make written application for such service on a form provided by the Bluewater Gas Storage, LLC. A storage contract shall also be required.

Characteristic of Service:

Any conditions of service not covered by this tariff shall be provided for in a storage contract between Bluewater Gas Storage, LLC and the customer.

Storage Rate:

As negotiated between Bluewater Gas Storage, LLC and the customer, the maximum effective rate is made up of the following components:

Reservation:	
Deliverability rate per month:	\$5.00 / Mcf
Capacity rate:	\$1 .00 / Mcf
Commodity	
Injection:	\$0.016 / Mcf
Withdrawal:	\$0.000 / Mcf
Fuel Usage:	1.45%

The maximum effective rate for 100-day firm seasonal storage service is \$1.616 per Mcf plus 1.45% fuel.

The minimum effective rate will be:

Reservation:	
Deliverability rate per month:	\$0.00 / Mcf
Capacity rate:	\$0.00 / Mcf
Commodity	
Injection:	\$0.000 / Mcf
Withdrawal:	\$0.000 / Mcf
Fuel Usage:	0.0%

The minimum effective rate for 100-day firm seasonal storage service is \$00 per Mcf plus 0.0% fuel.

Due Date and Late Payment Charge:

The due date of the customer's bill shall be not more than 21 days from the date of mailing. A late payment charge of 2% of the unpaid balance outstanding, net of taxes, shall be assessed to any bill that is not paid in full on or before the due date shown thereon.

Term and Form of Contract:

All service under this rate shall require a written storage contract that must be approved by an officer of Bluewater Gas Storage, LLC, or a duly authorized agent before it shall be binding upon the Company.

APPENDIX C

Storage Reservoir Pressuring Program

The following pressures represent the expected shut-in **stabilized** field pressures during each of the first three years of gas storage. Due to the heterogeneous nature of the reservoir, the actual 0.7 psi/ft gradient (3,150 ft subsurface datum) will not be reached until storage year 8. The maximum stabilized reservoir pressure in the year 8 will be 2,205 psig.

Highly Permeable Reservoir Storage Pressures and Volumes

Year	Gradient	Max Field Pressure	Max Wellhead Pressure	Total Volume'
1	0.531 psi/ft	1,666 psig	1,560 psig	25.2 Bcf
2	0.615 psi/ft	1,937 psig	1,614 psig	29.9 Bcf
3	0.700 psi/ft	2,162 psig	2,025 psig	33.6 Bcf

* Volume includes remaining native gas estimated to be 1.8 BCF.

The maximum injection pressure at the wellhead during any year will be 2,122 psig.