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July 23, 2010

**VIA ELECTRIC MAIL AND  
OVERNIGHT DELIVERY**

Roger McDonough  
Environmental Analyst  
New York State Department of  
Environmental Conservation  
Division of Environmental Permits  
6274 East Avon-Lima Road  
Avon, NY 14414-9519



Rc: *SEQR Review*  
*Inergy Midstream LLC / Finger Lakes LPG Storage LLC*  
*DEC Facility ID.: 8-4432-00085*  
*Liquefied Petroleum Gas Storage Facility*  
*Town of Reading, Schuyler County*

Dear Mr. McDonough:

This is to respond to your letter of July 14, 2010 and in advance of our meeting scheduled for July 29 at 9 a.m.

The purpose of this letter is to provide further information related to the Department's comments as to the disposition of excess brine, operations, maintenance and inspection issues, and to provide more specific information on items 3(c) and 3(d) in your May 26 letter. We can discuss at our meeting on July 29 what additional information the Department is seeking with regard to item 3(b).

**Excess Brine**

To address the Department's concerns, Finger Lakes will agree to remove excess brine from Finger Lakes' brine pond, as necessary (to maintain 3 feet of freeboard in the pond), utilizing the piping system already incorporated into the Project, but adding a short 250 foot connection (of 6" pipe) from the Finger Lakes brine pond line (which otherwise would have terminated at well 58 – now Gallery 2) to US Salt's existing brine pond. This connection will allow excess brine to be

stored in US Salt's brine pond, where there is already a connection to US Salt's manufacturing facility for processing. No additional discharge under US Salt's SPDES permit would be required and upon approval US Salt would provide to the Department a modified schematic showing this additional source of brine. This would be treated as a minor modification to US Salt's SPDES permit. A more detailed description and drawing explaining and showing the piping necessary to make this connection is attached as **Exhibit A**.

### **Operations Manual**

As suggested in our June 18 letter, an Operations Manual will be developed and will include an Inspection Program which will be in place prior to underground storage operations. In addition to utilizing the inspection checklist attached to our June 18 submission, which among things called for a physical inspection of the brine pond on a periodic basis, including after any rainfall that exceeds 2 inches in an hour, there will be video monitoring of the flare tower near the brine pond. The video feed will also be able to show the brine pond freeboard level. Operators at the facility at the rail rack, truck office and lower pump control will be able to monitor the video feed to determine whether excess brine needs to be removed or otherwise to evaluate the overall condition of the pond for any necessary maintenance.

In addition, as noted in the Engineering Report submitted to the Department on June 18, 2010, the underdrain pipes incorporated into the design of the brine pond will be accessible either in the drainage manhole or at the discharge location. The purpose of the underdrain system is to collect uncontaminated groundwater that bypasses the interceptor trench and/or that seeps out of the dense soils or underlying bedrock below the pond's liner system. In response to the Department's request, any discharge from the underdrain system will be monitored (for chlorides, total dissolved solids, and total suspended solids) on a quarterly basis or within 48 hours after a precipitation event in which there is rainfall of more than 2 inches in any one hour.

In terms of repairing the brine pond liner, the same process utilized in removing excess brine can be used to draw down the levels in the brine pond sufficient to allow access to the liner system.

Prior to the commencement of underground storage operations (which requires completion of the brine pond), Finger Lakes will provide a copy of its Operations Manual to the Division of Mineral Resources, Bureau of Oil and Gas Regulation and Region 8 – Mineral Resources. We ask that Staff's SEQRA review proceed even without the submission of the final Operations Manual, since such manual would likely only be finalized once the draft Underground Storage Permit is provided.

### **Miscellaneous Items**

1. **Pipelines.** The proposed product and brine lines to be added as part of this project are shown in part on the drawing included in Exhibit A and also in the drawing provided with our letter of June 18.
2. **Noise levels.** Attached as **Exhibit B** is a description of the train movements that will occur when tank cars are unloaded on the sidings constructed on Finger Lakes' property. As previously noted, the rail line is an existing source of noise and therefore part of the ambient or background sound. Other major sources of noise in the vicinity of the new truck/train loading/unloading facility are traffic along NYS Routes 14 and 14A and operations at the Town's nearby highway garage. Given that the speed of the locomotive pushing the tank cars onto the siding or retrieving tank cars already on the siding will be significantly less than the posted speed limit on the main line (25 mph), it is highly unlikely that there will be noise generated by such movements that exceeds the ambient sound levels in the vicinity of the siding. This has been discussed with members of the Town Planning Board, who confirm that there is no local noise ordinance and that rail car transfer activities at US Salt and Cargill's salt manufacturing facilities in the Town of Reading and Village of Watkins Glen, respectively, do not create excess noise levels.
3. **Hours of Operation.** Typical hours of operation will be 6 a.m. to 6 p.m., five days a week. There will be times when the facility will operate 24 hours per day, particularly during injection and withdrawal.
4. **Status of SWPPP.** The Storm Water Pollution Prevention Plan ("SWPPP") is in the process of being modified (to take into account the different configuration of the brine pond). We understand that Finger Lakes' consultant Jessica Skinner of JESS Engineering is working with County Soil and Water representative Jessica Verrigni on this, and Ms. Verrigni will provide an update on status directly to Staff prior to our meeting.

### **Request to Complete the SEQRA Process**

As you reference in your July 14 letter, we submitted a response to the Notice of Incomplete Application on the Underground Storage Permit on May 14, 2010. While we understand that review is ongoing, it relates to the geological integrity of the two galleries proposed for LPG storage. In our view, a SEQRA determination can be made based on the information provided to date in our several submissions and responses to Department comments (including in the May 14 submission) while still allowing for additional technical review by the Department of the Underground Storage Permit Application.

Inergy and Finger Lakes is willing to take the financial risk of constructing the aboveground facilities (i.e., rail siding, truck and rail rack area, brine pond, and plant area building) even

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before receipt of an Underground Storage Permit. The aboveground facilities are proposed to be constructed on property Inergy or its subsidiaries own or are under contract to acquire. No other property owners are affected.

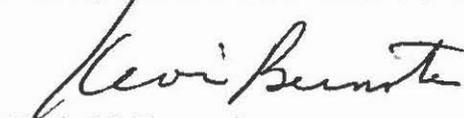
If Finger Lakes is able to construct its rail siding and truck and rail rack facility this fall, it can use its proposed aboveground storage tanks to commence operations to serve a critical need during the winter, while alleviating a significant impact from the out-of-state trucks that currently deliver propane to the TEPPCO facility. In addition, without the ability to construct these aboveground facilities this summer and fall, there is no possible way the underground storage facility could be operational by Spring 2011 (assuming a permit is issued) to provide much needed propane and butane storage for Winter 2011.

The only way for us to proceed and for us to begin with Inergy's continued and significant investment in New York and Schuyler County is for the Department to complete its SEQRA review. This would allow coverage to commence under the SPDES General Permit for Discharges Associated with Construction Activity and the 5-acre waiver obtained by Finger Lakes.

We look forward to our meeting on July 29. If you have any questions, or need clarification regarding any information contained in this letter before that time, please call. Thank you.

Sincerely,

BOND, SCHOENECK & KING, PLLC



Kevin M. Bernstein

Enclosures

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M. LeRose, Inergy  
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## **EXHIBIT A**

## **Finger Lakes Brine Pond Connection to US Salt Pond and Brine System Description**

Finger Lakes LPG Storage, LLC, a subsidiary of Inergy Midstream, LLC, plans for a connection from Finger Lakes 2.19 million barrel pond to US Salt's brine pond and to US Salt's brine feed system for its manufacturing facility.

In the event there is a need to remove brine from Finger Lake's pond to maintain the minimum freeboard, Finger Lakes will make a connection to the brine line piping- flare system near well 58 to US Salt's brine pond.

As part of the proposed project, Finger Lakes will be installing 3 brine pumps below the pond embankment on the east side of the pond. These electric pumps are manufactured by Gould's Pumps (model 3196 MTi 4x6-10H) and are rated at 800 GPM. The suction line for the 3 pumps will be installed along the outside of the pond bank and then down the inside of the bank to the bottom of the pond, which will withdraw the highest saturation of brine to displace product in the caverns. Finger Lake's brine line will be a 10 inch line and will run from the brine pond pumps and flare stack to well 44, proposed FL1 which will be the main injection and withdrawal of brine and product, well 43, well 33, and well 58.

At well 58, the proposed 250 feet of 6 inch line piping will connect to the flare stack which is connected to US Salt's existing piping to their existing brine pond. The connection of Finger Lake's brine line to the flare stack would allow brine to be pumped to the US Salt pond while injecting or withdrawing product from any of the Finger Lake's wells. When Finger Lakes is not injecting or withdrawing product there is an existing flare stack bypass valve which can be opened to go directly to the US Salt pond. Unless brine needs to be pumped to US Salt to maintain minimum freeboard in Finger Lakes pond the valve will remain closed and locked. If Finger Lakes is pumping into US Salt's pond, Finger Lakes will monitor US Salt's pond brine level.

The purpose of operating US Salt's pond is to receive brine from their south field wells. The brine siphons from the pond through piping to the US Salt facility for processing. Therefore, if there is excess brine from the Finger Lake's brine pond that must be removed, it will be removed from the bottom of that pond where the saturation is greatest and it will be pumped, through a flare stack, to US Salt's brine pond and then to the US Salt facility for processing. Operationally if US Salt's pond level is high, they can shut down solution mining of their north field to be able to receive brine from Finger Lakes pond.



**EXHIBIT B**

## FINGER LAKES LPG STORAGE FACILITY RAIL CAR MOVEMENT DESCRIPTION

### OVERVIEW

The Finger Lakes LPG storage facility (Finger Lakes) will be receiving Propane and Butane by rail cars to be used for offloading into onsite above ground storage tanks which will be used to load tractor trailer transports and also for injection into underground storage wells. The Norfolk Southern (NS) railroad will be servicing the facility. NS will deliver loaded and empty tank cars to the facility depending on the season. Finger Lakes will receive loaded tank cars in the summer months, April to September and empty tank cars from September to March. These months are considered our injection and withdrawal months. NS is an experienced and well known rail common carrier and will do all the switching in and out of the facility with their locomotives and their own crews.

### TRAIN OPERATIONS

The NS will bring tank cars up from their switching yard in Painted Post, NY to the Finger Lakes facility by coming up their rail line north to Watkins Glen. The maximum speed limit on that line is 35 MPH. When the train arrives at the facility the engine will slow to a few MPH. A switch list will be given to the train conductor which will notify him and his crew of which rail cars need to be switched in and out of the facility. Typically, the loaded rail cars arrive at the site during the injection season.

If the Finger Lakes siding is empty, the train will slowly pull past the main switch which allows the train to enter our siding. Once past the main switch the train will stop. The main switch will be thrown to the siding mode and the derail unit will be switched to allow the train cars to enter the Finger Lakes siding. The engine will slowly move approximately 1 to 2 MPH to the south and the cars will enter siding track #1. The last car will stop in the center of the loading/unloading spot on the facilities rack. The car's hand brake will be set and the conductor will instruct the engineer to move north to the next rail spot. Finger Lakes will have 3 tracks with 8 spots on each track that the train can spot cars. This operation will continue until all 8 spots on all 3 sidings are filled with cars (for a maximum on the sidings of 24 cars).

When spotting the cars onto the sidings, the engine is moving very slowly so there will be no need for high throttle so that excessive noise will not be produced from the engine to move the rail cars. When the cars are uncoupled the only noise is when the air line releases which is very minimal.

If the facility has tank cars in the siding when the NS brings up additional cars, the engine will pull all the cars it brought with it past the mainline switch, stop, throw the switch to the

siding position and slowly enter track 1. The cars in the facility will be coupled together until all eight cars are attached. There is a slight noise created when the couplings are connected, but again nothing significant. Once all eight cars are attached the engine will move north to the last car is past the siding switch. The siding switch will be thrown to the track 2 position, and then the train will perform the same operation as track 1 on the other two sidings.

This procedure will be the same for the injection or withdrawal season. The only difference is that the car status "loaded or empty" will be changed.

During the switch operation the engineer will not have to sound the engine horn for any movement associated with the switch, since there is no road crossing in the area where the switching occurs. Otherwise, under Federal regulations, the engineer has to sound the horn when crossing a road.