

New York State Department of Environmental Conservation

Division of Mineral Resources

Bureau of Oil & Gas Regulation, 3rd Floor
625 Broadway, Albany, New York 12233-6500
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Alexander B. Grannis
Commissioner

FILE COPY

January 11, 2010

Mr. William R. Moler, Senior Vice President
Finger Lakes LPG Storage, LLC
c/o Inergy Midstream, LLC
Two Brush Creek Boulevard, Suite 200
Kansas City, MO 64112

Kevin M. Bernstein, Esq.
Bond, Schoeneck & King, PLLC
One Lincoln Center
Syracuse, NY 13202

**Re: NOTICE OF INCOMPLETE APPLICATION &
STATUS OF MATERIALS
ECL Article 23 Underground Storage Permit
Finger Lakes LPG Storage, LLC, Schuyler County**

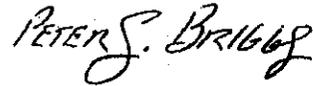
Dear Messrs. Moler and Bernstein:

This is sent to provide you with a Notice of Incomplete Application ("NOIA") for Finger Lakes LPG Storage, LLC's ("Finger Lakes") subject application received by the Department on October 13, 2009. In addition, the current status of each primary element necessary to complete the application is noted on the enclosure. This NOIA does not address any other Department applications, permits and/or approvals that may be required in conjunction with the subject permit. Additional comments and/or questions, if any, on other required Department approvals and/or permits will be addressed separately by the Region 8 Avon Division of Environmental Permits office.

The following response is organized in the same fashion as the handout detailing application and permitting requirements that was provided to Finger Lakes at the February 19, 2009 pre-application meeting. The enclosed comments and questions must be addressed to continue processing Finger Lakes' application for an Underground Storage Permit for its proposed liquefied petroleum gas ("LPG") facility.

As you are aware, Environmental Conservation Law § 23-1301.1 requires that the New York State Geologist approve of any underground storage application prior to Department issuance of a storage permit. This NOIA includes comments and questions provided to this office by the New York State Geologist. Please contact me if you have any comments or questions concerning this NOIA.

Sincerely,



Peter S. Briggs
Chief, Permits Section

PB/tj
Enclosures

c: J. Maglienti, Esq.
L. Collart
B. Glynn
R. McDonough
W. Kelly

NYSDEC Division of Mineral Resources
NOTICE OF INCOMPLETE APPLICATION & STATUS OF MATERIALS
ECL Article 23 Underground Storage Permit
Finger Lakes LPG Storage, LLC, Schuyler County

1. **Organizational Report** - *Finger Lakes' September 30, 2009 Organizational Report satisfies the Department's requirements at this time. An updated Organizational Report must be filed with the Department if a change occurs in any of the information provided on the report including a change in corporate structure.*
2. **Financial Security** - *Financial security is required prior to issuance of any well drilling permit or approval of any well transfer request, and will be reviewed at the time such applications and/or requests are received by the Department.*
3. **Transfer of Well Plugging Responsibilities** - *Approval of such transfer requires properly completed request for transfer forms, followed by compliance inspection of the wells by Regional staff and verification of financial security. All unplugged wells in Finger Lakes' Galleries 1 and 2 currently registered with other well owners [i.e., US Salt LLC and Seneca Lake Storage, Inc. ("SLSI")] must be transferred prior to Finger Lakes performing any proposed well work that requires a permit in Finger Lakes' name.*
4. **Full Environmental Assessment Form** - *In contrast to the individual Environmental Assessment Form required with each drilling permit application, the Full Environmental Assessment Form ("EAF") is required to address the whole storage project, including any compressor site, any proposed lateral pipelines to power plants or transmission lines, and any proposed discharges. The Full EAF will be used to identify:*
 - a. *any need for additional Department permits including those that address brine handling and discharge/disposal.*

Finger Lakes provided a Full EAF with its storage application received on October 13, 2009. The following corrections must be made, and a revised form submitted. However, because this NOIA is limited to Division of Mineral Resources' issues, Finger Lakes should coordinate its revisions and submission of the revised EAF with any comments received from the Region 8 Avon Division of Environmental Permits office, and submit only one revised form to the Department.

Page 1 – The "Name of Lead Agency" must reflect the Commissioner's Lead Agency Decision when reached.

Page 2 – The address of the applicant must be corrected to reflect Finger Lakes' Organizational Report provided with the storage application.

Page 5 – The total amount of salt that will be removed from the site due to operational solution mining over the projected life of the project must be provided including a notation of the life of the project in years.

Page 8 – Additional approvals in the form of well transfers, well drilling permits and well plugging permits associated with the project will be required by the NYSDEC.

Page 10 – The form appears to be signed by Michael Armstrong, Director Engineering. Mr. Armstrong is not listed in Box 7 of Finger Lakes' Organizational Report provided with the storage application, and therefore is not authorized to sign submittals to the Department.

Please have a person listed in Box 7 or Kevin Bernstein (project-specific authorization granted by Finger Lakes on October 20, 2009) sign the revised EAF.

5. **Map(s)** - Please prepare a map(s) at a minimum scale of 1" = 400' and include the following items. Submit as many separate maps as necessary to legibly depict the requested information.

- d. All faults or other structural or stratigraphic features depicted on the cross-sections described in item 6a below.

- e. The proposed location of compressors and other surface equipment, structures, tanks, impoundments (e.g., brine ponds), discharge points, flare stacks and pipelines associated with the proposed storage operations.

- f. Notation of the applicant's surface and mineral rights within the vicinity of the proposed storage area.

- g. Topographic and cultural features such as roads, railroads, oil or gas pipelines, utility rights-of-way, surface waters, springs, public and private water supplies, buildings or dwellings, agricultural districts, significant landmarks and any other public area which may be used as a place of occupancy, resort, assembly, lodging, manufacture, storage or traffic.

- 6. **Reservoir Suitability Report** - This report must document suitability of the reservoir for storage. The report must include a cavern development plan & geomechanical (including finite element analysis) study including and analyzing, but not necessarily limited to, items listed below. Note that the geomechanical study must use supportable baseline cavern information and a justifiable projection for future cavern growth—existing cavern size(s) and shape(s) must be based on reliable information such as historical cavern development records and recent sonar surveys.

- a. Geologic cross-sections of the area shown on the map listed in item 5 showing lithologies, storage wells (including casing strings and setting depths) and overlying and underlying formations, and vertical profiles of the existing and ultimate caverns including all prior sonar surveys. These cross-sections must also depict any faults or other structural or stratigraphic features that affect either continuity and extent of the formations shown or effectiveness of containment of gas in the storage reservoir.

in permitted total capacity, however caused, will require an underground storage modification permit in accordance with ECL §23-1301(5)(b).

- f. Past and current sonar reports and surveys, and schedule for future sonar surveys. Sonar schedules must take into account the cavern development plan. Any other materials including other types of surveys and/or determinations of current cavern size and shape including records of prior cavern development. Directional surveys for wells for determining spatial relationship of caverns.

- g. Discussion of historical earthquake activity, if any, within a one-half mile radius of the project area.
 - h. Proposed safety and emergency shut-down systems for the storage facility.
Upon review of items a through h, the Department may require additional geologic and/or
7. **Subsidence monitoring plan.** The subsidence monitoring plan must take into account the cavern development plan.
8. **Mechanical integrity testing ("MIT") plan.** Proposed MIT pressures must be accounted for in the geomechanical analysis.
9. **Well Status and Condition Report** - The purpose of this report is to show that prior to commencement of storage operations, the condition of all wells located within and immediately adjacent to the storage area is such that storage gas containment is not compromised. Please include the following items.
- a. A well summary covering all plugged and unplugged wells which documents the well use histories and current status or downhole condition of each well.

See response to below Item 9b.
 - b. A proposed remediation plan for wells described in item a above which are not adequately completed or plugged to ensure storage gas containment.
With respect to Items a and b above, Finger Lakes provided information on the wells in proposed storage Galleries 1 and 2 as Tab D of its storage application, and at other locations within the

application. Well construction and well history information is also included on page 4 of the storage application. Please provide a well diagram showing existing casing and cement for each plugged and unplugged well in Galleries 1 and 2. The diagrams for existing and proposed plugged wells must show the location of existing or proposed mechanical and/or cement plugs in the wellbore. Information on the historical use of Gallery 2 for LPG storage is provided on page 4 of the storage application and in Exhibit 10. Details and results of the Vertilog well casing evaluation logs recently run on the wells during re-entry are provided on page 5 of the storage application. Well Nos. 33 and 44 were recently relined to ensure integrity of the storage system. Provide an explanation as to why well No. 43 does not require relining.

For proposed storage Gallery 2, Finger Lakes' intended use of Well No. 30 is unclear. Page 2 of Tab D states "will be converted to LPG storage" while page 12 of the application states "Finger Lakes plans to replug and abandon well 30..." Please clarify.

Finger Lakes did not provide any information on wells "immediately adjacent to the storage area" as requested in Item 9. For the purpose of this requirement, immediately adjacent is defined as all wells in a cavern or gallery within 500 feet of the ultimate cavern outlines for proposed storage Galleries 1 and 2. For all identified immediately adjacent wells, provide well name, number, API No., current status, year plugged, if applicable, and well owner's name. For clarification sake, a tabulation of all wells (Galleries 1 and 2, and immediately adjacent) documenting each well's current status, proposed status and remedial or plugging work already performed or required is requested.

- c. A proposed monitoring/observation well protocol, if any, which lists proposed monitoring/observation wells, identifies their locations and describes the purpose, methodology and frequency of the planned monitoring and observation.

Finger Lakes did not identify any permanent monitoring or observation wells for its proposed LPG storage facility. Please confirm that Finger Lakes will not have any dedicated monitoring or observation wells.

Prior to commencing any work on an existing or new well, including re-entry, drilling, conversion and plugging, the applicant must contact the Regional Minerals Manager to determine application, notification and/or permitting requirements for individual wells in accordance with 6NYCRR Parts 550 - 559.

10. **Storage Rights Affidavit** - Please provide an affidavit stating that the applicant has acquired at least 75 % of the storage rights within the proposed storage formation in the reservoir and buffer zone, and reference and include a lease tract map. In addition to the affidavit itself, include a tabulation which corresponds to the lease tract map of the names and complete mailing addresses of all surface owners within and adjacent to the proposed storage area (reservoir and buffer zone).

Finger Lakes did not provide the requested lease tract map and tabulation. Finger Lakes must provide a new affidavit, lease tract map (including ultimate cavern outlines) and tabulation

11. **Permit Application Fee** - The application fee for a new underground storage facility is \$10,000. The fee was received by the Department on October 13, 2009. Please find enclosed receipt No. 558202.

Other Comments/Questions

ORIGINAL RECEIPT
TO BILL MOLER

32-01-3 (8/90)-10f



NEW YORK STATE DEPARTMENT OF ENVIRONMENTAL CONSERVATION

RECEIPT

NUMBER
558202

Region Number JA Date 10-13-09
Location CO central office Division Mineral Resources
Received of Finger Lakes LPG Storage, LLC
In the amount of \$ 10,000.00
For underground storage fee.

Cash Department Representative Jamanna Dubois
 Check Number 5100 Title clerk I
 Money Order

ORIGINAL