

**BEFORE THE CALIFORNIA ENERGY COMMISSION  
STATE OF CALIFORNIA**

**In the matter of:**

**Preparation for the Governor's Potential Decisions on  
Offshore LNG Import Terminal Applications**

**Docket No. 05-LNG-1  
Public Workshop on LNG  
Access Issues and  
Deliverability of Supply**

<b>DOCKET</b>	
<b>05-LNG-1</b>	
<b>DATE</b>	<b>JUN 15 2005</b>
<b>RECD.</b>	<b>JUN 15 2005</b>

**COMMENTS OF SEMPRA LNG  
TO THE WORKSHOP HELD BY THE CALIFORNIA ENERGY COMMISSION  
IN DOCKET NO. 05-LNG-1**

**Steven C. Nelson  
Carlos F. Peña**

**Attorneys for Sempra LNG  
101 Ash Street, HQ 13 D  
San Diego, CA 92101-3017  
Telephone: (619) 699-5037  
Facsimile: (619) 699-5027  
E-mail: [cfpena@sempra.com](mailto:cfpena@sempra.com)**

**Dated: June 15, 2005**

**BEFORE THE CALIFORNIA ENERGY COMMISSION  
STATE OF CALIFORNIA**

**In the matter of:**

**Preparation for the Governor's Potential Decisions on  
Offshore LNG Import Terminal Applications**

**Docket No. 05-LNG-1  
Public Workshop on LNG  
Access Issues and  
Deliverability of Supply**

**COMMENTS OF SEMPRA LNG  
TO THE WORKSHOP HELD BY THE CALIFORNIA ENERGY COMMISSION  
IN DOCKET NO. 05-LNG-1**

**I.**

**INTRODUCTION**

On June 1 and 2, 2005, the California Resources Agency ("CRA"), the California Public Utilities Commission ("CPUC") and the California Energy Commission ("CEC") jointly held a public workshop on LNG access issues and deliverability of supply ("workshop") in the above-referenced proceeding.<sup>1</sup> The stated goals of the workshop were to explore ways to maximize the potential economic benefits to consumers of any natural gas imported to California in the form of liquefied natural gas (LNG) and to safeguard California's natural gas markets. In addition, the workshop was intended to facilitate a discussion on the terms of access to LNG regasification services at offshore terminal facilities, and what, if anything, should be done to help ensure deliverability of supply. The Commissions indicated that information stemming from the workshop would be used to prepare the State for rendering future decisions on offshore LNG terminal applications. As a party with an interest in the accuracy of the information submitted

---

<sup>1</sup> All three of these California agencies will hereafter be referred to as the "Commissions".

for Commission consideration as well as the ultimate outcome of the workshop discussions, Sempra LNG hereby respectfully files its comments in this proceeding.

## **II.**

### **DISCUSSION**

As an initial matter, Sempra LNG greatly appreciates the Commissions' efforts to consider the diverse views of the various parties in this proceeding. It is imperative to both the near and long term future of the California natural gas markets that the Commissions and the Governor consider all of the relevant (and accurate) information regarding LNG supply access to the State. To that end, it is worth restating that Sempra LNG is in the process of constructing an LNG terminal facility in Baja California which will be placed into service in early 2008.<sup>2</sup> The ECA terminal is capable of supplying 1.0 Bcf/day of liquefied natural gas to U.S. and Mexican markets. Of particular note, ECA has received all of the requisite licenses and permits from the Mexican government and all of the terminal capacity of the ECA facility is fully subscribed by two separate competitors. Because a substantial portion of the natural gas from the ECA facility could be transported to markets within the State of California, Sempra LNG has a direct interest in, and is uniquely situated to provide meaningful insight to the issues being addressed in this proceeding.

Sempra LNG supports the efforts of the California regulatory agencies to adopt non-discriminatory State policies, rules and regulations that allow natural gas supply competition to occur on a level playing field, irrespective of the physical location of a particular supply source. While proper regulatory policy is critical to creating efficient energy markets, the timing of policy implementation is just as important. Delays in the various ongoing State regulatory

---

<sup>2</sup> The Sempra LNG Baja California terminal facility is known as the Energía Costa Azul ("ECA") facility.

proceedings affecting California gas markets, such as those emanating from the Gas Industry OIR, create significant and unnecessary regulatory uncertainty.<sup>3</sup> Sempra LNG urges the collective California Commissions to minimize such regulatory uncertainty by expeditiously adopting consistent, efficient regulatory policies that encourage new supplies into the State. Moreover, it is essential that non-discriminatory *access* rights are also extended to new sources of supply. Equal access will foster markets that operate efficiently so that natural gas suppliers engage in the sort of robust competition that keeps commodity prices in check. Access to incremental sources of supply will not only serve to ensure that California's long-term growth prospects can be successfully met, but will also enhance the California utilities' ability to continue to reliably provide gas service to their core and non-core customers during periods of unanticipated peak demand.

**A. Incremental Supplies Increase Competition and Improve System Reliability**

The State has before it a unique opportunity to promulgate policies and regulations that help bridge the existing gap between natural gas supply and demand within its borders. Sempra LNG endorses regulatory policies that encourage the connection of new supply sources to the State and submits that such incremental supplies should include regasified LNG.

State regulatory policy must not only encourage new, incremental sources to build facilities and ship their supplies to California, but such policies must also ensure that new supplies have equal access to the transportation infrastructure within the State. Equal access to the utility pipeline infrastructure will increase supply options available for California utility core procurement. Supply diversity will enhance the competitive choices available to the consumer and increases gas-on-gas competition that tends to reduce and/or stabilize commodity prices. In

---

<sup>3</sup> Order Instituting Rulemaking to Establish Policies and Rules to Ensure Reliable, Long-Term Supplies of Natural Gas to California ("OIR"), at Docket No. R.04-01-025.

addition, increases in portfolio diversity resulting from incremental supply sources such as LNG, yields additional dividends in the form of increased system reliability.

Utility core and non-core customers alike should reap the benefits of increased portfolio diversification. Incremental supplies could be used by the utilities to manage their systems more efficiently. Incremental volumes are helpful to pipelines during times of peak demand and minimize the need to add or run costly compression and flow control equipment. Similarly, to the extent that distant events of force majeure to pipeline infrastructure or traditional production occur, California utilities would be in a better position to continue to meet their customers' gas requirements if their systems have sufficient access to alternative supply sources.

**B. The LNG Terminal Developer and Suppliers Carry the Bulk of any Terminal Risk**

During the workshop in this proceeding, questions regarding the reliability of supplies received into California from new LNG terminal sources were raised. Specifically, parties questioned whether utility ratepayers would somehow bear the risk of LNG supply diversions. Sempra LNG submits that this question raises an issue in search of a problem. The fact is that by definition, *any* new supply source into the California market represents additional supply optionality that did not previously exist. As stated earlier, the addition of competitive alternatives to the markets increases supply diversity which leads to lower commodity costs, enhanced system reliability and improved market response to fluctuations in natural gas demand. The suggestion that the possibility of an LNG supply diversion is a credible reason to preclude LNG from a well-managed, diversified supply portfolio is clearly a tempest in a teapot.

LNG supplies should be viewed no differently than flows from traditional sources of supply. Traditional production can be decreased or shut-in due to weather and equipment problems, and can be redeployed based on economic conditions. It is important to remember

that natural gas suppliers, whether from traditional production sources or from LNG sources, currently address the possibility of supply shortfalls contractually. For instance, suppliers will enter into contract provisions that provide for supply “cover” arrangements that allow fungible volumes of gas to originate from alternative sources. Similarly, parties may choose to enter into standard hedge transactions that protect against supply shortfalls. In short, natural gas supply originating from an LNG terminal is secure and reliable, as it is the functional equivalent of interconnecting to a new producing basin. Many industrialized nations around the world have recognized this fact and appreciate the value that LNG brings to their respective gas supply portfolio. Countries such as Korea, Japan, Spain, France and Italy have all embraced LNG supply to safely and reliably meet their baseload and peak natural gas requirements.

### **III.**

#### **CONCLUSION**

Sempra LNG urges the State Commissions to pursue policies that recognize LNG as a valuable addition to a diverse supply portfolio. Supply diversity will increase commodity competition and enhance the reliability of the natural gas markets serving the burgeoning growth in California demand.

Sempra LNG greatly appreciates the opportunity to participate in the Commissions’ *LNG Access and Supply Deliverability* discussions and respectfully submits the forgoing comments for consideration in this proceeding.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Carlos F. Peña', written over a horizontal line.

**Carlos F. Peña**

Attorney for Sempra LNG  
101 Ash Street, HQ 13 D  
San Diego, CA 92101-3017  
Telephone: (619) 699-5037  
Facsimile: (619) 699-5027  
E-mail: [cfpena@sempra.com](mailto:cfpena@sempra.com)

**June 15, 2005**