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January 5, 2006

**U.S. Department of Energy
Office of Fossil Energy (FE-30)
ATTN: Nancy Johnson
1000 Independence Avenue, SW
Washington, DC 20585**

**Re: COMMENTS FOR DEPARTMENT OF ENERGY NATURAL GAS
SUPPLY/DEMAND BALANCE ANALYSIS**

Sempra Energy (NYSE: SRE), based in San Diego, is a Fortune 500 energy services holding company whose subsidiaries provide electricity, natural gas and value-added products and services. The Sempra Energy companies' employ more than 13,000 employees serve more than 10 million customers in the United States, Europe, Canada, Mexico, South America and Asia.

Section 1818 of the Federal Energy Policy Act of 2005 (EPAct 2005) requires the Department of Energy (DOE) to develop a report specifying recommendations for achieving a balance between natural gas supply and demand. Sempra Energy appreciates the opportunity to participate in this process and looks forward to working with the DOE on the development of the report to Congress. Our comments below address gas supply and infrastructure development, natural gas interchangeability, demand side management, and renewable energy.

Supply and infrastructure:

Sempra Energy (Sempra) has reviewed the North American gas demand and supply balance studies prepared by various government and private sector energy entities and find them relatively consistent in their views that a natural gas supply-demand gap is developing in the near future. These studies conclude that in order to avoid market disruptions, new sources of natural gas supply are required in both the short and long term. The Sempra companies agree in principle with these assessments and strongly support the implementation of policies that allow new sources of natural gas supply to enter North America, and enhanced access to domestic sources to moderate the pending gas supply shortfall.

In the near term, the most promising new sources of supply appear to be Liquefied Natural Gas (LNG) from overseas and additional production from the Rockies supply basins. To facilitate the development of new sources, we encourage the federal government to adopt policies that

streamline the development of LNG receiving terminals, streamline permitting requirements for gas production, pipeline infrastructure and gas storage projects. Implementing such policies will make it possible to bring much needed supplies to residential, commercial and industrial customers for their use to heat homes, operate businesses and generate the electric power needed to sustain economic growth.

In addition, there are a myriad of federal and state regulations that can discourage or complicate development of new supply projects. The DOE report should emphasize that the development of new supplies requires the cooperation of both federal and state regulators to ensure customers and suppliers have certainty of access for new supply sources and unrestricted access to interstate commerce. In southern California alone there are at least four proposals for developing new LNG projects. A framework that provides customers economic access to these new supplies is essential.

Natural Gas Interchangeability:

Addressing gas interchangeability specifications is critical to establishing a stable regulatory regime so that suppliers and consumers have certainty that new supplies will be redelivered to the burner-tip. To support that goal, Sempra recommends six policy principles that should be adopted to address natural gas interchangeability to ensure that the proper regulatory framework is in place to promote greater customer choice of new supplies:

- Natural gas interchangeability standards should be designed first and foremost to protect the health and safety of consumers, personnel operating the gas supply system, and the operational integrity of the pipeline system.
- Natural gas interchangeability standards should facilitate and promote access to a broad range of natural gas supplies from both domestic and international imports.
- Natural gas interchangeability standards should be established in a manner that does not impede the attainment of air quality objectives.
- Natural gas interchangeability standards should allow the continued reliable operation of gas fired equipment.
- Natural gas interchangeability standards adopted by States should not be more stringent than standards adopted by the Federal Energy Regulatory Commission and must maintain the efficient transportation of natural gas in interstate commerce.
- Natural gas interchangeability standards should consider the cost impacts on all consumers and not be based on a specific end use.

A national initiative is underway to examine and update gas interchangeability and gas quality standards resulting from the confluence of several events and issues. LNG imports are on the rise and forecasts are for future imports to be a significant percentage of North American supply. The transition from historical gas composition to the evolving gas supply profile presents specific technical challenges throughout the stakeholder value chain.

That being said, Sempra believes the ability/willingness of the federal government to step in and develop a set of guidelines is critical in ensuring that both new and existing supplies are fungible from state-to-state, and region-to-region. The consequence of federal inaction will likely be the propagation/exacerbation of the existing patchwork of regulatory gas specifications which exist across the country today, and the Balkanization of gas supply regions that minimize gas on gas competition and consumer's ability to access additional supplies at the most cost-effective price. To avoid this consequence, and provide the maximum benefit to all consumers, we recommend the federal government take action to develop a set of federal guidelines which allows the maximum possible flexibility and access to gas supplies.

From an international (LNG) supply perspective, we encourage the federal government to carefully consider the gas interchangeability specifications which exist in today's world markets. Globally, the LNG trade is dominated by markets outside the US, and with rare exception the world's largest economies demand natural gas with a heat content higher than the traditional supplies of many domestic regions. This fact suggests international suppliers will continue operating their facilities (and designing their new facilities) to meet the much larger international (LNG) demand versus the much smaller US (LNG) demand. If US gas customers remain subject to today's highly restrictive domestic interchangeability standards (which limit access to international supplies) the likely result will be a premium charged for "boutique" imported natural gas, and/or international suppliers declining to participate in the US LNG market. Either case reduces gas-on-gas competition and restricts the ability of US consumers to receive natural gas at the most cost-effective price.

In summary, Sempra believes that the work completed by the NGC+ Task Group on Gas Quality provides a reasonable set of interim guidelines on gas interchangeability that should be adopted while additional research is completed by the DOE and others.

Demand side management:

Sempra would like to emphasize the importance of federal government policies which promote demand side management of natural gas through enhanced cost-effective energy efficiency and energy conservation programs. The success of these programs has been seen time and time again in every sector of the economy, and stands the best chance of minimizing the impact of any supply/demand gap in both the short and long term.

Sempra Energy's utility business units - Southern California Gas Company and San Diego Gas and Electric (SoCal and SDG&E) - are aggressively promoting and delivering energy efficiency and conservation programs to minimize the impact of rising gas prices on consumers. Aggressive energy savings targets have been set that will require the implementation of all cost-effective energy efficiency measures using standardized cost-effectiveness test criteria. We

believe the federal government should consider the programs in which our utilities have been leaders for more than two decades. Some of these activities we have undertaken include:

- Online and on-site surveys for residential and business customers.
- Incentives to participating builders to encourage construction to meet or exceed ENERGY STAR standards.
- Rebates to customers to ensure replacement of gas appliances and other gas-using equipment with energy-efficient ENERGY STAR qualified alternatives.
- Ongoing communications with our customers on the status of natural gas prices.
- Conservation tips related to appliances, weatherization and windows.
- Payment assistance and a broad range of programs designed to protect low-income customers from the impacts of unusually high prices. Particularly for this winter, we have developed, and the California Public Utilities Commission (CPUC) has approved, a combination of energy efficiency and awareness/communication programs about what to expect this winter with respect to gas prices and provided residential and business customers with information and the means to conserve energy and save money.

Renewable energy:

Sempra recommends the federal government continue their support, and adoption of policies which promote the development of renewable energy sources. Coupled with this however, is the need to get these resources to market. To facilitate this, we encourage the federal government to continue their scrutiny of States' willingness to site new infrastructure, and expeditious federal action where States' fail to act. This will be essential in allowing renewable energy sources to moderate natural gas demand as we move forward.

Our utility business unit SDG&E has aggressively pursued the addition of renewable resources to its electric supply portfolio to meet California's Renewable Portfolio Standard (RPS) - requiring 20% of electric energy to come from renewable sources by 2017 and regulatory policy to accelerate this goal to 2010.

SDG&E's efforts to meet the RPS are severely hindered by the difficulty of siting new transmission in the State of California. For our utility to be able to meet the RPS, additional transmission will be needed to import that renewable power into SDG&E's load center. Any delay in the ability to site this new, much needed transmission will delay the ability to add new renewable energy supplies. To ensure this does not become the case, we support continued federal scrutiny of the States' willingness to site new infrastructure, and again, expeditious federal action if a state fails to act. Doing so will be essential in allowing renewable energy sources the necessary access to load centers which in turn will moderate the demand for natural gas in the future.

Sempra remains concerned about the potential future imbalance between natural gas supply and demand. We appreciate the opportunity to comment on this DOE effort and look forward to

working with the agency in the development of the final report to Congress. If you have any questions, please do not hesitate contacting William Zobel at (619) 696-2512.

Sincerely,

A handwritten signature in black ink, appearing to read "M. Murray", with a long horizontal flourish extending to the right.

Michael J. Murray

cc: T. Sayles
G. Williams

bcc: L. Stewart
G. Bartholomew
W Sakarias
J. Hartman
S. Van Goor
W. Zobel
W. McNamara