

Opening Remarks of Joseph Desmond
Undersecretary of Energy Affairs
California Resources Agency
U.S. Department of Energy Liquefied Natural Gas Forum
Los Angeles, California, June 1, 2006

Good morning. On behalf of Governor Arnold Schwarzenegger I'd like to welcome the U.S. Department of Energy to California and thank them for affording us this opportunity to share information and to discuss the implications of adding liquefied natural gas to California's resource mix. I also want to welcome and thank representatives of federal and state agencies and local government as well as the citizens of California who have taken time from their busy lives to be here today.

California enjoys a unique position in the world. If California were an independent country, it would represent the fifth largest economy in the world. Energy, in all its forms, is a key component of our robust economy.

As the Governor has stated, the key goals of the state's energy policy are to ensure:

- ◆ Adequate and reliable energy supplies when and where needed;
- ◆ Affordable energy to households and business; and
- ◆ Advanced energy technologies that protect and improve economic and environmental conditions.

In terms of natural gas, California's and the nation's use of this fuel is growing beyond the ability of the traditional North American resource areas to keep pace. In 2004, Californian consumers paid more than \$11 billion for natural gas, and with last year's price increases, that figure is surely higher for 2005. In addition, increased natural gas prices put upward pressure on electricity prices.

To ensure reliable supplies and stable prices, we must explore all options, including increasing supply, increasing in-state gas storage, and enhancing our natural gas import capability. We must also continue this state's aggressive policies to improve the efficiency of our natural gas and electricity use and encourage expansion of projects to generate gas from landfills, biomass, and other renewable resources.

Historically, California has attempted to provide its citizens a diverse portfolio of energy options. The Governor has embraced the loading order for electric resource additions, which starts with cost effective energy efficiency, then turns to renewable resources, and only then turns to new clean and efficient fossil fuel generation.

For decades, California has aggressively pursued energy efficiency improvements and has led the way in renewable energy in the United States. Since 1975, California's energy efficiency programs have reduced natural gas use per household by more than 50 percent, and we continue to lead. In 2004, the Public Utilities Commission adopted programs for the customers of investor owned utilities that will reduce consumption by 444 million therms by 2013.

California has also established a Renewables Portfolio Standard that calls for the state's investor-owned utilities to increase the renewable portion of their electricity mix to 20 percent renewable energy generation by 2010. The Governor has also directed the Energy Commission and its sister agencies to evaluate a goal of 33% renewables by 2020 in light of cost-benefit and risk analysis to ensure that consumer costs will not be raised unnecessarily, that this level of renewable assets can be accommodated efficiently into the electric grid, and to ensure that the state has a workable implementation path.

Despite these ambitious steps towards aggressive implementation of energy efficiency and renewables, in the area of electricity, natural gas continues to drive the generation market. In 2004, more than 40 percent of California's electricity came from natural gas, up from 30% in 1990. With the exception of the Salton Sea Geothermal project, every power plant licensed by the Energy Commission in the last ten years has been fired by natural gas.

In large part because of our emphasis on efficiency and renewables, California's natural gas demand growth rate is projected to be below that of the United States as a whole, and that of Canada and Mexico. California's demand is projected to grow only 0.7% per year between 2006 and 2016, while demand in the U.S. as a whole is projected to increase 1.6%; in Canada 1.3%; and in Mexico 2.9%. While this is good news for California's consumers, we must compete for natural gas supplies with other parts of the country whose demand for natural gas is rapidly increasing. California produces only about 15 percent of the natural gas consumed in the state. The remaining 85% must be imported from other parts of the Western U.S. and Canada. While sufficient pipeline capacity currently exists to bring this gas to our state, California is at the end of the pipeline and must compete with upstream customers with increasing demand such as Arizona and Nevada.

To some extent, this places California at the mercy of demand growth in other regions and to supply fluctuations that can lead to increased prices. Last year California experienced the results of hurricanes in the Gulf of Mexico – a decrease in gas production and an increase in the cost of natural gas. Hurricanes in the Gulf of Mexico are likely to cause supply disruptions and price increases again in the future, emphasizing the need for California to diversify its supply sources. To continue to provide its citizens a robust and growing economy, California must assure that an abundant source of reasonably priced natural gas is available to California's businesses and homes.

LNG has the potential to increase the diversity of natural gas supplies for California. As we meet today, five proposals for California LNG facilities are under review, and additional California projects have been announced by their developers. In addition, one project is under construction in Baja California. These facilities are all being financed through private capital. It is certain that not all of the proposed projects will be built.

In considering the LNG projects currently proposed for California, the state must address issues regarding the safety of these facilities, their potential impacts to our coastal environmental, along with the quality of the natural gas provided to our state by

an LNG facility. To assure that these issues are addressed in a comprehensive and equitable manner, California has established the LNG Interagency Permitting Working Group, composed of more than 20 state, local, and federal agencies. This group, coordinated by the California Energy Commission, provides the primary interface between California government and LNG developers. The LNG Working Group's active participation resulted in the production of a safety report on Sound Energy Solution's proposed LNG import terminal at the Port of Long Beach earlier this year. This Safety Advisory Report identified over 100 issues related to the safe siting of this proposed facility. These issues are still under consideration at the Federal Energy Regulatory Commission.

The ultimate goal of the Governor and of the LNG Working Group is to assure that any LNG development is consistent with the state's energy policy of balancing environmental protection, public safety, and local community concerns to ensure protection of the state's population and coastal environment. The Governor plays an important role in the permitting of offshore projects under the federal Deepwater Port Act. For those offshore projects, the Governor has the authority to approve, veto or approve with conditions any project after the project has had its final federal hearing. The Governor will rely on the expertise of the agencies in the LNG Working Group to help him exercise this authority so that projects can only move forward when the appropriate environmental and safety standards will be met.

LNG could be an important component of California's diversified energy supply if LNG proponents can meet California's safety and environmental concerns.

Thank you