

Where Does LNG Fit In? A California Perspective

*Presented at the Institute of the Americas Conference
LNG 2004: Supply, Demand, Market Change and Financing*

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Today's Talk

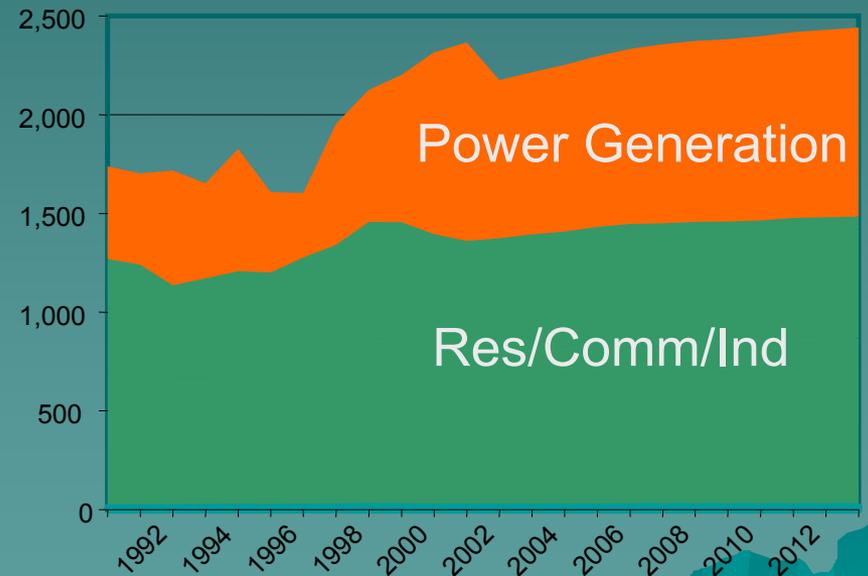
- ◆ Why the Sudden Interest in LNG?
- ◆ Energy Policy Affecting LNG
- ◆ Cross Border Work on LNG
- ◆ California's Interest in South American LNG
- ◆ Concluding Remarks



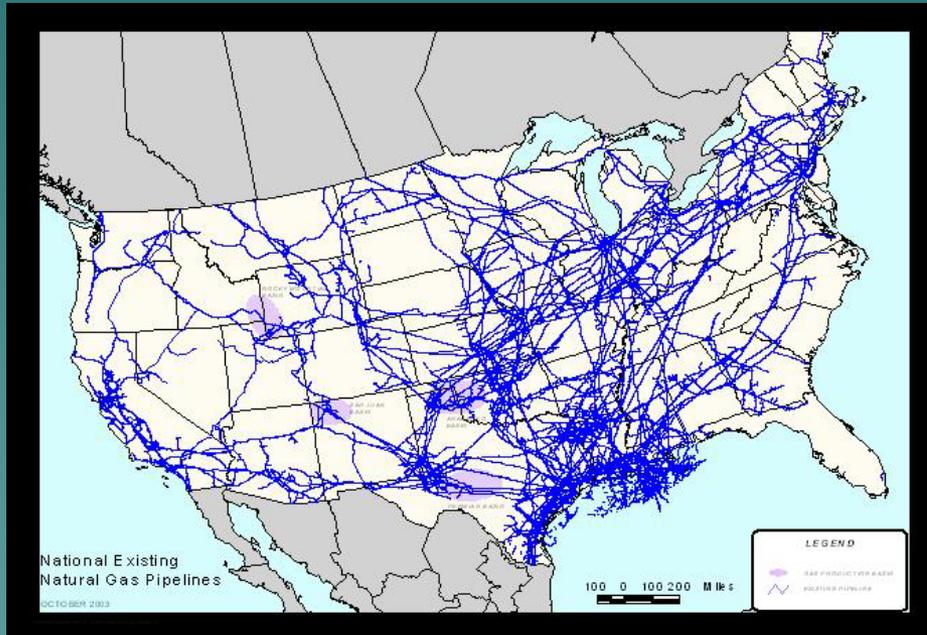
Why the Sudden Interest for LNG on the West Coast?

- ◆ California natural gas demand is increasing.
- ◆ Power generation accounts for as much as 40% of natural gas consumed in California.

California Natural Gas Demand (MMBtus)



Why the Sudden Interest for LNG on the West Coast?

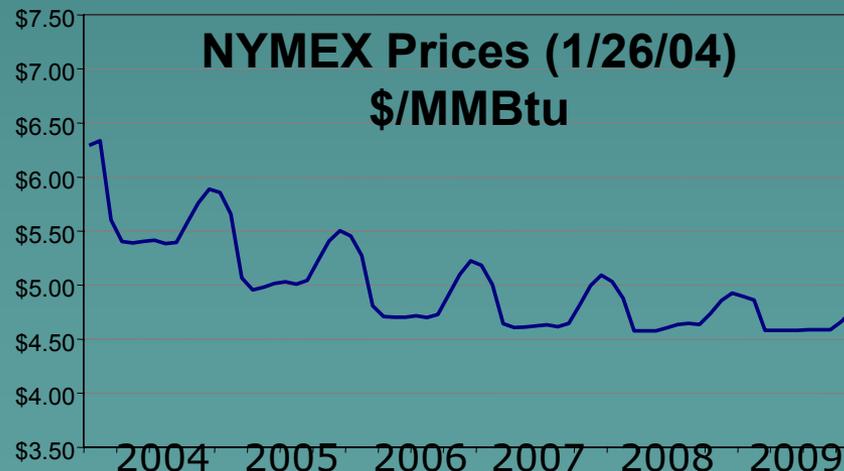


- ◆ California is at the end of the pipeline network.
- ◆ Demand east-of-California continues to impact delivery capacity to California.



Why the Sudden Interest for LNG on the West Coast?

- ◆ Natural gas prices are expected to exceed \$4.50 per MMBtu in the future.



Why the Sudden Interest for LNG on the West Coast?

Just Look at the Benefits!

- Delivery capacity, similar to a pipeline
- Additional supply, similar to a gas field
- Additional storage, similar to a local facility
- Supply diversity, gas from a new, price-competitive source
- Fuel diversity, liquid fuel for transportation



State Policies on LNG Are Developing

- ◆ Governor Schwarzenegger has expressed an interest in LNG.
- ◆ Integrated Energy Policy Report (CEC)
 - Recognizes LNG as a potential supply source.
 - Recognizes value of LNG to California.
- ◆ Energy Action Plan Commitment (CEC/CPUC/CPA)
 - “License and, where appropriate, fund construction of new energy facilities that are consistent with the reliability, economic, public health, and environmental needs of the state.”
 - “Partner with governmental and other groups in western North America to pursue commonly held energy goals.”



Energy Policy Affecting LNG

- ◆ California Public Utilities Commission
 - Recently issued rulemaking on natural gas policies will include LNG contracting issues.
- ◆ Coordination Among State Agencies
 - CEC, CPUC, State Lands Commission, California Coastal Commission all committed to working together.
 - Agencies also coordinating with federal and local agencies.



LNG Is Not a Stranger to California



- In the 1970s insufficient supply causing supply curtailments lead to a proposal for an LNG terminal at Point Conception.
- The Point Conception LNG site went through lengthy hearings.
- By the time approval was received, it was uneconomic due to increased domestic supply.

Point Conception



West Coast LNG Proposals



Cross Border Work

- ◆ Border Governor's Conference
 - ✓ Compile a "State of Border Energy" report.
 - ✓ Promote border region to test new policies.
 - ✓ Enhance bi-national communication and activities.
 - ✓ Support NADBank development of exemplary power plants.

- ◆ Energy Working Table
 - ✓ Co-chaired by California and Baja.
 - ✓ Goal is to establish closer working relationships.
 - ✓ Group addresses power plants, transmission lines, pipelines, LNG, and environmental issues.



A “Californias” Approach

- ◆ California and Mexico share many resources.
- ◆ We share a common energy network.
- ◆ Long-term energy infrastructure development should be guided by the combined sustainable needs of our shared region.
- ◆ Our region could potentially benefit from privately-financed LNG projects.



California Has an Interest in South American LNG

- ◆ Energy policy does not discriminate regarding supply sources.
- ◆ South America is one of our closest sources.
- ◆ Cost competitive supplier
- ◆ Supply contracts negotiated with:
 - Terminal developers
 - Consumers in California



Conclusions

- ◆ Gas availability will become increasingly tighter as gas demand grows in North America.
- ◆ Pipeline capacity and storage expansions are critical to satisfying future natural gas demand.
- ◆ LNG has great potential to serve the energy needs of a growing North American population.

The California Energy Commission is very interested in working with government agencies in Mexico to coordinate LNG policy development.

