PERU LNG

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Mr. Joe Desmond
Chairman
California Energy Commission
1516 Ninth Street
Sacramento CA 95814-5504

Subject: CEC Docket 05-LNG-01, Docket Unit MS-4
LNG Access Issues and Supply Reliability

Dear Mr. Desmond:

Peru LNG S.R.L. (Peru LNG) believes natural gas from South America will enhance California energy resource adequacy, providing supply diversity while mitigating risk associated with Asia-Pacific LNG markets. With the above in mind, Peru LNG wishes to submit the following comments for consideration in the LNG Access Issues and Security of Supply Workshop sponsored by the California Resources Agency, California Energy Commission, and the California Public Utilities Commission to be held in Sacramento, California on June 1-2, 2005.

Background

Peru LNG is a Peruvian company with a subsidiary of Hunt Oil Company of Dallas, Texas (Hunt Oil) as its major shareholder. Hunt Oil is part of a consortium formed to develop reserves of natural gas in excess of 10 trillion cubic feet located in Blocks 88 and 56 in Peru. As part of this development, the consortium has already completed production facilities and pipeline systems to transport natural gas to local markets within Peru and sell locally as well as export associated liquid hydrocarbons. As the next phase of the project, Peru LNG is developing a liquefied natural gas (LNG) liquefaction facility and terminal on Peru's Pacific coast for LNG export. This project is currently scheduled for completion during 2009.

Energy Resource Adequacy

California is a net energy importer in all respects. Growth in natural gas fired electric generation has enhanced the need for diverse and reliable natural gas resources to sustain California's economy and quality of life. California's current natural gas demand is approximately 6.6 Billion cubic feet per day. To meet California's energy needs over the years, new pipelines have been developed. From a natural gas resource planning perspective, LNG is similar to adding another pipeline to serve California. With potential of 4.0 Billion cubic feet per day of new incremental natural gas supply, LNG will connect California borders to global energy markets, providing energy resource diversity that could dampen long-term market volatility.

Global Gas Supply Diversity

A significant portion of existing and proposed LNG supply around the world is focused in Asia-Pacific regions in such areas as Australia, Indonesia, Malaysia and Sakhalin. Asia Pacific is the largest LNG market in the world consuming more than 70% of the current world LNG production. The market is poised to grow significantly with introduction of new demand in countries such as China and the Philippines as well as increased demand in the existing markets of Japan, Korea and Taiwan.

LNG supplied from South America provides an alternative to competing Asia-Pacific demands for LNG. South America's energy resource balance is diverse with natural gas, coal, hydro, and renewable energy resource potential that is more than adequate to accommodate regional energy demand. Natural gas reserves in South America are expected to far exceed regional demand resulting in the net export of natural gas in the form of LNG. Enhancing California LNG supply diversity with South American LNG will mitigate impacts from Asian-Pacific market forces and associated volatility and economic pressure.

LNG imported to California from South America offers a competitive transportation alternative for LNG. Distances to planned LNG terminals in southern California and Baja Mexico from various regions of the Pacific include:

- **Peru** — **3,800 nautical miles**
- Bolivia/Chile — 4,200 nautical miles
- Sakhalin, Russia — 4,700 nautical miles
- Tangguh, Indonesia — 6,700 nautical miles
- Darwin, Australia — 6,900 nautical miles
- Bontang, Brunei — 7,200 nautical miles
- Gorgo, Australia — 8,000 nautical miles

To mitigate physical supply risk, California policy should promote diversity of LNG resources to include South America which provides an alternative to trans-Pacific crossings.

Conclusion

California will benefit from diversity of LNG supply associated with Peru and other South American sources of natural gas. Peru LNG appreciates the opportunity submit these comments and, the opportunity to enhance California energy resource adequacy with diversified natural gas supply from South America.

Respectfully submitted,

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President of Peru LNG S.R.L.

cc: Mike Chrisman, Secretary, California Resources Agency
Mike Peevey, President, California Public Utilities Commission
Dave Maul, California Energy Commission
Bob Hoffman, Energy Dynamix Corporation (consultant)