

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Establish)
Policies and Rules to Ensure Reliable,)
Long-Term Supplies of Natural Gas to) R. 04-01-025
California)

**COMMENTS OF SEMPRA LNG ON THE APRIL 4, 2005
JOINT GAS QUALITY WORKSHOP REPORT**

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Pursuant to the California Public Utilities Commission’s (“Commission” or “CPUC”) Rules of Practice and Procedure and the Presiding Administrative Law Judges’ (“ALJs”) December 23, 2004 ruling (Appendix A at p. 3), Sempra LNG respectfully submits these comments on the April 4, 2005 “Report on the Joint Workshop on Natural Gas Quality Standards, Feb. 17-18, 2005” prepared by the California Energy Commission (“CEC”) and the CPUC in collaboration with the California Air Resources Board (“ARB”) and the California Department of Conservation (Division of Oil, Gas, and Geothermal Resources).

In the Joint Workshop Report (at p. 39), the CPUC and CEC request that parties address in their comments “how CPUC and ARB natural gas specifications should be revised, if at all . . . [,] the procedural method by which the recommendation could be achieved [and] what additional research is needed.” At the April 5, 2005 stakeholder meeting in Los Angeles, CPUC staff also asked parties to address the gas quality proposal Southern California Gas Company (“SoCalGas”) and San Diego Gas & Electric Company (“SDG&E”) put forward at the February 17 – 18, 2005 workshop (and

distributed to parties via email on April 8, 2005) and the proposal Calpine made in its March 4, 2005 post-workshop comments. At the April 5, 2005 stakeholder meeting, CPUC staff also asked parties to address the potential cost impacts of making changes to the existing specifications. Sempra LNG responds to these issues below.

As explained below in more detail, the commissions and parties have had the benefit of a very comprehensive and well-organized workshop, at least one other stakeholder meeting and three rounds of written comments on gas quality issues. This is a very significant record on which to move forward, and the State should begin to do so. If changes are needed to the utilities' existing natural gas quality specifications on file at the CPUC, the Commission should promptly approve these changes. With respect to ARB's existing CNG fuel specifications – which are widely recognized as in need of change – ARB should immediately commence the process to make these changes. The CEC and CPUC should encourage ARB to move forward with these changes and could provide valuable support in facilitating a resolution of the ARB issues.

I.
PROPOSED REVISIONS TO CPUC AND ARB NATURAL GAS
QUALITY STANDARDS

The CPUC and CEC asked parties in the April 4, 2005 Joint Workshop Report (at p. 39) to address in their comments “how CPUC and ARB natural gas quality specifications should be revised, if at all.” Sempra LNG addresses several potential alternatives below.

A. ONE OPTION – LEAVE CPUC SPECIFICATION UNCHANGED AND FOCUS EFFORTS ON THE MUCH-NEEDED REVISIONS TO THE ARB CNG FUEL SPECIFICATION

One option would be to leave the CPUC's specification unchanged and to focus efforts on making the much-needed changes to ARB's compressed natural gas ("CNG") fuel specification that a significant number of parties advocated at the workshops. As Sempra LNG demonstrated in its March 4, 2005 post-workshop comments, the current ARB CNG fuel specification is not a good way in which to address engine operability issues (adoption of a Methane Number is a more appropriate means for this) or air emissions issues (adoption of a Wobbe Number is a more appropriate means for this). Moreover, because CNG used for transportation represents less than 1% of statewide consumption,¹ it does not make sense for ARB's CNG fuel specification to hinder the rest of the State from realizing the full benefits afforded by increased supply options, e.g., from LNG.

The good news is that ARB expressed a willingness at the workshops to consider alternatives to its current CNG fuel specification. For example, in its workshop presentation (p. 7), ARB stated that a "Performance based standard may increase available fuel supply without risking engine damage or significant increase in emissions." In its presentation (*Id.*), ARB indicated that the alternate measurement indices it is considering are "methane number, Wobbe Index, and heat value."²

¹ See, e.g., ARB's workshop presentation slides (p. 5).

² In the past, engine manufacturers and the natural gas industry have used the specific "composition" of CNG to evaluate CNG fuel quality and its effect on engine performance and emissions. However, more recently, engine manufacturers have developed indices such as Methane Number and Wobbe Index to assess CNG fuel quality. These indices do not specifically limit the compositional make up of CNG, but establish "performance" thresholds for which engines can properly operate.

At the April 5, 2005 stakeholder meeting, the CEC also offered its resources to facilitate a resolution of this issue. Sempra LNG would welcome any specific proposals the CEC (or the CPUC) may have in this regard.

B. SOCALGAS AND SDG&E'S NGC+-BASED PROPOSAL

During the February 17-18, 2005 workshop, SoCalGas and SDG&E put forward a gas quality proposal based on the draft recommendations of the Natural Gas Council+ (“NGC+”), which NGC+ submitted in final form to the Federal Energy Regulatory Commission on March 2, 2005. At the request of CPUC Staff at the April 5, 2005 stakeholder meeting, SoCalGas and SDG&E also served a copy of its proposal to all parties to the R.04-01-025 service list on April 8, 2005. The SoCalGas/SDG&E proposal involves changes to both the current CPUC natural gas specifications and the ARB CNG fuel specifications.

With respect to the CPUC specifications, SoCalGas and SDG&E have proposed a tightening (i.e., a reduction) of the current allowable maximum Wobbe limit, from 1438 to 1400.³ As stated in March 4, 2005 post-workshop comments, Sempra LNG believes the 1400 maximum Wobbe Number proposed by NGC+ (and SoCalGas and SDG&E) is a workable target. Complying with this limit will not be without costs to LNG suppliers, but Sempra LNG is willing to bear the cost responsibility for meeting this new, more restrictive requirement. The 1400 maximum Wobbe Number was established during the NGC+ process as a compromise limit based on stakeholder input representing the full natural gas chain from suppliers to end users.

³ The 1438 upper Wobbe Number limit was derived from the current Rule 30 heating value limit of 1150.

With respect to the ARB CNG fuel specification, SoCalGas and SDG&E propose the replacement of the current specification with a minimum Methane Number. The minimum Methane Number would initially start at MN 80, but be reduced to MN 73 on or before January 1, 2008, when LNG will begin flowing into California. Sempra LNG believes this is a reasonable approach, but that it will be necessary to have the revised specification in place by no later than the end of the third quarter of 2007 because of required pre-operational testing at the Sempra LNG – Shell Energia Costa Azul facility in Baja, which will take place during the fourth quarter of 2007.

C. CALPINE'S PROPOSAL

At the April 5, 2005 stakeholder meeting, CPUC staff asked parties to address in their workshop comments the gas quality proposal Calpine put forward in its March 4, 2005 post-workshop comments (see, e.g., Table 1 at p. 3). Sempra LNG observes that Calpine's proposal to restrict supplies to +/- 2% of the current SoCalGas/SDG&E system-wide average (1332)⁴ would limit supplies to a Wobbe range of 1305 – 1359. A significant portion of California production would not meet Calpine's proposed upper limit. There also would be no assurance that future interstate gas supplies could comply with this limit. Also, some potential LNG supplies would not be able to meet the 1359 Wobbe limit and still comply with the nitrogen limits set by some interstate pipelines. Furthermore, if Calpine's proposal were adopted on a Statewide basis, supplies in Northern California (which tend to be much "leaner" than supplies in Southern California) may not meet the lower Wobbe limit Calpine has proposed. Thus, Calpine's proposal appears to be unduly restrictive, for both existing and new supplies alike.

⁴ SoCalGas presentations – Natural Gas Quality Standards Workshop, February 17 & 18, 2005.

Finally, Calpine's proposed Wobbe variation of +/- 2% appears to be based on the specifications of a single original equipment manufacturer ("OEM"), i.e., OEM "B",⁵ in contrast with the Wobbe variation of +/- 5% used by OEM "A", which manufactured most of the combustion turbines present in Southern California.

II. NEXT PROCEDURAL STEPS

The CPUC and CEC asked parties in the Joint Workshop Report (at p. 39) to address in their comments "the procedural method by which [their] recommendation[s] could be achieved."

Sempra LNG believes that the information presented during the workshops, in the April 5, 2005 stakeholder meeting and in three rounds of written comments⁶ establishes a significant record on which the commissions can rely to provide the timely guidance developers of LNG need in order to finalize their ongoing commercial arrangements. Thus, if changes are needed to the utilities' existing natural gas quality specifications on file at the CPUC, the Commission should promptly approve these changes.

Of course, only ARB can modify its current CNG fuel specification, but ARB expressed a willingness to do so in the February 17-18, 2005 workshops and the CPUC and CEC could encourage ARB to move forward promptly with these changes. Indeed, at the April 5, 2005 stakeholder meeting, the CEC volunteered to facilitate a resolution of this issue. Sempra LNG would welcome any specific proposals the CEC (and the CPUC) have in this regard. The CPUC and the CEC also have indicated in the workshop report

⁵ Calpine presentation – Natural Gas Quality Standards Workshop, February 17 & 18, 2005.

⁶ Parties filed pre-workshop comments on February 11, 2005, post-workshop comments on March 4, 2005 and these comments today (April 25) on the workshop report.

(at p. 40) that they intend to convene another stakeholder meeting after parties file their workshop comments. That stakeholder meeting could serve as a forum to discuss the revised ARB specification and other issues. In summary, Sempra LNG supports the collaborative effort that the CPUC and CEC, working in conjunction with ARB, initiated with the gas quality workshops in February. It is important that the State act as soon as possible so as to permit parties with an interest in developing LNG projects to have a reasonable opportunity to conform the delivery specifications of their supplies to whatever regulations the State adopts.

III. ADDITIONAL RESEARCH

The CPUC and CEC asked parties in the Joint Workshop Report (at p. 39) to address in their comments the issue of “what additional research is needed.” Sempra LNG recognizes that additional research data would be helpful. However, some steps can be taken based on existing research data. ARB, for example, could reasonably adopt an interim minimum Methane Number of 80 based on existing data and develop any additional supporting data to reduce the Methane Number to 73 over the next year or so. Research supporting the revised ARB specification could include (1) determining the operability and emissions impacts of lower Methane Number fuel on “legacy” heavy-duty vehicles (primarily Detroit Diesel) and (2) identifying the location and number of various makes and models of legacy heavy-duty vehicles in Southern California.⁷

⁷ Sempra LNG also observes that the graphs and NOx emission increases included in AQMD’s March 1, 2005 comments do not appear to accurately depict the results of the SoCalGas appliance study. Whereas AQMD states the NOx increases range from 20% to 127% for the seven most sensitive appliances, Sempra LNG’s analysis of the same base data indicates the increases will range from 14% to 69%. Also, it should be noted that six of these appliances were commercial rather than residential. A review of the results of the most common household appliances would indicate there is essentially no increase in NOx related to gases up to 1400 Wobbe.

IV. POTENTIAL COST IMPACTS

CPUC Staff, at the April 5, 2005 stakeholder meeting, asked parties to address in their comments potential cost impacts from revising gas quality specifications.

First, with respect to the SoCalGas/SDG&E proposal to make the current Wobbe limit more restrictive (from the current maximum allowable 1438 to a proposed maximum allowable of 1400), Sempra LNG, as stated above, will assume the costs for ensuring that its supplies conform with this new requirement.

With respect to other potential costs that may arise (e.g., funding for additional research, potential retrofits of “legacy” NGVs), the State could consider a number of cost allocation alternatives. Equipment manufacturers could, for example, be asked to assume the costs of retrofits. Another option would be for the State to “socialize” these costs by having taxpayers or ratepayers assume these costs. For example, the Commission routinely has energy consumers share the costs of utility improvements because the benefits of the improvements outweigh the costs. In this regard, the CEC has stated, e.g., at the April 5, 2005 stakeholder meeting, that Californians stand to save over a billion dollars for every \$.50 reduction in the price of natural gas.

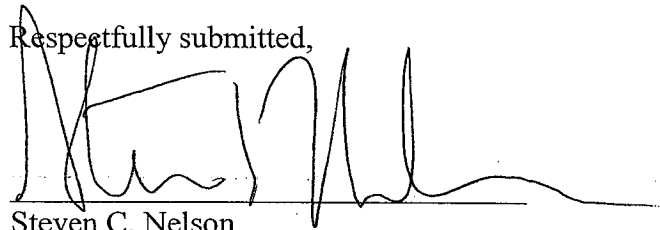
Finally, when the issue of cost allocation is considered, the State should be careful to ensure not to discriminate or to adopt artificial barriers to new sources of supply. To do so would not be consistent with one of the State’s major policy goals of “ensur[ing] a reliable supply of reasonably priced natural gas” (Energy Action Plan, at p. 2) or with the Commission’s Phase 1 decision (see Conclusion of Law 18: “New gas supplies should have the opportunity for firm access into the utility system and should be allowed to compete on an equal footing with existing supplies”). The Commission also should be

mindful that the establishment of barriers to out-of-state supplies could raise issues of discrimination.⁸

V.
CONCLUSION

In conclusion, it is important that the State act as soon as possible in making any necessary changes to existing natural gas quality specifications. This will permit parties with an interest in developing LNG projects to have a reasonable opportunity to conform the delivery specifications of their supplies to whatever regulations the State adopts. Doing so will be a step in the right direction in helping the State achieve one of its major policy goals – to “ensure a reliable supply of reasonably priced natural gas.” (Energy Action Plan, at p. 2).

Respectfully submitted,



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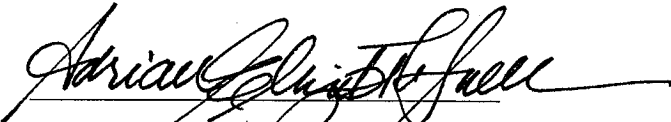
⁸ For example, the North American Free Trade Agreement prohibits such practices. There also are rules against discriminating against interstate shippers seeking access to local pipeline service. *See, e.g., CPUC v. FERC*, 330 U.S. App. D.C. 96 (1998) (D.C. Cir.).

CERTIFICATE OF SERVICE

I hereby certify that a copy of **COMMENTS OF SEMPRA LNG ON THE APRIL 4, 2005 JOINT GAS QUALITY WORKSHOP REPORT** has been electronically mailed to each party of record on the service list in R.04-01-025. Any party on the service list who has not provided an electronic mail address was served by placing copies in properly addressed and sealed envelopes and depositing such envelopes in the United States Mail with first-class postage prepaid.

Copies were also sent via Federal Express to the Assigned Administrative Law Judge and Commissioners.

Executed this 25th day of April, 2005 at San Diego, California.


ADRIAN ELIZABETH SULLIVAN