

**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 California

Rulemaking 04-01-025
(Filed January 22, 2004)

**OPENING COMMENTS OF SOUND ENERGY SOLUTIONS
ON GAS QUALITY SPECIFICATIONS**

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Date: February 11, 2005

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Pursuant to the December 23, 2004 Ruling of Administrative Law Judges Wong and Fukutome establishing dates for a workshop on gas quality specifications and soliciting comments thereon, Sound Energy Solutions (“SES”)¹ submits the following initial comments.

I. INTRODUCTION

In January 2004, SES applied to the Federal Energy Regulatory Commission for authorization to site, construct, and operate an LNG import terminal in the Port of Long Beach, California. If approved, the SES LNG Import Terminal will be the first LNG import terminal to be located in the State of California. The LNG Import Terminal will receive LNG from ocean-going tankers, temporarily store it in its liquid state, and then vaporize the LNG for transport via a new natural gas pipeline. The approximately 2.3 mile pipeline will connect with the Southern California Gas Company’s (“SoCalGas”) existing pipeline system at its Salt Work’s Station, Line 765.

¹ The exact legal name of SES is California LNG Project Corporation, a California corporation, doing business as Sound Energy Solutions, Inc. (“SES”). California LNG Project Corporation is a subsidiary of the Mitsubishi Corporation.

As a potential provider of a new source of gas supply to the California market, SES has a keen interest in any changes to the current gas quality specifications which may emerge from this workshop process. By way of a cautionary note, SES would point out that careful consideration must be had prior to making any changes to the current specifications. In the Notice of Joint Workshop between the Energy Resources Conservation and Development Commission (“CEC”) and the California Public Utilities Commission (“CPUC”) appended to the December 23 Ruling it was noted that the workshops, originally scheduled to be held in early December 2004, had been postponed so that certain ongoing gas quality studies could be completed, and these findings considered before the workshop.² SES cautions that it would be ill-advised to proceed with any changes to current gas quality specifications until these studies are completed and their results fully analyzed. Absent careful analyses, changes to the gas quality specifications could hurt consumers by creating harmful emissions or through the creation of a gas stream which adversely affects the safety and performance of gas fired household appliances.

II. QUALITY ISSUES RELATED TO REGASIFIED LNG

The list of topics delineated in the Workshop Notice includes “potential quality issues related to regasified LNG.” Of keen interest to the CEC and CPUC (as noted in the workshop notice) is the high Btu content of certain LNG vis-à-vis Southern California Gas Company’s current gas quality specifications. In short, because of the relatively high Btu content of LNG from various supply sources around the world, LNG operators supplying LNG to California from these sources will be faced with lowering the heat content of regasified LNG before delivering

² The Notice recognizes three reports – (1) Final LNG Research Study sponsored by SoCalGas; (2) AES Oceans Express v. LLC Florida Gas Transmission Co.– FERC Docket No. RP04-249-000; and (3) Natural Gas Council + Gas Interchangeability Task Force.

the gas into the pipeline. The high heat content of certain LNG becomes an issue because it is often incompatible with many U.S. appliances and industrial processes.

SES would point out that with respect to the LNG which it will supply to the California market, high Btu content will not be an issue. The SES facility will have the capability to adjust the regasified LNG to the current Btu specifications. As far as SES is aware, it is alone among the proposed LNG projects which will serve the California market which has this capability. As a result of this capability, SES can access LNG supplies from all over the world and still meet the current Btu specifications contained in SoCalGas' gas quality standards, while other LNG projects will be limited to accessing "lean" sources. There will be more competition for the leaner LNG, thereby potentially decreasing the supply available to California markets, and potentially raising the costs for California consumers.

III. QUALITY ISSUES RELATED TO CARB STANDARDS

As part of their proposed Open Access tariffs,³ SoCalGas and SDG&E have provided that not only must all natural gas entering their systems meet the requirements of their current tariff rules governing gas quality but must also meet the California Air Resources Board ("CARB") compressed natural gas ("CNG") specifications.⁴ As stated above, SES will have the capability of adjusting the quality of its LNG supply to meet various gas standards. However, the CARB standards contain a specification a *minimum* amount of inerts in the gas stream which SES submits is not necessary and should be eliminated.

³ Advice Letters 3413 and 1474-G were submitted to the Commission on October 4, 2004 pursuant to Commission Decision 04-09-022 which, among other things, directed SoCalGas and SDG&E (as well as PG&E) to file open access tariff for all new sources of gas supply.

⁴ The Commission has yet to act on these Advice Letters.

Specifically, by including a minimum inerts limit, the CARB standards necessitated the injection of such inerts into the gas stream when they are not already present. The Air Resources Board, in response to an inquiry made by SES, has confirmed that, based on preliminary research, there is no need to maintain these minimum levels.⁵ Moreover, requiring the injection of N₂ into the gas stream in order to meet a minimum limit will add an additional cost to the ultimate delivered price of gas.

IV. CONCLUSION


The CPUC and CEC are assessing gas quality issues in the overall context of ensuring that California has a sufficient reliable long term supply of natural gas. LNG is a critical part of that insurance. However, in order for LNG to be a viable source of natural gas supply for California its quality must be compatible with gas quality specifications of the local gas transmission and distribution systems. In order to secure such compatibility, California should keep two principles in mind. One California will be best served by LNG facilities that are capable of adjusting the quality of the LNG to meet such specifications; and two, in setting gas quality standards, California should ensure that the standards assist the State in accessing as many LNG sources world wide as possible, in order to increase California's supply security and reduce the delivered price of gas to consumers. Ultimately, California must determine which gas quality specifications are in the best interest of the state; weighing the fact that while richer gas

⁵ See attached letter from Mr. Dean C. Simeroth of the Air Resources Board to Mr. Tom Giles of SES (dated May 3, 2004).

may have environmental consequences it may enable LNG importer to find the most economically prices gas for California consumers.

Respectfully submitted,

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By 
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February 11, 2005

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Terry Tamminen
Agency Secretary

Air Resources Board

Alan C. Lloyd, Ph.D.

Chairman

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Arnold Schwarzenegger
Governor

May 3, 2004

Mr. Tom Giles
Chief Operating Officer
and Executive Vice President
Sound Energy Solutions
301 Ocean Boulevard, Suite 1510
Long Beach, California 90802

Attention: Mr. Sumito Yagiuchi

Dear Mr. Giles:

This letter is in regards to Mr. Clifford Gladstein's (Gladstein and Associates) inquiry regarding the California motor vehicle specifications for compressed natural gas (CNG). Specifically, he inquired about our plans to consider eliminating the minimum inerts limit contained in the specifications.

When the Air Resources Board (ARB) first proposed motor vehicle specifications for CNG, engine manufacturers recommended that a minimum inerts limit be part of the specifications. Such specification ensures certain engine sensors operate properly. Additionally, pipeline quality natural gas typically contains amounts of inerts consistent with ARB specifications. Therefore, ARB included a minimum and maximum limit for inerts.

In regards to Mr. Gladstein's inquiry, we made contacts with engine and automobile manufacturers to identify issues related to eliminating the minimum inerts limit. Our discussions to date indicate that there is no need to maintain the minimum inerts limit. We are continuing our review of this matter.

Eliminating the minimum inerts limit in the CNG specifications will require that we follow our regulatory development process. This process consists of conducting public workshops, developing a technical proposal and rationale, and ultimately noticing and holding a public hearing of the ARB. Because we already have plans to consider other modifications to the CNG specifications, we would likely consider eliminating the minimum inerts limit, if justified, as part of those modifications. Our tentative plans are to consider these modifications in 2005.

The energy challenge facing California is real. Every Californian needs to take immediate action to reduce energy consumption. For a list of simple ways you can reduce demand and cut your energy costs, see our Website: <http://www.arb.ca.gov>.


California Environmental Protection Agency

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Mr. Tom Giles
May 3, 2004
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If you have any questions regarding this matter, please call me at (916) 322-6020 or Mr. Gary M. Yee, Manager, Industrial Section, at (916) 327-5986.

Sincerely,



Dean C. Simeroth, Chief
Criteria Pollutants Branch

cc: Mr. Gary M. Yee, Manager
Industrial Section

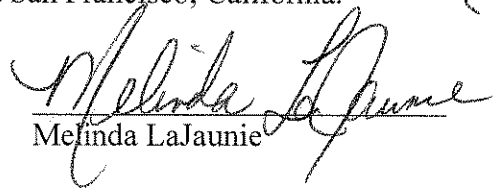
Mr. Clifford E. Gladstein, President
Gladstein, Neandross & Associates
3015 Main Street, Suite 300
Santa Monica, California 90405

CERTIFICATE OF SERVICE

I, Melinda LaJaunie, certify that I have on this 11th day of February 2005 caused a copy of the foregoing **OPENING COMMENTS OF SOUND ENERGY SOLUTIONS ON GAS QUALITY SPECIFICATIONS** to be served on the parties on the attached service list via Hand Delivery, U.S. Mail and/or Electronic Mail.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 11th day of February 2005 at San Francisco, California.



Melinda LaJaunie