

CALIFORNIA MANUFACTURERS AND TECHNOLOGY ASSOCIATION

LNG ACCESS ISSUES

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Harvey's Lake Tahoe

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Benefits of LNG:

- End-users need increased liquidity in gas markets:
 - Increased gas supply
 - Increased diversity of gas suppliers
- Increased supply and supply diversity:
 - Help stabilize gas prices
 - Help stabilize **electricity** prices

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Access issues:

- Tanker access to terminals
- Terminal access to pipelines
- Customer access to LNG supplies at utility receipt points

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Tanker access to terminals:

- June 1, 2005 CEC Conference:
 - Are LNG terminals analogous to supply sources (proprietary) or interstate pipelines (open access)?
- Benefits of third party (open) access model:
 - Mitigate market power
 - Increased gas-on-gas competition
 - *But*, no clear constituency

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- Benefits of proprietary model:
 - Facilitates financing and development
 - LNG project developers:
 - Allow choice: proprietary, open season, or combination
 - California: *BHP Billiton* – proprietary; *SES (Long Beach)* – proprietary; *Crystal/Woodside* – anchor tenant with open access

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Who decides?

- Onshore projects: FERC:
 - Allows proprietary (*Hackberry*)
 - May be given exclusive jurisdiction (HR 6)
- Offshore projects: *Deepwater Port Act*:
 - Governor's veto power

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Terminal access to pipelines:

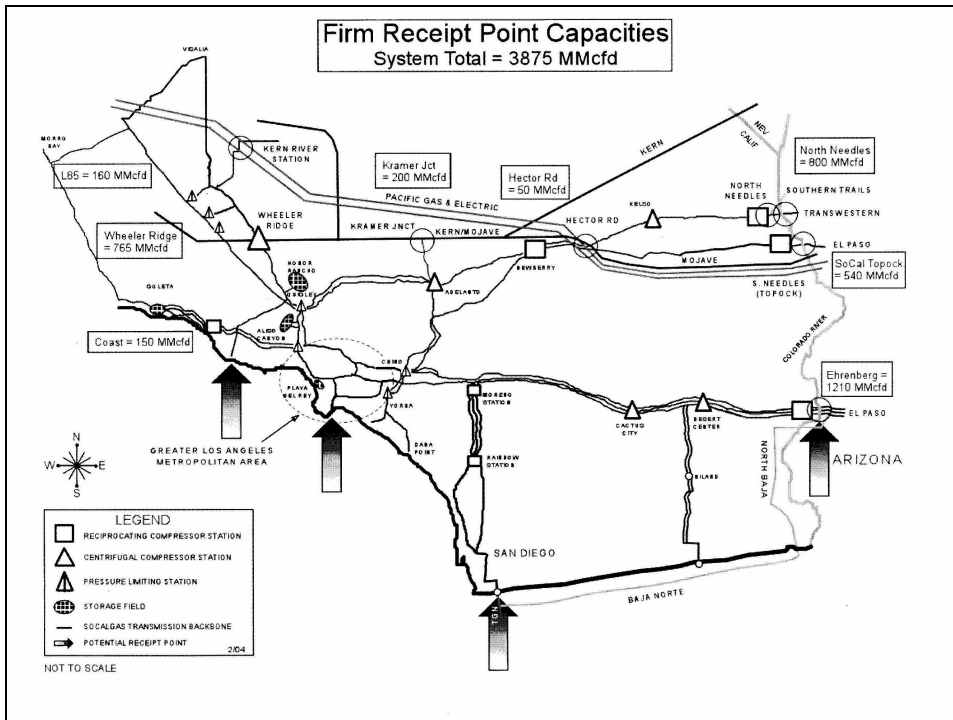
- CPUC directs California gas utilities to insert open access provisions in tariffs (Decision 04-09-022, September 2, 2004)
- SoCalGas/SDG&E Rule 39 approved with modifications (CPUC Resolution G-3376, March 17, 2005)
- Awaiting CPUC action on standardized open access contracts

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Customer access to LNG supplies at utility receipt points:

- Currently, SoCalGas customers have flexible access to utility receipt points
 - Noncore customers can elect firm or interruptible transmission service
 - Customers can shift nominations among utility receipt points
 - Customers can take advantage of changes in price differentials among receipt points

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SoCalGas' "firm access rights" proposal (A.04-12-004)

- Ties customers to specific receipt points, impedes access to others
- Reduces market liquidity for suppliers
- To be considered by CPUC in 2006