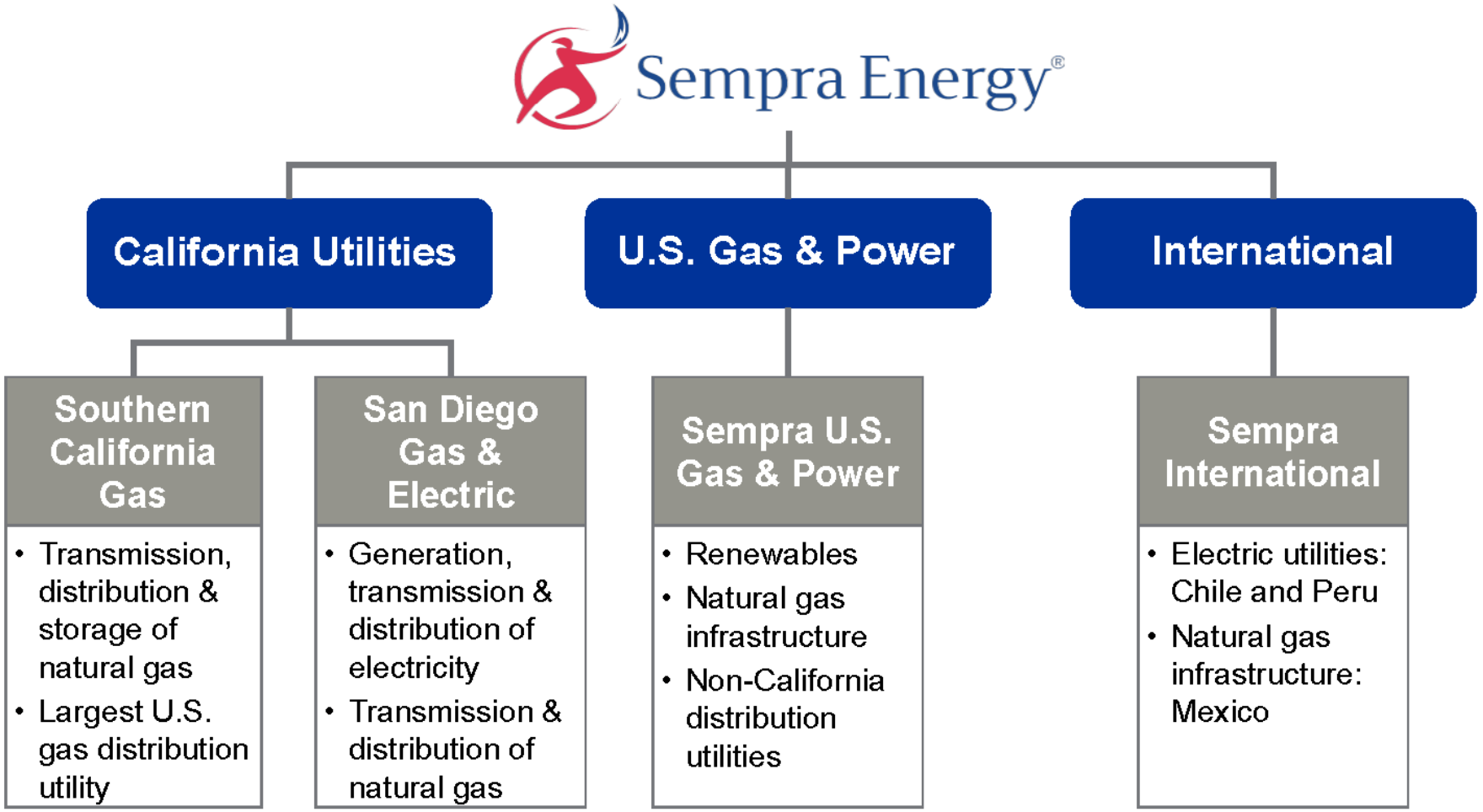
Utility Perspective on Gas Markets

AABE Conference

April 20, 2012

Jim Harrigan
Vice President, Gas Acquisition
Southern California Gas Company

New Organizational Structure



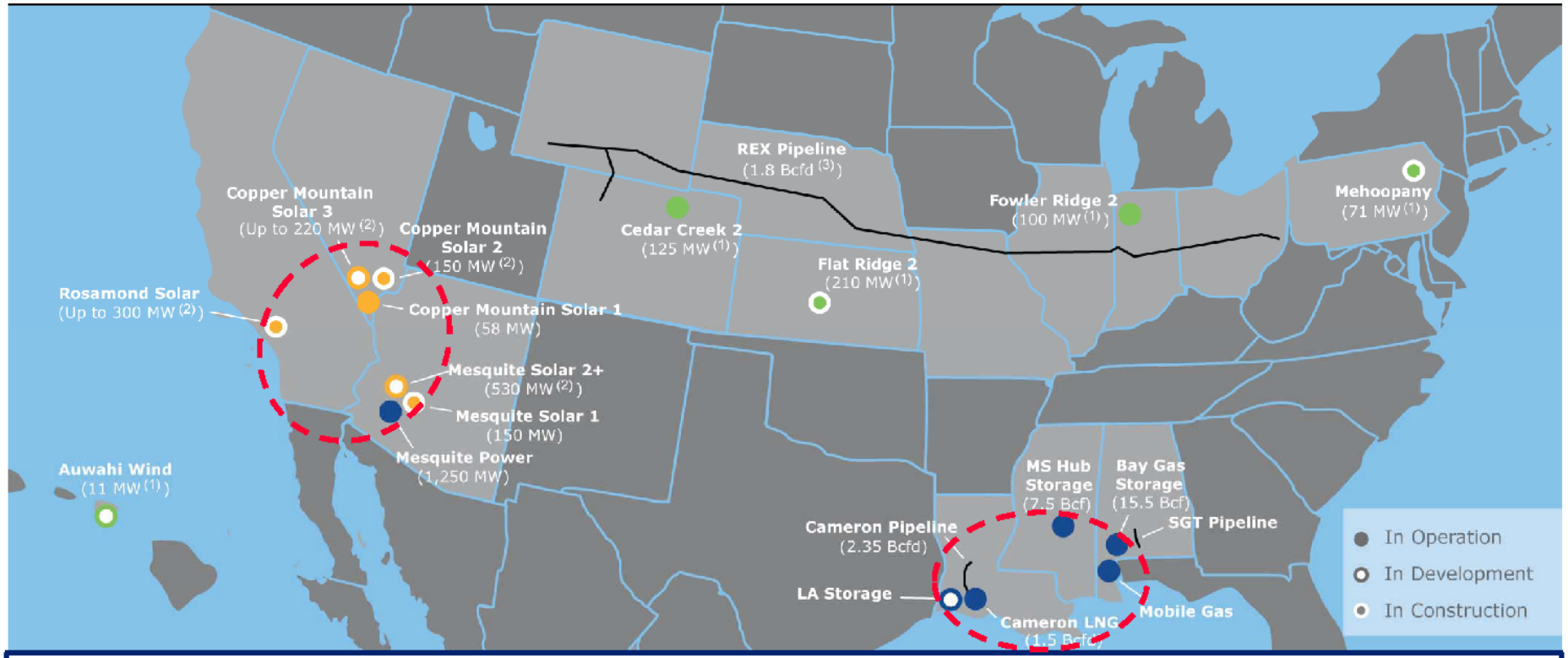
California Utilities

- SDG&E
  - Provider of electric and natural gas services
  - 3.5 million consumers
  - 4,100 square miles of service territory
  - 2.3 million electric & gas meters
  - Ratebase of $4.7 billion
- SoCalGas
  - Provider of natural gas services
  - 20.9 million consumers
  - 20,000 square miles of service territory
  - 5.8 million gas meters
  - Ratebase of $2.9 billion

Note: Data as of December 31, 2010.

Sempra Energy®

Sempra U.S. Gas & Power Asset Overview



Solar

- 100 MW in operation
- 258 MW in construction
- 1,050 MW pipeline (2)

Wind

- 225 MW in operation
- 292 MW in construction

Natural Gas

- 1,250 MW generating capacity
- 1,700 miles of pipeline (4)
- 23 Bcf of storage in operation
- Distribution utilities
- 1.5 Bcfd LNG terminal

(1) Reflects Sempra's net ownership interest
(2) Reflects total potential capacity of solar project(s) at full build-out; Sempra's net ownership interest expected to be 50%
(3) Sempra ownership interest is 25%
(4) Includes joint ventures

Sempra Energy®

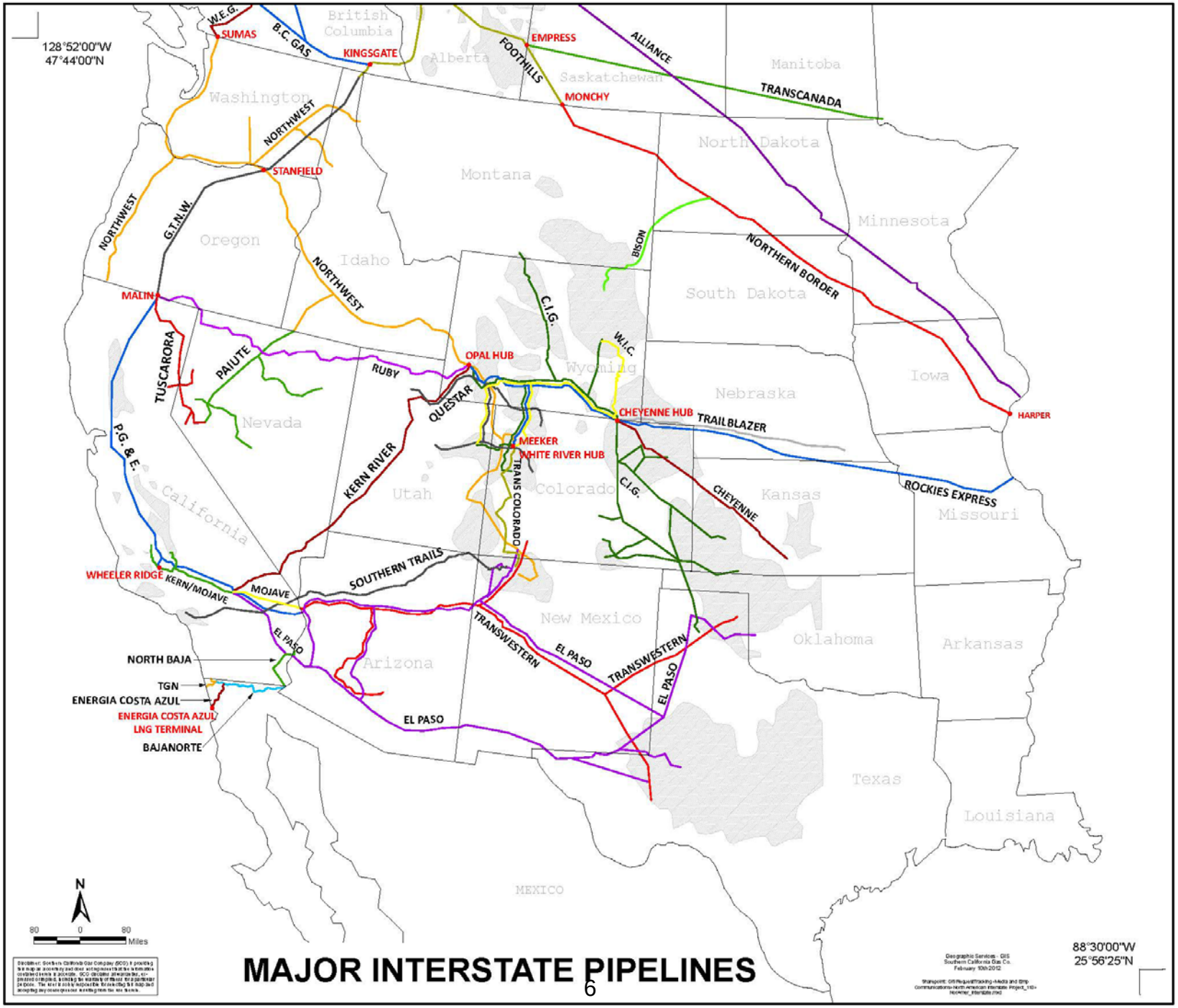
Southern California Gas Company
System Assets and Load

	Total	Core	Non-Core/ Wholesale
Throughput (Bcf/d)	2.6	1.1	1.5
Storage Capacity (Bcf)	134	81	53

Core Interstate Pipeline Capacity (Bcf/d)

- Transwestern
- El Paso
- Kern
- GTN

1.0 – 1.3



MAJOR INTERSTATE PIPELINES

Long Term Approach

- **Core customer bills generally move with market prices.**
- **Rely primarily on Storage, Interstate Capacity for price protection**.
- **Optimize Storage and Interstate Capacity Assets**.
- **Hedge to protect against major price spikes. Generally seasonal.**
- **Supply Diversity:**
  - Pipelines
  - Basins
  - Term
  - Suppliers
  - Balance diversity objective with low cost objective
- **Frequent Contact with CPUC Staff**

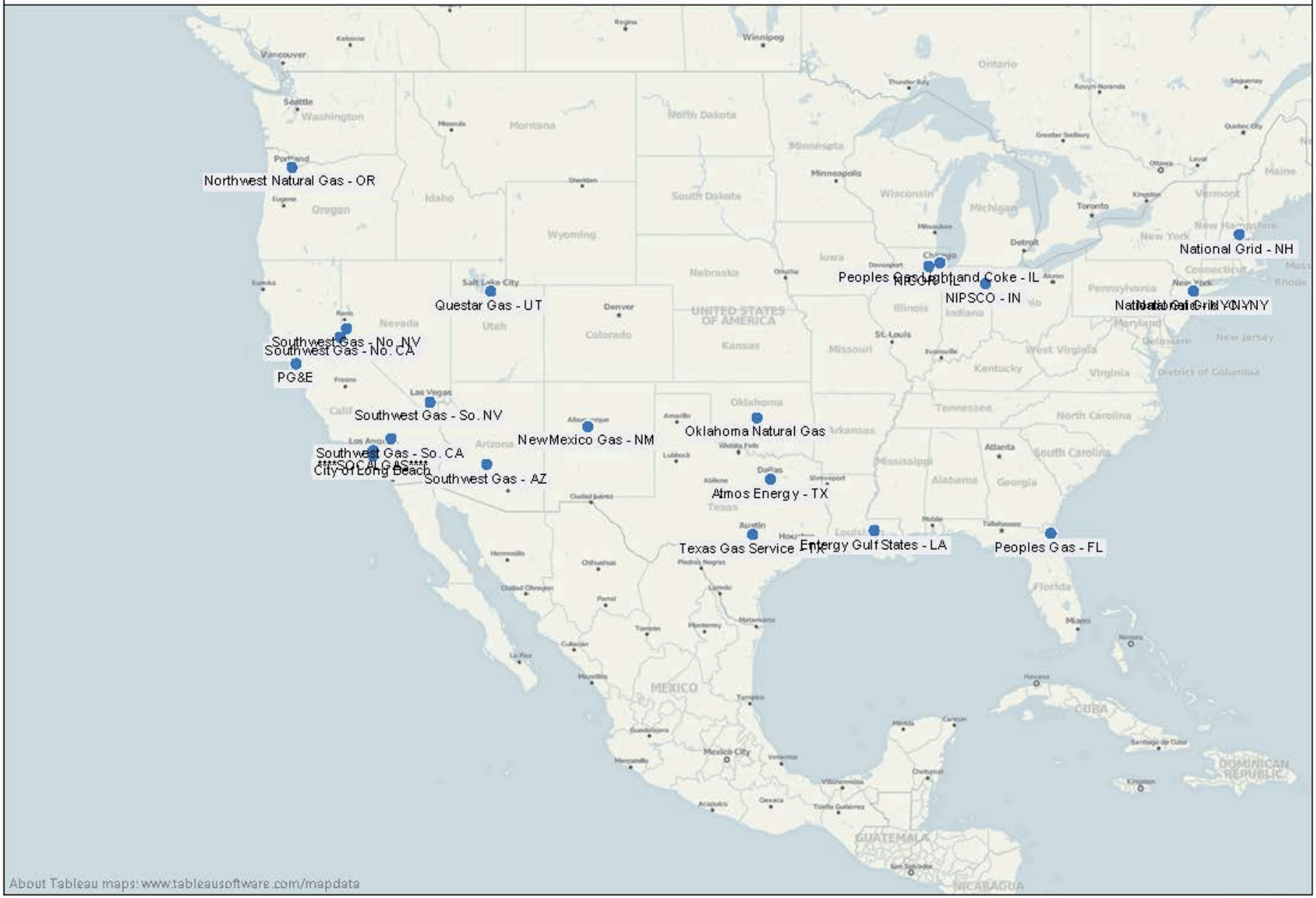
Order of Gas Acquisition Priorities

1. Reliability

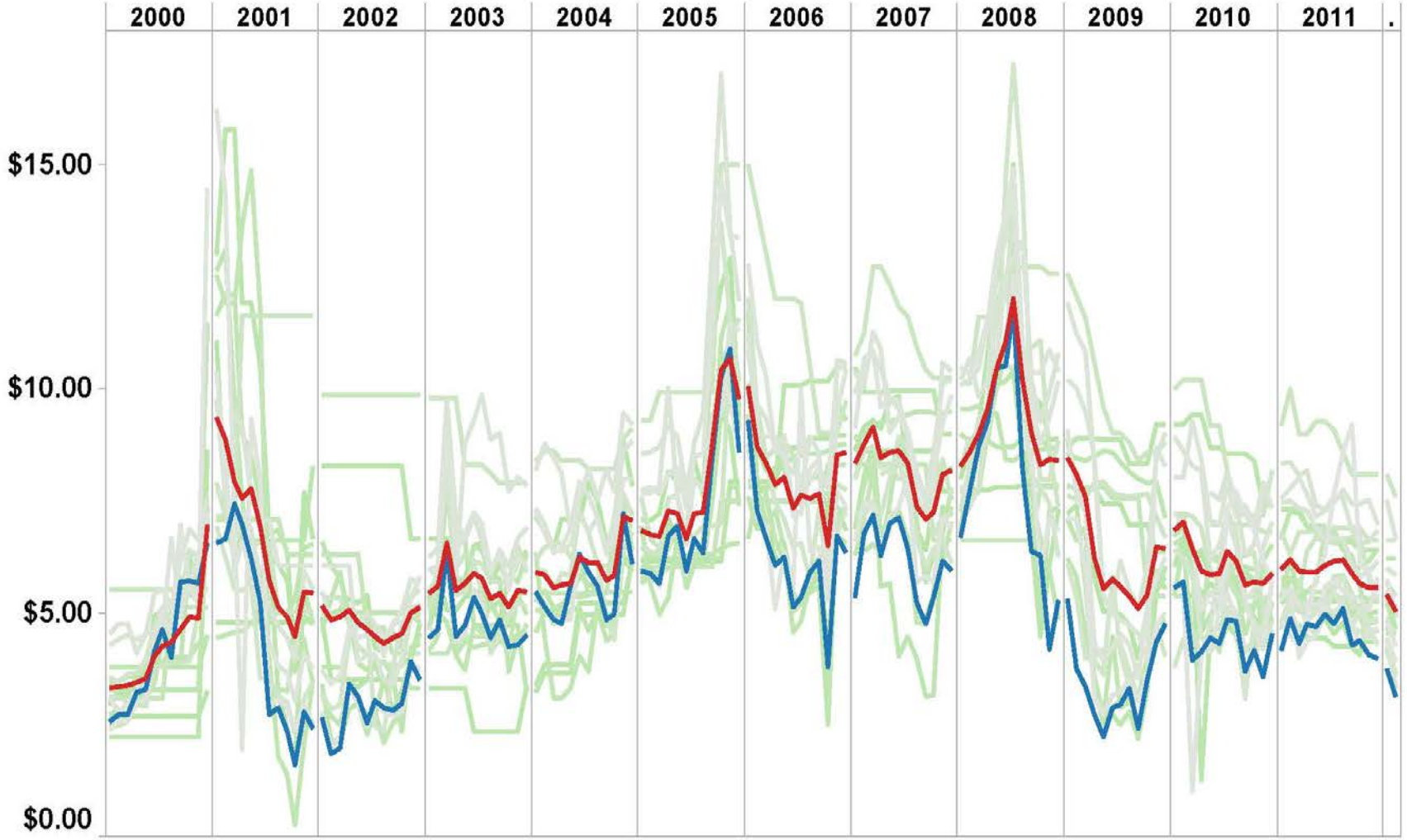
2. Low Cost Gas with limited rate volatility

3. Shareholder Award through Gas Cost Incentive Mechanism (GCIM)

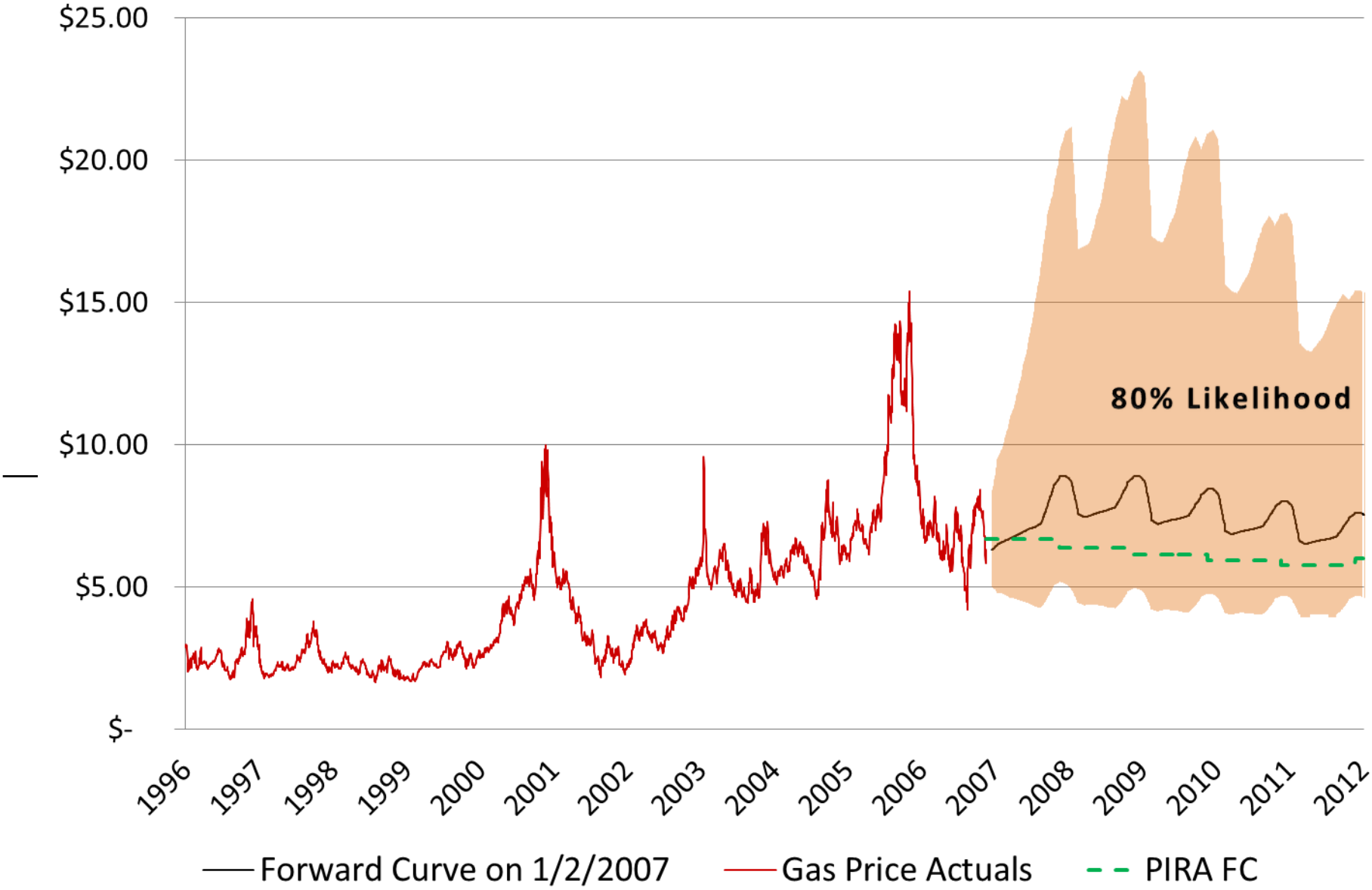
2012


Northwest Natural Gas - OR
Questar Gas - UT
Southwest Gas - No. NV
Southwest Gas - No. CA
PG&E
Southwest Gas - So. NV
Southwest Gas - So. CA
****SOCALGAS****
City of Long Beach
Southwest Gas - AZ
NewMexico Gas - NM
Oklahoma Natural Gas
Atmos Energy - TX
Texas Gas Service
Entergy Gulf States - LA
Peoples Gas - FL
Peoples Gas Light and Coke - IL
NIPSCO - IN
National Grid - NH
About Tableau maps: www.tableausoftware.com/mapdata

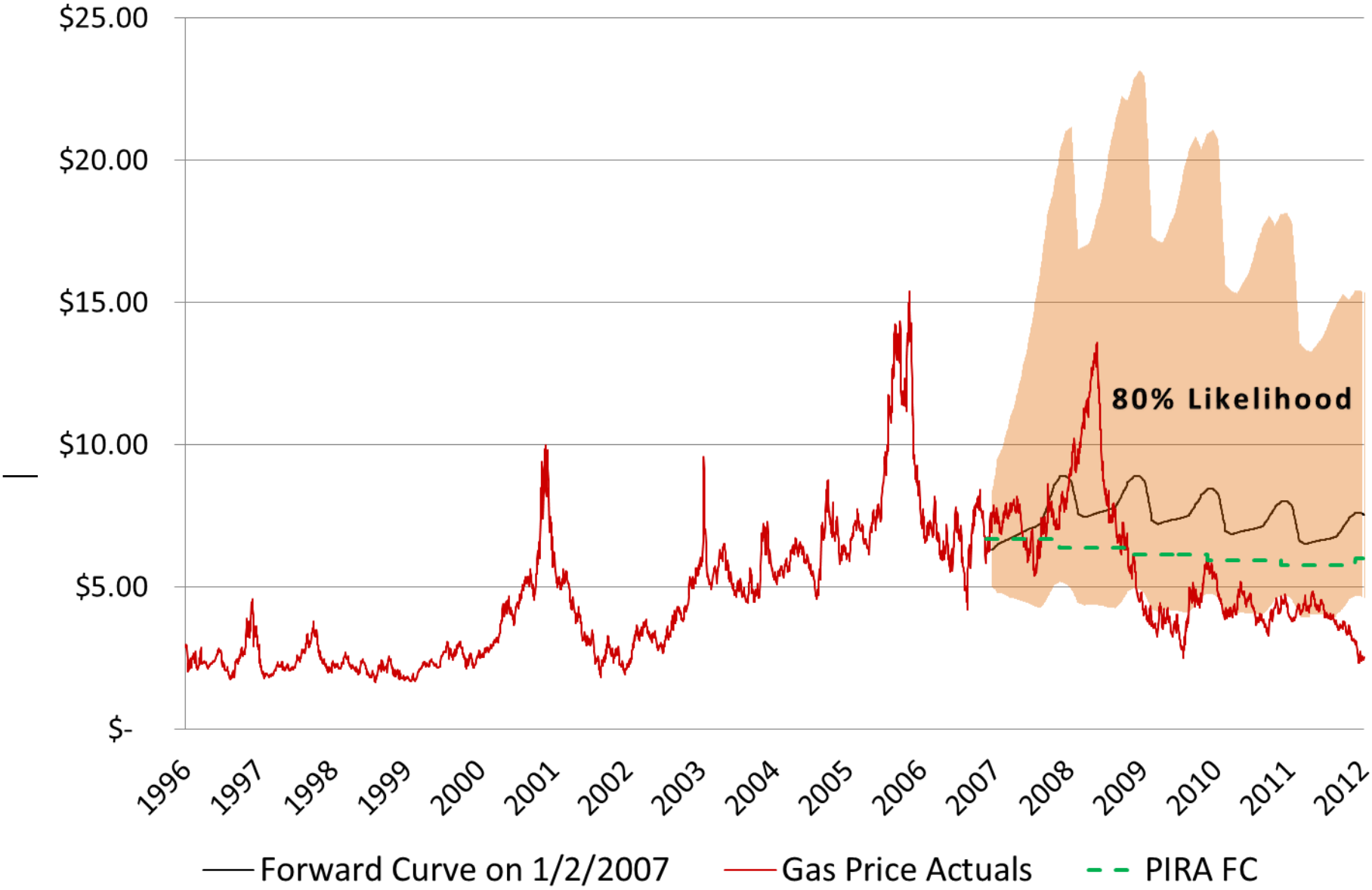
Peer Group Comparison

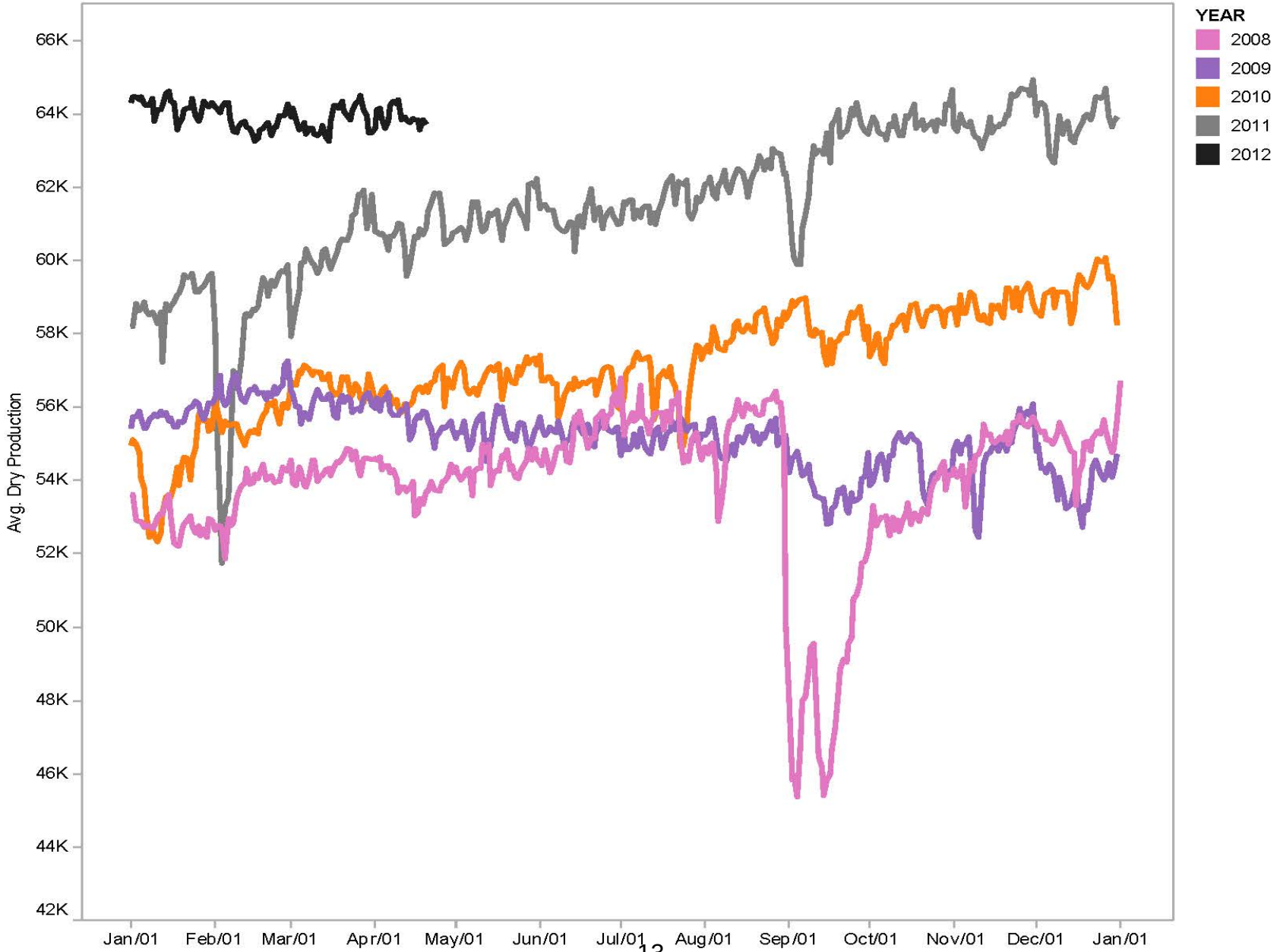


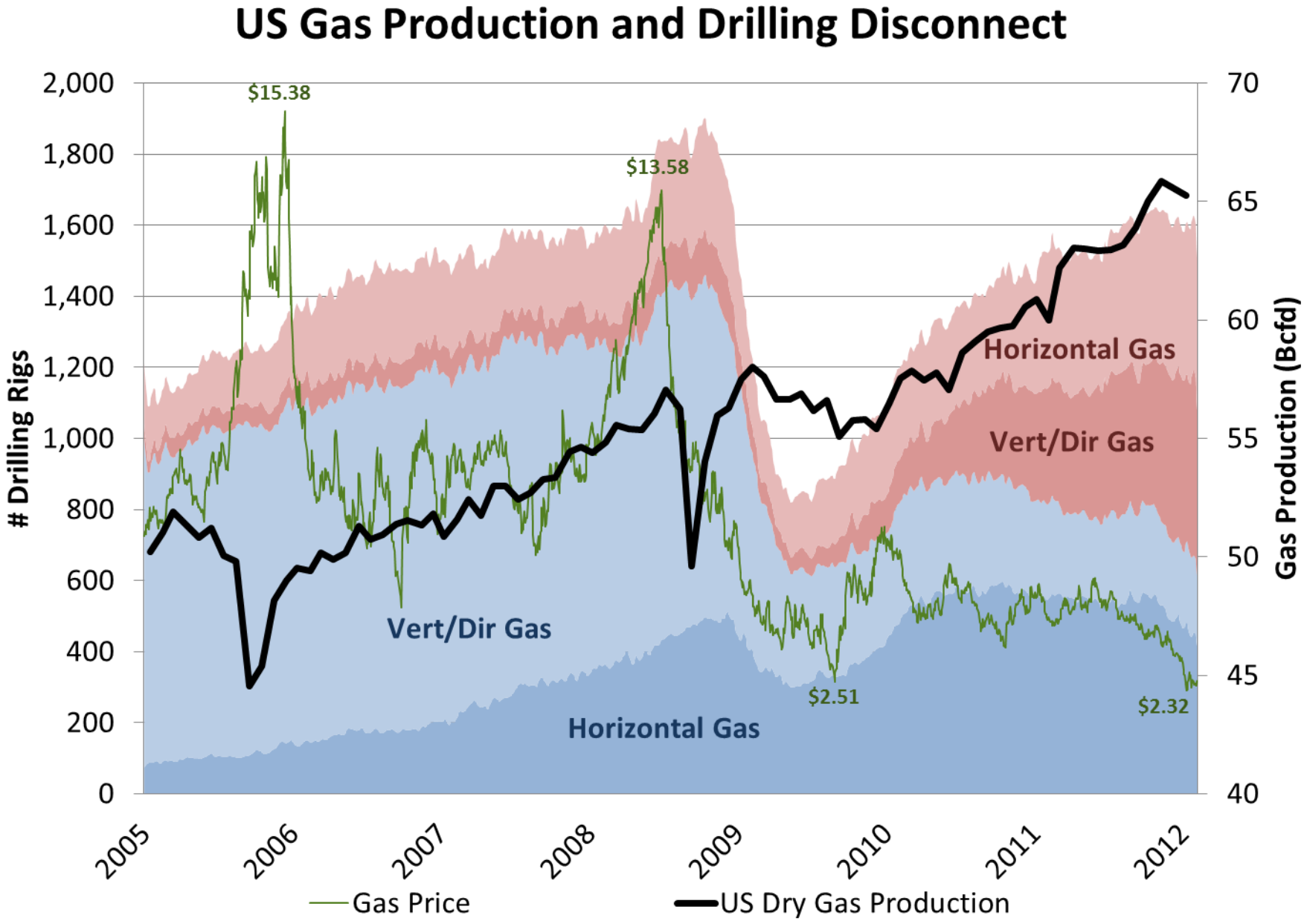
Gas Price History and Expectations



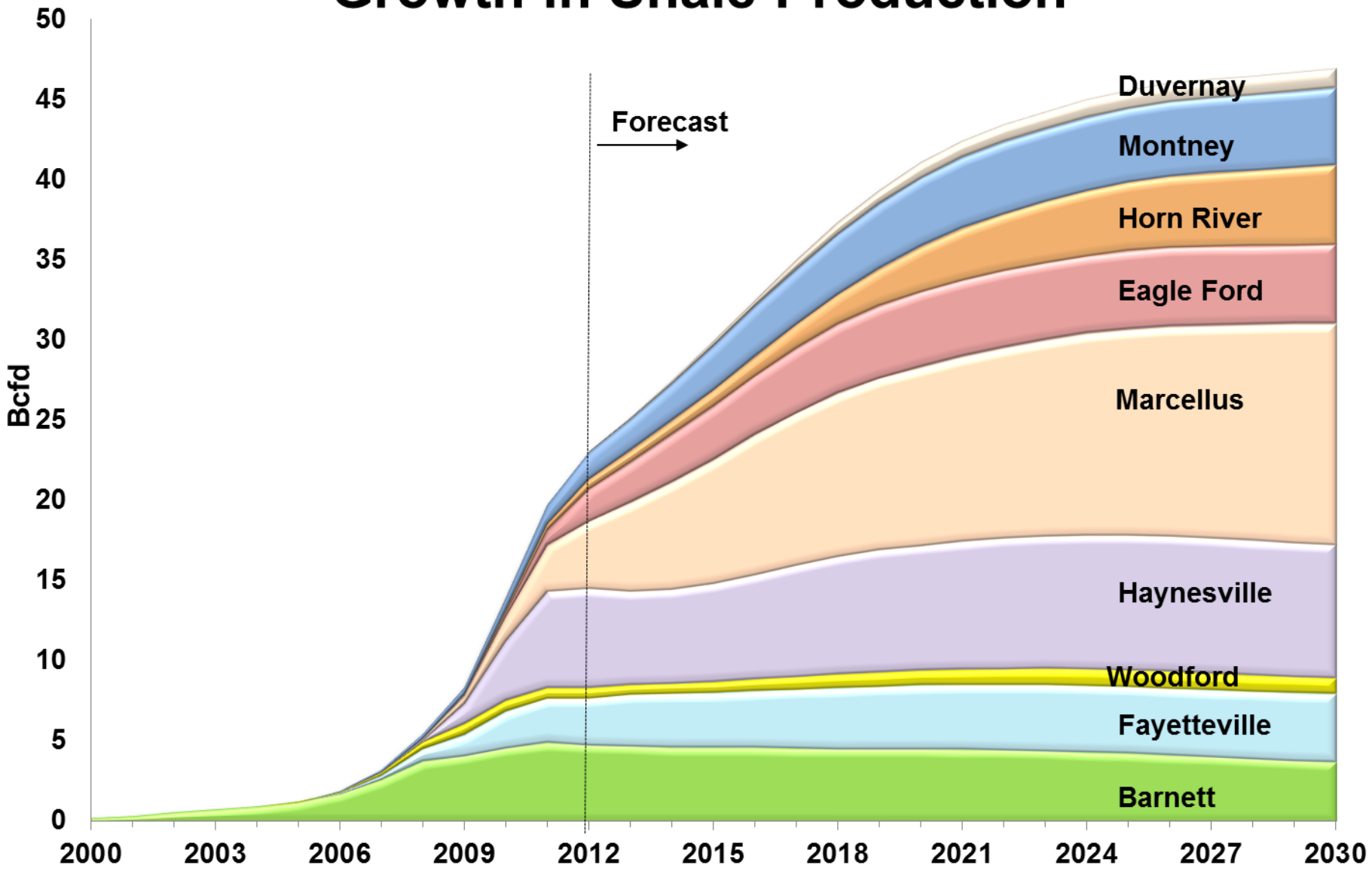
Gas Price History and Expectations




YEAR
2008
2009
2010
2011
2012
66K
64K
62K
60K
58K
56K
54K
52K
50K
48K
46K
44K
42K
Avg. Dry Production
Jan/01
Feb/01
Mar/01
Apr/01
May/01
Jun/01
Jul/01
Aug/01
Sep/01
Oct/01
Nov/01
Dec/01
Jan/01


US Gas Production and Drilling Disconnect
Drilling Rigs
Gas Production (Bcfd)
2,000
1,800
1,600
1,400
1,200
1,000
800
600
400
200
0
70
65
60
55
50
45
40
$15.38
$13.58
$2.51
$2.32
Horizontal Gas
Vert/Dir Gas
Vert/Dir Gas
Horizontal Gas
2005
2006
2007
2008
2009
2010
2011
2012
Gas Price
US Dry Gas Production

Growth in Shale Production



Source: Wood Mackenzie North America October 2011

Regulatory Framework

- **Core Commodity Cost.** Gas Cost Incentive Mechanism (GCIM).
- **Core Interstate Capacity Cost**. Advice Letter approvals for capacity. Required to hold 90% to 120 % of demand.
- **SoCalGas Storage and Transportation.** Determined in the Triennial Cost Allocation Proceeding (TCAP).
- **Hedging.** GCIM.
- **Dealings with SoCalGas System Operator and Affiliates**. Remedial Measures and Affiliate Rules approved by CPUC.

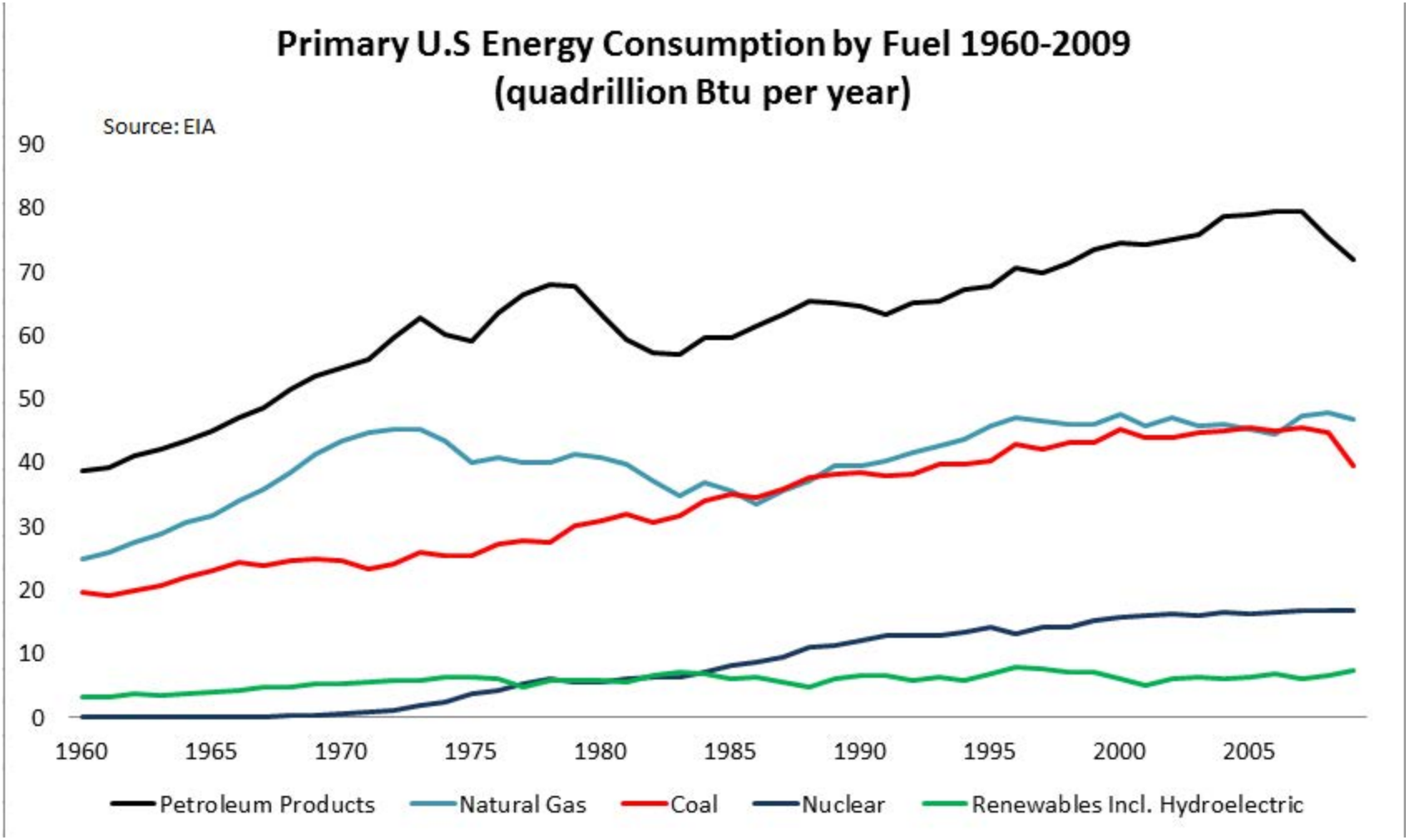
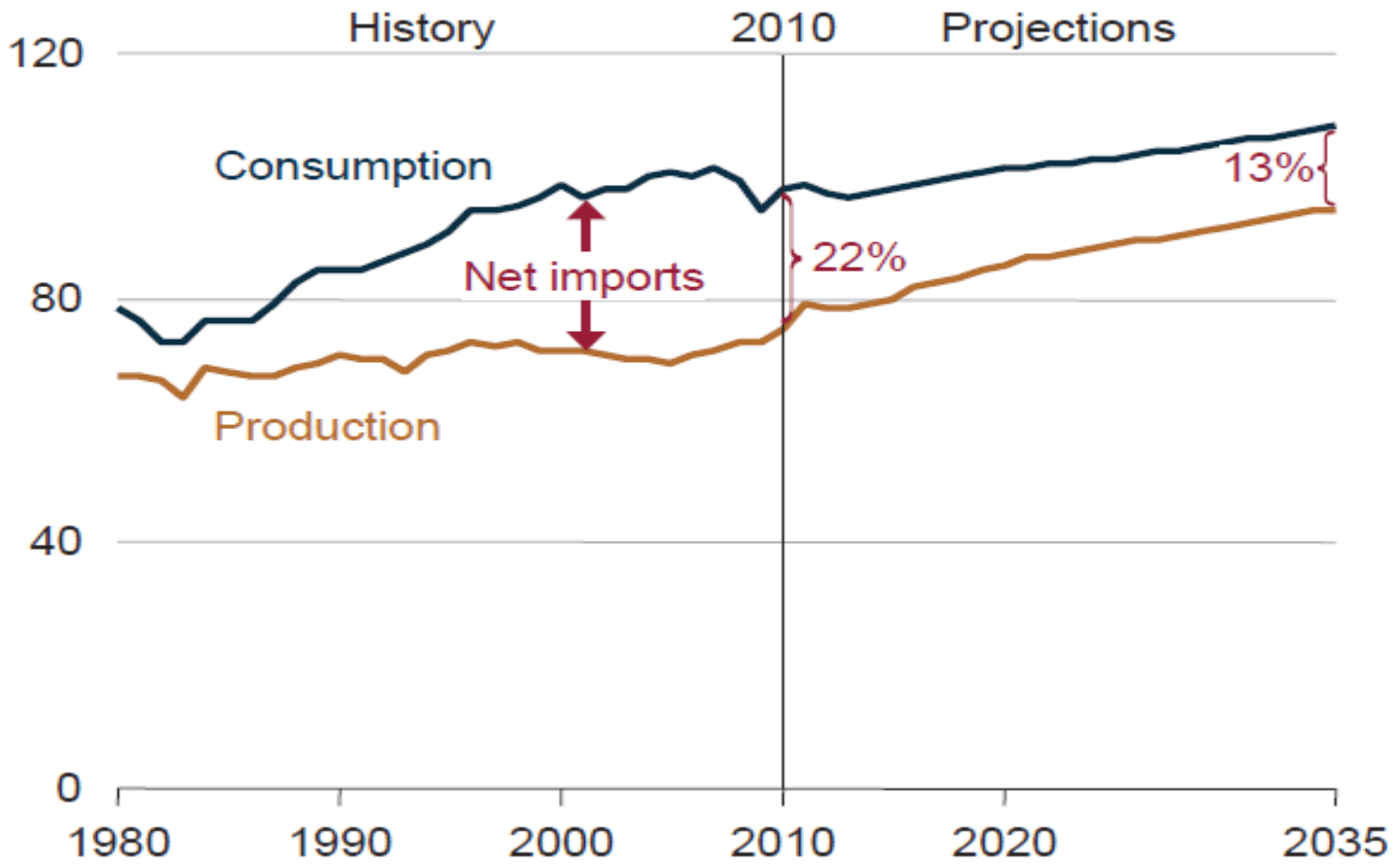
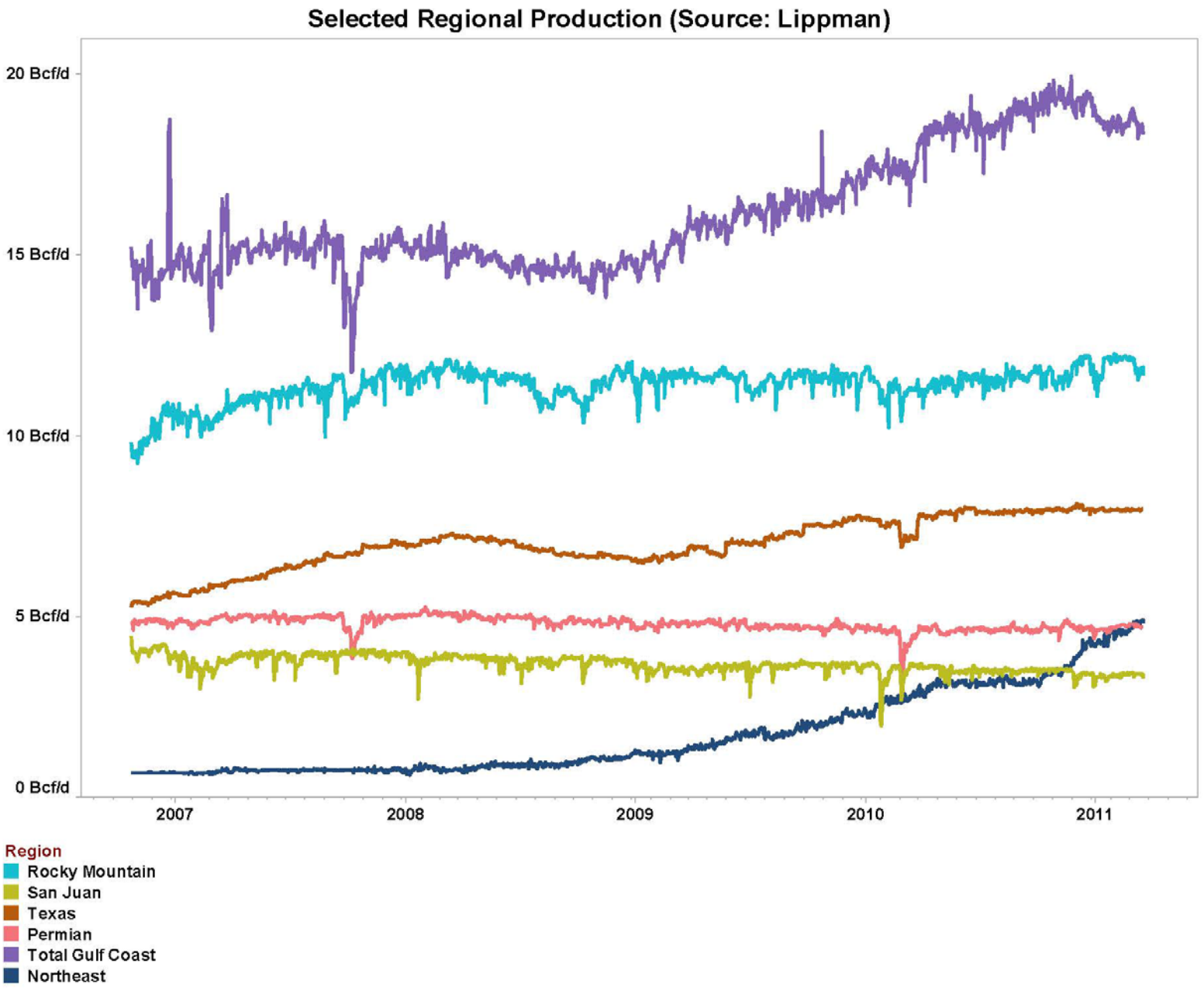
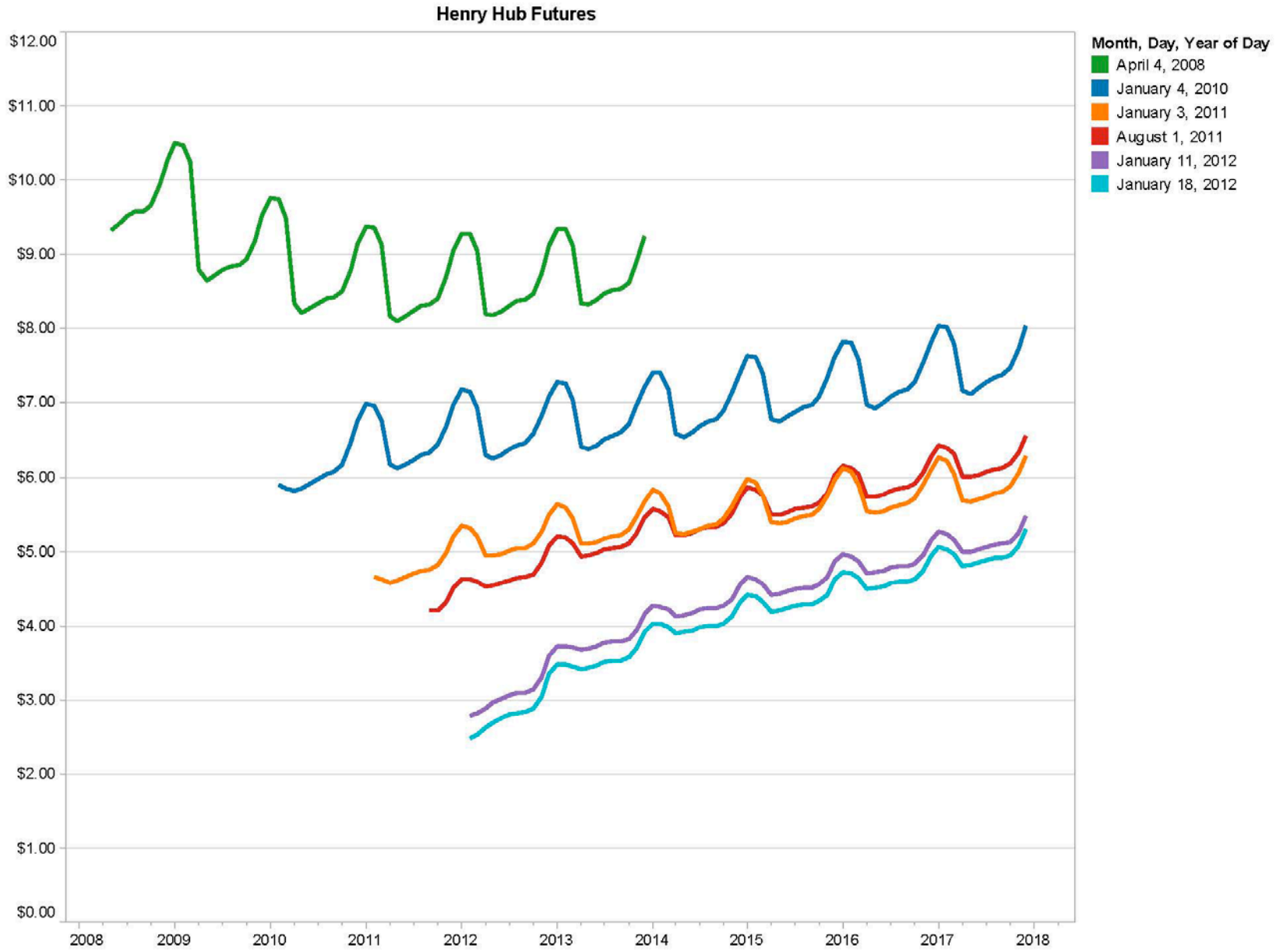
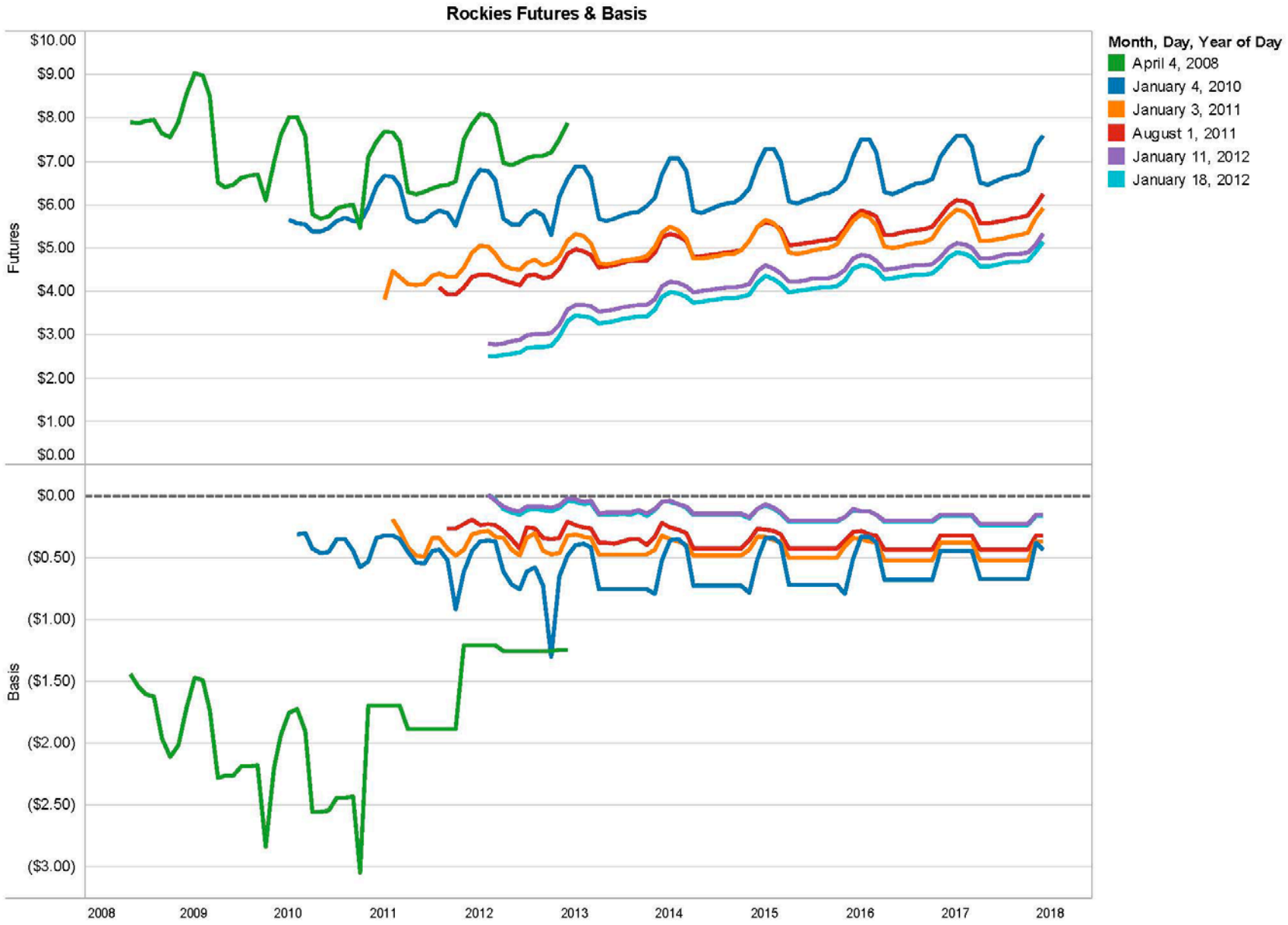

Primary U.S Energy Consumption by Fuel 1960-2009
(quadrillion Btu per year)
Source: EIA
90
80
70
60
50
40
30
20
10
0
1960
1965
1970
1975
1980
1985
1990
1995
2000
2005
Petroleum Products
Natural Gas
Coal
Nuclear
Renewables Incl. Hydroelectric

Figure 11. Total energy production and consumption, 1980-2035 (quadrillion Btu)




Selected Regional Production (Source: Lippman)
20 Bcf/d
15 Bcf/d
10 Bcf/d
5 Bcf/d
0 Bcf/d
2007
2008
2009
2010
2011
Region
Rocky Mountain
San Juan
Texas
Permian
Total Gulf Coast
Northeast


Henry Hub Futures
$12.00
$11.00
$10.00
$9.00
$8.00
$7.00
$6.00
$5.00
$4.00
$3.00
$2.00
$1.00
$0.00
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
Month, Day, Year of Day
April 4, 2008
January 4, 2010
January 3, 2011
August 1, 2011
January 11, 2012
January 18, 2012


Rockies Futures & Basis
Futures
$10.00
$9.00
$8.00
$7.00
$6.00
$5.00
$4.00
$3.00
$2.00
$1.00
$0.00
Basis
$0.00
($0.50)
($1.00)
($1.50)
($2.00)
($2.50)
($3.00)
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
Month, Day, Year of Day
April 4, 2008
January 4, 2010
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January 18, 2012

Opportunities/Challenges in the Current Gas Markets

- **Commodity Prices**
  - Are low prices here to stay?
  - Producer profitability/health?
  - Reduced drilling and production in the West /impact on basis?
  - LNG exports?
  - Hedging?

- **Storage and Pipeline Commitments**
  - Long term vs. short term contracting?
  - What happens when markets indicate only a partial recovery of fixed costs?
  - FERC rates vs. commercial reality?
  - Scheduling complexity on pipelines?
  - Impacts of Abandonment/Mothballing?
  - Variability of flows?