Utility Perspective on Gas Markets

AABE Conference
April 20, 2012
New Organizational Structure

Sempra Energy®

California Utilities
- Southern California Gas
  - Transmission, distribution & storage of natural gas
  - Largest U.S. gas distribution utility
- San Diego Gas & Electric
  - Generation, transmission & distribution of electricity
  - Transmission & distribution of natural gas

U.S. Gas & Power
- Sempra U.S. Gas & Power
  - Renewables
  - Natural gas infrastructure
  - Non-California distribution utilities

International
- Sempra International
  - Electric utilities: Chile and Peru
  - Natural gas infrastructure: Mexico
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 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 Bcf/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
Southern California Gas Company
System Assets and Load

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<th>Non-Core/</th>
<th>Total</th>
<th>Core</th>
<th>Wholesale</th>
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<td>Throughput (Bcf/d)</td>
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<td>Storage Capacity (Bcf)</td>
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<td>134</td>
<td>81</td>
<td>53</td>
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<td>Core Interstate Pipeline Capacity (Bcf/d)</td>
<td>Transwestern</td>
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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)
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
Figure 11. Total energy production and consumption, 1980-2035 (quadrillion Btu)
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?