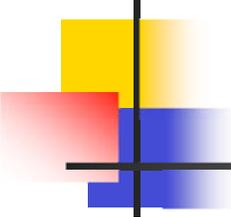


Southern California Gas Company's and San Diego Gas & Electric Company's

Comments by Herb Emmrich and Greg Healy at the:

Natural Gas Working Group CEC/CPUC/Utilities

Sacramento, California
June 5, 2008



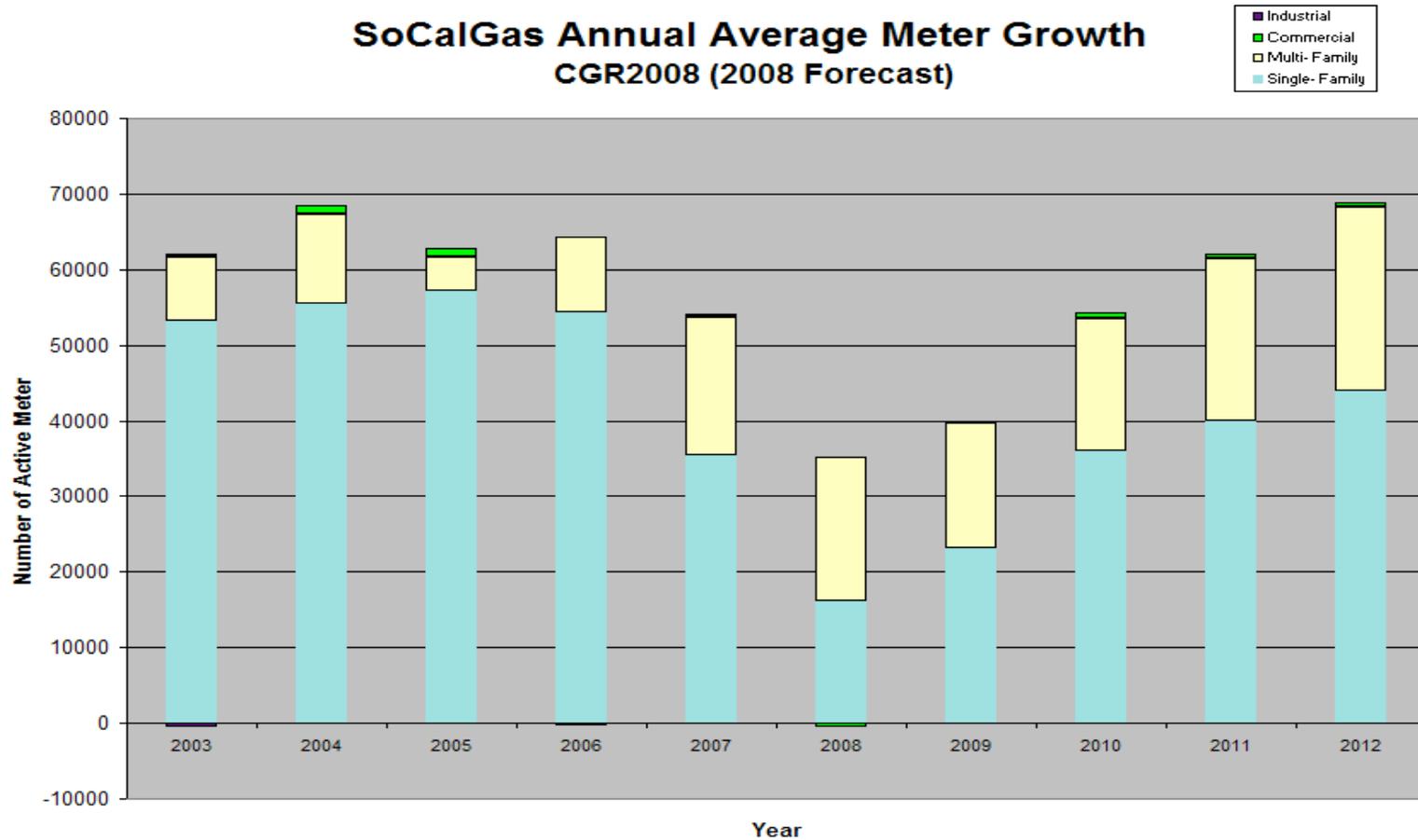
SoCalGas/SDG&E Service Area

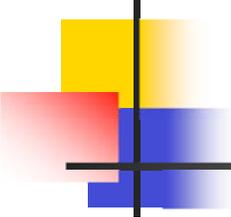
California Gas Report 2008

- The 2008 CGR gas demand forecast shows slower growth compared to the 2006 CGR.
- The reasons for the slowdown are due to:
 - A sharp reduction in housing starts due to the mortgage meltdown
 - A slowing economy due to high oil prices and mortgage crisis resulting in lower employment, construction and economic growth
 - Higher projected gas prices
 - Increased Energy Efficiency (EE) programs
 - Increased Renewable energy projects

SoCalGas Service Area Meter Growth (2008 – 2012)

**SoCalGas Annual Average Meter Growth
CGR2008 (2008 Forecast)**





SoCalGas/SDG&E Service Area

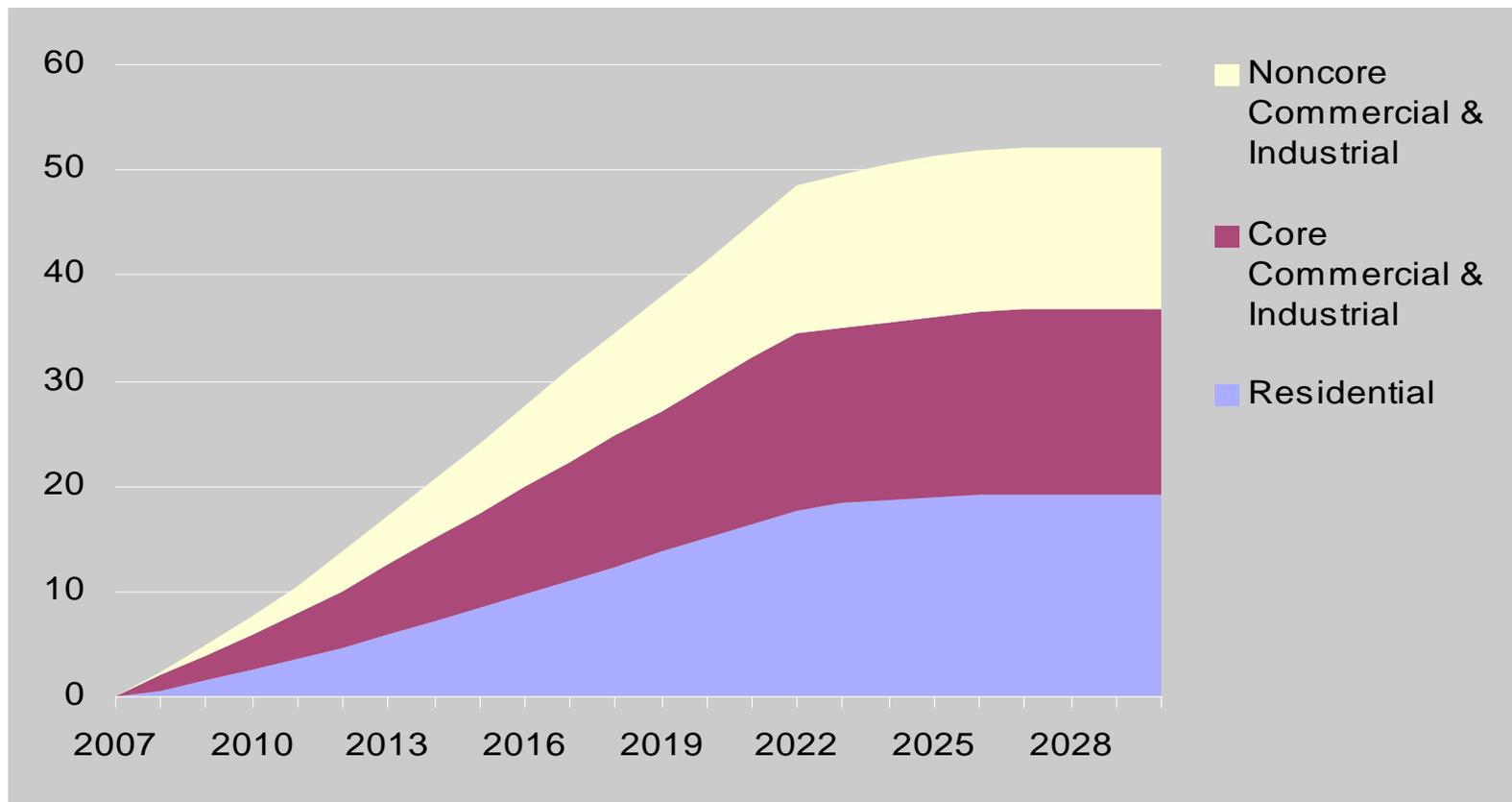
Energy Efficiency Gas Savings (BCF) (2008 – 2030)

- The CPUC, CEC and IOUs are working on OIR 06-04-010, the EE Proceeding to develop electricity and gas savings goals for the 2013 to 2020 period.
- The current EE gas savings goals have been effective in reducing gas demand as shown in the graph on the following page.
- The CPUC's consultant, Itron, is completing an analysis of the technical, economic and achievable gas savings potential that will be used to set the 2013 to 2020 electricity and gas savings goals for the IOUs.
- Key issues to be resolved are the demand forecast scenarios and the net to gross energy savings resulting from the IOUs' EE programs.
- The CPUC has adopted an incentive mechanism providing for shareholder rewards and penalties based on the net electricity and gas savings achieved, as a percent of the target goals, by the IOUs after Evaluation, Measurement and Verification studies have been completed.
- The CPUC is projecting a final decision of the new electricity and gas savings goals in July.

SoCalGas Service Area

Draft Energy Efficiency Gas Savings (BCF) (2008 – 2030)

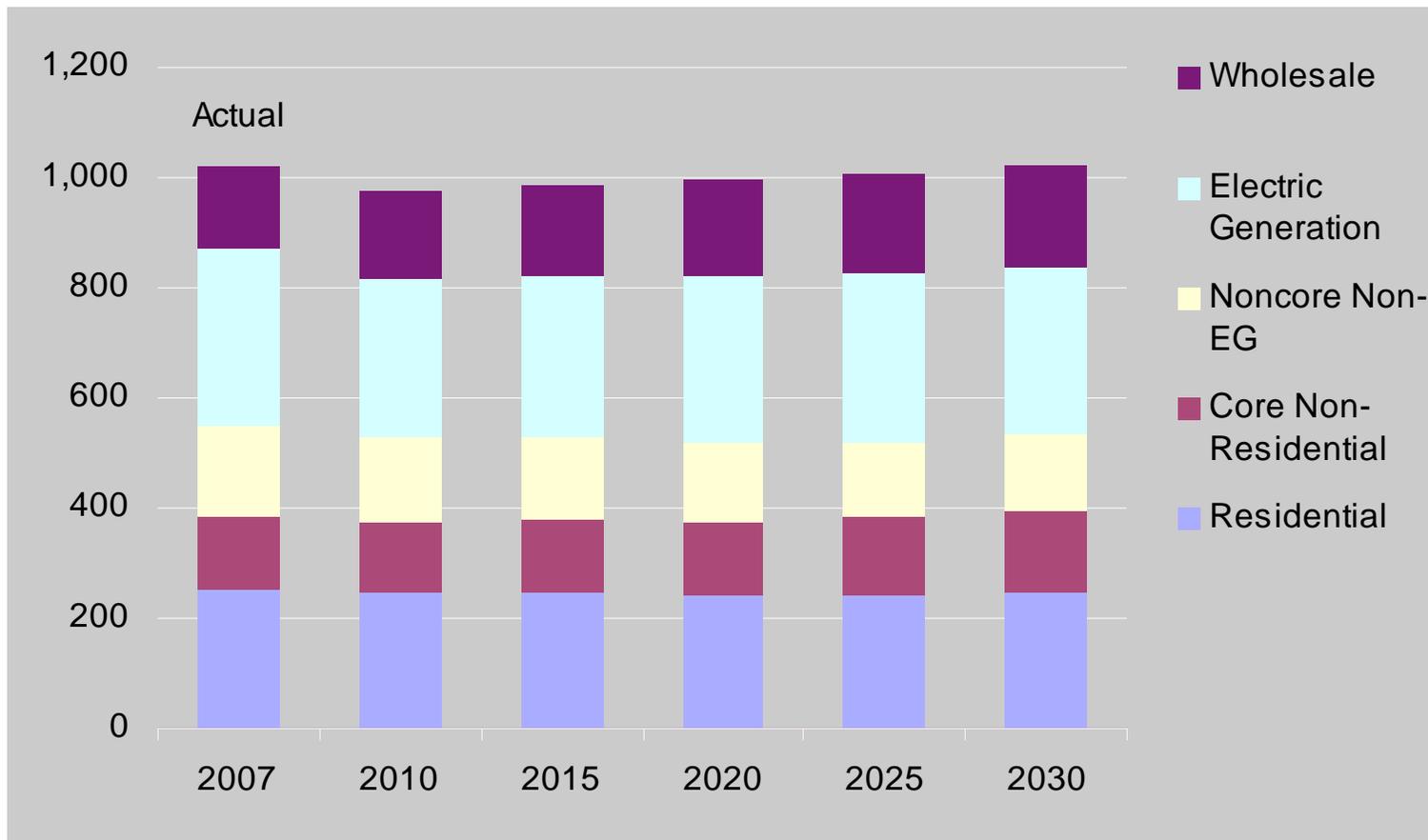
Annual Energy Efficiency Cumulative Savings Goal (Bcf)

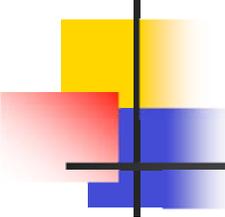


SoCalGas Service Area

Draft Annual Average Temperature Year Gas Demand Forecast (2008 – 2030)

BCF/Year

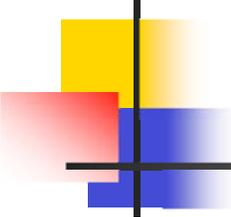




SoCalGas/SDG&E Service Area

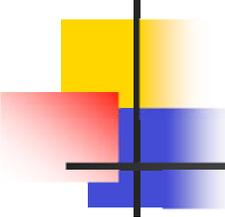
Biennial Cost Allocation Proceeding (BCAP) (2009 – 2011)

- SoCalGas/SDG&E filed its BCAP on February 4, 2008
- The proceeding deals with cost allocation and issues deferred in the Omnibus proceeding to the BCAP related to core storage and shareholder and ratepayer sharing of unbundled storage program revenues.
- The BCAP proceeding has been bifurcated into two phases.
 - **Phase I issues with evidentiary hearings in July 2008:**
 - Core storage capacities – inventory, injection and withdrawal
 - Allocation of unbundled storage program revenues between shareholders and customers
 - Cost ceilings on inventory, injection and withdrawal services for the unbundled Transactions Based Storage (TBS) program
 - **Phase II issues with evidentiary hearings in January 2009:**
 - Demand forecasts by customer class
 - Unaccounted For Gas (UAF) cost allocation by customer class
 - Cost allocation of base margin and non-margin costs by customer class
 - A new Transmission Level Service (TLS) designed to close the regulatory gap between CPUC- and FERC-regulated pipeline systems.



Gas prices continue to move up

- SoCalGas border prices have increased to \$10.50/MMBtu with no relief in sight.
- NYMEX Natural Gas Futures prices have increased to over \$12.99/MMBtu for January and February 2009 delivery and continue at about the \$10/MMBtu level throughout the spring and summer months.
- The twelve month NYMEX strip price is currently at \$11.70/MMbtu.
- Deliveries of formerly shut in Rockies gas via the Rockies Express Pipeline (REX) should help to moderate prices nationally.
- In the medium to long-term LNG supplies are likely to moderate prices as additional liquefaction capacity comes on line and starts to increase LNG deliveries to the Gulf and North American east and Pacific coasts.
- Current gas price increases are driven by high oil prices of \$130+/Bbl and higher levels of storage injection required due to a fairly cold winter in the east and an expected increased demand for gas in power generation in the summer.
- Potential national GHG legislation limiting coal-fired generation could double power generation's gas demand in the medium to long term.



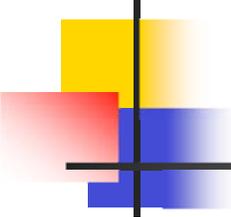
Summer Electric Bills and Winter 2008/2008 Residential Gas Bills

Electricity bills are not affected by higher gas prices in the short to medium term

Electricity rates are updated annually in the ERRA proceeding which incorporate a gas price forecast in rates and will therefore most likely increase electricity rates in 2009

Residential gas bills are forecasted to increase by 31% over last winter's bills

Residential Gas Bills								
					<u>63 Therms</u>	<u>75 Therms</u>	<u>63 Therms</u>	<u>75 Therms</u>
							CARE	CARE
AVERAGE 2008/2009 SOCALGAS BILL (NOV-MAR):					\$100.88	\$120.10	\$80.70	\$96.08
AVERAGE 2007/2008 SOCALGAS BILL (NOV-MAR):					\$77.07	\$91.75	\$61.66	\$73.40
AVERAGE 2006/2007 SOCALGAS BILL (NOV-MAR):					\$72.14	\$85.88	\$57.71	\$68.70
% Increase / (Decrease) from PRIOR YEAR: 2007/08					31%	31%	31%	31%



Customer High Gas Price Awareness Programs

- Customers will be contacted and given bill impacts analyses this month (June) to prepare them for higher gas bills
- Conservation information has been included in customers' bill inserts, Company newsletters and e-mails to business customers
- Starting in October, radio and TV advertising will ask customers to conserve and to expect higher bills due higher usage, higher gas prices and colder weather
- Customers will be encouraged to visit the Utilities' websites to get conservation and Energy Efficiency program information to lower their gas bills

SoCalGas Service Area NYMEX Natural Gas Futures Prices

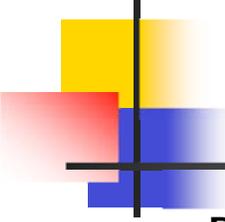
NYMEX NATURAL GAS FUTURES

Traded 5/20/08

NYMEX Natural Gas Futures

03 Month Strip	\$11.4947	+0.4030
06 Month Strip	\$11.6297	+0.3945
12 Month Strip	\$11.7196	+0.3686
18 Month Strip	\$11.3944	+0.3488

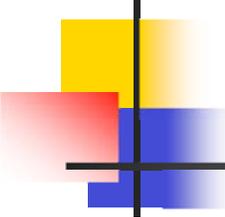
<u>Month</u>	<u>Open</u>	<u>High</u>	<u>Low</u>	<u>Last</u>	<u>Change</u>
JUN	11.180	11.410	11.150	11.365	+0.411
JUL	11.335	11.512	11.280	11.512	+0.400
AUG	11.420	11.607	11.380	11.607	+0.398
SEP	11.450	11.635	11.420	11.635	+0.396
OCT	11.520	11.697	11.520	11.697	+0.391
NOV	11.962	11.962	11.962	11.962	+0.371
DEC	12.300	12.347	12.300	11.347	+0.361
JAN	12.490	12.577	12.490	12.577	+0.356
FEB	12.537	12.537	12.537	12.537	+0.356
MAR	12.180	12.290	12.180	12.287	+0.361
APR	10.520	10.627	10.520	10.627	+0.311
MAY	10.380	10.482	10.380	10.482	+0.311



State of California Actions that Can Help to Moderate Natural Gas Prices

■ Demand Issues

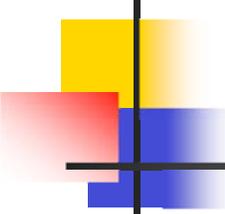
- Support for cost-effective investments in EE and renewable programs will lead to lower gas and electric demand and lower costs to consumers over the long term although in the short term some rates will increase due to ratepayer funding of EE programs and new renewable projects.
- Cost-effective investments in energy efficiency and renewable energy sources are still available in California and are being actively pursued by SoCalGas and SDG&E and other IOUs.
- Provide incentives to IOUs based on the energy savings incentive structure established by the CPUC in D.04-09-060 to meet the 20% renewable electric generation goals established by the state.
- Continue to promote incentive mechanisms, similar to the ones now in effect for utility gas purchases and EE savings, to help assure that renewable electric generation targets are met.
- California can assure that clean coal-based power supplies are provided access to California's energy markets and continued support for EE R&D and renewable energy sources can reduce the demand for natural gas nationwide.



State of California Actions that can Help to Moderate Natural Gas Prices Gas

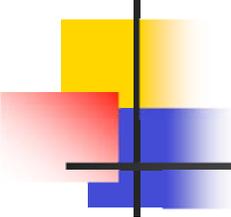
-Supply Issues

- Domestic natural gas resources are available but most of these resources are located in environmentally sensitive areas (offshore, national parks and wildlife reserves) or in remote locations, such as Alaska and the Canadian Arctic.
- These resources can be developed meeting environmental standards but political opposition is intense and therefore gas from these locations cannot be counted on to provide significant supplies in the near term.
- Unconventional supplies, such as: shale gas, tight sands gas, coal-bed methane, coal gasification, bio-gas and LNG are currently cost-effective and will continue to increase in the near future.
- Support access to LNG supplies as they will increasingly become a larger portion of world energy supply and are looked upon as a clean energy source throughout the world.
- LNG will also become a cost-effective, environmentally acceptable source of gas to California in the future. California will reap the supply security and cost reduction benefits even if LNG receiving terminals are located in distant locations.
- To assure that adequate gas supplies are available in the future in order to moderate gas prices, California should promote the development of these new supply sources, pipeline facilities and LNG receiving terminals in acceptable locations to enhance supply diversity and reduce gas costs to consumers.
- The state can review its gas policies to assure that developers are not impeded in obtaining exploration and production permits and that tax policies are changed to encourage environmentally-acceptable production of California's gas resources.



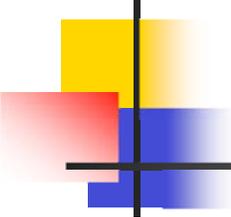
Costa Azul Start-Up

- Start-up testing of 1 Bcf/d Costa Azul LNG terminal occurred in early May (concluded on May 10th)
 - Terminal received two cargos for start-up supplies - Terminal had to complete performance test by running at 1 Bcf/d and peak 1.3 Bcf/d capacity
 - Costa Azul supplies delivered to SoCalGas/SDG&E system through new Otay Mesa receipt point and at Blythe through new North Baja pipeline
 - In total, Otay Mesa received 200,000 MMcf of Costa Azul supplies - 500,000 MMcf of supplies delivered at Blythe (no LNG molecules received at Blythe)
 - ECA supplies complied with applicable pipeline specifications (SoCalGas Rule 30)
 - Preliminary results of SoCalGas/SDG&E analysis indicate no significant performance impact of LNG supplies on any market segment.
 - SoCalGas/SDG&E and SDCAPCD collected emission data from a number of facilities during flows - Analysis In Progress
 - Costa Azul terminal declared operational on May 15th
- Expectations of future deliveries from Costa Azul remain uncertain
 - Long-term supplies split 500 MMcfd each to Sempra LNG and Shell
 - Sempra's long-term supplies from Tangguh project in Indonesia – 2nd quarter 2009
 - Shell has available capacity now - long-term supplies from Sakhalin project in Russia – late 2009
 - Spot cargos look to be dependent on market
 - Tight LNG supply in Pacific Basin and higher world prices would tend to indicate supplies in the near term are unlikely.



Gas Quality Update

- AQMD Challenge of CPUC D. 06-09-039
 - AQMD argues that CPUC's approval of maximum Wobbe number requires CEQA approval.
 - January-March 2007: Writ Petitions filed by SCAQMD and RACE/City of San Diego
 - November 2007: Court of Appeal's Order Regarding Jurisdiction
 - February 2008: Answers to Writ Petitions
 - March 2008: Replies in support of Writ Petitions
 - April 2008: Attorney General's Amicus Letter/Letters in Opposition
 - Supreme Court decision expected in June
 - Could deny petition or set for further briefing/oral argument



FAR Implementation

- Firm Access Rights – System of firm rights and off-system delivery on the SoCalGas/SDG&E transmission system (CPUC Decision 06-12-031)
 - Will enable market participants (end users, wholesale customers, gas suppliers, and California producers) to hold firm rights at receipt points into the SoCalGas/SDG&E system to guarantee flow of gas
 - New pooling service to improve and facilitate gas sales, trading and exchanges at a citygate delivery point
 - New off-system delivery service to allow delivery off-system from the SoCalGas/SDG&E system to the PG&E delivery point - opening up new markets in northern California to gas suppliers in southern California
 - Secondary market for FAR on SoCalGas' Electronic Bulletin Board
- FAR Implementation – October 1, 2008
 - Informational packages sent out to customers
 - Initial bids for set aside customers begins end of June