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September 25, 2007

Mr. Michael Robert
Staff Lead
Greenhouse Gas Reduction Strategy
California Air Resources Board
1001 I Street, P.O. Box 2815
Sacramento, California 95812

Re: Comments of Southern California Gas Company and San Diego Gas & Electric Company to the Proposed Early Action Measure SCAQMD-2

Dear Mr. Robert:

San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas) appreciate the opportunity to submit the following comments to the Proposed Early Action Measure SCAQMD-2. We agree with the CARB staff recommendation to not include the SCAQMD-2 proposal as an Early Action Measure. This proposal is in direct conflict with the California Public Utilities Commission (CPUC) decision D.06-09-039 which limits the maximum Wobbe Index for natural gas to 1385 for non-California supplies to SDG&E and SoCalGas. The CPUC's jurisdiction over gas quality for public utilities within the state is clear, and efforts to adopt regulations which conflict with this requirement are not in the best interest of our customers.

SDG&E and SoCalGas are firmly committed to supporting California's goals for greenhouse gas reductions as outlined in the landmark Global Warming Solutions Act of 2006, referred to as AB 32. For example, we have recently filed with the CPUC a Climate Action Initiative, which builds on our current successful efforts and establishes a foundation for longer term progress towards reducing greenhouse gas emissions in California.

We intend to continue our participation in any future efforts with regard to Proposed Early Action Measure SCAQMD-2, and/or any other proposals that may impact the delivery of safe, reliable and affordable natural gas to our customers. After analyzing this proposed measure in detail, we offer the following comments.

Comments on Proposed Early Action Measure SCAQMD-2

SDG&E and SoCalGas point to the authority of the CPUC to establish natural gas specifications for gas transported in California. The CPUC's clear legal authority to regulate rates, terms, and

conditions of service of public utilities is vested by Article 12 of the California Constitution. The CPUC has both the jurisdiction to establish a maximum natural gas specification such as a Wobbe Index limit and the power to enforce it.

In its decision to adopt a maximum Wobbe Index of 1385, the CPUC balanced a number of factors including the impact on supply availability. SCAQMD's proposal to prohibit supply or combustion of natural gas with a Wobbe Index greater than 1360 would prohibit 100% of existing supplies from the Rocky Mountains delivered to California through the Kern River Pipeline, and 90% of existing supplies from California gas production delivered to SoCalGas. Kern River and California production make up 20 to 30% of current gas supplies to southern California. This would also prohibit 90% of the LNG supplies in the Pacific region from being available to California.

The California Energy Commission (CEC) addressed the beneficial potential cost savings from increases in supply for gas consumers in California in its 2005 Integrated Energy Policy Report. The report articulated that increased supplies of natural gas provided by a West Coast LNG facility at prices below the California market could result in significant savings for California gas customers¹.

SDG&E and SoCalGas have aggressively pursued more effective ways to address potential criteria pollutant increases which may result from the use of higher Wobbe Index natural gas (in our service territory). In this regard, we have undertaken an extensive equipment testing and research program to determine the interchangeability of higher Wobbe gas, and initiated a host of customer education and outreach activities. The results of our testing program demonstrate that the safety and performance of natural gas equipment is unaffected at the CPUC adopted maximum Wobbe Index of 1385. While the potential for emission increases from certain types of equipment was identified (in some types of boilers), these equipment represent less than one percent of all natural gas equipment in our service territory. Importantly, in most cases we have found that these increases can be addressed through simple equipment adjustments or modifications (e.g. equipment tuning).

Earlier this year SCAQMD proposed to adopt a maximum Wobbe Index of 1360 as part of their AQMP. SDG&E and SoCalGas worked with the SCAQMD and reached a resolution where the parties would: (1) Study the issue further over the next two years as new supplies begin to come on line; (2) Establish a monitoring and testing program to help the SCAQMD track the Wobbe Index; (3) Work with SCAQMD to refine equipment emission factors and assess emission impacts from gas with a Wobbe Index higher than 1360; and (4) Work with SCAQMD to identify appropriate parameters and mitigation measures for any emissions from gas with a Wobbe Index higher than 1360. We have also met with the staff of the San Diego APCD and made a similar offer.

These efforts to test equipment, educate our customers, and work with the APCD's in evaluating impacts and identifying potential solutions demonstrate SDG&E and SoCalGas' commitment to

¹ 2005 IEPR p. 133

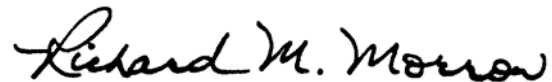
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environmental stewardship and ensuring the continued delivery of safe, reliable and affordable natural gas service to our customers.

SDG&E and SoCalGas urge CARB staff to coordinate with all relevant stakeholders in any efforts undertaken to consider Early Action Measure SCAQMD-2. Other important stakeholders include the San Diego APCD, Imperial County APCD, CEC, CPUC, providers of natural gas supplies to California, natural gas producers in California, and others. Efforts to restrict new supplies of natural gas to California absent a thorough analysis would not be in the best interests of our customers.

SDG&E and SoCalGas support CARB staff's recommendation to not include this proposal in the list of Early Action Measures, and we look forward to working with CARB in the development of Early Action Measures which both improve the state's air quality and reduce GHGs. If you have any questions, please do not hesitate to contact me or Lee Wallace at (213) 244-8851.

Sincerely,

A handwritten signature in black ink that reads "Richard M. Morrow". The signature is written in a cursive, flowing style.

Richard M. Morrow
Vice President
Customer Service, Major Markets