



2012 NATURAL GAS MARKET OUTLOOK

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Regulatory Affairs
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Natural Gas Outlook

- U.S. shale gas resources drive increases U.S. production, lower prices, economic growth and lower imports of natural gas
- Industrial and electric power use drives future demand growth
- Non-hydro renewables and natural gas are the fastest growing electricity generation sources
- Natural gas prices expected to continue to be low in 2012 due to mild winter and an expanded shale gas resource base

2001 to 2011 – A decade makes a difference

Then

- **60-year supply and falling**
- **Shale known but uneconomic to develop**
- **Underground gas storage primarily traditional reservoir, operationally not very flexible**
- **Pipeline capacity growing incrementally**
- **Rising prices with several spikes**

Now

- **100+ years supply and growing**
- **Flourishing production, vast shale resources now accessible**
- **Storage boom with more flexible salt-cavern facilities and additional market area storage**
- **16,000+ miles of interstate pipeline added since 2000**
- **Plentiful supplies moderate prices, provide supply diversity**

Source: LDC Forum, Exxon Mobil, October, 2011



Factors impacting Natural Gas Growth

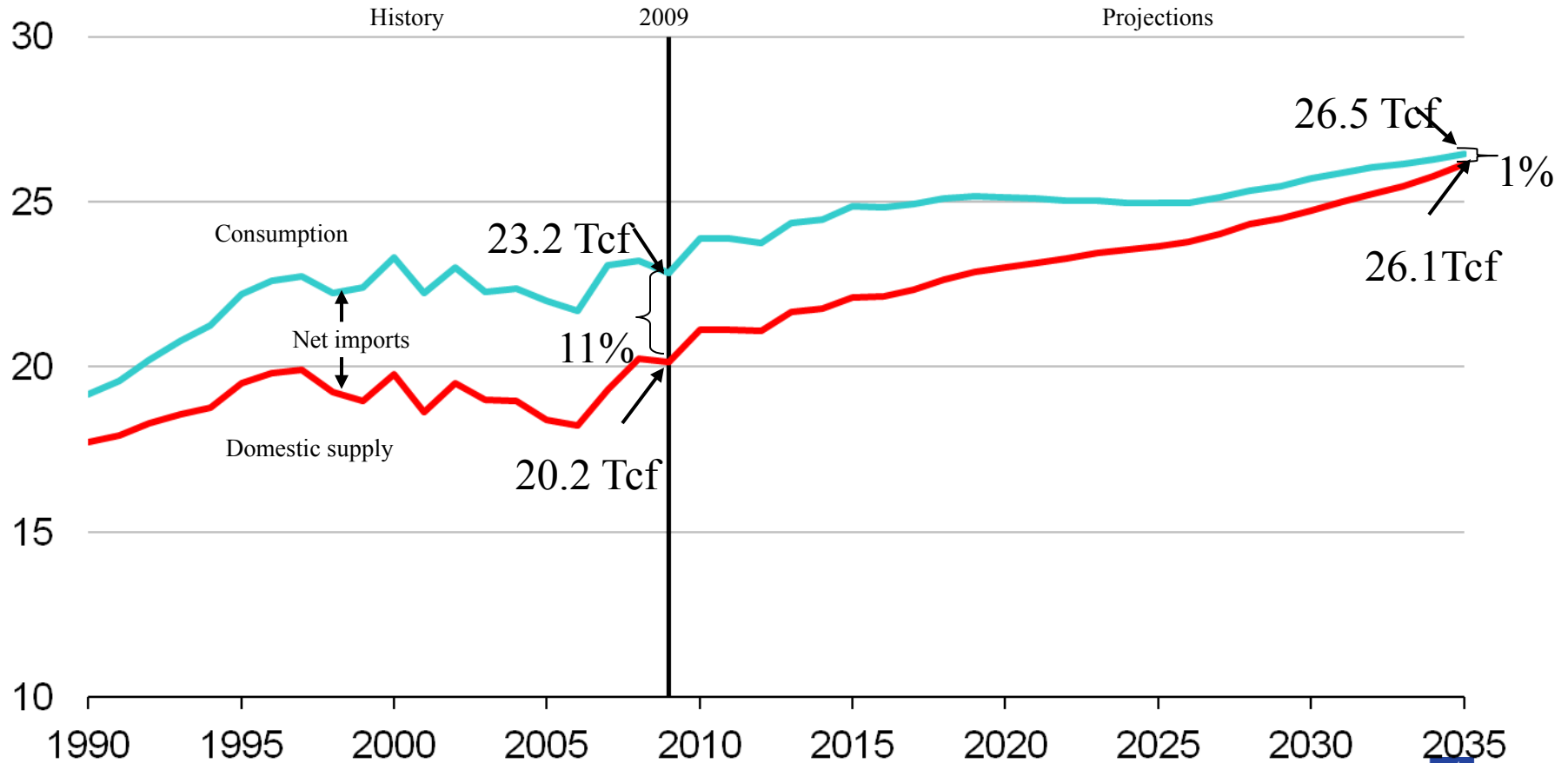


Source: LDC Forum, Exxon Mobil, October, 2011



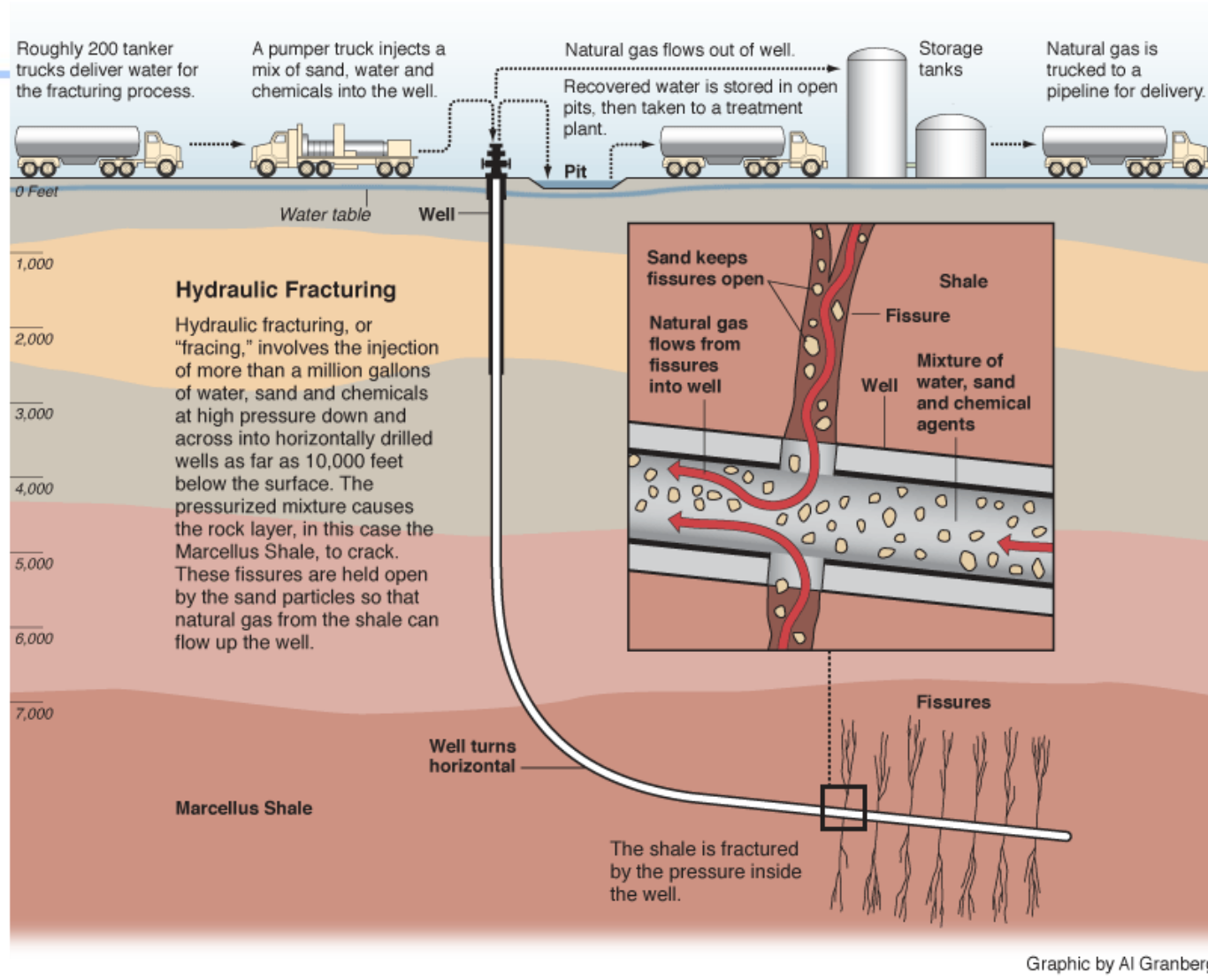
30% domestic gas production growth outpaces 16% consumption growth, leading to declining imports

U.S. dry gas
trillion cubic feet per year



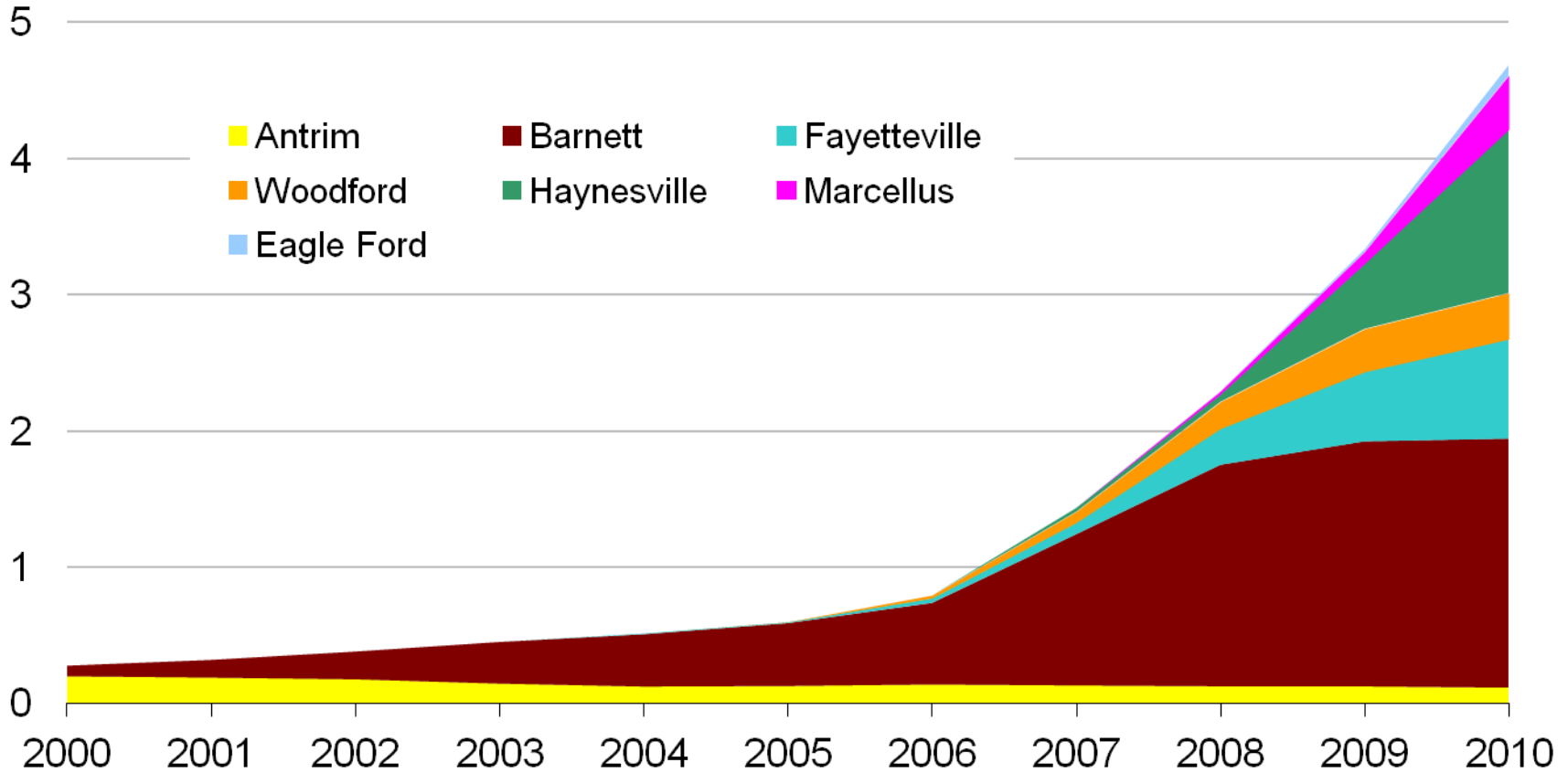
Source: EIA, Annual Energy Outlook 2014

Horizontal drilling and hydraulic fracturing



Over the last decade, U.S. shale gas production has increased 14-fold and now comprises about 22 percent of total U.S. production

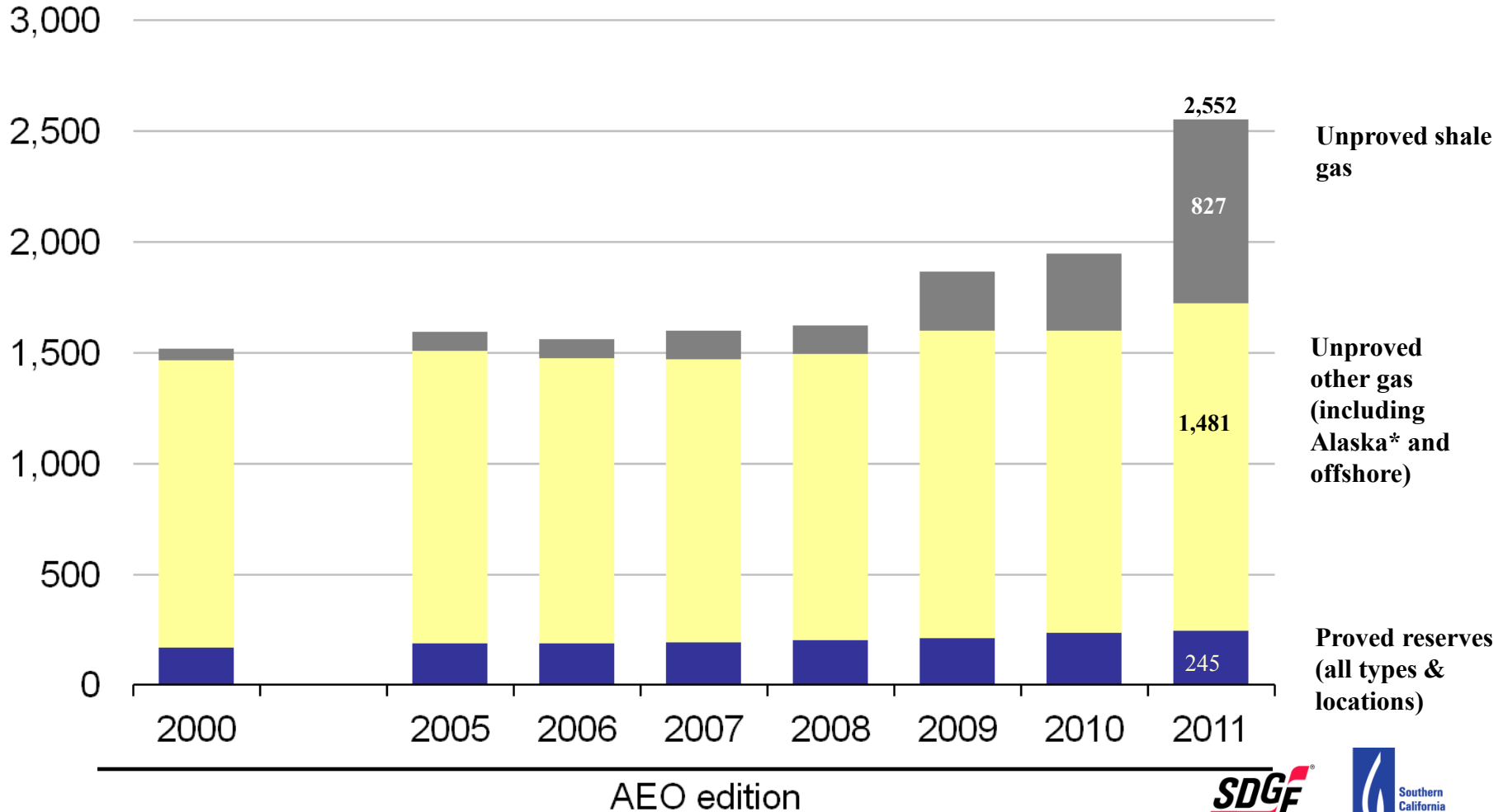
annual shale gas production
trillion cubic feet



Source: EIA, Lippman Consulting (2010 estimated)

Shale gas has been the primary source of recent growth in U.S. technically recoverable natural gas resources

U.S. dry gas resources
trillion cubic feet



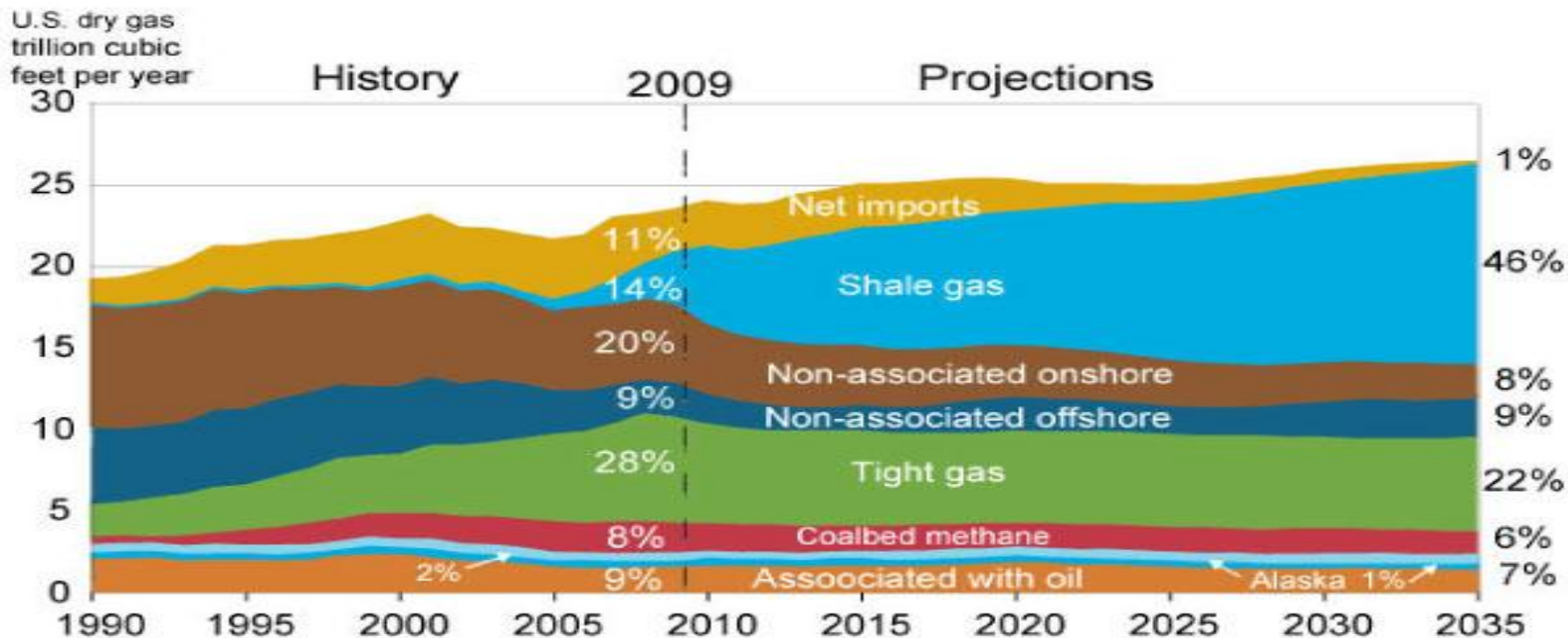
* Alaska resource estimates prior to AEO2009 reflect resources from the North Slope that were not included in previously published documentation.



Source: EIA, Annual Energy Outlook 2011

Four-fold increase in shale gas production offsets declines in other U.S. supply, meeting consumption growth and lowering import needs

U.S. Natural Gas Supply, 1990-2035



Source: EIA, *Annual Energy Outlook 2011*

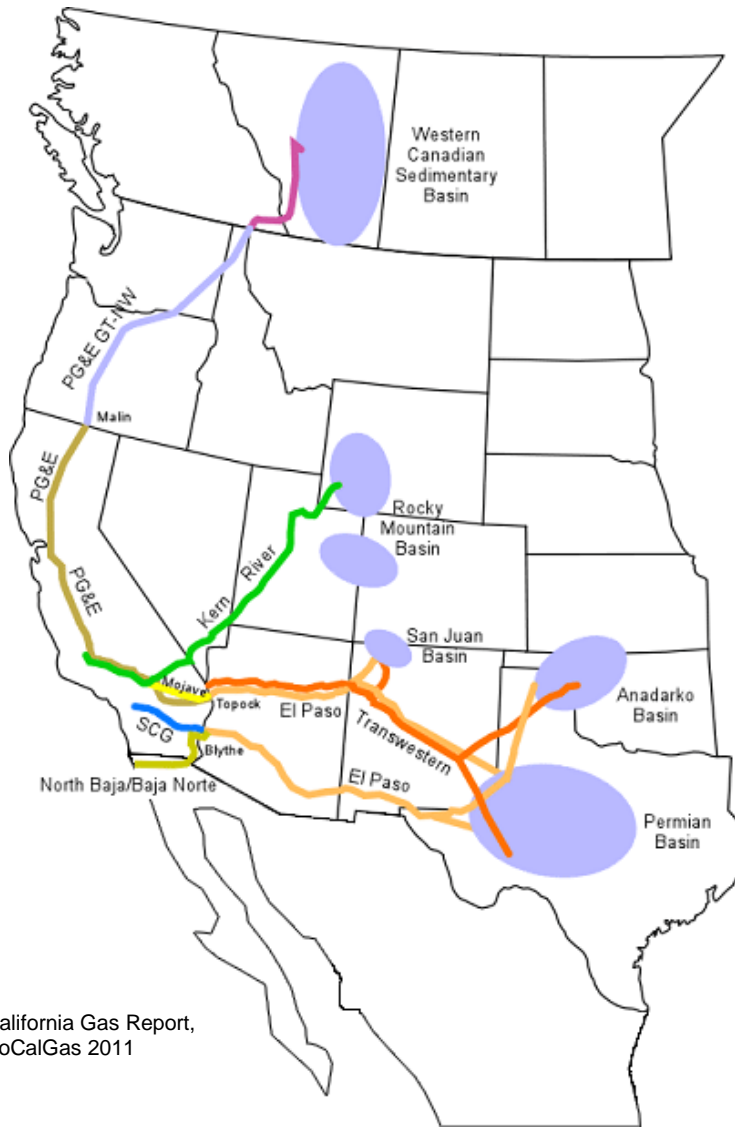
Spurring Economic Growth



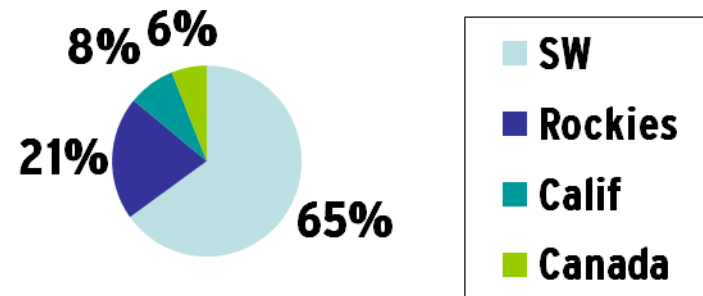
- A PricewaterhouseCoopers study estimated that the entire U.S. oil and gas industry supported 9.2 million full-time and part-time jobs
 - The total economic “value added” by our industry was \$1.1 trillion in 2009
- Recent Wood Mackenzie study found the right policies can:
 - Create 1 million jobs over the next 7 years

Source: LDC Forum, Exxon Mobil, October, 2011, <http://www.marcellus-shale.us/>

SoCalGas Sources of Natural Gas



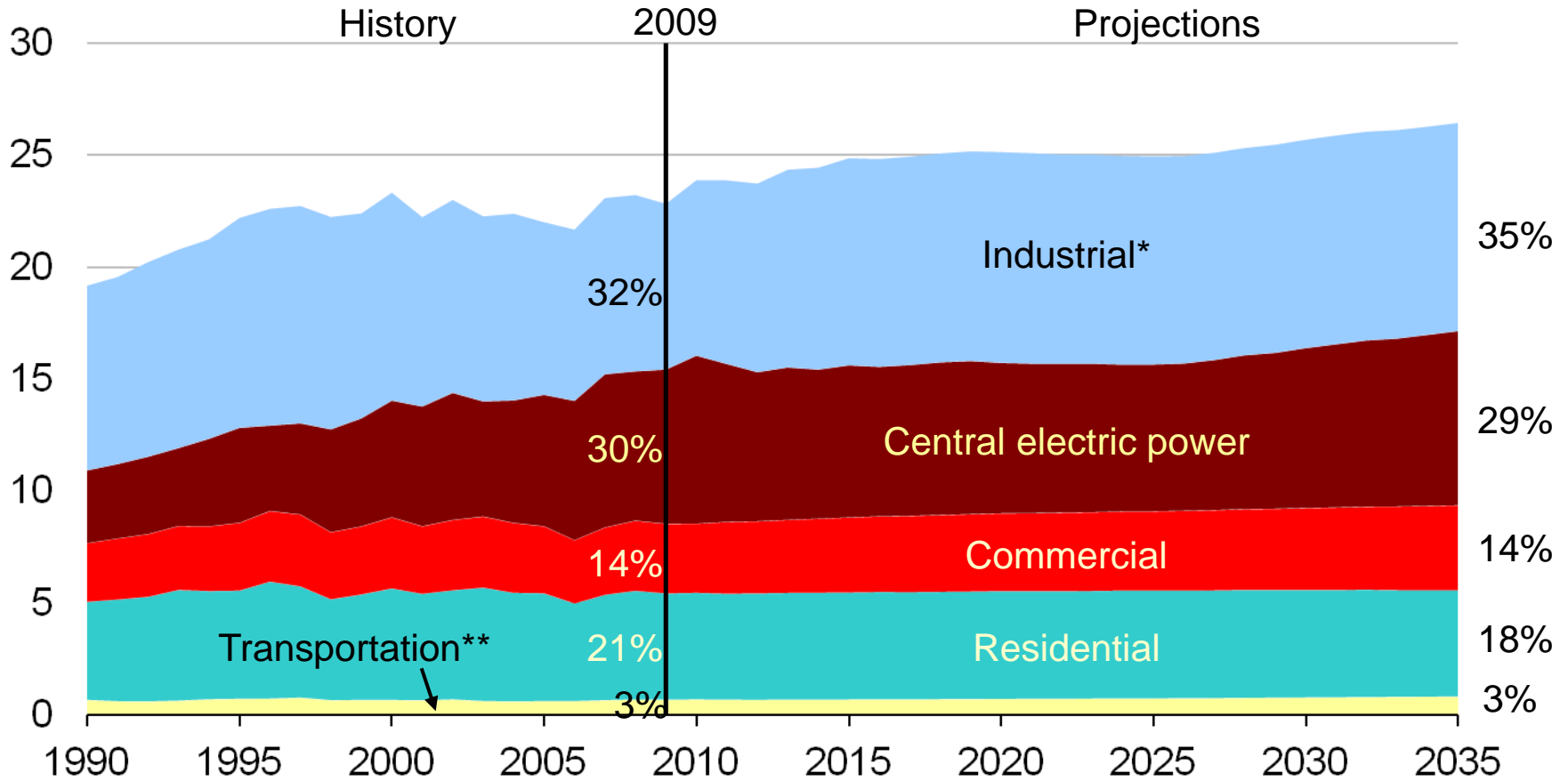
SoCalGas Total Supply Mix for 2010



Source: California Gas Report, SoCalGas 2011

Natural gas consumption is quite dispersed; industrial and electric power use drives future demand growth

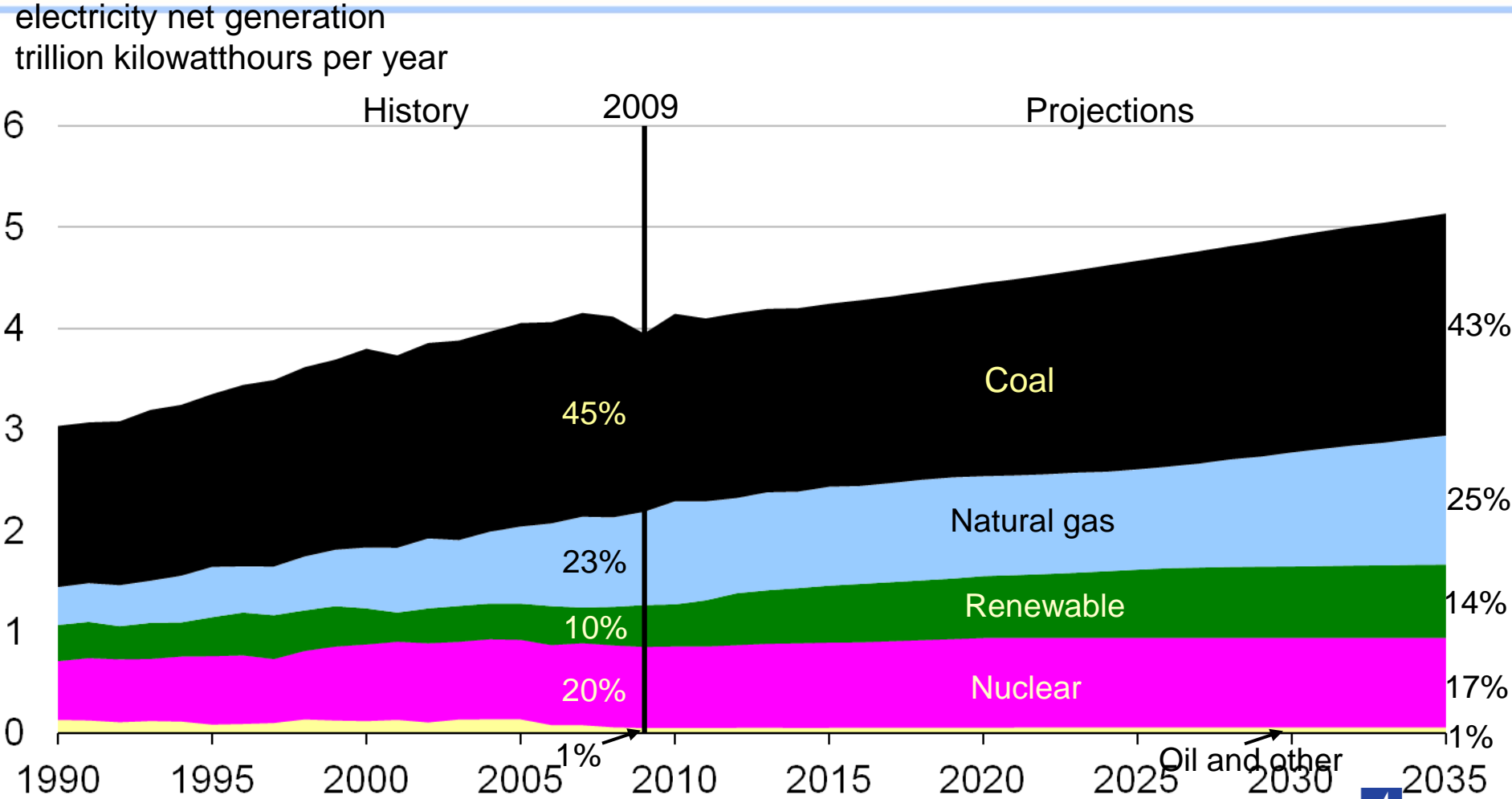
U.S. dry gas consumption
trillion cubic feet per year



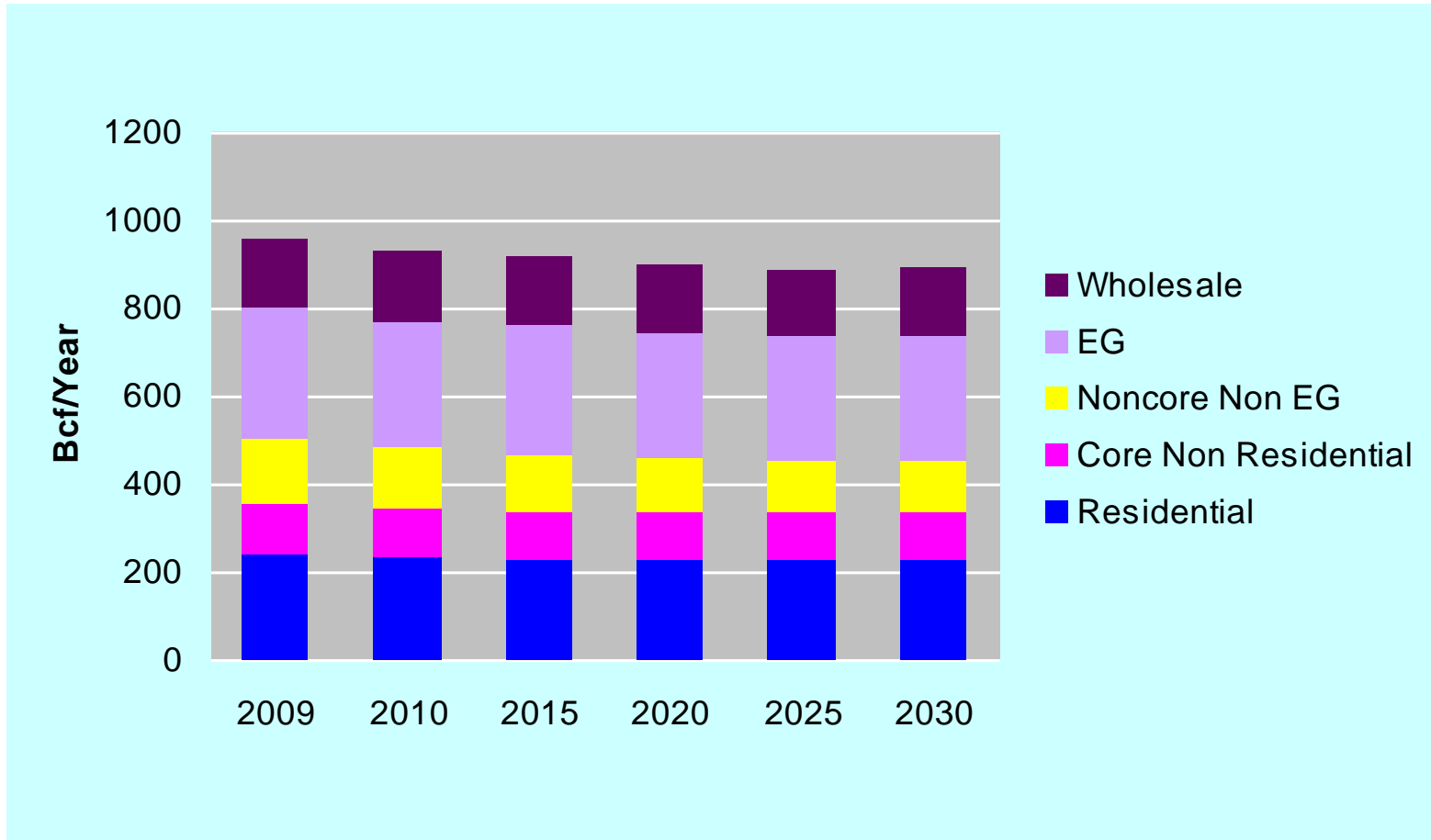
* Includes combined heat-and-power and lease and plant fuel. ** Includes pipeline fuel.



The projected electricity mix gradually shifts to lower-carbon options, with generation from natural gas rising 37% and renewables rising 73%



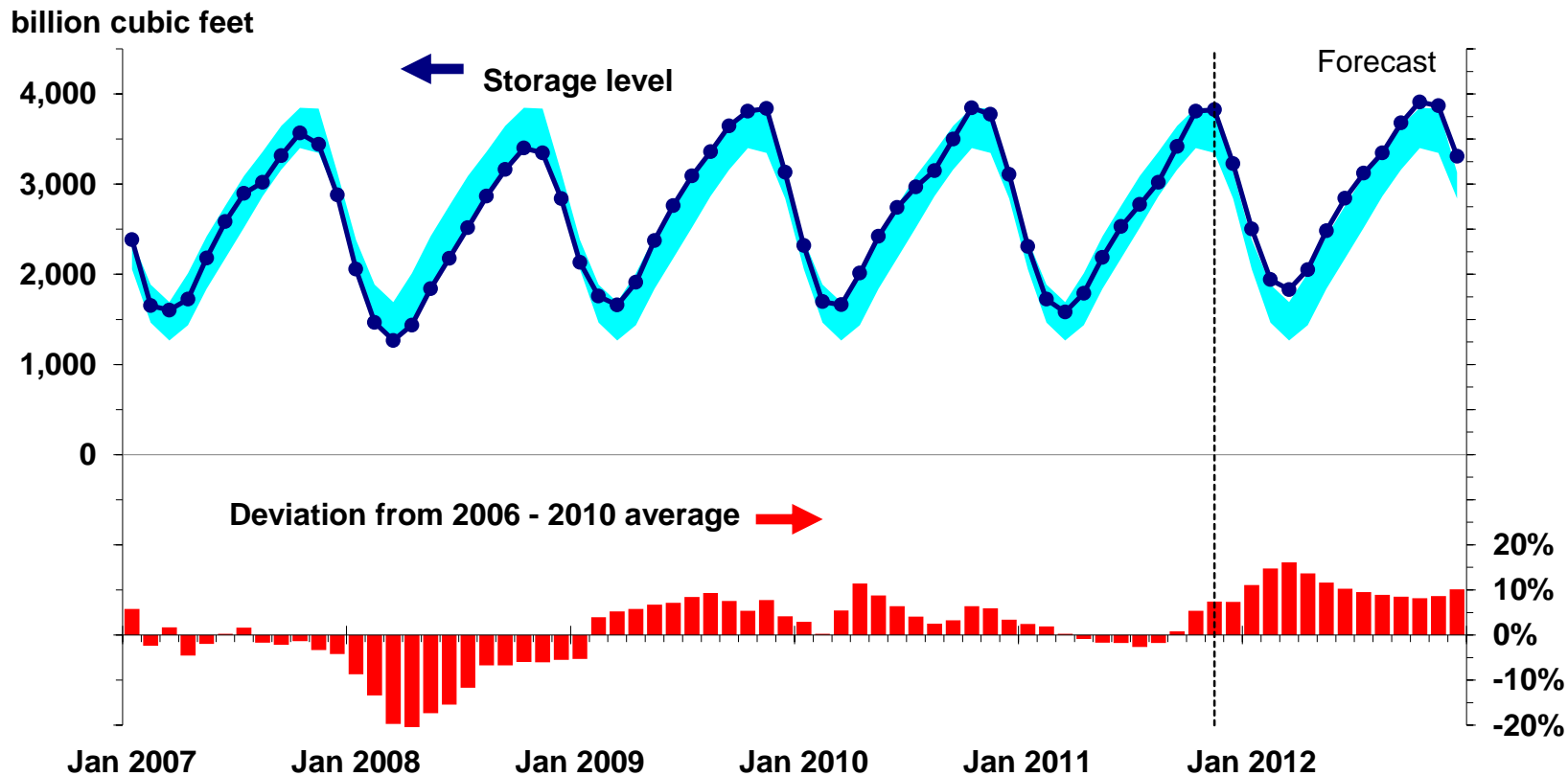
Southern California Gas Demand



Source: CGR 2010

U.S. Storage Expected to Remain High This Winter

U.S. Working Natural Gas in Storage

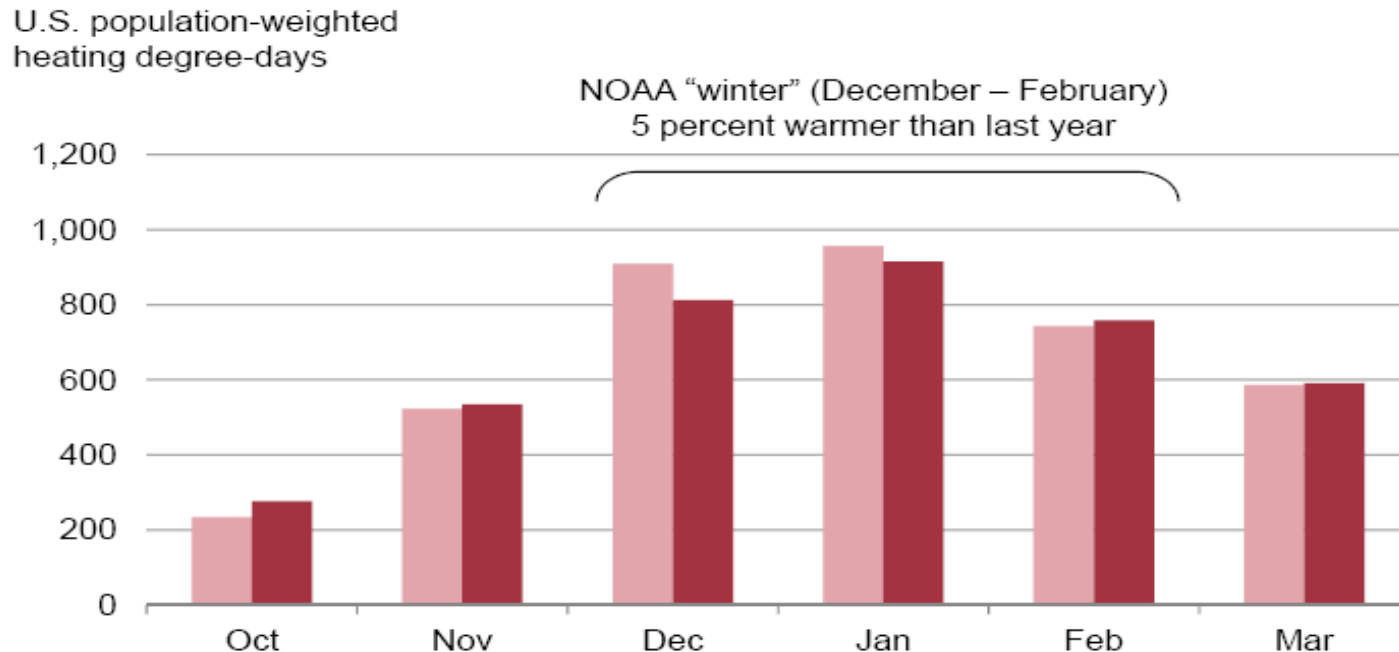


Note: Colored band around storage levels represents the range between the minimum and maximum from Jan. 2006 - Dec. 2010.

Winter 2011/12

Weather has the most impact on spot natural gas prices.

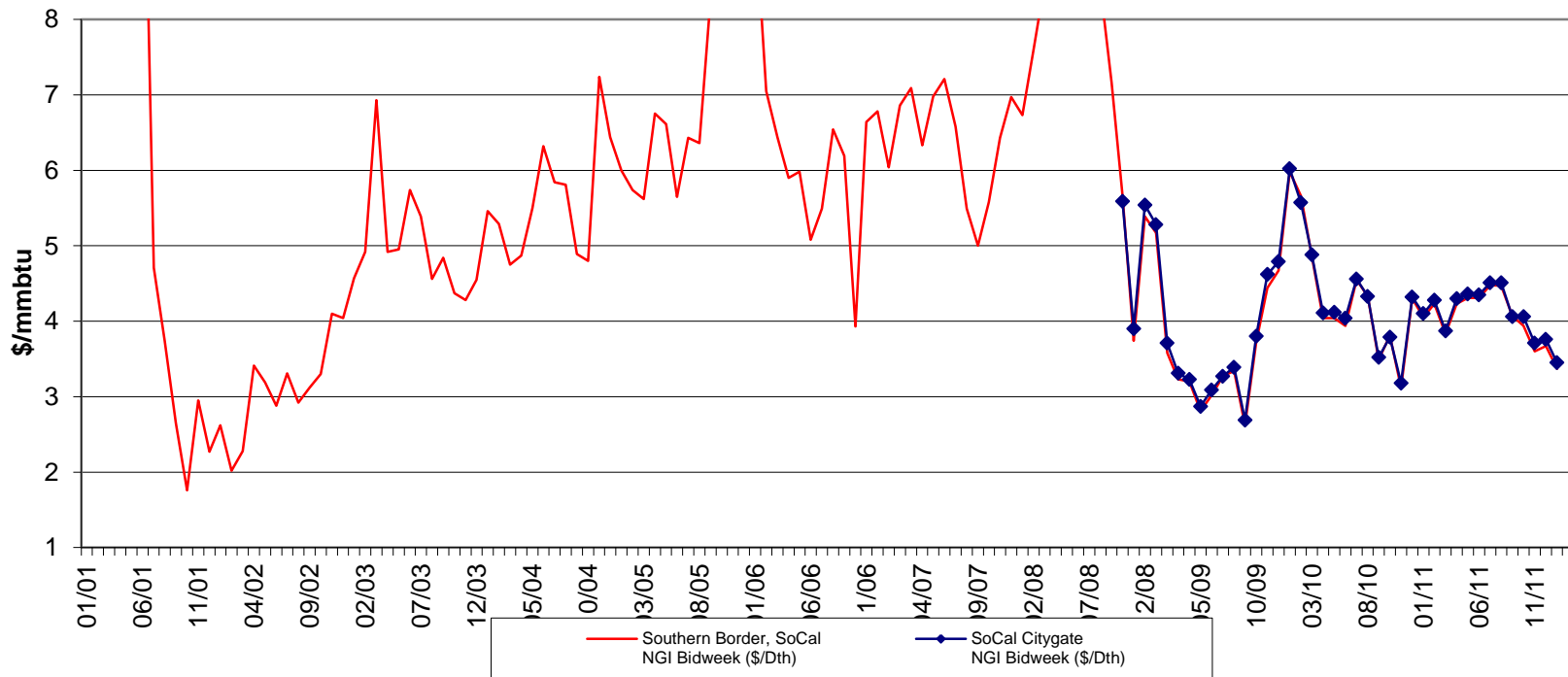
Winter 2011-12 heating season forecast is 2% warmer than last winter, close to the 30-year average



Natural Gas Price History

CA AZ Border and SoCal Citygate - NGI Monthly Index

Data Source: NGI Bidweek Survey January 3, 2012

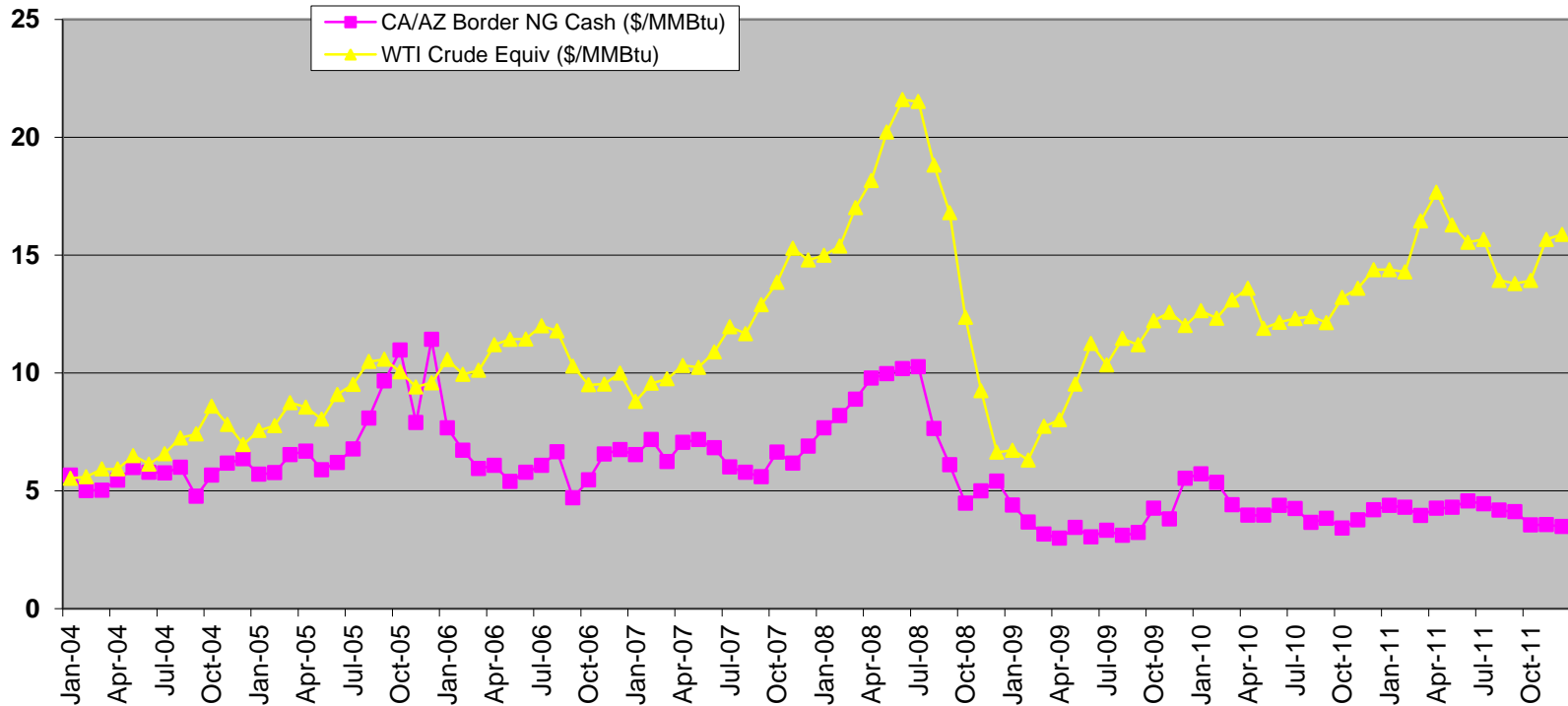


Oil vs Natural Gas Prices

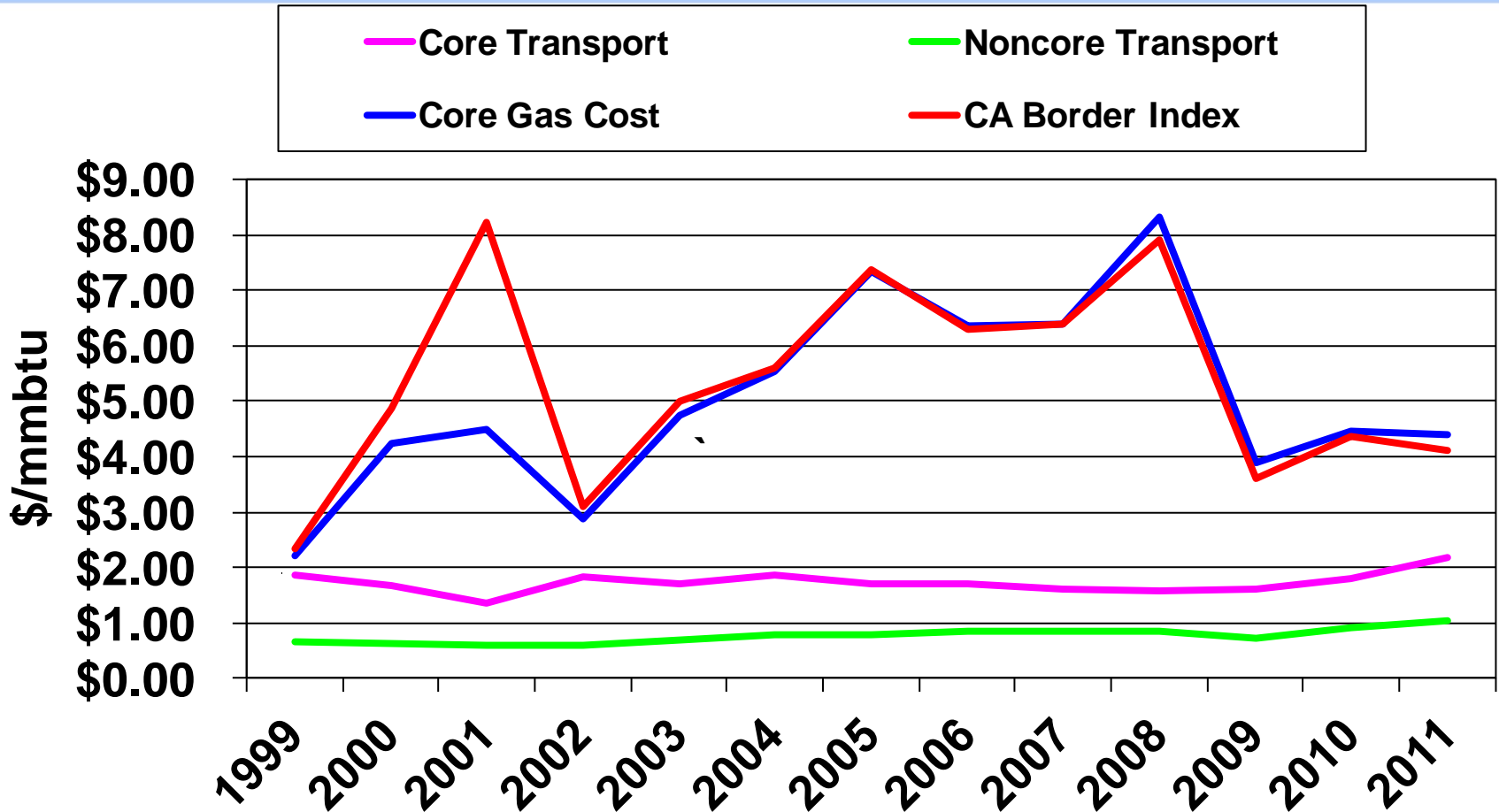
Historical Oil Prices vs. Gas Prices Equivalent Unit Cost (\$/MMBtu)

1 Barrel = 6.2 MMBtu

Last Updated: 1/3/2012 Source: Oil prices - EIA, CA/AZ Border Gas Price - ProphetX T:\oil vs gas.xls



While Gas Prices Have Fluctuated: SoCalGas' Transportation Costs Have Been Flat



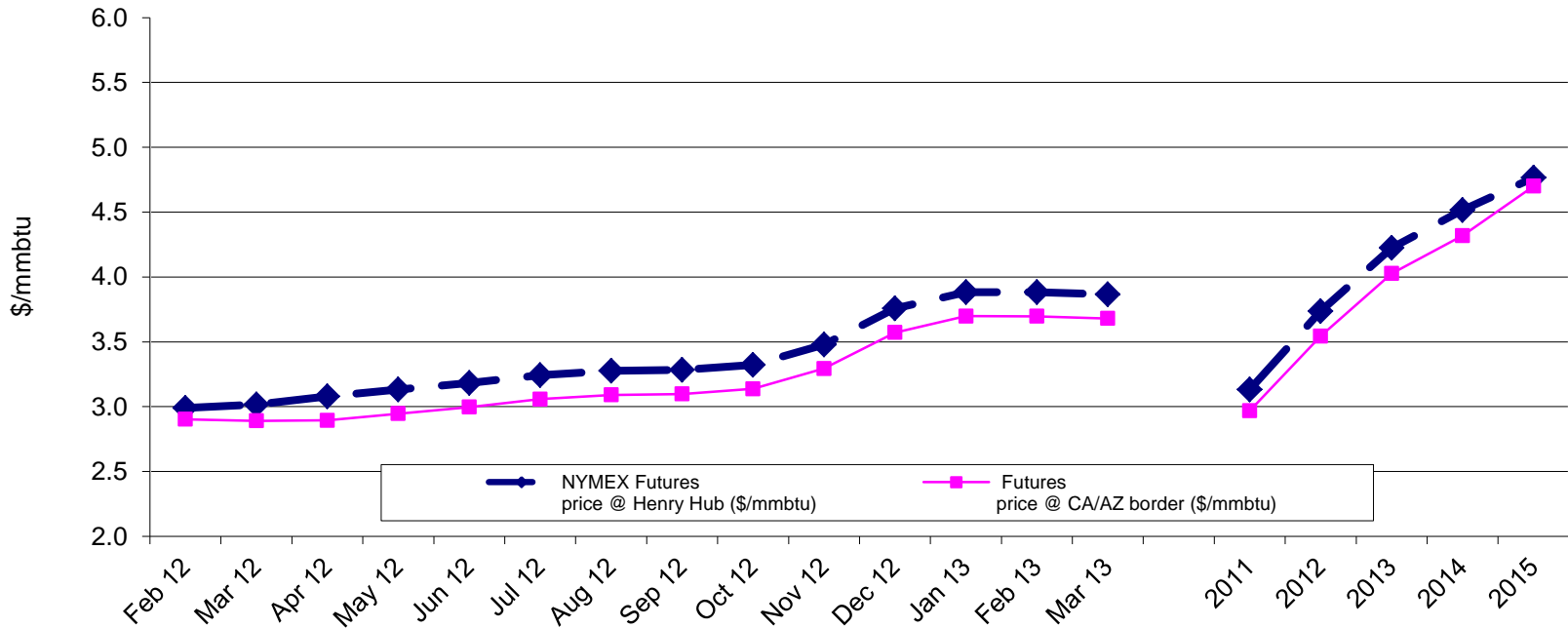
Transport costs are the Volumetric & Customer Charge.

Core GN10 @ 100,000th/year and Noncore GTF/I3-D @ 1.5MMth/year.

Core Gas Cost is SCG's core procurement rate and CA Border Index is Natural Gas Intelligence Index

Where are Gas Futures Prices Going ?

Natural Gas NYMEX & ClearPort Futures



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Source: Henry Hub data: PROPHETX[QUOTE]!NG@[DTN:NYMEX] Border data: Ventyx Velocity Suite

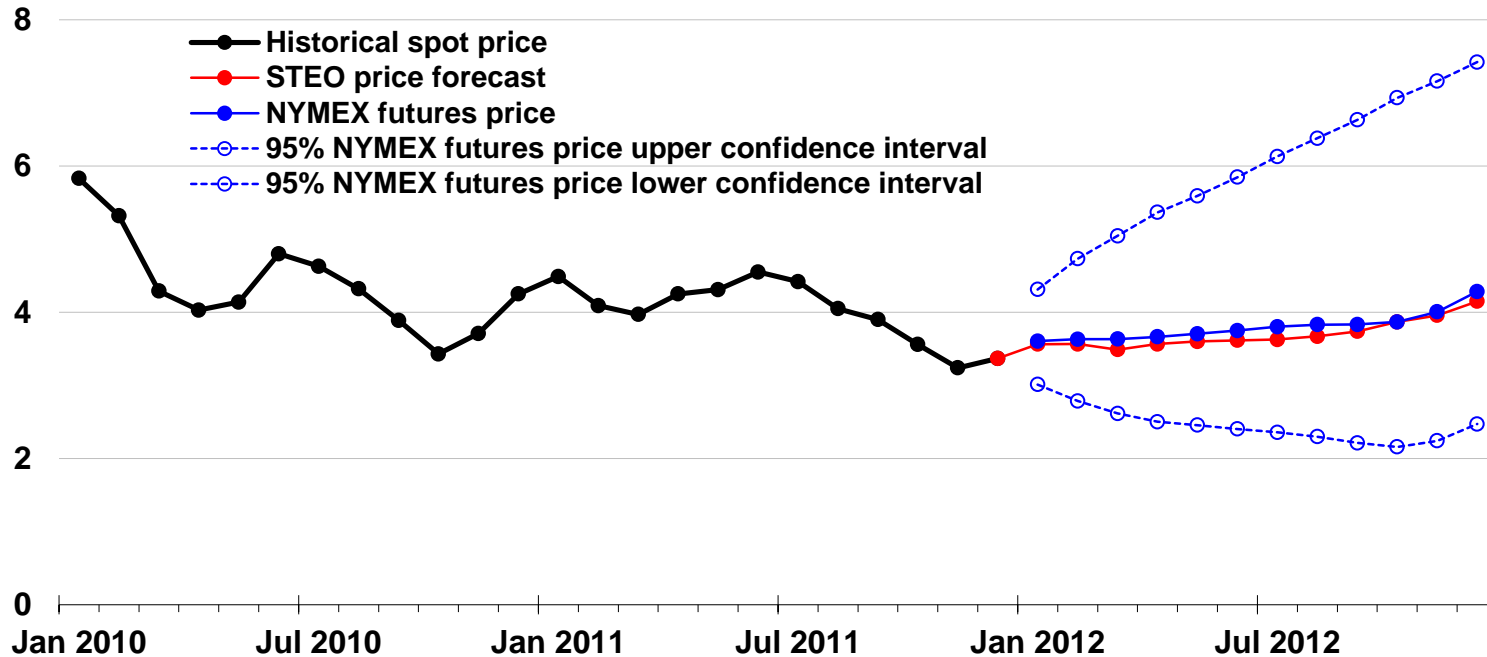
Updated January 3, 2012



Natural Gas Prices expected to continue to be low in 2012

Henry Hub Natural Gas Price

dollars per million Btu



Note: Confidence interval derived from options market information for the 5 trading days ending December 1, 2011
Intervals not calculated for months with sparse trading in "near-the-money" options contracts

Source: Short-Term Energy Outlook, December 2011



North American Natural Gas Market

- Shale gas drives growth in natural gas production, economy and reduces reliance on imported gas.
- Higher demand expected for U.S. gas fired electric generation and industrial demand.
- Natural gas prices much lower than oil prices.
- Natural Gas basis differences at various hubs diminished, driven by shale production increase in the east and new pipelines added.
- Natural gas price projections for 2012 are lower than past years due to warmer winter and an expanded shale gas resource base.

What Can You Do to Manage Energy Costs?

- Take advantage of energy efficiency programs. Call your Account Executive for technical support.
 - Go to socalgas.com/business for support tools.
- If you transport your own gas, talk to your gas supplier to discuss supply and pricing strategies.
- Look for ways to conserve and be more energy efficient.

Thank you