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State of California

Before the

Government Reform Subcommittee on Energy Policy, Natural Resources, and  
Regulatory Affairs

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LNG Import Terminal and Deepwater Port Siting: Federal and State Roles

Good Morning Congressman Ose and fellow members. The Governor's Deputy Cabinet Secretary gives his warmest regards. You have before you an important issue of direct concern to both the nation and to California. It is an honor to appear before you to let you know what we are doing in California as it relates to our need for additional sources of natural gas and consideration of liquefied natural gas (LNG) import terminals.

First, let me be clear that our state has already determined that we need to pursue additional sources of natural gas supplies such as LNG. The state's Energy Commission recently completed a comprehensive review and assessment of our energy situation and, in its recent Integrated Energy Policy Report, identified the need to embrace additional sources of natural gas supply such as LNG. California recognizes that current record high natural gas prices represent a significant cost to businesses residential customers. It is imperative that we seek out ways to ensure competitively priced gas supplies for the future.

To that end, the Secretary for Resources has directed state agencies to work together to develop information necessary to provide the public and decision-makers information on various LNG issues and to provide an effective, coordinated review of LNG import terminal applications. Please be aware that our interest in seeing LNG facilities developed on the west coast is balanced by our expectation that any development is done in a manner that protects the health and safety of our citizens and the quality of our environment.

In terms of our natural gas needs, we determined that our overall net natural gas demand is expected to grow at a little less than 1 percent/year over the next 10 years. This low growth rate is the result of a very aggressive energy efficiency program and a very aggressive renewable energy program, both of which are funded and supported by our state. The Governor has affirmed that energy efficiency and renewables are our top priorities when taking action to balance supply and demand for both electricity and natural gas. Electricity energy efficiency is particularly effective in reducing our demand

for natural gas. Natural gas provides the fuel for over 33 percent of our total annual electricity generation during average weather years, and over 40 percent when we have an extended drought or extreme temperatures.

In spite of aggressive efforts to reduce energy demand and to increase our state's onshore gas production, we import over 85 percent of our natural gas supply and are very concerned about the availability of this important fuel. As you well know, the North American natural gas production forecast is bleak and production increases are not expected to keep up with North American demand increases. Since natural gas is distributed and sold on a national basis, we carefully track not just California, but national natural gas demand, supply, infrastructure, operations, and market conditions.

Further, California is in a unique position caused by geography and the national natural gas pipeline network. We are at the end of a very long set of pipelines and the physical delivery of our supplies can be jeopardized by many factors. Therefore, our interest in LNG is driven by two major factors: our desire to help the nation increase its overall supply of natural gas so that we all benefit, and our desire to develop a more balanced delivery system for our state. We are also very fortunate to have already established positive relationships with many developers in the natural gas industry and very much appreciate both the private and public investments that they have made in our pipeline and storage infrastructure to make it as robust as it is today. We are concerned, from both an energy and an environmental perspective, about our state's and nation's potentially deteriorating position relative to the supply/demand balance of natural gas.

Currently, the State of California's role in approving LNG import terminals differs depending on whether the proposed project is located off-shore or on-shore. For off-shore LNG facilities, the lead state agency is the State Lands Commission which works with other State and Federal agencies. The Deepwater Ports Act provides that the Governor of California has final review to approval, amend or reject any off-shore LNG proposal. For on-shore projects, there are many State and local agencies that are involved in the permit process. Ambiguities in the law have given rise to a jurisdictional dispute over on-shore permitting.

As I mentioned earlier, we have already taken steps to organize our agencies to effectively respond to the new applications for LNG import terminals. First, we started working with FERC over a year and a half ago when we first heard California might receive applications for LNG terminals. We met with them to learn as much as we could about their work and permit review processes. Second, we sponsored a two-day training session on LNG for all public agency staff members to provide them technical background on LNG and LNG import terminals. Third, over a year ago we established the LNG Interagency Permit Working Group of governmental agencies potentially involved in the review of new LNG import terminals. That Working Group meets regularly to define roles and responsibilities, resolve issues, and establish a technically-consistent information base. I want to emphasize that early on we declared our intent to work on a collaborative basis with our federal and local government partners and have generally made very good progress in that area. For example, we are preparing joint

federal/state environmental documents for both the current SES Long Beach and BHP Cabrillo Port LNG import terminal application reviews. Fourth, we have been identifying issues and taking action to resolve them at all levels of government. Fifth, we sponsored a comprehensive workshop on natural supply, demand, and infrastructure issues with FERC participating in our event.

Based on our experience, I believe we can offer you several insights and suggestions for action, particularly as they relate to federal/state roles and responsibilities when reviewing LNG import terminal applications.

First, we have declared our intent to work collaboratively with our federal colleagues when reviewing LNG import terminal applications and have a long history of successfully working with them on other energy projects. Our state agencies have worked collaboratively with FERC for several years when conducting joint permitting of interstate natural gas pipelines in California. In fact, we are very appreciative that FERC instituted an accelerated permitting process for critical pipelines and that we worked together to meet those deadlines. Our state agencies also have a long history of working collaboratively with our federal land management colleagues on power plant and transmission line projects in California, preparing joint environmental documents where possible.

Currently, state agencies are conducting joint environmental reviews of the Long Beach LNG import terminal application with FERC and the Cabrillo Port LNG import terminal application with the US Coast Guard. The USCG has distinguished itself by coming to California several times to establish a close working relationship at all levels of government, by making their California staff available to work closely on an informal and formal basis in the LNG Interagency Working Group, and on tanker traffic and port security issues. In short, we have technical staff and agencies capable of independently reviewing complex energy projects and are willing and able to conduct our work on a collaborative basis with our federal and local agency colleagues.

Not only do we work collaboratively, but we also try to make our work transparent to the public. We have established several websites to help educate the public about both LNG permit application review processes and about LNG in general. Let me direct you to two fine examples at [www.cabrilloport.ene.com](http://www.cabrilloport.ene.com) for the joint website between the state and the US Coast Guard, and to [www.energy.ca.gov/lng](http://www.energy.ca.gov/lng) for LNG information in general.

These themes of continued collaboration in our working relationships and transparency in our work efforts are good guides for future government policy that your Committee can consider. How does this apply to the issues at hand?

First, we suggest that you look to Congress' most recent action in this arena when it amended the Deepwater Port Act to permit it to be used to license offshore LNG import terminals located beyond the state's territorial waters. The federal/state working

relationship defined in that recent federal legislation serves as a good model that reflects current thinking and actual practice on this issue.

Second, we suggest that we all look at ways to increase the transparency of our work so that the public can become better informed and more fully participate in the process. Our many decades of conducting application reviews, holding local workshops and hearings, and posting as much information as possible on websites and mail lists has taught us that we often don't fully understand all the issues unless we frequently meet with local communities. A better understanding of local communities' concerns allows us to better identify local environmental and public issues and then develop more effective avoidance, protection, and mitigation measures since our ultimate responsibility is to protect the public, the environment, and our economy. Local events are particularly useful in LNG siting cases due to the need to also increase our communication with local communities—communities who have already express reservations about LNG safety issues. Federal agency rules that shield critical energy information from the public should be reexamined to ensure they are necessary as written or could be slightly relaxed and still meet legitimate security objectives.

I'd be happy to expound on several related topics, but I realize that our time is limited so I will stop here and make myself available to respond to specific questions or concerns you may have.

Again, thank you for inviting the State of California to present our views today on this important topic.