

APPENDIX G

Applicants' Submittals Regarding Possible Alternate Fuel Supply

BAJA CALIFORNIA POWER, INC.

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November 28, 2001

Tony Como
Deputy Director, Electric Power Regulation
U.S. Department of Energy
1000 Independence Avenue, SW
Washington, D.C. 20585

Re: Alternative Fuel Sources for power generation facilities supplying power to Baja California Power, Inc.

Dear Tony:

As you are aware, the La Rosita Power Complex (LRPC) will generate approximately 1060 MW of power, approximately 560 MW of which will be exported to the U.S. The remaining 500 MW are under contract to the Comisión Federal de Electricidad (CFE), Mexico's National electric utility. The LRPC, which includes the turbines that will generate power for Mexico's domestic consumption and for export, is planning on receiving natural gas from the North Baja Pipeline. Baja California Power is a special purpose company that will transmit the power that will be exported from Mexico to the US.

The LRPC has looked at alternatives to supplying natural gas to the generation facilities in case the North Baja Pipeline is not available, and the purpose of this letter is to explain these alternatives. While supply of clean burning natural gas through the North Baja Pipeline remains our preferred choice of fuel supply, the three main available alternatives that we have considered are: 1) supply through Southern California Gas' (SoCal Gas) system in Imperial County, California, 2) back-hauling supply through Sempra's Transportadora de Gas Natural (TGN) and Gasoducto Bajanorte (GBN) systems in Mexico, and 3) equipping the generation facilities to process diesel, and obtaining diesel supply from Pemex, Mexico's national oil company.

- 1) Supply through SoCal Gas System. SoCal gas currently supplies gas to Mexicali's local gas distribution company. This system terminates approximately 20 miles from the LRPC. SoCal's existing system would have to be expanded to allow the transportation of the natural gas volumes needed for power generation. While we have studied this option and believe that this expansion is technically feasible, any modification to the SoCal gas system would require approval from the California Public Utilities Commission (CPUC). The approval process would be lengthy,

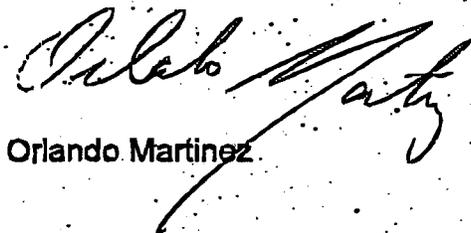
thereby resulting in a delay in the delivery of power from the LRPC to Mexico and California.

- 2) **Back-hauling supply through TGN and GBN.** This option would obtain the gas supply from San Diego Gas & Electric's (SDG&E) system in San Diego, transport it first through Sempra's TGN pipeline to Rosarito, Baja California, then through Sempra's GBN pipeline to Mexicali. Our review indicated that this option also is technically feasible, but would be more costly than NBP as it would require the upgrade of the TGN system. Worth noting is that during the summer and fall of 2000, the San Diego area suffered from gas supply curtailments due to lack of capacity upstream. Thus, if the LRPC were to avail itself of this alternative, the LRPC would run the risk of having its gas supply curtailed. This would also affect the delivery of power to CFE, the Mexican national electric company. As an alternative, gas could be obtained from the proposed new LNG terminal near Ensenada, Baja California, and back-hauled over GBN.
- 3) **Liquid fuels:** The combustion turbines at the LRPC can be retrofitted to burn diesel fuel. Pemex has a liquid fuels terminal in Mexicali, located approximately 5 km from the LRPC, which would facilitate the delivery of diesel. For this option, the generation facilities would have to be modified to accept diesel fuel and the diesel handling facilities installed. Our review indicated that these modifications would delay commercial operation of the LRPC beyond the California peak demand period in 2003, as well as delaying delivery of power to Mexico. In addition, this option is disfavored by the LRPC, as emissions from diesel-fired generation would be substantially higher than when combusting natural gas.

The options mentioned above are not the optimal choice for delivering timely, environmentally sound and inexpensive power to both Mexico and the United States. Nevertheless, Energía Azteca X (EAX) and Energía de Baja California (EBC), which together make-up the LRPC, have commenced construction of the power generation facilities and will find alternate fuel supply if the NBP is not available within the time periods necessary. As of October 2001, EAX and EBC have jointly spent or committed to spending approximately \$600 million out of a total of \$765 million.

We appreciate the diligent work of the Department of Energy in processing the Presidential permit application for the Baja California Power transmission line, which will make power available to California as early as summer of 2002. If you require any additional information, please do not hesitate to call me at (305) 461-6945. Thank you.

Yours very truly,



Orlando Martinez



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November 26, 2001

Anthony Como
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Dear Mr. Como:

The DOE has requested information pertaining to Sempra Energy Resource's intent to construct or not construct Termoeléctrica de Mexicali (TDM) if the North Baja Pipeline (NBP) is not approved and constructed. In summary, Termoeléctrica de Mexicali will be constructed regardless of whether or not the US portion of NBP is constructed. Below is a discussion regarding this matter.

Background on natural gas supply

There are currently two natural gas interconnections into Baja California. The first is located at San Diego/Tijuana and connects the San Diego Gas & Electric (SDG&E) system to the Transportadora de Gas Natural (TGN) system in Mexico. The second is located at El Centro/Mexicali and connects the Southern California Gas Company (SCG) system to the Distribuidora de Gas Natural (DGN) system in Mexico.

NBP is a joint venture between PG&E National Energy Group, and Sempra Energy International. PG&E is developing the US portion of NBP, while Sempra Energy International is developing the Mexican portion of the pipeline. NBP will bring natural gas from the United States and supply the DGN and TGN systems as well as new customers in Baja California and the United States. The Mexican portion of the pipeline has received all of its Mexican regulatory approvals and is already under construction. The Mexican portion of the pipeline will be completed in July 2002.

Fuel supply to TDM

Sempra Energy has all regulatory approvals to construct and operate TDM in Mexico and has already initiated construction of the power plant.

TDM has entered into a 20-year contractual agreement with NBP for fuel transportation rights on the North Baja pipeline. This fuel source is the cleanest, most economical, and provides the most efficient fuel source available to the TDM project.

Sempra Energy has entered into an electricity supply contract with the California Department of Water Resources (CDWR). TDM is an important part of the portfolio of assets that will supply the power required under the CDWR contract.

Sempra Energy Resources is not the same company as the utility, SDG&E or SoCalGas, and Sempra Energy Resources is not regulated by the California Public Utilities Commission.

TDM has made well over \$280 million in construction contractual commitments of which \$120 million has been paid to date. Total construction cancellation costs for TDM are currently estimated to be \$200 million. It may not be financially prudent to cancel the project given the sunk costs that would occur if it were cancelled at this point in time. In order to recover these investments, should the US portion of the North Baja pipeline not be constructed, various fuel alternatives have been explored as contingency.

If the U.S. portion of the pipeline is not built, and TDM is forced to fuel the plant from alternative sources, TDM would seek to obtain fuel supplies from other sources that may be available. Possible sources would include existing connections to the United States at the border with Mexico and the future LNG facility proposed recently by Sempra Energy. Natural gas from either of these sources would flow to TDM via the Mexican portion of the pipeline.

Conclusion

Sempra Energy remains committed to the TDM project and to satisfy the contractual obligations to supply power to the state of California. The preferred and most economical fuel supply to TDM is through the North Baja Pipeline; however, if NBP is not constructed, TDM would still be built and be forced to use alternative fuel supplies in order to satisfy the contractual commitments and protect the financial investments made to date.

Should you have any questions, please contact me at (619) 696-2287 or Alberto Abreu at (619) 696-2121.

Very truly yours,

