

PACIFIC ENTERPRISES INC  
 Form 10-Q  
 November 09, 2009

UNITED STATES  
 SECURITIES AND EXCHANGE COMMISSION  
 Washington, D.C. 20549  
**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2009

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

| Commission File No. | Exact Name of Registrants as Specified in their Charters, Address and Telephone Number                      | States of Incorporation | I.R.S. Employer Identification Nos. | Former name, former address and former fiscal year, if changed since last report |
|---------------------|---|-------------------------|-------------------------------------|--|
| 1-14201             | SEMPRA ENERGY<br>101 Ash Street<br>San Diego, California 92101<br>(619)696-2034                             | California              | 33-0732627                          | No change  |
| 1-3779              | SAN DIEGO GAS & ELECTRIC COMPANY<br>8326 Century Park Court<br>San Diego, California 92123<br>(619)696-2000 | California              | 95-1184800                          | No change  |
| 1-40                | PACIFIC ENTERPRISES<br>101 Ash Street<br>San Diego, California 92101<br>(619)696-2020                       | California              | 94-0743670                          | No change  |

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|        |   |            |            |           |
|--------|---|------------|------------|-----------|
| 1-1402 | SOUTHERN CALIFORNIA GAS<br>COMPANY<br>555 West Fifth Street<br>Los Angeles, California 90013<br>(213)244-1200 | California | 95-1240705 | No change |
|--------|---|------------|------------|-----------|

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

|     |                                     |    |
|-----|-------------------------------------|----|
| Yes | <input checked="" type="checkbox"/> | No |
|-----|-------------------------------------|----|

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files).

|                                  |     |   |    |
|----------------------------------|-----|---|----|
| Sempra Energy                    | Yes | X | No |
| San Diego Gas & Electric Company | Yes |   | No |
| Pacific Enterprises              | Yes |   | No |
| Southern California Gas Company  | Yes |   | No |

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

|                                  | Large accelerated filer | Accelerated filer | Non-accelerated filer | Smaller reporting company |
|----------------------------------|-------------------------|-------------------|-----------------------|---------------------------|
| Sempra Energy                    | [ X ]                   | [ ]               | [ ]                   | [ ]                       |
| San Diego Gas & Electric Company | [ ]                     | [ ]               | [ X ]                 | [ ]                       |
| Pacific Enterprises              | [ ]                     | [ ]               | [ X ]                 | [ ]                       |
| Southern California Gas Company  | [ ]                     | [ ]               | [ X ]                 | [ ]                       |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

|                                  |     |    |   |
|----------------------------------|-----|----|---|
| Sempra Energy                    | Yes | No | X |
| San Diego Gas & Electric Company | Yes | No | X |
| Pacific Enterprises              | Yes | No | X |
| Southern California Gas Company  | Yes | No | X |

Indicate the number of shares outstanding of each of the issuers' classes of common stock, as of the latest practicable date.

Common stock outstanding on November 5, 2009:

|                                  |   |
|----------------------------------|---|
| Sempra Energy                    | 246,442,856 shares  |
| San Diego Gas & Electric Company | Wholly owned by Enova Corporation, which is wholly owned by Sempra Energy   |
| Pacific Enterprises              | Wholly owned by Sempra Energy   |
| Southern California Gas Company  | Wholly owned by Pacific Enterprises, which is wholly owned by Sempra Energy |



SEMPRA ENERGY FORM 10-Q  
TABLE OF CONTENTS

|   | <i>Page</i> |
|---|-------------|
| <b>Information Regarding Forward-Looking Statements</b>                                       | 4           |
| <br><b>PART I FINANCIAL INFORMATION</b>   |             |
| Item 1. Financial Statements  | 5           |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 71          |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk                            | 97          |
| Item 4. Controls and Procedures   | 98          |
| <br><b>PART II OTHER INFORMATION</b>  |             |
| Item 1. Legal Proceedings   | 99          |
| Item 1A. Risk Factors   | 99          |
| Item 6. Exhibits  | 100         |
| <br>Signatures  | <br>102     |

**This combined Form 10-Q is separately filed by Sempra Energy, San Diego Gas & Electric Company, Pacific Enterprises and Southern California Gas Company. Information contained herein relating to any individual company is filed by such company on its own behalf. Each company provides information only as to itself and its consolidated entities and not as to any other company.**

**You should read this report in its entirety as it pertains to each respective reporting company. No one section of the report deals with all aspects of the subject matter. Separate Part I - Item 1 sections are provided for each reporting company, except for the Notes to Condensed Consolidated Financial Statements. The Notes to Condensed Consolidated Financial Statements for all of the reporting companies are combined. All Items other than Part I - Item 1 are combined for the reporting companies.**

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

We make statements in this report that are not historical fact and constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are necessarily based upon assumptions with respect to the future, involve risks and uncertainties, and are not guarantees of performance. These forward-looking statements represent our estimates and assumptions only as of the date of this report.

In this report, when we use words such as "believes," "expects," "anticipates," "plans," "estimates," "projects," "contemplates," "intends," "depends," "should," "could," "would," "may," "potential," "target," "goals," or similar expressions, or when we discuss our strategy, plans or intentions, we are making forward-looking statements.

Factors, among others, that could cause our actual results and future actions to differ materially from those described in forward-looking statements include

§

local, regional, national and international economic, competitive, political, legislative and regulatory conditions and developments;

§

actions by the California Public Utilities Commission, the California State Legislature, the California Department of Water Resources, the Federal Energy Regulatory Commission, the Federal Reserve Board, and other regulatory and governmental bodies in the United States, the United Kingdom and other countries;

§

capital markets conditions and inflation, interest and exchange rates;

§

energy and trading markets, including the timing and extent of changes and volatility in commodity prices;

§

the availability of electric power, natural gas and liquefied natural gas;

§

weather conditions and conservation efforts;

§

war and terrorist attacks;

§

business, regulatory, environmental and legal decisions and requirements;

§

the status of deregulation of retail natural gas and electricity delivery;

§

the timing and success of business development efforts;

§

the resolution of litigation; and

§

other uncertainties, all of which are difficult to predict and many of which are beyond our control.

We caution you not to rely unduly on any forward-looking statements. You should review and consider carefully the risks, uncertainties and other factors that affect our business as described in this report and other reports that we file with the Securities and Exchange Commission.

## PART I FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

**SEMPRA ENERGY****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS***(Dollars in millions, except per share amounts)*

|  | Three months ended<br>September 30, |          | Nine months ended<br>September 30, |          |
|--|-------------------------------------|----------|------------------------------------|----------|
|  | 2009                                | 2008*    | 2009                               | 2008*    |
|  | (unaudited)                         |          |                                    |          |
| <b>REVENUES</b>  |                                     |          |                                    |          |
| Sempra Utilities                                       | \$ 1,424                            | \$ 2,013 | \$ 4,382                           | \$ 6,190 |
| Sempra Global and parent                               | 429                                 | 679      | 1,268                              | 2,275    |
| Total revenues   | 1,853                               | 2,692    | 5,650                              | 8,465    |
| <b>EXPENSES AND OTHER INCOME</b>                       |                                     |          |                                    |          |
| Sempra Utilities:                                      |                                     |          |                                    |          |
| Cost of natural gas                                    | (208)                               | (689)    | (997)                              | (2,708)  |
| Cost of electric fuel and purchased power              | (208)                               | (311)    | (508)                              | (694)    |
| Sempra Global and parent:                              |                                     |          |                                    |          |
| Cost of natural gas, electric fuel and purchased power | (220)                               | (431)    | (675)                              | (1,353)  |
| Other cost of sales                                    | (19)                                | (15)     | (52)                               | (168)    |
| Operation and maintenance                              | (571)                               | (564)    | (1,676)                            | (1,816)  |
| Depreciation and amortization                          | (196)                               | (162)    | (568)                              | (508)    |
| Franchise fees and other taxes                         | (77)                                | (76)     | (228)                              | (230)    |
| Gains on sale of assets                                | -                                   | -        | 3                                  | 114      |
| Write-off of long-lived assets                         | -                                   | -        | (132)                              | -        |
| Equity earnings (losses):                              |                                     |          |                                    |          |
| RBS Sempra Commodities LLP                             | 105                                 | (4)      | 384                                | 142      |
| Other  | 18                                  | 14       | 27                                 | 29       |
| Other income (expense), net                            | 24                                  | (21)     | 97                                 | 30       |
| Interest income  | 5                                   | 12       | 16                                 | 36       |
| Interest expense                                       | (96)                                | (67)     | (257)                              | (165)    |
| Income before income taxes and equity earnings         |                                     |          |                                    |          |
| of certain unconsolidated subsidiaries                 | 410                                 | 378      | 1,084                              | 1,174    |
| Income tax expense                                     | (128)                               | (94)     | (327)                              | (423)    |
| Equity earnings, net of income tax                     | 20                                  | 18       | 59                                 | 57       |



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|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Net income   | 302     | 302     | 816     | 808     |
| (Earnings) losses attributable to noncontrolling interests         | 17      | 8       | 22      | (7)     |
| Preferred dividends of subsidiaries                                | (2)     | (2)     | (7)     | (7)     |
| Earnings   | \$ 317  | \$ 308  | \$ 831  | \$ 794  |
| Basic earnings per common share                                    | \$ 1.30 | \$ 1.26 | \$ 3.42 | \$ 3.18 |
| Weighted-average number of shares outstanding, basic (thousands)   | 243,925 | 243,793 | 242,806 | 249,311 |
| Diluted earnings per common share                                  | \$ 1.27 | \$ 1.24 | \$ 3.37 | \$ 3.13 |
| Weighted-average number of shares outstanding, diluted (thousands) | 248,461 | 247,904 | 246,875 | 253,407 |
| Dividends declared per share of common stock                       | \$ 0.39 | \$ 0.35 | \$ 1.17 | \$ 1.02 |

\* As adjusted for the retrospective adoption of ASC 810 (SFAS 160).

See Notes to Condensed Consolidated Financial Statements.



**SEMPRA ENERGY**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Dollars in millions)

|  | September 30,<br>2009 | December 31,<br>2008 |
|--|-----------------------|----------------------|
|  | (unaudited)           |                      |
| <b>ASSETS</b>  |                       |                      |
| Current assets:  |                       |                      |
| Cash and cash equivalents  | \$ 756                | \$ 331               |
| Short-term investments   | -                     | 176                  |
| Restricted cash  | 27                    | 27                   |
| Trade accounts receivable, net   | 618                   | 903                  |
| Other accounts and notes receivable, net   | 126                   | 78                   |
| Due from unconsolidated affiliates   | 19                    | 4                    |
| Income taxes receivable  | 139                   | 195                  |
| Deferred income taxes  | 117                   | 31                   |
| Inventories  | 296                   | 320                  |
| Regulatory assets  | 48                    | 121                  |
| Fixed-price contracts and other derivatives  | 111                   | 160                  |
| Insurance receivable related to wildfire litigation<br>(Note 10)                       | 266                   | -                    |
| Other  | 173                   | 130                  |
| Total current assets   | 2,696                 | 2,476                |
| Investments and other assets:  |                       |                      |
| Regulatory assets arising from fixed-price contracts<br>and other derivatives          | 232                   | 264                  |
| Regulatory assets arising from pension and other<br>postretirement benefit obligations | 1,218                 | 1,188                |
| Other regulatory assets  | 568                   | 534                  |
| Nuclear decommissioning trusts   | 664                   | 577                  |
| Investment in RBS Sempra Commodities LLP   | 2,094                 | 2,082                |
| Other investments  | 2,019                 | 1,166                |
| Goodwill and other intangible assets   | 527                   | 539                  |
| Sundry   | 605                   | 709                  |
| Total investments and other assets   | 7,927                 | 7,059                |
| Property, plant and equipment:   |                       |                      |
| Property, plant and equipment  | 24,379                | 23,153               |

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|  |           |           |
|--|-----------|-----------|
| Less accumulated depreciation and amortization | (6,607)   | (6,288)   |
| Property, plant and equipment, net             | 17,772    | 16,865    |
| Total assets                                   | \$ 28,395 | \$ 26,400 |

*See Notes to Condensed Consolidated Financial Statements.*

**SEMPRA ENERGY**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Dollars in millions)

|  | September 30,<br>2009 | December 31,<br>2008* |
|--|-----------------------|-----------------------|
|  |                       | (unaudited)           |
| <b>LIABILITIES AND EQUITY</b>  |                       |                       |
| <b>Current liabilities:</b>  |                       |                       |
| Short-term debt  | \$ 851                | \$ 503                |
| Accounts payable - trade   | 436                   | 606                   |
| Accounts payable - other   | 145                   | 250                   |
| Due to unconsolidated affiliates   | 16                    | 38                    |
| Dividends and interest payable   | 209                   | 156                   |
| Accrued compensation and benefits  | 221                   | 280                   |
| Regulatory balancing accounts, net                                       | 605                   | 335                   |
| Current portion of long-term debt  | 622                   | 410                   |
| Fixed-price contracts and other derivatives                              | 99                    | 180                   |
| Customer deposits  | 145                   | 170                   |
| Reserve for wildfire litigation (Note 10)                                | 289                   | -                     |
| Other  | 672                   | 684                   |
| Total current liabilities  | 4,310                 | 3,612                 |
| Long-term debt   | 6,845                 | 6,544                 |
| <b>Deferred credits and other liabilities:</b>                           |                       |                       |
| Due to unconsolidated affiliate  | 102                   | 102                   |
| Customer advances for construction                                       | 144                   | 155                   |
| Pension and other postretirement benefit obligations, net of plan assets | 1,518                 | 1,487                 |
| Deferred income taxes  | 1,278                 | 946                   |
| Deferred investment tax credits  | 54                    | 57                    |
| Regulatory liabilities arising from removal obligations                  | 2,546                 | 2,430                 |
| Asset retirement obligations   | 1,212                 | 1,159                 |
| Other regulatory liabilities   | 202                   | 219                   |
| Fixed-price contracts and other derivatives                              | 348                   | 392                   |
| Deferred credits and other   | 774                   | 909                   |
| Total deferred credits and other liabilities                             | 8,178                 | 7,856                 |
| Preferred stock of subsidiary  | 79                    | 79                    |
| Commitments and contingencies (Note 10)                                  |                       |                       |

## Equity:

|  |           |           |
|--|-----------|-----------|
| Preferred stock (50 million shares authorized; none issued)  | -         | -         |
| Common stock (750 million shares authorized; 246 million and 243 million shares outstanding at September 30, 2009 and December 31, 2008, respectively; no par value) | 2,381     | 2,265     |
| Retained earnings  | 6,779     | 6,235     |
| Deferred compensation  | (14)      | (18)      |
| Accumulated other comprehensive income (loss)  | (401)     | (513)     |
| Total Sempra Energy shareholders' equity   | 8,745     | 7,969     |
| Preferred stock of subsidiaries  | 100       | 100       |
| Other noncontrolling interests   | 138       | 240       |
| Total equity   | 8,983     | 8,309     |
| Total liabilities and equity   | \$ 28,395 | \$ 26,400 |

\* As adjusted for the retrospective adoption of ASC 810 (SFAS 160).

See Notes to Condensed Consolidated Financial Statements.



**SEMPRA ENERGY****CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS***(Dollars in millions)*

|   | 2009 | Nine months ended<br>September 30,<br>(unaudited) | 2008*   |
|---|------|---|---------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |      |   |         |
| Net income  | \$   | 816 \$  | 808     |
| Adjustments to reconcile net income to net cash provided by operating activities: |      |   |         |
| Depreciation and amortization   |      | 568   | 508     |
| Deferred income taxes and investment tax credits                                  |      | 181   | 165     |
| Equity earnings   |      | (470)   | (228)   |
| Gains on sale of assets   |      | (3)   | (114)   |
| Write-off of long-lived assets  |      | 132   | -       |
| Fixed-price contracts and other derivatives                                       |      | (27)  | -       |
| Other   |      | 45  | 76      |
| Net change in other working capital components                                    |      | 220   | (408)   |
| Distributions from RBS Sempra Commodities LLP                                     |      | 407   | 56      |
| Changes in other assets   |      | 81  | (3)     |
| Changes in other liabilities  |      | (66)  | (55)    |
| Net cash provided by operating activities   |      | 1,884   | 805     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |      |   |         |
| Expenditures for property, plant and equipment                                    |      | (1,371)   | (1,541) |
| Proceeds from sale of assets, net of cash sold                                    |      | 179   | 2,071   |
| Expenditures for investments  |      | (762)   | (2,180) |
| Distributions from investments  |      | 16  | 23      |
| Purchases of nuclear decommissioning and other trust assets                       |      | (167)   | (361)   |
| Proceeds from sales by nuclear decommissioning and other trusts                   |      | 155   | 350     |
| Decrease in notes receivable from unconsolidated affiliate                        |      | -   | 60      |
| Other   |      | (20)  | (18)    |
| Net cash used in investing activities   |      | (1,970)   | (1,596) |



## CASH FLOWS FROM FINANCING ACTIVITIES

|  |        |         |
|--|--------|---------|
| Common dividends paid                            | (255)  | (252)   |
| Preferred dividends paid by subsidiaries         | (7)    | (7)     |
| Issuances of common stock                        | 52     | 17      |
| Repurchases of common stock                      | -      | (1,002) |
| (Decrease) increase in short-term debt, net      | (52)   | 985     |
| Issuances of long-term debt                      | 1,181  | 650     |
| Payments on long-term debt                       | (325)  | (75)    |
| Purchase of noncontrolling interest              | (94)   | -       |
| Other  | 11     | 5       |
| Net cash provided by financing activities        | 511    | 321     |
| Increase (decrease) in cash and cash equivalents | 425    | (470)   |
| Cash and cash equivalents, January 1             | 331    | 668     |
| Cash and cash equivalents, September 30          | \$ 756 | \$ 198  |

\* As adjusted for the retrospective adoption of ASC 810 (SFAS 160).

See Notes to Condensed Consolidated Financial Statements.



**SEMPRA ENERGY****CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS***(Dollars in millions)*

|  |    | 2009 | Nine months ended<br>September 30,<br>(unaudited) | 2008 |
|--|----|------|---|------|
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>                        |    |      |   |      |
| Interest payments, net of amounts capitalized                                  | \$ |      | 201 \$  | 142  |
| Income tax payments, net   | \$ |      | 98 \$   | 120  |
| <b>SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES</b>                           |    |      |   |      |
| Decrease in accounts payable from investments in property, plant and equipment | \$ |      | (114) \$  | (41) |
| Dividends declared but not paid  | \$ |      | 99 \$   | 89   |

*See Notes to Condensed Consolidated Financial Statements.*

**SAN DIEGO GAS & ELECTRIC COMPANY AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

*(Dollars in millions)*

|  | Three months ended September 30, |        | Nine months ended September 30, |          |
|--|----------------------------------|--------|---------------------------------|----------|
|  | 2009                             | 2008*  | 2009                            | 2008*    |
|  | (unaudited)                      |        |                                 |          |
| Operating revenues   |                                  |        |                                 |          |
| Electric   | \$ 695                           | \$ 817 | \$ 1,783                        | \$ 1,901 |
| Natural gas  | 78                               | 132    | 353                             | 548      |
| Total operating revenues                                   | 773                              | 949    | 2,136                           | 2,449    |
| Operating expenses   |                                  |        |                                 |          |
| Cost of electric fuel and purchased power                  | 208                              | 311    | 508                             | 694      |
| Cost of natural gas  | 30                               | 84     | 154                             | 349      |
| Operation and maintenance                                  | 234                              | 222    | 655                             | 595      |
| Depreciation and amortization                              | 81                               | 68     | 239                             | 223      |
| Franchise fees and other taxes                             | 46                               | 43     | 126                             | 117      |
| Litigation expense   | 2                                | 29     | (6)                             | 38       |
| Total operating expenses                                   | 601                              | 757    | 1,676                           | 2,016    |
| Operating income   | 172                              | 192    | 460                             | 433      |
| Other income, net  | 1                                | 3      | 45                              | 26       |
| Interest income  | 1                                | 1      | 1                               | 5        |
| Interest expense   | (29)                             | (24)   | (75)                            | (73)     |
| Income before income taxes                                 | 145                              | 172    | 431                             | 391      |
| Income tax expense   | (53)                             | (54)   | (141)                           | (121)    |
| Net income   | 92                               | 118    | 290                             | 270      |
| (Earnings) losses attributable to noncontrolling interests | 18                               | 7      | (9)                             | (8)      |
| Earnings   | 110                              | 125    | 281                             | 262      |
| Preferred dividend requirements                            | (2)                              | (2)    | (4)                             | (4)      |
| Earnings attributable to common shares                     | \$ 108                           | \$ 123 | \$ 277                          | \$ 258   |

\* As adjusted for the retrospective adoption of ASC 810 (SFAS 160).

See Notes to Condensed Consolidated Financial Statements.



**SAN DIEGO GAS & ELECTRIC COMPANY AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

*(Dollars in millions)*

|  | September 30,<br>2009 | December 31,<br>2008 |
|--|-----------------------|----------------------|
|  | (unaudited)           |                      |
| <b>ASSETS</b>  |                       |                      |
| Current assets:  |                       |                      |
| Cash and cash equivalents  | \$ 291                | \$ 19                |
| Short-term investments   | -                     | 24                   |
| Accounts receivable - trade  | 275                   | 225                  |
| Accounts receivable - other  | 66                    | 30                   |
| Due from unconsolidated affiliates   | 5                     | 29                   |
| Income taxes receivable  | 51                    | 22                   |
| Deferred income taxes  | 42                    | 17                   |
| Inventories  | 67                    | 62                   |
| Regulatory assets arising from fixed-price contracts<br>and other derivatives          | 32                    | 94                   |
| Other regulatory assets  | 5                     | 8                    |
| Fixed-price contracts and other derivatives  | 61                    | 39                   |
| Insurance receivable related to wildfire litigation<br>(Note 10)                       | 266                   | -                    |
| Other  | 49                    | 15                   |
| Total current assets   | 1,210                 | 584                  |
| Other assets:  |                       |                      |
| Due from unconsolidated affiliate  | 3                     | 4                    |
| Deferred taxes recoverable in rates  | 399                   | 369                  |
| Regulatory assets arising from fixed-price contracts<br>and other derivatives          | 232                   | 264                  |
| Regulatory assets arising from pension and other<br>postretirement benefit obligations | 393                   | 393                  |
| Other regulatory assets  | 55                    | 59                   |
| Nuclear decommissioning trusts   | 664                   | 577                  |
| Sundry   | 56                    | 154                  |
| Total other assets   | 1,802                 | 1,820                |
| Property, plant and equipment:   |                       |                      |
| Property, plant and equipment  | 9,797                 | 9,095                |

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|  |           |          |
|--|-----------|----------|
| Less accumulated depreciation and amortization | (2,535)   | (2,420)  |
| Property, plant and equipment, net             | 7,262     | 6,675    |
| Total assets                                   | \$ 10,274 | \$ 9,079 |

*See Notes to Condensed Consolidated Financial Statements.*

**SAN DIEGO GAS & ELECTRIC COMPANY AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Dollars in millions)

|  | September 30,<br>2009 | December 31,<br>2008* |
|--|-----------------------|-----------------------|
|  | (unaudited)           |                       |
| <b>LIABILITIES AND EQUITY</b>  |                       |                       |
| <b>Current liabilities:</b>  |                       |                       |
| Accounts payable   | \$ 250                | \$ 261                |
| Due to unconsolidated affiliates   | 9                     | 1                     |
| Regulatory balancing accounts, net   | 321                   | 114                   |
| Customer deposits  | 54                    | 53                    |
| Fixed-price contracts and other derivatives  | 53                    | 77                    |
| Accrued compensation and benefits  | 84                    | 105                   |
| Current portion of long-term debt  | 10                    | 2                     |
| Reserve for wildfire litigation (Note 10)  | 289                   | -                     |
| Other  | 201                   | 163                   |
| Total current liabilities  | 1,271                 | 776                   |
| Long-term debt   | 2,587                 | 2,142                 |
| <b>Deferred credits and other liabilities:</b>   |                       |                       |
| Customer advances for construction   | 21                    | 26                    |
| Pension and other postretirement benefit obligations,<br>net of plan assets                      | 419                   | 419                   |
| Deferred income taxes  | 721                   | 628                   |
| Deferred investment tax credits  | 25                    | 26                    |
| Regulatory liabilities arising from removal<br>obligations                                       | 1,308                 | 1,212                 |
| Asset retirement obligations   | 575                   | 550                   |
| Fixed-price contracts and other derivatives  | 287                   | 347                   |
| Deferred credits and other   | 168                   | 204                   |
| Total deferred credits and other liabilities   | 3,524                 | 3,412                 |
| Contingently redeemable preferred stock  | 79                    | 79                    |
| <b>Commitments and contingencies (Note 10)</b>   |                       |                       |
| <b>Equity:</b>   |                       |                       |
| Common stock (255 million shares authorized; 117<br>million shares outstanding;<br>no par value) | 1,138                 | 1,138                 |



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|   |           |          |
|---|-----------|----------|
| Retained earnings                             | 1,544     | 1,417    |
| Accumulated other comprehensive income (loss) | (10)      | (13)     |
| Total SDG&E shareholders' equity              | 2,672     | 2,542    |
| Noncontrolling interests                      | 141       | 128      |
| Total equity                                  | 2,813     | 2,670    |
| Total liabilities and equity                  | \$ 10,274 | \$ 9,079 |

*\* As adjusted for the retrospective adoption of ASC 810 (SFAS 160).*

*See Notes to Condensed Consolidated Financial Statements.*

**SAN DIEGO GAS & ELECTRIC COMPANY AND SUBSIDIARY  
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS**

*(Dollars in millions)*

|   | 2009 | Nine months ended<br>September 30,<br>(unaudited) | 2008* |
|---|------|---|-------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b> |      |   |       |
| Net income                                  | \$   | 290 \$  | 270   |

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Adjustments to reconcile net income to net cash provided by

|  |      |      |
|--|------|------|
| operating activities:                            |      |      |
| Depreciation and amortization                    | 239  | 223  |
| Deferred income taxes and investment tax credits | 35   | 77   |
| Fixed-price contracts and other derivatives      | (28) | (7)  |
| Other  | (14) | (4)  |
| Net change in other working capital components   | 115  | (41) |
| Changes in other assets                          | 20   | (7)  |
| Changes in other liabilities                     | (38) | 3    |
| Net cash provided by operating activities        | 619  | 514  |

CASH FLOWS FROM INVESTING ACTIVITIES

|   |       |       |
|---|-------|-------|
| Expenditures for property, plant and equipment        | (633) | (638) |
| Expenditures for short-term investments               | (152) | (304) |
| Proceeds from sale of short-term investments          | 176   | 236   |
| Purchases of nuclear decommissioning trust assets     | (161) | (347) |
| Proceeds from sales by nuclear decommissioning trusts | 155   | 348   |
| Decrease (increase) in loans to affiliates, net       | 33    | (6)   |
| Other   | 2     | 1     |
| Net cash used in investing activities                 | (580) | (710) |

CASH FLOWS FROM FINANCING ACTIVITIES

|  |       |      |
|--|-------|------|
| Common dividends paid                          | (150) | -    |
| Capital contribution received by Otay Mesa VIE | 4     | 9    |
| Preferred dividends paid                       | (4)   | (4)  |
| Redemptions of preferred stock                 | -     | (14) |
| Issuances of long-term debt                    | 386   | 138  |
| Other  | (3)   | (1)  |
| Net cash provided by financing activities      | 233   | 128  |

|  |        |       |
|--|--------|-------|
| Increase (decrease) in cash and cash equivalents | 272    | (68)  |
| Cash and cash equivalents, January 1             | 19     | 158   |
| Cash and cash equivalents, September 30          | \$ 291 | \$ 90 |

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

|   |        |         |
|---|--------|---------|
| Interest payments, net of amounts capitalized | \$ 51  | \$ 59   |
| Income tax payments (refunds), net            | \$ 144 | \$ (54) |

SUPPLEMENTAL DISCLOSURE OF NONCASH  
ACTIVITIES

|  |    |         |      |
|--|----|---------|------|
| Decrease in accounts payable from investments in property, plant and equipment | \$ | (58) \$ | (11) |
| Dividends declared but not paid  | \$ | 1 \$    | 1    |

\* As adjusted for the retrospective adoption of ASC 810 (SFAS 160).

See Notes to Condensed Consolidated Financial Statements.

**PACIFIC ENTERPRISES AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

*(Dollars in millions)*

|  | Three months ended September 30, |          | Nine months ended September 30, |          |
|--|----------------------------------|----------|---------------------------------|----------|
|  | 2009                             | 2008*    | 2009                            | 2008*    |
|  | (unaudited)                      |          |                                 |          |
| Operating revenues                     | \$ 662                           | \$ 1,077 | \$ 2,276                        | \$ 3,776 |
| Operating expenses                     |                                  |          |                                 |          |
| Cost of natural gas                    | 180                              | 609      | 849                             | 2,369    |
| Operation and maintenance              | 249                              | 241      | 766                             | 756      |
| Depreciation                           | 73                               | 67       | 220                             | 209      |
| Franchise fees and other taxes         | 25                               | 29       | 81                              | 100      |
| Total operating expenses               | 527                              | 946      | 1,916                           | 3,434    |
| Operating income                       | 135                              | 131      | 360                             | 342      |
| Other income (expense), net            | (4)                              | 1        | 1                               | 2        |
| Interest income                        | -                                | 5        | 3                               | 18       |
| Interest expense                       | (17)                             | (15)     | (52)                            | (47)     |
| Income before income taxes             | 114                              | 122      | 312                             | 315      |
| Income tax expense                     | (41)                             | (42)     | (117)                           | (119)    |
| Net income                             | 73                               | 80       | 195                             | 196      |
| Preferred dividends of subsidiary      | -                                | -        | (1)                             | (1)      |
| Earnings                               | 73                               | 80       | 194                             | 195      |
| Preferred dividend requirements        | (1)                              | (1)      | (3)                             | (3)      |
| Earnings attributable to common shares | \$ 72                            | \$ 79    | \$ 191                          | \$ 192   |

\* As adjusted for the retrospective adoption of ASC 810 (SFAS 160).

See Notes to Condensed Consolidated Financial Statements.



**PACIFIC ENTERPRISES AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Dollars in millions)

|  | September 30,<br>2009 | December 31,<br>2008 |
|--|-----------------------|----------------------|
|  | (unaudited)           |                      |
| <b>ASSETS</b>  |                       |                      |
| Current assets:  |                       |                      |
| Cash and cash equivalents  | \$ 418                | \$ 206               |
| Accounts receivable - trade  | 252                   | 572                  |
| Accounts receivable - other  | 29                    | 20                   |
| Due from unconsolidated affiliates                                 | 5                     | 5                    |
| Income taxes receivable  | -                     | 108                  |
| Deferred income taxes  | 9                     | -                    |
| Inventories  | 189                   | 167                  |
| Other regulatory assets  | 11                    | 18                   |
| Other  | 39                    | 37                   |
| Total current assets   | 952                   | 1,133                |
| Other assets:  |                       |                      |
| Due from unconsolidated affiliate                                  | 514                   | 457                  |
| Regulatory assets arising from pension and other<br>postretirement |                       |                      |
| benefit obligations  | 825                   | 795                  |
| Other regulatory assets  | 114                   | 105                  |
| Sundry   | 42                    | 49                   |
| Total other assets   | 1,495                 | 1,406                |
| Property, plant and equipment:                                     |                       |                      |
| Property, plant and equipment                                      | 9,083                 | 8,816                |
| Less accumulated depreciation and amortization                     | (3,557)               | (3,448)              |
| Property, plant and equipment, net                                 | 5,526                 | 5,368                |
| Total assets   | \$ 7,973              | \$ 7,907             |

See Notes to Condensed Consolidated Financial Statements.





**PACIFIC ENTERPRISES AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

*(Dollars in millions)*

|   | September 30,<br>2009 | December 31,<br>2008* |
|---|-----------------------|-----------------------|
|   | (unaudited)           |                       |
| <b>LIABILITIES AND EQUITY</b>   |                       |                       |
| <b>Current liabilities:</b>   |                       |                       |
| Accounts payable - trade  | \$ 121                | \$ 257                |
| Accounts payable - other  | 105                   | 163                   |
| Due to unconsolidated affiliates  | 100                   | 106                   |
| Income taxes payable  | 2                     | -                     |
| Deferred income taxes   | -                     | 6                     |
| Regulatory balancing accounts, net  | 284                   | 221                   |
| Customer deposits   | 89                    | 114                   |
| Accrued compensation and benefits   | 81                    | 92                    |
| Current portion of long-term debt   | 101                   | 100                   |
| Other   | 175                   | 213                   |
| Total current liabilities   | 1,058                 | 1,272                 |
| Long-term debt  | 1,269                 | 1,270                 |
| <b>Deferred credits and other liabilities:</b>  |                       |                       |
| Customer advances for construction  | 123                   | 131                   |
| Pension and other postretirement benefit obligations, net of plan assets                  | 850                   | 823                   |
| Deferred income taxes   | 218                   | 157                   |
| Deferred investment tax credits   | 28                    | 30                    |
| Regulatory liabilities arising from removal obligations                                   | 1,238                 | 1,218                 |
| Asset retirement obligations  | 607                   | 581                   |
| Deferred taxes refundable in rates  | 196                   | 214                   |
| Deferred credits and other  | 233                   | 251                   |
| Total deferred credits and other liabilities  | 3,493                 | 3,405                 |
| <b>Commitments and contingencies (Note 10)</b>  |                       |                       |
| <b>Equity:</b>  |                       |                       |
| Preferred stock   | 80                    | 80                    |
| Common stock (600 million shares authorized; 84 million shares outstanding; no par value) | 1,462                 | 1,462                 |

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|  |          |          |
|--|----------|----------|
| Retained earnings                              | 617      | 426      |
| Accumulated other comprehensive income (loss)  | (26)     | (28)     |
| Total Pacific Enterprises shareholders' equity | 2,133    | 1,940    |
| Preferred stock of subsidiary                  | 20       | 20       |
| Total equity                                   | 2,153    | 1,960    |
| Total liabilities and equity                   | \$ 7,973 | \$ 7,907 |

\* As adjusted for the retrospective adoption of ASC 810 (SFAS 160).

See Notes to Condensed Consolidated Financial Statements.

**PACIFIC ENTERPRISES AND SUBSIDIARIES**  
**CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS**

*(Dollars in millions)*

|   | Nine months ended September 30, |        |
|---|---------------------------------|--------|
|   | 2009                            | 2008*  |
|   | (unaudited)                     |        |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |                                 |        |
| Net income  | \$ 195                          | \$ 196 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |        |
| Depreciation  | 220                             | 209    |
| Deferred income taxes and investment tax credits                                  | 24                              | 74     |
| Other   | 2                               | (2)    |
| Net change in other working capital components                                    | 129                             | (134)  |
| Changes in other assets   | 8                               | 25     |
| Changes in other liabilities  | (33)                            | (63)   |
| Net cash provided by operating activities   | 545                             | 305    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                                 |        |
| Expenditures for property, plant and equipment                                    | (336)                           | (350)  |
| Decrease in loans to affiliates, net  | 8                               | 132    |
| Other   | (1)                             | -      |
| Net cash used in investing activities   | (329)                           | (218)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |                                 |        |
| Common dividends paid   | -                               | (200)  |
| Preferred dividends paid  | (3)                             | (3)    |
| Preferred dividends paid by subsidiary  | (1)                             | (1)    |
| Increase in short-term debt, net  | -                               | 96     |
| Net cash used in financing activities   | (4)                             | (108)  |
| Increase (decrease) in cash and cash equivalents                                  | 212                             | (21)   |
| Cash and cash equivalents, January 1  | 206                             | 59     |
| Cash and cash equivalents, September 30   | \$ 418                          | \$ 38  |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>                           |                                 |        |
| Interest payments, net of amounts capitalized                                     | \$ 40                           | \$ 37  |

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|                          |    |    |    |     |
|--------------------------|----|----|----|-----|
| Income tax payments, net | \$ | 54 | \$ | 113 |
|--------------------------|----|----|----|-----|

SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES

|  |    |      |    |      |
|--|----|------|----|------|
| Decrease in accounts payable from investments in property, plant and equipment | \$ | (10) | \$ | (30) |
|--|----|------|----|------|

|                                 |    |   |    |   |
|---------------------------------|----|---|----|---|
| Dividends declared but not paid | \$ | 1 | \$ | 1 |
|---------------------------------|----|---|----|---|

\* As adjusted for the retrospective adoption of ASC 810 (SFAS 160).

See Notes to Condensed Consolidated Financial Statements.

**SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

*(Dollars in millions)*

|  | Three months ended September 30, |          | Nine months ended September 30, |          |
|--|----------------------------------|----------|---------------------------------|----------|
|  | 2009                             | 2008     | 2009                            | 2008     |
|  | (unaudited)                      |          |                                 |          |
| Operating revenues                     | \$ 662                           | \$ 1,077 | \$ 2,276                        | \$ 3,776 |
| Operating expenses                     |                                  |          |                                 |          |
| Cost of natural gas                    | 180                              | 609      | 849                             | 2,369    |
| Operation and maintenance              | 252                              | 241      | 768                             | 756      |
| Depreciation                           | 73                               | 67       | 220                             | 209      |
| Franchise fees and other taxes         | 25                               | 29       | 81                              | 100      |
| Total operating expenses               | 530                              | 946      | 1,918                           | 3,434    |
| Operating income                       | 132                              | 131      | 358                             | 342      |
| Other income (expense), net            | (1)                              | (1)      | 4                               | 1        |
| Interest income                        | 1                                | 2        | 3                               | 9        |
| Interest expense                       | (16)                             | (14)     | (51)                            | (44)     |
| Income before income taxes             | 116                              | 118      | 314                             | 308      |
| Income tax expense                     | (42)                             | (41)     | (115)                           | (117)    |
| Net income                             | 74                               | 77       | 199                             | 191      |
| Preferred dividend requirements        | -                                | -        | (1)                             | (1)      |
| Earnings attributable to common shares | \$ 74                            | \$ 77    | \$ 198                          | \$ 190   |

*See Notes to Condensed Consolidated Financial Statements.*



**SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Dollars in millions)

|  | September 30,<br>2009<br>(unaudited) | December 31,<br>2008 |
|--|--------------------------------------|----------------------|
| <b>ASSETS</b>  |                                      |                      |
| Current assets:  |                                      |                      |
| Cash and cash equivalents  | \$ 418                               | \$ 206               |
| Accounts receivable - trade  | 252                                  | 572                  |
| Accounts receivable - other  | 27                                   | 20                   |
| Income taxes receivable  | -                                    | 41                   |
| Deferred income taxes  | 9                                    | -                    |
| Inventories  | 189                                  | 167                  |
| Other regulatory assets  | 11                                   | 18                   |
| Other  | 39                                   | 37                   |
| Total current assets   | 945                                  | 1,061                |
| Other assets:  |                                      |                      |
| Regulatory assets arising from pension and other<br>postretirement |                                      |                      |
| benefit obligations  | 825                                  | 795                  |
| Other regulatory assets  | 114                                  | 105                  |
| Sundry   | 15                                   | 24                   |
| Total other assets   | 954                                  | 924                  |
| Property, plant and equipment:                                     |                                      |                      |
| Property, plant and equipment                                      | 9,081                                | 8,814                |
| Less accumulated depreciation and amortization                     | (3,557)                              | (3,448)              |
| Property, plant and equipment, net                                 | 5,524                                | 5,366                |
| Total assets   | \$ 7,423                             | \$ 7,351             |

See Notes to Condensed Consolidated Financial Statements.





**SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Dollars in millions)

|   | September 30,<br>2009<br>(unaudited) | December 31,<br>2008 |
|---|--------------------------------------|----------------------|
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                                      |                      |
| Current liabilities:  |                                      |                      |
| Accounts payable - trade  | \$ 121                               | \$ 257               |
| Accounts payable - other  | 102                                  | 163                  |
| Due to unconsolidated affiliates  | 13                                   | 23                   |
| Income taxes payable  | 4                                    | -                    |
| Deferred income taxes   | -                                    | 6                    |
| Regulatory balancing accounts, net  | 284                                  | 221                  |
| Customer deposits   | 89                                   | 114                  |
| Accrued compensation and benefits   | 81                                   | 92                   |
| Current portion of long-term debt   | 101                                  | 100                  |
| Other   | 175                                  | 211                  |
| Total current liabilities   | 970                                  | 1,187                |
| Long-term debt  | 1,269                                | 1,270                |
| Deferred credits and other liabilities:   |                                      |                      |
| Customer advances for construction  | 123                                  | 131                  |
| Pension and other postretirement benefit obligations,<br>net of plan assets                     | 850                                  | 823                  |
| Deferred income taxes   | 226                                  | 167                  |
| Deferred investment tax credits   | 28                                   | 30                   |
| Regulatory liabilities arising from removal<br>obligations                                      | 1,238                                | 1,218                |
| Asset retirement obligations  | 607                                  | 581                  |
| Deferred taxes refundable in rates  | 196                                  | 214                  |
| Deferred credits and other  | 226                                  | 240                  |
| Total deferred credits and other liabilities  | 3,494                                | 3,404                |
| Commitments and contingencies (Note 10)   |                                      |                      |
| Shareholders' equity:   |                                      |                      |
| Preferred stock   | 22                                   | 22                   |
| Common stock (100 million shares authorized; 91<br>million shares outstanding;<br>no par value) | 866                                  | 866                  |

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|   |    |       |    |       |
|---|----|-------|----|-------|
| Retained earnings                             |    | 828   |    | 630   |
| Accumulated other comprehensive income (loss) |    | (26)  |    | (28)  |
| Total shareholders' equity                    |    | 1,690 |    | 1,490 |
| Total liabilities and shareholders' equity    | \$ | 7,423 | \$ | 7,351 |

*See Notes to Condensed Consolidated Financial Statements.*

**SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARIES**  
**CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS**

*(Dollars in millions)*

|   |    | Nine months ended September 30, |       |
|---|----|---------------------------------|-------|
|   |    | 2009                            | 2008  |
|   |    | (unaudited)                     |       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |    |                                 |       |
| Net income  | \$ | 199 \$                          | 191   |
| Adjustments to reconcile net income to net cash provided by operating activities: |    |                                 |       |
| Depreciation  |    | 220                             | 209   |
| Deferred income taxes and investment tax credits                                  |    | 22                              | 71    |
| Other   |    | 6                               | 1     |
| Net change in other working capital components                                    |    | 125                             | (135) |
| Changes in other assets   |    | 4                               | 21    |
| Changes in other liabilities  |    | (27)                            | (60)  |
| Net cash provided by operating activities   |    | 549                             | 298   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |    |                                 |       |
| Expenditures for property, plant and equipment                                    |    | (336)                           | (350) |
| Decrease in loans to affiliates, net  |    | -                               | 136   |
| Net cash used in investing activities   |    | (336)                           | (214) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |    |                                 |       |
| Common dividends paid   |    | -                               | (200) |
| Preferred dividends paid  |    | (1)                             | (1)   |
| Increase in short-term debt, net  |    | -                               | 96    |
| Net cash used in financing activities   |    | (1)                             | (105) |
| Increase (decrease) in cash and cash equivalents                                  |    | 212                             | (21)  |
| Cash and cash equivalents, January 1  |    | 206                             | 59    |
| Cash and cash equivalents, September 30   | \$ | 418 \$                          | 38    |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>                           |    |                                 |       |
| Interest payments, net of amounts capitalized                                     | \$ | 40 \$                           | 35    |
| Income tax payments, net  | \$ | 54 \$                           | 113   |

SUPPLEMENTAL DISCLOSURE OF NONCASH  
ACTIVITIES

|   |    |      |    |      |
|---|----|------|----|------|
| Decrease in accounts payable from investments in<br>property, plant and equipment | \$ | (10) | \$ | (30) |
|---|----|------|----|------|

*See Notes to Condensed Consolidated Financial Statements.*

SEMPRA ENERGY AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. GENERAL

**PRINCIPLES OF CONSOLIDATION**

*Sempra Energy*

Sempra Energy's Condensed Consolidated Financial Statements include the accounts of Sempra Energy, a California-based Fortune 500 holding company, its consolidated subsidiaries, and variable interest entities. Sempra Energy's principal subsidiaries are:

§

San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas), which we collectively refer to as the Sempra Utilities; and

§

Sempra Global, which is the holding company for Sempra Commodities, Sempra Generation, Sempra Pipelines & Storage, Sempra LNG and other, smaller businesses.

Sempra Energy uses the equity method to account for investments in affiliated companies over which we have the ability to exercise significant influence, but not control.

*SDG&E*

SDG&E's Condensed Consolidated Financial Statements include its accounts, the accounts of its sole subsidiary, SDG&E Funding LLC, and the accounts of Otay Mesa Energy Center LLC (Otay Mesa VIE) and Orange Grove L.P., which are variable interest entities of which SDG&E is the primary beneficiary, as discussed in Note 5 under "Variable Interest Entities." SDG&E's common stock is wholly owned by Enova Corporation, which is a wholly owned subsidiary of Sempra Energy. The activities of SDG&E Funding LLC were substantially complete in 2007, and the entity was dissolved in 2008.

*Pacific Enterprises and SoCalGas*

The Condensed Consolidated Financial Statements of Pacific Enterprises include the accounts of Pacific Enterprises (PE) and its subsidiary, SoCalGas. Sempra Energy owns all of PE's common stock and PE owns all of SoCalGas common stock. SoCalGas's Condensed Consolidated Financial Statements include its subsidiaries, which comprise less than one percent of its consolidated financial position and results of operations.

PE's operations consist solely of those of SoCalGas and additional items (e.g., cash, intercompany accounts and equity) attributable to being a holding company for SoCalGas.

**BASIS OF PRESENTATION**

This is a combined report of Sempra Energy, SDG&E, PE and SoCalGas. We provide separate information for SDG&E, PE and SoCalGas as required. When only information for SoCalGas is provided, it is the same for PE.

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References in this report to "we," "our" and "Sempra Energy Consolidated" are to Sempra Energy and its consolidated entities, unless otherwise indicated by the context. We have eliminated intercompany accounts and transactions within each set of consolidated financial statements.

We have prepared the Condensed Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America (GAAP) and in accordance with the interim-period-reporting requirements of Form 10-Q. Results of operations for interim periods are not necessarily indicative of results for the entire year. We evaluated events and transactions that occurred after September 30, 2009 but before the issuance of these financial statements on November 9, 2009, and in the opinion of management, the accompanying statements

reflect all adjustments necessary for a fair presentation. These adjustments are only of a normal, recurring nature, except as we discuss below in "Presentation of Preferred Securities" and in Note 2.

You should read the information in this Quarterly Report in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2008 (the Annual Report) and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2009 and June 30, 2009, which are combined reports for Sempra Energy, SDG&E, PE and SoCalGas.

Our significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report. We follow the same accounting policies for interim reporting purposes, except for the adoption of new accounting standards as we discuss in Note 2.

The Sempra Utilities account for the economic effects of regulation on utility operations in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 980, *Regulated Operations* (formerly Statement of Financial Accounting Standards (SFAS) 71, *Accounting for the Effects of Certain Types of Regulation*).

### ***Presentation of Preferred Securities***

In connection with the adoption of SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51* (ASC 810), as we discuss in Note 2, we evaluated the requirements of Emerging Issues Task Force (EITF) Topic No. 98, *Classification and Measurement of Redeemable Securities* (Topic D-98) (ASC 480), with respect to the presentation of preferred securities. In previously issued financial statements, SDG&E classified certain preferred securities within the shareholders' equity section of the balance sheet. These preferred securities contain a contingent redemption feature that allows the holder to elect a majority of SDG&E's board of directors if dividends are not paid for eight consecutive quarters. Because such a redemption triggering event is not solely within the control of SDG&E, SDG&E has concluded that these preferred securities should have been presented separate from and outside of shareholders' equity in a manner consistent with temporary equity defined in Topic D-98. Although SDG&E believes that the effects are not material to the previously issued balance sheets, SDG&E has corrected the classification of these amounts as of December 31, 2008 for comparability purposes. This change, which affects preferred securities totaling \$79 million at both December 31, 2008 and September 30, 2009, affects only the balance sheet presentation of equity accounts and has no impact on earnings or on cash flows for any period presented.

### **NOTE 2. NEW ACCOUNTING STANDARDS**

We describe below recent pronouncements that have had or may have a significant effect on our financial statements. We do not discuss recent pronouncements that are not anticipated to have an impact on or are unrelated to our financial condition, results of operations, or disclosures.

### **SEMPRA ENERGY, SDG&E, PE AND SOCALGAS**

***SFAS 168, "The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162" (SFAS 168):*** The FASB *Accounting Standards Codification* (the Codification) became the official source of GAAP on July 1, 2009 and for convenience, we have provided the prior GAAP source references in addition to the Codification reference throughout this Form 10-Q. In addition, the Codification changed the referencing system used to identify new accounting guidance. As a result, we refer to an accounting update issued after July 1, 2009 as an Accounting Standards Update (ASU). We refer to new pronouncements issued before July 1, 2009 by their original title.

***ASU 2009-05, Measuring Liabilities at Fair Value (ASU 2009-05):*** ASU 2009-05 addresses practical difficulties that arise when calculating the fair value of a liability, or the price at which the liability may be transferred to a market

participant. Generally, a quoted price for an identical liability is not available because few liabilities are transferred to another party.



In the absence of a quoted price in an active market for an identical liability, ASU 2009-05 allows the following valuation techniques:

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a quoted price of an identical or similar liability traded as an asset

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a valuation technique consistent with ASC 820, *Fair Value Measurements and Disclosures*

ASU 2009-05 applies to us prospectively beginning October 1, 2009. We are in the process of evaluating the effects of this statement on our financial position and results of operations.

**SFAS 167, "Amendments to FASB Interpretation No. 46(R)" (SFAS 167):** SFAS 167 amends FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities – an interpretation of ARB No. 51 (FIN 46(R))*, which provides consolidation guidance related to variable interest entities.

SFAS 167 requires

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a qualitative approach for identifying the primary beneficiary of a variable interest entity based on 1) the power to direct activities that most significantly impact the economic performance of the entity, and 2) the obligation to absorb losses or right to receive benefits that could be significant to the entity;

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ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity; and

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separate disclosure by the primary beneficiary on the face of the balance sheet to identify 1) assets that can only be used to settle obligations of the variable interest entity, and 2) liabilities for which creditors do not have recourse to the primary beneficiary.

SFAS 167 applies to us beginning with the first quarter of 2010. We are in the process of evaluating the effects of this statement on our financial position and results of operations.

**SFAS 165, "Subsequent Events" (SFAS 165):** SFAS 165 (ASC 855) requires management to evaluate events that occur after the balance sheet through the date that the financial statements are issued. The guidance is similar to current audit guidance and does not change the way we assess subsequent events. The statement requires that we disclose the date through which we evaluated subsequent events.

We adopted SFAS 165 on April 1, 2009 and provide the required disclosure in Note 1.

**SFAS 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51" (SFAS 160):** SFAS 160 (ASC 810) amends Accounting Research Bulletin (ARB) No. 51, *Consolidated Financial Statements*, to establish accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent.

SFAS 160 provides guidance on the following:

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how to report noncontrolling interests in a subsidiary in consolidated financial statements;

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the amount of consolidated net income attributable to the parent and to the noncontrolling interest; and

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changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated.

We adopted SFAS 160 on January 1, 2009, and the presentation and disclosure requirements must be applied retrospectively. Accordingly, Sempra Energy's, SDG&E's and PE's Condensed Consolidated Financial Statements at December 31, 2008 and for the three and nine months ended September 30, 2008 have been reclassified to conform to the new presentation. The adoption of SFAS 160 had no impact on SoCalGas' financial statements. The pronouncement also requires disclosures that clearly identify and distinguish between the interest of the parent and the interests of the noncontrolling owners. We provide the required disclosure in Note 5.

***SFAS 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133" (SFAS 161):*** SFAS 161 (ASC 815) expands the disclosure requirements in SFAS 133, *Accounting for Derivative Instruments and Hedging Activities (SFAS 133)*.

SFAS 161 requires disclosures about the following:

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qualitative objectives and strategies for using derivatives;

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quantitative disclosures of fair value amounts, and gains and losses on derivative instruments and related hedged items; and

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credit-risk-related contingent features in derivative agreements.

We adopted SFAS 161 prospectively on January 1, 2009. We provide the required disclosure in Note 7.

***FASB Staff Position (FSP) FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That are Not Orderly" (FSP FAS 157-4):*** FSP FAS 157-4 (ASC 820) concerns the determination of fair values for assets and liabilities when there is no active market or where the prices used might represent distressed sales. Specifically, it reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. The FSP also outlines factors to be used to determine whether there has been a significant decrease in the volume and level of activity for the assets and liabilities when compared with normal market activity. We adopted FSP FAS 157-4 on April 1, 2009, and it did not affect our financial position or results of operations.

***FSP FAS 107-1 and APB 28-1, "Interim Disclosures About Fair Value of Financial Instruments" (FSP FAS 107-1 and APB 28-1):*** FSP FAS 107-1 and APB 28-1 (ASC 820) requires disclosure about the carrying amount and fair value of financial instruments for interim periods. Prior to the issuance of this FSP, this disclosure was required only for annual periods. We adopted FSP FAS 107-1 and APB 28-1 on April 1, 2009 and provide the required disclosure in Note 8.

***FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" (FSP FAS 115-2 and FAS 124-2):*** FSP FAS 115-2 and FAS 124-2 (ASC 320) establishes a new model for determining and recording other-than-temporary impairment for debt securities. The pronouncement also requires disclosure about the fair value of investments for interim periods. Prior to the issuance of this FSP, this disclosure was required only for annual periods. We adopted FSP FAS 115-2 and FAS 124-2 on April 1, 2009, and it did not affect our financial position or results of operations. We provide the required disclosure in Note 8.

***FSP FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets" (FSP FAS 132(R)-1):*** FSP FAS 132(R)-1 (ASC 715) requires annual disclosure about the assets held in postretirement benefit plans, including a breakdown by the level of the assets and a reconciliation of any change in Level 3 assets during the year. It requires disclosures about the following:

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valuation inputs, with detailed disclosure required about Level 3 assets

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asset categories, broken down to relevant detail

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concentration of risk in plan assets

FSP FAS 132(R)-1 applies to us prospectively for fiscal years ending after December 15, 2009. Early application is permitted. We are in the process of evaluating the effect of this statement on our financial statement disclosures and will include the additional disclosure in our 2009 annual financial statements.

## **SEMPRA ENERGY**

***FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" (FSP EITF 03-6-1):*** FSP EITF 03-6-1 (ASC 260) states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities. As such, they are required to be included when computing earnings per share (EPS) under the two-class method described in SFAS 128, *Earnings per Share*. All prior-period EPS data are to be adjusted retrospectively to conform with the provisions of this FSP. We adopted FSP EITF 03-6-1 on January 1, 2009, and it did not have a material effect on our EPS.

***EITF Issue No. 08-6, "Equity Method Investment Accounting Considerations" (EITF 08-6):*** EITF 08-6 (ASC 323) clarifies accounting and impairment considerations involving equity method investments. We adopted EITF 08-6 on January 1, 2009, and it did not have a material effect on our financial position or results of operations.

***EITF Issue No. 08-5, "Issuer's Accounting for Liabilities Measured at Fair Value with a Third-Party Credit Enhancement" (EITF 08-5):*** EITF 08-5 (ASC 820) provides that an issuer of a liability with a third-party credit enhancement that is inseparable from the liability may not include the effect of the credit enhancement in the fair value measurement of the liability. We adopted EITF 08-5 on January 1, 2009, and it did not affect our financial position or results of operations.

### NOTE 3. RECENT EQUITY TRANSACTION

#### **SEMPRA PIPELINES & STORAGE**

Sempra Midstream, owned by Sempra Pipelines & Storage, owned 60 percent of Mississippi Hub, LLC (Mississippi Hub) at December 31, 2008. On January 16, 2009, Sempra Midstream purchased the remaining 40-percent ownership interest of Mississippi Hub for \$94 million in cash.

### NOTE 4. INVESTMENTS IN UNCONSOLIDATED ENTITIES

#### **SEMPRA ENERGY AND SDG&E**

##### ***Available-for-Sale Securities***

During the nine months ended September 30, 2008, Sempra Energy and SDG&E purchased \$345 million and \$68 million, respectively, of SDG&E's industrial development bonds, net of purchases and sales between Sempra Energy and SDG&E as the cash flow needs of each entity changed. After the remarketing of \$237 million of these bonds in the fourth quarter of 2008, the remaining \$176 million, \$24 million of which were held by SDG&E, were classified as available-for-sale securities and included in Short-Term Investments on the Condensed Consolidated Balance Sheets. In June 2009, SDG&E remarketed the remaining \$176 million of these bonds at a fixed rate of 5.875 percent, maturing in 2034. Prior to SDG&E's remarketing of the remaining bonds in 2009, SDG&E purchased \$152 million of the bonds from Sempra Energy. We discuss these bonds further in Note 6 of the Notes to Consolidated Financial Statements in the Annual Report.

#### **SEMPRA COMMODITIES**

On April 1, 2008, Sempra Energy and The Royal Bank of Scotland (RBS) completed the formation of RBS Sempra Commodities LLP (RBS Sempra Commodities), a limited liability partnership formed in the United Kingdom to own and operate the commodities-marketing businesses previously operated through wholly owned subsidiaries of Sempra Energy. We account for our investment in RBS Sempra Commodities under the equity method, and our share of partnership earnings is reported in the Sempra Commodities segment.

For the three months and nine months ended September 30, 2009, we had \$105 million and \$384 million, respectively, of pretax equity earnings from RBS Sempra Commodities. For the three months and nine months ended September 30, 2008, pretax equity earnings (losses) from RBS Sempra Commodities were \$(4) million and \$142 million, respectively. The partnership income that is distributable to us on an annual basis is computed on the partnership's basis of accounting, International Financial Reporting Standards (IFRS) as adopted by the European Union. For the three months and nine months ended September 30, 2009, this distributable income, on an IFRS basis, was \$60 million and \$276 million, respectively. In the three months ended September 30, 2008, the distributable income, on an IFRS basis, decreased by \$29 million. For the nine months ended September 30, 2008, the distributable income was \$136 million. In the first quarter of 2009, we received the remaining distribution of 2008 partnership income of \$305

million, and through the nine months ended September 30, 2009, we received \$102 million to fund estimated tax payments as provided in the partnership agreement.

We have indemnified the partnership for certain litigation and tax liabilities related to the businesses purchased by the partnership. We recorded these obligations at a fair value of \$5 million on April 1, 2008, the date we formed the partnership, and they are being amortized over 4 years.

We provide information regarding the Sempra Commodities segment in Note 11.

The following table shows summarized financial information for RBS Sempra Commodities (on a GAAP basis):

| <i>(Dollars in millions)</i>             | Three months ended September 30, |       | Nine months ended September 30, |        |
|--|----------------------------------|-------|---------------------------------|--------|
|  | 2009                             | 2008  | 2009                            | 2008   |
| Gross revenues and fee income            | \$ 291                           | \$ 48 | \$ 1,167                        | \$ 586 |
| Gross profit                             | 268                              | 23    | 1,096                           | 540    |
| Income (loss) from continuing operations | 115                              | (56)  | 504                             | 198    |
| Partnership net income (loss)            | 115                              | (56)  | 504                             | 198    |

#### **SEMPRA GENERATION**

In September 2009, Sempra Generation contributed \$182 million to become an equal partner with BP Wind Energy, a wholly owned subsidiary of BP p.l.c., in the development of the 200-megawatt (MW) Fowler Ridge II Wind Farm (Fowler Ridge) which is under construction near Indianapolis, Indiana. We expect it to be operational in late 2009. The project will use 133 wind turbines, each with the ability to generate 1.5 MW. The project's entire power output has been sold under four long-term contracts, each for 50 MW and 20-year terms. Our investment in Fowler Ridge will be accounted for as an equity method investment.

#### **SEMPRA PIPELINES & STORAGE**

In the three months and nine months ended September 30, 2009, Sempra Pipelines & Storage contributed \$315 million and \$527 million, respectively, to Rockies Express, a joint venture for the development of the Rockies Express Pipeline. Sempra Pipelines & Storage contributed \$150 million in the first quarter of 2008. We discuss this investment in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

Sempra Pipelines & Storage owns 43 percent of two Argentine natural gas utility holding companies, Sodigas Pampeana and Sodigas Sur. The Argentine economic decline and government responses (including Argentina's unilateral, retroactive abrogation of utility agreements early in 2002) continue to adversely affect the operations of these Argentine utilities. In 2002, Sempra Pipelines & Storage initiated arbitration proceedings at the International Center for the Settlement of Investment Disputes (ICSID) under the 1994 Bilateral Investment Treaty between the United States and Argentina for recovery of the diminution of the value of its investments that has resulted from Argentine governmental actions. In September 2007, the tribunal officially closed the arbitration proceedings and awarded us compensation of \$172 million, which includes interest up to the award date. In January 2008, Argentina filed an action at the ICSID seeking to annul the award. The Annulment Committee lifted the stay of enforcement so that we may now attach and sell any non-sovereign assets of the Argentine government. The annulment hearing was held in early September 2009 and we anticipate a decision by year end. We will not recognize the ICSID award until collectibility is assured.





NOTE 5. OTHER FINANCIAL DATA

**VARIABLE INTEREST ENTITIES**

ASC 810, *Consolidation* (ASC 810) (FIN 46(R)), requires an enterprise to consolidate a variable interest entity (VIE), as defined in ASC 810, if the company is the primary beneficiary of the VIE's activities. Our determination of whether we are the primary beneficiary is based upon qualitative and quantitative analyses, which assess

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the purpose and design of the VIE;

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the nature of the VIE's risks and the risks we absorb; and

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whether the variable interest holders will absorb a majority of the VIE's expected losses or receive a majority of its expected residual returns (or both).

SDG&E has a 10-year agreement to purchase power to be generated at the Otay Mesa Energy Center (OMEC), a 573-MW generating facility. The facility began commercial operations in October 2009.

As defined in ASC 810, the facility owner, Otay Mesa Energy Center LLC (OMEC LLC), is a VIE (Otay Mesa VIE), of which SDG&E is the primary beneficiary. Accordingly, Sempra Energy and SDG&E have consolidated Otay Mesa VIE. SDG&E has no OMEC LLC voting rights and does not operate OMEC.

Otay Mesa VIE's equity of \$141 million at September 30, 2009 and \$128 million at December 31, 2008 is included on the Condensed Consolidated Balance Sheets in Other Noncontrolling Interests for Sempra Energy and in Noncontrolling Interests for SDG&E. We provide additional information about Otay Mesa VIE in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

OMEC LLC has a project finance credit facility with third party lenders, secured by its assets, that provides for up to \$377 million for the construction of OMEC. SDG&E is not a party to the credit agreement and does not have any additional implicit or explicit financial responsibility to Otay Mesa VIE. The loan matures in April 2019. Borrowings under the facility bear interest at rates varying with market rates. OMEC LLC had \$344 million of outstanding borrowings under this facility at September 30, 2009. In addition, OMEC LLC has entered into interest-rate swap agreements to moderate its exposure to interest-rate changes on this facility. We provide additional information concerning the interest-rate swaps in Note 7.

SDG&E has a 25-year agreement to purchase power to be generated by Orange Grove Energy L.P. (Orange Grove), at its 94-MW generating facility located in San Diego County, California. The facility is currently under construction, and we expect it to be available for commercial operation during the second quarter of 2010. As defined in ASC 810, Orange Grove is a VIE of which SDG&E is the primary beneficiary. During the third quarter of 2009, all of the conditions precedent in the purchased-power agreement were satisfied, therefore, effective on September 30, 2009, Sempra Energy and SDG&E have consolidated Orange Grove.

Orange Grove has credit facilities that provide for a total of \$100 million for construction of the generating facility. These credit agreements are with a third party lender and are secured by Orange Grove's assets. SDG&E is not a party to the credit agreements and does not have any additional implicit or explicit financial responsibility to Orange Grove. When Orange Grove completes construction of the generating facility, or on June 30, 2010 if construction is not completed by that date, the credit facilities will convert to a term loan that matures in June 2035. Borrowings under the credit facilities bear interest at rates varying with market rates. At September 30, 2009, Orange Grove had \$66 million of outstanding borrowings under the credit facilities and \$3 million of letters of credit supported by the facilities.

Contracts under which SDG&E acquires power from generation facilities otherwise unrelated to SDG&E could also result in a requirement for SDG&E to consolidate the entity that owns the facility. In accordance with ASC 810, SDG&E continues the process of determining if it has any such situations and, if so, gathering the information that would be needed to perform the consolidation. However, such information has not been made available to us and an evaluation of variable interests has not been completed for these entities that are grandfathered pursuant to ASC 810.

The effects of any required consolidation are not expected to significantly affect the financial position, results of operations or liquidity of SDG&E.

## PENSION AND OTHER POSTRETIREMENT BENEFITS

### *Net Periodic Benefit Cost*

The following three tables provide the components of net periodic benefit cost:

### NET PERIODIC BENEFIT COST -- SEMBRA ENERGY CONSOLIDATED

*(Dollars in millions)*

|                                 | Pension Benefits                 |       | Other Postretirement Benefits    |      |
|---------------------------------|----------------------------------|-------|----------------------------------|------|
|                                 | Three months ended September 30, |       | Three months ended September 30, |      |
|                                 | 2009                             | 2008  | 2009                             | 2008 |
| Service cost                    | \$ 17                            | \$ 17 | \$ 7                             | 5    |
| Interest cost                   | 42                               | 41    | 14                               | 13   |
| Expected return on assets       | (34)                             | (40)  | (11)                             | (12) |
| Amortization of:                |                                  |       |                                  |      |
| Prior service cost              | 1                                | 1     | -                                | -    |
| Actuarial loss                  | 6                                | 2     | 1                                | -    |
| Curtailment                     | -                                | -     | -                                | (1)  |
| Regulatory adjustment           | (14)                             | 15    | 1                                | (5)  |
| Total net periodic benefit cost | \$ 18                            | \$ 36 | \$ 12                            | -    |
|                                 | Nine months ended September 30,  |       | Nine months ended September 30,  |      |
|                                 | 2009                             | 2008  | 2009                             | 2008 |
| Service cost                    | \$ 56                            | \$ 53 | \$ 21                            | 18   |
| Interest cost                   | 127                              | 124   | 43                               | 40   |
| Expected return on assets       | (104)                            | (120) | (35)                             | (36) |
| Amortization of:                |                                  |       |                                  |      |
| Prior service cost (credit)     | 3                                | 3     | (1)                              | (1)  |
| Actuarial loss                  | 18                               | 6     | 3                                | -    |
| Curtailment                     | -                                | -     | -                                | (3)  |
| Regulatory adjustment           | (53)                             | (7)   | 5                                | (4)  |
| Total net periodic benefit cost | \$ 47                            | \$ 59 | \$ 36                            | 14   |



**NET PERIODIC BENEFIT COST -- SDG&E***(Dollars in millions)*

|                                 | Pension Benefits                 |       | Other Postretirement Benefits    |      |
|---------------------------------|----------------------------------|-------|----------------------------------|------|
|                                 | Three months ended September 30, |       | Three months ended September 30, |      |
|                                 | 2009                             | 2008  | 2009                             | 2008 |
| Service cost                    | \$ 5                             | \$ 6  | \$ 2                             | \$ 1 |
| Interest cost                   | 12                               | 12    | 3                                | 3    |
| Expected return on assets       | (8)                              | (11)  | (1)                              | (1)  |
| Amortization of:                |                                  |       |                                  |      |
| Prior service cost              | -                                | -     | 1                                | 1    |
| Actuarial loss                  | 4                                | -     | -                                | -    |
| Regulatory adjustment           | (2)                              | 23    | -                                | (3)  |
| Total net periodic benefit cost | \$ 11                            | \$ 30 | \$ 5                             | \$ 1 |
|                                 | Nine months ended September 30,  |       | Nine months ended September 30,  |      |
|                                 | 2009                             | 2008  | 2009                             | 2008 |
| Service cost                    | \$ 17                            | \$ 17 | \$ 5                             | \$ 4 |
| Interest cost                   | 36                               | 36    | 7                                | 7    |
| Expected return on assets       | (24)                             | (34)  | (3)                              | (3)  |
| Amortization of:                |                                  |       |                                  |      |
| Prior service cost              | 1                                | 1     | 3                                | 3    |
| Actuarial loss                  | 12                               | 1     | -                                | -    |
| Regulatory adjustment           | (16)                             | 19    | 1                                | (5)  |
| Total net periodic benefit cost | \$ 26                            | \$ 40 | \$ 13                            | \$ 6 |

**NET PERIODIC BENEFIT COST -- SOCALGAS***(Dollars in millions)*

|                                 | Pension Benefits                 |       | Other Postretirement Benefits    |      |
|---------------------------------|----------------------------------|-------|----------------------------------|------|
|                                 | Three months ended September 30, |       | Three months ended September 30, |      |
|                                 | 2009                             | 2008  | 2009                             | 2008 |
| Service cost                    | \$ 9                             | \$ 10 | \$ 6                             | \$ 3 |
| Interest cost                   | 25                               | 24    | 11                               | 10   |
| Expected return on assets       | (24)                             | (26)  | (10)                             | (10) |
| Amortization of:                |                                  |       |                                  |      |
| Prior service cost (credit)     | 1                                | 1     | (1)                              | (1)  |
| Actuarial loss                  | -                                | -     | 1                                | -    |
| Regulatory adjustment           | (10)                             | (8)   | 1                                | (2)  |
| Total net periodic benefit cost | \$ 1                             | \$ 1  | \$ 8                             | \$ - |
|                                 | Nine months ended September 30,  |       | Nine months ended September 30,  |      |

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|                                 | 2009  | 2008  | 2009  | 2008  |
|---------------------------------|-------|-------|-------|-------|
| Service cost                    | \$ 31 | \$ 30 | \$ 15 | \$ 12 |
| Interest cost                   | 74    | 73    | 34    | 31    |
| Expected return on assets       | (70)  | (77)  | (31)  | (32)  |
| Amortization of:                |       |       |       |       |
| Prior service cost (credit)     | 2     | 2     | (3)   | (3)   |
| Actuarial loss                  | -     | -     | 3     | -     |
| Regulatory adjustment           | (35)  | (26)  | 4     | 1     |
| Total net periodic benefit cost | \$ 2  | \$ 2  | \$ 22 | \$ 9  |

**Future Payments**

The following table shows our year-to-date contributions to our pension and other postretirement benefit plans and the amounts we expect to contribute in 2009:

| <i>(Dollars in millions)</i>              | Sempra Energy |       |          |
|---|---------------|-------|----------|
|   | Consolidated  | SDG&E | SoCalGas |
| Contributions through September 30, 2009: |               |       |          |
| Pension plans                             | \$ 42         | \$ 23 | \$ 1     |
| Other postretirement benefit plans        | 37            | 13    | 23       |
| Total expected contributions in 2009:     |               |       |          |
| Pension plans                             | \$ 194        | \$ 59 | \$ 77    |
| Other postretirement benefit plans        | 48            | 17    | 29       |

**EARNINGS PER SHARE**

The following table provides the per share computations for our earnings for the three months and nine months ended September 30, 2009 and 2008. Basic EPS is calculated by dividing earnings attributable to common stock by the weighted-average number of common shares outstanding for the period. Diluted EPS includes the potential dilution of common stock equivalent shares that would occur if securities or other contracts to issue common stock were exercised or converted into common stock.

**EARNINGS PER SHARE COMPUTATIONS**

*(Dollars in millions, except per share amounts; shares in thousands)*

|  | Three months ended September 30, |         | Nine months ended September 30, |         |
|--|----------------------------------|---------|---------------------------------|---------|
|  | 2009                             | 2008    | 2009                            | 2008    |
| Numerator:                                   |                                  |         |                                 |         |
| Earnings                                     | \$ 317                           | \$ 308  | \$ 831                          | \$ 794  |
| Denominator:                                 |                                  |         |                                 |         |
| Weighted-average common shares               |                                  |         |                                 |         |
| outstanding for basic EPS                    | 243,925                          | 243,793 | 242,806                         | 249,311 |
| Dilutive effect of stock options, restricted |                                  |         |                                 |         |
| stock awards and restricted stock units      | 4,536                            | 4,111   | 4,069                           | 4,096   |
| Weighted-average common shares               |                                  |         |                                 |         |
| outstanding for diluted EPS                  | 248,461                          | 247,904 | 246,875                         | 253,407 |

## Earnings per share:

|         |    |      |    |      |    |      |    |      |
|---------|----|------|----|------|----|------|----|------|
| Basic   | \$ | 1.30 | \$ | 1.26 | \$ | 3.42 | \$ | 3.18 |
| Diluted | \$ | 1.27 | \$ | 1.24 | \$ | 3.37 | \$ | 3.13 |

The dilution from common stock options is based on the treasury stock method. Under this method, proceeds based on the exercise price plus unearned compensation and windfall tax benefits or tax shortfalls, as defined by ASC 718, *Compensation - Stock Compensation* (ASC 718) (SFAS 123(R)), are assumed to be used to repurchase shares on the open market at the average market price for the period. The windfall tax benefits are tax deductions we would receive upon the assumed exercise of stock options in excess of the deferred income taxes we recorded related to the compensation expense on the stock options. Tax shortfalls occur when the assumed tax deductions are less than recorded deferred income taxes. The calculation excludes stock options for which the exercise price for common stock was greater than the average market price during the period. We had 1,505,096 and 1,513,721 of such stock options outstanding during the three months ended September 30, 2009 and 2008, respectively, and 1,507,361 and



1,494,935 of such stock options outstanding during the nine months ended September 30, 2009 and 2008, respectively.

We had 890,781 stock options outstanding during the nine months ended September 30, 2009, that were antidilutive because of the unearned compensation and windfall tax benefits included in the assumed proceeds under the treasury stock method. We had no such antidilutive stock options outstanding during the three months ended September 30, 2009, nor the three months and nine months ended September 30, 2008.

The dilution from unvested restricted stock awards and units is also based on the treasury stock method. Assumed proceeds equal to the unearned compensation and windfall tax benefits or tax shortfalls related to the awards, as defined by ASC 718, are assumed to be used to repurchase shares on the open market at the average market price for the period. The windfall tax benefits or tax shortfalls are the difference between tax deductions we would receive upon the assumed vesting of restricted stock awards and units and the deferred income taxes we recorded related to the compensation expense on the restricted stock awards and units. We had no antidilutive restricted stock awards or units outstanding during the three months and nine months ended September 30, 2009, nor the three months ended September 30, 2008. We had 431,401 restricted stock units and no restricted stock awards outstanding that were antidilutive during the nine months ended September 30, 2008.

## SHARE-BASED COMPENSATION

We discuss our share-based compensation plans in Note 10 of the Notes to Consolidated Financial Statements in the Annual Report. We recorded share-based compensation expense, net of income taxes, of \$15 million and \$22 million for the nine months ended September 30, 2009 and 2008, respectively. Pursuant to our share-based compensation plans, we granted 918,200 non-qualified stock options, 37,200 restricted stock awards and 907,700 restricted stock units during the nine months ended September 30, 2009, primarily in January 2009.

## CAPITALIZED FINANCING COSTS

Capitalized financing costs include capitalized interest costs and, at the Sempra Utilities, an allowance for funds used during construction (AFUDC) related to both debt and equity financing of construction projects. The following table shows capitalized financing costs for the three months and nine months ended September 30, 2009 and 2008.

## CAPITALIZED FINANCING COSTS

*(Dollars in millions)*

|                                   | Three months ended September 30, |      | Nine months ended September 30, |      |
|-----------------------------------|----------------------------------|------|---------------------------------|------|
|                                   | 2009                             | 2008 | 2009                            | 2008 |
| <b>SDG&amp;E:</b>                 |                                  |      |                                 |      |
| AFUDC related to debt             | \$ 3                             | \$ 3 | \$ 7                            | \$ 7 |
| AFUDC related to equity           | 8                                | 7    | 21                              | 19   |
| Other capitalized financing costs | 2                                | 4    | 4                               | 8    |
| Total SDG&E                       | 13                               | 14   | 32                              | 34   |
| <b>SoCalGas:</b>                  |                                  |      |                                 |      |
| AFUDC related to debt             | 1                                | -    | 4                               | 2    |

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|                                   |   |   |    |   |
|-----------------------------------|---|---|----|---|
| AFUDC related to equity           | 2 | 2 | 7  | 6 |
| Other capitalized financing costs | 1 | - | 1  | - |
| Total SoCalGas                    | 4 | 2 | 12 | 8 |

**Sempra Global:**

|                             |    |    |    |    |
|-----------------------------|----|----|----|----|
| Capitalized financing costs | 12 | 19 | 57 | 67 |
|-----------------------------|----|----|----|----|

**Total Sempra Energy**

|                     |    |    |    |    |    |     |    |     |
|---------------------|----|----|----|----|----|-----|----|-----|
| <b>Consolidated</b> | \$ | 29 | \$ | 35 | \$ | 101 | \$ | 109 |
|---------------------|----|----|----|----|----|-----|----|-----|

**COMPREHENSIVE INCOME**

The following tables provide a reconciliation of net income to comprehensive income.

**COMPREHENSIVE INCOME**

(Dollars in millions)

Three months ended September 30,

|  | 2009                          |                                  |                 | 2008                          |                                  |                 |
|--|-------------------------------|----------------------------------|-----------------|-------------------------------|----------------------------------|-----------------|
|  | Share-<br>holders'<br>Equity* | Non-<br>controlling<br>Interests | Total<br>Equity | Share-<br>holders'<br>Equity* | Non-<br>controlling<br>Interests | Total<br>Equity |
| <b>Sempra Energy Consolidated:</b>       |                               |                                  |                 |                               |                                  |                 |
| Net income (loss)**                      | \$ 319                        | \$ (17)                          | \$ 302          | \$ 310                        | \$ (8)                           | \$ 302          |
| Foreign currency translation adjustments | (11)                          | -                                | (11)            | (30)                          | -                                | (30)            |
| Financial instruments                    | (5)                           | -                                | (5)             | (2)                           | 1                                | (1)             |
| Available-for-sale securities            | 8                             | -                                | 8               | -                             | -                                | -               |
| Net actuarial gain                       | 2                             | -                                | 2               | 1                             | -                                | 1               |
| Prior service cost                       | -                             | -                                | -               | (1)                           | -                                | (1)             |
| Comprehensive income                     | \$ 313                        | \$ (17)                          | \$ 296          | \$ 278                        | \$ (7)                           | \$ 271          |
| <b>SDG&amp;E:</b>                        |                               |                                  |                 |                               |                                  |                 |
| Net income (loss)                        | \$ 110                        | \$ (18)                          | \$ 92           | \$ 125                        | \$ (7)                           | \$ 118          |
| Financial instruments                    | -                             | -                                | -               | 2                             | 1                                | 3               |
| Comprehensive income                     | \$ 110                        | \$ (18)                          | \$ 92           | \$ 127                        | \$ (6)                           | \$ 121          |
| <b>PE:</b>                               |                               |                                  |                 |                               |                                  |                 |
| Net income**                             | \$ 73                         | \$ -                             | \$ 73           | \$ 80                         | \$ -                             | \$ 80           |
| Financial instruments                    | -                             | -                                | -               | (6)                           | -                                | (6)             |

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|                       |    |    |    |   |    |    |    |     |    |   |    |     |
|-----------------------|----|----|----|---|----|----|----|-----|----|---|----|-----|
| Comprehensive income  | \$ | 73 | \$ | - | \$ | 73 | \$ | 74  | \$ | - | \$ | 74  |
| <b>SoCalGas:</b>      |    |    |    |   |    |    |    |     |    |   |    |     |
| Net income            | \$ | 74 | \$ | - | \$ | 74 | \$ | 77  | \$ | - | \$ | 77  |
| Financial instruments |    | -  |    | - |    | -  |    | (6) |    | - |    | (6) |
| Comprehensive income  | \$ | 74 | \$ | - | \$ | 74 | \$ | 71  | \$ | - | \$ | 71  |

\* Shareholders' equity of Sempra Energy Consolidated, SDG&E, PE or SoCalGas as indicated in left margin.

\*\*Before preferred dividends of subsidiaries.

**COMPREHENSIVE INCOME (Continued)***(Dollars in millions)*

|  | Nine months ended September 30, |                                  |                 |                               |                                  |                 |
|--|---------------------------------|----------------------------------|-----------------|-------------------------------|----------------------------------|-----------------|
|  | 2009                            |                                  |                 | 2008                          |                                  |                 |
|  | Share-<br>holders'<br>Equity*   | Non-<br>controlling<br>Interests | Total<br>Equity | Share-<br>holders'<br>Equity* | Non-<br>controlling<br>Interests | Total<br>Equity |
| <b>Sempra Energy Consolidated:</b>       |                                 |                                  |                 |                               |                                  |                 |
| Net income (loss)**                      | \$ 838                          | \$ (22)                          | \$ 816          | \$ 801                        | \$ 7                             | \$ 808          |
| Foreign currency translation adjustments | 69                              | -                                | 69              | (45)                          | -                                | (45)            |
| Financial instruments                    | 18                              | (3)                              | 15              | 5                             | (16)                             | (11)            |
| Available-for-sale securities            | 21                              | -                                | 21              | (12)                          | -                                | (12)            |
| Net actuarial gain                       | 4                               | -                                | 4               | 5                             | -                                | 5               |
| Prior service cost                       | -                               | -                                | -               | (1)                           | -                                | (1)             |
| Comprehensive income                     | \$ 950                          | \$ (25)                          | \$ 925          | \$ 753                        | \$ (9)                           | \$ 744          |
| <b>SDG&amp;E:</b>                        |                                 |                                  |                 |                               |                                  |                 |
| Net income                               | \$ 281                          | \$ 9                             | \$ 290          | \$ 262                        | \$ 8                             | \$ 270          |
| Financial instruments                    | 2                               | (3)                              | (1)             | 1                             | (16)                             | (15)            |
| Net actuarial gain                       | 1                               | -                                | 1               | 1                             | -                                | 1               |
| Comprehensive income                     | \$ 284                          | \$ 6                             | \$ 290          | \$ 264                        | \$ (8)                           | \$ 256          |
| <b>PE:</b>                               |                                 |                                  |                 |                               |                                  |                 |
| Net income**                             | \$ 195                          | \$ -                             | \$ 195          | \$ 196                        | \$ -                             | \$ 196          |
| Financial instruments                    | 2                               | -                                | 2               | (6)                           | -                                | (6)             |
| Comprehensive income                     | \$ 197                          | \$ -                             | \$ 197          | \$ 190                        | \$ -                             | \$ 190          |
| <b>SoCalGas:</b>                         |                                 |                                  |                 |                               |                                  |                 |
| Net income                               | \$ 199                          | \$ -                             | \$ 199          | \$ 191                        | \$ -                             | \$ 191          |
| Financial instruments                    | 2                               | -                                | 2               | (6)                           | -                                | (6)             |
| Comprehensive income                     | \$ 201                          | \$ -                             | \$ 201          | \$ 185                        | \$ -                             | \$ 185          |

\* Shareholders' equity of Sempra Energy Consolidated, SDG&amp;E, PE or SoCalGas as indicated in left margin.

\*\*Before preferred dividends of subsidiaries.



The amounts for comprehensive income in the tables above are net of income tax expense (benefit) as follows:

### INCOME TAX EXPENSE (BENEFIT) ASSOCIATED WITH OTHER COMPREHENSIVE INCOME

(Dollars in millions)

|                                    | Three months ended September 30, |                                  |                 |                               |                                  |                 |
|------------------------------------|----------------------------------|----------------------------------|-----------------|-------------------------------|----------------------------------|-----------------|
|                                    | 2009                             |                                  |                 | 2008                          |                                  |                 |
|                                    | Share-<br>holders'<br>Equity*    | Non-<br>controlling<br>Interests | Total<br>Equity | Share-<br>holders'<br>Equity* | Non-<br>controlling<br>Interests | Total<br>Equity |
| <b>Sempra Energy Consolidated:</b> |                                  |                                  |                 |                               |                                  |                 |
| Financial instruments              | \$ (2)                           | \$ -                             | \$ (2)          | \$ (3)                        | \$ -                             | \$ (3)          |
| Available-for-sale securities      | 6                                | -                                | 6               | -                             | -                                | -               |
| Net actuarial gain                 | -                                | -                                | -               | 1                             | -                                | 1               |
| <b>SDG&amp;E:</b>                  |                                  |                                  |                 |                               |                                  |                 |
| Financial instruments              | \$ -                             | \$ -                             | \$ -            | \$ 1                          | \$ -                             | \$ 1            |
| <b>PE:</b>                         |                                  |                                  |                 |                               |                                  |                 |
| Financial instruments              | \$ -                             | \$ -                             | \$ -            | \$ (4)                        | \$ -                             | \$ (4)          |
| <b>SoCalGas:</b>                   |                                  |                                  |                 |                               |                                  |                 |
| Financial instruments              | \$ -                             | \$ -                             | \$ -            | \$ (4)                        | \$ -                             | \$ (4)          |
|                                    | Nine months ended September 30,  |                                  |                 |                               |                                  |                 |
|                                    | 2009                             |                                  |                 | 2008                          |                                  |                 |
|                                    | Share-<br>holders'<br>Equity*    | Non-<br>controlling<br>Interests | Total<br>Equity | Share-<br>holders'<br>Equity* | Non-<br>controlling<br>Interests | Total<br>Equity |
| <b>Sempra Energy Consolidated:</b> |                                  |                                  |                 |                               |                                  |                 |
| Financial instruments              | \$ 12                            | \$ -                             | \$ 12           | \$ 2                          | \$ -                             | \$ 2            |
| Available-for-sale securities      | 10                               | -                                | 10              | (10)                          | -                                | (10)            |
| Net actuarial gain                 | 2                                | -                                | 2               | 3                             | -                                | 3               |
| <b>SDG&amp;E:</b>                  |                                  |                                  |                 |                               |                                  |                 |
| Financial instruments              | \$ 1                             | \$ -                             | \$ 1            | \$ 1                          | \$ -                             | \$ 1            |
| <b>PE:</b>                         |                                  |                                  |                 |                               |                                  |                 |
| Financial instruments              | \$ 1                             | \$ -                             | \$ 1            | \$ (4)                        | \$ -                             | \$ (4)          |
| <b>SoCalGas:</b>                   |                                  |                                  |                 |                               |                                  |                 |
| Financial instruments              | \$ 1                             | \$ -                             | \$ 1            | \$ (4)                        | \$ -                             | \$ (4)          |

\* Shareholders' equity of Sempra Energy Consolidated, SDG&E, PE or SoCalGas as indicated in left margin.

### SHAREHOLDERS EQUITY AND NONCONTROLLING INTERESTS

Sempra Energy, SDG&E and PE account for noncontrolling interests in their Condensed Consolidated Financial Statements under ASC 810 (SFAS 160), as discussed in Note 2. The following two tables provide a reconciliation of Sempra Energy and SDG&E shareholders' equity and noncontrolling interests for the nine months ended September 30, 2009 and 2008. There were no changes in the equity of PE's noncontrolling interests in the three- or nine-month periods of 2009 or 2008.

**SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS***(Dollars in millions)*

|   |    | Sempra<br>Energy<br>Shareholders'<br>Equity | Non-<br>controlling<br>Interests | Total<br>Equity |
|---|----|---|----------------------------------|-----------------|
| Balance at December 31, 2008                      | \$ | 7,969 \$                                    | 340 \$                           | 8,309           |
| Comprehensive income                              |    | 950   | (25)                             | 925             |
| Purchase of noncontrolling interest in subsidiary |    | (10)  | (84)                             | (94)            |
| Share-based compensation expense                  |    | 28  | -                                | 28              |
| Common stock dividends declared                   |    | (287)                                       | -                                | (287)           |
| Preferred dividends of subsidiaries               |    | (7)   | -                                | (7)             |
| Issuance of common stock                          |    | 81  | -                                | 81              |
| Tax benefit related to share-based compensation   |    | 10  | -                                | 10              |
| Common stock released from ESOP                   |    | 11  | -                                | 11              |
| Equity contributed by noncontrolling interests    |    | -   | 7                                | 7               |
| Balance at September 30, 2009                     | \$ | 8,745 \$                                    | 238 \$                           | 8,983           |
| Balance at December 31, 2007                      | \$ | 8,339 \$                                    | 248 \$                           | 8,587           |
| Comprehensive income                              |    | 753   | (9)                              | 744             |
| Share-based compensation expense                  |    | 39  | -                                | 39              |
| Common stock dividends declared                   |    | (256)                                       | -                                | (256)           |
| Preferred dividends of subsidiaries               |    | (7)   | -                                | (7)             |
| Issuance of common stock                          |    | 17  | -                                | 17              |
| Tax benefit related to share-based compensation   |    | 3   | -                                | 3               |
| Repurchase of common stock                        |    | (1,002)                                     | -                                | (1,002)         |
| Common stock released from ESOP                   |    | 12  | -                                | 12              |
| Equity contributed by noncontrolling interests    |    | -   | 65                               | 65              |
| Balance at September 30, 2008                     | \$ | 7,898 \$                                    | 304 \$                           | 8,202           |

**SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS***(Dollars in millions)*

|  | SDG&E<br>Shareholders'<br>Equity | Non-<br>controlling<br>Interests | Total<br>Equity |
|--|----------------------------------|----------------------------------|-----------------|
|--|----------------------------------|----------------------------------|-----------------|



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|   |    |       |    |     |    |       |
|---|----|-------|----|-----|----|-------|
| Balance at December 31, 2008                  | \$ | 2,542 | \$ | 128 | \$ | 2,670 |
| Comprehensive income                          |    | 284   |    | 6   |    | 290   |
| Common stock dividends declared               |    | (150) |    | -   |    | (150) |
| Preferred stock dividends declared            |    | (4)   |    | -   |    | (4)   |
| Equity contributed by noncontrolling interest |    | -     |    | 7   |    | 7     |
| Balance at September 30, 2009                 | \$ | 2,672 | \$ | 141 | \$ | 2,813 |
| Balance at December 31, 2007                  | \$ | 2,200 | \$ | 135 | \$ | 2,335 |
| Comprehensive income                          |    | 264   |    | (8) |    | 256   |
| Preferred stock dividends declared            |    | (4)   |    | -   |    | (4)   |
| Equity contributed by noncontrolling interest |    | -     |    | 61  |    | 61    |
| Balance at September 30, 2008                 | \$ | 2,460 | \$ | 188 | \$ | 2,648 |

## **TRANSACTIONS WITH AFFILIATES**

### ***Loans to Unconsolidated Affiliates***

Sempra Pipelines & Storage has a U.S. dollar-denominated loan to Camuzzi Gas del Sur S.A., an affiliate of Sempra Pipelines & Storage's Argentine investments, which we discuss in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report. The balance outstanding was \$27 million at September 30, 2009. The loan is due in June 2010 and bears interest at a variable rate of 7.59 percent as of September 30, 2009. The loan is fully reserved at September 30, 2009.

### ***Loans from Unconsolidated Affiliates***

Sempra Pipelines & Storage has a note payable, bearing interest at 6.73 percent, due to Chilquinta Energía Finance Co. LLC, an unconsolidated affiliate. The balance outstanding was \$100 million at September 30, 2009. The note is secured by Sempra Pipelines & Storage's investments in Chilquinta Energía S.A. and Luz del Sur S.A.A., which we discuss in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

**Other Affiliate Transactions**

Sempra Energy, SDG&E and SoCalGas provide certain services to each other, and are charged an allocable share of the cost of such services. Amounts due to/from affiliates are as follows:

**AMOUNTS DUE TO AND FROM AFFILIATES AT SDG&E, PE AND SOCIALGAS**

(Dollars in millions)

|  | September 30,<br>2009 | December 31,<br>2008 |
|--|-----------------------|----------------------|
| <b>SDG&amp;E</b>   |                       |                      |
| Current:   |                       |                      |
| Due from Sempra Energy   | \$ -                  | \$ 20                |
| Due from SoCalGas  | 5                     | 8                    |
| Due from various affiliates  | -                     | 1                    |
|  | \$ 5                  | \$ 29                |
| Due to various affiliates  | \$ -                  | \$ 1                 |
| Due to Sempra Energy   | 9                     | -                    |
|  | \$ 9                  | \$ 1                 |
| Income taxes due to (from) Sempra Energy*  | \$ (31)               | \$ 7                 |
| Noncurrent:  |                       |                      |
| Promissory note due from Sempra Energy, variable rate based on short-term commercial paper rates (0.14% at September 30, 2009) | \$ 3                  | \$ 4                 |
| <b>Pacific Enterprises</b>   |                       |                      |
| Current:   |                       |                      |
| Due from various affiliates  | \$ 5                  | \$ 5                 |
| Due to affiliate   | \$ 84                 | \$ 83                |
| Due to Sempra Energy   | 11                    | 15                   |
| Due to SDG&E   | 5                     | 8                    |
|  | \$ 100                | \$ 106               |
| Income taxes due to (from) Sempra Energy*  | \$ 39                 | \$ (66)              |
| Noncurrent:  |                       |                      |

Promissory note due from Sempra Energy, variable rate based on short-term commercial paper rates (0.14% at September 30, 2009) \$ 514 \$ 457

**SoCalGas**

Current:

Due to Sempra Energy \$ 8 \$ 15  
 Due to SDG&E 5 8  
 \$ 13 \$ 23

Income taxes due to Sempra Energy\* \$ 37 \$ 1

\* *SDG&E, PE and SoCalGas are included in the consolidated income tax return of Sempra Energy and are allocated income tax expense from Sempra Energy in an amount equal to that which would result from the companies' having always filed a separate return.*

Revenues from unconsolidated affiliates at the Sempra Utilities are as follows:

**REVENUES FROM UNCONSOLIDATED AFFILIATES AT THE SEMPRA UTILITIES**

*(Dollars in millions)*

|          | Three months ended<br>September 30, |      | Nine months ended<br>September 30, |       |
|----------|-------------------------------------|------|------------------------------------|-------|
|          | 2009                                | 2008 | 2009                               | 2008  |
| SDG&E    | \$ 2                                | \$ 4 | \$ 6                               | \$ 10 |
| SoCalGas | 9                                   | 9    | 24                                 | 25    |

**Transactions with RBS Sempra Commodities**

Several of our business units engage in transactions with RBS Sempra Commodities. Amounts in our Condensed Consolidated Financial Statements related to these transactions are as follows:

**AMOUNTS RECORDED FOR TRANSACTIONS WITH RBS SEMPRA COMMODITIES**

(Dollars in millions)

|   | Three months ended September 30, |       | Nine months ended September 30, |                      |
|---|----------------------------------|-------|---------------------------------|----------------------|
|   | 2009                             | 2008  | 2009                            | 2008                 |
| <b>Revenues:</b>  |                                  |       |                                 |                      |
| SDG&E   | \$ 2                             | \$ -  | \$ 2                            | \$ -                 |
| SoCalGas  | 3                                | 4     | 6                               | 8                    |
| Sempra Commodities  | 7                                | 2     | 11                              | 6                    |
| Sempra Generation   | (15)                             | 52    | (6)                             | 23                   |
| Sempra LNG  | 16                               | 26    | 21                              | 24                   |
| Total revenues  | \$ 13                            | \$ 84 | \$ 34                           | \$ 61                |
| <b>Cost of natural gas:</b>   |                                  |       |                                 |                      |
| SoCalGas  | \$ 1                             | \$ 5  | \$ 6                            | \$ 15                |
| Sempra Pipelines & Storage  | 5                                | 12    | 15                              | 26                   |
| Total cost of natural gas   | \$ 6                             | \$ 17 | \$ 21                           | \$ 41                |
| <b>Fixed price contracts and other derivatives - Net Asset (Liability):</b> |                                  |       |                                 |                      |
|   |                                  |       | September 30,<br>2009           | December 31,<br>2008 |
| Sempra Generation   |                                  |       | \$ 16                           | \$ 35                |
| Sempra LNG  |                                  |       | (50)                            | (44)                 |
| Total   |                                  |       | \$ (34)                         | \$ (9)               |
| <b>Due to unconsolidated affiliates:</b>                                    |                                  |       |                                 |                      |
| Sempra Commodities  |                                  |       | \$ -                            | \$ 29                |
| Sempra Generation   |                                  |       | 7                               | 6                    |
| Sempra LNG  |                                  |       | 7                               | -                    |
| Sempra Pipelines & Storage  |                                  |       | 2                               | 3                    |
| Total   |                                  |       | \$ 16                           | \$ 38                |
| <b>Due from unconsolidated affiliates:</b>                                  |                                  |       |                                 |                      |
| Sempra Commodities  |                                  |       | \$ 1                            | \$ 1                 |
| Sempra Generation   |                                  |       | 8                               | -                    |
| Sempra LNG  |                                  |       | 8                               | 1                    |

|                  |  |    |    |    |   |
|------------------|--|----|----|----|---|
| Parent and other |  |    | 2  |    | 2 |
| Total            |  | \$ | 19 | \$ | 4 |

### *Revenue from Unconsolidated Affiliates*

For the nine months ended September 30, 2008, Sempra Commodities recorded \$55 million of revenue from unconsolidated affiliates.

### **WRITE-OFF OF LONG-LIVED ASSETS**

In the second quarter of 2009, we recorded a \$132 million pretax write-off related to certain assets at one of Sempra Pipelines & Storage's Liberty Gas Storage natural gas storage projects. This amount is recorded as Write-off of Long-Lived Assets on our Condensed Consolidated Statement of Operations for the nine months ended September 30, 2009. Sempra Pipelines & Storage owns 75 percent of the partnership that is developing the project. Our partner's 25-percent share of the pretax charge is \$33 million, which is included in (Earnings) Losses Attributable to Noncontrolling Interests on our Condensed Consolidated Statement of Operations for the nine months ended September 30, 2009. The impact to our net income and to our earnings is \$97 million and \$64 million, respectively, for the nine months ended September 30, 2009. In September 2009, the members of the partnership unanimously voted to proceed with the abandonment of the assets that were written off.

### **OTHER INCOME (EXPENSE), NET**

Other Income (Expense), Net on the Condensed Consolidated Statements of Operations consists of the following:

### **OTHER INCOME (EXPENSE), NET**

*(Dollars in millions)*

|   | Three months ended September<br>30, |         | Nine months ended September<br>30, |       |
|---|-------------------------------------|---------|------------------------------------|-------|
|   | 2009                                | 2008*   | 2009                               | 2008* |
| <b>Sempra Energy Consolidated:</b>                  |                                     |         |                                    |       |
| Allowance for equity funds used during construction | \$ 10                               | \$ 9    | \$ 28                              | \$ 25 |
| Regulatory interest, net                            | 4                                   | (2)     | 4                                  | (8)   |
| Investment gains (losses)**                         | 20                                  | (13)    | 40                                 | (9)   |
| Gain (loss) on interest-rate swaps (Otay Mesa VIE)  | (12)                                | (8)     | 18                                 | 7     |
| Sundry, net***                                      | 2                                   | (7)     | 7                                  | 15    |
| Total   | \$ 24                               | \$ (21) | \$ 97                              | \$ 30 |
| <b>SDG&amp;E:</b>                                   |                                     |         |                                    |       |
| Allowance for equity funds used during construction | \$ 8                                | \$ 7    | \$ 21                              | \$ 19 |

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|  |      |      |       |     |
|--|------|------|-------|-----|
| Regulatory interest, net                           | 5    | -    | 5     | (4) |
| Gain (loss) on interest-rate swaps (Otay Mesa VIE) | (12) | (8)  | 18    | 7   |
| Sundry, net  | -    | 4    | 1     | 4   |
| Total  | \$ 1 | \$ 3 | \$ 45 | 26  |

**SoCalGas and PE:**

|   |      |      |      |     |
|---|------|------|------|-----|
| Allowance for equity funds used during construction | \$ 2 | \$ 2 | \$ 7 | 6   |
| Regulatory interest, net                            | (1)  | (2)  | (1)  | (4) |
| Sundry, net   | (2)  | (1)  | (2)  | (1) |
| Total at SoCalGas                                   | (1)  | (1)  | 4    | 1   |

Additional at PE:

|             |        |      |      |   |
|-------------|--------|------|------|---|
| Sundry, net | (3)    | 2    | (3)  | 1 |
| Total at PE | \$ (4) | \$ 1 | \$ 1 | 2 |

\* *Amounts for Sempra Energy Consolidated, SDG&E, and PE have been adjusted for the retrospective adoption of ASC 810 (SFAS 160).*

\*\* *Represents investment gains (losses) on dedicated assets in support of our executive retirement and deferred compensation plans. These amounts are partially offset by corresponding changes in compensation expense related to the plans.*

\*\*\* *The nine months ended September 30, 2008 includes a \$16 million cash payment received for the early termination of a capacity agreement for the Cameron LNG receipt terminal.*



**INCOME TAXES****INCOME TAX EXPENSE AND EFFECTIVE INCOME TAX RATES***(Dollars in millions)*

|                            | Three months ended September 30, |                                     |                              |   |
|----------------------------|----------------------------------|-------------------------------------|------------------------------|---|
|                            | 2009                             |                                     | 2008                         |   |
|                            | Income<br>Tax<br><br>Expense     | Effective<br>Income<br><br>Tax Rate | Income<br>Tax<br><br>Expense | Effective<br>Income<br><br>Tax<br>Rate* |
| Sempra Energy Consolidated | \$ 128                           | 31 %                                | \$ 94                        | 25 %                                    |
| SDG&E                      | 53                               | 37                                  | 54                           | 31                                      |
| PE                         | 41                               | 36                                  | 42                           | 34                                      |
| SoCalGas                   | 42                               | 36                                  | 41                           | 35                                      |

|                            | Nine months ended September 30, |                                     |                              |   |
|----------------------------|---------------------------------|-------------------------------------|------------------------------|---|
|                            | 2009                            |                                     | 2008                         |   |
|                            | Income<br>Tax<br><br>Expense    | Effective<br>Income<br><br>Tax Rate | Income<br>Tax<br><br>Expense | Effective<br>Income<br><br>Tax<br>Rate* |
| Sempra Energy Consolidated | \$ 327                          | 30 %                                | \$ 423                       | 36 %                                    |
| SDG&E                      | 141                             | 33                                  | 121                          | 31                                      |
| PE                         | 117                             | 38                                  | 119                          | 38                                      |
| SoCalGas                   | 115                             | 37                                  | 117                          | 38                                      |

\* *Amounts for Sempra Energy Consolidated, SDG&E and PE have been adjusted for the retrospective adoption of ASC 810 (SFAS 160).*

***Changes in Effective Income Tax Rates******Sempra Energy Consolidated***

The increase in the effective income tax rate for the three months ended September 30, 2009 was due primarily to lower pretax income in countries with lower statutory rates, and higher estimated investment tax credits in 2008 for Sempra Generation's solar-energy facility in Nevada.

The decrease in the effective income tax rate for the first nine months of 2009 was due to:

§

higher pretax income in countries with lower statutory rates;

§

lower income tax expense related to Mexican currency translation and inflation adjustments; and

§

higher favorable impact of the resolution of prior years' income tax issues.

*SDG&E*

The increase in the effective income tax rate for the three months ended September 30, 2009 was due to:

§

lower favorable impact from the resolution of prior years' income tax issues; **offset by**

§

higher deductions allowed for depreciation not treated as deferred tax liabilities for ratemaking purposes;

§

higher deductions for self-developed software; and

§

higher deductions for asset removal costs.

The increase in the effective income tax rate for the nine months ended September 30, 2009 was due to:

§

lower favorable impact from the resolution of prior years' income tax issues; and

§

lower deductions allowed for depreciation not treated as deferred tax liabilities for ratemaking purposes; **offset by**

§

higher deductions for self-developed software costs; and

§

higher deductions for asset removal costs.

*PE and SoCalGas*

The increases in the effective income tax rates for both PE and SoCalGas for the three months ended September 30, 2009 were due to:

§

lower favorable impact from the resolution of prior years' income tax issues; **offset by**

§

higher deductions for self-developed software costs; and

§

higher Medicare subsidy, as discussed in Note 9 of the Notes to Consolidated Financial Statements in the Annual Report.

The effective income tax rates for PE and SoCalGas for the first nine months of 2009 were impacted by:

§

higher deductions for self-developed software costs; and

§

higher Medicare subsidy.

**NOTE 6. DEBT AND CREDIT FACILITIES**

**COMMITTED LINES OF CREDIT**

At September 30, 2009, Sempra Energy had \$4.3 billion in committed lines of credit to provide liquidity and to support commercial paper and variable-rate demand notes, the major components of which are detailed below. Available unused credit on these lines at September 30, 2009 was \$3.1 billion. We discuss the terms of our credit agreements in Note 6 of the Notes to Consolidated Financial Statements in the Annual Report.

These amounts exclude lines of credit associated with Sempra Commodities, some of which we continue to guarantee, as we discuss below in "RBS Sempra Commodities." RBS has replaced Sempra Energy as guarantor on all uncommitted lines of credit associated with Sempra Commodities. To the extent that Sempra Energy's credit support arrangements, including Sempra Commodities' committed facilities, have not been terminated or replaced, RBS has indemnified Sempra Energy for any claims or losses arising in connection with those arrangements.

***Sempra Global***

Sempra Global has a \$2.5 billion, three-year syndicated revolving credit agreement expiring in 2011. At September 30, 2009, Sempra Global had letters of credit of \$4 million outstanding and no outstanding borrowings under the facility. The facility provides support for \$926 million of commercial paper outstanding at September 30, 2009. At September 30, 2009, \$200 million of the commercial paper outstanding has been classified as long-term debt based on management's intent and ability to maintain this level of borrowing on a long-term basis either supported by this credit facility or by issuing long-term debt.

***Sempra Generation***

Sempra Generation has a \$1 billion, three-year syndicated revolving credit agreement expiring in 2011. At September 30, 2009, Sempra Generation had no outstanding borrowings under the facility.

***Sempra Utilities***

SDG&E and SoCalGas have a combined \$800 million, three-year syndicated revolving credit agreement expiring in 2011. The agreement permits each utility to individually borrow up to \$600 million, subject to a combined limit of \$800 million. At September 30, 2009, SDG&E and SoCalGas had no outstanding borrowings under this facility. SDG&E had \$25 million of outstanding letters of credit and \$237 million of variable-rate demand notes outstanding supported by this facility at September 30, 2009.

### ***RBS Sempra Commodities***

RBS is obligated to provide RBS Sempra Commodities with all growth capital, working-capital requirements and credit support. However, as a transitional measure, we continue to provide back-up guarantees for a portion of RBS Sempra Commodities' trading obligations and for a credit facility with third party lenders pending novation (legal transfer) of the remaining trading obligations to RBS. Some of these back-up guarantees may continue for a prolonged period of time. RBS, which is controlled by the government of the United Kingdom, has fully indemnified us for any claims or losses in connection with these arrangements.

RBS Sempra Commodities' net trading liabilities supported by Sempra Energy's guarantees at September 30, 2009 were \$722 million, consisting of guaranteed trading obligations net of collateral. The amount of guaranteed net trading liabilities varies from day to day with the value of the trading obligations and related collateral.

Sempra Energy also has guaranteed \$344 million of \$1.72 billion of RBS Sempra Commodities' commitments under a credit facility expiring September 29, 2010. Extensions of credit under the committed facility, which total \$1.1 billion at September 30, 2009, are limited to and secured by a borrowing base consisting of receivables, inventories and other joint venture assets that are valued at varying percentages of current market value. At September 30, 2009, the gross market value of the borrowing base assets was \$2.3 billion. The facility will be reduced and end as the borrowing base assets are transferred to RBS as established by the joint venture agreement.

### **OTHER GUARANTEES**

Sempra Energy, Conoco Phillips (Conoco) and Kinder Morgan Energy Partners, L.P. (KMP) currently hold 25 percent, 24 percent and 51 percent ownership interests, respectively, in Rockies Express. Rockies Express is near completion of a natural gas pipeline to link natural gas producing areas in the Rocky Mountain region to the upper Midwest and the eastern United States. Rockies Express has a \$2 billion, five-year credit facility expiring in 2011 that provides for revolving extensions of credit that are guaranteed by Sempra Energy, Conoco and KMP in proportion to their respective ownership percentages.

Borrowings under the facility bear interest at rates varying with market rates plus a margin that varies with the credit ratings of the lowest-rated guarantor. The facility requires each guarantor to comply with various financial and other covenants comparable to those contained in its senior unsecured credit facilities. In the case of Sempra Energy, the primary requirement is that we maintain a ratio of total indebtedness to total capitalization (as defined in the facility) of no more than 65 percent at the end of each quarter. Rockies Express had \$1.9 billion of outstanding borrowings under this facility at September 30, 2009. The fair value to us of these guarantees is negligible.

### **WEIGHTED AVERAGE INTEREST RATE**

At September 30, 2009, the weighted average interest rate on the total short-term debt outstanding at Sempra Energy, including commercial paper borrowings classified as long-term, was 0.68 percent.

### **LONG-TERM DEBT**

In May 2009, Sempra Energy publicly offered and sold \$750 million of 6.5-percent notes, maturing in 2016. Also in May 2009, SDG&E publicly offered and sold \$300 million of 6.0-percent first mortgage bonds, maturing in 2039.

In July 2009, to secure an approved exemption from sales and use tax, Sempra Pipelines & Storage incurred \$47 million out of a maximum available \$265 million of long-term debt related to the construction and equipping of its Mississippi Hub Gas Storage facility. The debt is payable to the Mississippi Business Finance Corporation (MBFC), and we recorded bonds receivable from the MBFC for the same amount. Both the financing obligation and the bonds

receivable have interest rates of 4.5 percent and are due on July 1, 2024.

In October 2009, Sempra Energy publicly offered and sold \$750 million of 6.0-percent notes, maturing in 2039.

## **INTEREST-RATE SWAPS**

We discuss our fair value interest-rate swaps and interest-rate swaps to hedge cash flows in Note 7.

### **NOTE 7. DERIVATIVE FINANCIAL INSTRUMENTS**

On January 1, 2009, we adopted SFAS 161 (ASC 815) as discussed in Note 2. The adoption of SFAS 161 had no impact on our consolidated financial statements, but requires additional disclosures, which we provide below. Comparative disclosures for periods prior to the date of adoption are not required and we have not provided them.

We use derivative instruments primarily to manage exposures arising in the normal course of business. These exposures are commodity market risk and benchmark interest rate risk. Our use of derivatives for these risks is integrated into the economic management of our anticipated revenues, anticipated expenses, assets and liabilities. Derivatives may be effective in mitigating these risks that could lead to declines in anticipated revenues or increases in anticipated expenses, or that our asset values may fall or our liabilities increase. Accordingly, our derivative activity summarized below generally represents an impact that is intended to offset associated revenues, expenses, assets or liabilities that are not presented below.

All derivatives are recorded at fair value on the Condensed Consolidated Balance Sheets. Each derivative is designated as 1) a cash flow hedge, 2) a fair value hedge, or 3) is undesignated. Depending on the applicability of hedge accounting and, for the Sempra Utilities, the requirement to pass impacts through to customers, the impact of derivative instruments may be offset in other comprehensive income (cash flow hedge), on the balance sheet (fair value hedges and regulatory offsets), or recognized in earnings.

In certain cases, we apply the normal purchase or sale exception to derivative accounting and have other commodity contracts that are not derivatives. These contracts are not recorded at fair value and are therefore excluded from the disclosures below.

## **HEDGE ACCOUNTING**

We may designate a derivative as a cash flow hedging instrument if it effectively converts anticipated revenues or expenses to a fixed dollar amount. We may utilize cash flow hedge accounting for derivative commodity instruments and interest-rate instruments. Designating cash flow hedges is dependent on the business context in which the instrument is being used, the effectiveness of the instrument in offsetting the risk that a given future revenue or expense item may vary, and other criteria.

We may designate an interest-rate derivative as a fair value hedging instrument if it effectively converts our own debt from a fixed interest rate to a variable rate. The combination of the derivative and debt instruments results in fixing that portion of the fair value of the debt that is related to benchmark interest rates. Designating fair value hedges is dependent on the instrument being used, the effectiveness of the instrument in offsetting changes in the fair value of our debt instruments, and other criteria.

## **ENERGY DERIVATIVES**

Our market risk is primarily related to natural gas and electricity price volatility and the specific physical locations where we transact. We use energy derivatives to manage these risks. The use of energy derivatives in our various businesses depends on the particular energy market, and the operating and regulatory environments applicable to the business.

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The Sempra Utilities use natural gas energy derivatives, on their customers' behalf, with the objective of managing price risk and lowering natural gas costs. These derivatives include fixed price natural gas positions, options, and basis risk instruments and are governed by risk management and transacting activity plans that have been filed with and approved by the California Public Utilities Commission (CPUC). Natural gas derivative activities are recorded as



commodity costs that are offset by regulatory account balances and are recovered in rates. Net commodity cost impacts on the Condensed Consolidated Statements of Operations are reflected in Cost of Electric Fuel and Purchased Power or in Cost of Natural Gas.

§

SDG&E is allocated and may purchase congestion revenue rights (CRRs), which serve to reduce the regional electric price volatility risk which may result from local transmission capacity constraints. Unrealized gains and losses do not impact earnings, as they are offset by regulatory account balances. Realized gains and losses associated with CRRs are recorded in Cost of Electric Fuel and Purchased Power on the Condensed Consolidated Statements of Operations. We provide further discussion in Note 8.

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Sempra Generation uses natural gas and electricity instruments to market and optimize the earnings of their power generation fleet. Gains and losses associated with these derivatives are recognized in Sempra Global and Parent Revenues or in Cost of Natural Gas, Electric Fuel and Purchased Power on the Condensed Consolidated Statements of Operations.

§

Sempra LNG and Sempra Pipelines & Storage use natural gas derivatives to market and optimize the earnings of the liquefied natural gas (LNG) business and Sempra Pipelines & Storage's natural gas storage and transportation assets. Sempra Pipelines & Storage also uses natural gas energy derivatives with the objective of managing price risk and lowering natural gas prices at its Mexican distribution operations. Sempra LNG derivatives are undesignated and their impact on earnings is recorded in Sempra Global and Parent Revenues on the Condensed Consolidated Statements of Operations. Sempra Pipelines & Storage derivatives are either designated as cash flow hedges or are undesignated. The impacts on earnings are recognized in Sempra Global and Parent Revenues or in Cost of Natural Gas, Electric Fuel and Purchased Power on the Condensed Consolidated Statements of Operations.

From time to time, our various businesses, including the Sempra Utilities, may use other energy derivatives to hedge exposures such as the price of vehicle fuel. These derivatives are typically accounted for as cash flow hedges.

We summarize net commodity derivative volumes as of September 30, 2009 as follows:

| Business Unit and Commodity              | Volume             |
|--|--------------------|
| Sempra Utilities:                        |                    |
| SDG&E:                                   |                    |
| Natural gas                              | 29 million MMBtu * |
| Congestion revenue rights                | 17 million MWh **  |
| SoCalGas - natural gas                   | 2 million MMBtu    |
| Sempra Global:                           |                    |
| Sempra LNG - natural gas                 | 9 million MMBtu    |
| Sempra Pipelines & Storage - natural gas | 1 million MMBtu    |
| Sempra Generation - electric power       | 1 million MWh      |

\* *Million British thermal units (of natural gas)*

\*\* *Megawatt hours*

In addition to the amounts noted above, we frequently use commodity derivatives to manage risks associated with the physical locations of our customers, assets and other contractual obligations, such as natural gas purchases.

## **INTEREST-RATE DERIVATIVES**

We are exposed to interest-rate changes primarily as a result of our current and expected use of financing. We periodically enter into interest-rate derivative agreements intended to moderate our exposure to interest-rate changes and to lower our overall costs of borrowing. We utilize fixed-to-floating interest-rate swaps, which are typically designated as fair-value hedges, as a means to achieve our targeted level of variable-rate debt as a percent of total

debt. In addition, we utilize floating-to-fixed interest-rate derivatives, which are typically designated as cash flow hedges, to lock in interest rates in anticipation of future financings.

Interest-rate derivatives are utilized by the Sempra Utilities as well as by other Sempra Energy subsidiaries. Although the Sempra Utilities generally recover borrowing costs in rates over time, and the use of interest-rate derivatives is subject to certain regulatory constraints, the impact of interest-rate derivatives may not be recovered from customers as timely as described above with regard to natural gas derivatives. Accordingly, interest-rate derivatives are generally accounted for as hedges at the Sempra Utilities, as at the rest of Sempra Energy's subsidiaries.

The net notional amount of our interest-rate derivatives as of September 30, 2009 was:

| <i>(Dollars in millions)</i> | September 30, 2009 |            |
|------------------------------|--------------------|------------|
|                              | Notional Debt      | Maturities |
| Sempra Energy Consolidated*  | \$ 215-355         | 2009-2019  |
| SDG&E*                       | 285-375            | 2019       |
| SoCalGas                     | 150                | 2011       |

\* Includes Otay Mesa VIE. All of SDG&E's interest-rate derivatives relate to Otay Mesa VIE.

**FINANCIAL STATEMENT PRESENTATION**

The following table provides the fair values of derivative instruments, without consideration of margin deposits held or posted, on the Condensed Consolidated Balance Sheets as of September 30, 2009:

**DERIVATIVE INSTRUMENTS ON THE CONDENSED CONSOLIDATED BALANCE SHEETS**

(Dollars in millions)

|   | September 30, 2009                                    |   |  |  |
|---|---|---|--|--|
|   | Current<br>assets:                                    |   | Current<br>liabilities:                                | Deferred<br>credits<br>and other<br>liabilities:     |
|   | Fixed-price<br>contracts<br>and other<br>derivatives* | Investments<br>and other<br>assets:<br>Sundry | Fixed-price<br>contracts<br>and other<br>derivatives** | Fixed-price<br>contracts<br>and other<br>derivatives |
| Derivatives designated as hedging instruments     |   |   |  |  |
| under ASC 815 (SFAS 133)                          |   |   |  |  |
| <b>Sempra Energy Consolidated:</b>                |   |   |  |  |
| Interest-rate instruments                         | \$ 23   | \$ 2  | \$ -   | \$ -   |
| Commodity contracts not subject to rate recovery  | 3   | -   | (8)  | (4)  |
| Associated offsetting commodity contracts         | (2)   | -   | 2  | -  |
| Total   | \$ 24   | \$ 2  | \$ (6)   | \$ (4)   |
| <b>SoCalGas:</b>                                  |   |   |  |  |
| Interest-rate instruments                         | \$ 5  | \$ 2  | \$ -   | \$ -   |
| Derivatives not designated as hedging instruments |   |   |  |  |
| under ASC 815 (SFAS 133)                          |   |   |  |  |
| <b>Sempra Energy Consolidated:</b>                |   |   |  |  |
| Interest-rate instruments***                      | \$ 8  | \$ 25   | \$ (23)  | \$ (58)  |
| Commodity contracts not subject to rate recovery  | 85  | 38  | (74)   | (50)   |
| Associated offsetting commodity contracts         | (42)  | (11)  | 42   | 11   |
| Commodity contracts subject to rate recovery      | 24  | 17  | (19)   | (1)  |
|   | (15)  | (1)   | 15   | 1  |

|                   |   |    |      |    |     |         |         |
|-------------------|---|----|------|----|-----|---------|---------|
|                   | Associated offsetting<br>commodity contracts    |    |      |    |     |         |         |
| <b>SDG&amp;E:</b> | Total   | \$ | 60   | \$ | 68  | \$ (59) | \$ (97) |
|                   | Interest-rate<br>instruments***                 | \$ | -    | \$ | -   | \$ (16) | \$ (40) |
|                   | Commodity contracts<br>subject to rate recovery |    | 18   |    | 17  | (15)    | (1)     |
|                   | Associated offsetting<br>commodity contracts    |    | (12) |    | (1) | 12      | 1       |
|                   | Total   | \$ | 6    | \$ | 16  | \$ (19) | \$ (40) |
| <b>SoCalGas:</b>  | Commodity contracts<br>subject to rate recovery | \$ | 6    | \$ | -   | \$ (4)  | \$ -    |
|                   | Associated offsetting<br>commodity contracts    |    | (3)  |    | -   | 3       | -       |
|                   | Total   | \$ | 3    | \$ | -   | \$ (1)  | \$ -    |

\* *Included in Current assets: Other for SoCalGas.*

\*\* *Included in Current liabilities: Other for SoCalGas.*

\*\*\* *Includes Otay Mesa VIE. All of SDG&E's amounts relate to Otay Mesa VIE.*

The effects of derivative instruments designated as hedges under ASC 815 (SFAS 133) on the Condensed Consolidated Statements of Operations for the three months and nine months ended September 30, 2009 were:

**FAIR VALUE HEDGE IMPACT ON THE CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

*(Dollars in millions)*

|                                    | Three months ended September 30, 2009               |        | Nine months ended September 30, 2009                |        |
|------------------------------------|---|--------|---|--------|
|                                    | Gain (loss) on derivative<br>recognized in earnings |        | Gain (loss) on derivative<br>recognized in earnings |        |
|                                    | Location  | Amount | Location  | Amount |
| <b>Sempra Energy Consolidated:</b> |   |        |   |        |
| Interest-rate instruments*         | Interest Expense                                    | \$ 5   | Interest Expense                                    | \$ 5   |
| Interest-rate instruments          | Other Income (Expense), Net                         | (5)    | Other Income (Expense), Net                         | (12)   |
| Total                              |   | \$ -   |   | \$ (7) |
| <b>SoCalGas:</b>                   |   |        |   |        |
| Interest-rate instrument*          | Interest Expense                                    | \$ (5) | Interest Expense                                    | \$ (5) |
| Interest-rate instrument           | Other Income (Expense), Net                         | (1)    | Other Income (Expense), Net                         | (3)    |
| Total                              |   | \$ (6) |   | \$ (8) |

\* *There has been no hedge ineffectiveness on these swaps. Changes in the fair values of the interest-rate swap agreements are exactly offset by changes in the fair value of the underlying long-term debt.*

**CASH FLOW HEDGE IMPACT ON THE CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS***(Dollars in millions)*

|  |    |   |   | Three months ended September 30, 2009 |        |
|--|----|---|---|---------------------------------------|--------|
|  |    | Amount of<br>pretax<br>gain (loss)<br>on derivative<br>recognized in<br>OCI<br>(effective<br>portion) | Gain (loss) reclassified from AOCI<br>into earnings (effective portion) |                                       |        |
|  |    |   | Location  |                                       | Amount |
| <b>Sempra Energy Consolidated:</b>                     |    |   |   |                                       |        |
| Interest-rate instruments                              | \$ | (8)   | Interest Expense  | \$                                    | 4      |
| Commodity contracts<br>not subject<br>to rate recovery |    | -   | Revenues: Sempra<br>Global<br>and Parent                                |                                       | 2      |
| Commodity contracts<br>not subject<br>to rate recovery |    | (3)   | Cost of Natural Gas,<br>Electric<br>Fuel and Purchased<br>Power         |                                       | (1)    |
| Total  | \$ | (11)  |   | \$                                    | 5      |
| <b>SDG&amp;E:</b>                                      |    |   |   |                                       |        |
| Interest-rate instruments                              | \$ | -   | Interest Expense  | \$                                    | 6      |
| <b>SoCalGas:</b>                                       |    |   |   |                                       |        |
| Interest-rate instrument                               | \$ | -   | Interest Expense  | \$                                    | (1)    |

|  |    |   |   | Nine months ended September 30, 2009 |        |
|--|----|---|---|--------------------------------------|--------|
|  |    | Amount of<br>pretax<br>gain (loss)<br>on derivative<br>recognized in<br>OCI<br>(effective<br>portion) | Gain (loss) reclassified from AOCI<br>into earnings (effective portion) |                                      |        |
|  |    |   | Location  |                                      | Amount |
| <b>Sempra Energy Consolidated:</b>                     |    |   |   |                                      |        |
| Interest-rate instruments                              | \$ | 13  | Interest Expense  | \$                                   | -      |
| Commodity contracts<br>not subject<br>to rate recovery |    | 11  | Revenues: Sempra<br>Global<br>and Parent                                |                                      | 18     |

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|                                    |    |     |                                  |        |
|------------------------------------|----|-----|----------------------------------|--------|
| Commodity contracts<br>not subject |    |     | Cost of Natural Gas,<br>Electric |        |
| to rate recovery                   |    | (5) | Fuel and Purchased<br>Power      | (9)    |
| Commodity contracts<br>not subject |    |     | Equity Earnings<br>(Losses): RBS |        |
| to rate recovery                   |    | -   | Sempra<br>Commodities LLP        | (9)    |
| Total                              | \$ | 19  |                                  | \$ -   |
| <b>SDG&amp;E:</b>                  |    |     |                                  |        |
| Interest-rate instruments          | \$ | -   | Interest Expense                 | \$ 4   |
| <b>SoCalGas:</b>                   |    |     |                                  |        |
| Interest-rate instrument           | \$ | -   | Interest Expense                 | \$ (3) |

Sempra Energy expects that losses of \$4 million, which are net of income tax benefit, that are currently recorded in Accumulated Other Comprehensive Income (Loss) related to these cash flow hedges will be reclassified into earnings during the next twelve months as the hedged items affect earnings. Actual amounts ultimately reclassified to earnings depend on the commodity prices and interest rates in effect when derivative contracts that are currently outstanding mature. For all forecasted transactions, the maximum term over which we are hedging exposures to the variability of cash flows, excluding interest payments on variable-rate debt, is 33 months at September 30, 2009.

SDG&E and SoCalGas expect that gains of \$1 million and losses of \$3 million, respectively, which are net of income tax benefit, that are currently recorded in Accumulated Other Comprehensive Income (Loss) related to these cash flow hedges will be reclassified into earnings during the next twelve months as the hedged items affect earnings.



The effects of derivative instruments not designated as hedging instruments under ASC 815 (SFAS 133) on the Condensed Consolidated Statements of Operations for the three months and nine months ended September 30, 2009 were:

### UNDESIGNATED DERIVATIVE IMPACT ON THE CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions)

|                                    |  | Gain (loss) on derivative recognized in earnings |   |
|------------------------------------|--|--|---|
| Location                           |  | Three months ended<br>September 30, 2009         | Nine months ended<br>September 30, 2009 |
| <b>Sempra Energy Consolidated:</b> |  |  |   |
| Interest-rate instruments*         | Other Income (Expense),<br>Net               | \$ (10)  | \$ 19                                   |
| Commodity contracts not subject    |  |  |   |
| to rate recovery                   | Revenues: Sempra Global<br>and Parent        | 60   | 35                                      |
| Commodity contracts not subject    | Cost of Natural Gas,<br>Electric             |  |   |
| to rate recovery                   | Fuel and Purchased<br>Power                  | (49)   | (30)                                    |
| Commodity contracts subject        | Cost of Electric Fuel<br>and Purchased Power | (18)   | (24)                                    |
| to rate recovery                   | Cost of Natural Gas                          | -  | (3)                                     |
| Total                              |  | \$ (17)  | \$ (3)                                  |
| <b>SDG&amp;E:</b>                  |  |  |   |
| Interest-rate instruments*         | Other Income, Net                            | \$ (11)  | \$ 19                                   |
| Commodity contracts subject        | Cost of Electric Fuel<br>and Purchased Power | (18)   | (24)                                    |
| Total                              |  | \$ (29)  | \$ (5)                                  |
| <b>SoCalGas:</b>                   |  |  |   |
| Commodity contracts subject        | Cost of Natural Gas                          | \$ -   | \$ (3)                                  |

\* Related to Otay Mesa VIE. Sempra Energy Consolidated also includes additional instruments.

### CONTINGENT FEATURES

For Sempra Energy and SDG&E, certain of our derivative instruments contain credit limits which vary depending upon our credit rating. Generally, these provisions, if applicable, may reduce our credit limit if a specified credit rating agency reduces our rating. In certain cases, if our credit rating were to fall below investment grade, the counterparty to these derivative liability instruments could request immediate payment or demand immediate and ongoing full collateralization.

For Sempra Energy, the total fair value of this group of derivative instruments in a net liability position at September 30, 2009 is \$11 million, including \$7 million at SDGE. As of September 30, 2009, if both the credit ratings of Sempra Energy and SDG&E were reduced below investment grade, \$11 million of additional assets (\$4 million by Sempra Energy and \$7 million by SDG&E) could be required to be posted as collateral for these derivative contracts.

For Sempra Energy, SDG&E, PE and SoCalGas, some of our derivative contracts contain a provision that would permit the counterparty, in certain circumstances, to request adequate assurance of our performance under the contract. Such additional assurance, if needed, is not material and is not included in the amounts above.

#### NOTE 8. FAIR VALUE MEASUREMENTS

##### *Fair Value of Financial Instruments*

The fair values of certain of our financial instruments (cash, temporary investments, accounts and notes receivable, dividends and accounts payable, short-term debt and customer deposits) approximate their carrying amounts. The following table provides the carrying amounts and fair values of the remaining financial instruments at September 30, 2009 and December 31, 2008:

#### FAIR VALUE OF FINANCIAL INSTRUMENTS

*(Dollars in millions)*

|  | September 30, 2009 |            | December 31, 2008 |            |
|--|--------------------|------------|-------------------|------------|
|  | Carrying Amount    | Fair Value | Carrying Amount   | Fair Value |
| <b>Sempra Energy Consolidated:</b>                 |                    |            |                   |            |
| Investments in affordable housing partnerships (1) | \$ 37              | \$ 57      | \$ 43             | \$ 63      |
| Total long-term debt (2)                           | 7,478              | 8,173      | 6,962             | 7,013      |
| Due to unconsolidated affiliates                   | 102                | 106        | 102               | 101        |
| Preferred stock of subsidiaries                    | 179                | 152        | 179               | 149        |
| <b>SDG&amp;E:</b>                                  |                    |            |                   |            |
| Total long-term debt (3)                           | \$ 2,601           | \$ 2,780   | \$ 2,146          | \$ 2,073   |
| Contingently redeemable preferred stock            | 79                 | 73         | 79                | 71         |
| <b>PE and SoCalGas:</b>                            |                    |            |                   |            |
| Total long-term debt (4)                           | \$ 1,372           | \$ 1,463   | \$ 1,372          | \$ 1,333   |
| <b>PE:</b>   |                    |            |                   |            |
| Preferred stock                                    | \$ 80              | \$ 61      | \$ 80             | \$ 59      |
| Preferred stock of subsidiary                      | 20                 | 18         | 20                | 19         |

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|                 |  |     |    |    |    |     |    |    |
|-----------------|--|-----|----|----|----|-----|----|----|
|                 | \$   | 100 | \$ | 79 | \$ | 100 | \$ | 78 |
| SoCalGas:       |  |     |    |    |    |     |    |    |
| Preferred stock | \$   | 22  | \$ | 19 | \$ | 22  | \$ | 20 |
| (1)             | <i>We discuss our investments in affordable housing partnerships in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.</i> |     |    |    |    |     |    |    |
| (2)             | <i>Before reductions for unamortized discount of \$11 million at September 30, 2009 and \$8 million at December 31, 2008.</i>                          |     |    |    |    |     |    |    |
| (3)             | <i>Before reductions for unamortized discount of \$4 million at September 30, 2009 and \$2 million at December 31, 2008.</i>                           |     |    |    |    |     |    |    |
| (4)             | <i>Before reductions for unamortized discount of \$2 million at September 30, 2009 and \$2 million at December 31, 2008.</i>                           |     |    |    |    |     |    |    |

Sempra Energy based the fair values of investments in affordable housing partnerships on the present value of estimated future cash flows, discounted at rates available for similar investments. Sempra Energy estimated the fair values of debt incurred to acquire affordable housing partnerships based on the present value of the future cash flows, discounted at rates available for similar notes with comparable maturities.

All entities based the fair values of the long-term debt and preferred stock on their quoted market prices or quoted market prices for similar securities.

***Nuclear Decommissioning Trusts***

We discuss our investments in nuclear decommissioning trust funds in Note 7 of the Notes to Consolidated Financial Statements in the Annual Report. The following table shows the fair values and gross unrealized gains and losses for the securities held in the trust funds:

**NUCLEAR DECOMMISSIONING TRUSTS***(Dollars in millions)*

|                                     | Cost   | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
|-------------------------------------|--------|------------------------------|-------------------------------|----------------------------|
| <b>As of September 30, 2009:</b>    |        |                              |                               |                            |
| Debt securities                     |        |                              |                               |                            |
| U.S. government*                    | \$ 141 | \$ 17                        | \$ (1)                        | \$ 157                     |
| Municipal bonds**                   | 67     | 3                            | (2)                           | 68                         |
| Total debt securities               | 208    | 20                           | (3)                           | 225                        |
| Equity securities                   | 236    | 171                          | (6)                           | 401                        |
| Cash and other securities***        | 35     | 3                            | -                             | 38                         |
| Total available-for-sale securities | \$ 479 | \$ 194                       | \$ (9)                        | \$ 664                     |

**As of December 31, 2008:**

|                                     |        |        |         |        |
|-------------------------------------|--------|--------|---------|--------|
| Debt securities                     |        |        |         |        |
| U.S. government                     | \$ 127 | \$ 28  | \$ -    | \$ 155 |
| Municipal bonds                     | 69     | 1      | (9)     | 61     |
| Total debt securities               | 196    | 29     | (9)     | 216    |
| Equity securities                   | 251    | 105    | (36)    | 320    |
| Cash and other securities           | 40     | 3      | (2)     | 41     |
| Total available-for-sale securities | \$ 487 | \$ 137 | \$ (47) | \$ 577 |

\* *Maturity dates are 2012-2039*\*\* *Maturity dates are 2010-2057*\*\*\* *Maturity dates are 2009-2049*

The following table shows the proceeds from sales of securities in the trusts and gross realized gains and losses on those sales:

**SALES OF SECURITIES***(Dollars in millions)*

|                       | Three months ended September 30, |        | Nine months ended September 30, |        |
|-----------------------|----------------------------------|--------|---------------------------------|--------|
|                       | 2009                             | 2008   | 2009                            | 2008   |
| Proceeds from sales   | \$ 62                            | \$ 173 | \$ 150                          | \$ 342 |
| Gross realized gains  | -                                | 4      | 4                               | 11     |
| Gross realized losses | (6)                              | (11)   | (30)                            | (22)   |

Net unrealized gains (losses) are included in Regulatory Liabilities Arising from Removal Obligations on the Condensed Consolidated Balance Sheets. We determine the cost of securities in the trusts on the basis of specific identification.

The fair value of securities in an unrealized loss position as of September 30, 2009 was \$84 million. The unrealized losses of \$9 million were primarily caused by a negative market environment. We do not consider these investments to be other than temporarily impaired as of September 30, 2009.

***Derivative Positions Net of Cash Collateral***

In accordance with ASC 815, *Derivatives and Hedging* (ASC 815) (FSP FIN 39-1), each Condensed Consolidated Balance Sheet reflects the offsetting of net derivative positions with fair value amounts for cash collateral with the same counterparty when management believes a legal right of offset exists.

The following table provides the amount of fair value of cash collateral that was not offset in the Condensed Consolidated Balance Sheets as of September 30, 2009 and December 31, 2008:

| <i>(Dollars in millions)</i> | September 30,<br>2009 | December 31,<br>2008 |
|------------------------------|-----------------------|----------------------|
| Sempra Energy Consolidated   | \$ 49                 | \$ 28                |
| SDG&E                        | 43                    | 21                   |
| SoCalGas                     | 5                     | 7                    |

***Fair Value Hierarchy***

We discuss the valuation techniques we use to measure fair value and the definition of the three levels of the fair value hierarchy, as defined in ASC 820, *Fair Value Measurements and Disclosures* (ASC 820) (SFAS 157), and our netting policy for derivative positions in Notes 1, 2 and 11 of the Notes to Consolidated Financial Statements in the Annual Report.

The three tables below, by level within the fair value hierarchy, set forth our financial assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2009 and December 31, 2008. As required by ASC 820, we classify financial assets and liabilities in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities, and their placement within the fair value hierarchy levels.

The determination of fair values incorporates various factors required under ASC 820, including but not limited to, the credit standing of the counterparties involved and the impact of credit enhancements (such as cash deposits, letters of credit and priority interests).

The fair value of commodity derivative assets and liabilities is determined in accordance with our netting policy as discussed above.

**RECURRING FAIR VALUE MEASURES -- SEMPra ENERGY CONSOLIDATED***(Dollars in millions)*

At fair value as of September 30, 2009

|                                 | Level 1       | Level 2       | Level 3      | Collateral<br>Netted | Total         |
|---------------------------------|---------------|---------------|--------------|----------------------|---------------|
| <b>Assets:</b>                  |               |               |              |                      |               |
| Nuclear decommissioning trusts* | \$ 510        | \$ 147        | \$ -         | \$ -                 | \$ 657        |
| Investments                     | 1             | -             | -            | -                    | 1             |
| Commodity derivatives           | 54            | 72            | 32           | (35)                 | 123           |
| Other derivatives               | -             | 59            | -            | -                    | 59            |
| <b>Total</b>                    | <b>\$ 565</b> | <b>\$ 278</b> | <b>\$ 32</b> | <b>\$ (35)</b>       | <b>\$ 840</b> |
| <b>Liabilities:</b>             |               |               |              |                      |               |
| Commodity derivatives           | \$ 13         | \$ 85         | \$ -         | \$ (13)              | \$ 85         |
| Other derivatives               | -             | 81            | -            | -                    | 81            |
| <b>Total</b>                    | <b>\$ 13</b>  | <b>\$ 166</b> | <b>\$ -</b>  | <b>\$ (13)</b>       | <b>\$ 166</b> |

At fair value as of December 31, 2008

|                                 | Level 1       | Level 2       | Level 3      | Collateral<br>Netted | Total         |
|---------------------------------|---------------|---------------|--------------|----------------------|---------------|
| <b>Assets:</b>                  |               |               |              |                      |               |
| Nuclear decommissioning trusts* | \$ 421        | \$ 148        | \$ -         | \$ -                 | \$ 569        |
| Investments                     | 1             | 176           | -            | -                    | 177           |
| Commodity derivatives           | 55            | 76            | 27           | (38)                 | 120           |
| Other derivatives               | -             | 76            | -            | -                    | 76            |
| <b>Total</b>                    | <b>\$ 477</b> | <b>\$ 476</b> | <b>\$ 27</b> | <b>\$ (38)</b>       | <b>\$ 942</b> |
| <b>Liabilities:</b>             |               |               |              |                      |               |
| Commodity derivatives           | \$ 63         | \$ 110        | \$ -         | \$ (63)              | \$ 110        |
| Other derivatives               | -             | 130           | -            | -                    | 130           |
| <b>Total</b>                    | <b>\$ 63</b>  | <b>\$ 240</b> | <b>\$ -</b>  | <b>\$ (63)</b>       | <b>\$ 240</b> |

\* Excludes cash balances.





**RECURRING FAIR VALUE MEASURES -- SDG&E***(Dollars in millions)*

At fair value as of September 30, 2009

|                                 | Level 1       | Level 2       | Level 3      | Collateral<br>Netted | Total         |
|---------------------------------|---------------|---------------|--------------|----------------------|---------------|
| <b>Assets:</b>                  |               |               |              |                      |               |
| Nuclear decommissioning trusts* | \$ 510        | \$ 147        | \$ -         | \$ -                 | \$ 657        |
| Commodity derivatives           | 43            | 2             | 32           | -                    | 77            |
| <b>Total</b>                    | <b>\$ 553</b> | <b>\$ 149</b> | <b>\$ 32</b> | <b>\$ -</b>          | <b>\$ 734</b> |
| <b>Liabilities:</b>             |               |               |              |                      |               |
| Commodity derivatives           | \$ 13         | \$ 3          | \$ -         | \$ (13)              | \$ 3          |
| Other derivatives               | -             | 56            | -            | -                    | 56            |
| <b>Total</b>                    | <b>\$ 13</b>  | <b>\$ 59</b>  | <b>\$ -</b>  | <b>\$ (13)</b>       | <b>\$ 59</b>  |

At fair value as of December 31, 2008

|                                 | Level 1       | Level 2       | Level 3      | Collateral<br>Netted | Total         |
|---------------------------------|---------------|---------------|--------------|----------------------|---------------|
| <b>Assets:</b>                  |               |               |              |                      |               |
| Nuclear decommissioning trusts* | \$ 421        | \$ 148        | \$ -         | \$ -                 | \$ 569        |
| Commodity derivatives           | 21            | -             | 27           | -                    | 48            |
| Short-term investments          | -             | 24            | -            | -                    | 24            |
| <b>Total</b>                    | <b>\$ 442</b> | <b>\$ 172</b> | <b>\$ 27</b> | <b>\$ -</b>          | <b>\$ 641</b> |
| <b>Liabilities:</b>             |               |               |              |                      |               |
| Commodity derivatives           | \$ 52         | \$ 24         | \$ -         | \$ (52)              | \$ 24         |
| Other derivatives               | -             | 88            | -            | -                    | 88            |
| <b>Total</b>                    | <b>\$ 52</b>  | <b>\$ 112</b> | <b>\$ -</b>  | <b>\$ (52)</b>       | <b>\$ 112</b> |

\* Excludes cash balances.



**RECURRING FAIR VALUE MEASURES -- SOCIALGAS***(Dollars in millions)*

At fair value as of September 30, 2009

|                       | Level 1     | Level 2     | Level 3     | Collateral<br>Netted | Total        |
|-----------------------|-------------|-------------|-------------|----------------------|--------------|
| <b>Assets:</b>        |             |             |             |                      |              |
| Commodity derivatives | \$ 7        | \$ 2        | \$ -        | \$ -                 | \$ 9         |
| Other derivatives     | -           | 7           | -           | -                    | 7            |
| <b>Total</b>          | <b>\$ 7</b> | <b>\$ 9</b> | <b>\$ -</b> | <b>\$ -</b>          | <b>\$ 16</b> |
| <b>Liabilities:</b>   |             |             |             |                      |              |
| Commodity derivatives | \$ -        | \$ 1        | \$ -        | \$ -                 | \$ 1         |

At fair value as of December 31, 2008

|                       | Level 1     | Level 2      | Level 3     | Collateral<br>Netted | Total        |
|-----------------------|-------------|--------------|-------------|----------------------|--------------|
| <b>Assets:</b>        |             |              |             |                      |              |
| Commodity derivatives | \$ 8        | \$ 3         | \$ -        | \$ -                 | \$ 11        |
| Other derivatives     | -           | 10           | -           | -                    | 10           |
| <b>Total</b>          | <b>\$ 8</b> | <b>\$ 13</b> | <b>\$ -</b> | <b>\$ -</b>          | <b>\$ 21</b> |
| <b>Liabilities:</b>   |             |              |             |                      |              |
| Commodity derivatives | \$ 11       | \$ -         | \$ -        | \$ (11)              | \$ -         |

**Level 3 Information**

The following table sets forth reconciliations of changes in the fair value of net trading and other derivatives classified as Level 3 in the fair value hierarchy:

| <i>(Dollars in millions)</i>  | Sempra Energy Consolidated       |      | SDG&E                            |      |
|---|----------------------------------|------|----------------------------------|------|
|   | Three months ended September 30, |      | Three months ended September 30, |      |
|   | 2009                             | 2008 | 2009                             | 2008 |
| Balance as of July 1  | \$ 25                            | \$ 5 | \$ 25                            | \$ 5 |
| Realized and unrealized losses  | (8)                              | -    | (8)                              | -    |
| Purchases and issuances   | 15                               | -    | 15                               | -    |
| Settlements   | -                                | (2)  | -                                | (2)  |
| Balance as of September 30  | \$ 32                            | \$ 3 | \$ 32                            | \$ 3 |
| Change in unrealized gains relating to instruments still held at September 30 | \$ -                             | \$ - | \$ -                             | \$ - |

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| <i>(Dollars in millions)</i>   | Sempra Energy Consolidated      |        | SDG&E                           |      |
|--|---------------------------------|--------|---------------------------------|------|
|  | Nine months ended September 30, |        | Nine months ended September 30, |      |
|  | 2009                            | 2008   | 2009                            | 2008 |
| Balance as of January 1  | \$ 27                           | \$ 401 | \$ 27                           | \$ 7 |
| Realized and unrealized losses   | (7)                             | (82)   | (7)                             | -    |
| Purchases and issuances  | 15                              | 22     | 15                              | -    |
| Settlements  | (3)                             | (2)    | (3)                             | (4)  |
| Sale of the commodities-marketing<br>businesses                                  | -                               | (336)  | -                               | -    |
| Balance as of September 30   | \$ 32                           | \$ 3   | \$ 32                           | \$ 3 |
| Change in unrealized gains relating to<br>instruments still held at September 30 | \$ -                            | \$ -   | \$ -                            | \$ - |

There were no transfers in or out of Level 3 during the periods presented.

Gains and losses (realized and unrealized) for Level 3 recurring items are primarily related to the commodities-marketing businesses and were included in Revenues for Sempra Global and Parent on the Condensed Consolidated Statement of Operations for the three months ended March 31, 2008. With the sale of these businesses on April 1, 2008, Level 3 recurring activity was substantially reduced.

Gains and losses (realized and unrealized) for SDG&E's Level 3 recurring items are primarily related to congestion revenue rights and were included in Cost of Electric Fuel and Purchased Power on the Condensed Consolidated Statement of Operations for the three months and nine months ended September 30, 2009 and 2008.

#### NOTE 9. SEMPRA UTILITIES' REGULATORY MATTERS

##### **POWER PROCUREMENT AND RESOURCE PLANNING**

###### *Sunrise Powerlink Electric Transmission Line*

In December 2008, the California Public Utilities Commission (CPUC) issued a final decision authorizing SDG&E to construct a 500-kilovolt (kV) electric transmission line between the Imperial Valley and the San Diego region (Sunrise Powerlink). This line is designed to provide 1,000 MW of increased import capability into the San Diego area. The decision allows SDG&E to construct the Sunrise Powerlink along a route that would generally run south of the Anza-Borrego Desert State Park. The decision also approves the environmental impact review conducted jointly by the CPUC and the Bureau of Land Management (BLM) and establishes a total project cost cap of \$1.883 billion, including approximately \$190 million for environmental mitigation costs. In January 2009, the BLM issued its decision approving the project, route and environmental review. We provided the details of the CPUC's decision in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report.

After the issuance of the CPUC final decision, applications for rehearing before the CPUC were filed by the Utility Consumers Action Network (UCAN) and the Center for Biological Diversity/Sierra Club (CBD). The CPUC issued a final decision in July 2009 denying the requests for rehearing. UCAN and CBD jointly filed a petition with the California Supreme Court in August 2009 challenging the CPUC's decision with regard to implementation of the California Environmental Quality Act (CEQA). UCAN also filed a petition with the California Court of Appeal challenging the decision on other legal grounds. The CPUC, the California Independent System Operator (ISO) and SDG&E filed separate motions with the California Supreme Court requesting transfer of the UCAN petition to the California Supreme Court. Responses to both petitions will be filed once the California Supreme Court has ruled on the transfer requests.

Three appeals of the BLM decision approving the segment of the route in its jurisdiction were filed by individuals, a community organization, and the Viejas Indian tribe in March 2009. A request to stay the BLM's decision was also filed. The Interior Board of Land Appeals (IBLA) has dismissed the appeal filed by the individuals and issued a ruling in July 2009 denying the request for stay. In addition, the Viejas Indian tribe withdrew its appeal in July 2009. The IBLA is still reviewing the one remaining appeal.

The Sunrise Powerlink also requires approval from the United States Forest Service (USFS). SDG&E expects the USFS to issue a decision approving the segment of the route in its jurisdiction in the first quarter of 2010. The USFS decision is also subject to administrative and judicial review.

SDG&E commenced procurement activities in the first quarter of 2009, but before construction can begin, additional agency permits must be obtained. The total amount invested by SDG&E in the Sunrise Powerlink project as of September 30, 2009 was \$184 million, which is included in Property, Plant and Equipment on the Condensed Consolidated Balance Sheets of Sempra Energy and SDG&E. SDG&E expects the Sunrise Powerlink to be in commercial operation in 2012.

### ***Renewable Energy***

Certain California electric retail sellers, including SDG&E, are required to deliver 20 percent of their retail demand from renewable energy sources beginning in 2010. The rules governing this requirement, administered by both the CPUC and the California Energy Commission (CEC), are generally known as the Renewables Portfolio Standard (RPS) Program. In September 2009, the Governor of California issued an Executive Order which requires California utilities by 2020 to procure 33 percent of their electric energy requirements from renewable energy sources. This Executive Order designates the California Air Resources Board (CARB) as the agency responsible for establishing the compliance rules and regulations.

In 2008, the CPUC issued a decision defining flexible compliance mechanisms that can be used to defer compliance with or meet the RPS Program mandates in 2010 and beyond. The decision established that a finding by the CPUC of insufficient transmission is a permissible reason to defer compliance with the RPS Program mandates. This decision also confirmed that any renewable energy procured in excess of the established targets, currently and in the future, could be applied to any shortfalls in the years 2010 and beyond.

SDG&E continues to aggressively secure renewable energy supplies to achieve the RPS Program goals. A substantial number of these supply contracts, however, are contingent upon many factors, including:

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access to electric transmission infrastructure (including SDG&E's Sunrise Powerlink transmission line);

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timely regulatory approval of contracted renewable energy projects;

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the renewable energy project developers' ability to obtain project financing and permitting; and

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successful development and implementation of the renewable energy technologies.

As previously noted, SDG&E expects the Sunrise Powerlink transmission line to be in operation in 2012. This would be too late to provide transmission capability to meet the RPS Program requirements for 2010 and 2011. However, SDG&E believes it will be able to comply with the RPS Program requirements based on its contracting activity and application of the flexible compliance mechanisms. SDG&E's failure to comply with the RPS Program requirements in 2010, or in any subsequent years, could subject it to CPUC-imposed penalties of 5 cents per kilowatt hour of renewable energy under-delivery up to a maximum penalty of \$25 million per year.

### ***Miramar II Peaking Plant***

Miramar II is a 48.6-MW natural gas-fired peaking plant in San Diego, located next to an existing SDG&E peaking plant. Built by SDG&E at a cost of \$54 million, Miramar II began commercial operation in August 2009.

### ***Solar Photovoltaic Program***

In July 2008, SDG&E filed an application with the CPUC proposing to invest up to \$250 million to install solar photovoltaic panels in the San Diego area. These panels could generate approximately 50 MW of direct current power (approximately equivalent to 35 MW of power to the electric grid). In March 2009, SDG&E, UCAN and other interested parties submitted a settlement agreement which, if approved by the CPUC, would, among other provisions, reduce SDG&E's investment in the program to the lesser of \$125 million or 26 MW (direct current). A CPUC decision is expected in the first quarter of 2010. If approved, we expect the installation of SDG&E's portion of the panels to be constructed in phases from 2010 through 2013.

#### **GENERAL RATE CASE (GRC)**

The CPUC uses a general rate case proceeding to determine the Sempra Utilities' reasonable level of costs, prospectively, and to set rates sufficient to allow the Sempra Utilities the opportunity to recover their costs and realize an acceptable rate of return on their investment.

In November 2009, SDG&E and SoCalGas, jointly with the Division of Ratepayer Advocates (DRA), a division of the CPUC representing the interests of customers, filed petitions with the CPUC to delay the filing of SDG&E's and SoCalGas' next GRC applications by one year. If approved by the CPUC, both SDG&E and SoCalGas would file their next GRC application in late 2011 for test year 2013. The petitions propose methodology to determine the 2012



revenue requirements for each company which would result in SDG&E and SoCalGas receiving an increase of no less than approximately \$45 million and \$55 million, respectively, in authorized margin, or three percent, above the 2011 authorized margin. The parties also agreed, among other things, to allow the Sempra Utilities to recover the increase, as deemed reasonable, in their annual excess liability insurance premiums in 2012, primarily due to the coverage for wildfire claims.

## **UTILITY INCENTIVE MECHANISMS**

The CPUC applies performance-based measures and incentive mechanisms to all California utilities. Under these, the Sempra Utilities have earnings potential above authorized base margins if they achieve or exceed specific performance and operating goals. Generally, for performance-based awards, if performance is above or below specific benchmarks, the utility is eligible for financial awards or subject to financial penalties. There are four general areas that operate under an incentive structure:

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employee safety

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energy efficiency programs

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natural gas procurement

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natural gas unbundled storage and system operator hub services

Incentive awards are included in our earnings when we receive any required CPUC approval of the award. We would record penalties for results below the specified benchmarks in earnings when we believe it is more likely than not that the CPUC would assess a penalty. All award amounts discussed below are on a pretax basis.

Below are updates to these incentive mechanisms for activity during the first three quarters of 2009. We provide additional information regarding these incentive mechanisms in Note 15 of the Notes to Consolidated Financial Statements in the Annual Report.

### ***Energy Efficiency***

In December 2008, the CPUC approved energy efficiency awards of \$10.8 million for SDG&E and \$5.2 million for SoCalGas for 2006 and 2007 energy efficiency results, which were net of a holdback of 65 percent. In May 2009, SDG&E and SoCalGas filed a partial party settlement agreement regarding the appropriate method to determine incentive awards for the 2006 – 2008 program period. If approved, this settlement would result in 1) awards of \$10.7 million for SDG&E and \$12.5 million for SoCalGas; and 2) upon conclusion of the CPUC's assessment and audit process, awards of up to \$11.6 million for SDG&E and \$9.5 million for SoCalGas for the remaining holdback amounts. We expect a CPUC decision regarding the settlement in 2009 and the completion of the CPUC assessment and audit process in 2010.

### ***Natural Gas Procurement***

In February 2009, the CPUC approved a SoCalGas gas cost incentive mechanism (GCIM) award of \$6.5 million for core natural gas procurement activities in the 12-month period ended March 31, 2008, which SoCalGas recorded in the first quarter of 2009.

In June 2009, SoCalGas filed an application with the CPUC requesting approval of a \$12 million GCIM award for its procurement activities in the 12-month period ended March 31, 2009. In October 2009, the DRA completed their review of SoCalGas' GCIM application and issued a report to the CPUC recommending approval of the full award. A final decision is expected in the first quarter of 2010.

#### **COST OF CAPITAL**

The cost of capital proceeding determines the Sempra Utilities' authorized capital structure and the authorized rate of return that the Sempra Utilities may earn on their electric and natural gas distribution and electric generation assets.

### ***SoCalGas***

In July 2009, the CPUC denied SoCalGas' petition, which was filed in April 2009, seeking to suspend its cost of capital Market Index Capital Adjustment Mechanism (MICAM) due to the uncertainty of whether the MICAM would trigger an adjustment to SoCalGas' return on equity. SoCalGas believes that the benchmarks used to determine whether the MICAM is triggered are not indicative of the risks and interest rates associated with the natural gas distribution business. Actions taken by the U.S. Government to halt the collapse of the banking and financial system dramatically reduced U.S. Treasury yields which, at the time, increased the likelihood of causing the MICAM to trigger in 2009. The estimated adverse impact to net income of such an adjustment, assuming that the 30-year U.S. Treasury Bond yield metrics as specified in the MICAM were 150 basis points below the benchmark, is \$18 million for 2010.

While U.S. Treasury yields have recently increased, such that we now believe that it is unlikely that the MICAM will trigger in 2009, the potential of further government intervention to stimulate the economy could result in reductions in U.S. Treasury yields in the future, increasing the likelihood of triggering the MICAM. SoCalGas believes this would be inappropriate because the index used for the MICAM does not provide a strong correlation with utility risks, making it an inaccurate metric for use as a triggering mechanism. Given the CPUC's decision and the disconnect between the MICAM benchmarks and the natural gas distribution business risks and associated cost of capital, should the MICAM trigger, SoCalGas intends to request a change in the MICAM benchmarks to defer any resultant change in its cost of capital and propose a more indicative index associated with the natural gas distribution business.

### ***SDG&E***

SDG&E is currently required to file its next full cost of capital application in April 2010. SDG&E and the DRA reached an agreement to pursue a joint petition to delay this application for two years. Approval of the request, filed in October 2009, would be consistent with the CPUC's recent decision to defer this review for Southern California Edison (Edison) and Pacific Gas and Electric (PG&E). If SDG&E's petition is approved, SDG&E would file its next cost of capital application in April 2012.

### **ADVANCED METERING INFRASTRUCTURE**

In September 2008, SoCalGas filed an application with the CPUC for approval to upgrade approximately six million natural gas meters with an advanced metering infrastructure at an estimated cost of \$1.1 billion (including approximately \$900 million in capital investment). We expect a final CPUC decision in early 2010. If approved, installation of the meters is expected to begin in 2012 and continue through 2017.

### **2007 WILDFIRES COST RECOVERY**

SDG&E filed an application with the CPUC in March 2009 seeking to recover the incremental cost incurred to replace and repair company facilities under CPUC jurisdiction damaged by the October 2007 wildfires. This application was filed in accordance with the CPUC rules governing incremental costs incurred as a result of a declared emergency or catastrophic event. The DRA filed a protest to SDG&E's request for recovery of the incremental costs, requesting that the CPUC stay the proceeding until completion of the fire investigations, which we describe in Note 10. SDG&E and the DRA have reached an agreement in principle regarding the cost recovery request whereby SDG&E will recover \$43 million. SDG&E filed a formal settlement agreement with the CPUC in October 2009, with a CPUC decision on the settlement likely in early 2010.

SDG&E also incurred \$30.1 million of incremental costs for the replacement and repair of company facilities under Federal Energy Regulatory Commission (FERC) jurisdiction, which are currently being recovered in SDG&E's

electric transmission rates.

In regard to the 2007 wildfire litigation discussed in Note 10, if SDG&E's ultimate liability, net of amounts recoverable from other defendants, were to exceed the remaining amounts recoverable from its insurers, SDG&E would request authorization from the FERC and the CPUC to recover the excess amounts in utility rates. SDG&E is

unable to reasonably predict the degree of success it may have in pursuing such requests or the timing of any recovery.

## **INSURANCE COST RECOVERY**

SDG&E filed an application with the CPUC in August 2009 seeking authorization to recover higher liability insurance premium and deductible expenses which SDG&E began incurring on July 1, 2009. SDG&E made the filing under the CPUC's rules allowing utilities to seek recovery of significant cost increases resulting from unforeseen circumstances. SDG&E is requesting a \$29 million revenue requirement for the 2009/2010 policy period for the incremental increase in its liability and wildfire insurance premium costs above what is currently authorized in rates. The CPUC's rules allow a utility to recover costs that meet certain criteria, subject to a \$5 million deductible per event. SDG&E is requesting CPUC approval of its request by the second quarter of 2010. Through September 30, 2009, SDG&E has expensed \$8 million of incremental insurance premiums associated with this wildfire coverage.

## **FUTURE EXCESS CLAIMS COST RECOVERY**

SDG&E and SoCalGas filed an application with the CPUC in August 2009 proposing a new mechanism for the full recovery of future wildfire-related claims, litigation and insurance premium expenses that are in excess of amounts authorized by the CPUC for recovery in rates. The filing was made jointly with Edison and PG&E. The utilities are asking the CPUC to approve their joint request by the second quarter of 2010. The DRA and others have filed protests to the joint application.

## **NOTE 10. COMMITMENTS AND CONTINGENCIES**

### **LEGAL PROCEEDINGS**

The uncertainties that exist in legal proceedings make it difficult to estimate with reasonable certainty the costs and effects of resolving these matters. Accordingly, actual costs incurred may differ materially from insured or reserved amounts and could materially adversely affect our business, cash flows, results of operations, and financial condition.

We record reserves for legal proceedings in accordance with ASC 450, *Contingencies* (ASC 450) (SFAS 5). At September 30, 2009, Sempra Energy's reserves for unresolved legal proceedings, on a consolidated basis, were \$258 million. At September 30, 2009, SDG&E and SoCalGas had reserves for unresolved legal proceedings of \$240 million and \$11 million, respectively. The amounts for Sempra Energy Consolidated and SDG&E include \$219 million of expected insurance settlements related to the SDG&E 2007 wildfire litigation discussed below.

### ***SDG&E 2007 Wildfire Litigation***

In October 2007, San Diego County experienced catastrophic wildfires. In July 2008, the California Department of Forestry and Fire Protection (Cal Fire) issued investigation reports stating that two fires (the Witch and Rice fires) were SDG&E "power line caused" and that a third fire (the Guejito fire) occurred when a wire securing a Cox Communications' fiber optic cable came into contact with an SDG&E power line "causing an arc and starting the fire." Cal Fire states that the Rice fire burned approximately 9,500 acres and damaged 206 homes and two commercial properties. The reports indicate that the Witch and Guejito fires merged and eventually burned approximately 198,000 acres, resulted in two fatalities, injured approximately 40 firefighters and destroyed approximately 1,141 homes.

In September 2008, the Consumer Protection and Safety Division of the CPUC issued a staff investigative report reaching substantially the same conclusions as the Cal Fire reports. However, the staff report also opines that the power lines involved in the Witch and Rice fires and the lashing wire involved in the Guejito fire were not properly



designed, constructed and maintained as required by CPUC rules. In November 2008, the CPUC initiated investigations to determine whether SDG&E and Cox Communications violated any rules or regulations in connection with the fires. In October 2009, SDG&E and the Consumer Protection and Safety Division entered into a \$14.75 million settlement that, if approved by the CPUC, would resolve the investigations without any admission of SDG&E responsibility for the wildfires.

Approximately 175 lawsuits have been filed against SDG&E and Sempra Energy in San Diego County Superior Court seeking to recover damages in unspecified amounts, including punitive damages and other costs associated with the three fires. The lawsuits assert various bases for recovery, including inverse condemnation based upon a California Court of Appeal decision finding that another California investor-owned utility was subject to strict liability, without regard to foreseeability or negligence, for damages resulting from a wildfire ignited by power lines. SDG&E has filed cross-complaints against Cox Communications seeking indemnification for any liability that SDG&E may incur that relates to the Guejito fire. In June 2009, the trial court ruled that the lawsuits cannot proceed as class actions on behalf of all persons who experienced wildfire damages, but must instead be pursued in individual lawsuits. Plaintiffs have appealed this ruling.

By July 2009, insurers representing nearly 99 percent of the total California homeowner insurance market (homeowner insurers) had paid out and reserved approximately \$1.6 billion on more than 19,000 claims relating to the three fires. These include claims for approximately 1,000 of the 1,300 houses, mobile homes, and apartment units identified in public records as having been destroyed by the three fires.

During 2009, SDG&E and its liability insurers held a number of settlement discussions with the homeowner insurers in the litigation. Based on the information provided in these discussions, SDG&E concluded that its exposure to the homeowner insurers was reasonably estimable and established a reserve of \$940 million in the first six months of 2009 that was recorded as a current liability in the Condensed Consolidated Balance Sheets and was fully offset by a current receivable of \$940 million payable from SDG&E's \$1.1 billion of liability insurance. There was no effect on SDG&E's or Sempra Energy's 2009 earnings or cash flows from the recording of the reserve. After payments by SDG&E's liability insurers in the third quarter of 2009, the reserve has been reduced to \$289 million. The remaining receivable of \$266 million reflects timing differences between payments by SDG&E's liability insurers and settlement payments.

At October 30, 2009, SDG&E and homeowner insurers holding approximately 97 percent of the insurer plaintiffs' claims had entered into settlement agreements. SDG&E has agreed to pay the settling insurers approximately \$910 million (representing 57.5 percent of their \$1.58 billion of paid and reserved claims) to settle all of their claims relating to the three wildfires. The settlements are entirely funded by SDG&E's liability insurance coverage, and the settling insurers assign their claims against Cox Communications to SDG&E. Discussions are continuing with the remaining homeowner insurers for settlements on substantially the same terms. After giving effect to the money paid out and reserved in connection with the homeowner insurer settlements as well as defense costs, SDG&E's remaining liability insurance coverage for the litigation would be approximately \$140 million.

In addition to the claims of homeowner insurers, the wildfire litigation also includes claims of approximately 1,800 plaintiffs for uninsured and underinsured structures, firefighting costs, business interruption, evacuation expenses, agricultural damage, and personal injuries. SDG&E does not have sufficient information under ASC 450 to reasonably estimate any liability it may have for these additional claims and, accordingly, has not established a reserve for any wildfire claims other than those of the homeowner insurers.

SDG&E expects that the aggregate amount of these additional claims and the remaining homeowner insurer claims that are ultimately asserted will substantially exceed its remaining \$140 million in insurance coverage. If its ultimate liability were to exceed the remaining insurance and amounts that it may recover from Cox Communications and other defendants, SDG&E would request authorization from the FERC and the CPUC to recover the excess amount in utility rates. SDG&E is unable to reasonably predict the degree of success it may have in pursuing such requests or the

timing of any recovery.

In light of the complexity of these matters and the large number of parties involved, the wildfire litigation, including any appeals, could take several years to be resolved.



***California Department of Water Resources (DWR) Contract***

In February 2002, the California Energy Oversight Board (CEOB) and the CPUC filed challenges at the FERC to the DWR's contracts with Sempra Generation and other power suppliers. After the FERC upheld the contracts in 2003, the CEOB and CPUC appealed to the U.S. Court of Appeals for the Ninth Circuit (Ninth Circuit Court of Appeals), challenging the FERC's application of the Mobile-Sierra doctrine's "public interest" standard of review to the contracts without having first determined that the contracts met a more rigorous "just and reasonable" standard of review. In June 2008, the United States Supreme Court (Supreme Court) ruled that the FERC was correct to apply the Mobile-Sierra doctrine (which presumes that contract rates are just and reasonable) absent a demonstration that one of the contracting parties engaged in unlawful market manipulation that directly affected contract rates. The Supreme Court ruled that the FERC should clarify its findings on this issue and consider whether the contract rates seriously harm the public interest.

At various times since the contract's inception, Sempra Generation and the DWR have also had disputes regarding the meaning of terms and performance of their agreement under which Sempra Generation sells electricity to the DWR. In 2002, in a state civil action, the DWR sought to terminate its contract with Sempra Generation, seeking rescission, damages, injunctive and declaratory relief, and \$100 million in punitive damages. The DWR claims that Sempra Generation misrepresented its intention and ability to construct a temporary phase of one power project and, alternatively, breached its contract by failure to construct and deliver power from that phase. In June 2005, the California Court of Appeal reversed a previous summary judgment in favor of Sempra Generation. The Court concluded that the contract language was ambiguous and presented triable issues of material fact that must be addressed by further evidence and proceedings. The case was sent back to the trial court. In January 2007, the DWR added additional claims for fraud and breach of contract. In June 2008, the California Court of Appeal upheld the trial court's denial of Sempra Generation's motion to compel the DWR to arbitrate its new claims. The case was returned to the San Diego Superior Court for further proceedings and a jury trial began in October 2009.

In February 2006, the DWR began an additional arbitration against Sempra Generation related to the manner in which Sempra Generation schedules its Mexicali plant. The DWR sought \$100 million in damages and an order terminating the contract. Arbitration hearings were held in November 2008, and in January 2009, the arbitration panel issued a decision denying all of the DWR's claims. The panel decision was confirmed by the San Francisco Superior Court in May 2009.

In September 2008, the DWR initiated another arbitration proceeding against Sempra Generation, alleging that Sempra Generation had breached the parties' agreement in various operational respects, and violated the order issued by the first arbitration panel relating to the amount refunded to the DWR and the manner in which Sempra Generation operates. The DWR seeks \$60 million in damages and an order terminating the contract. Arbitration hearings are scheduled for August 2010.

***FERC Refund Proceedings***

The FERC is investigating prices charged by various electric suppliers to buyers in the California Power Exchange (PX) and ISO markets. In December 2002, a FERC Administrative Law Judge (ALJ) issued preliminary findings indicating that the PX and ISO owe power suppliers \$1.2 billion for the October 2, 2000 through June 20, 2001 period. This amount is the \$3.0 billion that the California PX and ISO still owe energy companies less \$1.8 billion that the energy companies charged California customers in excess of the preliminarily determined competitive market clearing prices. In March 2003, the FERC adopted its ALJ's findings, but changed the calculation of the refund by basing it on a different benchmark of natural gas prices. This change would increase the refund obligations from \$1.8 billion to more than \$3 billion for the same time period.

Various parties, including Semptra Commodities, appealed the FERC's order to the Ninth Circuit Court of Appeals. In August 2006, the Court of Appeals held that the FERC had properly established October 2, 2000 through June 20, 2001 as the refund period and had properly excluded certain short-term bilateral transactions between sellers and the DWR from the refund proceedings. However, the court also held that the FERC erred in excluding certain multi-day transactions from the refund proceedings. Finally, while the court upheld the FERC's decision not to extend the refund proceedings to the summer period (prior to October 2, 2000), it found that the FERC should have considered other remedies for tariff violations that are alleged to have occurred prior to October 2, 2000. In April 2009, the

Ninth Circuit Court of Appeals denied requests for rehearing of its August 2006 decision that Sempra Commodities and other entities filed and returned the matter to the FERC for further proceedings.

In August 2007, the Ninth Circuit Court of Appeals issued a decision reversing and remanding FERC orders declining to provide refunds in a related proceeding regarding short-term bilateral sales up to one month in the Pacific Northwest. The court found that some of the short-term sales between the DWR and various sellers (including Sempra Commodities) that had previously been excluded from the refund proceeding involving sales in the ISO and PX markets in California were within the scope of the Pacific Northwest refund proceeding. In April 2009, the Ninth Circuit Court of Appeals denied requests for rehearing of its August 2007 decision that Sempra Commodities and other entities filed and returned the matter to the FERC for further proceedings. The court's orders could be the subject of further appeals.

In a separate complaint filed with the FERC in 2002, the California Attorney General challenged the FERC's authority to establish a market-based rate system and also contended that even if such a system were valid, electricity sellers had failed to comply with the FERC's quarterly reporting requirements. The Attorney General requested that the FERC order refunds from suppliers. The FERC dismissed the complaint and instead ordered sellers to restate their reports. After an appeal by the California Attorney General, the Ninth Circuit Court of Appeals upheld the FERC's authority to establish a market-based rate system, but stated that failure to file transaction-specific quarterly reports gave the FERC authority to order refunds with respect to jurisdictional sellers. The FERC is in the process of addressing these issues on remand.

In May 2009, the California Attorney General filed another complaint at the FERC against various sellers, including Sempra Commodities. In this complaint, the Attorney General seeks to collect for alleged overcharges related to short-term bilateral transactions between sellers and the DWR from January 18, 2001 through June 20, 2001. These transactions also have been the subject of the Ninth Circuit Court of Appeals' orders in the proceedings described above.

In the cases described above, the FERC could order additional refunds or the disgorgement of profits. RBS Sempra Commodities has reserves for its estimate of the effect of the FERC's revision of the benchmark prices it will use to calculate refunds and other related developments. Pursuant to the agreements related to the formation of RBS Sempra Commodities, we have indemnified RBS related to these proceedings should the liability from the final resolution be greater than the reserves.

### ***FERC Manipulation Investigation***

The FERC has separately investigated whether there was manipulation of short-term energy markets in the western United States that would constitute violations of applicable tariffs and warrant disgorgement of associated profits. In May 2002, the FERC ordered all energy companies engaged in electric energy trading activities to state whether they had engaged in various specific trading activities in violation of the PX and ISO tariffs.

In June 2003, the FERC ordered a number of entities, including Sempra Commodities, to show why they should not disgorge profits from certain transactions between January 1, 2000 and June 20, 2001 that are asserted to have constituted gaming and/or anomalous market behavior under the California ISO and/or PX tariffs. In October 2003, Sempra Commodities agreed to pay \$7.2 million in full resolution of these investigations. That liability was recorded as of December 31, 2003. The Sempra Commodities settlement was approved by the FERC in August 2004. Certain California parties sought rehearing of this order, which the FERC largely denied in November 2008. The California parties have appealed the FERC's orders to the Ninth Circuit Court of Appeals.

### ***Other Litigation***

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Sempra Energy and several subsidiaries, along with three oil and natural gas companies, the City of Beverly Hills, and the Beverly Hills Unified School District, are defendants in a toxic tort lawsuit filed in Los Angeles County Superior Court by approximately 1,000 plaintiffs. This lawsuit claims that various emissions resulted in cancer or fear of cancer. We have submitted the case to our insurers, who have reserved their rights with respect to coverage. In November 2006, the court granted the defendants' summary judgment motions based on lack of medical causation for the 12 initial plaintiffs scheduled to go to trial first. The court also granted summary judgment excluding punitive damages. The court has stayed the case as to the remaining plaintiffs pending the appeal of the rulings.

In 1998, we converted our traditional pension plans (other than the SoCalGas union employee plan) to cash balance plans. In July 2005, a lawsuit was filed against SoCalGas in the U.S. District Court for the Central District of California alleging that the conversion unlawfully discriminated against older employees and failed to provide required disclosure of a possible reduction in benefits. The discrimination claims were subsequently dismissed from the lawsuit. In May 2009, the parties agreed to settle the litigation on the remaining issue for a nominal amount and the court approved a class action settlement agreement in October 2009.

RBS Sempra Commodities assumed litigation reserves related to Sempra Commodities, however, we have indemnified RBS should the liabilities from the final resolution of these matters be greater than the reserves.

We are also defendants in ordinary routine litigation incidental to our businesses, including personal injury, product liability, property damage and other claims. California juries have demonstrated an increasing willingness to grant large awards, including punitive damages, in these cases.

### ***Resolved Matters***

We have accrued liabilities for resolved matters of:

§

\$373 million at Sempra Energy Consolidated

§

\$98 million at SDG&E

§

\$56 million at SoCalGas

These amounts for Sempra Energy Consolidated and SDG&E include \$70 million of insurance settlements as of September 30, 2009, related to the SDG&E 2007 wildfire litigation discussed above. The remaining amounts are primarily for settlements related to certain litigation arising out of the 2000–2001 California energy crisis, including the Continental Forge settlement and settlements of natural gas and electricity cases. We discuss the terms of the settlements related to the Continental Forge and natural gas and electricity cases in Note 16 of the Notes to Consolidated Financial Statements in the Annual Report.

### **NUCLEAR INSURANCE**

SDG&E and the other owners of SONGS have insurance to cover claims from nuclear liability incidents arising at SONGS. This insurance provides \$300 million in coverage limits, the maximum amount available, including coverage for acts of terrorism. In addition, the Price-Anderson Act provides for up to \$12.2 billion of secondary financial protection (SFP). If a nuclear liability loss occurring at any U.S. licensed/commercial reactor exceeds the \$300 million insurance limit, all nuclear reactor owners could be required to contribute to the SFP. SDG&E's contribution would be up to \$47 million. This amount is subject to an annual maximum of \$7 million, unless a default occurs by any other SONGS owner. If the SFP is insufficient to cover the liability loss, SDG&E could be subject to an additional assessment.

The SONGS owners, including SDG&E, also have \$2.75 billion of nuclear property, decontamination, and debris removal insurance. In addition, the SONGS owners have up to \$490 million insurance coverage for outage expenses and replacement power costs due to accidental property damage. This coverage is limited to \$3.5 million per week for the first 52 weeks, then \$2.8 million per week for up to 110 additional weeks. There is a 12-week waiting period deductible. These insurance coverages are provided through a mutual insurance company. Insured members are subject to retrospective premium assessments. SDG&E could be assessed up to \$8.5 million.

The nuclear property insurance program includes an industry aggregate loss limit for non-certified acts of terrorism (as defined by the Terrorism Risk Insurance Act). The industry aggregate loss limit for property claims arising from non-certified acts of terrorism is \$3.24 billion. This is the maximum amount that will be paid to insured members who suffer losses or damages from these non-certified terrorist acts.

## CONTRACTUAL COMMITMENTS

### *Sempra Energy Consolidated*

At September 30, 2009, significant increases to contractual commitments at Sempra Energy include

§

the issuance in May 2009 of \$750 million of 6.5-percent notes maturing in 2016 at Sempra Energy;

§

the issuance in May 2009 of \$300 million of 6-percent mortgage bonds maturing in 2039 at SDG&E;

§

\$1.3 billion new purchased-power contracts at SDG&E;

§

\$184 million at SDG&E primarily for engineering, material procurement and construction costs associated with the Sunrise Powerlink project;

§

\$136 million new commitments for construction and infrastructure improvements for gas transmission and distribution operations at SoCalGas; and

§

new construction commitments of \$112 million at Sempra Pipelines & Storage.

The future payments under these contractual commitments are expected to be \$341 million for 2009, \$320 million for 2010, \$197 million for 2011, \$176 million for 2012, \$161 million for 2013 and \$2.5 billion thereafter. These amounts include expected interest payments on the notes and mortgage bonds using the stated interest rate.

Also, in October 2009, Sempra Energy issued \$750 million of 6-percent notes maturing in 2039.

Reserves for Sempra Energy and SDG&E wildfire litigation are discussed above in SDG&E 2007 Wildfire Litigation.

Decreases to SoCalGas natural gas contracts are discussed below.

### *SDG&E*

At September 30, 2009, the significant changes to contractual commitments at SDG&E are an increase of \$1.3 billion due to new purchased-power contracts, \$300 million due to the issuance of 6-percent mortgage bonds, and \$184 million mainly for the Sunrise Powerlink project, as discussed above. The future payments under these contractual commitments are expected to be \$96 million for 2009, \$241 million for 2010, \$148 million for 2011, \$127 million for 2012, \$112 million for 2013 and \$1.6 billion thereafter. These amounts include expected interest payments on the mortgage bonds using the stated interest rate.

*SoCalGas*

At September 30, 2009, the significant changes to contractual commitments at SoCalGas are an increase of \$136 million related to commitments discussed above. The future payments under these contractual commitments are expected to be \$106 million for 2009 and \$30 million for 2010.

SoCalGas natural gas purchase and pipeline capacity commitments have decreased by \$452 million since December 31, 2008. The decrease was primarily due to a reduction of \$896 million based on lower natural gas forward prices, offset by new natural gas purchase and pipeline capacity contracts of \$444 million. Net future payments are therefore expected to decrease by \$725 million for 2009, increase by \$285 million for 2010, decrease by \$9 million for 2011, increase by \$1 million for 2012 and decrease by \$4 million in 2013.



NOTE 11. SEGMENT INFORMATION

We have five separately managed reportable segments, as follows:

1.

*SDG&E* provides electric service in California to San Diego and southern Orange counties and natural gas service to San Diego County.

2.

*SoCalGas* is a natural gas distribution utility, serving customers throughout most of Southern California and part of central California.

3.

*Sempra Commodities* holds our investment in RBS Sempra Commodities, a joint venture with RBS. The partnership was formed on April 1, 2008 from our commodities-marketing businesses previously reported in this segment. The partnership's commodity trading businesses serve customers in natural gas, electricity, petroleum and petroleum products, and base metals.

Sempra Commodities also includes the operating results of Sempra Rockies Marketing, which holds firm service capacity on the Rockies Express Pipeline.

4.

*Sempra Generation* develops, owns and operates, or holds interests in, electric power plants and energy projects in Arizona, California, Nevada, Indiana and Mexico to serve wholesale electricity markets in North America.

5.

*Sempra Pipelines & Storage* develops, owns and operates, or holds interests in, natural gas pipelines and storage facilities in the United States and Mexico, and companies that provide natural gas or electricity services in Argentina, Chile, Mexico and Peru. We are currently pursuing the sale of our interests in the Argentine utilities, which we discuss further in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report. Sempra Pipelines & Storage also operates a small natural gas distribution utility in Southwest Alabama.

We evaluate each segment's performance based on its contribution to Sempra Energy's reported earnings. The Sempra Utilities operate in essentially separate service territories, under separate regulatory frameworks and rate structures set by the CPUC. The Sempra Utilities' operations are based on rates set by the CPUC and the FERC. We describe the accounting policies of our segments in Note 1 of the Notes to Consolidated Financial Statements in the Annual

Report.

The following tables show selected information by segment from our Condensed Consolidated Statements of Operations and Condensed Consolidated Balance Sheets.

Amounts labeled as "all other" in the following tables consist primarily of parent organizations and Sempra LNG.

**SEGMENT INFORMATION***(Dollars in millions)*

|                                 | Three months ended September 30, |       |       |    | Nine months ended September 30, |       |      |       |       |    |       |       |
|---------------------------------|----------------------------------|-------|-------|----|---------------------------------|-------|------|-------|-------|----|-------|-------|
|                                 | 2009                             |       | 2008  |    | 2009                            |       | 2008 |       |       |    |       |       |
| <b>REVENUES</b>                 |                                  |       |       |    |                                 |       |      |       |       |    |       |       |
| SDG&E                           | \$                               | 773   | 42 %  | \$ | 949                             | 35 %  | \$   | 2,136 | 38 %  | \$ | 2,449 | 29 %  |
| SoCalGas                        |                                  | 662   | 36    |    | 1,077                           | 40    |      | 2,276 | 40    |    | 3,776 | 44    |
| Sempra<br>Commodities           |                                  | 24    | 1     |    | 13                              | -     |      | 50    | 1     |    | 486   | 6     |
| Sempra<br>Generation            |                                  | 250   | 13    |    | 498                             | 18    |      | 792   | 14    |    | 1,426 | 17    |
| Sempra Pipelines<br>& Storage   |                                  | 98    | 5     |    | 127                             | 5     |      | 328   | 6     |    | 338   | 4     |
| All other                       |                                  | 68    | 4     |    | 49                              | 2     |      | 125   | 2     |    | 44    | 1     |
| Adjustments and<br>eliminations |                                  | (2)   | -     |    | -                               | -     |      | (2)   | -     |    | (5)   | -     |
| Intersegment<br>revenues        |                                  | (20)  | (1)   |    | (21)                            | -     |      | (55)  | (1)   |    | (49)  | (1)   |
| Total                           | \$                               | 1,853 | 100 % | \$ | 2,692                           | 100 % | \$   | 5,650 | 100 % | \$ | 8,465 | 100 % |
| <b>INTEREST EXPENSE</b>         |                                  |       |       |    |                                 |       |      |       |       |    |       |       |
| SDG&E                           | \$                               | 29    |       | \$ | 24                              |       | \$   | 75    |       | \$ | 73    |       |
| SoCalGas                        |                                  | 16    |       |    | 14                              |       |      | 51    |       |    | 44    |       |
| Sempra<br>Commodities           |                                  | 1     |       |    | 3                               |       |      | 7     |       |    | 19    |       |
| Sempra<br>Generation            |                                  | 3     |       |    | 4                               |       |      | 11    |       |    | 12    |       |
| Sempra Pipelines<br>& Storage   |                                  | 9     |       |    | 4                               |       |      | 23    |       |    | 10    |       |
| All other                       |                                  | 78    |       |    | 43                              |       |      | 202   |       |    | 91    |       |
| Intercompany<br>eliminations    |                                  | (40)  |       |    | (25)                            |       |      | (112) |       |    | (84)  |       |
| Total                           | \$                               | 96    |       | \$ | 67                              |       | \$   | 257   |       | \$ | 165   |       |
| <b>INTEREST INCOME</b>          |                                  |       |       |    |                                 |       |      |       |       |    |       |       |
| SDG&E                           | \$                               | 1     |       | \$ | 1                               |       | \$   | 1     |       | \$ | 5     |       |
| SoCalGas                        |                                  | 1     |       |    | 2                               |       |      | 3     |       |    | 9     |       |
| Sempra<br>Commodities           |                                  | -     |       |    | -                               |       |      | -     |       |    | 7     |       |
| Sempra<br>Generation            |                                  | 4     |       |    | 2                               |       |      | 10    |       |    | 6     |       |
|                                 |                                  | 5     |       |    | 6                               |       |      | 13    |       |    | 14    |       |

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|                                  |    |      |       |    |      |       |    |       |       |              |
|----------------------------------|----|------|-------|----|------|-------|----|-------|-------|--------------|
| Sempra Pipelines<br>& Storage    |    |      |       |    |      |       |    |       |       |              |
| All other                        |    | 34   |       |    | 26   |       |    | 101   |       | 79           |
| Intercompany<br>eliminations     |    | (40) |       |    | (25) |       |    | (112) |       | (84)         |
| Total                            | \$ | 5    |       | \$ | 12   |       | \$ | 16    |       | \$ 36        |
| DEPRECIATION AND<br>AMORTIZATION |    |      |       |    |      |       |    |       |       |              |
| SDG&E                            | \$ | 81   | 41 %  | \$ | 68   | 42 %  | \$ | 239   | 42 %  | \$ 223 44 %  |
| SoCalGas                         |    | 73   | 37    |    | 67   | 41    |    | 220   | 39    | 209 41       |
| Sempra<br>Commodities            |    | -    | -     |    | -    | -     |    | -     | -     | 6 1          |
| Sempra<br>Generation             |    | 14   | 7     |    | 14   | 9     |    | 43    | 7     | 42 8         |
| Sempra Pipelines<br>& Storage    |    | 13   | 7     |    | 5    | 3     |    | 32    | 6     | 10 2         |
| All other                        |    | 15   | 8     |    | 8    | 5     |    | 34    | 6     | 18 4         |
| Total                            | \$ | 196  | 100 % | \$ | 162  | 100 % | \$ | 568   | 100 % | \$ 508 100 % |
| INCOME TAX EXPENSE<br>(BENEFIT)  |    |      |       |    |      |       |    |       |       |              |
| SDG&E                            | \$ | 53   |       | \$ | 54   |       | \$ | 141   |       | \$ 121       |
| SoCalGas                         |    | 42   |       |    | 41   |       |    | 115   |       | 117          |
| Sempra<br>Commodities            |    | 30   |       |    | (1)  |       |    | 104   |       | 132          |
| Sempra<br>Generation             |    | 30   |       |    | 46   |       |    | 76    |       | 98           |
| Sempra Pipelines<br>& Storage    |    | (9)  |       |    | 5    |       |    | (26)  |       | 20           |
| All other                        |    | (18) |       |    | (51) |       |    | (83)  |       | (65)         |
| Total                            | \$ | 128  |       | \$ | 94   |       | \$ | 327   |       | \$ 423       |





## EXPENDITURES FOR PROPERTY PLANT &amp; EQUIPMENT

|                            |    |       |       |    |       |       |
|----------------------------|----|-------|-------|----|-------|-------|
| SDG&E                      | \$ | 633   | 46 %  | \$ | 638   | 41 %  |
| SoCalGas                   |    | 336   | 24    |    | 350   | 23    |
| Sempra Commodities         |    | -     | -     |    | 21    | 1     |
| Sempra Generation          |    | 21    | 2     |    | 15    | 1     |
| Sempra Pipelines & Storage |    | 149   | 11    |    | 195   | 13    |
| All other                  |    | 232   | 17    |    | 322   | 21    |
| Total                      | \$ | 1,371 | 100 % | \$ | 1,541 | 100 % |

September 30, 2009      December 31, 2008

## ASSETS

|                            |    |        |       |    |        |       |
|----------------------------|----|--------|-------|----|--------|-------|
| SDG&E                      | \$ | 10,274 | 36 %  | \$ | 9,079  | 34 %  |
| SoCalGas                   |    | 7,423  | 26    |    | 7,351  | 28    |
| Sempra Commodities         |    | 2,185  | 8     |    | 2,092  | 8     |
| Sempra Generation          |    | 2,008  | 7     |    | 1,860  | 7     |
| Sempra Pipelines & Storage |    | 4,464  | 16    |    | 4,060  | 15    |
| All other                  |    | 2,840  | 10    |    | 2,843  | 11    |
| Intersegment receivables   |    | (799)  | (3)   |    | (885)  | (3)   |
| Total                      | \$ | 28,395 | 100 % | \$ | 26,400 | 100 % |

## INVESTMENTS IN EQUITY METHOD INVESTEEES

|                            |    |       |  |    |       |
|----------------------------|----|-------|--|----|-------|
| Sempra Commodities         | \$ | 2,094 |  | \$ | 2,082 |
| Sempra Generation          |    | 382   |  |    | 198   |
| Sempra Pipelines & Storage |    | 1,425 |  |    | 796   |
| All other                  |    | 25    |  |    | 30    |
| Total                      | \$ | 3,926 |  | \$ | 3,106 |

\* After preferred dividends.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

You should read the following discussion in conjunction with the financial statements contained in this Form 10-Q, "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in our 2008 Annual Report on Form 10-K (Annual Report), and "Risk Factors" contained in our Annual Report and Part II of this Form 10-Q.

**OVERVIEW**

Sempra Energy is a Fortune 500 energy services holding company whose business units provide electric, natural gas and other energy products and services to their customers. Our operations are divided principally between the Sempra Utilities and Sempra Global. The Sempra Utilities consist of two California regulated public utility companies, 1) San Diego Gas & Electric Company (SDG&E) and 2) Southern California Gas Company (SoCalGas). Sempra Global consists of businesses engaged in providing energy products and services.

This report includes information for the following separate registrants:

§

Sempra Energy and its consolidated entities

§

SDG&E

§

Pacific Enterprises (PE), the holding company for SoCalGas

§

SoCalGas

References in this report to "we," "our" and "Sempra Energy Consolidated" are to Sempra Energy and its consolidated entities, collectively, unless otherwise indicated by the context.

PE's operations consist solely of those of SoCalGas and additional items (e.g., cash, intercompany accounts and equity) attributable to being a holding company for SoCalGas.

Below are the summary descriptions of our operating business units.

**SEMPRA BUSINESS UNITS**

The Sempra Utilities consist of SDG&E and SoCalGas.

**SEMPRA UTILITIES**

**MARKET**

**SERVICE TERRITORY**



**SAN DIEGO GAS & ELECTRIC  
COMPANY (SDG&E)**

A regulated public utility;  
infrastructure supports electric  
distribution and transmission, and  
natural gas distribution

Provides electricity to 3.4 million  
consumers (1.4 million meters)

Provides natural gas to 3.1 million  
consumers (840,000 meters)

Serves the county of San Diego, CA  
and southern Orange County  
covering 4,100 square miles

**SOUTHERN CALIFORNIA GAS  
COMPANY (SOCALGAS)**

A regulated public utility;  
infrastructure supports natural gas  
distribution, transmission and  
storage

Residential, commercial, industrial,  
utility electric generation and  
wholesale customers

Covers a population of 20.5 million  
(5.7 million meters)

Southern California and portions of  
Central California (excluding San  
Diego County, the city of Long  
Beach and the desert area of San  
Bernardino County) covering  
20,000 square miles

Sempra Global is a holding company for most of our subsidiaries that are not subject to California utility regulation. Sempra Global's principal business units, which provide energy-related products and services, are

§

Sempra Commodities

§

Sempra Generation

§

Sempra Pipelines & Storage

§

Sempra LNG

**SEMPRA GLOBAL**

|   | <b>MARKET</b>                             | <b>GEOGRAPHIC REGION</b> |
|---|---|--------------------------|
| <b>SEMPRA COMMODITIES</b>   | §   | §                        |
| Holds an interest in RBS Sempra Commodities, a commodities-marketing business joint venture with The Royal Bank of Scotland (RBS) | Natural gas; natural gas liquids<br>Power | Global                   |
|   | §   |                          |
|   | Petroleum and petroleum products          |                          |
|   | §   |                          |
|   | Coal                                      |                          |
|   | §   |                          |
|   | Emissions                                 |                          |
|   | §   |                          |
|   | Ethanol                                   |                          |

|  |                       |               |
|--|-----------------------|---------------|
|  | §                     |               |
|  | Base metals           |               |
| <b>SEMPRA GENERATION</b>   | §                     | §             |
| Develops, owns and operates, or holds interests in, electric power plants and energy projects  | Wholesale electricity | North America |
| <b>SEMPRA PIPELINES &amp; STORAGE</b>  | §                     | §             |
|  | Natural gas           | U.S.A.        |
| Develops, owns and operates, or holds interests in, natural gas pipelines and storage facilities, and natural gas and electric service providers | §                     | §             |
|  | Electricity           | Mexico        |
|  |                       | §             |
|  |                       | Argentina     |
|  |                       | §             |
|  |                       | Chile         |
|  |                       | §             |
|  |                       | Peru          |
| <b>SEMPRA LNG</b>  | §                     | §             |
| Develops, owns and operates receipt terminals for importing liquefied natural gas (LNG)  | Natural gas           | U.S.A.        |
|  |                       | §             |
|  |                       | Mexico        |

## RESULTS OF OPERATIONS

We discuss the following in Results of Operations:

§

Overall results of our operations and factors affecting those results

§

Our business unit results

§

Significant changes in revenues, costs and earnings between periods

In the three months ended September 30, 2009, our earnings increased \$9 million (3%) to \$317 million primarily due to improved results at Sempra Commodities and Sempra Pipelines & Storage, offset by decreased earnings at Sempra Generation and the Sempra Utilities, and higher net losses at Parent and Other. Diluted earnings per share for the three months increased by \$0.03 (2%) per share, primarily from the increased earnings.

The Sempra Utilities' third quarter 2008 earnings include adjustments of \$33 million at SDG&E and \$7 million at SoCalGas associated with the implementation of the 2008 General Rate Case (2008 GRC) decision, which was issued by the California Public Utilities Commission (CPUC) in the third quarter of 2008. Reported revenues and earnings for the first six months of 2008 associated with CPUC-regulated operations were based on the 2007 CPUC-authorized revenue established by the 2004 Cost of Service decision. The third-quarter 2008 adjustments reflect the authorized revenue established in the 2008 GRC for the period of January 1 through June 30, 2008.

In the nine months ended September 30, 2009, our earnings increased \$37 million (5%) to \$831 million primarily due to improved results at Sempra Commodities and the Sempra Utilities, offset by decreased earnings at Sempra Generation and Sempra Pipelines & Storage, and higher net losses at Parent and Other. The earnings at Sempra Pipelines & Storage were negatively impacted by a second quarter 2009 after-tax asset write-off of \$64 million related to the Liberty Project. We discuss the write-off in Note 5 of the Notes to Condensed Consolidated Financial Statements herein.

Diluted earnings per share for the first nine months increased by \$0.24 (8%) per share, \$0.15 per share from increased earnings and \$0.09 per share from a reduction in shares outstanding, primarily as a result of our \$1 billion share repurchase in 2008.

The following table shows our earnings by business unit, which we discuss below in "Business Unit Results."

### EARNINGS (LOSSES) BY BUSINESS UNIT

(Dollars in millions)

|                            | Three months ended September 30, |      |       |      |      |       |
|----------------------------|----------------------------------|------|-------|------|------|-------|
|                            | 2009                             |      |       | 2008 |      |       |
| Sempra Utilities:          |                                  |      |       |      |      |       |
| SDG&E*                     | \$                               | 108  | 34 %  | \$   | 123  | 40 %  |
| SoCalGas*                  |                                  | 74   | 23    |      | 77   | 25    |
| Sempra Global:             |                                  |      |       |      |      |       |
| Sempra Commodities**       |                                  | 75   | 24    |      | (8)  | (3)   |
| Sempra Generation          |                                  | 43   | 14    |      | 94   | 31    |
| Sempra Pipelines & Storage |                                  | 54   | 17    |      | 34   | 11    |
| Sempra LNG                 |                                  | -    | -     |      | 4    | 1     |
| Parent and other***        |                                  | (37) | (12)  |      | (16) | (5)   |
| Earnings                   | \$                               | 317  | 100 % | \$   | 308  | 100 % |

|                            | Nine months ended September 30, |      |       |      |      |       |
|----------------------------|---------------------------------|------|-------|------|------|-------|
|                            | 2009                            |      |       | 2008 |      |       |
| Sempra Utilities:          |                                 |      |       |      |      |       |
| SDG&E*                     | \$                              | 277  | 33 %  | \$   | 258  | 32 %  |
| SoCalGas*                  |                                 | 198  | 24    |      | 190  | 24    |
| Sempra Global:             |                                 |      |       |      |      |       |
| Sempra Commodities**       |                                 | 274  | 33    |      | 181  | 23    |
| Sempra Generation          |                                 | 119  | 14    |      | 162  | 20    |
| Sempra Pipelines & Storage |                                 | 64   | 8     |      | 84   | 11    |
| Sempra LNG                 |                                 | (19) | (2)   |      | (33) | (4)   |
| Parent and other***        |                                 | (82) | (10)  |      | (48) | (6)   |
| Earnings                   | \$                              | 831  | 100 % | \$   | 794  | 100 % |

\* After preferred dividends.

\*\* Results for 2009 and the second and third quarters of 2008 include our portion of RBS Sempra Commodities' joint venture earnings and interest, income taxes, cost allocations and other items associated with the joint venture. Results for the first quarter of 2008 include 100% of the commodities-marketing businesses. Both 2009 and 2008 include the results of Sempra Rockies Marketing.

\*\*\* Includes after-tax interest expense (\$33 million and \$24 million for the three months ended September 30, 2009 and 2008, respectively, and \$100 million and \$50 million for the nine months ended September 30, 2009 and 2008, respectively), intercompany eliminations recorded in consolidation and certain corporate costs incurred at Sempra Global.



**BUSINESS UNIT RESULTS**

The following section is a discussion of earnings by business unit, as it appears in the table above.

**BUSINESS UNIT EARNINGS -- SEMPRA UTILITIES**

*(Dollars in millions)*

***SDG&E***

SDG&E business unit earnings were

§

\$108 million in the three months ended September 30, 2009 (\$110 million before preferred dividends)

§

\$123 million in the three months ended September 30, 2008 (\$125 million before preferred dividends)

§

\$277 million in the nine months ended September 30, 2009 (\$281 million before preferred dividends)

§

\$258 million in the nine months ended September 30, 2008 (\$262 million before preferred dividends)





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In the three months ended September 30, 2009, SDG&E's earnings decreased \$15 million (12%) due to:

§

\$33 million higher authorized margin in 2008 due to the implementation of the 2008 GRC decision in the third quarter of 2008;

§

\$10 million lower favorable impact from the resolution of prior years' income tax issues; and

§

\$5 million higher liability insurance premiums for wildfire coverage; **offset by**

§

\$17 million increase in litigation reserves in 2008;

§

\$11 million higher CPUC authorized margin and lower operation and maintenance expenses; and

§

\$9 million from the resolution of regulatory matters in 2009 that favorably impacted earnings.

The increase of \$19 million (7%) in the nine months ended September 30, 2009 was due to:

§

\$26 million net favorable impact from the resolution of litigation in 2009 as opposed to an increase in litigation reserves in 2008;

§

\$23 million higher CPUC authorized margin and lower operation and maintenance expenses; and

§

\$5 million higher electric transmission margin; **offset by**

§

\$12 million lower regulatory awards;

§

\$7 million from the resolution of regulatory matters in 2008 that favorably impacted earnings;

§

\$7 million lower favorable impact from the resolution of prior years' income tax issues; and

§

\$5 million higher liability insurance premiums for wildfire coverage.

***SoCalGas***

SoCalGas business unit earnings were

§

\$74 million in the three months ended September 30, 2009 (both before and after preferred dividends)

§

\$77 million in the three months ended September 30, 2008 (both before and after preferred dividends)

§

\$198 million in the nine months ended September 30, 2009 (\$199 million before preferred dividends)

§

\$190 million in the nine months ended September 30, 2008 (\$191 million before preferred dividends)

In the three months ended September 30, 2009, SoCalGas' earnings decreased \$3 million (4%) due to:

§

\$7 million higher authorized margin in 2008 due to the implementation of the 2008 GRC decision in the third quarter of 2008; and

§

\$7 million from the resolution of a regulatory matter in 2008 that favorably impacted earnings; **offset by**

§

\$8 million higher CPUC authorized margin and lower operation and maintenance expenses; and

§

\$3 million lower bad debt expense.

The increase of \$8 million (4%) in the nine months ended September 30, 2009 was due to:

§

\$15 million higher CPUC authorized margin and lower operation and maintenance expenses;

§

\$10 million from a lower effective income tax rate primarily due to higher software development cost deductions and higher Medicare subsidy in 2009; and

§

\$3 million higher non-core natural gas storage earnings; **offset by**

§

\$7 million from the resolution of a regulatory matter in 2008 that favorably impacted earnings;

§

\$7 million higher net interest expense due to higher average long-term debt outstanding in 2009; and

§

\$5 million lower favorable impact from the resolution of prior years' income tax issues (\$1 million unfavorable in 2009 compared to \$4 million favorable in 2008).

**BUSINESS UNIT EARNINGS (LOSSES) -- SEMPRA GLOBAL**

*(Dollars in millions)*

*Sempra Commodities*

Sempra Commodities recorded business unit earnings (losses) of:

§

\$75 million in the three months ended September 30, 2009

§

\$(8) million in the three months ended September 30, 2008

\$

\$274 million in the nine months ended September 30, 2009

\$

\$181 million in the nine months ended September 30, 2008

Results in the nine months ended September 30, 2009 and the second and third quarters of 2008 primarily represent our equity earnings from RBS Sempra Commodities, formed on April 1, 2008. Results for the first quarter of 2008, included in the 2008 nine-month period, represent 100 percent of the commodities-marketing businesses' earnings until the formation of the joint venture.

The increase of \$83 million in the three months ended September 30, 2009 was primarily due to higher equity earnings from RBS Sempra Commodities.

The increase of \$93 million (51%) in the nine months ended September 30, 2009 was due primarily to:

§

higher equity earnings from the joint venture;

§

\$36 million of expenses in 2008, primarily charges for litigation and an unfavorable impact of prior year's income tax issues; and

§

a \$17 million write-down in the first quarter of 2008 related to a counterparty credit issue; **offset by**

§

\$67 million gain on the transaction with RBS in 2008.

***Sempra Generation***

Sempra Generation recorded business unit earnings of:

§

\$43 million in the three months ended September 30, 2009

§

\$94 million in the three months ended September 30, 2008

§

\$119 million in the nine months ended September 30, 2009

§

\$162 million in the nine months ended September 30, 2008

The decrease of \$51 million (54%) in the three months ended September 30, 2009 included

§

\$27 million lower mark-to-market earnings on forward contracts with RBS Sempra Commodities and other counterparties, primarily due to a \$28 million gain in 2008;

§

\$12 million lower earnings from operations primarily due to less favorable market pricing; and



§

\$8 million solar investment tax credits in 2008.

The decrease of \$43 million (27%) in the nine months ended September 30, 2009 included

§

\$24 million lower earnings from operations primarily due to less favorable market pricing and scheduled plant maintenance;

§

\$8 million solar investment tax credits in 2008; and

§

\$7 million mark-to-market gain on forward contracts with RBS Sempra Commodities and other counterparties in 2008.

***Sempra Pipelines & Storage***

Sempra Pipelines & Storage recorded business unit earnings of:

§

\$54 million in the three months ended September 30, 2009

§

\$34 million in the three months ended September 30, 2008

§

\$64 million in the nine months ended September 30, 2009

§

\$84 million in the nine months ended September 30, 2008

The increase of \$20 million (59%) in the three months ended September 30, 2009 was primarily due to:

§

\$15 million lower taxes due to the favorable impact of the resolution of prior years' income tax issues in 2009; and

§

\$6 million higher earnings from its investment in the Rockies Express Pipeline.

The decrease of \$20 million (24%) in the nine months ended September 30, 2009 was primarily due to:

\$

\$64 million lower earnings from a write-off of assets at Liberty; and

\$

\$11 million lower earnings due to foreign currency exchange-rate effects, primarily from its investment in Chile;  
**offset by**

\$

\$23 million lower taxes, primarily due to the favorable impact of the resolution of prior years' income tax issues;

\$

\$19 million higher earnings from the commencement of LNG-related pipeline operations in Mexico in the second quarter of 2008; and

§

\$12 million higher earnings from its investments in South America.

***Sempra LNG***

Sempra LNG recorded earnings (losses) of:

§

\$0 million in the three months ended September 30, 2009

§

\$4 million in the three months ended September 30, 2008

§

\$(19) million in the nine months ended September 30, 2009

§

\$(33) million in the nine months ended September 30, 2008

The decrease in earnings of \$4 million in the three months ended September 30, 2009 included

§

\$17 million lower mark-to-market earnings related to a natural gas marketing agreement with RBS Sempra Commodities, primarily due to a \$13 million gain in 2008; **offset by**

§

\$8 million higher income tax benefits related to a change in the effective tax rate; and

§

\$5 million higher earnings from the start-up of terminal and marketing operations.

The decrease in losses of \$14 million (42%) in the nine months ended September 30, 2009 included

§

\$29 million higher income tax benefits related to a change in the effective tax rate and Mexican currency translation and inflation adjustments; **offset by**

§

\$10 million after-tax cash payment received in the first quarter of 2008 for the early termination of a capacity agreement for the Cameron LNG receipt terminal; and

§  
\$4 million higher operating losses from the start-up of terminal and marketing operations.

***Parent and Other***

Losses for Parent and Other were

§  
\$37 million in the three months ended September 30, 2009

§  
\$16 million in the three months ended September 30, 2008

§  
\$82 million in the nine months ended September 30, 2009

§  
\$48 million in the nine months ended September 30, 2008

The increase in losses of \$21 million (131%) in the three months ended September 30, 2009 was due to:

§  
\$40 million higher income tax expense; and

§  
\$16 million higher interest expense primarily from long-term debt issued in 2008 and 2009, partially offset by \$5 million reduced interest expense on commercial paper borrowings due to lower interest rates; **offset by**

§  
\$7 million investment gains in 2009 on dedicated assets in support of our executive retirement and deferred compensation plans due to improved market conditions compared to investment losses of \$8 million in 2008. These amounts are net of the increase in deferred compensation liability associated with the investments; and

§  
\$8 million Mexico peso exchange losses in 2008.

The increase in losses of \$34 million (71%) in the nine months ended September 30, 2009 was due to:

§  
\$48 million higher interest expense primarily from long-term debt issued in 2008 and 2009, partially offset by \$9 million reduced interest expense on commercial paper borrowings due to lower interest rates;

§

\$25 million higher income tax expense; and

§

\$10 million favorable impact of an interest adjustment in 2008 related to litigation reserves; **offset by**

§

\$13 million investment gains in 2009 on dedicated assets in support of our executive retirement and deferred compensation plans due to improved market conditions compared to investment

losses of \$4 million in 2008. These amounts are net of the increase in deferred compensation liability associated with the investments; and

§

\$8 million Mexico peso exchange losses in 2008.

## **CHANGES IN REVENUES, COSTS AND EARNINGS**

This section contains a discussion of the differences between periods in the specific line items of the Condensed Consolidated Statements of Operations for Sempra Energy, SDG&E, PE and SoCalGas.

### ***Sempra Utilities Revenues***

The current regulatory framework permits the cost of natural gas purchased for core customers (primarily residential and small commercial and industrial customers) to be passed on to customers substantially as incurred. However, SoCalGas' Gas Cost Incentive Mechanism (GCIM) provides SoCalGas the opportunity to share in the savings and/or costs from purchasing natural gas for its core customers at prices below or above market-based monthly benchmarks. The mechanism permits full recovery of costs incurred when average purchase costs are within a price range around a monthly benchmark price. Any higher costs or savings realized outside this range are shared between the core customers and SoCalGas. We provide further discussion in Note 9 of the Notes to Condensed Consolidated Financial Statements herein.

The regulatory framework permits SDG&E to recover the actual cost incurred to generate or procure electricity based on annual estimates of the cost of electricity supplied to core customers. The differences in cost between estimates and actual are recovered in the next year through rates.

### ***Sempra Utilities: Natural Gas Revenues and Cost of Natural Gas***

The tables below show natural gas revenues for Sempra Energy, SDG&E and SoCalGas for the nine-month periods ended September 30. The Sempra Energy amounts reflect SDG&E and SoCalGas revenues, net of intercompany transactions. Because the cost of natural gas is recovered in rates, changes in the cost are reflected in the changes in revenues.

**SEMPRA ENERGY CONSOLIDATED****NATURAL GAS SALES, TRANSPORTATION AND EXCHANGE***(Volumes in billion cubic feet, dollars in millions)*

| Customer class                | Natural Gas Sales |          | Transportation<br>and Exchange |         | Total   |          |
|-------------------------------|-------------------|----------|--------------------------------|---------|---------|----------|
|                               | Volumes           | Revenue  | Volumes                        | Revenue | Volumes | Revenue  |
| 2009:                         |                   |          |                                |         |         |          |
| Residential                   | 187               | \$ 1,624 | 1                              | \$ 2    | 188     | \$ 1,626 |
| Commercial and<br>industrial  | 85                | 553      | 205                            | 163     | 290     | 716      |
| Electric generation<br>plants | -                 | -        | 203                            | 51      | 203     | 51       |
| Wholesale                     | -                 | -        | 12                             | 3       | 12      | 3        |
|                               | 272               | \$ 2,177 | 421                            | \$ 219  | 693     | 2,396    |
| Other revenues                |                   |          |                                |         |         | 75       |
| Balancing accounts*           |                   |          |                                |         |         | 133      |
| Total                         |                   |          |                                |         | \$      | 2,604    |
| 2008:                         |                   |          |                                |         |         |          |
| Residential                   | 199               | \$ 2,662 | 1                              | \$ 3    | 200     | \$ 2,665 |
| Commercial and<br>industrial  | 89                | 1,066    | 213                            | 137     | 302     | 1,203    |
| Electric generation<br>plants | -                 | -        | 218                            | 80      | 218     | 80       |
| Wholesale                     | -                 | -        | 13                             | 5       | 13      | 5        |
|                               | 288               | \$ 3,728 | 445                            | \$ 225  | 733     | 3,953    |
| Other revenues                |                   |          |                                |         |         | 113      |
| Balancing accounts*           |                   |          |                                |         |         | 231      |
| Total                         |                   |          |                                |         | \$      | 4,297    |

\* We discuss balancing accounts and their effects in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

During the three months ended September 30, 2009, our natural gas revenues decreased by \$468 million (39%) to \$731 million, and the cost of natural gas decreased by \$481 million (70%) to \$208 million. During the nine months ended September 30, 2009, our natural gas revenues decreased by \$1.7 billion (39%) to \$2.6 billion, and the cost of natural gas decreased by \$1.7 billion (63%) to \$997 million. The primary factor contributing to the decreased natural gas revenues and cost of natural gas in both the third quarter and year-to-date periods was lower natural gas prices in 2009. To a lesser extent, the decreases were due to lower sales volumes due to noticeably milder temperatures in 2009. We discuss the decrease in the cost of natural gas individually for SDG&E and SoCalGas below.





**SDG&E****NATURAL GAS SALES, TRANSPORTATION AND EXCHANGE***(Volumes in billion cubic feet, dollars in millions)*

| Customer class                | Natural Gas Sales |         | Transportation<br>and Exchange |         | Total   |         |
|-------------------------------|-------------------|---------|--------------------------------|---------|---------|---------|
|                               | Volumes           | Revenue | Volumes                        | Revenue | Volumes | Revenue |
| 2009:                         |                   |         |                                |         |         |         |
| Residential                   | 23                | \$ 230  | -                              | \$ -    | 23      | \$ 230  |
| Commercial and<br>industrial  | 11                | 76      | 5                              | 7       | 16      | 83      |
| Electric generation<br>plants | -                 | -       | 45                             | 13      | 45      | 13      |
|                               | 34                | \$ 306  | 50                             | \$ 20   | 84      | 326     |
| Other revenues                |                   |         |                                |         |         | 25      |
| Balancing accounts            |                   |         |                                |         |         | 2       |
| Total*                        |                   |         |                                |         | \$      | 353     |
| 2008:                         |                   |         |                                |         |         |         |
| Residential                   | 25                | \$ 355  | -                              | \$ -    | 25      | \$ 355  |
| Commercial and<br>industrial  | 12                | 142     | 5                              | 7       | 17      | 149     |
| Electric generation<br>plants | -                 | -       | 48                             | 19      | 48      | 19      |
|                               | 37                | \$ 497  | 53                             | \$ 26   | 90      | 523     |
| Other revenues                |                   |         |                                |         |         | 18      |
| Balancing accounts            |                   |         |                                |         |         | 7       |
| Total*                        |                   |         |                                |         | \$      | 548     |

\* Includes sales to affiliates of \$1 million in 2009 and \$2 million in 2008.

During the three months ended September 30, 2009, SDG&E's natural gas revenues decreased by \$54 million (41%) to \$78 million, and the cost of natural gas decreased by \$54 million (64%) to \$30 million. During the nine months ended September 30, 2009, SDG&E's natural gas revenues decreased by \$195 million (36%) to \$353 million, and the cost of natural gas decreased by \$195 million (56%) to \$154 million. The average cost of natural gas for the three months ended September 30, 2009 was \$4.27 per thousand cubic feet (Mcf) compared to \$11.22 per Mcf for the corresponding period in 2008, a 62-percent decrease of \$6.95 per Mcf, resulting in lower revenues and cost of \$49 million. For the first nine months of 2009, SDG&E's average cost of natural gas was \$4.52 per Mcf compared to \$9.48 per Mcf for the corresponding period in 2008, a 52-percent decrease of \$4.96 per Mcf, resulting in lower revenues and cost of \$169 million.



**SO CAL GAS****NATURAL GAS SALES, TRANSPORTATION AND EXCHANGE***(Volumes in billion cubic feet, dollars in millions)*

| Customer class                | Natural Gas Sales |          | Transportation<br>and Exchange |         | Total   |          |
|-------------------------------|-------------------|----------|--------------------------------|---------|---------|----------|
|                               | Volumes           | Revenue  | Volumes                        | Revenue | Volumes | Revenue  |
| 2009:                         |                   |          |                                |         |         |          |
| Residential                   | 164               | \$ 1,394 | 1                              | \$ 2    | 165     | \$ 1,396 |
| Commercial and<br>industrial  | 74                | 477      | 200                            | 157     | 274     | 634      |
| Electric generation<br>plants | -                 | -        | 158                            | 38      | 158     | 38       |
| Wholesale                     | -                 | -        | 99                             | 10      | 99      | 10       |
|                               | 238               | \$ 1,871 | 458                            | \$ 207  | 696     | 2,078    |
| Other revenues                |                   |          |                                |         |         | 67       |
| Balancing accounts            |                   |          |                                |         |         | 131      |
| Total*                        |                   |          |                                |         |         | \$ 2,276 |
| 2008:                         |                   |          |                                |         |         |          |
| Residential                   | 174               | \$ 2,307 | 1                              | \$ 3    | 175     | \$ 2,310 |
| Commercial and<br>industrial  | 77                | 924      | 208                            | 130     | 285     | 1,054    |
| Electric generation<br>plants | -                 | -        | 170                            | 61      | 170     | 61       |
| Wholesale                     | -                 | -        | 105                            | 16      | 105     | 16       |
|                               | 251               | \$ 3,231 | 484                            | \$ 210  | 735     | 3,441    |
| Other revenues                |                   |          |                                |         |         | 111      |
| Balancing accounts            |                   |          |                                |         |         | 224      |
| Total*                        |                   |          |                                |         |         | \$ 3,776 |

\* Includes sales to affiliates of \$24 million in 2009 and \$25 million in 2008.

During the three months ended September 30, 2009, SoCalGas' natural gas revenues decreased by \$415 million (39%) to \$662 million, and the cost of natural gas decreased by \$429 million (70%) to \$180 million. During the nine months ended September 30, 2009, SoCalGas' natural gas revenues decreased by \$1.5 billion (40%) to \$2.3 billion, and the cost of natural gas decreased by \$1.5 billion (64%) to \$849 million. The average cost of natural gas for the three months ended September 30, 2009 was \$3.36 per Mcf compared to \$11.01 per Mcf for the corresponding period in 2008, a 69-percent decrease of \$7.65 per Mcf, resulting in lower revenues and cost of \$411 million. For the first nine months of 2009, SoCalGas' average cost of natural gas was \$3.57 per Mcf compared to \$9.45 per Mcf for the corresponding period in 2008, a 62-percent decrease of \$5.88 per Mcf, resulting in lower revenues and cost of \$1.4 billion.

***Sempra Energy and SDG&E: Electric Revenues and Cost of Electric Fuel and Purchased Power***

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The table below shows electric revenues for Sempra Energy and SDG&E. Sempra Energy amounts are shown after eliminating intercompany transactions. Because the cost of electricity is substantially recovered in rates, changes in the cost are reflected in the changes in revenues.

During the three months ended September 30, 2009, electric revenues decreased by \$121 million (15%) to \$693 million at Sempra Energy and by \$122 million (15%) to \$695 million at SDG&E. The decrease in revenues was primarily due to:

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\$103 million (33%) decrease in cost of electric fuel and purchased power; and

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\$47 million higher revenues in 2008 from the implementation of the 2008 GRC decision in the third quarter of 2008; **offset by**

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\$24 million higher authorized electric distribution, transmission and generation margins; and

§

\$9 million resolution of regulatory matters in 2009 that favorably impacted earnings.

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During the nine months ended September 30, 2009, electric revenues decreased by \$115 million (6%) at Sempra Energy and by \$118 million (6%) at SDG&E to \$1.8 billion. The decrease in revenues was primarily due to:

- §
- \$186 million (27%) decrease in cost of electric fuel and purchased power; and
- §
- \$20 million lower regulatory awards in 2009; **offset by**
- §
- \$54 million higher authorized electric distribution, transmission and generation margins;
- §
- \$24 million higher recoverable expenses that are fully offset in operation and maintenance expenses; and
- §
- \$9 million resolution of regulatory matters in 2009 that favorably impacted earnings.

The lower current cost of electric fuel and purchased power, as compared to recorded or CPUC-authorized costs, has resulted in increased overcollections, thereby reducing regulatory balancing account revenues. These regulatory balancing accounts are required to be balanced over time.

**ELECTRIC DISTRIBUTION AND TRANSMISSION**

*(Volumes in millions of kilowatt-hours, dollars in millions)*

| Customer class                     | 2009    |          | 2008    |          |
|------------------------------------|---------|----------|---------|----------|
|                                    | Volumes | Revenue  | Volumes | Revenue  |
| <b>Sempra Energy Consolidated:</b> |         |          |         |          |
| Residential                        | 5,671   | \$ 831   | 5,782   | \$ 700   |
| Commercial                         | 5,302   | 725      | 5,399   | 610      |
| Industrial                         | 1,716   | 194      | 1,752   | 151      |
| Direct access                      | 2,290   | 80       | 2,296   | 72       |
| Street and highway lighting        | 79      | 10       | 79      | 8        |
|                                    | 15,058  | 1,840    | 15,308  | 1,541    |
| Other revenues                     |         | 102      |         | 112      |
| Balancing accounts                 |         | (164)    |         | 240      |
| Total                              |         | \$ 1,778 |         | \$ 1,893 |
| <b>SDG&amp;E:</b>                  |         |          |         |          |
| Residential                        | 5,671   | \$ 831   | 5,782   | \$ 700   |
| Commercial                         | 5,302   | 725      | 5,399   | 610      |

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|                             |        |       |        |       |
|-----------------------------|--------|-------|--------|-------|
| Industrial                  | 1,724  | 195   | 1,760  | 152   |
| Direct access               | 2,290  | 80    | 2,296  | 72    |
| Street and highway lighting | 79     | 10    | 79     | 8     |
|                             | 15,066 | 1,841 | 15,316 | 1,542 |
| Other revenues              |        | 106   |        | 119   |
| Balancing accounts          |        | (164) |        | 240   |
| Total*                      | \$     | 1,783 | \$     | 1,901 |

\* Includes sales to affiliates of \$5 million in 2009 and \$8 million in 2008.

We do not include in the Condensed Consolidated Statements of Operations the commodity costs (and the revenues to recover those costs) associated with long-term contracts that are allocated to SDG&E by the California Department of Water Resources (DWR). However, we do include the associated volumes and distribution revenues in the table above. We provide further discussion of these contracts in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

***Sempra Global and Parent Revenues and Cost of Sales***

During the three months ended September 30, 2009, our Sempra Global and Parent revenues decreased by \$250 million (37%) to \$429 million. The decrease included \$248 million lower revenues at Sempra Generation, primarily due to lower natural gas and power prices.

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During the three months ended September 30, 2009, our cost of natural gas, electric fuel and purchased power decreased by \$211 million (49%) to \$220 million primarily due to lower natural gas and power prices at Sempra Generation.

During the nine months ended September 30, 2009, our Sempra Global and Parent revenues decreased by \$1.0 billion (44%) to \$1.3 billion. The decrease included

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\$634 million lower revenues at Sempra Generation, primarily due to lower natural gas and power prices; and

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\$436 million lower revenues from Sempra Commodities primarily due to the sale of the commodities-marketing businesses to our joint venture, RBS Sempra Commodities, on April 1, 2008; **offset by**

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\$81 million higher revenues at Sempra LNG, primarily from completed projects going into service in 2008.

During the nine months ended September 30, 2009, our cost of natural gas, electric fuel and purchased power decreased by \$678 million (50%) to \$675 million primarily due to lower natural gas and power prices at Sempra Generation. Other cost of sales for Sempra Global and Parent decreased by \$116 million (69%) to \$52 million primarily due to the sale of the commodities-marketing businesses in the second quarter of 2008.

### ***Operation and Maintenance***

#### *Sempra Energy Consolidated*

For the three months ended September 30, 2009, our operation and maintenance expenses increased by \$7 million (1%) to \$571 million.

For the nine months ended September 30, 2009, our operation and maintenance expenses decreased by \$140 million (8%) to \$1.7 billion. The decrease was primarily due to:

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the inclusion of \$243 million of operation and maintenance expenses at our commodities-marketing business for the first nine months of 2008; **offset by**

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higher operation and maintenance expense at SDG&E, including \$24 million higher recoverable expenses and \$31 million other operational costs, offset by \$44 million lower litigation expense;

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\$33 million higher operation and maintenance expense at LNG mainly at the Energía Costa Azul LNG receipt terminal; and

§

\$24 million higher operation and maintenance expense at Sempra Pipelines & Storage primarily from the operations of Mobile Gas, acquired in October 2008.

***Equity Earnings (Losses) Before Income Taxes***

*Sempra Energy Consolidated*

In the three months and nine months ended September 30, 2009, the pretax equity earnings from our investment in RBS Sempra Commodities were \$105 million and \$384 million, respectively. The equity earnings of \$142 million for the nine-month period in 2008 represent earnings for only six months, beginning with the inception of the joint venture on April 1, 2008. We provide additional information about this investment's earnings in Note 4 of the Notes to Condensed Consolidated Financial Statements herein.

***Other Income (Expense), Net***

*Sempra Energy Consolidated*

For the three months ended September 30, 2009, other income, net, was \$24 million compared to a \$21 million net expense in 2008. The change was primarily due to:

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\$20 million investment gains in 2009 on dedicated assets in support of our executive retirement and deferred compensation plans compared to \$13 million of losses in 2008;

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\$13 million in Mexican peso exchange losses in 2008; and



§

\$6 million higher net regulatory interest.

For the nine months ended September 30, 2009, other income, net, increased by \$67 million (223%) to \$97 million. The increase was due to:

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\$40 million investment gains in 2009 on dedicated assets in support of our executive retirement and deferred compensation plans compared to \$9 million of losses in 2008;

§

\$13 million in Mexican peso exchange losses in 2008;

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\$12 million higher net regulatory interest; and

§

\$11 million of higher interest-rate swap gain for Otay Mesa VIE at SDG&E in 2009. The gain is offset in (Earnings) Losses Attributable to Noncontrolling Interests on the Condensed Consolidated Statements of Operations for Sempra Energy and SDG&E; **offset by**

§

a \$16 million cash payment received in the first quarter of 2008 for the early termination of a capacity agreement for the Cameron LNG receipt terminal.

### ***Interest Expense***

#### ***Sempra Energy Consolidated***

During the three months and nine months ended September 30, 2009, our interest expense increased by \$29 million (43%) and \$92 million (56%) to \$96 million and \$257 million, respectively. The increases were primarily due to long-term debt issued at Parent and Other in 2008 and 2009, offset partially by lower interest rates on commercial paper. In addition, the nine months ended September 30, 2008 included \$18 million reduced interest expense related to litigation reserves.

### ***Income Taxes***

The table below shows the income tax expense and effective income tax rates for Sempra Energy, SDG&E, PE and SoCalGas.

## **INCOME TAX EXPENSE AND EFFECTIVE INCOME TAX RATES**

*(Dollars in millions)*

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Three months ended September 30,

|                            | 2009               |                           | 2008               |                            |
|----------------------------|--------------------|---------------------------|--------------------|----------------------------|
|                            | Income Tax Expense | Effective Income Tax Rate | Income Tax Expense | Effective Income Tax Rate* |
| Sempra Energy Consolidated | \$ 128             | 31 %                      | \$ 94              | 25 %                       |
| SDG&E                      | 53                 | 37                        | 54                 | 31                         |
| PE                         | 41                 | 36                        | 42                 | 34                         |
| SoCalGas                   | 42                 | 36                        | 41                 | 35                         |

Nine months ended September 30,

|                            | 2009               |                           | 2008               |                            |
|----------------------------|--------------------|---------------------------|--------------------|----------------------------|
|                            | Income Tax Expense | Effective Income Tax Rate | Income Tax Expense | Effective Income Tax Rate* |
| Sempra Energy Consolidated | \$ 327             | 30 %                      | \$ 423             | 36 %                       |
| SDG&E                      | 141                | 33                        | 121                | 31                         |
| PE                         | 117                | 38                        | 119                | 38                         |
| SoCalGas                   | 115                | 37                        | 117                | 38                         |

\* Amounts for Sempra Energy Consolidated, SDG&E and PE have been adjusted for the retrospective adoption of ASC 810 (SFAS 160).

*Sempra Energy Consolidated*

In the three months ended September 30, 2009, Sempra Energy's income tax expense increased by \$34 million (36%) primarily due to higher pretax income and a higher effective income tax rate resulting primarily from lower pretax income in countries with lower statutory rates, and higher estimated investment tax credits in 2008 for Sempra Generation's solar-energy facility in Nevada.

In the first nine months of 2009, Sempra Energy's income tax expense decreased by \$96 million (23%) due to lower pretax income and a lower effective income tax rate resulting from:

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higher pretax income in countries with lower statutory rates;

§

lower income tax expense related to Mexican currency translation and inflation adjustments; and

§

higher favorable impact of the resolution of prior years' income tax issues.

*SDG&E*

In the three months ended September 30, 2009, SDG&E's income tax expense decreased by \$1 million (2%) primarily from lower pretax income, offset by a higher effective income tax rate. The higher effective tax rate was due to:

§

lower favorable impact from the resolution of prior years' income tax issues; **offset by**

§

higher deductions allowed for depreciation not treated as deferred tax liabilities for ratemaking purposes;

§

higher deductions for self-developed software; and

§

higher deductions for asset removal costs.

In the first nine months of 2009, SDG&E's income tax expense increased by \$20 million (17%) due to higher pretax income and a higher effective income tax rate. The higher effective tax rate was primarily due to:

§

lower favorable impact from the resolution of prior years' income tax issues; and

§

lower deductions allowed for depreciation not treated as deferred tax liabilities for ratemaking purposes; **offset by**

§

higher deductions for self-developed software costs; and

§

higher deductions for asset removal costs.

*PE and SoCalGas*

In the three months ended September 30, 2009, income tax expense decreased by \$1 million (2%) at PE due to lower pretax income, offset by a higher effective income tax rate. For the same period, income tax expense increased by \$1 million at SoCalGas primarily due to a higher effective income tax rate, offset by lower pretax income. The higher effective tax rates at both PE and SoCalGas were due to:

§

lower favorable impact from the resolution of prior years' income tax issues; **offset by**

§

higher deductions for self-developed software costs; and

§

higher Medicare subsidy, as discussed in Note 9 of the Notes to Consolidated Financial Statements in the Annual Report.

In the first nine months of 2009, income tax expense decreased by \$2 million (2%) at both PE and SoCalGas. The effective income tax rates at PE and SoCalGas were impacted in 2009 by:

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higher deductions for self-developed software costs; and

§

higher Medicare subsidy.



***(Earnings) Losses Attributable to Noncontrolling Interests******Sempra Energy Consolidated***

Losses attributable to noncontrolling interests were \$17 million in the three months ended September 30, 2009 compared to \$8 million in the corresponding period of 2008. The increase included \$9 million higher losses from Otay Mesa VIE, primarily due to higher cost of electric fuel and purchased power and losses from interest-rate swaps.

Losses attributable to noncontrolling interests were \$22 million in the first nine months of 2009 compared to earnings of \$7 million in the corresponding period of 2008. The change included \$33 million associated with the write-off of assets of Liberty in 2009.

***Earnings***

We discuss variations in Sempra Energy's earnings by business unit above in "Business Unit Results."

**CAPITAL RESOURCES AND LIQUIDITY**

We expect our cash flows from operations to fund a substantial portion of our capital expenditures and dividends. We expect to meet our remaining cash requirements through the issuance of short-term and long-term debt.

Our committed lines of credit provide liquidity and support commercial paper. They expire in August 2011. At Sempra Energy, they are syndicated broadly among 20 different banks and at the Sempra Utilities, among 17 different banks. No single bank has greater than a 10.7 percent share in any single facility.

The table below shows the amount of available funds at September 30, 2009:

**AVAILABLE FUNDS AT SEPTEMBER 30, 2009**

*(Dollars in millions)*

|  | Sempra Energy |        |             |
|--|---------------|--------|-------------|
|  | Consolidated  | SDG&E  | PE/SoCalGas |
| Unrestricted cash and cash equivalents | \$ 756        | \$ 291 | \$ 418      |
| Available unused credit*               | 3,096         | 338    | 538         |

\* *Borrowings on the shared line of credit at SDG&E and SoCalGas are limited to \$600 million for each utility and \$800 million in total. SDG&E's available funds reflect letters of credit outstanding of \$25 million and variable-rate demand notes outstanding of \$237 million supported by the line. SoCalGas' availability reflects the impact of SDG&E's use of the combined credit available on the line.*

***Sempra Energy***

We believe that these available funds and cash flows from operations, distributions from equity method investments and security issuances, combined with current cash balances, will be adequate to:

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finance capital expenditures

§

meet liquidity requirements

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fund shareholder dividends

§

fund any new business acquisitions or start-ups

Both Sempra Energy and SDG&E have issued long-term debt in 2009. However, changing economic conditions could affect the availability and cost of both short-term and long-term financing. If cash flows from operations were to be significantly reduced or we were to be unable to borrow under acceptable terms, we would reduce or postpone discretionary capital expenditures and investments in new businesses. If these measures were necessary, they would primarily impact our Sempra Global businesses, as credit availability for the Sempra Utilities has not been significantly impacted by the credit crisis. Discretionary expenditures at Sempra Global would include projects that we have not yet made firm commitments to build, primarily renewable generation facilities. We continuously

monitor our ability to finance the needs of our operating, investing and financing activities in a manner consistent with our intention to maintain strong, investment-quality ratings.

We have significant investments in several trusts to provide for future payments of pensions and other retirement benefits, and nuclear decommissioning. Although all of our trust funds' investments are diversified and managed in compliance with all laws and regulations, the value of the investments in these trusts declined in 2008 and the first quarter of 2009 due to a decrease in the equity market and volatility in the fixed income market. These markets continue to be volatile. The decrease in asset values has not affected the funds' abilities to make their required payments, however we expect funding requirements for pension and other postretirement benefit plans to increase. At the Sempra Utilities, funding requirements are generally recoverable in rates.

On February 20, 2009, our board of directors approved an increase to our quarterly common stock dividend to \$0.39 per share (\$1.56 annually), an increase of \$0.04 per share (\$0.16 annually) or 11 percent. Our target annual dividend payment ratio is 35 percent to 40 percent of earnings.

On November 5, 2009, we prepaid the six remaining installments due under the Continental Forge litigation settlement agreement. Under the agreement, prepayments are discounted at 7 percent, yielding a prepayment amount of \$119 million. Funding of the payment was \$36 million by Sempra Energy, \$28 million by SDG&E and \$55 million by SoCalGas.

We discuss our principal credit agreements more fully in Note 6 of the Notes to Condensed Consolidated Financial Statements herein and in Note 6 of the Notes to Consolidated Financial Statements in the Annual Report.

### *Sempra Utilities*

The Sempra Utilities expect that cash flows from operations and security issuances will continue to be adequate to meet utility capital expenditure requirements. Due to the extended review period associated with the Sunrise Powerlink project and the resultant delay in initiating construction activities, SDG&E declared and paid a \$150 million common dividend to Sempra Energy in the first quarter of 2009. However, the level of future common dividends from SDG&E and SoCalGas may be reduced or eliminated during periods of increased capital expenditures. The level of future common dividends from PE is dependent upon common dividends paid by SoCalGas. Sempra Energy may from time to time make additional equity contributions to SDG&E or SoCalGas to support the Sempra Utilities' capital expenditure programs.

### *Sempra Commodities*

On April 1, 2008, we completed the formation of RBS Sempra Commodities, a partnership to own and operate Sempra Energy's commodities-marketing businesses, which generally comprised the Sempra Commodities business unit. RBS is obligated to provide the joint venture with all growth capital, working-capital requirements and credit support. However, we are providing transitional back-up guarantees and credit support, some of which may continue for a prolonged period of time. RBS has fully indemnified us for any claims or losses in connection with these arrangements.

We account for our investment in the partnership under the equity method. RBS Sempra Commodities intends to distribute all of its net income on an annual basis, although the distributions are within the discretion of the board of directors of the partnership. In limited cases, the partnership may retain earnings allocable to the partners to replenish capital depleted through losses. In March 2009, we received \$305 million from the partnership, representing our remaining share of 2008 partnership income after 2008 distributions, and an additional \$102 million through September 30, 2009 to fund estimated income tax payments. We provide additional information about RBS Sempra Commodities in Notes 4 and 6 of the Notes to Condensed Consolidated Financial Statements herein and in Notes 4 and 6 of the Notes to Consolidated Financial Statements in the Annual Report.



***Sempra Generation***

We expect Sempra Generation to require funds for the development of electric generation facilities, primarily renewable energy projects. Projects at Sempra Generation may be financed through a combination of operating cash flow, project financing, funds from the parent and external borrowings.

Sempra Generation's long-term power sale contracts may contain collateral requirements. The DWR contract does not contain such requirements. The collateral arrangements require Sempra Generation and/or the counterparty to post cash, guarantees or letters of credit to the other party for exposure in excess of established thresholds. Sempra Generation may be required to provide collateral when market price movements adversely affect the counterparty's cost of replacement energy supplies if Sempra Generation fails to deliver the contracted amounts. Sempra Generation had no outstanding collateral requirements under such contracts at September 30, 2009.

***Sempra Pipelines & Storage***

Sempra Pipelines & Storage is expected to require funding from the parent or from external sources to fund projects, including:

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development and expansion of its natural gas storage projects

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participation in the development of the Rockies Express natural gas pipeline

***Sempra LNG***

Sempra LNG has required funding for its development of the Energía Costa Azul and Cameron LNG receiving facilities. As both of these facilities are now in service, Sempra LNG is expected to provide operating cash flow for further development within Sempra Global.

**CASH FLOWS FROM OPERATING ACTIVITIES**

**CASH PROVIDED BY OPERATING ACTIVITIES**

*(Dollars in millions)*

|                            | 2009     | 2009 Change    | 2008   |
|----------------------------|----------|----------------|--------|
| Sempra Energy Consolidated | \$ 1,884 | \$ 1,079 134 % | \$ 805 |
| SDG&E                      | 619      | 105 20         | 514    |
| PE                         | 545      | 240 79         | 305    |
| SoCalGas                   | 549      | 251 84         | 298    |

***Sempra Energy Consolidated***

Cash provided by operating activities at Sempra Energy increased in 2009 due to:

§

\$351 million higher distributions received from RBS Sempra Commodities;

§

\$260 million increase in overcollected regulatory balancing accounts in 2009 compared to a \$204 million decrease in 2008, primarily at SDG&E as discussed below; and

§

a \$24 million decrease in inventory in 2009 compared to a \$237 million increase in 2008, primarily at SoCalGas as discussed below.

***SDG&E***

Cash provided by operating activities at SDG&E increased in 2009 primarily due to:

§

a \$207 million increase in overcollected regulatory balancing accounts in 2009 compared to a \$155 million decrease in 2008. Over- and under-collected regulatory balancing accounts reflect the difference between customer billings and recorded or CPUC-authorized costs which are required to be balanced over time; **offset by**

§

\$144 million net income tax payments in 2009 compared to \$54 million net refunds in 2008; and

§

an increase of \$5 million in inventory in 2009 compared to a \$48 million decrease in 2008 due to SoCalGas assuming the responsibility for the procurement of natural gas, including inventory management, for SDG&E's core natural gas customers.

***PE and SoCalGas***

§

Cash provided by operating activities at PE and SoCalGas increased in 2009 primarily due to a \$206 million lower increase in inventory driven by lower natural gas prices in 2009 as compared to 2008.

The table below shows the contributions to pension and other postretirement benefit plans for the nine months ended September 30, 2009.

| <i>(Dollars in millions)</i> |    | Other            |                         |
|------------------------------|----|------------------|-------------------------|
|                              |    | Pension Benefits | Postretirement Benefits |
| Sempra Energy Consolidated   | \$ | 42               | \$ 37                   |
| SDG&E                        |    | 23               | 13                      |
| PE/SoCalGas                  |    | 1                | 23                      |

**CASH FLOWS FROM INVESTING ACTIVITIES****CASH USED IN INVESTING ACTIVITIES***(Dollars in millions)*

|                            | 2009       | 2009 Change |      | 2008         |
|----------------------------|------------|-------------|------|--------------|
| Sempra Energy Consolidated | \$ (1,970) | \$ 374      | 23   | % \$ (1,596) |
| SDG&E                      | (580)      | (130)       | (18) | (710)        |
| PE                         | (329)      | 111         | 51   | (218)        |
| SoCalGas                   | (336)      | 122         | 57   | (214)        |

***Sempra Energy Consolidated***

Cash used in investing activities at Sempra Energy increased in 2009 due to:

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\$2.1 billion in proceeds from the RBS transaction in 2008; and

§

a \$60 million decrease in notes receivable from an unconsolidated affiliate in 2008; **offset by**

§

a \$170 million decrease in capital expenditures;

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\$176 million proceeds from the remarketing of industrial development bonds in 2009; and

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a \$1.4 billion decrease in expenditures for investments primarily due to our initial \$1.6 billion investment in RBS Sempra Commodities in 2008, offset by an increase of \$377 million in contributions by Sempra Pipelines & Storage to Rockies Express.

***SDG&E***

The decrease in cash used in investing activities at SDG&E in 2009 was due to:

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a \$152 million decrease in purchases of industrial development bonds; and

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a \$33 million decrease in advances to Sempra Energy in 2009 compared to a \$6 million increase in 2008; **offset by**

§

a \$60 million decrease in proceeds from the sale of industrial development bonds.

***PE and SoCalGas***

Cash used in investing activities at PE and SoCalGas increased in 2009 primarily due to a \$124 million lower decrease in loans to Sempra Energy in 2009.

## **FUTURE CONSTRUCTION EXPENDITURES AND INVESTMENTS**

The amounts and timing of capital expenditures are generally subject to approvals by the CPUC, the Federal Energy Regulatory Commission (FERC) and other regulatory bodies. However, in 2009, we expect to make capital expenditures and investments of \$2.9 billion, including:

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\$1.3 billion at the Sempra Utilities for capital projects and plant improvements (\$800 million at SDG&E and \$500 million at SoCalGas)

§

\$1.6 billion at our other subsidiaries for the development of LNG facilities, natural gas storage facilities and pipelines, and renewable generation projects

This is an increase from our previous estimate of \$2.5 billion, primarily due to our planned investment of approximately \$250 million in the Fowler Ridge II Wind Farm project by Sempra Generation, and other planned investments. The expected capital expenditures of \$1.6 billion at our other subsidiaries include expected total contributions of approximately \$625 million to Rockies Express, of which \$527 million has been contributed through September 30, 2009.

The Sempra Utilities expect the capital expenditures to include

§

\$500 million for additions to SDG&E's natural gas and electric distribution and generation systems, and advanced metering infrastructure

§

\$500 million at SoCalGas for improvements to distribution and transmission systems

§

\$200 million for improvements to SDG&E's electric transmission infrastructure

§

\$100 million at SDG&E for the Sunrise Powerlink transmission line

Our level of capital expenditures and investments in the next few years may vary substantially and will depend on the cost and availability of financing, regulatory approvals and business opportunities providing desirable rates of return. We intend to finance our capital expenditures in a manner that will maintain our strong investment-grade ratings and capital structure.

## **CASH FLOWS FROM FINANCING ACTIVITIES**

**CASH FLOWS FROM FINANCING ACTIVITIES***(Dollars in millions)*

|  | 2009   | 2009 Change |       | 2008     |
|--|--------|-------------|-------|----------|
| Sempra Energy Consolidated               | \$ 511 | \$ 190      | \$ 59 | % \$ 321 |
| SDG&E                                    | 233    | 105         | 82    | 128      |
| PE                                       | (4)    | 104         | (96)  | (108)    |
| SoCalGas                                 | (1)    | 104         | (99)  | (105)    |
| <b><i>Sempra Energy Consolidated</i></b> |        |             |       |          |

Cash provided by financing activities at Sempra Energy in 2009 increased primarily due to:

§

the \$1 billion repurchase of common stock in 2008; and

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a \$531 million increase in issuances of long-term debt; **offset by**

§

a \$52 million net decrease in short-term debt in 2009 compared to a \$985 million net increase in 2008;

§

a \$250 million increase in long-term debt payments; and

§

\$94 million for the purchase of the remaining 40-percent ownership interest in Mississippi Hub.

In October 2009, Sempra Energy publicly offered and sold \$750 million of 6.0-percent notes, maturing in 2039.

Proceeds of the notes will be used for general corporate purposes, including the repayment of commercial paper.

***SDG&E***

Cash provided by financing activities at SDG&E increased primarily due to:

§

a \$248 million increase in issuances of long-term debt; **offset by**

§

\$150 million in common dividends paid to Sempra Energy in 2009.

***PE and SoCalGas***

Cash used in financing activities at PE and SoCalGas in 2009 decreased due to 2008 activities, as follows:

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\$200 million common dividends paid to Sempra Energy by PE and to PE by SoCalGas; **offset by**

§

a \$96 million increase in short-term debt.

**COMMITMENTS**

We discuss significant changes to contractual commitments at Sempra Energy, SDG&E, PE and SoCalGas in Notes 6 and 10 in the Notes to Condensed Consolidated Financial Statements herein.

**CREDIT RATINGS**

The table below shows the credit ratings of Sempra Energy and its principal subsidiaries which have remained at investment grade levels throughout 2009. In August 2009, Moody's upgraded SDG&E's and SoCalGas's secured debt rating from A1 to Aa3. In October 2009, Standard & Poor's raised Sempra Energy's ratings outlook from negative to stable.

**CREDIT RATINGS OF SEMPRA ENERGY AND PRINCIPAL SUBSIDIARIES**

|                      | Standard & Poor's | Moody's Investor Services, Inc. | Fitch |
|----------------------|-------------------|---------------------------------|-------|
| <b>SEMPRA ENERGY</b> |                   |                                 |       |
| Unsecured debt       | BBB+              | Baa1                            | A     |
| <b>SDG&amp;E</b>     |                   |                                 |       |
| Secured debt         | A+                | Aa3                             | AA    |



|                  |      |      |      |
|------------------|------|------|------|
| Unsecured debt   | A    | A2   | AA-  |
| Preferred stock  | BBB+ | Baa1 | A+   |
| Commercial paper | A-1  | P-1  | F-1+ |

**SoCalGas**

|                  |      |      |      |
|------------------|------|------|------|
| Secured debt     | A+   | Aa3  | AA   |
| Unsecured debt   | A    | A2   | AA-  |
| Preferred stock  | BBB+ | Baa1 | A+   |
| Commercial paper | A-1  | P-1  | F-1+ |

**PACIFIC ENTERPRISES**

|                 |      |    |   |
|-----------------|------|----|---|
| Preferred Stock | BBB+ | -- | A |
|-----------------|------|----|---|

**SEMPRA GLOBAL**

|  |     |      |     |
|--|-----|------|-----|
| Unsecured debt guaranteed by Sempra Energy   | --  | Baa1 | A   |
| Commercial paper guaranteed by Sempra Energy | A-2 | P-2  | F-1 |

**FACTORS INFLUENCING FUTURE PERFORMANCE****SEMPRA ENERGY OVERVIEW**

The Sempra Utilities' operations and Sempra Generation's long-term contracts generally provide relatively stable earnings and liquidity. However, for the next few years, SDG&E and SoCalGas will limit their common stock dividends to reinvest their earnings in significant capital projects. Also, Sempra Generation's contract with the DWR, which provides a significant portion of Sempra Generation's revenues, ends in late 2011. Because it is unable to forecast with certainty future electricity prices and the cost of natural gas, contracts it enters into to replace this capacity may provide substantially lower earnings. Sempra Generation is undertaking several projects for the construction of renewable generation facilities, with planned in-service dates ranging from late 2009 to 2012.

We expect that Sempra LNG and Sempra Pipelines & Storage will provide relatively stable earnings and liquidity from their current operations. Sempra Pipelines & Storage is also expected to provide earnings from construction programs when completed, but will require substantial funding for these programs. At Sempra Pipelines & Storage, we expect the write-off of certain assets of Liberty, as we discuss in Note 5 of the Notes to Condensed Consolidated Financial Statements herein, to have a minimal impact on future expected earnings. In addition, until there are firm supply or capacity contracts for 100 percent of Sempra LNG's Cameron facility, Sempra LNG will seek to obtain interim LNG supplies, which may result in greater variability in revenues and earnings. Sempra LNG may also purchase spot cargos and/or assign capacity to third parties as opportunities arise.

The Sempra Utilities' performance will depend primarily on the ratemaking and regulatory process, environmental regulations, and the changing energy marketplace. Their performance will also depend on the successful completion of capital projects that we discuss in various sections of this report. As the 2008 General Rate Case provides for fixed annual increases rather than for adjustments based on inflation indices as in the past, performance will depend on the Sempra Utilities' ability to manage costs, including bad debts. Starting in the third quarter of 2009, SDG&E has substantially higher liability insurance premiums, by approximately \$40 million annually, due to the increased costs of wildfire coverage. In addition to the increased insurance premiums, Sempra Energy, including the Sempra Utilities, has substantially lower insurance coverage, particularly with respect to any future wildfire liabilities. The maximum

loss recovery due to a wildfire incident has dropped from more than \$1 billion to \$400 million. SDG&E filed a request with the CPUC in the third quarter of 2009 for recovery of these additional costs, but without such recovery, our financial results could be adversely impacted.

In regard to the 2007 wildfire litigation, if SDG&E's ultimate liability, net of amounts recoverable from other defendants, were to exceed the remaining amounts recoverable from its insurers, SDG&E would request authorization from the FERC and the CPUC to recover the excess amounts in utility rates. SDG&E is unable to reasonably predict the degree of success it may have in pursuing such requests or the timing of any recovery. Without recovery of any such excess costs, SDG&E's financial results could be adversely impacted. We provide additional information concerning these matters in Notes 9 and 10 of the Notes to Condensed Consolidated Financial Statements herein.

As we discuss in Note 4 of the Notes to Condensed Consolidated Financial Statements herein, on April 1, 2008, we completed the formation of a partnership, RBS Sempra Commodities, to own and operate our commodities-marketing businesses, which generally comprised our Sempra Commodities segment. Our joint venture partner, RBS, is obligated to provide the partnership with all growth capital, working-capital requirements and credit support, as we discuss above in "Capital Resources and Liquidity - Sempra Commodities." Future earnings and distributions from the partnership will depend on profitability and growth achieved in the joint venture and the continued ability of RBS to provide capital and credit support for the partnership. RBS has been greatly affected by the world-wide turmoil in banking and became controlled by the government of the United Kingdom in December 2008.

On November 3, 2009, as part of its ongoing restructuring plan responding to increased government investment, RBS announced that it will sell a number of its assets, including its share of the RBS Sempra Commodities joint

venture. Our joint-venture agreement with RBS provides that neither party may sell its ownership until April 2012. RBS has stated that it will comply with this agreement and the sale will be executed in an orderly manner to maximize the value of the business. RBS also has committed to maintaining the usual liquidity, credit and funding operations for the joint venture.

We may be further impacted by depressed and rapidly changing economic conditions. Moreover, the dollar has fluctuated significantly compared to some foreign currencies, especially in Mexico and South America where we have significant operations. These factors, coupled with very low natural gas prices which affect profitability at Sempra Generation and Sempra LNG, could, if they remain unchanged, adversely affect profitability. Additionally, given the uncertainty of commodity markets and the lack of debt financing for energy infrastructure, which impact related hedging activity, growth at RBS Sempra Commodities could be dampened.

We discuss additional matters that could affect our future performance in Notes 9 and 10 of the Notes to Condensed Consolidated Financial Statements herein and in Notes 14, 15 and 16 of the Notes to Consolidated Financial Statements in the Annual Report.

## **LITIGATION**

We describe legal proceedings which could adversely affect our future performance in Note 10 of the Notes to Condensed Consolidated Financial Statements herein.

## **SEMPRA UTILITIES -- INDUSTRY DEVELOPMENTS AND CAPITAL PROJECTS**

We describe capital projects, electric and natural gas regulation and rates, and other pending proceedings and investigations that affect our business in Note 9 of the Notes to Condensed Consolidated Financial Statements herein and in Notes 14 and 15 of the Notes to Consolidated Financial Statements in the Annual Report.

## **SEMPRA GLOBAL INVESTMENTS**

As we discuss in "Cash Flows From Investing Activities," our investments will significantly impact our future performance. In addition to the discussion below, we provide information about these investments in "Capital Resources and Liquidity" herein and Capital Resources and Liquidity and Factors Influencing Future Performance in the Annual Report.

### ***Sempra Generation***

#### ***Copper Mountain Solar***

In July 2009, Sempra Generation announced that Pacific Gas and Electric (PG&E) has contracted for 48 megawatts (MW) of solar power from a new plant under development in Boulder City, Nevada, called Copper Mountain Solar. The Copper Mountain Solar facility will be built by Sempra Generation on land adjacent to the 10-MW El Dorado Energy Solar plant and we expect it to be completed in 2011. The contract is subject to CPUC approval.

#### ***Fowler Ridge II Wind Farm***

In September 2009, Sempra Generation became an equal partner with BP Wind Energy, a wholly owned subsidiary of BP p.l.c., in the development of the 200-MW Fowler Ridge II Wind Farm currently under construction in Indianapolis, Indiana. We expect it to be operational in late 2009. The project's entire power output has been sold under four 20-year, 50-MW contracts. Three contracts are with units of American Electric Power, and one is with Vectren Energy Delivery of Indiana. The project will use 133 wind turbines, each with the ability to generate 1.5 MW.



## ***Sempra Pipelines & Storage***

### *Rockies Express Pipeline*

REX-East, the eastern segment of the Rockies Express Pipeline and the last of the project's three segments, is expected to begin full service in November 2009. REX-East runs 638 miles from Missouri to Clarington, Ohio with capacity up to 1.8 billion cubic feet (Bcf) of natural gas per day.

The total project cost is estimated to be \$6.7 billion to \$6.8 billion. This amount includes costs incurred for the Entrega Pipeline and REX-West, the first two segments currently in service, and for the completion of REX-East. Construction expenditures and remaining cost estimates have increased significantly from original projections, and additional increases or other changes related to the investment could result in an impairment to the carrying value of our investment.

### *Natural Gas Storage Projects*

Currently, Sempra Pipelines & Storage has 11.4 Bcf of working natural gas storage capacity that is fully contracted and operational. We are in construction to increase operational capacity by 12.5 Bcf by the end of 2010 (for a total of 24 Bcf) and we plan to develop as much as 75 Bcf of total storage capacity by 2015.

Sempra Pipelines & Storage's natural gas storage facilities and projects include

§

Bay Gas Storage Company (Bay Gas), a facility located 40 miles north of Mobile, Alabama, that provides underground storage and delivery of natural gas. Sempra Pipelines & Storage owns 91 percent of the project. It is the easternmost storage facility on the Gulf Coast, with direct service to the Florida market.

§

Mississippi Hub storage facility, currently under construction in Simpson County, Mississippi, an underground salt-dome natural gas storage project with planned direct interconnections to the natural gas production areas in eastern Texas, Oklahoma and Arkansas, as well as the Northeast market.

§

Liberty Gas Storage Expansion, a salt cavern storage facility in Cameron Parish, Louisiana. Sempra owns 75 percent of the project and ProLiance Transportation and Storage LLC (ProLiance) owns the remaining 25 percent. The project's location provides access to several LNG facilities in the area.

## ***Sempra LNG***

### *Cameron LNG Receipt Terminal*

Sempra LNG's Cameron LNG receipt terminal in Hackberry, Louisiana began commercial operations in July 2009. The terminal is under contract for 40 percent of its capacity through 2029. Total project costs for the Cameron LNG receipt terminal were approximately \$900 million, excluding pre-expansion costs of \$44 million. We have resolved previous open force majeure and other claims for additional costs related to hurricanes.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

We view certain accounting policies as critical because their application is the most relevant, judgmental and/or material to our financial position and results of operations, and/or because they require the use of material judgments and estimates. We discuss these accounting policies in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report.

We describe our significant accounting policies in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

#### NEW ACCOUNTING STANDARDS

We discuss the relevant pronouncements that have recently become effective and have had or may have an impact on our financial statements in Note 2 of the Notes to Condensed Consolidated Financial Statements herein.

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The table below shows the nominal amount and the one-year VaR for long-term debt, excluding commercial paper and capitalized leases classified as long-term debt, at September 30, 2009 and December 31, 2008:

| <i>(Dollars in millions)</i>                 | Sempra Energy   |                  |                 |                  |                 |                  |
|--|-----------------|------------------|-----------------|------------------|-----------------|------------------|
|  | Consolidated    |                  | SDG&E           |                  | PE/SoCalGas     |                  |
|  | Nominal<br>Debt | One-Year<br>VaR* | Nominal<br>Debt | One-Year<br>VaR* | Nominal<br>Debt | One-Year<br>VaR* |
| At September 30, 2009:                       |                 |                  |                 |                  |                 |                  |
| Utility fixed-rate                           | \$ 3,411        | \$ 407           | \$ 2,298        | \$ 307           | \$ 1,113        | \$ 101           |
| Utility variable-rate                        | 553             | 42               | 303             | 42               | 250             | -                |
| Non-utility, fixed-rate and<br>variable-rate | 3,301           | 285              | -               | -                | -               | -                |
| At December 31, 2008:                        |                 |                  |                 |                  |                 |                  |
| Utility fixed-rate                           | \$ 3,023        | \$ 657           | \$ 1,910        | \$ 430           | \$ 1,113        | \$ 229           |
| Utility variable-rate                        | 486             | 64               | 236             | 69               | 250             | 6                |
| Non-utility, fixed-rate and<br>variable-rate | 2,829           | 467              | -               | -                | -               | -                |

\* After the effects of interest-rate swaps.

See additional disclosure regarding derivative activity in Note 7 of the Notes to Condensed Consolidated Financial Statements herein. We discuss our market risk and risk policies in detail in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report.



#### ITEM 4. CONTROLS AND PROCEDURES

##### **EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES**

Sempra Energy, SDG&E, PE and SoCalGas have designed and maintain disclosure controls and procedures to ensure that information required to be disclosed in their respective reports is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and is accumulated and communicated to the management of each company, including each respective Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. In designing and evaluating these controls and procedures, the management of each company recognizes that any system of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives; therefore, the management of each company applies judgment in evaluating the cost-benefit relationship of other possible controls and procedures.

Under the supervision and with the participation of management, including the Chief Executive Officers and Chief Financial Officers of Sempra Energy, SDG&E, PE and SoCalGas, each company evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of September 30, 2009, the end of the period covered by this report. Based on these evaluations, the Chief Executive Officers and Chief Financial Officers of Sempra Energy, SDG&E, PE and SoCalGas concluded that their respective company's disclosure controls and procedures were effective at the reasonable assurance level.

##### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

There have been no changes in the companies' internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the companies' internal control over financial reporting.



PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not party to, and our property is not the subject of, any material pending legal proceedings (other than ordinary routine litigation incidental to our businesses) except for the matters 1) described in Notes 9 and 10 of the Notes to Condensed Consolidated Financial Statements herein, or 2) referred to in "Management's Discussion and Analysis of Financial Condition and Results of Operations" herein and in the Annual Report.

In October 2009, SoCalGas finalized a \$525,000 settlement with the Los Angeles Regional Water Quality Control Board regarding allegations that SoCalGas violated the California Water Code in connection with certain maintenance activities in Los Angeles County's Sullivan Canyon.

In October 2009, the U.S. government dismissed all charges against SDG&E, one of its employees, and an SDG&E contractor of criminal environmental violations in connection with the 2000 - 2001 dismantlement of a natural gas storage facility located in Lemon Grove, California.

ITEM 1A. RISK FACTORS

There have been no material changes in risk factors as previously reported in our 2008 Annual Report.

ITEM 6. EXHIBITS

**EXHIBIT 12 -- STATEMENTS RE: COMPUTATION OF RATIOS**

*Sempra Energy*

- 12.1 Sempra Energy Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.

*San Diego Gas & Electric Company*

- 12.2 San Diego Gas & Electric Company Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.

*Pacific Enterprises*

- 12.3 Pacific Enterprises Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.

*Southern California Gas Company*

- 12.4 Southern California Gas Company Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.

**EXHIBIT 31 -- SECTION 302 CERTIFICATIONS**

*Sempra Energy*

- 31.1 Statement of Sempra Energy's Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

- 31.2 Statement of Sempra Energy's Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

*San Diego Gas & Electric Company*

- 31.3 Statement of San Diego Gas & Electric Company's Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

- 31.4 Statement of San Diego Gas & Electric Company's Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

*Pacific Enterprises*

- 31.5 Statement of Pacific Enterprise's Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

- 31.6 Statement of Pacific Enterprise's Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

*Southern California Gas Company*

- 31.7 Statement of Southern California Gas Company's Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.



- 31.8 Statement of Southern California Gas Company's Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

**EXHIBIT 32 -- SECTION 906 CERTIFICATIONS**

***Sempra Energy***

- 32.1 Statement of Sempra Energy's Chief Executive Officer pursuant to 18 U.S.C. Sec. 1350.
- 32.2 Statement of Sempra Energy's Chief Financial Officer pursuant to 18 U.S.C. Sec. 1350.

***San Diego Gas & Electric Company***

- 32.3 Statement of San Diego Gas & Electric Company's Chief Executive Officer pursuant to 18 U.S.C. Sec. 1350.
- 32.4 Statement of San Diego Gas & Electric Company's Chief Financial Officer pursuant to 18 U.S.C. Sec. 1350.

***Pacific Enterprises***

- 32.5 Statement of Pacific Enterprise's Chief Executive Officer pursuant to 18 U.S.C. Sec. 1350.
- 32.6 Statement of Pacific Enterprise's Chief Financial Officer pursuant to 18 U.S.C. Sec. 1350.

***Southern California Gas Company***

- 32.7 Statement of Southern California Gas Company's Chief Executive Officer pursuant to 18 U.S.C. Sec. 1350.
- 32.8 Statement of Southern California Gas Company's Chief Financial Officer pursuant to 18 U.S.C. Sec. 1350.

**EXHIBIT 101 -- INTERACTIVE DATA FILE**

- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document



**SIGNATURES**

**Sempra Energy:**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SEMPRA ENERGY,  
(Registrant)

Date: November 9, 2009

By: /s/ Joseph A. Householder  
Joseph A. Householder  
Senior Vice President, Controller and  
Chief Accounting Officer

**San Diego Gas & Electric Company:**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SAN DIEGO GAS & ELECTRIC COMPANY,  
(Registrant)

Date: November 9, 2009

By: /s/ Robert Schlax  
Robert Schlax  
Vice President, Controller and Chief Financial Officer

**Pacific Enterprises:**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PACIFIC ENTERPRISES,  
(Registrant)

Date: November 9, 2009

By: /s/ Robert Schlax  
Robert Schlax  
Vice President, Controller and Chief Financial Officer

**Southern California Gas Company:**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SOUTHERN CALIFORNIA GAS COMPANY,  
(Registrant)

Date: November 9, 2009

By: /s/ Robert Schlax  
Robert Schlax  
Vice President, Controller and Chief Financial Officer