

SEMPRA ENERGY  
Form 10-Q  
November 02, 2016

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, 2016

or

TRANSITION REPORT PURSUANT TO  
SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF  
1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

|  |                         |                                     |  |
|--|-------------------------|-------------------------------------|--|
| Exact Name of Registrants as Specified in their Charters, No. 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 No change |
| 1-14201 SEMPRA ENERGY<br>488 8 <sup>th</sup> Avenue<br>San Diego,<br>California            | California              | 33-0732627                          |  |

92101  
(619) 696-2000

1-03779 SAN DIEGO  
GAS & ELECTRIC COMPANY  
California 951184800 No change  
8326 Century  
Park Court  
San Diego,  
California  
92123  
(619) 696-2000

1-01402 SOUTHERN  
CALIFORNIA GAS COMPANY  
California 951240705 No change  
555 West Fifth  
Street  
Los Angeles,  
California  
90013  
(213) 244-1200

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 X No

Indicate by check mark whether the registrant has submitted electronically and posted on its 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 registrant was required to submit and post such files).

|                                  |     |      |
|----------------------------------|-----|------|
| Sempra Energy                    | Yes | X No |
| San Diego Gas & Electric Company | Yes | X No |
| Southern California Gas Company  | Yes | X 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<br>accelerated<br>filer | Accelerated<br>filer | Non-accelerated<br>filer | Smaller<br>reporting<br>company |
|----------------------------------|-------------------------------|----------------------|--------------------------|---------------------------------|
| Sempra Energy                    | [ X ]                         | [ ]                  | [ ]                      | [ ]                             |
| San Diego Gas & Electric Company | [ ]                           | [ ]                  | 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 |
| 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 October 27, 2016:

|                                  |   |
|----------------------------------|---|
| Sempra Energy                    | 250,060,973 shares  |
| San Diego Gas & Electric Company | Wholly owned by Enova Corporation, which is 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  
 SAN DIEGO GAS & ELECTRIC COMPANY FORM 10-Q  
 SOUTHERN CALIFORNIA GAS COMPANY FORM 10-Q  
 TABLE OF CONTENTS

|  | Page       |
|--|------------|
| <u>Information Regarding Forward-Looking Statements</u>  | <u>4</u>   |
| <br>   |            |
| PART I – FINANCIAL INFORMATION   |            |
| Item 1. <u>Financial Statements</u>  | <u>6</u>   |
| Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>89</u>  |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>                            | <u>134</u> |
| Item 4. <u>Controls and Procedures</u>   | <u>135</u> |
| <br>   |            |
| PART II – OTHER INFORMATION  |            |
| Item 1. <u>Legal Proceedings</u>   | <u>136</u> |
| Item 1A. <u>Risk Factors</u>   | <u>136</u> |
| Item 6. <u>Exhibits</u>  | <u>136</u> |
| <br>   |            |
| <u>Signatures</u>  | <u>139</u> |

This combined Form 10-Q is separately filed by Sempra Energy, San Diego Gas & Electric Company and Southern California Gas Company. Information contained herein relating to any individual company is filed by such company on its own behalf. Each company makes representations only as to itself and makes no other representation whatsoever 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 filing date of this report. We assume no obligation to update or revise any forward-looking statement as a result of new information, future events or other factors.

In this report, when we use words such as “believes,” “expects,” “anticipates,” “plans,” “estimates,” “projects,” “forecasts,” “contemplates,” “intends,” “assumes,” “depends,” “should,” “could,” “would,” “will,” “confident,” “may,” “potential,” “possible,” “target,” “pursue,” “goals,” “outlook,” “maintain,” or similar expressions, or when we discuss our guidance, strategy, plans, goals, opportunities, projections, initiatives, objectives 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, legal and regulatory conditions, decisions and developments;

actions and the timing of actions, including general rate case decisions, new regulations, issuances of permits to construct, operate, and maintain facilities and equipment and to use land, franchise agreements and licenses for operation, by the California Public Utilities Commission, California State Legislature, U.S. Department of Energy, California Division of Oil, Gas, and Geothermal Resources, Federal Energy Regulatory Commission, Nuclear Regulatory Commission, California Energy Commission, U.S. Environmental Protection Agency, Pipeline and Hazardous Materials Safety Administration, California Air Resources Board, South Coast Air Quality Management District, Los Angeles County Department of Public Health, Mexican Competition Commission, states, cities and counties, and other regulatory and governmental bodies in the countries in which we operate;

the timing and success of business development efforts and construction, maintenance and capital projects, including risks in obtaining, maintaining or extending permits, licenses, certificates and other authorizations on a timely basis, risks in obtaining the consent of our partners, and risks in obtaining adequate and competitive financing for such projects;

the resolution of civil and criminal litigation and regulatory investigations;

deviations from regulatory precedent or practice that result in a reallocation of benefits or burdens among shareholders and ratepayers, and delays in, or disallowance or denial of, regulatory agency authorization to recover costs in rates from customers or regulatory agency approval for projects required to enhance safety and reliability;

the availability of electric power, natural gas and liquefied natural gas, and natural gas pipeline and storage capacity, including disruptions caused by failures in the North American transmission grid, moratoriums on the ability to withdraw natural gas from or inject natural gas into storage facilities, pipeline explosions and equipment failures; energy markets; the timing and extent of changes and volatility in commodity prices; moves to reduce or eliminate reliance on natural gas as an energy source; and the impact on the value of our natural gas storage and related assets and our investments from low natural gas prices, low volatility of natural gas prices and the inability to procure favorable long-term contracts for natural gas storage services;

risks posed by decisions and actions of third parties who control the operations of investments in which we do not have a controlling interest, and risks that our partners or counterparties will be unable (due to liquidity issues, bankruptcy or otherwise) or unwilling to fulfill their contractual commitments;

weather conditions, natural disasters, catastrophic accidents, equipment failures, terrorist attacks and other events that may disrupt our operations, damage our facilities and systems, cause the release of greenhouse gases, radioactive materials and harmful emissions, and subject us to third-party liability for property damage or personal injuries, fines and penalties, some of which may not be covered by insurance (including costs in excess of applicable policy limits) or may be disputed by insurers;

cybersecurity threats to the energy grid, natural gas storage and pipeline infrastructure, the information and systems used to operate our businesses and the confidentiality of our proprietary information and the personal information of our customers and employees;

the ability to win competitively bid infrastructure projects against a number of strong competitors willing to aggressively bid for these projects;  
capital markets conditions, including the availability of credit and the liquidity of our investments, and inflation, interest and currency exchange rates;  
disallowance of regulatory assets associated with, or decommissioning costs of, the San Onofre Nuclear Generating Station facility due to increased regulatory oversight, including motions to modify settlements;  
expropriation of assets by foreign governments and title and other property disputes;

4

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the impact on reliability of San Diego Gas & Electric Company's (SDG&E) electric transmission and distribution system due to increased amount and variability of power supply from renewable energy sources and increased reliance on natural gas and natural gas transmission systems;

the impact on competitive customer rates due to the growth in distributed and local power generation and the corresponding decrease in demand for power delivered through SDG&E's electric transmission and distribution system;

the impact on customer rates and other adverse consequences due to possible departing retail load resulting from customers transferring to Direct Access and Community Choice Aggregation;

the inability or determination not to enter into long-term supply and sales agreements or long-term firm capacity agreements due to insufficient market interest, unattractive pricing or other factors; 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 herein and in our most recent Annual Report on Form 10-K 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<br>ended September<br>30,<br>2016 |         | Nine months<br>ended September<br>30,<br>2015 |          |
|---|--|---------|---|----------|
|   | 2015   | 2016    | 2015  | 2016     |
|   | (unaudited)                                    |         |   |          |
| <b>REVENUES</b>   |  |         |   |          |
| Utilities   | \$2,264  | \$2,213 | \$6,700                                       | \$6,768  |
| Energy-related businesses   | 271  | 268     | 613   | 762      |
| Total revenues  | 2,535  | 2,481   | 7,313   | 7,530    |
| <b>EXPENSES AND OTHER INCOME</b>  |  |         |   |          |
| Utilities:  |  |         |   |          |
| Cost of natural gas   | (208 )   | (201 )  | (702 )  | (786 )   |
| Cost of electric fuel and purchased power   | (604 )   | (666 )  | (1,680 )                                      | (1,645 ) |
| Energy-related businesses:  |  |         |   |          |
| Cost of natural gas, electric fuel and purchased power                                | (95 )  | (91 )   | (213 )  | (262 )   |
| Other cost of sales   | (32 )  | (34 )   | (293 )  | (111 )   |
| Operation and maintenance   | (703 )   | (701 )  | (2,109 )                                      | (2,072 ) |
| Depreciation and amortization   | (328 )   | (315 )  | (970 )  | (925 )   |
| Franchise fees and other taxes  | (108 )   | (111 )  | (315 )  | (314 )   |
| Impairment losses   | (132 )   | —       | (154 )  | —        |
| Plant closure adjustment  | —  | —       | —   | 21       |
| Gain on sale of assets  | 131  | —       | 131   | 62       |
| Equity earnings, before income tax  | 12   | 33      | 4   | 79       |
| Remeasurement of equity method investment   | 617  | —       | 617   | —        |
| Other income, net   | 26   | 12      | 98  | 88       |
| Interest income   | 7  | 6       | 19  | 23       |
| Interest expense  | (136 )   | (143 )  | (421 )  | (416 )   |
| Income before income taxes and equity earnings of certain unconsolidated subsidiaries | 982  | 270     | 1,325   | 1,272    |
| Income tax expense  | (282 )   | (15 )   | (284 )  | (276 )   |
| Equity earnings, net of income tax  | 19   | 27      | 69  | 64       |
| Net income  | 719  | 282     | 1,110   | 1,060    |
| Earnings attributable to noncontrolling interests                                     | (97 )  | (34 )   | (118 )  | (79 )    |
| Preferred dividends of subsidiary   | —  | —       | (1 )  | (1 )     |
| Earnings  | \$622  | \$248   | \$991   | \$980    |
|   |  |         |   |          |
| Basic earnings per common share   | \$2.48   | \$1.00  | \$3.96  | \$3.95   |
| Weighted-average number of shares outstanding, basic (thousands)                      | 250,386  | 248,432 | 250,073                                       | 248,090  |
|   |  |         |   |          |
| Diluted earnings per common share   | \$2.46   | \$0.99  | \$3.93  | \$3.91   |
| Weighted-average number of shares outstanding, diluted (thousands)                    | 252,405  | 251,024 | 251,976                                       | 250,665  |

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|  |        |        |        |        |
|--|--------|--------|--------|--------|
| Dividends declared per share of common stock | \$0.76 | \$0.70 | \$2.27 | \$2.10 |
|--|--------|--------|--------|--------|

See Notes to Condensed Consolidated Financial Statements.

6

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SEMPRA ENERGY  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (LOSS)  
 (Dollars in millions)

|   | Sempra Energy<br>shareholders' equity                         |                      | Noncontrolling<br>interests |       | Total |
|---|---|----------------------|-----------------------------|-------|-------|
|   | Income  |                      |                             |       |       |
|   | Pretax tax<br>amount(expense)<br>benefit                      | Net-of-tax<br>amount |                             |       |       |
|   |   |                      | (after-tax)                 |       |       |
|   | Three months ended September 30, 2016 and 2015<br>(unaudited) |                      |                             |       |       |
| 2016:                                     |   |                      |                             |       |       |
| Net income                                | \$904   | \$ (282 )            | \$ 622                      | \$ 97 | \$719 |
| Other comprehensive income (loss):        |   |                      |                             |       |       |
| Foreign currency translation adjustments  | (28 )   | —                    | (28 )                       | (7 )  | (35 ) |
| Financial instruments                     | 23  | (10 )                | 13                          | 5     | 18    |
| Pension and other postretirement benefits | 4   | (2 )                 | 2                           | —     | 2     |
| Total other comprehensive loss            | (1 )  | (12 )                | (13 )                       | (2 )  | (15 ) |
| Comprehensive income                      | \$903   | \$ (294 )            | \$ 609                      | \$ 95 | \$704 |
| 2015:                                     |   |                      |                             |       |       |
| Net income                                | \$263   | \$ (15 )             | \$ 248                      | \$ 34 | \$282 |
| Other comprehensive income (loss):        |   |                      |                             |       |       |
| Foreign currency translation adjustments  | (92 )   | —                    | (92 )                       | (8 )  |       |