SAN DIEGO GAS & ELECTRIC CO
Form 10-Q
August 02, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

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 101 Ash Street San Diego, California 92101 (619)696-2000	California	33-0732627	No change
1-03779	SAN DIEGO GAS & ELECTRIC COMPANY 8326 Century Park Court San Diego, California 92123 (619)696-2000	California	95-1184800	No change
1-01402	SOUTHERN CALIFORNIA GAS COMPANY 555 West Fifth Street Los Angeles, California 90013 (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	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 accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting 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 July 30, 2012:

Sempra Energy	241,699,518 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

SAN DIEGO GAS & ELECTRIC COMPANY FORM 10-Q
SOUTHERN CALIFORNIA GAS COMPANY FORM 10-Q
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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,” “contemplates, “intends,” “depends,” “should,” “could,” “would,” “will,” “may,” “potential,” “target,” “pursue,” “goals,” or similar expressio discuss our guidance, strategy, plans, goals, 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 and regulatory conditions and developments;

§ actions by the California Public Utilities Commission, California State Legislature, Federal Energy Regulatory Commission, U.S. Department of Energy, Nuclear Regulatory Commission, California Energy Commission, California Air Resources Board, and other regulatory, governmental and environmental bodies in the United States and other countries in which we operate;

§ capital markets conditions, including the availability of credit and the liquidity of our investments;

§ inflation, interest and exchange rates;

§ the impact of benchmark interest rates, generally U.S. Treasury bond and Moody’s A-rated utility bond yields, on our California Utilities’ cost of capital;

§ the timing and success of business development efforts and construction, maintenance and capital projects, including risks inherent in the ability to obtain, and the timing of granting of, permits, licenses, certificates and other authorizations;

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

§ the availability of electric power, natural gas and liquefied natural gas, including disruptions caused by failures in the North American transmission grid, pipeline explosions and equipment failures;

§ weather conditions, natural disasters, catastrophic accidents, and conservation efforts;

§ risks inherent in nuclear power generation and radioactive materials storage, including the catastrophic release of such materials, the disallowance of the recovery of the investment in or operating costs of the generation facility due to an extended outage, and increased regulatory oversight;

§ risks posed by decisions and actions of third parties who control the operations of investments in which we do not have a controlling interest;

§ wars, terrorist attacks and cybersecurity threats;

§ business, regulatory, environmental and legal decisions and requirements;

§ expropriation of assets by foreign governments and title and other property disputes;

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

§ the inability or determination not to enter into long-term supply and sales agreements or long-term firm capacity agreements;

§ 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 in our 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 ended June 30,		Six months ended June 30,	
	2012	2011(1)	2012	2011(1)
	(unaudited)			
REVENUES				
Utilities	$ 1,838	$ 1,922	$ 3,929	$ 3,868
Energy-related businesses	251	500	543	988
Total revenues	2,089	2,422	4,472	4,856
EXPENSES AND OTHER INCOME				
Utilities:				
Cost of natural gas	(221)	(403)	(652)	(1,045)
Cost of electric fuel and purchased power	(349)	(397)	(737)	(568)
Energy-related businesses:				
Cost of natural gas, electric fuel and purchased power	(81)	(212)	(210)	(442)
Other cost of sales	(41)	(32)	(74)	(55)
Operation and maintenance	(720)	(673)	(1,391)	(1,312)
Depreciation and amortization	(266)	(248)	(523)	(478)
Franchise fees and other taxes	(79)	(80)	(175)	(175)
Equity (losses) earnings, before income tax:				
Rockies Express Pipeline LLC	(290)	10	(279)	19
Other	(3)	(3)	(2)	(11)
Remeasurement of equity method investments		277		277
Other income, net	18	31	93	74
Interest income	4	12	9	15
Interest expense	(113)	(118)	(226)	(226)
(Losses) income before income taxes and equity earnings of certain unconsolidated subsidiaries	(52)	586	305	929
Income tax benefit (expense)	118	(100)	1	(214)
Equity earnings, net of income tax	8	8	19	39
Net income	74	494	325	754
(Earnings) losses attributable to noncontrolling interests	(11)	12	(24)	8
Preferred dividends of subsidiaries	(1)	(3)	(3)	(5)
Earnings	$ 62	$ 503	$ 298	$ 757
Basic earnings per common share	$ 0.26	$ 2.10	$ 1.24	$ 3.16
Weighted-average number of shares outstanding, basic (thousands)	241,141	239,415	240,853	239,769

Diluted earnings per common share	$	0.25	$	2.09	$	1.21	$	3.14
Weighted-average number of shares outstanding, diluted (thousands)		246,260		240,761		245,766		241,154
Dividends declared per share of common stock	$	0.60	$	0.48	$	1.20	$	0.96

(1) As adjusted for the retrospective effect of a change in accounting principle as we discuss in Note 1.
See Notes to Condensed Consolidated
Financial Statements.

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

	Three months ended June 30,					
	2012			2011(1)		
	(unaudited)					
	Sempra Energy	Non-controlling Interests	Total	Sempra Energy	Non-controlling Interests	Total
Net income (loss)	$ 63	$ 11	$ 74	$ 506	$ (12)	$ 494
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments	(33)	(1)	(34)	29	6	35
Reclassification to net income of foreign currency translation adjustments related to equity method investments(2)				(54)		(54)
Net actuarial gain	4		4	5		5
Financial instruments	(9)	(9)	(18)	(6)	(10)	(16)
Total other comprehensive loss	(38)	(10)	(48)	(26)	(4)	(30)
Total comprehensive income (loss)	25	1	26	480	(16)	464
Preferred dividends of subsidiaries	(1)		(1)	(3)		(3)
Total comprehensive income (loss), after preferred dividends of subsidiaries	$ 24	$ 1	$ 25	$ 477	$ (16)	$ 461

	Six months ended June 30,					
	2012			2011(1)		
	(unaudited)					
	Sempra Energy	Non-controlling Interests	Total	Sempra Energy	Non-controlling Interests	Total
Net income (loss)	$ 301	$ 24	$ 325	$ 762	$ (8)	$ 754
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments	34	3	37	23	6	29
Reclassification to net income of foreign currency						

translation adjustments related to equity method investments(2)				(54)		(54)
Net actuarial gain	5		5	7		7
Financial instruments	(6)	(9)	(15)	(4)	(9)	(13)
Total other comprehensive income (loss)	33	(6)	27	(28)	(3)	(31)
Total comprehensive income (loss)	334	18	352	734	(11)	723
Preferred dividends of subsidiaries	(3)		(3)	(5)		(5)
Total comprehensive income (loss), after preferred dividends of subsidiaries	$ 331	$ 18	$ 349	$ 729	$ (11)	$ 718

(1) As adjusted for the retrospective effect of a change in accounting principle as we discuss in Note 1.
(2) Related to the acquisition of Chilquinta Energía and Luz del Sur.
See Notes to Condensed Consolidated Financial Statements.

SEMPRA ENERGY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

	June 30, 2012 (unaudited)	December 31, 2011(1)(2)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 221	$ 252
Restricted cash	21	24
Trade accounts receivable, net	853	1,198
Other accounts and notes receivable, net	132	147
Income taxes receivable	37	
Inventories	249	346
Regulatory balancing accounts — undercollected	114	38
Regulatory assets	101	89
Fixed-price contracts and other derivatives	75	85
Settlement receivable related to wildfire litigation		10
Other	237	143
Total current assets	2,040	2,332
Investments and other assets:		
Restricted cash	18	22
Regulatory assets arising from pension and other postretirement benefit obligations	1,050	1,126
Regulatory assets arising from wildfire litigation costs	668	594
Other regulatory assets	1,123	1,060
Nuclear decommissioning trusts	847	804
Investments	1,639	1,671
Goodwill	1,067	1,036
Other intangible assets	441	448

Sundry		712		691
Total investments and other assets		7,565		7,452
Property, plant and equipment:				
Property, plant and equipment		32,647		31,192
Less accumulated depreciation and amortization		(8,050)		(7,727)
Property, plant and equipment, net ($482 and $494 at June 30, 2012 and December 31, 2011, respectively, related to VIE)		24,597		23,465
Total assets	$	34,202	$	33,249

(1) As adjusted for the retrospective effect of a change in accounting principle as we discuss in Note 1.

(2) Derived from audited financial statements.

See Notes to Condensed Consolidated Financial Statements.

SEMPRA ENERGY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

		June 30, 2012 (unaudited)		December 31, 2011(1)(2)
LIABILITIES AND EQUITY				
Current liabilities:				
Short-term debt	$	713	$	449
Accounts payable — trade		903		983
Accounts payable — other		109		124
Income taxes payable				5
Deferred income taxes		163		173
Dividends and interest payable		256		219
Accrued compensation and benefits		222		323
Regulatory balancing accounts — overcollected		270		105
Current portion of long-term debt		698		336
Fixed-price contracts and other derivatives		91		92
Customer deposits		145		142
Reserve for wildfire litigation		305		586
Other		559		615
Total current liabilities		4,434		4,152
Long-term debt ($340 and $345 at June 30, 2012 and December 31, 2011, respectively, related to VIE)		10,315		10,078
Deferred credits and other liabilities:				
Customer advances for construction		148		142
Pension and other postretirement benefit obligations, net of plan assets		1,345		1,423
Deferred income taxes		1,544		1,520
Deferred investment tax credits		48		49

Regulatory liabilities arising from removal obligations		2,614		2,551
Asset retirement obligations		1,947		1,905
Other regulatory liabilities		68		87
Fixed-price contracts and other derivatives		285		301
Reserve for wildfire litigation		171		10
Deferred credits and other		911		774
Total deferred credits and other liabilities		9,081		8,762
Contingently redeemable 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; 242 million and 240 million shares outstanding at June 30, 2012 and December 31, 2011, respectively; no par value)		2,164		2,104
Retained earnings		8,171		8,162
Deferred compensation				(2)
Accumulated other comprehensive income (loss)		(456)		(489)
Total Sempra Energy shareholders' equity		9,879		9,775
Preferred stock of subsidiaries		20		20
Other noncontrolling interests		394		383
Total equity		10,293		10,178
Total liabilities and equity	$	34,202	$	33,249

(1) As adjusted for the retrospective effect of a change in accounting principle as we discuss in Note 1.

(2) Derived from audited financial statements.

See Notes to Condensed Consolidated Financial Statements.

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

		Six months ended June 30,		
		2012		2011(1)
		(unaudited)		
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$	325	$	754
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		523		478
Deferred income taxes and investment tax credits		(53)		138
Equity losses (earnings)		262		(47)
Remeasurement of equity method investments				(277)
Fixed-price contracts and other derivatives		1		(2)
Other		1		(23)
Net change in other working capital components		28		75

Distributions from RBS Sempra Commodities LLP		53
Changes in other assets	13	2
Changes in other liabilities	52	(12)
Net cash provided by operating activities	1,152	1,139
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(1,517)	(1,225)
Expenditures for investments and acquisition of businesses, net of cash acquired	(303)	(682)
Proceeds from sale of joint venture interest	9	
Distributions from RBS Sempra Commodities LLP		276
Distributions from other investments	31	29
Purchases of nuclear decommissioning and other trust assets	(327)	(97)
Proceeds from sales by nuclear decommissioning and other trusts	329	94
Decrease in restricted cash	68	388
Increase in restricted cash	(61)	(420)
Other	(10)	(16)
Net cash used in investing activities	(1,781)	(1,653)
CASH FLOWS FROM FINANCING ACTIVITIES		
Common dividends paid	(260)	(210)
Redemption of subsidiary preferred stock		(80)
Preferred dividends paid by subsidiaries	(3)	(5)
Issuances of common stock	45	20
Repurchases of common stock	(16)	(18)
Issuances of debt (maturities greater than 90 days)	1,167	870
Payments on debt (maturities greater than 90 days)	(559)	(270)
Increase (decrease) in short-term debt, net	241	(319)
Other	(21)	10
Net cash provided by (used in) financing activities	594	(2)
Effect of exchange rate changes on cash and cash equivalents	4	(4)
Decrease in cash and cash equivalents	(31)	(520)
Cash and cash equivalents, January 1	252	912
Cash and cash equivalents, June 30	$ 221	$ 392

(1) As adjusted for the retrospective effect of a change in accounting principle as we discuss in Note 1.

See Notes to Condensed Consolidated Financial Statements.

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

	Six months ended June 30,	
	2012	2011
	(unaudited)	

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest payments, net of amounts capitalized	$	209 $	211
Income tax payments, net of refunds		93	75
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES			
Acquisition of businesses:			
Assets acquired	$	29 $	2,815
Cash paid, net of cash acquired		(19)	(611)
Fair value of equity method investments immediately prior to the acquisition			(882)
Fair value of noncontrolling interests			(279)
Additional consideration accrued			(32)
Liabilities assumed	$	10 $	1,011
Accrued capital expenditures	$	354 $	273
Dividends declared but not paid		149	119

See Notes to Condensed Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in millions)

		Three months ended June 30,		Six months ended June 30,	
		2012	2011	2012	2011
			(unaudited)		
Operating revenues					
Electric	$	680 $	583 $	1,351 $	1,248
Natural gas		100	114	263	289
Total operating revenues		780	697	1,614	1,537
Operating expenses					
Cost of electric fuel and purchased power		140	156	303	327
Cost of natural gas		34	52	101	135
Operation and maintenance		275	228	543	501
Depreciation and amortization		119	105	231	208
Franchise fees and other taxes		43	43	89	90
Total operating expenses		611	584	1,267	1,261
Operating income		169	113	347	276
Other income, net		24	13	54	29
Interest expense		(39)	(31)	(75)	(67)
Income before income taxes		154	95	326	238
Income tax expense		(53)	(42)	(113)	(91)
Net income		101	53	213	147
(Earnings) losses attributable to noncontrolling interest		(5)	19	(11)	15
Earnings		96	72	202	162

Preferred dividend requirements	(1)	(1)	(2)	(2)
Earnings attributable to common shares	$ 95	$ 71	$ 200	$ 160

See Notes to Condensed Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in millions)

	Three months ended June 30,					
	2012			2011		
	(unaudited)					
	SDG&E	Non-controlling Interest	Total	SDG&E	Non-controlling Interest	Total
Net income (loss)	$ 96	$ 5	$ 101	$ 72	$ (19)	$ 53
Other comprehensive loss, net of tax:						
Financial instruments		(9)	(9)		(10)	(10)
Total other comprehensive loss		(9)	(9)		(10)	(10)
Total comprehensive income (loss)	$ 96	$ (4)	$ 92	$ 72	$ (29)	$ 43

	Six months ended June 30,					
	2012			2011		
	(unaudited)					
	SDG&E	Non-controlling Interest	Total	SDG&E	Non-controlling Interest	Total
Net income (loss)	$ 202	$ 11	$ 213	$ 162	$ (15)	$ 147
Other comprehensive loss, net of tax:						
Financial instruments		(9)	(9)		(9)	(9)
Total other comprehensive loss		(9)	(9)		(9)	(9)
Total comprehensive income (loss)	$ 202	$ 2	$ 204	$ 162	$ (24)	$ 138

See Notes to Condensed Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

	June 30, 2012 (unaudited)	December 31, 2011(1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 29	$ 29
Restricted cash	12	21
Accounts receivable – trade, net	229	267

Accounts receivable – other, net		26	23
Due from unconsolidated affiliates		1	67
Income taxes receivable		233	102
Inventories		79	82
Regulatory balancing accounts, net		114	38
Regulatory assets arising from fixed-price contracts and other derivatives		77	67
Other regulatory assets		11	11
Fixed-price contracts and other derivatives		24	27
Settlement receivable related to wildfire litigation			10
Other		33	51
Total current assets		868	795
Other assets:			
Restricted cash		18	22
Deferred taxes recoverable in rates		606	570
Regulatory assets arising from fixed-price contracts and other derivatives		167	191
Regulatory assets arising from pension and other postretirement benefit obligations		299	309
Regulatory assets arising from wildfire litigation costs		668	594
Other regulatory assets		212	160
Nuclear decommissioning trusts		847	804
Sundry		73	70
Total other assets		2,890	2,720
Property, plant and equipment:			
Property, plant and equipment		13,648	13,003
Less accumulated depreciation and amortization		(3,110)	(2,963)
Property, plant and equipment, net ($482 and $494 at June 30, 2012 and December 31, 2011, respectively, related to VIE)		10,538	10,040
Total assets	$	14,296 $	13,555

(1) Derived from audited financial statements.
See Notes to Condensed Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

		June 30, 2012 (unaudited)	December 31, 2011(1)
LIABILITIES AND EQUITY			
Current liabilities:			
Short-term debt	$	173 $	
Accounts payable		272	375
Due to unconsolidated affiliates		19	14

Deferred income taxes		56	62
Accrued compensation and benefits		74	124
Current portion of long-term debt		19	19
Fixed-price contracts and other derivatives		58	55
Customer deposits		62	62
Reserve for wildfire litigation		305	586
Other		129	139
Total current liabilities		1,167	1,436
Long-term debt ($340 and $345 at June 30, 2012 and December 31, 2011, respectively, related to VIE)		4,298	4,058
Deferred credits and other liabilities:			
Customer advances for construction		20	20
Pension and other postretirement benefit obligations, net of plan assets		334	342
Deferred income taxes		1,399	1,167
Deferred investment tax credits		26	26
Regulatory liabilities arising from removal obligations		1,518	1,462
Asset retirement obligations		714	693
Fixed-price contracts and other derivatives		229	243
Reserve for wildfire litigation		171	10
Deferred credits and other		299	178
Total deferred credits and other liabilities		4,710	4,141
Contingently redeemable preferred stock		79	79
Commitments and contingencies (Note 10)			
Equity:			
Common stock (255 million shares authorized; 117 million shares outstanding; no par value)		1,338	1,338
Retained earnings		2,611	2,411
Accumulated other comprehensive income (loss)		(10)	(10)
Total SDG&E shareholder's equity		3,939	3,739
Noncontrolling interest		103	102
Total equity		4,042	3,841
Total liabilities and equity	$	14,296 $	13,555

(1) Derived from audited financial statements.

See Notes to Condensed Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in millions)

	Six months ended June 30,	
	2012	2011

		(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$	213 $	147
Adjustments to reconcile net income to net cash provided by			
operating activities:			
Depreciation and amortization		231	208
Deferred income taxes and investment tax credits		308	167
Fixed price contracts and other derivatives		(6)	(6)
Other		(51)	(20)
Net change in other working capital components		(438)	52
Changes in other assets		14	15
Changes in other liabilities		38	(7)
Net cash provided by operating activities		309	556
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures for property, plant and equipment		(729)	(714)
Purchases of nuclear decommissioning trust assets		(325)	(95)
Proceeds from sales by nuclear decommissioning trusts		320	90
Decrease in restricted cash		61	257
Increase in restricted cash		(48)	(329)
Net cash used in investing activities		(721)	(791)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution			200
Preferred dividends paid		(2)	(2)
Issuance of long-term debt		249	
Payments on long-term debt		(5)	(5)
Increase in short-term debt, net		173	
Other		(3)	
Net cash provided by financing activities		412	193
Decrease in cash and cash equivalents			(42)
Cash and cash equivalents, January 1		29	127
Cash and cash equivalents, June 30	$	29 $	85
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest payments, net of amounts capitalized	$	69 $	64
Income tax (refunds) payments, net		(26)	29
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES			
Accrued capital expenditures	$	108 $	131
Dividends declared but not paid		1	1

See Notes to Condensed Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in millions)

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
	(unaudited)			
Operating revenues	$ 720	$ 876	$ 1,600	$ 1,932
Operating expenses				
Cost of natural gas	179	335	528	866
Operation and maintenance	328	327	617	615
Depreciation and amortization	90	82	177	163
Franchise fees and other taxes	28	29	64	66
Total operating expenses	625	773	1,386	1,710
Operating income	95	103	214	222
Other income, net	4	3	8	6
Interest expense	(17)	(18)	(34)	(35)
Income before income taxes	82	88	188	193
Income tax expense	(28)	(28)	(68)	(65)
Net income	54	60	120	128
Preferred dividend requirements	(1)	(1)	(1)	(1)
Earnings attributable to common shares	$ 53	$ 59	$ 119	$ 127

See Notes to Condensed Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in millions)

	Three months ended June 30, 2012	Three months ended June 30, 2011
	(unaudited)	
Net income	$ 54	$ 60
Other comprehensive income, net of tax:		
Financial Instruments	1	1
Total other comprehensive income	1	1
Total comprehensive income	$ 55	$ 61

	Six months ended June 30, 2012	Six months ended June 30, 2011
	(unaudited)	
Net income	$ 120	$ 128
Other comprehensive income, net of tax:		
Financial Instruments	1	1
Total other comprehensive income	1	1
Total comprehensive income	$ 121	$ 129

See Notes to Condensed Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

	June 30, 2012 (unaudited)	December 31, 2011(1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 11	$ 36
Accounts receivable – trade, net	294	578
Accounts receivable – other, net	56	63
Due from unconsolidated affiliates	297	40
Income taxes receivable	42	17
Inventories	42	151
Regulatory assets	6	9
Temporary LIFO liquidation	29	
Other	27	28
Total current assets	804	922
Other assets:		
Regulatory assets arising from pension and other postretirement benefit obligations	741	808
Other regulatory assets	138	137
Sundry	8	8
Total other assets	887	953
Property, plant and equipment:		
Property, plant and equipment	10,781	10,565
Less accumulated depreciation and amortization	(4,034)	(3,965)
Property, plant and equipment, net	6,747	6,600
Total assets	$ 8,438	$ 8,475

(1) Derived from audited financial statements.
See Notes to Condensed Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

	June 30, 2012 (unaudited)	December 31, 2011(1)
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable – trade	$ 219	$ 315
Accounts payable – other	65	78
Due to unconsolidated affiliate		2

Deferred income taxes		43	44
Accrued compensation and benefits		92	99
Regulatory balancing accounts, net		270	105
Current portion of long-term debt		255	257
Customer deposits		76	75
Other		122	172
Total current liabilities		1,142	1,147
Long-term debt		1,062	1,064
Deferred credits and other liabilities:			
Customer advances for construction		112	110
Pension and other postretirement benefit obligations, net of plan assets		766	833
Deferred income taxes		623	576
Deferred investment tax credits		22	23
Regulatory liabilities arising from removal obligations		1,082	1,075
Asset retirement obligations		1,185	1,161
Deferred taxes refundable in rates		68	87
Deferred credits and other		213	206
Total deferred credits and other liabilities		4,071	4,071
Commitments and contingencies (Note 10)			
Shareholders' equity:			
Preferred stock		22	22
Common stock (100 million shares authorized; 91 million shares outstanding; no par value)		866	866
Retained earnings		1,295	1,326
Accumulated other comprehensive income (loss)		(20)	(21)
Total shareholders' equity		2,163	2,193
Total liabilities and shareholders' equity	$	8,438 $	8,475

(1) Derived from audited financial statements.

See Notes to Condensed Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in millions)

		Six months ended June 30,	
		2012	2011
		(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$	120 $	128
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		177	163
Deferred income taxes and investment tax credits		26	62

Other		(4)	(3)
Net change in other working capital components		385	74
Changes in other assets		1	16
Changes in other liabilities		7	(4)
Net cash provided by operating activities		712	436
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures for property, plant and equipment		(316)	(325)
Increase in loans to affiliates, net		(270)	(211)
Net cash used in investing activities		(586)	(536)
CASH FLOWS FROM FINANCING ACTIVITIES			
Common dividends paid		(150)	(50)
Payment of long-term debt			(250)
Preferred dividends paid		(1)	(1)
Net cash used in financing activities		(151)	(301)
Decrease in cash and cash equivalents		(25)	(401)
Cash and cash equivalents, January 1		36	417
Cash and cash equivalents, June 30	$	11 $	16
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest payments, net of amounts capitalized	$	31 $	34
Income tax payments, net of refunds		46	6
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES			
Accrued capital expenditures	$	67 $	78

See Notes to Condensed Consolidated Financial Statements.

SEMPRA ENERGY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. GENERAL

PRINCIPLES OF CONSOLIDATION

2012 Business Segment Realignment

Effective January 1, 2012, management realigned some of the company's major subsidiaries to better fit its strategic direction and to enhance the management and integration of our assets. This realignment resulted in a change in reportable segments in 2012. In accordance with accounting principles generally accepted in the United States (GAAP), historical information for Sempra Energy has been restated in its Condensed Consolidated Financial Statements and these Notes to reflect the effect of this change. All discussions of our operating units and reportable segments in these Notes reflect the new segments and operating structure.

Sempra Energy

Sempra Energy's Condensed Consolidated Financial Statements include the accounts of Sempra Energy, a California-based Fortune 500 holding company, and its consolidated subsidiaries and a variable interest entity (VIE). Sempra Energy's principal operating units are

§ San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas);

§ Sempra International, which includes our Sempra South American Utilities and Sempra Mexico reportable segments; and

§ Sempra U.S. Gas & Power, which includes our Sempra Renewables and Sempra Natural Gas reportable segments.

We provide descriptions of each of our segments in Note 11.

We refer to SDG&E and SoCalGas collectively as the California Utilities, which do not include the utilities in our Sempra International and Sempra U.S. Gas & Power operating units. Sempra Global is the holding company for most of our subsidiaries that are not subject to California utility regulation. All references in these Notes to "Sempra International," "Sempra U.S. Gas & Power" and their respective reportable segments are not intended to refer to any legal entity with the same or similar name.

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. We discuss our investments in unconsolidated subsidiaries in Note 4 herein and Note 4 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2011 and in our Current Report on Form 8-K filed on May 11, 2012, discussed below under "Basis of Presentation."

SDG&E

SDG&E's Condensed Consolidated Financial Statements include its accounts and the accounts of a VIE of which SDG&E is the primary beneficiary, as we discuss 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.

SoCalGas

SoCalGas' Condensed Consolidated Financial Statements include its subsidiaries, which comprise less than one percent of its consolidated financial position and results of operations. SoCalGas' common stock is wholly owned by Pacific Enterprises (PE), which is a wholly owned subsidiary of Sempra Energy.

BASIS OF PRESENTATION

This is a combined report of Sempra Energy, SDG&E and SoCalGas. We provide separate information for SDG&E and SoCalGas as required. 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 the consolidated financial statements of each reporting entity.

We have prepared the Condensed Consolidated Financial Statements in conformity with 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 June 30, 2012 through the date the financial statements were issued 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.

All December 31, 2011 balance sheet information in the Condensed Consolidated Financial Statements has been derived from our audited 2011 consolidated financial statements. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the interim-period-reporting provisions of GAAP and the Securities and Exchange Commission.

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, 2011 (the Annual Report) and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, which are combined reports for Sempra Energy, SDG&E and SoCalGas. You should also read the information in this Quarterly Report in conjunction with Sempra Energy's Current Report on Form 8-K and accompanying exhibits, filed on May 11, 2012, which updates the information in the Annual Report primarily for the change in reportable segments (discussed above) and change in accounting principle (discussed below) and which we refer to in this Quarterly Report as the Updated Annual Report. Although the Updated Annual Report contains the separate information for SDG&E and SoCalGas, as filed in the Annual Report, the Form 8-K did not provide updates to their information as separate registrants as they were not impacted by the change in reportable segments or change in accounting principle at Sempra Energy.

Sempra South American Utilities has controlling interests in two electric distribution utilities in South America. Sempra Natural Gas owns Mobile Gas Service Corporation (Mobile Gas) in southwest Alabama and Willmut Gas Company (Willmut Gas) in Mississippi, and Sempra Mexico owns Ecogas Mexico, S de RL de CV (Ecogas) in Northern Mexico, all natural gas distribution utilities. The California Utilities, Sempra Natural Gas' Mobile Gas and Willmut Gas, and Sempra Mexico's Ecogas prepare their financial statements in accordance with GAAP provisions governing regulated operations, as we discuss in Note 1 of the Notes to Consolidated Financial Statements in the

Updated Annual Report.

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

Change in Accounting Principle

Effective January 1, 2012, we changed our method of accounting for investment tax credits (ITC) from the flow-through method to the deferral method for Sempra Energy. Under the flow-through method, we reduced our income tax expense by the amount of ITC in the year in which the qualifying assets were placed in service. Under the deferral method, we record ITC in the year when the qualifying assets are placed in service as a reduction to the cost of the asset that generated the ITC. This results in lower book depreciation over the life of the asset. This change has no historical or prospective impact on the California Utilities because ITC is effectively deferred as a result of the application of regulatory accounting required under GAAP.

The flow-through method and the deferral method are both acceptable under GAAP, but the deferral method is the preferred method. We believe that the deferral method is preferable for the ITC we receive because it recognizes ITC benefits over the same periods as the associated costs for which the ITC are intended to compensate.

We applied this change in accounting principle by retrospectively adjusting the historical financial statement amounts for all periods presented. Upon adopting the deferral method, we recorded an adjustment for the cumulative effect of the change in accounting principle to reduce Sempra Energy Consolidated retained earnings as of January 1, 2011 by $37 million.

For certain solar and wind generating assets being placed into service during 2012, we have elected to seek cash grants rather than ITC for which the projects also qualify. Accordingly, cash grant accounting, which is similar to deferral accounting of ITC, is required to be applied. As a result, the impact of our change in accounting policy for ITC on our financial statements for the three months and six months ending June 30, 2012 is insignificant.

The following table summarizes the effects of the change in accounting principle on Sempra Energy Consolidated's condensed financial statements for historical periods presented.

EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE — SEMPRA ENERGY CONSOLIDATED
(Dollars in millions, except per share amounts)

	Three months ended June 30, 2011		
	As Originally Reported	Adjustments	Retrospectively Adjusted
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS			
Income tax expense	$ 92	$ 8	$ 100
Net income	502	(8)	494
Earnings	511	(8)	503
Basic earnings per common share	$ 2.14	$ (0.04)	$ 2.10
Diluted earnings per common share	$ 2.12	$ (0.03)	$ 2.09

	Six months ended June 30, 2011		
	As Originally Reported	Adjustments	Retrospectively Adjusted
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS			
Depreciation and amortization	$ 479	$ (1)	$ 478
Income before income taxes and equity earnings of certain unconsolidated subsidiaries	928	1	929
Income tax expense	201	13	214
Net income	766	(12)	754
Earnings	769	(12)	757
Basic earnings per common share	$ 3.21	$ (0.05)	$ 3.16
Diluted earnings per common share	$ 3.19	$ (0.05)	$ 3.14
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS			
Net income	$ 766	$ (12)	$ 754
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	479	(1)	478
Deferred income taxes and investment tax credits	147	(9)	138
Net change in other working capital components (income taxes)	53	22	75

	As of December 31, 2011		
	As Originally Reported	Adjustments	Retrospectively Adjusted
CONDENSED CONSOLIDATED BALANCE SHEET			
Property, plant and equipment	$ 31,303	$ (111)	$ 31,192
Less accumulated depreciation and amortization	(7,731)	4	(7,727)
Property, plant and equipment, net	$ 23,572	$ (107)	$ 23,465
Income taxes payable	$ 16	$ (11)	$ 5
Deferred income taxes, noncurrent liability	1,554	(34)	1,520
Deferred credits and other	773	1	774
Retained earnings(1)	8,225	(63)	8,162

(1) Adjustment includes the cumulative effect of the change in accounting principle of reductions in net income and earnings of $26 million, $30 million, a negligible amount, and $7 million for the years ended December 31, 2011, 2010, 2009 and 2008, respectively.

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, cash flows or disclosures.

SEMPRA ENERGY, SDG&E AND SOCALGAS

Accounting Standards Update (ASU) 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRSs)" (ASU 2011-04): ASU 2011-04 amends Accounting Standards Codification (ASC) Topic 820, Fair Value Measurements and Disclosures, and provides changes in the wording used to describe the requirements for measuring fair value and disclosing information about fair value measurement. ASU 2011-04 results in common fair value measurement and disclosure requirements under both GAAP and IFRSs.

ASU 2011-04 expands fair value measurement disclosures for Level 3 instruments to require

§ quantitative information about the unobservable inputs

§ a description of the valuation process

§ a qualitative discussion about the sensitivity of the measurements

We adopted ASU 2011-04 on January 1, 2012 and it did not affect our financial position, results of operations or cash flows. The required disclosure is provided in Note 8.

ASU 2011-05, "Presentation of Comprehensive Income" (ASU 2011-05) and ASU 2011-12, "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05" (ASU 2011-12): ASU 2011-05 amends ASC Topic 220, Comprehensive Income, and eliminates the option to report other comprehensive income and its components in the statement of changes in equity. The ASU allows an entity an option to present the components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive, statements.

ASU 2011-05 does not change the items that must be reported in other comprehensive income, when an item of other comprehensive income must be reclassified to net income, or the earnings per share computation.

ASU 2011-12 defers the requirement to separately present on the face of the statement of operations or statement of comprehensive income reclassification adjustments for items that are reclassified from other comprehensive income to net income.

We adopted ASU 2011-05 on January 1, 2012 and have elected to present the components of net income and other comprehensive income in two separate, but consecutive, statements.

ASU 2011-11, "Disclosures about Offsetting Assets and Liabilities" (ASU 2011-11): In order to allow for balance sheet comparison between GAAP and IFRSs, ASU 2011-11 requires enhanced disclosures related to financial assets and liabilities eligible for offsetting in the statement of financial position. An entity will have to disclose both gross and net information about financial instruments and transactions subject to a master netting arrangement and eligible for offset, including cash collateral received and posted.

We will adopt ASU 2011-11 on January 1, 2013 as required and do not expect it to affect our financial position, results of operations or cash flows. We will provide the additional disclosure in our 2013 interim financial statements.

ASU 2012-02, "Testing Indefinite-Lived Intangible Assets for Impairment" (ASU 2012-02): ASU 2012-02 amends ASC Topic 350, Intangibles – Goodwill and Others, to provide an option to first make a qualitative assessment of whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount before applying the quantitative impairment test. An entity is required to perform the quantitative test only if it determines that it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount.

We will adopt ASU 2012-02 for our annual impairment testing as of October 1, 2012 and do not expect it to significantly affect our testing.

NOTE 3. ACQUISITION AND INVESTMENT ACTIVITY

We discuss our investments in unconsolidated entities in Note 4.

SEMPRA SOUTH AMERICAN UTILITIES

Chilquinta Energía S.A. (Chilquinta Energía) and Luz del Sur S.A.A. (Luz del Sur)

On April 6, 2011, Sempra South American Utilities acquired from AEI its interests in Chilquinta Energía in Chile and Luz del Sur in Peru, and their subsidiaries. Prior to the acquisition, Sempra South American Utilities and AEI each owned 50 percent of Chilquinta Energía and approximately 38 percent of Luz del Sur and accounted for the investments under the equity method. Upon completion of the acquisition and a public tender offer to the minority shareholders of Luz del Sur, Sempra South American Utilities owned 100 percent of Chilquinta Energía and approximately 80 percent of Luz del Sur, with the remaining shares of Luz del Sur held by institutional investors and the general public. As part of the transaction, Sempra South American Utilities also acquired AEI's interests in two energy-services companies, Tecnored S.A. (Tecnored) and Tecsur S.A. (Tecsur). We provide additional information about Sempra South American Utilities' acquisition of Chilquinta Energía and Luz del Sur and the public tender offer in Note 3 of the Notes to Consolidated Financial Statements in the Updated Annual Report.

Our results for the three months and six months ended June 30, 2011 include a $277 million gain (both pretax and after-tax) related to the remeasurement of equity method investments, included as Remeasurement of Equity Method Investments on our Condensed Consolidated Statement of Operations. We discuss the calculation of the gain in Note 3 of the Notes to Consolidated Financial Statements in the Updated Annual Report.

Our Condensed Consolidated Statements of Operations include 100 percent of the acquired companies' revenues, net income and earnings of $705 million, $99 million and $86 million, respectively, for the six months ended June 30, 2012, including revenues, net income, and earnings of $348 million, $50 million and $43 million, respectively, for the three months ended June 30, 2012. Net income and earnings include holding companies reported in Parent and Other. Revenues, net income and earnings from the date of acquisition were $361 million, $48 million and $40 million, respectively, for both the three months and six months ended June 30, 2011.

Following are pro forma revenues and earnings for Sempra Energy had the acquisition occurred on January 1, 2010, which primarily reflect the incremental increase to revenues and earnings from our increased ownership and consolidation of the entities acquired. Although some short-term debt borrowings may have resulted from the actual acquisition in 2011, we have not assumed any additional interest expense in the pro forma impact on earnings below, as the amounts would be immaterial due to the low interest rates available to us on commercial paper. The pro forma amounts do not include the impact of the increased ownership in Luz del Sur resulting from the tender offer completed in September 2011 discussed above and in Note 3 of the Notes to Consolidated Financial Statements in the Updated Annual Report.

	Three months ended	Six months ended
(Dollars in millions)	June 30, 2011	June 30, 2011
Revenues	$ 2,422	$ 5,199
Earnings(1)	226	505

(1) As adjusted for the retrospective effect of change in accounting principle as we discuss in Note 1.

SEMPRA NATURAL GAS

Willmut Gas Company

In May 2012, Sempra Natural Gas acquired 100 percent of the outstanding common stock of Willmut Gas Company (Willmut Gas), a regulated natural gas distribution utility serving approximately 20,000 customers in Hattiesburg, Mississippi, in order to expand Sempra Natural Gas' footprint in the Southeast United States. Willmut Gas was purchased for $19 million in cash and the assumption of $10 million of liabilities. Included in the acquisition was $17 million in net property, plant and equipment. As a result of the acquisition, we recorded $10 million of goodwill.

The results of operations for Willmut Gas are included in our Condensed Consolidated Statements of Operations and Cash Flows beginning May 1, 2012, including revenues of $2 million and negligible earnings.

NOTE 4. INVESTMENTS IN UNCONSOLIDATED ENTITIES

We provide additional information concerning all of our equity method investments in Note 4 of the Notes to Consolidated Financial Statements in the Updated Annual Report.

SEMPRA RENEWABLES

For the six months ended June 30, 2012, Sempra Renewables invested $243 million in its renewable wind generation joint ventures, of which $208 million was invested in the Flat Ridge 2 Wind Farm project.

SEMPRA NATURAL GAS

Sempra Natural Gas owns a 25-percent interest in Rockies Express Pipeline LLC (Rockies Express), a partnership that operates a natural gas pipeline, the Rockies Express Pipeline (REX), that links producing areas in the Rocky Mountains region to the upper Midwest and the eastern United States. Kinder Morgan Energy Partners L.P. (KMP) and Phillips 66 own the remaining interests of 50 percent and 25 percent, respectively. Our total investment in Rockies Express is accounted for as an equity method investment.

The general partner of KMP is Kinder Morgan, Inc. (KMI). As a condition of KMI receiving antitrust approval from the Federal Trade Commission (FTC) for their acquisition of El Paso Corporation, KMI agreed to divest certain assets in their natural gas pipeline group. Included in these assets is KMP's interest in Rockies Express. KMP recorded remeasurement losses during the first half of 2012 associated with these discontinued operations. We also recorded an impairment of our partnership investment in Rockies Express totaling $300 million ($179 million after-tax) in the quarter ended June 30, 2012. Our remaining investment in Rockies Express as of June 30, 2012 is $477 million. We recorded the write-down as a result of our estimate of fair value for our investment and our conclusion that the impairment is other-than-temporary, as required by GAAP. The noncash impairment charge primarily resulted from the continuing decline in basis differential on REX associated with shale gas production zones coming on line, assumptions related to the re-contracting of the long-term transportation agreements, and the refinancing of the existing project level debt, discussed further below.

The fair value measurement of our investment in Rockies Express is a Level 3 measurement as it is significantly impacted by unobservable inputs (i.e., Level 3 inputs) as defined by the accounting guidance for fair value measurements, which we discuss in Note 11 of the Notes to Consolidated Financial Statements in the Updated Annual Report. We have based this measurement on a market participant's view of the total value for Rockies Express, adjusted for our 25-percent ownership interest. We believe Rockies Express' value is dependent on the future cash distributions it is able to generate. To estimate future cash distributions, we considered factors impacting Rockies Express' ability to pay future distributions including:

§ the extent to which future cash flows are hedged by capacity sales contracts and their duration (generally through 2019), as well as the creditworthiness of the various counterparties;

§ Rockies Express' future financing needs, including the ability to secure borrowings at reasonable rates as well as potentially using operating cash to retire principal;

§ prospects for generating attractive revenues and cash flows beyond 2019, including natural gas' future basis differentials (driven by the location and extent of future supply and demand) and alternative strategies potentially available to utilize the assets; and

§ discount rates commensurate with the risks inherent in the cash flows.

We believe our analysis forms a reasonable estimate of the fair value of Rockies Express. This estimate includes the material inputs described above, which are generally unobservable during the periods most relevant to our analysis, except for discount rates. In particular, significant uncertainties exist with regard to REX's ability to secure attractive revenues beyond 2019. Accordingly, our analysis suggests that the fair value of our investment in Rockies Express could be materially different from the value we have estimated. For example, if REX is able to sustain the level of revenues currently generated beyond 2019, the value of our investment in Rockies Express would be materially enhanced and no impairment charge would be necessary. Conversely, if REX is unable to sell its transport capacity at sufficient rates or in sufficient volumes beyond 2019, the fair value of our investment in Rockies Express could be materially lower than our carrying amount.

RBS SEMPRA COMMODITIES

RBS Sempra Commodities LLP (RBS Sempra Commodities) is a United Kingdom limited liability partnership that owned and operated commodities-marketing businesses previously owned by us. We and our partner in the joint venture, The Royal Bank of Scotland plc (RBS), sold substantially all of the partnership's businesses and assets in four separate transactions completed in July, November and December of 2010 and February of 2011. We account for our investment in RBS Sempra Commodities under the equity method, and report our share of partnership earnings and other associated costs in Parent and Other.

In April 2011, we and RBS entered into a letter agreement (Letter Agreement) which amended certain provisions of the agreements that formed RBS Sempra Commodities. The Letter Agreement addresses the wind-down of the partnership and the distribution of the partnership's remaining assets. In accordance with the Letter Agreement, we received a $329 million distribution on April 15, 2011. The investment balance of $126 million at June 30, 2012 reflects remaining distributions expected to be received from the partnership in accordance with the Letter Agreement. The timing and amount of distributions may be impacted by the matters we discuss related to RBS Sempra Commodities in Note 10 under "Other Litigation." In addition, amounts may be retained by the partnership for an extended period of time to help offset unanticipated future general and administrative costs necessary to complete the dissolution of the partnership.

In connection with the Letter Agreement described above, we also released RBS from its indemnification obligations with respect to the items for which J.P. Morgan Chase & Co. (JP Morgan), one of the buyers of the partnership's businesses, has agreed to indemnify us.

For the six months ended June 30, 2011, we recorded a pretax equity loss from RBS Sempra Commodities of $8 million, all of which was recorded in the first quarter of 2011. We recorded no equity earnings or loss related to the partnership for the three months and six months ended June 30, 2012. The fair value measurement of our investment in RBS Sempra Commodities was significantly impacted by unobservable inputs (i.e., Level 3 inputs) as defined by the accounting guidance for fair value measurements which we discuss in Note 11 in the Notes to Consolidated Financial Statements in the Updated Annual Report. The inputs included estimated future cash distributions expected from the partnership.

We discuss the RBS Sempra Commodities sales transactions, the Letter Agreement and other matters concerning the partnership in Note 4 of the Notes to Consolidated Financial Statements in the Updated Annual Report.

NOTE 5. OTHER FINANCIAL DATA

TEMPORARY LIFO LIQUIDATION

SoCalGas values natural gas inventory by the last-in first-out (LIFO) method. As inventories are sold, differences between the LIFO valuation and the estimated replacement cost are reflected in customer rates. Temporary LIFO liquidation represents the difference between the carrying value of natural gas inventory withdrawn during the period for delivery to customers and the projected cost of the replacement of that inventory during summer months.

VARIABLE INTEREST ENTITIES (VIE)

We consolidate a VIE if we are the primary beneficiary of the VIE. Our determination of whether we are the primary beneficiary is based upon qualitative and quantitative analyses, which assess

§ the purpose and design of the VIE;

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

§ the power to direct activities that most significantly impact the economic performance of the VIE; and

§ the obligation to absorb losses or right to receive benefits that could be significant to the VIE.

SDG&E has agreements under which it purchases power generated by facilities for which it supplies all of the natural gas to fuel the power plant (i.e., tolling agreements). SDG&E's obligation to absorb natural gas costs may be a significant variable interest. In addition, SDG&E has the power to direct the dispatch of electricity generated by these facilities. Based upon our analysis, the ability to direct the dispatch of electricity may have the most significant impacts on the economic performance of the entity owning the generating facility because of the associated exposure to the cost of natural gas, which fuels the plants, and the value of electricity produced. To the extent that SDG&E (1) is obligated to purchase and provide fuel to operate the facility, (2) has the power to direct the dispatch, and (3) purchases all of the output from the facility for a substantial portion of the facility's useful life, SDG&E may be the primary beneficiary of the entity owning the generating facility. SDG&E determines if it is the primary beneficiary in these cases based on the operational characteristics of the facility, including its expected power generation output relative to its capacity to generate and the financial structure of the entity, among other factors. If we determine that SDG&E is the primary beneficiary, SDG&E and Sempra Energy consolidate the entity that owns the facility as a VIE, as we discuss below.

Otay Mesa VIE

SDG&E has an agreement to purchase power generated at the Otay Mesa Energy Center (OMEC), a 605-megawatt (MW) generating facility. In addition to tolling, the agreement provides SDG&E with the option to purchase the power plant at the end of the contract term in 2019, or upon earlier termination of the purchased-power agreement, at a predetermined price subject to adjustments based on performance of the facility. If SDG&E does not exercise its option, under certain circumstances, it may be required to purchase the power plant at a predetermined price, which we refer to as the put option.

The facility owner, Otay Mesa Energy Center LLC (OMEC LLC), is a VIE (Otay Mesa VIE), of which SDG&E is the primary beneficiary. SDG&E has no OMEC LLC voting rights and does not operate OMEC. In addition to the risks absorbed under the tolling agreement, SDG&E absorbs separately through the put option a significant portion of the risk that the value of Otay Mesa VIE could decline. SDG&E and Sempra Energy have consolidated Otay Mesa VIE since the second quarter of 2007. Otay Mesa VIE's equity of $103 million at June 30, 2012 and $102 million at December 31, 2011 is included on the Condensed Consolidated Balance Sheets in Other Noncontrolling Interests for Sempra Energy and in Noncontrolling Interest for SDG&E.

OMEC LLC has a loan outstanding of $350 million at June 30, 2012, the proceeds of which were used for the construction of OMEC. The loan is with third party lenders and is secured by OMEC's property, plant and equipment. SDG&E is not a party to the loan agreement and does not have any additional implicit or explicit financial responsibility to OMEC LLC. The loan fully matures in April 2019 and bears interest at rates varying with market rates. In addition, OMEC LLC has entered into interest rate swap agreements to moderate its exposure to interest rate changes. We provide additional information concerning the interest rate swaps in Note 7.

Other Variable Interest Entities

SDG&E's power procurement is subject to reliability requirements that may require SDG&E to enter into various power purchase arrangements which include variable interests. SDG&E evaluates the respective entities to determine if variable interests exist and, based on the qualitative and quantitative analyses described above, if SDG&E, and thereby Sempra Energy, is the primary beneficiary. SDG&E has determined that no contracts, other than the one relating to Otay Mesa VIE mentioned above, result in SDG&E being the primary beneficiary as of June 30, 2012. In addition to the tolling agreements described above, other variable interests involve various elements of fuel and power costs, including certain construction costs, tax credits, and other components of cash flow expected to be paid to or received by our counterparties. In most of these cases, the expectation of variability is not substantial, and SDG&E generally does not have the power to direct activities that most significantly impact the economic performance of the other VIEs. If our ongoing evaluation of these VIEs were to conclude that SDG&E becomes the primary beneficiary and consolidation by SDG&E becomes necessary, the effects are not expected to significantly affect the financial position, results of operations, or liquidity of SDG&E. SDG&E is not exposed to losses or gains as a result of these other VIEs, because all such variability would be recovered in rates.

Sempra Energy's other operating units also enter into arrangements which could include variable interests. We evaluate these arrangements and applicable entities based upon the qualitative and quantitative analyses described above. Certain of these entities are service companies that are VIEs. As the primary beneficiary of these service companies, we consolidate them. In all other cases, we have determined that these contracts are not variable interests in a VIE and therefore are not subject to the requirements of GAAP concerning the consolidation of VIEs.

The Condensed Consolidated Statements of Operations of Sempra Energy and SDG&E include the following amounts associated with Otay Mesa VIE. The amounts are net of eliminations of transactions between SDG&E and Otay Mesa VIE. The financial statements of other consolidated VIEs are not material to the financial statements of Sempra Energy. The captions on the table below generally correspond to SDG&E's Condensed Consolidated Statements of Operations.

AMOUNTS ASSOCIATED WITH OTAY MESA VIE
(Dollars in millions)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Operating revenues				
Electric	$	$	$	$
Natural gas				
Total operating revenues				
Operating expenses				
Cost of electric fuel and purchased power	(21)	(9)	(40)	(26)
Operation and maintenance	7	18	11	22
Depreciation and amortization	6	7	12	