

PACIFIC ENTERPRISES INC  
 Form 10-Q  
 May 04, 2010

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 March 31, 2010

or

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

For the transition period to  
 from

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

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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 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 April 30, 2010:

|                                  |   |
|----------------------------------|---|
| Sempra Energy                    | 247,539,008 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   |
|                                  | Wholly owned by Pacific Enterprises, which is wholly owned by Sempra Energy |

Southern California Gas  
Company

SEMPRA ENERGY FORM 10-Q  
TABLE OF CONTENTS

|   |  |                  |
|---|--|------------------|
| <b>Information Regarding Forward-Looking Statements</b> |  | <i>Page</i><br>4 |
| <b>PART I FINANCIAL INFORMATION</b>                     |  |                  |
| Item 1.   | Financial Statements   | 5                |
| Item 2.   | Management's Discussion and Analysis of Financial Condition<br>and Results of Operations | 66               |
| Item 3.   | Quantitative and Qualitative Disclosures About Market Risk                               | 86               |
| Item 4.   | Controls and Procedures  | 87               |
| <b>PART II OTHER INFORMATION</b>                        |  |                  |
| Item 1.   | Legal Proceedings  | 88               |
| Item 1A.  | Risk Factors   | 88               |
| Item 5.   | Exhibits   | 89               |
| Signatures  |  | 91               |

**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 and other countries in which we operate;

§

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 March 31, |          |
|---|------------------------------|----------|
|   | 2010                         | 2009     |
|   | (unaudited)                  |          |
| <b>REVENUES</b>   |                              |          |
| Sempra Utilities  | \$ 1,912                     | \$ 1,642 |
| Sempra Global and parent  | 622                          | 466      |
| Total revenues  | 2,534                        | 2,108    |
| <b>EXPENSES AND OTHER INCOME</b>  |                              |          |
| Sempra Utilities:   |                              |          |
| Cost of natural gas   | (758)                        | (540)    |
| Cost of electric fuel and purchased power   | (148)                        | (171)    |
| Sempra Global and parent:   |                              |          |
| Cost of natural gas, electric fuel and purchased power                                | (338)                        | (268)    |
| Other cost of sales   | (25)                         | (17)     |
| Litigation expense  | (168)                        | 7        |
| Other operation and maintenance   | (576)                        | (523)    |
| Depreciation and amortization   | (210)                        | (183)    |
| Franchise fees and other taxes  | (90)                         | (82)     |
| Equity earnings:  |                              |          |
| RBS Sempra Commodities LLP  | 7                            | 153      |
| Other   | 8                            | 7        |
| Other income, net   | 8                            | 3        |
| Interest income   | 4                            | 6        |
| Interest expense  | (109)                        | (82)     |
| Income before income taxes and equity earnings of certain unconsolidated subsidiaries | 139                          | 418      |
| Income tax expense  | (58)                         | (109)    |
| Equity earnings, net of income tax  | 19                           | 16       |
| Net income  | 100                          | 325      |
| Losses (earnings) attributable to noncontrolling interests                            | 8                            | (7)      |
| Preferred dividends of subsidiaries   | (2)                          | (2)      |
| Earnings  | \$ 106                       | \$ 316   |
| Basic earnings per common share   | \$ 0.43                      | \$ 1.31  |
| Weighted-average number of shares outstanding, basic (thousands)                      | 246,083                      | 241,766  |
| Diluted earnings per common share   | \$ 0.42                      | \$ 1.29  |
| Weighted-average number of shares outstanding, diluted (thousands)                    | 250,373                      | 245,017  |

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|  |    |      |    |      |
|--|----|------|----|------|
| Dividends declared per share of common stock | \$ | 0.39 | \$ | 0.39 |
|--|----|------|----|------|

*See Notes to Condensed Consolidated Financial Statements.*



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

(Dollars in millions)

|  | March 31,<br>2010<br>(unaudited) | December 31,<br>2009 |
|--|----------------------------------|----------------------|
| <b>ASSETS</b>  |                                  |                      |
| Current assets:  |                                  |                      |
| Cash and cash equivalents  | \$ 222                           | \$ 110               |
| Restricted cash  | 44                               | 35                   |
| Trade accounts receivable, net   | 848                              | 971                  |
| Other accounts and notes receivable, net   | 130                              | 159                  |
| Due from unconsolidated affiliates   | 29                               | 41                   |
| Income taxes receivable  | 156                              | 221                  |
| Deferred income taxes  | 5                                | 10                   |
| Inventories  | 160                              | 197                  |
| Regulatory assets  | 90                               | 54                   |
| Fixed-price contracts and other derivatives  | 85                               | 77                   |
| Insurance receivable related to wildfire litigation<br>(Note 10)                       | 194                              | 273                  |
| Other  | 144                              | 147                  |
| Total current assets   | 2,107                            | 2,295                |
| Investments and other assets:  |                                  |                      |
| Regulatory assets arising from fixed-price contracts<br>and other derivatives          | 251                              | 241                  |
| Regulatory assets arising from pension and other<br>postretirement benefit obligations | 978                              | 959                  |
| Other regulatory assets  | 739                              | 603                  |
| Nuclear decommissioning trusts   | 706                              | 678                  |
| Investment in RBS Sempra Commodities LLP   | 2,178                            | 2,172                |
| Other investments  | 2,202                            | 2,151                |
| Goodwill and other intangible assets   | 523                              | 524                  |
| Sundry   | 598                              | 608                  |
| Total investments and other assets   | 8,175                            | 7,936                |
| Property, plant and equipment:   |                                  |                      |
| Property, plant and equipment  | 25,391                           | 25,034               |
| Less accumulated depreciation and amortization   | (6,901)                          | (6,753)              |
| Property, plant and equipment, net (\$645 at March<br>31, 2010 related to VIEs)        | 18,490                           | 18,281               |
| Total assets   | \$ 28,772                        | \$ 28,512            |

See Notes to Condensed Consolidated Financial Statements.



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

(Dollars in millions)

|  | March 31,<br>2010<br>(unaudited) | December 31,<br>2009 |
|--|----------------------------------|----------------------|
| <b>LIABILITIES AND EQUITY</b>  |                                  |                      |
| Current liabilities:   |                                  |                      |
| Short-term debt  | \$ 912                           | \$ 618               |
| Accounts payable - trade   | 554                              | 522                  |
| Accounts payable - other   | 115                              | 171                  |
| Due to unconsolidated affiliates   | 6                                | 29                   |
| Dividends and interest payable   | 223                              | 190                  |
| Accrued compensation and benefits  | 162                              | 264                  |
| Regulatory balancing accounts, net   | 517                              | 382                  |
| Current portion of long-term debt  | 327                              | 573                  |
| Fixed-price contracts and other derivatives  | 108                              | 95                   |
| Customer deposits  | 144                              | 145                  |
| Reserve for wildfire litigation (Note 10)  | 300                              | 270                  |
| Other  | 870                              | 629                  |
| Total current liabilities  | 4,238                            | 3,888                |
| Long-term debt (\$421 at March 31, 2010 related to VIEs)   | 7,198                            | 7,460                |
| Deferred credits and other liabilities:  |                                  |                      |
| Due to unconsolidated affiliate  | -                                | 2                    |
| Customer advances for construction   | 147                              | 146                  |
| Pension and other postretirement benefit obligations, net of plan assets   | 1,268                            | 1,252                |
| Deferred income taxes  | 1,419                            | 1,318                |
| Deferred investment tax credits  | 53                               | 54                   |
| Regulatory liabilities arising from removal obligations  | 2,598                            | 2,557                |
| Asset retirement obligations   | 1,298                            | 1,277                |
| Other regulatory liabilities   | 172                              | 181                  |
| Fixed-price contracts and other derivatives  | 309                              | 312                  |
| Deferred credits and other   | 698                              | 735                  |
| Total deferred credits and other liabilities   | 7,962                            | 7,834                |
| 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; 247 million shares outstanding at March 31, 2010 and December 31, 2009, no par value) | 2,462                            | 2,418                |

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|   |           |           |
|---|-----------|-----------|
| Retained earnings                             | 6,981     | 6,971     |
| Deferred compensation                         | (11)      | (13)      |
| Accumulated other comprehensive income (loss) | (372)     | (369)     |
| Total Sempra Energy shareholders' equity      | 9,060     | 9,007     |
| Preferred stock of subsidiaries               | 100       | 100       |
| Other noncontrolling interests                | 135       | 144       |
| Total equity                                  | 9,295     | 9,251     |
| Total liabilities and equity                  | \$ 28,772 | \$ 28,512 |

*See Notes to Condensed Consolidated Financial Statements.*

**SEMPRA ENERGY**  
**CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS**

(Dollars in millions)

|   |      | Three months ended       |       |
|---|------|--------------------------|-------|
|   | 2010 | March 31,<br>(unaudited) | 2009  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                     |      |                          |       |
| Net income  | \$   | 100 \$                   | 325   |
| Adjustments to reconcile net income to net cash provided        |      |                          |       |
| by operating activities:  |      |                          |       |
| Depreciation and amortization                                   |      | 210                      | 183   |
| Deferred income taxes and investment tax credits                |      | 61                       | (29)  |
| Equity earnings   |      | (34)                     | (176) |
| Other   |      | 7                        | 49    |
| Net change in other working capital components                  |      | 534                      | 491   |
| Distribution from RBS Sempra Commodities LLP                    |      | -                        | 305   |
| Changes in other assets   |      | 18                       | 10    |
| Changes in other liabilities                                    |      | (8)                      | (19)  |
| Net cash provided by operating activities                       |      | 888                      | 1,139 |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |      |                          |       |
| Expenditures for property, plant and equipment                  |      | (446)                    | (492) |
| Expenditures for investments                                    |      | (74)                     | (25)  |
| Distributions from investments                                  |      | 24                       | 5     |
| Purchases of nuclear decommissioning and other trust assets     |      | (44)                     | (45)  |
| Proceeds from sales by nuclear decommissioning and other trusts |      | 46                       | 42    |
| Other   |      | (2)                      | (7)   |
| Net cash used in investing activities                           |      | (496)                    | (522) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                     |      |                          |       |
| Common dividends paid   |      | (86)                     | (86)  |
| Preferred dividends paid by subsidiaries                        |      | (2)                      | (2)   |
| Issuances of common stock                                       |      | 14                       | 10    |
| Repurchases of common stock                                     |      | (2)                      | -     |
| Increase (decrease) in short-term debt, net                     |      | 294                      | (77)  |
| Issuances of debt (maturities greater than 90 days)             |      | 12                       | 22    |
| Payments on debt (maturities greater than 90 days)              |      | (507)                    | (6)   |
| Purchase of noncontrolling interest                             |      | -                        | (94)  |
| Other   |      | (3)                      | 5     |
| Net cash used in financing activities                           |      | (280)                    | (228) |
| Increase in cash and cash equivalents                           |      | 112                      | 389   |
| Cash and cash equivalents, January 1                            |      | 110                      | 331   |
| Cash and cash equivalents, March 31                             | \$   | 222 \$                   | 720   |

*See Notes to Condensed Consolidated Financial Statements.*

**SEMPRA ENERGY**  
**CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS**

*(Dollars in millions)*

|   |      | Three months ended       |      |
|---|------|--------------------------|------|
|   | 2010 | March 31,<br>(unaudited) | 2009 |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b> |      |                          |      |
| Interest payments, net of amounts capitalized           | \$   | 71 \$                    | 56   |
| Income tax refunds, net                                 |      | 73                       | 52   |
| <b>SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES</b>    |      |                          |      |
| Dividends declared but not paid                         | \$   | 99 \$                    | 98   |

*See Notes to Condensed Consolidated Financial Statements.*

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

*(Dollars in millions)*

|  | Three months ended |                          |      |
|--|--------------------|--------------------------|------|
|  | 2010               | March 31,<br>(unaudited) | 2009 |
| Operating revenues   |                    |                          |      |
| Electric   | \$                 | 563 \$                   | 553  |
| Natural gas  |                    | 179                      | 179  |
| Total operating revenues                                   |                    | 742                      | 732  |
| Operating expenses   |                    |                          |      |
| Cost of electric fuel and purchased power                  |                    | 148                      | 171  |
| Cost of natural gas  |                    | 89                       | 87   |
| Operation and maintenance                                  |                    | 232                      | 181  |
| Depreciation and amortization                              |                    | 92                       | 77   |
| Franchise fees and other taxes                             |                    | 43                       | 41   |
| Total operating expenses                                   |                    | 604                      | 557  |
| Operating income   |                    | 138                      | 175  |
| Other income, net  |                    | -                        | 17   |
| Interest expense   |                    | (31)                     | (25) |
| Income before income taxes                                 |                    | 107                      | 167  |
| Income tax expense   |                    | (31)                     | (60) |
| Net income   |                    | 76                       | 107  |
| Losses (earnings) attributable to noncontrolling interests |                    | 8                        | (7)  |
| Earnings   |                    | 84                       | 100  |
| Preferred dividend requirements                            |                    | (1)                      | (1)  |
| Earnings attributable to common shares                     | \$                 | 83 \$                    | 99   |

*See Notes to Condensed Consolidated Financial Statements.*





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

(Dollars in millions)

|   | March 31,<br>2010<br>(unaudited) | December 31,<br>2009 |
|---|----------------------------------|----------------------|
| <b>ASSETS</b>   |                                  |                      |
| Current assets:   |                                  |                      |
| Cash and cash equivalents   | \$ 14                            | \$ 13                |
| Restricted cash   | 17                               | 8                    |
| Accounts receivable - trade   | 228                              | 229                  |
| Accounts receivable - other   | 63                               | 85                   |
| Due from unconsolidated affiliates  | 1                                | 8                    |
| Income taxes receivable   | 13                               | 59                   |
| Deferred income taxes   | 44                               | 41                   |
| Inventories   | 62                               | 61                   |
| Regulatory assets arising from fixed-price contracts<br>and other derivatives             | 65                               | 30                   |
| Other regulatory assets   | 4                                | 4                    |
| Fixed-price contracts and other derivatives   | 34                               | 40                   |
| Insurance receivable related to wildfire litigation<br>(Note 10)                          | 194                              | 273                  |
| Other   | 26                               | 35                   |
| Total current assets  | 765                              | 886                  |
| Other assets:   |                                  |                      |
| Due from unconsolidated affiliate   | 1                                | 2                    |
| Deferred taxes recoverable in rates   | 449                              | 415                  |
| Regulatory assets arising from fixed-price contracts<br>and other derivatives             | 250                              | 241                  |
| Regulatory assets arising from pension and other<br>postretirement<br>benefit obligations | 349                              | 342                  |
| Other regulatory assets   | 158                              | 53                   |
| Nuclear decommissioning trusts  | 706                              | 678                  |
| Sundry  | 42                               | 43                   |
| Total other assets  | 1,955                            | 1,774                |
| Property, plant and equipment:  |                                  |                      |
| Property, plant and equipment   | 10,359                           | 10,156               |
| Less accumulated depreciation and amortization  | (2,644)                          | (2,587)              |
| Property, plant and equipment, net (\$645 at March<br>31, 2010 related to VIEs)           | 7,715                            | 7,569                |
| Total assets  | \$ 10,435                        | \$ 10,229            |

See Notes to Condensed Consolidated Financial Statements.



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

(Dollars in millions)

|   | March 31,<br>2010<br>(unaudited) | December 31,<br>2009 |
|---|----------------------------------|----------------------|
| <b>LIABILITIES AND EQUITY</b>   |                                  |                      |
| Current liabilities:  |                                  |                      |
| Short-term debt   | \$ 60                            | \$ 33                |
| Accounts payable  | 174                              | 249                  |
| Due to unconsolidated affiliate   | 29                               | -                    |
| Regulatory balancing accounts, net  | 195                              | 159                  |
| Customer deposits   | 57                               | 56                   |
| Fixed-price contracts and other derivatives   | 52                               | 51                   |
| Accrued compensation and benefits   | 53                               | 104                  |
| Current portion of long-term debt   | 46                               | 45                   |
| Reserve for wildfire litigation (Note 10)   | 300                              | 270                  |
| Other   | 205                              | 157                  |
| Total current liabilities   | 1,171                            | 1,124                |
| Long-term debt (\$421 at March 31, 2010 related to VIEs)                                      | 2,622                            | 2,623                |
| Deferred credits and other liabilities:   |                                  |                      |
| Customer advances for construction  | 22                               | 23                   |
| Pension and other postretirement benefit obligations,<br>net of plan assets                   | 373                              | 370                  |
| Deferred income taxes   | 821                              | 774                  |
| Deferred investment tax credits   | 26                               | 26                   |
| Regulatory liabilities arising from removal obligations                                       | 1,363                            | 1,330                |
| Asset retirement obligations  | 595                              | 585                  |
| Fixed-price contracts and other derivatives   | 263                              | 265                  |
| Deferred credits and other  | 140                              | 145                  |
| Total deferred credits and other liabilities  | 3,603                            | 3,518                |
| Contingently redeemable preferred stock   | 79                               | 79                   |
| Commitments and contingencies (Note 10)   |                                  |                      |
| Equity:   |                                  |                      |
| Common stock (255 million shares authorized; 117 million shares outstanding;<br>no par value) | 1,138                            | 1,138                |
| Retained earnings   | 1,694                            | 1,611                |
| Accumulated other comprehensive income (loss)   | (10)                             | (10)                 |
| Total SDG&E shareholders' equity  | 2,822                            | 2,739                |
| Noncontrolling interests  | 138                              | 146                  |
| Total equity  | 2,960                            | 2,885                |
| Total liabilities and equity  | \$ 10,435                        | \$ 10,229            |

See Notes to Condensed Consolidated Financial Statements.



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

(Dollars in millions)

|   | 2010 | Three months ended<br>March 31,<br>(unaudited) | 2009  |
|---|------|--|-------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |      |  |       |
| Net income  | \$   | 76 \$  | 107   |
| Adjustments to reconcile net income to net cash provided by operating activities: |      |  |       |
| Depreciation and amortization   |      | 92   | 77    |
| Deferred income taxes and investment tax credits                                  |      | 9  | 5     |
| Other   |      | -  | (12)  |
| Net change in other working capital components                                    |      | 101  | 77    |
| Changes in other assets   |      | 5  | 7     |
| Changes in other liabilities  |      | (8)  | (16)  |
| Net cash provided by operating activities   |      | 275  | 245   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |      |  |       |
| Expenditures for property, plant and equipment                                    |      | (290)  | (229) |
| Purchases of nuclear decommissioning trust assets                                 |      | (43)   | (43)  |
| Proceeds from sales by nuclear decommissioning trusts                             |      | 40   | 42    |
| Decrease in loans to affiliates, net  |      | 2  | 33    |
| Net increase in restricted cash   |      | (9)  | -     |
| Net cash used in investing activities   |      | (300)  | (197) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |      |  |       |
| Common dividends paid   |      | -  | (150) |
| Preferred dividends paid  |      | (1)  | (1)   |
| Issuances of long-term debt   |      | 3  | 22    |
| Payments on long-term debt  |      | (3)  | -     |
| Increase in short-term debt, net  |      | 27   | 98    |
| Capital contribution received by Otay Mesa VIE                                    |      | -  | 4     |
| Net cash provided by (used in) financing activities                               |      | 26   | (27)  |
| Increase in cash and cash equivalents   |      | 1  | 21    |
| Cash and cash equivalents, January 1  |      | 13   | 19    |
| Cash and cash equivalents, March 31   | \$   | 14 \$  | 40    |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>                           |      |  |       |
| Interest payments, net of amounts capitalized                                     | \$   | 10 \$  | 14    |
| Income tax payments (refunds), net  |      | (26)   | 1     |
| <b>SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES</b>                              |      |  |       |
| Dividends declared but not paid   | \$   | 1 \$   | 1     |

*See Notes to Condensed Consolidated Financial Statements.*

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

*(Dollars in millions)*

|  | Three months ended |                          |      |
|--|--------------------|--------------------------|------|
|  | 2010               | March 31,<br>(unaudited) | 2009 |
| Operating revenues                     | \$                 | 1,182 \$                 | 920  |
| Operating expenses                     |                    |                          |      |
| Cost of natural gas                    |                    | 674                      | 455  |
| Operation and maintenance              |                    | 261                      | 251  |
| Depreciation                           |                    | 75                       | 72   |
| Franchise fees and other taxes         |                    | 37                       | 32   |
| Total operating expenses               |                    | 1,047                    | 810  |
| Operating income                       |                    | 135                      | 110  |
| Other income, net                      |                    | 4                        | 1    |
| Interest income                        |                    | -                        | 1    |
| Interest expense                       |                    | (17)                     | (17) |
| Income before income taxes             |                    | 122                      | 95   |
| Income tax expense                     |                    | (57)                     | (36) |
| Net income/Earnings                    |                    | 65                       | 59   |
| Preferred dividend requirements        |                    | (1)                      | (1)  |
| Earnings attributable to common shares | \$                 | 64 \$                    | 58   |

*See Notes to Condensed Consolidated Financial Statements.*





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

(Dollars in millions)

|   | March 31,<br>2010<br>(unaudited) | December 31,<br>2009 |
|---|----------------------------------|----------------------|
| <b>ASSETS</b>   |                                  |                      |
| Current assets:   |                                  |                      |
| Cash and cash equivalents   | \$ 180                           | \$ 49                |
| Accounts receivable - trade   | 491                              | 567                  |
| Accounts receivable - other   | 30                               | 44                   |
| Due from unconsolidated affiliates  | 155                              | 12                   |
| Income taxes receivable   | -                                | 36                   |
| Inventories   | 47                               | 93                   |
| Other regulatory assets   | 9                                | 9                    |
| Other   | 40                               | 39                   |
| Total current assets  | 952                              | 849                  |
| Other assets:   |                                  |                      |
| Due from unconsolidated affiliate   | 507                              | 513                  |
| Regulatory assets arising from pension and other<br>postretirement<br>benefit obligations | 629                              | 617                  |
| Other regulatory assets   | 131                              | 131                  |
| Sundry  | 39                               | 40                   |
| Total other assets  | 1,306                            | 1,301                |
| Property, plant and equipment:  |                                  |                      |
| Property, plant and equipment   | 9,381                            | 9,299                |
| Less accumulated depreciation and amortization  | (3,666)                          | (3,615)              |
| Property, plant and equipment, net  | 5,715                            | 5,684                |
| Total assets  | \$ 7,973                         | \$ 7,834             |

See Notes to Condensed Consolidated Financial Statements.



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

(Dollars in millions)

|   | March 31,<br>2010<br>(unaudited) | December 31,<br>2009 |
|---|----------------------------------|----------------------|
| <b>LIABILITIES AND EQUITY</b>   |                                  |                      |
| Current liabilities:  |                                  |                      |
| Accounts payable - trade  | \$ 244                           | \$ 207               |
| Accounts payable - other  | 68                               | 120                  |
| Due to unconsolidated affiliates  | 84                               | 87                   |
| Income taxes payable  | 23                               | -                    |
| Deferred income taxes   | 9                                | 5                    |
| Regulatory balancing accounts, net  | 321                              | 223                  |
| Customer deposits   | 85                               | 87                   |
| Accrued compensation and benefits   | 67                               | 86                   |
| Current portion of long-term debt   | 266                              | 11                   |
| Other   | 215                              | 162                  |
| Total current liabilities   | 1,382                            | 988                  |
| Long-term debt  | 1,024                            | 1,283                |
| Deferred credits and other liabilities:   |                                  |                      |
| Customer advances for construction  | 125                              | 123                  |
| Pension and other postretirement benefit obligations,<br>net of plan assets                     | 656                              | 644                  |
| Deferred income taxes   | 294                              | 273                  |
| Deferred investment tax credits   | 27                               | 28                   |
| Regulatory liabilities arising from removal obligations   | 1,235                            | 1,227                |
| Asset retirement obligations  | 671                              | 662                  |
| Deferred taxes refundable in rates  | 168                              | 175                  |
| Deferred credits and other  | 199                              | 203                  |
| Total deferred credits and other liabilities  | 3,375                            | 3,335                |
| Commitments and contingencies (Note 10)   |                                  |                      |
| Equity:   |                                  |                      |
| Preferred stock   | 80                               | 80                   |
| Common stock (600 million shares authorized; 84<br>million shares outstanding;<br>no par value) | 1,462                            | 1,462                |
| Retained earnings   | 655                              | 691                  |
| Accumulated other comprehensive income (loss)   | (25)                             | (25)                 |
| Total Pacific Enterprises shareholders' equity  | 2,172                            | 2,208                |
| Preferred stock of subsidiary   | 20                               | 20                   |
| Total equity  | 2,192                            | 2,228                |
| Total liabilities and equity  | \$ 7,973                         | \$ 7,834             |

See Notes to Condensed Consolidated Financial Statements.



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

*(Dollars in millions)*

|   |      | Three months ended       |       |
|---|------|--------------------------|-------|
|   | 2010 | March 31,<br>(unaudited) | 2009  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |      |                          |       |
| Net income  | \$   | 65 \$                    | 59    |
| Adjustments to reconcile net income to net cash provided by operating activities: |      |                          |       |
| Depreciation  |      | 75                       | 72    |
| Deferred income taxes and investment tax credits                                  |      | 16                       | 6     |
| Other   |      | (1)                      | 2     |
| Net change in other working capital components                                    |      | 339                      | 357   |
| Changes in other assets   |      | 1                        | 7     |
| Changes in other liabilities  |      | (3)                      | (6)   |
| Net cash provided by operating activities   |      | 492                      | 497   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |      |                          |       |
| Expenditures for property, plant and equipment                                    |      | (114)                    | (112) |
| Decrease (increase) in loans to affiliates, net                                   |      | (146)                    | 3     |
| Net cash used in investing activities   |      | (260)                    | (109) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |      |                          |       |
| Common dividends paid   |      | (100)                    | -     |
| Preferred dividends paid  |      | (1)                      | (1)   |
| Net cash used in financing activities   |      | (101)                    | (1)   |
| Increase in cash and cash equivalents   |      | 131                      | 387   |
| Cash and cash equivalents, January 1  |      | 49                       | 206   |
| Cash and cash equivalents, March 31   | \$   | 180 \$                   | 593   |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>                           |      |                          |       |
| Interest payments, net of amounts capitalized                                     | \$   | 9 \$                     | 9     |
| Income tax refunds, net   |      | 23                       | 23    |
| <b>SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES</b>                              |      |                          |       |
| 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 |                               |
|---|--------------------|-------------------------------|
|   | 2010               | March 31,<br>(unaudited) 2009 |
| Operating revenues                                | \$ 1,182           | \$ 920                        |
| Operating expenses                                |                    |                               |
| Cost of natural gas                               | 674                | 455                           |
| Operation and maintenance                         | 262                | 251                           |
| Depreciation                                      | 75                 | 72                            |
| Franchise fees and other taxes                    | 37                 | 32                            |
| Total operating expenses                          | 1,048              | 810                           |
| Operating income                                  | 134                | 110                           |
| Other income, net                                 | 4                  | 1                             |
| Interest income                                   | -                  | 1                             |
| Interest expense                                  | (17)               | (17)                          |
| Income before income taxes                        | 121                | 95                            |
| Income tax expense                                | (56)               | (36)                          |
| Net income/Earnings attributable to common shares | \$ 65              | \$ 59                         |

*See Notes to Condensed Consolidated Financial Statements.*





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

(Dollars in millions)

|  | March 31,<br>2010<br>(unaudited) | December 31,<br>2009 |
|--|----------------------------------|----------------------|
| <b>ASSETS</b>  |                                  |                      |
| Current assets:  |                                  |                      |
| Cash and cash equivalents  | \$ 180                           | \$ 49                |
| Accounts receivable - trade  | 491                              | 567                  |
| Accounts receivable - other  | 30                               | 44                   |
| Due from unconsolidated affiliate                                  | 150                              | 6                    |
| Income taxes receivable  | -                                | 35                   |
| Inventories  | 47                               | 93                   |
| Other regulatory assets  | 9                                | 9                    |
| Other  | 40                               | 40                   |
| Total current assets   | 947                              | 843                  |
| Other assets:  |                                  |                      |
| Regulatory assets arising from pension and other<br>postretirement |                                  |                      |
| benefit obligations  | 629                              | 617                  |
| Other regulatory assets  | 131                              | 131                  |
| Sundry   | 11                               | 14                   |
| Total other assets   | 771                              | 762                  |
| Property, plant and equipment:                                     |                                  |                      |
| Property, plant and equipment                                      | 9,380                            | 9,297                |
| Less accumulated depreciation and amortization                     | (3,666)                          | (3,615)              |
| Property, plant and equipment, net                                 | 5,714                            | 5,682                |
| Total assets   | \$ 7,432                         | \$ 7,287             |

*See Notes to Condensed Consolidated Financial Statements.*



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

(Dollars in millions)

|   | March 31,<br>2010<br>(unaudited) | December 31,<br>2009 |
|---|----------------------------------|----------------------|
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                                  |                      |
| Current liabilities:  |                                  |                      |
| Accounts payable - trade  | \$ 244                           | \$ 207               |
| Accounts payable - other  | 68                               | 120                  |
| Due to unconsolidated affiliate   | -                                | 3                    |
| Income taxes payable  | 27                               | -                    |
| Deferred income taxes   | 11                               | 6                    |
| Regulatory balancing accounts, net  | 321                              | 223                  |
| Customer deposits   | 85                               | 87                   |
| Accrued compensation and benefits   | 67                               | 86                   |
| Current portion of long-term debt   | 266                              | 11                   |
| Other   | 210                              | 158                  |
| Total current liabilities   | 1,299                            | 901                  |
| Long-term debt  | 1,024                            | 1,283                |
| Deferred credits and other liabilities:   |                                  |                      |
| Customer advances for construction  | 125                              | 123                  |
| Pension and other postretirement benefit obligations,<br>net of plan assets                     | 656                              | 644                  |
| Deferred income taxes   | 300                              | 280                  |
| Deferred investment tax credits   | 27                               | 28                   |
| Regulatory liabilities arising from removal obligations   | 1,235                            | 1,227                |
| Asset retirement obligations  | 671                              | 662                  |
| Deferred taxes refundable in rates  | 168                              | 175                  |
| Deferred credits and other  | 196                              | 198                  |
| Total deferred credits and other liabilities  | 3,378                            | 3,337                |
| 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                  |
| Retained earnings   | 868                              | 903                  |
| Accumulated other comprehensive income (loss)   | (25)                             | (25)                 |
| Total shareholders' equity  | 1,731                            | 1,766                |
| Total liabilities and shareholders' equity  | \$ 7,432                         | \$ 7,287             |

See Notes to Condensed Consolidated Financial Statements.



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

*(Dollars in millions)*

|  | Three months ended |                   |
|--|--------------------|-------------------|
|  | 2010               | March 31,<br>2009 |
|  |                    | (unaudited)       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                    |                    |                   |
| Net income   | \$                 | 65 \$             |
| Adjustments to reconcile net income to net cash provided<br>by |                    | 59                |
| operating activities:  |                    |                   |
| Depreciation   |                    | 75                |
| Deferred income taxes and investment tax credits               |                    | 16                |
| Other  |                    | (1)               |
| Net change in other working capital components                 |                    | 346               |
| Changes in other assets  |                    | 1                 |
| Changes in other liabilities                                   |                    | (1)               |
| Net cash provided by operating activities                      |                    | 501               |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                    |                    |                   |
| Expenditures for property, plant and equipment                 |                    | (114)             |
| Increase in loans to affiliates, net                           |                    | (156)             |
| Net cash used in investing activities                          |                    | (270)             |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                    |                    |                   |
| Common dividends paid  |                    | (100)             |
| Net cash used in financing activities                          |                    | (100)             |
| Increase in cash and cash equivalents                          |                    | 131               |
| Cash and cash equivalents, January 1                           |                    | 49                |
| Cash and cash equivalents, March 31                            | \$                 | 180 \$            |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW<br/>INFORMATION</b>    |                    |                   |
| Interest payments, net of amounts capitalized                  | \$                 | 9 \$              |
| Income tax refunds, net  |                    | 23                |

*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

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

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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. We discuss our investments in unconsolidated subsidiaries in Note 4 below and Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

*SDG&E*

SDG&E's Condensed Consolidated Financial Statements include its accounts and the accounts of Otay Mesa Energy Center LLC (Otay Mesa VIE) and Orange Grove Energy L.P. (Orange Grove VIE), which are variable interest entities 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.

*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 serving as 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. In the Notes to Condensed Consolidated Financial Statements (except in Note 11), when only information for SoCalGas is provided, it is the same for PE. 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 March 31, 2010 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.

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, 2009 (the Annual Report), which is a combined report 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 and Sempra Pipelines & Storage's Mobile Gas Service Corporation (Mobile Gas) and Ecogas Mexico, S de RL de CV (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 Annual Report.

## 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**

***Accounting Standards Update (ASU) 2009-17, "Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities" (ASU 2009-17):*** ASU 2009-17 amends Financial Accounting Standards Board (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.

ASU 2009-17 amends FASB Accounting Standards Codification (ASC) Topic 810, *Consolidations*, and 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.

We adopted ASU 2009-17 on January 1, 2010 and it did not have a material effect on earnings, nor on presentation on the interim Condensed Consolidated Balance Sheets for Sempra Energy and SDG&E. We provide the required additional disclosure in Note 5.

***ASU 2010-06, "Improving Disclosures About Fair Value Measurements" (ASU 2010-06):*** ASU 2010-06 amends ASC Topic 820, *Fair Value Measurements and Disclosures*, and requires the following additional fair value measurement disclosures:

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transfers into and out of Levels 1 and 2

§

segregation of classes of assets and liabilities measured at fair value

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valuation techniques and inputs used for Level 2 and Level 3 instruments

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detailed activity for Level 3 instruments, including separate presentation of purchases, sales, issuances and settlements

We adopted ASU 2010-06 on January 1, 2010, and we provide the additional disclosure in Note 8.

### NOTE 3. RECENT INVESTMENT ACTIVITY

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

Sempra Pipelines & Storage's Sempra Midstream is the general partner and 91-percent owner of Bay Gas Storage Company (Bay Gas) and owned 60 percent of Mississippi Hub, LLC (Mississippi Hub) through December 31, 2008.

On January 16, 2009, Sempra Midstream purchased the remaining 40-percent ownership interest of Mississippi Hub for \$94 million in cash.

On April 30, 2010, Sempra Pipelines & Storage completed the acquisition of the Mexican pipeline and natural gas infrastructure assets of El Paso Corporation for \$300 million (\$260 million, net of cash acquired and debt assumed).

The acquisition involves El Paso Corporation's wholly owned natural gas pipeline and compression assets in the Mexican border state of Sonora. It also includes El Paso Corporation's 50-percent interest in a joint venture with PEMEX, the Mexican state-owned oil company. The joint venture operates two natural gas pipelines and a propane system in northern Mexico.

### NOTE 4. INVESTMENTS IN UNCONSOLIDATED ENTITIES

#### **SEMPRA COMMODITIES**

RBS Sempra Commodities LLP (RBS Sempra Commodities) is 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 report our share of partnership earnings in the Sempra Commodities segment.

For the three months ended March 31, 2010 and 2009, we had \$7 million and \$153 million, respectively, of pretax equity earnings from RBS Sempra Commodities. 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 ended March 31, 2010, the partnership recorded a loss, on an IFRS basis, of \$1 million. In the three months ended March 31, 2009, the distributable income, on an IFRS basis, was \$114 million. On April 30, 2010, the partnership made a cash distribution to us of \$197 million. In the first quarter 2009, we

received cash distributions from the partnership of \$305 million. We discuss the equity method investment in RBS Sempra Commodities further in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

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. This liability is being amortized over its expected life.

In November 2009, RBS announced its intention to divest its interest in RBS Sempra Commodities in connection with a directive from the European Commission to dispose of certain assets. On February 16, 2010, Sempra Energy, RBS and the partnership (Seller Parties) entered into an agreement (the Purchase Agreement) with J.P. Morgan Ventures Energy Corporation (J.P. Morgan Ventures), whereby J.P. Morgan Ventures will purchase the following businesses from the joint venture:

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the global oil, metals, coal, emissions (other than emissions related to the partnership's North American power business), plastics, agricultural commodities and concentrates commodities trading and marketing business

§

the European power and gas business

§

the investor products business

The Purchase Agreement does not include RBS Sempra Commodities' North American power and natural gas trading businesses and its retail energy solutions business. These businesses have historically generated 40 to 60 percent of total earnings of the businesses in the partnership, and have averaged more than 50 percent. RBS and Sempra Energy are actively soliciting offers for the sale of these remaining businesses.

The transaction is expected to close in summer 2010. J.P. Morgan Ventures will pay an aggregate purchase price equal to the estimated tangible book value at closing of the businesses purchased, generally computed on the basis of IFRS as adopted by the European Union, plus \$468 million. Sempra Energy will be entitled to 53-1/3 percent of the aggregate purchase price, and RBS will be entitled to 46-2/3 percent of the aggregate purchase price. We are currently evaluating the effect of the proposed transaction on our investment and share of equity method earnings, which will be impacted by the joint venture's allocation of goodwill to the transaction, differences between GAAP and IFRS, the application of equity method accounting, and the amendments to the partnership agreement described below.

In conjunction with the transaction, JPMorgan Chase & Co. has delivered a guarantee in favor of the Seller Parties to guarantee certain obligations, including the payment obligations, of J.P. Morgan Ventures under the Purchase Agreement.

The closing is subject to several conditions, including the following:

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governmental approvals from the U.K. Financial Services Authority and the U.S. Department of Justice or Federal Trade Commission under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, (which approval was received in March 2010), and antitrust approvals from regulators in Canada and in a limited number of other jurisdictions, including the European Union

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if necessary, the obtaining of a license from the Swiss Federal Market Supervisory Authority

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a condition to the obligation of the Seller Parties to close the transaction that JPMorgan Chase & Co. not experience a ratings downgrade below the level specified in the Purchase Agreement

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entering into certain related agreements, including an agreement pursuant to which the partnership will provide transition services to the purchased businesses following the closing

In connection with the transaction under the Purchase Agreement, we and RBS entered into a letter agreement to negotiate, prior to closing of the transaction, definitive documentation to amend certain provisions of the Limited Liability Partnership Agreement dated April 1, 2008 between Sempra Energy and RBS (Partnership Agreement) to, among other things:

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consider the distribution of excess cash of the partnership to us and RBS

§

eliminate each partner's preferred return (currently 15 percent per year) and to move to a 50/50 sharing of net income, if and when our invested capital is reduced to \$950 million or less by the return of capital to the partners

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terminate the restrictions on the partners' ability to transfer their partnership interests prior to April 2012 (but not the partners' right of first offer and other rights, including our tag-along right with respect to the transfer of that interest or the requirement that any transferee be reasonably acceptable to us)

The letter agreement also provides for negotiating the framework for the entertaining of bids for the remaining part of the partnership's business.

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

| <i>(Dollars in millions)</i>      | Three months ended March 31, |        |
|-----------------------------------|------------------------------|--------|
|                                   | 2010                         | 2009   |
| Gross revenues and fee income     | \$ 206                       | \$ 509 |
| Gross profit                      | 198                          | 486    |
| Income from continuing operations | 10                           | 236    |
| Partnership net income            | 10                           | 236    |

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

## **SEMPRA PIPELINES & STORAGE**

In the three months ended March 31, 2010, Sempra Pipelines & Storage contributed \$65 million to Rockies Express, a joint venture to own and operate the Rockies Express Pipeline, which was the last contribution required for the construction phase of the project. Sempra Pipelines & Storage contributed \$25 million in the first quarter of 2009. We discuss this investment in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

## **NOTE 5. OTHER FINANCIAL DATA**

### **VARIABLE INTEREST ENTITIES**

We consolidate a variable interest entity (VIE) if we are 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

§

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.

### ***Otay Mesa VIE***

SDG&E has a 10-year agreement to purchase power generated at the Otay Mesa Energy Center (OMEC), a 573-megawatt (MW) generating facility that began commercial operations in October 2009. SDG&E supplies all of the natural gas to fuel the power plant and purchases its electric generation output (i.e., 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.

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.

SDG&E has the power to direct the dispatch of OMEC's electrical production. Based upon our analysis, this power most significantly impacts the economic performance of Otay Mesa VIE because of the associated exposure to the cost of natural gas, which fuels the plant, and the value of electricity produced. In addition, SDG&E absorbs significant risks of Otay Mesa VIE under the tolling agreement, whereby SDG&E is obligated to purchase and provide fuel to Otay Mesa VIE and purchase all output for the term of the agreement. Separately, through the put option, SDG&E absorbs a significant portion of the risk that the value of Otay Mesa VIE could decline. Accordingly, Sempra Energy and SDG&E have consolidated Otay Mesa VIE since the second quarter of 2007, and have continued to consolidate it in the first quarter of 2010. Otay Mesa VIE's equity of \$138 million and \$146 million is included on the Condensed Consolidated Balance Sheets in Other Noncontrolling Interests for Sempra Energy and in Noncontrolling Interests for SDG&E at March 31, 2010 and December 31, 2009, respectively.

OMEC LLC has a loan outstanding of \$372 million at March 31, 2010, 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 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.

### ***Orange Grove VIE***

SDG&E has a 25-year tolling agreement to purchase power generated by Orange Grove Energy L.P. (Orange Grove), at its 94-MW generating facility located in San Diego County, California. We expect the facility to be available for commercial operation during the second quarter of 2010. Orange Grove is a VIE (Orange Grove VIE) of which SDG&E is the primary beneficiary. SDG&E has the power to direct the dispatch of electrical production of Orange Grove VIE. Based on our analysis, this power most significantly impacts the economic performance of Orange Grove VIE because of the corresponding exposure to the cost of natural gas, which fuels the plant, and the value of electricity produced. In addition, SDG&E absorbs significant risks of Orange Grove VIE under the tolling arrangement, whereby SDG&E is obligated to purchase and provide fuel to Orange Grove VIE and purchase all output for the term of the agreement. Sempra Energy and SDG&E consolidated Orange Grove VIE beginning with the third quarter of 2009, when all of the conditions precedent in the purchased-power agreement were satisfied, and continued to do so in the first quarter of 2010.

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 March 31, 2010, Orange Grove had \$90 million of outstanding borrowings under the credit facilities and \$3 million of letters of credit supported by the facilities. In addition, Orange Grove has a short-term loan outstanding of \$36 million.

We provide additional information about Otay Mesa VIE and Orange Grove VIE in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

### *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 these contracts 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 those relating to Otay Mesa VIE and Orange Grove VIE result in SDG&E being the primary beneficiary. 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 business units also enter into arrangements which could include variable interests. We evaluate these contracts based upon the qualitative and quantitative analyses described above. We have determined that these contracts are not variable interests in a VIE and therefore are not subject to the requirements of ASU 2009-17.

## **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 -- SEMPR ENERGY CONSOLIDATED**

*(Dollars in millions)*

|                           | Pension Benefits             |       | Other Postretirement Benefits |      |
|---------------------------|------------------------------|-------|-------------------------------|------|
|                           | Three months ended March 31, |       | Three months ended March 31,  |      |
|                           | 2010                         | 2009  | 2010                          | 2009 |
| Service cost              | \$ 22                        | \$ 19 | \$ 7                          | \$ 7 |
| Interest cost             | 43                           | 43    | 15                            | 14   |
| Expected return on assets | (36)                         | (35)  | (12)                          | (12) |
| Amortization of:          |                              |       |                               |      |
| Prior service cost        | 1                            | 1     | -                             | -    |

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|                                 |    |      |      |       |     |
|---------------------------------|----|------|------|-------|-----|
| Actuarial loss                  |    | 8    | 6    | 2     | 1   |
| Regulatory adjustment           |    | (29) | (26) | 2     | (1) |
| Total net periodic benefit cost | \$ | 9 \$ | 8 \$ | 14 \$ | 9   |



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

|                                 | Pension Benefits             |      | Other Postretirement Benefits |      |
|---------------------------------|------------------------------|------|-------------------------------|------|
|                                 | Three months ended March 31, |      | Three months ended March 31,  |      |
|                                 | 2010                         | 2009 | 2010                          | 2009 |
| Service cost                    | \$ 7                         | \$ 6 | \$ 2                          | 2    |
| Interest cost                   | 12                           | 12   | 2                             | 2    |
| Expected return on assets       | (10)                         | (8)  | (2)                           | (1)  |
| Amortization of:                |                              |      |                               |      |
| Prior service cost              | 1                            | 1    | 1                             | 1    |
| Actuarial loss                  | 3                            | 4    | -                             | -    |
| Regulatory adjustment           | (12)                         | (14) | 1                             | -    |
| Total net periodic benefit cost | \$ 1                         | \$ 1 | \$ 4                          | 4    |

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

|                                 | Pension Benefits             |       | Other Postretirement Benefits |      |
|---------------------------------|------------------------------|-------|-------------------------------|------|
|                                 | Three months ended March 31, |       | Three months ended March 31,  |      |
|                                 | 2010                         | 2009  | 2010                          | 2009 |
| Service cost                    | \$ 12                        | \$ 11 | \$ 5                          | 5    |
| Interest cost                   | 25                           | 25    | 12                            | 11   |
| Expected return on assets       | (23)                         | (24)  | (10)                          | (11) |
| Amortization of:                |                              |       |                               |      |
| Prior service cost (credit)     | 1                            | 1     | (1)                           | (1)  |
| Actuarial loss                  | 3                            | -     | 2                             | 1    |
| Regulatory adjustment           | (17)                         | (12)  | 1                             | (1)  |
| Total net periodic benefit cost | \$ 1                         | \$ 1  | \$ 9                          | 4    |

***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 2010:

| <i>(Dollars in millions)</i>          | Sempra Energy<br>Consolidated | SDG&E | SoCalGas |
|---------------------------------------|-------------------------------|-------|----------|
| Contributions through March 31, 2010: |                               |       |          |
| Pension plans                         | \$ 13                         | 4     | 1        |
| Other postretirement benefit plans    | 14                            | 4     | 9        |
| Total expected contributions in 2010: |                               |       |          |
| Pension plans                         | \$ 175                        | 62    | 82       |
| Other postretirement benefit plans    | 55                            | 16    | 36       |

**EARNINGS PER SHARE**

The following table provides the per share computations for our earnings for the three months ended March 31, 2010 and 2009. Basic earnings per common share (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 could 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 March 31, |         |
|--|----|------------------------------|---------|
|  |    | 2010                         | 2009    |
| Numerator:   |    |                              |         |
| Earnings   | \$ | 106                          | \$ 316  |
| Denominator:   |    |                              |         |
| Weighted-average common shares outstanding for basic EPS                             |    | 246,083                      | 241,766 |
| Dilutive effect of stock options, restricted stock awards and restricted stock units |    | 4,290                        | 3,251   |
| Weighted-average common shares outstanding for diluted EPS                           |    | 250,373                      | 245,017 |
| Earnings per share:  |    |                              |         |
| Basic  | \$ | 0.43                         | \$ 1.31 |
| Diluted  | \$ | 0.42                         | \$ 1.29 |

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 minus tax shortfalls related to the options 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 options for which the exercise price on common stock was greater than the average market price during the period. We had 2,180,900 and 3,153,534 such stock options outstanding during the three months ended March 31, 2010 and 2009, respectively.

During the three months ended March 31, 2010, we had 9,900 stock options outstanding 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 March 31, 2009.

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 minus tax shortfalls related to the awards and units 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. There were no such anti-dilutive restricted stock awards or units during the three months ended March 31, 2010 or 2009.

**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 \$7 million and \$6 million for the three months ended March 31, 2010 and 2009, respectively. Pursuant to our share-based compensation plans, we granted 687,600 non-qualified stock options and 769,800 restricted stock units during the three months ended March

31, 2010, primarily in January 2010.

### **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 ended March 31, 2010 and 2009.

**CAPITALIZED FINANCING COSTS***(Dollars in millions)*

Three months ended

|   | 2010 | March 31, | 2009 |
|---|------|-----------|------|
| <b>SDG&amp;E:</b>                       |      |           |      |
| AFUDC related to debt                   | \$   | 3 \$      | 2    |
| AFUDC related to equity                 |      | 9         | 6    |
| Total SDG&E                             |      | 12        | 8    |
| <b>SoCalGas:</b>                        |      |           |      |
| AFUDC related to debt                   |      | 2         | 1    |
| AFUDC related to equity                 |      | 4         | 2    |
| Total SoCalGas                          |      | 6         | 3    |
| <b>Sempra Global:</b>                   |      |           |      |
| Capitalized financing costs             |      | 7         | 22   |
| <b>Total Sempra Energy Consolidated</b> | \$   | 25 \$     | 33   |

**COMPREHENSIVE INCOME**

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

**COMPREHENSIVE INCOME**

(Dollars in millions)

|   | Three months ended March 31,    |  |                 |                                 |  |                 |
|---|---------------------------------|--|-----------------|---------------------------------|--|-----------------|
|   | Share-<br>holders'<br>Equity(1) | 2010<br>Non-<br>controlling<br>Interests | Total<br>Equity | Share-<br>holders'<br>Equity(1) | 2009<br>Non-<br>controlling<br>Interests | Total<br>Equity |
| <b>Sempra Energy</b>                        |                                 |  |                 |                                 |  |                 |
| <b>Consolidated:</b>                        |                                 |  |                 |                                 |  |                 |
| Net income (loss)(2)                        | \$ 108                          | \$ (8)                                   | \$ 100          | \$ 318                          | \$ 7                                     | \$ 325          |
| Foreign currency translation<br>adjustments | (4)                             | -  | (4)             | 26                              | -  | 26              |
| Financial instruments                       | -                               | 2  | 2               | 3                               | (3)                                      | -               |
| Available-for-sale securities               | -                               | -  | -               | 9                               | -  | 9               |
| Net actuarial gain                          | 1                               | -  | 1               | 1                               | -  | 1               |
| Comprehensive income (loss)                 | \$ 105                          | \$ (6)                                   | \$ 99           | \$ 357                          | \$ 4                                     | \$ 361          |
| <b>SDG&amp;E:</b>                           |                                 |  |                 |                                 |  |                 |
| Net income (loss)                           | \$ 84                           | \$ (8)                                   | \$ 76           | \$ 100                          | \$ 7                                     | \$ 107          |
| Financial instruments                       | -                               | 2  | 2               | 2                               | (4)                                      | (2)             |
| Comprehensive income (loss)                 | \$ 84                           | \$ (6)                                   | \$ 78           | \$ 102                          | \$ 3                                     | \$ 105          |
| <b>PE:</b>                                  |                                 |  |                 |                                 |  |                 |
| Net income(2)                               | \$ 65                           | \$ -                                     | \$ 65           | \$ 59                           | \$ -                                     | \$ 59           |
| Financial instruments                       | -                               | -  | -               | 1                               | -  | 1               |
| Comprehensive income                        | \$ 65                           | \$ -                                     | \$ 65           | \$ 60                           | \$ -                                     | \$ 60           |
| <b>SoCalGas:</b>                            |                                 |  |                 |                                 |  |                 |
| Net income                                  | \$ 65                           | \$ -                                     | \$ 65           | \$ 59                           | \$ -                                     | \$ 59           |
| Financial instruments                       | -                               | -  | -               | 1                               | -  | 1               |
| Comprehensive income                        | \$ 65                           | \$ -                                     | \$ 65           | \$ 60                           | \$ -                                     | \$ 60           |

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

(2) 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 March 31,    |  |                 |                                 |  |                 |
|------------------------------------|---------------------------------|--|-----------------|---------------------------------|--|-----------------|
|                                    | Share-<br>holders'<br>Equity(1) | 2010<br>Non-<br>controlling<br>Interests | Total<br>Equity | Share-<br>holders'<br>Equity(1) | 2009<br>Non-<br>controlling<br>Interests | Total<br>Equity |
| <b>Sempra Energy Consolidated:</b> |                                 |  |                 |                                 |  |                 |
| Financial instruments              | \$ -                            | \$ -                                     | -               | \$ 2                            | \$ -                                     | 2               |
| Available-for-sale securities      | -                               | -  | -               | 3                               | -  | 3               |
| Net actuarial gain                 | 1                               | -  | 1               | 1                               | -  | 1               |
| <b>SDG&amp;E:</b>                  |                                 |  |                 |                                 |  |                 |
| Financial instruments              | \$ -                            | \$ -                                     | -               | \$ 1                            | \$ -                                     | 1               |
| <b>PE:</b>                         |                                 |  |                 |                                 |  |                 |
| Financial instruments              | \$ -                            | \$ -                                     | -               | \$ 1                            | \$ -                                     | 1               |
| <b>SoCalGas:</b>                   |                                 |  |                 |                                 |  |                 |
| Financial instruments              | \$ -                            | \$ -                                     | -               | \$ 1                            | \$ -                                     | 1               |

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

**SHAREHOLDERS EQUITY AND NONCONTROLLING INTERESTS**

The following two tables provide a reconciliation of Sempra Energy and SDG&E shareholders' equity and noncontrolling interests for the three months ended March 31, 2010 and 2009. There were no changes in the equity of PE's noncontrolling interests for the three months ended March 31, 2010 or 2009.

**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, 2009                         | \$ | 9,007 \$                                    | 244 \$                           | 9,251           |
| Comprehensive income (loss)                          |    | 105   | (6)                              | 99              |
| Share-based compensation expense                     |    | 13  | -                                | 13              |
| Common stock dividends declared                      |    | (96)  | -                                | (96)            |
| Preferred dividends of subsidiaries                  |    | (2)   | -                                | (2)             |
| Issuance of common stock                             |    | 27  | -                                | 27              |
| Tax benefit related to share-based<br>compensation   |    | 1   | -                                | 1               |
| Repurchase of common stock                           |    | (2)   | -                                | (2)             |
| Common stock released from ESOP                      |    | 7   | -                                | 7               |
| Distributions to noncontrolling interests            |    | -   | (3)                              | (3)             |
| Balance at March 31, 2010                            | \$ | 9,060 \$                                    | 235 \$                           | 9,295           |
| Balance at December 31, 2008                         | \$ | 7,969 \$                                    | 340 \$                           | 8,309           |
| Comprehensive income                                 |    | 357   | 4                                | 361             |
| Purchase of noncontrolling interest in<br>subsidiary |    | (10)  | (84)                             | (94)            |
| Share-based compensation expense                     |    | 10  | -                                | 10              |
| Common stock dividends declared                      |    | (95)  | -                                | (95)            |
| Preferred dividends of subsidiaries                  |    | (2)   | -                                | (2)             |
| Issuance of common stock                             |    | 14  | -                                | 14              |
| Common stock released from ESOP                      |    | 4   | -                                | 4               |
| Equity contributed by noncontrolling<br>interests    |    | -   | 6                                | 6               |
| Balance at March 31, 2009                            | \$ | 8,247 \$                                    | 266 \$                           | 8,513           |

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

|   |    | SDG&E<br>Shareholders'<br>Equity | Non-<br>controlling<br>Interests | Total<br>Equity |
|---|----|----------------------------------|----------------------------------|-----------------|
| Balance at December 31, 2009                      | \$ | 2,739 \$                         | 146 \$                           | 2,885           |
| Comprehensive income (loss)                       |    | 84                               | (6)                              | 78              |
| Preferred stock dividends declared                |    | (1)                              | -                                | (1)             |
| Distributions to noncontrolling interests         |    | -                                | (2)                              | (2)             |
| Balance at March 31, 2010                         | \$ | 2,822 \$                         | 138 \$                           | 2,960           |
| Balance at December 31, 2008                      | \$ | 2,542 \$                         | 128 \$                           | 2,670           |
| Comprehensive income                              |    | 102                              | 3                                | 105             |
| Common stock dividends declared                   |    | (150)                            | -                                | (150)           |
| Preferred stock dividends declared                |    | (1)                              | -                                | (1)             |
| Equity contributed by noncontrolling<br>interests |    | -                                | 6                                | 6               |
| Balance at March 31, 2009                         | \$ | 2,493 \$                         | 137 \$                           | 2,630           |





## **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 1 of the Notes to Consolidated Financial Statements in the Annual Report. The loan to Camuzzi Gas del Sur S.A. has a \$27 million balance outstanding at a variable interest rate (7.29 percent as of March 31, 2010). The loan is due in June 2010 and is fully reserved at March 31, 2010.

### ***Investments***

In November 2009, Sempra Pipelines & Storage purchased \$50 million of 2.75-percent bonds issued by Chilquinta Energía S.A., an unconsolidated affiliate, that are denominated in Chilean Unidades de Fomento. The bonds mature on October 30, 2014. The carrying value of the bonds after the effect of foreign currency translation was \$50 million at March 31, 2010. We discuss this investment 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 SOCALGAS***(Dollars in millions)*

|  |    | March 31,<br>2010 |    | December 31,<br>2009 |
|--|----|-------------------|----|----------------------|
| <b>SDG&amp;E</b>   |    |                   |    |                      |
| Current:   |    |                   |    |                      |
| Due from Sempra Energy   | \$ | -                 | \$ | 2                    |
| Due from SoCalGas  |    | -                 |    | 3                    |
| Due from various affiliates  |    | 1                 |    | 3                    |
|  | \$ | 1                 | \$ | 8                    |
| Due to Sempra Energy   | \$ | 29                | \$ | -                    |
| Income taxes due to (from) Sempra Energy(1)  | \$ | 10                | \$ | (37)                 |
| Noncurrent:  |    |                   |    |                      |
| Promissory note due from Sempra Energy, variable rate based on short-term commercial paper rates (0.13% at March 31, 2010) | \$ | 1                 | \$ | 2                    |
| <b>Pacific Enterprises</b>   |    |                   |    |                      |
| Current:   |    |                   |    |                      |
| Due from Sempra Energy   | \$ | 150               | \$ | 7                    |
| Due from various affiliates  |    | 5                 |    | 5                    |
|  | \$ | 155               | \$ | 12                   |
| Due to affiliate   | \$ | 84                | \$ | 84                   |
| Due to SDG&E   |    | -                 |    | 3                    |
|  | \$ | 84                | \$ | 87                   |
| Income taxes due to (from) Sempra Energy(1)  | \$ | 57                | \$ | (2)                  |
| Noncurrent:  |    |                   |    |                      |
| Promissory note due from Sempra Energy, variable rate based on short-term commercial paper rates (0.13% at March 31, 2010) | \$ | 507               | \$ | 513                  |
| <b>SoCalGas</b>  |    |                   |    |                      |
| Current:   |    |                   |    |                      |
| Due from Sempra Energy   | \$ | 150               | \$ | 6                    |
| Due to SDG&E   | \$ | -                 | \$ | 3                    |
| Income taxes due to (from) Sempra Energy(1)  | \$ | 61                | \$ | (2)                  |

(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 March 31, |      |   |
|----------|----|------------------------------|------|---|
|          |    | 2010                         | 2009 |   |
| SDG&E    | \$ |                              | 1 \$ | 2 |
| SoCalGas |    |                              | 11   | 8 |

***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 March 31, |    |              |
|---|------------------------------|----|--------------|
|   | 2010                         |    | 2009         |
| Revenues:   |                              |    |              |
| Sempra LNG(1)   | \$ 73                        | \$ | 7            |
| Sempra Commodities  | 6                            |    | 2            |
| SoCalGas  | 4                            |    | 1            |
| Sempra Generation   | 3                            |    | 1            |
| Total revenues  | \$ 86                        | \$ | 11           |
| Cost of natural gas:  |                              |    |              |
| Sempra LNG  | \$ 67                        | \$ | -            |
| Sempra Generation   | 16                           |    | -            |
| SoCalGas  | 12                           |    | 4            |
| Sempra Pipelines & Storage  | 9                            |    | 6            |
| SDG&E   | 1                            |    | -            |
| Total cost of natural gas   | \$ 105                       | \$ | 10           |
|   | March 31,                    |    | December 31, |
|   | 2010                         |    | 2009         |
| Fixed-price contracts and other derivatives - Net Asset<br>(Liability): |                              |    |              |
| Sempra Generation   | \$ 19                        | \$ | 7            |
| Sempra LNG  | (37)                         |    | (47)         |
| Total   | \$ (18)                      | \$ | (40)         |
| Due to unconsolidated affiliates:                                       |                              |    |              |
| Sempra Generation   | \$ 1                         | \$ | 13           |
| Sempra LNG  | -                            |    | 13           |
| Sempra Pipelines & Storage  | 3                            |    | 3            |
| Total   | \$ 4                         | \$ | 29           |
| Due from unconsolidated affiliates:                                     |                              |    |              |
| Sempra Commodities  | \$ 1                         | \$ | 1            |
| Sempra Generation   | 6                            |    | 22           |
| Sempra LNG  | 18                           |    | 15           |
| Parent and other  | 4                            |    | 3            |
| Total   | \$ 29                        | \$ | 41           |

(1) *Includes \$11 million in 2010 and \$5 million in 2009 related to a natural gas sales agreement with RBS Sempra Commodities which is subject to mark-to-market accounting. Under this agreement, which extends for five years beginning September 1, 2009, RBS Sempra Commodities will market natural gas that Sempra LNG purchases and does not sell under other contracts.*



**OTHER INCOME, NET**

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

**OTHER INCOME, NET**

(Dollars in millions)

|   |   | Three months ended March 31, |      |
|---|---|------------------------------|------|
|   |   | 2010                         | 2009 |
| <b>Sempra Energy Consolidated:</b>                    |   |                              |      |
| Allowance for equity funds used during construction   | \$  | 13 \$                        | 8    |
| Regulatory interest, net                              |   | (1)                          | -    |
| Investment gains (losses)(1)                          |   | 3                            | (17) |
| Gains (losses) on interest rate swaps (Otay Mesa VIE) |   | (9)                          | 10   |
| Sundry, net   |   | 2                            | 2    |
| Total   | \$  | 8 \$                         | 3    |
| <b>SDG&amp;E:</b>                                     |   |                              |      |
| Allowance for equity funds used during construction   | \$  | 9 \$                         | 6    |
| Regulatory interest, net                              |   | (1)                          | -    |
| Gains (losses) on interest rate swaps (Otay Mesa VIE) |   | (9)                          | 10   |
| Sundry, net   |   | 1                            | 1    |
| Total   | \$  | - \$                         | 17   |
| <b>SoCalGas and PE:</b>                               |   |                              |      |
| Allowance for equity funds used during construction   | \$  | 4 \$                         | 2    |
| Sundry, net   |   | -                            | (1)  |
| Total at SoCalGas and PE                              | \$  | 4 \$                         | 1    |
| (1)   | <i>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.</i> |                              |      |

**INCOME TAXES****INCOME TAX EXPENSE AND EFFECTIVE INCOME TAX RATES**

(Dollars in millions)

|                            | Three months ended March 31, |                                 |                          |                                 |
|----------------------------|------------------------------|---------------------------------|--------------------------|---------------------------------|
|                            | 2010                         |                                 | 2009                     |                                 |
|                            | Income<br>Tax<br>Expense     | Effective<br>Income<br>Tax Rate | Income<br>Tax<br>Expense | Effective<br>Income<br>Tax Rate |
| Sempra Energy Consolidated | \$ 58                        | 42 %                            | \$ 109                   | 26 %                            |
| SDG&E                      | 31                           | 29                              | 60                       | 36                              |
| PE                         | 57                           | 47                              | 36                       | 38                              |
| SoCalGas                   | 56                           | 46                              | 36                       | 38                              |





*Changes in Effective Income Tax Rates*

*Sempra Energy Consolidated*

For the three months ended March 31, 2010, the increase in effective tax rate was primarily due to:

§

lower pretax income in countries with lower statutory rates;

§

\$12 million tax expense in 2010 compared to a \$9 million tax benefit in 2009 due to Mexican currency translation and inflation adjustments; and

§

a \$16 million write-down of deferred tax assets related to other post employment benefits, as a result of a change in U.S. tax law that eliminates a future deduction, starting in 2013, for retiree healthcare funded by the Medicare Part D subsidy; **offset by**

§

higher tax deductions for self-developed software costs;

§

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

§

higher planned investment tax credits.

*SDG&E*

For the three months ended March 31, 2010, the decrease in SDG&E's effective tax rate was primarily due to:

§

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

§

higher deductions for self-developed software costs; and

§

lower state and local tax expense; **offset by**

§

a \$3 million write-down of deferred tax assets related to other post employment benefits, as a result of a change in U.S. tax law, as we discuss above.

*PE and SoCalGas*

For the three months ended March 31, 2010, the increase in PE s and SoCalGas effective tax rate was primarily due to:

§

a \$13 million write-down of deferred tax assets related to other post employment benefits, as a result of a change in U.S. tax law, as we discuss above; **offset by**

§

higher deductions for self-developed software costs; and

§

lower state and local tax expense.

NOTE 6. DEBT AND CREDIT FACILITIES

**COMMITTED LINES OF CREDIT**

At March 31, 2010, Sempra Energy Consolidated 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 March 31, 2010 was \$3.3 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, one 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 Energy*

Sempra Energy has a \$1 billion, three-year syndicated revolving credit agreement expiring in 2011.

Borrowings bear interest at benchmark rates plus a margin that varies with market index rates and Sempra Energy's credit ratings. At March 31, 2010, Sempra Energy had no outstanding borrowings under the facility.

### ***Sempra Global***

Sempra Global has a \$2.5 billion, three-year syndicated revolving credit agreement expiring in 2011. The facility also provides for issuance of up to \$300 million of letters of credit on behalf of Sempra Global with the amount of borrowings otherwise available under the facility reduced by the amount of outstanding letters of credit.

Sempra Energy guarantees Sempra Global's obligations under the credit facility. Borrowings bear interest at benchmark rates plus a margin that varies with market index rates and Sempra Energy's credit ratings. At March 31, 2010, Sempra Global had letters of credit of \$7 million outstanding and no outstanding borrowings under the facility. The facility provides support for \$727 million of commercial paper outstanding at March 31, 2010.

### ***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 for both utilities. It also provides for the issuance of letters of credit on behalf of each utility subject to a combined letter of credit commitment of \$200 million for both utilities. The amount of borrowings otherwise available under the facility is reduced by the amount of outstanding letters of credit.

Borrowings under the facility bear interest at benchmark rates plus a margin that varies with market index rates and the borrowing utility's credit rating. Each utility's obligations under the agreement are individual obligations, and a default by one utility would not constitute a default by the other utility or preclude borrowings by, or the issuance of letters of credit on behalf of, the other utility.

At March 31, 2010, 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 March 31, 2010. The facility also provides support for \$24 million of commercial paper outstanding at SDG&E at March 31, 2010. Available unused credit on these lines at March 31, 2010 was \$314 million at SDG&E and \$514 million at SoCalGas; SoCalGas' availability reflects the impact of SDG&E's use of the combined credit available on the line.

## **GUARANTEES**

### ***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 or, after the closing of the transaction we discuss in Note 4, to J.P. Morgan Ventures. 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 March 31, 2010 were \$745 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 \$853 million at March 31, 2010, 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 March 31, 2010, the gross market value of the borrowing base assets was \$2.26 billion. The facility will be reduced and end as the borrowing base assets are transferred to RBS as established by the joint venture agreement.

On February 16, 2010, Sempra Energy, RBS and the partnership entered into an agreement to sell certain businesses within the partnership. We discuss this transaction and related agreements affecting the partnership in Note 4.

### ***Other Guarantees***

Sempra Energy, Conoco Phillips (Conoco) and Kinder Morgan Energy Partners, L.P. (KMP) currently hold 25-percent, 25-percent and 50-percent ownership interests, respectively, in Rockies Express. Rockies Express operates a natural gas pipeline linking natural gas producing areas in the Rocky Mountain region to the upper Midwest and the eastern United States. Rockies Express had a \$2 billion, five-year credit facility expiring in 2011 that provided for revolving extensions of credit that were guaranteed by Sempra Energy, Conoco and KMP in proportion to their respective ownership percentages. In April 2010, this credit facility was reduced to \$200 million, and Sempra Energy, Conoco and KMP were released from their respective guarantor obligations. Rockies Express had no outstanding borrowings under this facility at March 31, 2010. Long-term debt of \$1.7 billion issued in March 2010 was used to pay down the credit facility; this new debt is not separately guaranteed by the partners.

### **WEIGHTED AVERAGE INTEREST RATES**

At March 31, 2010, the weighted average interest rate on the total short-term debt outstanding at Sempra Energy was 0.67 percent. At March 31, 2010, the weighted average interest rate on the total short-term debt outstanding at SDG&E was 0.17 percent. The weighted average interest rate on the total short-term debt outstanding at Sempra Energy was 0.79 percent at December 31, 2009.

### **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**

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.

We record all derivatives at fair value on the Condensed Consolidated Balance Sheets. We designate each derivative as 1) a cash flow hedge, 2) a fair value hedge, or 3) undesignated. Depending on the applicability of hedge accounting and, for the Sempra Utilities and other operations subject to regulatory accounting, 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. We classify cash flows from the settlements of derivative instruments as operating activities on the Condensed Statements of Consolidated Cash Flows.

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.

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SDG&E is allocated and may purchase congestion revenue rights (CRRs), which serve to reduce the regional electricity 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.

§

Sempra Generation uses natural gas and electricity instruments to market and optimize the earnings of its 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.

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Sempra LNG and Sempra Pipelines & Storage use natural gas derivatives to market and optimize the earnings of the liquefied natural gas 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 Pipelines & Storage's derivatives are either undesignated or are recorded as commodity costs that are offset by regulatory account balances and are recovered in rates. Sempra LNG's derivatives are undesignated and their impact on earnings is recorded in Sempra Global and Parent Revenues on the Condensed Consolidated Statements of Operations. 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 March 31, 2010 as follows:



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| Business Unit and Commodity              | Volume              |
|--|---------------------|
| Sempra Utilities:                        |                     |
| SDG&E:                                   |                     |
| Natural gas                              | 43 million MMBtu(1) |
| Congestion revenue rights                | 13 million MWh(2)   |
| SoCalGas - natural gas                   | 19 million MMBtu    |
| Sempra Global:                           |                     |
| Sempra LNG - natural gas                 | 8 million MMBtu     |
| Sempra Pipelines & Storage - natural gas | 1 million MMBtu     |
| Sempra Generation - electric power       | 1 million MWh       |
| <i>(1)Million British thermal units</i>  |                     |
| <i>(2)Megawatt hours</i>                 |                     |

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 rates 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 rates and to lower our overall costs of borrowing. We utilize interest rate swaps 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 may utilize interest rate swaps, 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, the use of interest rate derivatives is subject to certain regulatory constraints, and 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 amounts of our interest rate derivatives as of March 31, 2010 were:

| <i>(Dollars in millions)</i>  | March 31, 2010 |            |
|-------------------------------|----------------|------------|
|                               | Notional Debt  | Maturities |
| Sempra Energy Consolidated(1) | \$ 215-355     | 2011-2019  |
| SDG&E(1)                      | 285-372        | 2019       |
| SoCalGas                      | 150            | 2011       |

*(1) 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 March 31, 2010 and December 31, 2009:

**DERIVATIVE INSTRUMENTS ON THE CONDENSED CONSOLIDATED BALANCE SHEETS***(Dollars in millions)*

|   | March 31, 2010  |   |  |  |
|---|---|---|--|--|
|   | Current<br>assets:<br>Fixed-price<br>contracts<br>and other<br><br>derivatives(1) | Investments<br>and other<br>assets:<br><br>Sundry | Current<br>liabilities:<br>Fixed-price<br>contracts<br>and other<br><br>derivatives(2) | Deferred<br>credits<br>and other<br>liabilities:<br>Fixed-price<br>contracts<br>and other<br><br>derivatives |
| Derivatives designated as hedging instruments     |   |   |  |  |
| <b>Sempra Energy Consolidated:</b>                |   |   |  |  |
| Interest rate instruments                         | \$ 5  | \$ -  | \$ -   | \$ -   |
| Commodity contracts not subject to rate recovery  | 1   | -   | -  | -  |
| Total   | \$ 6  | \$ -  | \$ -   | \$ -   |
| <b>SoCalGas:</b>                                  |   |   |  |  |
| Interest rate instruments                         | \$ 5  | \$ -  | \$ -   | \$ -   |
| Commodity contracts not subject to rate recovery  | 1   | -   | -  | -  |
| Total   | \$ 6  | \$ -  | \$ -   | \$ -   |
| Derivatives not designated as hedging instruments |   |   |  |  |
| <b>Sempra Energy Consolidated:</b>                |   |   |  |  |
| Interest rate instruments(3)                      | \$ 9  | \$ 16   | \$ (25)  | \$ (40)  |
| Commodity contracts not subject to rate recovery  | 108   | 36  | (95)   | (45)   |
| Associated offsetting commodity contracts         | (55)  | (10)  | 55   | 10   |
| Commodity contracts subject to rate recovery      | 21  | 5   | (55)   | (25)   |
| Associated offsetting commodity contracts         | (47)  | (22)  | 47   | 22   |
| Total   | \$ 36   | \$ 25   | \$ (73)  | \$ (78)  |
| <b>SDG&amp;E:</b>                                 |   |   |  |  |
| Interest rate instruments(3)                      | \$ -  | \$ -  | \$ (17)  | \$ (30)  |
| Commodity contracts subject to rate recovery      | 15  | 5   | (44)   | (23)   |
| Associated offsetting commodity contracts         | (44)  | (22)  | 44   | 22   |
| Total   | \$ (29)   | \$ (17)   | \$ (17)  | \$ (31)  |
| <b>SoCalGas:</b>                                  |   |   |  |  |
| Commodity contracts subject to rate recovery      | \$ 6  | \$ -  | \$ (4)   | \$ -   |
| Associated offsetting commodity contracts         | (3)   | -   | 3  | -  |
| Total   | \$ 3  | \$ -  | \$ (1)   | \$ -   |



|   | December 31, 2009   |   |  |  |
|---|---|---|--|--|
|   | Current<br>assets:<br>Fixed-price<br>contracts<br>and other<br>derivatives(1) | Investments<br>and other<br>assets:<br>Sundry | Current<br>liabilities:<br>Fixed-price<br>contracts<br>and other<br>derivatives(2) | Deferred<br>credits<br>and other<br>liabilities:<br>Fixed-price<br>contracts<br>and other<br>derivatives |
| Derivatives designated as hedging instruments     |   |   |  |  |
| <b>Sempra Energy Consolidated:</b>                |   |   |  |  |
| Interest rate instruments                         | \$ 12   | \$ 2  | \$ -   | \$ -   |
| Commodity contracts not subject to rate recovery  | 1   | -   | -  | -  |
| Total   | \$ 13   | \$ 2  | \$ -   | \$ -   |
| <b>SoCalGas:</b>                                  |   |   |  |  |
| Interest rate instruments                         | \$ 6  | \$ 2  | \$ -   | \$ -   |
| Derivatives not designated as hedging instruments |   |   |  |  |
| <b>Sempra Energy Consolidated:</b>                |   |   |  |  |
| Interest rate instruments(3)                      | \$ 9  | \$ 15   | \$ (25)  | \$ (33)  |
| Commodity contracts not subject to rate recovery  | 74  | 30  | (64)   | (42)   |
| Associated offsetting commodity contracts         | (34)  | (6)   | 34   | 6  |
| Commodity contracts subject to rate recovery      | 20  | 7   | (20)   | (13)   |
| Associated offsetting commodity contracts         | (14)  | (9)   | 14   | 9  |
| Total   | \$ 55   | \$ 37   | \$ (61)  | \$ (73)  |
| <b>SDG&amp;E:</b>                                 |   |   |  |  |
| Interest rate instruments(3)                      | \$ -  | \$ -  | \$ (17)  | \$ (26)  |
| Commodity contracts subject to rate recovery      | 18  | 7   | (13)   | (9)  |
| Associated offsetting commodity contracts         | (13)  | (9)   | 13   | 9  |
| Total   | \$ 5  | \$ (2)  | \$ (17)  | \$ (26)  |
| <b>SoCalGas:</b>                                  |   |   |  |  |
| Commodity contracts subject to rate recovery      | \$ 2  | \$ -  | \$ (1)   | \$ -   |
| Associated offsetting commodity contracts         | (1)   | -   | 1  | -  |
| Total   | \$ 1  | \$ -  | \$ -   | \$ -   |

(1) Included in Current assets: Other for SoCalGas.

(2) Included in Current liabilities: Other for SoCalGas.

(3) Includes Otay Mesa VIE. All of SDG&E's amounts relate to Otay Mesa VIE.



The effects of derivative instruments designated as hedges on the Condensed Consolidated Statements of Operations for the three months ended March 31, 2010 and 2009 were:

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

*(Dollars in millions)*

|                                    |                   | Gain (loss) on derivative recognized in earnings |        |
|------------------------------------|-------------------|--|--------|
|                                    |                   | Three months ended March 31,                     |        |
| Location                           |                   | 2010   | 2009   |
| <b>Sempra Energy Consolidated:</b> |                   |  |        |
| Interest rate instruments(1)       | Interest Expense  | \$ 2   | \$ -   |
| Interest rate instruments          | Other Income, Net | (2)  | (6)    |
| Total                              |                   | \$ -   | \$ (6) |
| <b>SoCalGas:</b>                   |                   |  |        |
| Interest rate instrument(1)        | Interest Expense  | \$ 2   | \$ -   |
| Interest rate instrument           | Other Income, Net | (2)  | (2)    |
| Total                              |                   | \$ -   | \$ (2) |

*(1) 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 March 31, 2010

|  | 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                              | \$ -  |   | Interest Expense                                  | \$ (3) |
| Commodity contracts not<br>subject<br>to rate recovery | 1   |   | Equity Earnings: RBS<br>Sempra<br>Commodities LLP | 2      |
| Total  | \$ 1  |   |   | \$ (1) |
| <b>SDG&amp;E:</b>                                      |   |   |   |        |
| Interest rate instruments                              | \$ -  |   | Interest Expense                                  | \$ (2) |
| <b>SoCalGas:</b>                                       |   |   |   |        |
| Interest rate instruments                              | \$ -  |   | Interest Expense                                  | \$ (1) |

Three months ended March 31, 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                              | \$ (3)  |   | Interest Expense  | \$ (3) |
| Commodity contracts not<br>subject<br>to rate recovery | 11  |   | Revenues: Sempra<br>Global<br>and Parent                        | 17     |
| Commodity contracts not<br>subject<br>to rate recovery | (4)   |   | Cost of Natural Gas,<br>Electric<br>Fuel and Purchased<br>Power | (5)    |
| Commodity contracts not<br>subject<br>to rate recovery | -   |   | Equity Earnings: RBS<br>Sempra<br>Commodities LLP               | (9)    |
| Total  | \$ 4  |   |   | \$ -   |
| <b>SDG&amp;E:</b>                                      |   |   |   |        |
| Interest rate instruments                              | \$ -  |   | Interest Expense  | \$ (2) |
| <b>SoCalGas:</b>                                       |   |   |   |        |
| Interest rate instruments                              | \$ -  |   | Interest Expense  | \$ (1) |



Sempra Energy expects that losses of \$1 million, which are net of income tax expense, that are currently recorded in Accumulated Other Comprehensive Income (Loss) related to 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, is 26 months at March 31, 2010. The maximum term over which RBS Sempra Commodities hedges forecasted natural gas purchases and sales is 6 years.

SDG&E and SoCalGas expect that losses of \$7 million and \$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 on the Condensed Consolidated Statements of Operations for the three months ended March 31, 2010 and 2009 were:

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

(Dollars in millions)

|                                    |  | Gain (loss) on derivative recognized in earnings |         |
|------------------------------------|--|--|---------|
|                                    |  | Three months ended March 31,                     |         |
| Location                           |  | 2010   | 2009    |
| <b>Sempra Energy Consolidated:</b> |  |  |         |
| Interest rate instruments(1)       | Other Income, Net                                      | \$ (9)   | \$ 10   |
| Commodity contracts not subject    |  |  |         |
| to rate recovery                   | Revenues: Sempra Global and Parent                     | 15   | (16)    |
| Commodity contracts not subject    | Cost of Natural Gas, Electric Fuel and Purchased Power |  |         |
| to rate recovery                   |  | (6)  | 8       |
| Commodity contracts subject        | Cost of Electric Fuel and Purchased Power              |  |         |
| to rate recovery                   |  | (52)   | (49)    |
| Commodity contracts subject        | Cost of Natural Gas                                    |  |         |
| to rate recovery                   |  | (2)  | (1)     |
| Commodity contracts subject        | Cost of Natural Gas, Electric Fuel and Purchased Power |  |         |
| to rate recovery                   |  | (3)  | -       |
| Total                              |  | \$ (57)  | \$ (48) |
| <b>SDG&amp;E:</b>                  |  |  |         |
| Interest rate instruments(1)       | Other Income, Net                                      | \$ (9)   | \$ 10   |
| Commodity contracts subject        | Cost of Electric Fuel and Purchased Power              |  |         |
| to rate recovery                   |  | (52)   | (49)    |
| Total                              |  | \$ (61)  | \$ (39) |
| <b>SoCalGas:</b>                   |  |  |         |
| Commodity contracts subject        |  |  |         |
| to rate recovery                   | Cost of Natural Gas                                    | \$ (2)   | \$ (1)  |

(1) 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 March 31, 2010 is \$5 million. As of March 31, 2010, if the credit rating of Sempra Energy were reduced below investment grade, \$5 million of additional assets 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 March 31, 2010 and December 31, 2009:

**FAIR VALUE OF FINANCIAL INSTRUMENTS***(Dollars in millions)*

|  | March 31, 2010   |               | December 31, 2009  |               |
|--|--|---------------|--------------------|---------------|
|  | Carrying<br>Amount   | Fair<br>Value | Carrying<br>Amount | Fair<br>Value |
| <b>Sempra Energy Consolidated:</b>                   |  |               |                    |               |
| Investments in affordable housing<br>partnerships(1) | \$ 32  | \$ 61         | \$ 34              | \$ 59         |
| Total long-term debt(2)                              | 7,542  | 8,128         | 8,050              | 8,618         |
| Due to unconsolidated affiliate                      | 2  | 2             | 2                  | 2             |
| Preferred stock of subsidiaries                      | 179  | 162           | 179                | 156           |
| <b>SDG&amp;E:</b>                                    |  |               |                    |               |
| Total long-term debt(3)                              | \$ 2,672   | \$ 2,765      | \$ 2,672           | \$ 2,828      |
| Contingently redeemable preferred stock              | 79   | 76            | 79                 | 76            |
| <b>PE and SoCalGas:</b>                              |  |               |                    |               |
| Total long-term debt(4)                              | \$ 1,292   | \$ 1,354      | \$ 1,296           | \$ 1,382      |
| <b>PE:</b>   |  |               |                    |               |
| Preferred stock                                      | \$ 80  | \$ 66         | \$ 80              | \$ 61         |
| Preferred stock of subsidiary                        | 20   | 20            | 20                 | 19            |
|  | \$ 100   | \$ 86         | \$ 100             | \$ 80         |
| <b>SoCalGas:</b>                                     |  |               |                    |               |
| Preferred stock                                      | \$ 22  | \$ 21         | \$ 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 \$17 million at March 31, 2010 and December 31, 2009.</i>   |               |                    |               |
| (3)  | <i>Before reductions for unamortized discount of \$4 million at March 31, 2010 and December 31, 2009.</i>  |               |                    |               |
| (4)  | <i>Before reductions for unamortized discount of \$2 million at March 31, 2010 and December 31, 2009.</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. 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 SDG&E's 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 March 31, 2010:</b>        |        |                              |                               |                            |
| Debt securities                     |        |                              |                               |                            |
| U.S. government(1)                  | \$ 138 | \$ 12                        | \$ (2)                        | \$ 148                     |
| Municipal bonds(2)                  | 76     | 2                            | (2)                           | 76                         |
| Other securities(3)                 | 27     | 2                            | -                             | 29                         |
| Total debt securities               | 241    | 16                           | (4)                           | 253                        |
| Equity securities                   | 242    | 205                          | (4)                           | 443                        |
| Cash and cash equivalents           | 10     | -                            | -                             | 10                         |
| Total available-for-sale securities | \$ 493 | \$ 221                       | \$ (8)                        | \$ 706                     |
| <b>As of December 31, 2009:</b>     |        |                              |                               |                            |
| Debt securities                     |        |                              |                               |                            |
| U.S. government                     | \$ 141 | \$ 12                        | \$ (3)                        | \$ 150                     |
| Municipal bonds                     | 85     | 3                            | (3)                           | 85                         |
| Other securities                    | 12     | 1                            | -                             | 13                         |
| Total debt securities               | 238    | 16                           | (6)                           | 248                        |
| Equity securities                   | 238    | 188                          | (5)                           | 421                        |
| Cash and cash equivalents           | 9      | -                            | -                             | 9                          |
| Total available-for-sale securities | \$ 485 | \$ 204                       | \$ (11)                       | \$ 678                     |

*(1)Maturity dates are 2011-2039.**(2)Maturity dates are 2010-2057.**(3)Maturity dates are 2010-2049.*

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 March 31, |       |
|-----------------------|------------------------------|-------|
|                       | 2010                         | 2009  |
| Proceeds from sales   | \$ 40                        | \$ 39 |
| Gross realized gains  | 1                            | 3     |
| Gross realized losses | (2)                          | (17)  |

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 March 31, 2010 was \$99 million. The unrealized losses of \$8 million were primarily caused by a negative market environment in 2009. We do not consider these investments to be other than temporarily impaired as of March 31, 2010.

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

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 receivables that were not offset in the Condensed Consolidated Balance Sheets as of March 31, 2010 and December 31, 2009:

| <i>(Dollars in millions)</i> | March 31,<br>2010 | December 31,<br>2009 |
|------------------------------|-------------------|----------------------|
| Sempra Energy Consolidated   | \$ 32             | \$ 36                |
| SDG&E                        | 26                | 30                   |
| SoCalGas                     | 4                 | 5                    |

***Fair Value Hierarchy***

We discuss the valuation techniques and inputs we use to measure fair value and the definition of the three levels of the fair value hierarchy in Notes 1 and 2 of the Notes to Consolidated Financial Statements in the Annual Report. We have not changed the valuation techniques or inputs we use to measure fair value during the three months ended March 31, 2010.

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 March 31, 2010 and December 31, 2009. 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 fair value of commodity derivative assets and liabilities is determined in accordance with our netting policy, as discussed above under "Derivative Positions Net of Cash Collateral."

The determination of fair values, shown in the tables below, incorporates various factors, 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).

We discuss our financial assets and liabilities that were accounted for at fair value on a recurring basis further in Note 12 of the Notes to Consolidated Financial Statements in the Annual Report.





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

|  | At fair value as of March 31, 2010 |               |             |                      | Total         |
|--|------------------------------------|---------------|-------------|----------------------|---------------|
|  | Level 1                            | Level 2       | Level 3     | Collateral<br>Netted |               |
| <b>Assets:</b>                                   |                                    |               |             |                      |               |
| Nuclear decommissioning trusts(1)                |                                    |               |             |                      |               |
| Equity securities                                | \$ 443                             | \$ -          | \$ -        | \$ -                 | \$ 443        |
| Debt securities                                  | 112                                | 141           | -           | -                    | 253           |
| Total nuclear decommissioning trusts(1)          | 555                                | 141           | -           | -                    | 696           |
| Interest rate instruments                        | -                                  | 31            | -           | -                    | 31            |
| Commodity contracts subject to rate recovery     | 27                                 | 3             | 9           | -                    | 39            |
| Commodity contracts not subject to rate recovery | 7                                  | 80            | -           | (26)                 | 61            |
| Investments                                      | 16                                 | -             | -           | -                    | 16            |
| <b>Total</b>                                     | <b>\$ 605</b>                      | <b>\$ 255</b> | <b>\$ 9</b> | <b>\$ (26)</b>       | <b>\$ 843</b> |
| <b>Liabilities:</b>                              |                                    |               |             |                      |               |
| Interest rate instruments                        | \$ -                               | \$ 65         | \$ -        | \$ -                 | \$ 65         |
| Commodity contracts subject to rate recovery     | 57                                 | 11            | -           | (57)                 | 11            |
| Commodity contracts not subject to rate recovery | -                                  | 74            | -           | -                    | 74            |
| <b>Total</b>                                     | <b>\$ 57</b>                       | <b>\$ 150</b> | <b>\$ -</b> | <b>\$ (57)</b>       | <b>\$ 150</b> |

|  | At fair value as of December 31, 2009 |               |              |                      | Total         |
|--|---------------------------------------|---------------|--------------|----------------------|---------------|
|  | Level 1                               | Level 2       | Level 3      | Collateral<br>Netted |               |
| <b>Assets:</b>                                   |                                       |               |              |                      |               |
| Nuclear decommissioning trusts(1)                |                                       |               |              |                      |               |
| Equity securities                                | \$ 421                                | \$ -          | \$ -         | \$ -                 | \$ 421        |
| Debt securities                                  | 111                                   | 137           | -            | -                    | 248           |
| Total nuclear decommissioning trusts(1)          | 532                                   | 137           | -            | -                    | 669           |
| Interest rate instruments                        | -                                     | 38            | -            | -                    | 38            |
| Commodity contracts subject to rate recovery     | 32                                    | 3             | 10           | -                    | 45            |
| Commodity contracts not subject to rate recovery | 7                                     | 62            | -            | (40)                 | 29            |
| Investments                                      | 1                                     | -             | -            | -                    | 1             |
| <b>Total</b>                                     | <b>\$ 572</b>                         | <b>\$ 240</b> | <b>\$ 10</b> | <b>\$ (40)</b>       | <b>\$ 782</b> |
| <b>Liabilities:</b>                              |                                       |               |              |                      |               |
| Interest rate instruments                        | \$ -                                  | \$ 59         | \$ -         | \$ -                 | \$ 59         |
|  | 9                                     | 9             | -            | (9)                  | 9             |

Commodity contracts subject to  
rate recovery

Commodity contracts not subject  
to rate recovery

|       |    |   |    |     |    |   |    |     |    |     |
|-------|----|---|----|-----|----|---|----|-----|----|-----|
| Total | \$ | - | \$ | 65  | \$ | - | \$ | -   | \$ | 65  |
|       |    | 9 |    | 133 |    | - |    | (9) |    | 133 |

*(1) Excludes cash balances and  
cash equivalents.*

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

|  | At fair value as of March 31, 2010 |               |             |                      |               |  |
|--|------------------------------------|---------------|-------------|----------------------|---------------|--|
|  | Level 1                            | Level 2       | Level 3     | Collateral<br>Netted | Total         |  |
| <b>Assets:</b>                                   |                                    |               |             |                      |               |  |
| Nuclear decommissioning trusts(1)                |                                    |               |             |                      |               |  |
| Equity securities                                | \$ 443                             | \$ -          | \$ -        | \$ -                 | \$ 443        |  |
| Debt securities                                  | 112                                | 141           | -           | -                    | 253           |  |
| Total nuclear decommissioning trusts(1)          | 555                                | 141           | -           | -                    | 696           |  |
| Commodity contracts subject to rate recovery     | 24                                 | 2             | 9           | -                    | 35            |  |
| Commodity contracts not subject to rate recovery | 2                                  | -             | -           | -                    | 2             |  |
| <b>Total</b>                                     | <b>\$ 581</b>                      | <b>\$ 143</b> | <b>\$ 9</b> | <b>\$ -</b>          | <b>\$ 733</b> |  |
| <b>Liabilities:</b>                              |                                    |               |             |                      |               |  |
| Interest rate instruments                        | \$ -                               | \$ 47         | \$ -        | \$ -                 | \$ 47         |  |
| Commodity contracts subject to rate recovery     | 57                                 | 1             | -           | (57)                 | 1             |  |
| <b>Total</b>                                     | <b>\$ 57</b>                       | <b>\$ 48</b>  | <b>\$ -</b> | <b>\$ (57)</b>       | <b>\$ 48</b>  |  |

|  | At fair value as of December 31, 2009 |               |              |                      |               |  |
|--|---------------------------------------|---------------|--------------|----------------------|---------------|--|
|  | Level 1                               | Level 2       | Level 3      | Collateral<br>Netted | Total         |  |
| <b>Assets:</b>                                   |                                       |               |              |                      |               |  |
| Nuclear decommissioning trusts(1)                |                                       |               |              |                      |               |  |
| Equity securities                                | \$ 421                                | \$ -          | \$ -         | \$ -                 | \$ 421        |  |
| Debt securities                                  | 111                                   | 137           | -            | -                    | 248           |  |
| Total nuclear decommissioning trusts(1)          | 532                                   | 137           | -            | -                    | 669           |  |
| Commodity contracts subject to rate recovery     | 29                                    | 2             | 10           | -                    | 41            |  |
| Commodity contracts not subject to rate recovery | 1                                     | -             | -            | -                    | 1             |  |
| <b>Total</b>                                     | <b>\$ 562</b>                         | <b>\$ 139</b> | <b>\$ 10</b> | <b>\$ -</b>          | <b>\$ 711</b> |  |
| <b>Liabilities:</b>                              |                                       |               |              |                      |               |  |
| Interest rate instruments                        | \$ -                                  | \$ 43         | \$ -         | \$ -                 | \$ 43         |  |
| Commodity contracts subject to rate recovery     | 9                                     | -             | -            | (9)                  | -             |  |
| <b>Total</b>                                     | <b>\$ 9</b>                           | <b>\$ 43</b>  | <b>\$ -</b>  | <b>\$ (9)</b>        | <b>\$ 43</b>  |  |

*(1) Excludes cash balances and cash equivalents.*



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

|   | At fair value as of March 31, 2010 |         |         |                      | Total |
|---|------------------------------------|---------|---------|----------------------|-------|
|   | Level 1                            | Level 2 | Level 3 | Collateral<br>Netted |       |
| Assets:   |                                    |         |         |                      |       |
| Interest rate instruments                           | \$ -                               | \$ 5    | \$ -    | \$ -                 | \$ 5  |
| Commodity contracts subject to<br>rate recovery     | 3                                  | 1       | -       | -                    | 4     |
| Commodity contracts not<br>subject to rate recovery | 3                                  | -       | -       | -                    | 3     |
| Total   | \$ 6                               | \$ 6    | \$ -    | \$ -                 | \$ 12 |
| Liabilities:  |                                    |         |         |                      |       |
| Commodity contracts subject to<br>rate recovery     | \$ -                               | \$ 1    | \$ -    | \$ -                 | \$ 1  |

|   | At fair value as of December 31, 2009 |         |         |                      | Total |
|---|---------------------------------------|---------|---------|----------------------|-------|
|   | Level 1                               | Level 2 | Level 3 | Collateral<br>Netted |       |
| Assets:   |                                       |         |         |                      |       |
| Interest rate instruments                           | \$ -                                  | \$ 8    | \$ -    | \$ -                 | \$ 8  |
| Commodity contracts subject to<br>rate recovery     | 3                                     | 1       | -       | -                    | 4     |
| Commodity contracts not<br>subject to rate recovery | 3                                     | -       | -       | -                    | 3     |
| Total   | \$ 6                                  | \$ 9    | \$ -    | \$ -                 | \$ 15 |

There were no transfers in or out of Level 1 or Level 2 during the periods presented.

***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 for Sempra Energy Consolidated and SDG&E:

| <i>(Dollars in millions)</i>   | Three months ended March 31, |       |
|--|------------------------------|-------|
|  | 2010                         | 2009  |
| Balance as of January 1  | \$ 10                        | \$ 27 |
| Realized and unrealized losses   | (2)                          | -     |
| Purchases  | -                            | -     |
| Issuances  | -                            | -     |
| Settlements  | 1                            | -     |
| Balance as of March 31   | \$ 9                         | \$ 27 |
| Change in unrealized gains relating to<br>instruments still held at March 31 | \$ -                         | \$ -  |

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 SDG&E's congestion revenue rights and were included in Cost of Electric Fuel and Purchased Power on the Condensed Consolidated Statements of Operations for the three months ended March 31, 2010 and 2009.

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

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

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

In December 2008, the 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 \$1.9 billion, including approximately \$190 million for environmental mitigation costs. In January 2009, the BLM issued its decision approving the project, route and environmental review.

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 (Court of Appeal) challenging the decision on other legal grounds, which the Court of Appeal procedurally granted in March 2010. The UCAN/CBD appeal will be addressed by the California Supreme Court after the Court of Appeal rules on the first petition.

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

The same project opponents who filed the BLM appeal also filed a lawsuit in Federal District Court in Sacramento, California, for Declaratory and Injunctive Relief regarding Sunrise Powerlink. The complaint alleges that the BLM failed to properly assess the environmental impacts of the approved Sunrise Powerlink route and the related potential development of renewable resources in east San Diego County and Imperial County. The complaint requests a declaration that the BLM violated Federal law in approving Sunrise Powerlink and an injunction against any construction activities.

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

Sunrise Powerlink costs will be recovered in SDG&E's Electric Transmission Formula Rate, where SDG&E must demonstrate to the Federal Energy Regulatory Commission (FERC) that such costs were prudently incurred.

The CPUC decision requires SDG&E to adhere to certain commitments it made during the application process, as follows:

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not to contract, for any length of term, with conventional coal generators to deliver power via the Sunrise Powerlink;

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if any currently approved renewable energy contract that is deliverable via the Sunrise Powerlink fails, to replace it with a viable contract with a renewable generator located in the Imperial Valley region; and

§

voluntarily raise SDG&E's Renewables Portfolio Standard Program goal (discussed below under "Renewable Energy") to 33 percent by 2020.

SDG&E commenced procurement activities for the project in 2009, but before construction can begin, additional agency permits, including the ROD, must be obtained. The total amount invested by SDG&E in the Sunrise Powerlink project as of March 31, 2010 was \$289 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.

We provide additional information concerning Sunrise Powerlink in Note 15 of the Notes to Consolidated Financial Statements in the Annual Report.

### ***Renewable Energy***

Certain California electric retail sellers, including SDG&E, are required to deliver 20 percent of their retail energy sales 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 set a target for each California utility to procure 33 percent of their annual electric energy requirements from renewable energy sources starting no later than 2020. 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 for prior years, 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.

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 a CPUC-imposed penalty of 5 cents per kilowatt hour of renewable energy under-delivery up to a maximum penalty of \$25 million per year.

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

The CPUC uses a general rate case proceeding to prospectively set rates sufficient to allow the Sempra Utilities to recover their reasonable cost of operations and to provide the opportunity to realize an acceptable rate of return on their investment. The Sempra Utilities are scheduled to file their next rate case with the CPUC with a 2012 test year in the third quarter of 2010.

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 a petition with the CPUC to delay the filing of SDG&E's and SoCalGas' next GRC applications by one year. In April 2010, the CPUC issued a decision denying the joint petition and directing SDG&E and SoCalGas to follow their original GRC schedules.

### **UTILITY INCENTIVE MECHANISMS**

The CPUC applies performance-based measures and incentive mechanisms to all California utilities, under which the Sempra Utilities have earnings potential above authorized base margins if they achieve or exceed specific performance and operating goals.

We provide additional information regarding these incentive mechanisms in Note 15 of the Notes to Consolidated Financial Statements in the Annual Report, and updates below.

#### ***Energy Efficiency***

In December 2009, the CPUC awarded \$0.3 million and \$2.1 million to SDG&E and SoCalGas, respectively, for their performance during the 2006 – 2008 program period, and held back 35 percent of the awards pending a final true-up in 2010. In February 2010, the Sempra Utilities filed a petition with the CPUC to correct errors in the computation of the awards. If adopted, the changes would increase the awards by \$426,000 for SDG&E and \$1.3 million for SoCalGas, net of the 35% holdback.



The December 2009 decision also established a schedule for the 2010 incentive true-up. The schedule provides for the issuance of a draft verification report in second quarter 2010 and a final decision in third quarter 2010.

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

In January 2010, the CPUC approved a Gas Cost Incentive Mechanism award of \$12 million for SoCalGas procurement activities during the 12-month period ending March 31, 2009.

### **COST OF CAPITAL**

A 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.

In January 2010, the CPUC approved SDG&E's and the DRA's joint petition to delay SDG&E's next scheduled cost of capital application for two years. With this approval, SDG&E's next cost of capital application is scheduled to be filed in April 2012 for a 2013 test year, consistent with the schedule for cost of capital applications for each of Southern California Edison (Edison) and Pacific Gas and Electric (PG&E).

### **ADVANCED METERING INFRASTRUCTURE**

In April 2010, the CPUC issued a decision approving SoCalGas' application to upgrade approximately six million natural gas meters with an advanced metering infrastructure (AMI), subject to certain safeguards to better ensure its cost effectiveness for ratepayers. With these safeguards, the approved cost of the project is \$1.05 billion (including approximately \$900 million in capital investment), and SoCalGas will be subject to risk/reward sharing for costs above or below this amount. 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 which, if approved by the CPUC, would result in SDG&E recovering \$43 million. A formal settlement agreement is being finalized, but no specific filing date has been established.

SDG&E also incurred \$30.1 million of incremental costs for the replacement and repair of company facilities under FERC jurisdiction, which are currently being recovered in SDG&E's electric transmission rates.

We discuss recovery of 2007 wildfire litigation costs in Note 10.

### **INSURANCE COST RECOVERY**

SDG&E filed an application with the CPUC in August 2009 seeking authorization to recover higher liability insurance premiums and losses due to higher deductibles which SDG&E began incurring on July 1, 2009. Evidentiary hearings were held in April 2010 and a final CPUC decision is expected by the end of 2010. SDG&E made the filing under the CPUC's rules allowing utilities to seek recovery of significant cost increases incurred between GRC filings 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. In the three months ended March 31, 2010, SDG&E has expensed \$8 million (pretax) of incremental insurance premiums associated with its wildfire coverage.

## NOTE 10. COMMITMENTS AND CONTINGENCIES

### LEGAL PROCEEDINGS

We record loss reserves for legal proceedings when it is probable that a loss has been incurred and the amounts of the loss can be reasonably estimated. However, the uncertainties inherent 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 reserved amounts or exceed applicable insurance coverages and could materially adversely affect our business, cash flows, results of operations, and financial condition.

At March 31, 2010, Sempra Energy's reserves for legal proceedings, on a consolidated basis, were \$636 million, of which \$194 million is offset by an insurance receivable for wildfire litigation and \$139 million is for previously resolved matters. At March 31, 2010, SDG&E and SoCalGas had reserves of \$322 million (including the \$194 million offset) and \$12 million, respectively. We provide additional information about previously resolved matters in Note 17 of the Notes to Consolidated Financial Statements in the Annual Report.

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

In October 2007, San Diego County experienced several catastrophic wildfires. Reports issued by the California Department of Forestry and Fire Protection (Cal Fire) concluded that two of these 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 reported that the Rice fire burned approximately 9,500 acres and damaged 206 homes and two commercial properties, and the Witch and Guejito fires merged and eventually burned approximately 198,000 acres, resulting in two fatalities, approximately 40 firefighters injured and approximately 1,141 homes destroyed.

A September 2008 staff report issued by the CPUC's Consumer Protection and Safety Division reached substantially the same conclusions as the Cal Fire reports, but also contended 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. In November 2008, the CPUC initiated proceedings to determine if any of its rules were violated and in October 2009, SDG&E and the Consumer Protection and Safety Division entered into a settlement agreement, approved by the CPUC in April 2010, that resolves these proceedings by SDG&E's payment of \$14.75 million.

Numerous parties have sued SDG&E and Sempra Energy in San Diego County Superior Court seeking recovery of unspecified amounts of damages, including punitive damages, from the three fires. These include owners and insurers of properties that were destroyed or damaged in the fires and public entities seeking recovery of firefighting, emergency response, and environmental costs. They 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 property damages resulting from a wildfire ignited by

power lines. In June 2009, the trial court ruled that these claims must be pursued in individual lawsuits (rather than as class actions on behalf of all persons who incurred wildfire damages), and the plaintiffs have appealed that ruling. 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 and may file additional actions against other parties relating to the Witch and Rice fires.

SDG&E has settled substantially all of the 19,000 claims of homeowner insurers relating to the three fires, including claims for payment by the insurers to their policyholders for approximately 1,000 of the 1,300 houses, mobile homes, and apartment units identified in public records as having been destroyed. Under the settlement agreements, SDG&E has paid or will pay 57.5 percent of the approximately \$1.6 billion paid or reserved for payment by the insurers to their policyholders and received an assignment of the insurers' claims against Cox Communications and other parties potentially responsible for the fires.

The wildfire litigation also includes claims of non-insurer plaintiffs for damage to uninsured and underinsured structures, business interruption, evacuation expenses, agricultural damage, emotional harm, personal injuries and other losses. SDG&E has settled the claims of approximately 330 of these plaintiffs.

Of the approximately 2,100 remaining plaintiffs in the wildfire litigation, approximately 600 have thus far submitted settlement demands and damage estimates. Individual and business claims total approximately \$460 million and government entity claims total approximately \$165 million. SDG&E expects to receive additional settlement demands and damage estimates as settlement negotiations continue.

SDG&E has established reserves for its estimated cost of resolving the claims for economic damages of 800 plaintiffs. SDG&E does not currently have sufficient information to reasonably estimate the costs of resolving the claims of the other plaintiffs. SDG&E expects that its wildfire reserves and amounts paid to resolve wildfire claims will continue to increase as it obtains additional information. SDG&E is also unable to reasonably estimate the amount or timing of recoveries from other potentially responsible parties both in respect of the amounts that it has already expended to settle claims and amounts that it may expend in the future.

SDG&E has concluded that it is probable that it will be permitted to recover from its utility customers substantially all reasonably incurred costs of resolving wildfire claims in excess of its \$1.1 billion of liability insurance coverage and any amounts recovered from other potentially responsible parties. Accordingly, although recovery from utility customers will require future regulatory actions as we discuss in Note 9, SDG&E has recorded a regulatory asset in an amount substantially equal to the aggregate amount it has paid or reserved for payment for the resolution of wildfire claims and related costs in excess of its liability insurance coverage. SDG&E will increase the amount of the regulatory asset as additional amounts are paid or reserves are recorded and reduce it by any amounts recovered from other potentially responsible parties. As of March 31, 2010, the amount of the regulatory asset was \$107 million.

Consequently, Sempra Energy and SDG&E expect no significant earnings impact from the resolution of the remaining wildfire claims. However, SDG&E's cash flow will be adversely affected by timing differences between the resolution of claims and recoveries from other potentially responsible parties and utility customers, which may extend over a number of years. Also, recovery from customers will require future regulatory actions, and a failure to obtain recovery, or any negative assessment of the likelihood of recovery, would likely have a material adverse effect on Sempra Energy's and SDG&E's cash flows and results of operations.

SDG&E will continue to gather information to evaluate and assess the remaining wildfire claims and the likelihood, amount and timing of related recoveries from other potentially responsible parties and utility customers and will make appropriate adjustments to wildfire reserves and the related regulatory asset as additional information becomes available.

### *Energy Crisis Litigation*

Sempra Energy, RBS Sempra Commodities and Sempra Generation have reached an agreement in principle for a comprehensive settlement to resolve substantially all of the energy crisis litigation described below for a total payment of \$410 million. The matters to be resolved by the settlement would include the multiple actions brought by the DWR and other parties with respect to the validity, pricing and operation of Sempra Generation's contract with the DWR and the FERC refund and manipulation proceedings against RBS Sempra Commodities. Any settlement agreements would be subject to the approval of the FERC.

We describe the matters to be resolved below under "DWR Contract," "FERC Refund Proceedings," and "FERC Manipulation Investigation." We expect the settlement of \$410 million to be funded largely from previously recorded reserves and receivables at RBS Sempra Commodities. Sempra Energy has also recorded an additional pretax charge of \$159 million in the first quarter of 2010 to provide for the remainder of the settlement, including \$139 million at Sempra Generation and \$20 million at Sempra Commodities.

#### *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) and challenged the FERC's application of the Mobile-Sierra doctrine's "public interest" standard of review to the contracts. 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. The FERC has not yet acted.

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 the 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 claiming misrepresentation and breach of contract, and seeking rescission, damages, injunctive and declaratory relief, and \$100 million in punitive damages. After various procedural decisions and appeals, on November 30, 2009, a San Diego jury returned a verdict denying all of the DWR's claims and requested relief, and granting all of Sempra Generation's requested relief. The DWR has appealed the judgment.

In September 2008, the DWR initiated an arbitration proceeding against Sempra Generation, alleging that Sempra Generation had breached the parties' agreement in various operational respects, and violated the order issued by an earlier arbitration panel relating to the amount refunded to the DWR and the manner in which Sempra Generation operates. The DWR seeks approximately \$80 million in damages and an order terminating the contract. Arbitration hearings are scheduled for January 2011.

#### *FERC Refund Proceedings*

The FERC is investigating prices charged by various electric suppliers to buyers in the California Power Exchange (PX) and Independent System Operator (ISO) markets. In March 2003, the FERC ordered suppliers to pay refunds on certain sales made during the October 2, 2000 through June 20, 2001 time period.

Various parties, including Sempra Commodities, appealed the FERC's order to the Ninth Circuit Court of Appeals. In August 2006, the Ninth Circuit 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. The FERC is in the process of addressing these issues on remand.

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. The FERC has not yet acted on the court's order.

In a separate complaint filed with the FERC in 2002, the California Attorney General contended that 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 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. The FERC has not yet acted on the complaint.

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 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 and reaffirmed in November 2008. The California parties have appealed the FERC's orders to the Ninth Circuit Court of Appeals.

#### *Other Litigation*

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.

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.

### ***Wildfire Reserves and Insurance Receivables***

In 2009 and 2010, as liabilities for wildfire litigation have become reasonably estimable, SDG&E has recorded related reserves as a current liability. The impact of this liability is offset by a current receivable resulting from SDG&E's \$1.1 billion of liability insurance and, for reserves in excess of the insurance coverage, the recognition of a regulatory asset, as discussed above. There was no effect on SDG&E's or Sempra Energy's 2009 earnings and no significant effect on their 2010 earnings from the recording of the reserves. At March 31, 2010, wildfire litigation reserves were \$300 million and the receivable from SDG&E's insurers was \$194 million.

### **NUCLEAR INSURANCE**

SDG&E and the other owners of San Onofre Nuclear Generating Station (SONGS) have insurance to cover claims from nuclear liability incidents arising at SONGS. This insurance provides \$375 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 \$375 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*

In the first quarter of 2010, significant increases in commitments at Sempra Energy were

§

\$258 million for purchased-power contracts at SDG&E;

§

\$46 million at SDG&E for the engineering, material procurement and construction costs associated with the Sunrise Powerlink project;

§

\$24 million at Sempra Pipelines & Storage for natural gas contracts; and

§

\$18 million for construction and infrastructure improvements for gas transmission and distribution operations at SoCalGas.

The future payments for the contractual commitments listed above are expected to be \$72 million for 2010, \$52 million for 2011, \$43 million for 2012, \$36 million for 2013, \$36 million for 2014 and \$107 million thereafter.

Reserves for Sempra Energy and SDG&E wildfire litigation are discussed above in SDG&E 2007 Wildfire Litigation. Reserves for Sempra Energy related to the FERC and DWR contract settlement litigation are discussed above in Energy Crisis Litigation.

Changes to SoCalGas natural gas purchase and pipeline capacity commitments and Sempra LNG's natural gas purchase commitments are discussed below.

### *SDG&E*

In the first quarter of 2010, significant increases to contractual commitments at SDG&E were \$258 million for purchased-power contracts and \$46 million for the engineering, material procurement and construction costs associated with the Sunrise Powerlink project.

The future payments for these contractual commitments are expected to be \$36 million for 2010, \$46 million for 2011, \$43 million for 2012, \$36 million for 2013, \$36 million for 2014 and \$107 million thereafter.

### *SoCalGas*

In the first quarter of 2010, significant increases to contractual commitments at SoCalGas were \$18 million for construction and infrastructure improvements for gas transmission and distribution operations.

The future payments for these contractual commitments are expected to be \$12 million for 2010 and \$6 million for 2011.

SoCalGas natural gas purchase and pipeline capacity commitments have decreased by \$480 million since December 31, 2009. The decrease was primarily due to a reduction of \$627 million based on lower natural gas forward prices, offset by new natural gas purchase and pipeline capacity contracts of \$147 million. Net future payments are therefore expected to decrease by \$462 million for 2010 and \$18 million for 2011.

***LNG***

In the first quarter of 2010, Sempra LNG's commitments under the purchase agreements with Tangguh PSC Contractors and Ras Laffan Liquefied Natural Gas Company Limited decreased by \$515 million and \$378 million based on lower natural gas forward prices, respectively, since December 31, 2009. We discuss these agreements further in Note 17 of the Notes to Consolidated Financial Statements in the Annual Report.

The future payments under these agreements are expected to decrease by \$714 million for 2010, \$160 million for 2011, \$117 million for 2012, \$90 million for 2013, \$65 million for 2014 and increase by \$253 million thereafter.



NOTE 11. SEGMENT INFORMATION

We have six separately managed reportable segments, as follows:

1.

*SDG&E* provides electric service 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 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.

On February 16, 2010, Sempra Energy, RBS and the partnership entered into an agreement to sell certain businesses within the partnership. We discuss this transaction and related agreements affecting the partnership in Note 4 above and in Notes 4 and 20 of the Notes to Consolidated Financial Statements in the Annual Report.

4.

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

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.

6.

*Sempra LNG* develops, owns and operates receipt terminals for importing LNG, and has supply and marketing agreements to purchase LNG and sell natural gas.

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.

In the first quarter of 2010, Sempra LNG became a reportable segment. We have revised segment disclosures for 2009 to reflect this.

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.



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

|                                      | Three months ended March 31, |       |       |      |       |       |
|--------------------------------------|------------------------------|-------|-------|------|-------|-------|
|                                      | 2010                         |       |       | 2009 |       |       |
| <b>REVENUES</b>                      |                              |       |       |      |       |       |
| SDG&E                                | \$                           | 742   | 29 %  | \$   | 732   | 35 %  |
| SoCalGas                             |                              | 1,182 | 47    |      | 920   | 44    |
| Sempra Commodities                   |                              | 23    | 1     |      | 13    | 1     |
| Sempra Generation                    |                              | 295   | 12    |      | 297   | 14    |
| Sempra Pipelines & Storage           |                              | 110   | 4     |      | 132   | 6     |
| Sempra LNG                           |                              | 205   | 8     |      | 32    | 1     |
| Adjustments and eliminations         |                              | 3     | -     |      | -     | -     |
| Intersegment revenues                |                              | (26)  | (1)   |      | (18)  | (1)   |
| Total                                | \$                           | 2,534 | 100 % | \$   | 2,108 | 100 % |
| <b>INTEREST EXPENSE</b>              |                              |       |       |      |       |       |
| SDG&E                                | \$                           | 31    |       | \$   | 25    |       |
| SoCalGas                             |                              | 17    |       |      | 17    |       |
| Sempra Commodities                   |                              | 1     |       |      | 3     |       |
| Sempra Generation                    |                              | 4     |       |      | 4     |       |
| Sempra Pipelines & Storage           |                              | 9     |       |      | 7     |       |
| Sempra LNG                           |                              | 12    |       |      | 2     |       |
| All other                            |                              | 87    |       |      | 59    |       |
| Intercompany eliminations            |                              | (52)  |       |      | (35)  |       |
| Total                                | \$                           | 109   |       | \$   | 82    |       |
| <b>INTEREST INCOME</b>               |                              |       |       |      |       |       |
| SoCalGas                             | \$                           | -     |       | \$   | 1     |       |
| Sempra Generation                    |                              | 2     |       |      | 3     |       |
| Sempra Pipelines & Storage           |                              | 4     |       |      | 4     |       |
| All other                            |                              | 50    |       |      | 33    |       |
| Intercompany eliminations            |                              | (52)  |       |      | (35)  |       |
| Total                                | \$                           | 4     |       | \$   | 6     |       |
| <b>DEPRECIATION AND AMORTIZATION</b> |                              |       |       |      |       |       |
| SDG&E                                | \$                           | 92    | 44 %  | \$   | 77    | 42 %  |
| SoCalGas                             |                              | 75    | 36    |      | 72    | 39    |
| Sempra Generation                    |                              | 15    | 7     |      | 14    | 8     |
| Sempra Pipelines & Storage           |                              | 11    | 5     |      | 10    | 6     |
| Sempra LNG                           |                              | 12    | 6     |      | 6     | 3     |
| All other                            |                              | 5     | 2     |      | 4     | 2     |
| Total                                | \$                           | 210   | 100 % | \$   | 183   | 100 % |
| <b>INCOME TAX EXPENSE (BENEFIT)</b>  |                              |       |       |      |       |       |
| SDG&E                                | \$                           | 31    |       | \$   | 60    |       |
| SoCalGas                             |                              | 56    |       |      | 36    |       |
| Sempra Commodities                   |                              | (8)   |       |      | 37    |       |
| Sempra Generation                    |                              | (40)  |       |      | 12    |       |
| Sempra Pipelines & Storage           |                              | 6     |       |      | 12    |       |
| Sempra LNG                           |                              | 12    |       |      | (12)  |       |
| All other                            |                              | 1     |       |      | (36)  |       |
| Total                                | \$                           | 58    |       | \$   | 109   |       |



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

|  | Three months ended March 31, |        |       |      |        |       |
|--|------------------------------|--------|-------|------|--------|-------|
|  | 2010                         |        |       | 2009 |        |       |
| <b>EQUITY EARNINGS (LOSSES)</b>                        |                              |        |       |      |        |       |
| Earnings (losses) recorded before tax:                 |                              |        |       |      |        |       |
| Sempra Commodities                                     | \$                           | 7      |       | \$   | 153    |       |
| Sempra Pipelines & Storage                             |                              | 10     |       |      | 10     |       |
| All other  |                              | (2)    |       |      | (3)    |       |
| Total  | \$                           | 15     |       | \$   | 160    |       |
| Earnings recorded net of tax:                          |                              |        |       |      |        |       |
| Sempra Pipelines & Storage                             | \$                           | 19     |       | \$   | 16     |       |
| <b>EARNINGS (LOSSES)</b>                               |                              |        |       |      |        |       |
| SDG&E(1)   | \$                           | 83     | 78 %  | \$   | 99     | 31 %  |
| SoCalGas(1)  |                              | 65     | 61    |      | 59     | 19    |
| Sempra Commodities                                     |                              | (5)    | (4)   |      | 114    | 36    |
| Sempra Generation                                      |                              | (53)   | (50)  |      | 43     | 13    |
| Sempra Pipelines & Storage                             |                              | 38     | 36    |      | 37     | 12    |
| Sempra LNG   |                              | 32     | 30    |      | (7)    | (2)   |
| All other  |                              | (54)   | (51)  |      | (29)   | (9)   |
| Total  | \$                           | 106    | 100 % | \$   | 316    | 100 % |
| <b>EXPENDITURES FOR PROPERTY PLANT &amp; EQUIPMENT</b> |                              |        |       |      |        |       |
| SDG&E  | \$                           | 290    | 65 %  | \$   | 229    | 46 %  |
| SoCalGas   |                              | 114    | 26    |      | 112    | 23    |
| Sempra Generation                                      |                              | 4      | 1     |      | 3      | 1     |
| Sempra Pipelines & Storage                             |                              | 36     | 8     |      | 76     | 15    |
| Sempra LNG   |                              | 2      | -     |      | 71     | 15    |
| All other  |                              | -      | -     |      | 1      | -     |
| Total  | \$                           | 446    | 100 % | \$   | 492    | 100 % |
| <b>ASSETS</b>  |                              |        |       |      |        |       |
| SDG&E  | \$                           | 10,435 | 36 %  | \$   | 10,229 | 36 %  |
| SoCalGas   |                              | 7,432  | 26    |      | 7,287  | 25    |
| Sempra Commodities                                     |                              | 2,263  | 8     |      | 2,255  | 8     |
| Sempra Generation                                      |                              | 2,196  | 7     |      | 2,048  | 7     |
| Sempra Pipelines & Storage                             |                              | 4,588  | 16    |      | 4,485  | 16    |
| Sempra LNG   |                              | 2,245  | 8     |      | 2,277  | 8     |
| All other  |                              | 544    | 2     |      | 596    | 2     |
| Intersegment receivables                               |                              | (931)  | (3)   |      | (665)  | (2)   |
| Total  | \$                           | 28,772 | 100 % | \$   | 28,512 | 100 % |
| <b>INVESTMENTS IN EQUITY METHOD INVESTEEES</b>         |                              |        |       |      |        |       |
| Sempra Commodities                                     | \$                           | 2,178  |       | \$   | 2,172  |       |
| Sempra Generation                                      |                              | 429    |       |      | 434    |       |
| Sempra Pipelines & Storage                             |                              | 1,479  |       |      | 1,429  |       |
| All other  |                              | 20     |       |      | 21     |       |
| Total  | \$                           | 4,106  |       | \$   | 4,056  |       |

*(1) 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 2009 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:

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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 serving as a holding company for SoCalGas.

Below are the summary descriptions of our operating business units.

### **SEMPRA ENERGY BUSINESS UNITS**

The Sempra Utilities consist of SDG&E and SoCalGas.

### **SEMPRA UTILITIES**

### **MARKET**

### **SERVICE TERRITORY**

§



|  |   |   |
|--|---|---|
| <b>SAN DIEGO GAS &amp; ELECTRIC COMPANY (SDG&amp;E)</b>  | Provides electricity to 3.5 million consumers (1.4 million meters)                                | Serves the county of San Diego, CA and an adjacent portion of southern Orange County covering 4,100 square miles  |
| A regulated public utility; infrastructure supports electric generation, transmission and distribution, and natural gas distribution | §<br><br>Provides natural gas to 3.2 million consumers (845,000 meters)                           |   |
| <b>SOUTHERN CALIFORNIA GAS COMPANY (SOCALGAS)</b>  | §<br><br>Residential, commercial, industrial, utility electric generation and wholesale customers | 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 |
| A regulated public utility; infrastructure supports natural gas distribution, transmission and storage                               | §<br><br>Covers a population of 20.7 million (5.8 million meters)                                 |   |

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>SEMPRA GLOBAL</b>  | <b>MARKET</b>                                 | <b>GEOGRAPHIC REGION</b> |
|---|---|--------------------------|
| <b>SEMPRA COMMODITIES</b>   | §   | §                        |
| Holds an interest in RBS Sempra Commodities LLP, a commodities-marketing business joint venture with The Royal Bank of Scotland (RBS) | Natural gas; natural gas liquids<br><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            | U.S.A.    |
|  |                                  | §         |
|  |                                  | Mexico    |
| <b>SEMPRA PIPELINES &amp; STORAGE</b>  | §                                | §         |
| Develops, owns and operates, or holds interests in, natural gas pipelines and storage facilities, and natural gas and electric service providers | Natural gas                      | U.S.A.    |
|  | §                                | §         |
|  | Electricity                      | Mexico    |
|  |                                  | §         |
|  |                                  | Argentina |
|  |                                  | §         |
|  |                                  | Chile     |
|  |                                  | §         |
|  |                                  | Peru      |
| <b>SEMPRA LNG</b>  | §                                | §         |
| Develops, owns and operates receipt terminals for importation of liquefied natural gas (LNG) and sale of natural gas                             | Liquefied natural gas            | U.S.A.    |
|  | §                                | §         |
|  | Natural gas                      | Mexico    |



## RESULTS OF OPERATIONS

We discuss the following in Results of Operations:

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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 March 31, 2010, our earnings decreased by \$210 million (66%) to \$106 million primarily due to losses at Sempra Commodities in 2010 compared to earnings in 2009, and litigation expense recorded in 2010 at Sempra Generation and Sempra Commodities related to the agreement in principle to settle certain energy crisis litigation, as we discuss in Note 10 of the Notes to Condensed Consolidated Financial Statements herein. This litigation expense was \$12 million and \$84 million, after tax, at Sempra Commodities and Sempra Generation, respectively. Diluted earnings per share for the three months decreased by \$0.87 (67%) per share, primarily from the lower earnings in 2010.

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

**SEMPRA ENERGY EARNINGS (LOSSES) BY BUSINESS UNIT**

*(Dollars in millions)*

|                            | Three months ended March 31, |      |       |    |      |       |
|----------------------------|------------------------------|------|-------|----|------|-------|
|                            | 2010                         |      | 2009  |    |      |       |
| Sempra Utilities:          |                              |      |       |    |      |       |
| SDG&E(1)                   | \$                           | 83   | 78 %  | \$ | 99   | 31 %  |
| SoCalGas(1)                |                              | 65   | 61    |    | 59   | 19    |
| Sempra Global:             |                              |      |       |    |      |       |
| Sempra Commodities         |                              | (5)  | (4)   |    | 114  | 36    |
| Sempra Generation          |                              | (53) | (50)  |    | 43   | 13    |
| Sempra Pipelines & Storage |                              | 38   | 36    |    | 37   | 12    |
| Sempra LNG                 |                              | 32   | 30    |    | (7)  | (2)   |
| Parent and other(2)        |                              | (54) | (51)  |    | (29) | (9)   |
| Earnings                   | \$                           | 106  | 100 % | \$ | 316  | 100 % |

(1) *After preferred dividends.*

(2) *Includes after-tax interest expense (\$38 million for the three months ended March 31, 2010 and \$34 million for the three months ended March 31, 2009), 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.

**EARNINGS BY BUSINESS UNIT -- SEMPRA UTILITIES**

*(Dollars in millions)*

***SDG&E***

SDG&E business unit earnings were

§

\$83 million in the first three months of 2010 (\$84 million before preferred dividends)

§

\$99 million in the first three months of 2009 (\$100 million before preferred dividends)

The decrease of \$16 million (16%) was due to:

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\$9 million net unfavorable impact from an increase in litigation reserves in 2010 compared to the favorable resolution of litigation in 2009;

§

\$5 million higher liability insurance premiums for wildfire coverage; and

§

\$3 million due to the write-down of deferred tax assets as a result of the change in U.S. tax law regarding the Medicare Part D subsidy, which we discuss in "Changes in Revenues, Costs and Earnings - Income Taxes" below and in Note 5 of the Notes to Condensed Consolidated Financial Statements herein.

***SoCalGas***

SoCalGas business unit earnings were

§

\$65 million in the first three months of 2010 (both before and after preferred dividends)

§

\$59 million in the first three months of 2009 (both before and after preferred dividends)

The increase of \$6 million (10%) was due to:

§

\$9 million higher CPUC authorized margin;

§

\$3 million higher regulatory awards;

§

\$3 million from a lower effective tax rate in 2010, excluding a \$13 million write-down of deferred tax assets associated with the Medicare Part D subsidy, discussed below; and

§

\$2 million lower net bad debt expense; **offset by**

§

\$13 million due to the write-down of deferred tax assets as a result of the change in U.S. tax law regarding the Medicare Part D subsidy, which we discuss in "Changes in Revenues, Costs and Earnings - Income Taxes" below and in Note 5 of the Notes to Condensed Consolidated Financial Statements herein.

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

*(Dollars in millions)*



***Sempra Commodities***

Sempra Commodities recorded business unit (losses) earnings of:

§

\$(5) million in the first three months of 2010

§

\$114 million in the first three months of 2009

The loss in 2010 was primarily due to lower equity earnings from the RBS Sempra Commodities LLP joint venture, offset by a \$2 million increase in earnings at Sempra Rockies Marketing. The joint venture's earnings in 2010 were negatively impacted by lower results from crude oil and oil products and by higher retention costs. Also, in the first quarter of 2010, Sempra Commodities recorded litigation expense of \$12 million after tax related to energy crisis litigation, as we discuss in Note 10 of the Notes to Condensed Consolidated Financial Statements herein.

***Sempra Generation***

Sempra Generation recorded business unit (losses) earnings of:

§

\$(53) million in the first three months of 2010

§

\$43 million in the first three months of 2009

The change in 2010 was due to:

§

litigation expense of \$84 million related to an agreement in principle to settle energy crisis litigation associated with the DWR contract, as we discuss in Note 10 of the Notes to Condensed Consolidated Financial Statements herein; and

§

lower earnings from operations of \$12 million, primarily from increased scheduled plant maintenance and associated down time in 2010.

***Sempra Pipelines & Storage***

Sempra Pipelines & Storage recorded business unit earnings of:

§

\$38 million in the first three months of 2010

§

\$37 million in the first three months of 2009

The increase of \$1 million (3%) was primarily due to:

§

\$6 million higher earnings due to foreign currency exchange-rate effects, primarily from its investments in Chile;  
**offset by**

§

\$4 million lower earnings from storage operations, primarily due to mark-to-market losses on optimization activities.

***Sempra LNG***

Sempra LNG recorded earnings (losses) of:

§

\$32 million in the first three months of 2010

§

\$(7) million in the first three months of 2009

The increase in earnings of \$39 million was primarily from higher earnings from operations, of which \$11 million relates to revenues that are not expected to recur over the long-term related to contractual counterparty obligations for non-delivery of cargoes. Results for 2010 also include \$7 million mark-to-market gains.

***Parent and Other***

Losses for Parent and Other were

§

\$54 million in the first three months of 2010

§

\$29 million in the first three months of 2009

The increase in losses of \$25 million (86%) was due to:

§

\$30 million higher income tax expense, primarily due to \$10 million tax expense in 2010 compared to \$7 million tax benefit in 2009 related to Mexican currency translation and inflation adjustments; and

§

\$8 million higher net interest expense; **offset by**

§

\$3 million investment gains in 2010 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 2009. These amounts are net of the change in deferred compensation liability associated with the investments.

### **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 buying natural gas for its core customers at prices below or above market-based monthly benchmarks. This 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 three-month periods ended March 31. The Sempra Energy Consolidated 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. In addition to the change in market prices, the average cost of natural gas recorded during a period is impacted by the difference between customer billings and recorded or CPUC-authorized costs. These differences are required to be balanced over time, resulting in over- and undercollected regulatory balancing accounts.

### **SEMPRA ENERGY CONSOLIDATED NATURAL GAS SALES AND TRANSPORTATION**

*(Volumes in billion cubic feet, dollars in millions)*

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| Customer class             | Natural Gas Sales |          | Transportation |         | Total   |         |
|----------------------------|-------------------|----------|----------------|---------|---------|---------|
|                            | Volumes           | Revenue  | Volumes        | Revenue | Volumes | Revenue |
| 2010:                      |                   |          |                |         |         |         |
| Residential                | 97                | \$ 980   | 1              | \$ 1    | 98      | \$ 981  |
| Commercial and industrial  | 35                | 289      | 68             | 62      | 103     | 351     |
| Electric generation plants | -                 | -        | 41             | 11      | 41      | 11      |
| Wholesale                  | -                 | -        | 7              | 1       | 7       | 1       |
|                            | 132               | \$ 1,269 | 117            | \$ 75   | 249     | 1,344   |
| Other revenues             |                   |          |                |         |         | 25      |
| Balancing accounts(1)      |                   |          |                |         |         | (19)    |
| Total                      |                   |          |                |         | \$      | 1,350   |
| 2009:                      |                   |          |                |         |         |         |
| Residential                | 95                | \$ 851   | -              | \$ 1    | 95      | \$ 852  |
| Commercial and industrial  | 36                | 264      | 66             | 51      | 102     | 315     |
| Electric generation plants | -                 | -        | 55             | 14      | 55      | 14      |
| Wholesale                  | -                 | -        | 7              | 2       | 7       | 2       |
|                            | 131               | \$ 1,115 | 128            | \$ 68   | 259     | 1,183   |
| Other revenues             |                   |          |                |         |         | 24      |
| Balancing accounts(1)      |                   |          |                |         |         | (116)   |
| Total                      |                   |          |                |         | \$      | 1,091   |

(1) 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 March 31, 2010, our natural gas revenues increased by \$259 million (24%) to \$1.4 billion, and the cost of natural gas increased by \$218 million (40%) to \$758 million, due primarily to higher natural gas prices in 2010. We discuss the increase in the cost of natural gas individually for SDG&E and SoCalGas below.

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

| Customer class             | Natural Gas Sales |         | Transportation |         | Total   |         |
|----------------------------|-------------------|---------|----------------|---------|---------|---------|
|                            | Volumes           | Revenue | Volumes        | Revenue | Volumes | Revenue |
| 2010:                      |                   |         |                |         |         |         |
| Residential                | 12 \$             | 135     | - \$           | -       | 12 \$   | 135     |
| Commercial and industrial  | 4                 | 36      | 2              | 3       | 6       | 39      |
| Electric generation plants | -                 | -       | 6              | 2       | 6       | 2       |
|                            | 16 \$             | 171     | 8 \$           | 5       | 24      | 176     |
| Other revenues             |                   |         |                |         |         | 9       |
| Balancing accounts         |                   |         |                |         |         | (6)     |
| Total                      |                   |         |                |         | \$      | 179     |
| 2009:                      |                   |         |                |         |         |         |
| Residential                | 11 \$             | 127     | - \$           | -       | 11 \$   | 127     |
| Commercial and industrial  | 5                 | 37      | 2              | 3       | 7       | 40      |
| Electric generation plants | -                 | -       | 17             | 5       | 17      | 5       |
|                            | 16 \$             | 164     | 19 \$          | 8       | 35      | 172     |
| Other revenues             |                   |         |                |         |         | 8       |
| Balancing accounts         |                   |         |                |         |         | (1)     |
| Total                      |                   |         |                |         | \$      | 179     |

During the three months ended March 31, 2010, SDG&E's natural gas revenues remained the same, while the cost of natural gas increased by \$2 million (2%) to \$89 million compared with the corresponding period in 2009. The average cost of natural gas for the three months ended March 31, 2010 was \$5.50 per thousand cubic feet (Mcf) compared to \$5.25 per Mcf for the corresponding period in 2009, a 5-percent increase of \$0.25 per Mcf, resulting in higher revenues and cost of \$4 million.

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

| Customer class             | Natural Gas Sales |         | Transportation |         | Total   |         |
|----------------------------|-------------------|---------|----------------|---------|---------|---------|
|                            | Volumes           | Revenue | Volumes        | Revenue | Volumes | Revenue |
| 2010:                      |                   |         |                |         |         |         |
| Residential                | 85 \$             | 845     | 1 \$           | 1       | 86 \$   | 846     |
| Commercial and industrial  | 31                | 253     | 66             | 59      | 97      | 312     |
| Electric generation plants | -                 | -       | 35             | 9       | 35      | 9       |
| Wholesale                  | -                 | -       | 44             | 4       | 44      | 4       |
|                            | 116 \$            | 1,098   | 146 \$         | 73      | 262     | 1,171   |
| Other revenues             |                   |         |                |         |         | 24      |
| Balancing accounts         |                   |         |                |         |         | (13)    |
| Total(1)                   |                   |         |                |         | \$      | 1,182   |
| 2009:                      |                   |         |                |         |         |         |
| Residential                | 84 \$             | 724     | - \$           | 1       | 84 \$   | 725     |
| Commercial and industrial  | 31                | 227     | 64             | 48      | 95      | 275     |
| Electric generation plants | -                 | -       | 38             | 9       | 38      | 9       |
| Wholesale                  | -                 | -       | 40             | 4       | 40      | 4       |
|                            | 115 \$            | 951     | 142 \$         | 62      | 257     | 1,013   |
| Other revenues             |                   |         |                |         |         | 22      |
| Balancing accounts         |                   |         |                |         |         | (115)   |
| Total(1)                   |                   |         |                |         | \$      | 920     |

(1) Includes sales to affiliates of \$11 million in 2010 and \$8 million in 2009.

During the three months ended March 31, 2010, SoCalGas' natural gas revenues increased by \$262 million (28%) to \$1.2 billion, and the cost of natural gas increased by \$219 million (48%) to \$674 million. The increase in revenues was primarily due to:

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the increase in cost of natural gas, which was caused primarily by higher natural gas prices, as we discuss below;

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\$13 million higher authorized base margin in accordance with the CPUC's 2008 GRC decision; and

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\$13 million higher recovery of CPUC-authorized costs, which revenues are fully offset in operation and maintenance expenses.

The average cost of natural gas for the three months ended March 31, 2010 was \$5.81 per Mcf compared to \$3.95 per Mcf for the corresponding period in 2009, a 47-percent increase of \$1.86 per Mcf, resulting in higher revenues and cost of \$215 million.

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

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 March 31, 2010, electric revenues increased by \$11 million (2%) to \$562 million at Sempra Energy and by \$10 million (2%) to \$563 million at SDG&E, while the cost of electric fuel and purchased power decreased by \$23 million (13%) to \$148 million.

The cost of electric fuel and purchased power decreased by \$19 million due to a decrease in the amount of power purchased from third-party generators as a result of the start up of new power generation at Otay Mesa VIE, which commenced commercial operations in the fourth quarter of 2009. The lower cost of electric fuel and purchased power is primarily offset by operating costs and depreciation for Otay Mesa VIE.

**ELECTRIC DISTRIBUTION AND TRANSMISSION***(Volumes in millions of kilowatt-hours, dollars in millions)*

| Customer class                     | 2010    |         | 2009    |         |
|------------------------------------|---------|---------|---------|---------|
|                                    | Volumes | Revenue | Volumes | Revenue |
| <b>Sempra Energy Consolidated:</b> |         |         |         |         |
| Residential                        | 1,913   | \$ 276  | 1,927   | \$ 269  |
| Commercial                         | 1,595   | 200     | 1,665   | 204     |
| Industrial                         | 524     | 56      | 545     | 58      |
| Direct access                      | 720     | 25      | 740     | 25      |
| Street and highway lighting        | 23      | 3       | 27      | 3       |
|                                    | 4,775   | 560     | 4,904   | 559     |
| Other revenues                     |         | 29      |         | 36      |
| Balancing accounts                 |         | (27)    |         | (44)    |
| Total                              |         | \$ 562  |         | \$ 551  |
| <b>SDG&amp;E:</b>                  |         |         |         |         |
| Residential                        | 1,913   | \$ 276  | 1,927   | \$ 269  |
| Commercial                         | 1,595   | 200     | 1,665   | 204     |
| Industrial                         | 527     | 56      | 548     | 58      |
| Direct access                      | 720     | 25      | 740     | 25      |
| Street and highway lighting        | 23      | 3       | 27      | 3       |
|                                    | 4,778   | 560     | 4,907   | 559     |
| Other revenues                     |         | 30      |         | 38      |
| Balancing accounts                 |         | (27)    |         | (44)    |
| Total(1)                           |         | \$ 563  |         | \$ 553  |

*(1) Includes sales to affiliates of \$1 million in 2010 and \$2 million in 2009.*

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 March 31, 2010, our Sempra Global and Parent revenues increased by \$156 million (33%) to \$622 million. The increase included \$173 million higher revenues at Sempra LNG, primarily due to increased marketing operations and the start up of operations at its Cameron LNG receipt terminal. The increase was partially offset by \$22 million lower revenues at Sempra Pipelines & Storage due to the completion of the Comisión Federal de Electricidad (CFE) contract. At the completion of the contract, Sempra LNG began supplying the CFE under a separate contract ending December 2022.

During the three months ended March 31, 2010, our cost of natural gas, electric fuel and purchased power increased by \$70 million (26%) to \$338 million primarily associated with the higher revenues at Sempra LNG, offset partially by lower costs at Sempra Pipelines & Storage resulting primarily from the completion of the CFE contract.

***Litigation Expense***



We recorded \$168 million in litigation expense in the three months ended March 31, 2010 compared to a favorable litigation adjustment of \$7 million in the corresponding period of 2009. The litigation expense in 2010 included \$159 million related to the agreement in principle to settle certain energy crisis litigation.

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

#### *Sempra Energy Consolidated*

For the three months ended March 31, 2010, our other operation and maintenance expenses increased by \$53 million (10%) to \$576 million. The increase included higher operation and maintenance expenses at SDG&E, which we discuss below, of \$36 million (which excludes the \$15 million of higher litigation expense separately reported as Litigation Expense on the Sempra Energy Condensed Consolidated Statements of Operations), and \$11 million at SoCalGas, primarily due to higher recoverable expenses.

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

#### *SDG&E*

For the three months ended March 31, 2010, SDG&E's operation and maintenance expenses increased by \$51 million (28%) to \$232 million. The increase was due to:

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\$22 million higher other operational and maintenance costs, including \$8 million of higher liability insurance premiums for wildfire coverage and \$4 million at Otay Mesa VIE due to commencement of plant operation in October 2009;

§

\$14 million higher recoverable expenses; and

§

\$15 million higher litigation expense, primarily from an increase in litigation reserves in 2010 compared to the favorable resolution of litigation in 2009.

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

#### *Sempra Energy Consolidated*

In the three months ended March 31, 2010 and 2009, the pretax equity earnings from our investment in RBS Sempra Commodities were \$7 million and \$153 million, respectively. We provide additional information about the determination and allocation of this investment's earnings in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

### ***Interest Expense***

#### *Sempra Energy Consolidated*

During the three months ended March 31, 2010, our interest expense increased by \$27 million (33%) to \$109 million. The increase was primarily due to:

\$  
 \$22 million higher interest expense, primarily from long-term debt issued in 2009; and

\$  
 \$14 million lower capitalized interest, including \$11 million at Sempra LNG due to completion of construction projects; **offset by**

\$  
 \$9 million lower short-term debt interest expense, primarily from lower commercial paper borrowings and lower interest rates at Parent and Other.

***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)*

|                            | Three months ended March 31, |                                 |                          |                                 |
|----------------------------|------------------------------|---------------------------------|--------------------------|---------------------------------|
|                            | 2010                         |                                 | 2009                     |                                 |
|                            | Income<br>Tax<br>Expense     | Effective<br>Income<br>Tax Rate | Income<br>Tax<br>Expense | Effective<br>Income<br>Tax Rate |
| Sempra Energy Consolidated | \$ 58                        | 42 %                            | \$ 109                   | 26 %                            |
| SDG&E                      | 31                           | 29                              | 60                       | 36                              |
| PE                         | 57                           | 47                              | 36                       | 38                              |
| SoCalGas                   | 56                           | 46                              | 36                       | 38                              |

*Sempra Energy Consolidated*

In the three months ended March 31, 2010, Sempra Energy's income tax expense decreased by \$51 million (47%) primarily due to lower pretax income, partially offset by a higher effective income tax rate. The higher effective income tax rate was primarily due to:

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lower pretax income in countries with lower statutory rates;

§

\$12 million tax expense in 2010 compared to a \$9 million tax benefit in 2009 due to Mexican currency translation and inflation adjustments; and

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a \$16 million write-down of deferred tax assets related to other post employment benefits, as a result of a change in U.S. tax law that eliminates a future deduction, starting in 2013, for retiree healthcare funded by the Medicare Part D subsidy; **offset by**

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higher tax deductions for self-developed software costs;

§

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

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higher planned investment tax credits.

*SDG&E*

In the three months ended March 31, 2010, SDG&E's income tax expense decreased by \$29 million (48%) primarily from lower pretax income and a lower effective income tax rate resulting primarily from:

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

§

higher deductions for self-developed software costs; and

§

lower state and local tax expense; **offset by**

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a \$3 million write-down of deferred tax assets related to other post employment benefits, as a result of a change in U.S. tax law, as we discuss above.

*PE and SoCalGas*

In the three months ended March 31, 2010, income tax expense increased by \$21 million (58%) at PE and \$20 million (56%) at SoCalGas primarily due to higher pretax income and a higher effective income tax rate resulting primarily from:

§

a \$13 million write-down of deferred tax assets related to other post employment benefits, as a result of a change in U.S. tax law, as we discuss above; **offset by**

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higher deductions for self-developed software costs; and

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lower state and local tax expense.

*Losses (Earnings) Attributable to Noncontrolling Interests*

*Sempra Energy Consolidated*

At both Sempra Energy Consolidated and SDG&E, losses attributable to noncontrolling interests were \$8 million in the three months ended March 31, 2010 compared to earnings of \$7 million in the corresponding period of 2009. The change was primarily due to \$9 million in losses on interest rate swaps in 2010 at Otay Mesa VIE compared to \$10 million in gains 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. In addition, we may meet our cash requirements through the issuance of short-term and long-term debt and the expected proceeds from the transaction to sell certain businesses within RBS Sempra Commodities, as we discuss below.

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 an 11-percent share in any agreement.

The table below shows the amount of available funds at March 31, 2010:

**AVAILABLE FUNDS AT MARCH 31, 2010**

*(Dollars in millions)*

|  | Sempra Energy<br>Consolidated | SDG&E | PE/SoCalGas |
|--|-------------------------------|-------|-------------|
| Unrestricted cash and cash equivalents | \$ 222                        | \$ 14 | \$ 180      |
| Available unused credit(1)             | 3,276                         | 314   | 514         |

(1) *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, variable-rate demand notes outstanding of \$237 million and commercial paper of \$24 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 Consolidated***

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

§

fund shareholder dividends

§

fund any new business acquisitions or start-ups

As we discuss in Note 4 of the Notes to Condensed Consolidated Financial Statements herein, RBS Sempra Commodities has entered into an agreement to sell certain of its businesses in a transaction scheduled to close in summer 2010. We estimate the proceeds that we receive from this transaction will approximate \$835 million, excluding undistributed partnership earnings through November 2009. We may use the proceeds to fund growth opportunities, to reduce debt or, if we exit the business entirely, for a possible repurchase of our common shares.

Both Sempra Energy and SDG&E issued long-term debt in 2009. 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 postretirement benefits, and nuclear decommissioning. The value of the trust funds' investments declined in 2008 and the first quarter of 2009 due to a decrease in the equity market and volatility in the fixed income market. Values increased from favorable market activity later in 2009. However, these markets continue to be volatile. The changes in asset values have not affected the funds' abilities to make required payments, but may impact funding requirements for pension and other postretirement benefit plans. At the Sempra Utilities, funding requirements are generally recoverable in rates.

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 debt 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.

As we discuss in Note 10 of the Notes to Condensed Consolidated Financial Statements herein, SDG&E's and therefore Sempra Energy's cash flows are likely to be adversely impacted by cash flows related to the 2007 wildfire litigation.

### ***Sempra Commodities***

In 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 cash distributions from the partnership of \$305 million. On April 30, 2010 the partnership made a cash distribution to us of \$197 million. Based on the joint venture's results for the first quarter of 2010, we currently do not expect to receive a distribution for 2010 results.

We discuss in Note 4 of the Notes to Condensed Consolidated Financial Statements the sale of certain businesses within RBS Sempra Commodities to J.P. Morgan Ventures and anticipated changes to certain provisions of the partnership agreement entered into by RBS and Sempra Commodities upon the formation of the joint venture. The impact of the transaction on future cash flows will depend on many factors, including the final proceeds received from the transaction and the date at which the transaction closes. RBS' obligation to support the capital needs of the joint venture, and the need for us to provide transitional back-up guarantees and credit support are expected to continue after the closing of the transaction. However, we and RBS are actively marketing the businesses not being sold to J.P. Morgan Ventures.

We provide additional information about RBS Sempra Commodities and the pending transaction with J.P. Morgan Ventures in Notes 4 and 6 of the Notes to Condensed Consolidated Financial Statements herein and in Notes 3, 4, 6 and 20 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. Cash flows from operations at Sempra Generation are expected to decrease upon the expiration of their contract with the DWR in late 2011 due to less favorable pricing on replacement contracts. Also, Sempra Generation may not be able to replace all of the lost revenue. We expect the litigation settlement recorded in the first quarter of 2010 related to the DWR litigation to be funded from operations.

Sempra Generation's long-term power sale contracts may contain collateral requirements, although 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 March 31, 2010.

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

Sempra Pipelines & Storage is expected to require funding from the parent or from external sources to fund projects, including the development and expansion of its natural gas storage projects.

Also, on April 30, 2010, Sempra Pipelines & Storage acquired the Mexican pipeline and natural gas infrastructure assets of El Paso Corporation for \$300 million (\$260 million, net of cash acquired and debt assumed). We discuss the acquisition further in Note 3 of the Notes to Condensed Consolidated Financial Statements herein.

### ***Sempra LNG***

Sempra LNG required funding from 2004 through 2009 for its development of the Energía Costa Azul and Cameron LNG receipt terminals. 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)*

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|  | 2010   | 2010 Change |      | 2009  |
|--|--------|-------------|------|-------|
| Sempra Energy Consolidated               | \$ 888 | (251)       | (22) | 1,139 |
| SDG&E                                    | 275    | 30          | 12   | 245   |
| PE                                       | 492    | (5)         | (1)  | 497   |
| SoCalGas                                 | 501    | 2           | -    | 499   |
| <b><i>Sempra Energy Consolidated</i></b> |        |             |      |       |

Cash provided by operating activities at Sempra Energy decreased in 2010 due to:

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\$305 million lower distributions received from RBS Sempra Commodities; and

§

\$155 million lower decrease in inventory, primarily due to \$81 million at SoCalGas as discussed below and \$66 million at Sempra Pipelines & Storage due to optimization activities; **offset by**

§

a \$6 million increase in accounts payable in 2010 compared to a \$124 million decrease in 2009, primarily at SoCalGas as discussed below; and

§

an \$85 million higher decrease in accounts receivable, primarily at SDG&E as discussed below.

***SDG&E***

Cash provided by operating activities at SDG&E increased in 2010 primarily due to:

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an \$18 million decrease in accounts receivable in 2010 compared to a \$34 million increase in 2009. The changes in both years were primarily due to refunds from the California Independent System Operator for purchased power;

§

\$9 million in cash received from liability insurance, net of settlement payments in 2010, related to the 2007 wildfire litigation;

§

a \$26 million net income tax refund in 2010 compared to a \$1 million net tax payment in 2009; and

§

\$12 million higher increase in amounts due to affiliates, primarily due to payables to SoCalGas for the procurement of natural gas on SDG&E's behalf; **offset by**

§



\$39 million higher margin deposits posted related to fixed-price contracts and other derivatives; and

§

\$33 million lower increase in overcollected balancing accounts. Over- and undercollected regulatory balancing accounts reflect the difference between billings and recorded or CPUC-authorized costs. These differences are required to be balanced over time.

***PE and SoCalGas***

Cash provided by operating activities at PE and SoCalGas stayed relatively flat in 2010 in total, but includes the effect on working capital balances of higher natural gas prices in 2010 compared to 2009. Higher natural gas prices caused

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a \$9 million accounts payable increase in 2010 compared to a \$96 million decrease in 2009; **offset by**

§

\$104 million lower increase in overcollected regulatory balancing accounts; and

§

\$28 million lower decrease in inventory, net of the change in valuation for temporary LIFO liquidation. Temporary LIFO liquidation represents the difference between the carrying value of natural gas inventory withdrawn during the period (valued by the last-in, first-out method) for delivery to customers and the projected cost of the replacement of that inventory during summer months.

The table below shows the contributions to pension and other postretirement benefit plans for the three months ended March 31, 2010.

|                              |    | Pension  | Other          |
|------------------------------|----|----------|----------------|
|                              |    | Benefits | Postretirement |
|                              |    |          | Benefits       |
| <i>(Dollars in millions)</i> |    |          |                |
| Sempra Energy Consolidated   | \$ | 13       | \$ 14          |
| SDG&E                        |    | 4        | 4              |
| PE/SoCalGas                  |    | 1        | 9              |

**CASH FLOWS FROM INVESTING ACTIVITIES**

**CASH USED IN INVESTING ACTIVITIES**

*(Dollars in millions)*

|                            |    | 2010  | 2010 Change |     | 2009   |
|----------------------------|----|-------|-------------|-----|--------|
| Sempra Energy Consolidated | \$ | (496) | \$ (26)     | (5) | %(522) |
| SDG&E                      |    | (300) | 103         | 52  | (197)  |
| PE                         |    | (260) | 151         | 139 | (109)  |
| SoCalGas                   |    | (270) | 158         | 141 | (112)  |

***Sempra Energy Consolidated***

Cash used in investing activities at Sempra Energy decreased in 2010 primarily due to:

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\$46 million decrease in capital expenditures primarily due to the completion of Sempra LNG's Cameron receipt terminal and the nitrogen-injection facility at its Energía Costa Azul receipt terminal; and

§

\$19 million higher distributions from investments; **offset by**

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\$40 million higher contributions to Rockies Express. The \$65 million contribution in the first quarter of 2010 was the last required for the construction phase of the project.

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

The increase in cash used in investing activities at SDG&E in 2010 was due to:

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a \$61 million net increase in capital expenditures (an \$82 million increase at SDG&E and a \$6 million increase at Orange Grove VIE, offset by a decrease of \$27 million at Otay Mesa VIE);

§

a \$31 million lower decrease in loans to affiliates; and

§

a \$9 million increase in restricted cash at Otay Mesa VIE.

### ***PE and SoCalGas***

Cash used in investing activities at PE and SoCalGas increased in 2010 primarily due to an increase in advances from SoCalGas to Sempra Energy of \$156 million in 2010.

## **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 2010, we expect to make capital expenditures and investments of \$3 billion, including:

§

\$2.1 billion at the Sempra Utilities (excluding VIEs) for capital projects and plant improvements (\$1.5 billion at SDG&E and \$600 million at SoCalGas)

§

\$900 million at our other subsidiaries for the development of natural gas storage facilities and pipelines, and renewable generation projects

The Sempra Utilities expect the capital expenditures to include:

§

\$780 million for additions to SDG&E's natural gas and electric distribution systems, advanced metering infrastructure and electric generation plant and equipment

§

\$600 million at SoCalGas for improvements to distribution and transmission systems, and for advanced metering infrastructure

§

\$540 million at SDG&E for the Sunrise Powerlink transmission line

§

\$190 million for improvements to SDG&E's electric transmission infrastructure

The Sempra Utilities expect to finance these expenditures and investments with cash flows from operations, cash on hand and debt issuances. These amounts do not include expected capital expenditures of Otay Mesa VIE and Orange Grove VIE.

The expected capital expenditures of \$900 million at our other subsidiaries include:

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approximately \$150 million to \$250 million for Copper Mountain Solar (a 48-megawatt (MW) solar generation facility under construction by Sempra Generation in Boulder City, Nevada);

§

approximately \$250 million to \$300 million for Sempra Pipelines & Storage's development of natural gas storage projects at Liberty, Bay Gas and Mississippi Hub; and

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\$300 million for Sempra Pipelines & Storage's acquisition of Mexican pipeline and natural gas infrastructure assets that we discuss in Note 3 of the Notes to Condensed Consolidated Financial Statements herein.

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)*

|  | 2010     | 2010 Change |          | 2009   |
|--|----------|-------------|----------|--------|
| Sempra Energy Consolidated               | \$ (280) | (52)        | (23)     | %(228) |
| SDG&E                                    | 26       | 53          | 196      | (27)   |
| PE                                       | (101)    | (100)       | (10,000) | (1)    |
| SoCalGas                                 | (100)    | (100)       | -        | -      |
| <b><i>Sempra Energy Consolidated</i></b> |          |             |          |        |

Cash used in financing activities at Sempra Energy in 2010 increased primarily due to:

§

\$501 million higher debt payments; **offset by**

§

a \$294 million increase in short-term debt in 2010 compared to a \$77 million decrease in 2009; and

§

\$94 million for the purchase of the remaining 40-percent ownership interest in Mississippi Hub in 2009.

***SDG&E***

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

§

a \$150 million dividend paid to Sempra Energy in 2009; **offset by**

§

a \$71 million lower increase in short-term debt; and

§

\$19 million lower issuances of long-term debt.

***PE and SoCalGas***

Cash used in financing activities at PE and SoCalGas in 2010 increased due to \$100 million common dividends paid to Sempra Energy and PE, respectively.

**COMMITMENTS**

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

## FACTORS INFLUENCING FUTURE PERFORMANCE

### SEMPRA ENERGY OVERVIEW

The Sempra Utilities' operations and Sempra Global's long-term contracts generally provide relatively stable earnings and liquidity. However, for the next few years, SDG&E and SoCalGas intend to 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 the DWR contract, if obtained, or merchant (daily) sales may provide substantially lower earnings. Sempra Generation is also undertaking several projects for the construction of renewable generation facilities, with planned in-service dates ranging from late 2010 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 and other investments, but will require substantial funding for these investments. At Sempra LNG, until there are firm LNG supply or capacity services contracts from third parties that would subscribe to 100 percent of the capacity of Sempra LNG's Cameron receipt terminal, Sempra LNG will seek to purchase short-term LNG supplies, which may result in greater variability in revenues and earnings. Sempra LNG may also sell short-term capacity to third parties as opportunities arise.

The Sempra Utilities' performance will depend primarily on the ratemaking and regulatory process, environmental regulations, economic conditions, actions by the California legislature to address the state budget crisis 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 through 2011 rather than 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's liability insurance premiums increased significantly, 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 from insurance carriers is now \$400 million compared to \$1.2 billion in the previous policy year.

In regard to the 2007 wildfire litigation, SDG&E has concluded that it is probable that it will be permitted to recover from its utility customers substantially all reasonably incurred costs of resolving wildfire claims in excess of its \$1.1 billion of liability insurance coverage and any amounts recovered from other potentially responsible parties. Consequently, Sempra Energy and SDG&E expect no significant earnings impact from the resolution of the remaining wildfire claims. However, SDG&E's cash flow will be adversely affected by timing differences between the resolution of claims and recoveries from other potentially responsible parties and utility customers, which may extend over a number of years. In addition, recovery from customers will require future regulatory actions, and a failure to obtain recovery, or any negative assessment of the likelihood of recovery, would likely have a material adverse effect on Sempra Energy's and SDG&E's cash flows and results of operations.

SDG&E will continue to gather information to evaluate and assess the remaining wildfire claims and the likelihood, amount and timing of related recoveries from other potentially responsible parties and utility customers and will make appropriate adjustments to wildfire reserves and the related regulatory asset as additional information becomes available. We provide additional information concerning these matters in Notes 9 and 10 of the Notes to Condensed Consolidated Financial Statements herein.

In 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. In November

2009, RBS announced its intention to divest its interest in the joint venture following a directive from the European Commission to dispose of certain assets. On February 16, 2010, Sempra Energy, RBS and the partnership entered into an agreement to sell certain businesses within the partnership. Our joint venture partner, RBS, continues to be 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."

In connection with the pending transaction discussed above, we and RBS entered into a letter agreement to negotiate, prior to closing of the transaction, definitive documentation to amend certain provisions of the Limited Liability Partnership Agreement dated April 1, 2008 between Sempra Energy and RBS (Partnership Agreement) to, among other things:

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consider the distribution of excess cash of the partnership to us and RBS

§

eliminate each partner's preferred return (currently 15 percent per year) and to move to a 50/50 sharing of net income, if and when our invested capital is reduced to \$950 million or less by the return of capital to the partners

§

terminate the restrictions on the partners' ability to transfer their partnership interests prior to April 2012 (but not the partners' right of first offer and other rights, including our tag-along right with respect to the transfer of that interest or the requirement that any transferee be reasonably acceptable to us)

The letter agreement also provides for negotiating the framework for the entertaining of bids for the remaining part of the partnership's business, and we and RBS are actively soliciting offers for the sale of these businesses.

Future earnings and distributions from the partnership will depend on the profitability and growth achieved in the partnership's businesses until their final disposition and the continued ability of RBS to provide capital and credit support for the partnership. Results of the joint venture in the first quarter of 2010 were impacted by low commodity prices and the disruptions caused by the process to sell the partnership's businesses, and we do not expect results to show significant improvement prior to the completion of this sales process. We provide additional information in Notes 4 and 6 of the Notes to Condensed Consolidated Financial Statements herein and in Notes 3, 4, 6 and 20 of the Notes to Consolidated Financial Statements in the Annual Report.

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 15 through 17 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 15 and 16 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*

Pacific Gas and Electric has contracted for 48 MW of solar power from Copper Mountain Solar, a new plant under development in Boulder City, Nevada by Sempra Generation on land adjacent to the 10-MW El Dorado Energy Solar plant. Construction has begun and we expect it to be completed in late 2010 or early 2011.

#### *Mesquite Solar*

Mesquite Solar is a photovoltaic generation facility under development by Sempra Generation in Maricopa County, Arizona. When fully developed, the project will be capable of producing approximately 400 to 600 MW of solar power. Mesquite Solar will connect to the 500-kilovolt Hassayampa switchyard via our existing Mesquite Power natural gas generation plant. Construction of the first phase of 150 MW is expected to begin by late 2010 and be completed in 2012.

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

#### *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

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Bay Gas Storage Company, 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.

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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.

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

*Acquisition of Mexican Pipeline and Natural Gas Infrastructure*

On April 30, 2010, Sempra Pipelines & Storage acquired the Mexican pipeline and natural gas infrastructure assets of El Paso Corporation for \$300 million (\$260 million, net of cash acquired and debt assumed).

We discuss the acquisition more fully in Note 3 of the Notes to Condensed Consolidated Financial Statements herein.



## 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

We provide 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.

## INTEREST RATE RISK

The table below shows the nominal amount and the one-year VaR for long-term debt, excluding capital lease obligations, at March 31, 2010 and December 31, 2009:

|  | Sempra Energy<br>Consolidated |                    | SDG&E           |                    | PE/SoCalGas     |                    |
|--|-------------------------------|--------------------|-----------------|--------------------|-----------------|--------------------|
|  | Nominal<br>Debt               | One-Year<br>VaR(1) | Nominal<br>Debt | One-Year<br>VaR(1) | Nominal<br>Debt | One-Year<br>VaR(1) |
| <i>(Dollars in millions)</i>                 |                               |                    |                 |                    |                 |                    |
| At March 31, 2010:                           |                               |                    |                 |                    |                 |                    |
| Utility fixed-rate                           | \$ 3,067                      | \$ 289             | \$ 1,954        | \$ 215             | \$ 1,113        | 74                 |
| Utility variable-rate                        | 848                           | 29                 | 698             | 29                 | 150             | -                  |
| Non-utility, fixed-rate and<br>variable-rate | 3,578                         | 305                | -               | -                  | -               | -                  |
| At December 31, 2009:                        |                               |                    |                 |                    |                 |                    |
| Utility fixed-rate                           | \$ 3,067                      | \$ 369             | \$ 1,954        | \$ 273             | \$ 1,113        | 97                 |
| Utility variable-rate                        | 848                           | 43                 | 698             | 43                 | 150             | -                  |
| Non-utility, fixed-rate and<br>variable-rate | 4,075                         | 392                | -               | -                  | -               | -                  |

(1) After the effects of interest rate swaps.

At March 31, 2010, the total notional amount of interest rate swap transactions ranged from \$215 million to \$355 million at Sempra Energy (ranges relate to amortizing notional amounts). We provide additional information about interest rate swap transactions in Note 7 of the Notes to Condensed Consolidated Financial Statements herein.



## **FOREIGN CURRENCY RATE RISK**

We discuss our foreign currency rate risk in detail in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report. At March 31, 2010, there were no significant changes to our exposure to foreign currency rate risk since December 31, 2009.

## **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 March 31, 2010, 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.

ITEM 1A. RISK FACTORS

The following supplements the risk factors set forth in the Annual Report.

**RECOVERY OF 2007 WILDFIRE LITIGATION COSTS**

As we discuss in Note 10 of the Notes to Condensed Consolidated Financial Statements herein, SDG&E is subject to numerous lawsuits arising out of the San Diego County wildfires in 2007. It expects that substantially all reasonably incurred costs of resolving 2007 wildfire claims that exceed its liability insurance coverage and any amounts recovered from other potentially responsible parties will be recovered from utility customers. However, recovery from customers will require future regulatory actions, and a failure to obtain recovery, or any negative assessment of the likelihood of recovery, would likely have a material adverse effect on Sempra Energy's and SDG&E's cash flows and results of operations.

ITEM 5. EXHIBITS

**EXHIBIT 10 -- MATERIAL CONTRACTS**

***Sempra Energy / San Diego Gas & Electric Company/ Pacific Enterprises / Southern California Gas Company***

- 10.1 Form of Sempra Energy 2008 Long Term Incentive Plan, 2010 Performance-Based Restricted Stock Unit Award.

**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

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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

101.PRE XBRL Taxonomy Extension Presentation 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: May 4, 2010

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: May 4, 2010

By: /s/ Robert M. Schlax  
Robert M. Schlax  
Vice President, Controller, Chief Financial Officer and  
Chief Accounting 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: May 4, 2010

By: /s/ Robert M. Schlax  
Robert M. Schlax  
Vice President, Controller, Chief Financial Officer and  
Chief Accounting Officer

**Southern California Gas Company:**

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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: May 4, 2010

By: /s/ Robert M. Schlax  
Robert M. Schlax  
Vice President, Controller, Chief Financial Officer and  
Chief Accounting Officer