

SAN DIEGO GAS & ELECTRIC CO

Form 10-Q

August 09, 2011

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 June 30, 2011

or

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

For the transition period from to

Commission File No.	Exact Name of Registrants as Specified in their Charters, Address and Telephone Number	States of Incorporation	I.R.S. Employer Identification Nos.	Former name, former address and former fiscal year, if changed since last report
1-14201	SEMPRA ENERGY 101 Ash Street San Diego, California 92101 (619)696-2000	California	33-0732627	No change
1-3779	SAN DIEGO GAS & ELECTRIC COMPANY 8326 Century Park Court San Diego, California 92123 (619)696-2000	California	95-1184800	No change
1-1402	SOUTHERN CALIFORNIA GAS COMPANY 555 West Fifth Street Los Angeles, California 90013 (213)244-1200	California	95-1240705	No change

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants

were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

Yes

☒ X

No

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

Sempra Energy	Yes	X	No
San Diego Gas & Electric Company	Yes	X	No
Southern California Gas Company	Yes	X	No

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

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

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

Sempra Energy	Yes	No	X
San Diego Gas & Electric Company	Yes	No	X
Southern California Gas Company	Yes	No	X

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

Common stock outstanding on August 5, 2011:

Sempra Energy	239,552,287 shares
San Diego Gas & Electric Company	Wholly owned by Enova Corporation, which is wholly owned by Sempra Energy
Southern California Gas Company	Wholly owned by Pacific Enterprises, which is wholly owned by Sempra Energy

SEMPRA ENERGY FORM 10-Q
 SAN DIEGO GAS & ELECTRIC COMPANY FORM 10-Q
 SOUTHERN CALIFORNIA GAS COMPANY FORM 10-Q
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This combined Form 10-Q is separately filed by Sempra Energy, San Diego Gas & Electric Company and Southern California Gas Company. Information contained herein relating to any individual company is filed by such company on its own behalf. Each company makes representations only as to itself and makes no other representation whatsoever as to any other company.

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

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

We make statements in this report that are not historical fact and constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are necessarily based upon assumptions with respect to the future, involve risks and uncertainties, and are not guarantees of performance. These forward-looking statements represent our estimates and assumptions only as of the 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," "will," "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, California State Legislature, Federal Energy Regulatory Commission, Nuclear Regulatory Commission, California Energy Commission, California Air Resources Board, and other regulatory, governmental and environmental bodies in the United States and other countries in which we operate;
 - § capital markets conditions and inflation, interest and exchange rates;
 - § energy markets, including the timing and extent of changes and volatility in commodity prices;
 - § the availability of electric power, natural gas and liquefied natural gas;
 - § 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 in our Annual Report on

Form 10-K and other reports that we file with the Securities and Exchange Commission.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SEMPRA ENERGY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions, except per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	(unaudited)			
REVENUES				
Utilities	\$ 1,922	\$ 1,550	\$ 3,868	\$ 3,541
Energy-related businesses	500	458	988	1,001
Total revenues	2,422	2,008	4,856	4,542
EXPENSES AND OTHER INCOME				
Utilities:				
Cost of natural gas	(403)	(381)	(1,045)	(1,184)
Cost of electric fuel and purchased power	(397)	(129)	(568)	(277)
Energy-related businesses:				
Cost of natural gas, electric fuel and purchased power	(212)	(235)	(442)	(528)
Other cost of sales	(32)	(20)	(55)	(45)
Litigation expense	(6)	1	(13)	(167)
Other operation and maintenance	(667)	(616)	(1,299)	(1,192)
Depreciation and amortization	(248)	(215)	(479)	(425)
Franchise fees and other taxes	(80)	(77)	(175)	(167)
Equity earnings (losses), before income tax	7	(8)	8	7
Remeasurement of equity method investments	277		277	
Other income, net	31	8	74	16
Interest income	12	4	15	8
Interest expense	(118)	(103)	(226)	(212)
Income before income taxes and equity earnings				
of certain unconsolidated subsidiaries	586	237	928	376
Income tax expense	(92)	(59)	(201)	(117)
Equity earnings, net of income tax	8	27	39	46
Net income	502	205	766	305
Losses attributable to noncontrolling interests	12	20	8	28
Preferred dividends of subsidiaries	(3)	(3)	(5)	(5)
Earnings	\$ 511	\$ 222	\$ 769	\$ 328
Basic earnings per common share	\$ 2.14	\$ 0.90	\$ 3.21	\$ 1.33
	239,415	246,784	239,769	246,435

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Weighted-average number of shares
outstanding, basic (thousands)

Diluted earnings per common share	\$	2.12	\$	0.89	\$	3.19	\$	1.31
Weighted-average number of shares outstanding, diluted (thousands)		240,761		249,727		241,154		249,835
Dividends declared per share of common stock	\$	0.48	\$	0.39	\$	0.96	\$	0.78

See Notes to Condensed Consolidated Financial Statements.

SEMPRA ENERGY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

	June 30, 2011 (unaudited)	December 31, 2010(1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 392	\$ 912
Restricted cash	188	131
Trade accounts receivable	1,014	891
Other accounts and notes receivable	162	141
Due from unconsolidated affiliates		34
Income taxes receivable	243	248
Deferred income taxes		75
Inventories	211	258
Regulatory assets	69	90
Fixed-price contracts and other derivatives	87	81
Settlement receivable related to wildfire litigation		300
Other	185	192
Total current assets	2,551	3,353
Investments and other assets:		
Restricted cash	2	27
Regulatory assets arising from pension and other postretirement benefit obligations	868	869
Regulatory assets arising from wildfire litigation costs	397	364
Other regulatory assets	948	934
Nuclear decommissioning trusts	808	769
Investment in RBS Semptra Commodities LLP	439	787
Other investments	1,513	2,164
Goodwill	1,059	87
Other intangible assets	450	453
Sundry	645	600
Total investments and other assets	7,129	7,054
Property, plant and equipment:		
Property, plant and equipment	29,400	27,087
Less accumulated depreciation and amortization	(7,244)	(7,211)
Property, plant and equipment, net (\$503 and \$516 at June 30, 2011 and December 31, 2010, respectively, related to VIE)	22,156	19,876
Total assets	\$ 31,836	\$ 30,283
(1) Derived from audited financial statements. See Notes to Condensed Consolidated Financial Statements.		

SEMPRA ENERGY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

	June 30, 2011 (unaudited)	December 31, 2010(1)
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	\$ 453	\$ 158
Accounts payable - trade	783	755
Accounts payable - other	132	109
Due to unconsolidated affiliates		36
Deferred income taxes	31	
Dividends and interest payable	217	188
Accrued compensation and benefits	269	311
Regulatory balancing accounts, net	277	241
Current portion of long-term debt	144	349
Fixed-price contracts and other derivatives	85	106
Customer deposits	135	129
Reserve for wildfire litigation	422	639
Other	627	765
Total current liabilities	3,575	3,786
Long-term debt (\$350 and \$355 at June 30, 2011 and December 31, 2010, respectively, related to VIE)	9,648	8,980
Deferred credits and other liabilities:		
Customer advances for construction	139	154
Pension and other postretirement benefit obligations, net of plan assets	1,106	1,105
Deferred income taxes	1,826	1,561
Deferred investment tax credits	48	50
Regulatory liabilities arising from removal obligations	2,692	2,630
Asset retirement obligations	1,490	1,449
Other regulatory liabilities	115	138
Fixed-price contracts and other derivatives	279	290
Deferred credits and other	867	823
Total deferred credits and other liabilities	8,562	8,200
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; 240 million shares outstanding at June 30, 2011 and December 31, 2010, no par value)	2,074	2,036
Retained earnings	7,868	7,329

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Deferred compensation	(5)	(8)
Accumulated other comprehensive income (loss)	(358)	(330)
Total Sempra Energy shareholders' equity	9,579	9,027
Preferred stock of subsidiaries	20	100
Other noncontrolling interests	373	111
Total equity	9,972	9,238
Total liabilities and equity	\$ 31,836	\$ 30,283
(1)	Derived from audited financial statements.	
See Notes to Condensed Consolidated Financial Statements.		

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

	Six months ended June 30,	
	2011	2010
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 766	\$ 305
Adjustments to reconcile net income to net cash provided		
by operating activities:		
Depreciation and amortization	479	425
Deferred income taxes and investment tax credits	147	96
Equity earnings	(47)	(53)
Remeasurement of equity method investments	(277)	
Fixed-price contracts and other derivatives	(2)	14
Other	(23)	(6)
Net change in other working capital components	53	294
Distributions from RBS Sempra Commodities LLP	53	198
Changes in other assets	2	53
Changes in other liabilities	(12)	(19)
Net cash provided by operating activities	1,139	1,307
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(1,225)	(839)
Expenditures for investments and acquisition of businesses, net of cash acquired	(682)	(370)
Distributions from RBS Sempra Commodities LLP	276	
Distributions from other investments	29	36
Purchases of nuclear decommissioning and other trust assets	(97)	(159)
Proceeds from sales by nuclear decommissioning and other trusts	94	159
Decrease in restricted cash	388	45
Increase in restricted cash	(420)	(40)
Other	(16)	1
Net cash used in investing activities	(1,653)	(1,167)
CASH FLOWS FROM FINANCING ACTIVITIES		
Common dividends paid	(210)	(172)
Redemption of subsidiary preferred stock	(80)	
Preferred dividends paid by subsidiaries	(5)	(5)
Issuances of common stock	20	22
Repurchases of common stock	(18)	(2)
Issuances of debt (maturities greater than 90 days)	870	270
Payments on debt (maturities greater than 90 days)	(270)	(710)
(Decrease) increase in short-term debt, net	(319)	534
Other	10	1

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Net cash used in financing activities	(2)	(62)
Effect of exchange rate changes on cash and cash equivalents	(4)	
(Decrease) increase in cash and cash equivalents	(520)	78
Cash and cash equivalents, January 1	912	110
Cash and cash equivalents, June 30	\$ 392	\$ 188
See Notes to Condensed Consolidated Financial Statements.		

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

		Six months ended June 30,	
		2011	2010
		(unaudited)	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest payments, net of amounts capitalized	\$	211 \$	212
Income tax payments, net		75	5
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES			
Acquisition of businesses:			
Assets acquired	\$	2,815 \$	303
Cash paid, net of cash acquired		(611)	(285)
Fair value of equity method investments immediately prior to the acquisition		(882)	
Fair value of noncontrolling interests		(279)	
Additional consideration accrued		(32)	(7)
Liabilities assumed	\$	1,011 \$	11
Increase in capital lease obligations for investments in property, plant and equipment	\$	\$	183
Accrued capital expenditures		273	290
Dividends declared but not paid		119	99
See Notes to Condensed Consolidated Financial Statements.			

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	(unaudited)			
Operating revenues				
Electric	\$ 583	\$ 589	\$ 1,248	\$ 1,152
Natural gas	114	103	289	282
Total operating revenues	697	692	1,537	1,434
Operating expenses				
Cost of electric fuel and purchased power	156	129	327	277
Cost of natural gas	52	44	135	133
Operation and maintenance	228	237	501	469
Depreciation and amortization	105	95	208	187
Franchise fees and other taxes	43	41	90	84
Total operating expenses	584	546	1,261	1,150
Operating income	113	146	276	284
Other income (expense), net	13	(16)	29	(16)
Interest expense	(31)	(31)	(67)	(62)
Income before income taxes	95	99	238	206
Income tax expense	(42)	(44)	(91)	(75)
Net income	53	55	147	131
Losses attributable to noncontrolling interests	19	21	15	29
Earnings	72	76	162	160
Preferred dividend requirements	(1)	(1)	(2)	(2)
Earnings attributable to common shares \$	71	75	160	158
See Notes to Condensed Consolidated Financial Statements.				

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

	June 30, 2011 (unaudited)	December 31, 2010(1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 85	\$ 127
Restricted cash	186	116
Accounts receivable - trade	254	248
Accounts receivable - other	38	59
Due from unconsolidated affiliates	1	12
Income taxes receivable	72	37
Deferred income taxes	40	129
Inventories	67	71
Regulatory assets arising from fixed-price contracts and other derivatives	52	66
Other regulatory assets	6	5
Fixed-price contracts and other derivatives	22	28
Settlement receivable related to wildfire litigation		300
Other	32	50
Total current assets	855	1,248
Other assets:		
Restricted cash	2	
Deferred taxes recoverable in rates	536	502
Regulatory assets arising from fixed-price contracts and other derivatives	212	233
Regulatory assets arising from pension and other postretirement benefit obligations	274	279
Regulatory assets arising from wildfire litigation costs	397	364
Other regulatory assets	73	73
Nuclear decommissioning trusts	808	769
Sundry	127	56
Total other assets	2,429	2,276
Property, plant and equipment:		
Property, plant and equipment	11,723	11,247
Less accumulated depreciation and amortization	(2,641)	(2,694)
Property, plant and equipment, net (\$503 and \$516 at June 30, 2011 and December 31, 2010, respectively, related to VIE)	9,082	8,553
Total assets	\$ 12,366	\$ 12,077
(1) Derived from audited financial statements.		
See Notes to Condensed Consolidated Financial Statements.		

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

	June 30, 2011 (unaudited)	December 31, 2010(1)
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 269	\$ 292
Due to unconsolidated affiliates	33	16
Accrued compensation and benefits	79	115
Regulatory balancing accounts, net	122	61
Current portion of long-term debt	19	19
Fixed-price contracts and other derivatives	50	51
Customer deposits	59	54
Reserve for wildfire litigation	422	639
Other	120	136
Total current liabilities	1,173	1,383
Long-term debt (\$350 and \$355 at June 30, 2011 and December 31, 2010, respectively, related to VIE)	3,470	3,479
Deferred credits and other liabilities:		
Customer advances for construction	21	21
Pension and other postretirement benefit obligations, net of plan assets	305	309
Deferred income taxes	1,115	1,001
Deferred investment tax credits	24	25
Regulatory liabilities arising from removal obligations	1,460	1,409
Asset retirement obligations	638	619
Fixed-price contracts and other derivatives	236	248
Deferred credits and other	288	283
Total deferred credits and other liabilities	4,087	3,915
Contingently redeemable preferred stock	79	79
Commitments and contingencies (Note 10)		
Equity:		
Common stock (255 million shares authorized; 117 million shares outstanding; no par value)	1,338	1,138
Retained earnings	2,140	1,980
Accumulated other comprehensive income (loss)	(10)	(10)
Total SDG&E shareholder's equity	3,468	3,108
Noncontrolling interest	89	113
Total equity	3,557	3,221
Total liabilities and equity	\$ 12,366	\$ 12,077
(1) Derived from audited financial statements.		

See Notes to Condensed Consolidated Financial Statements.

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

		Six months ended June 30,	
		2011	2010
		(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$	147	\$ 131
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		208	187
Deferred income taxes and investment tax credits		167	23
Fixed price contracts and other derivatives		(6)	28
Other		(20)	(14)
Net change in other working capital components		52	(133)
Changes in other assets		15	9
Changes in other liabilities		(7)	(10)
Net cash provided by operating activities		556	221
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures for property, plant and equipment		(714)	(522)
Purchases of nuclear decommissioning trust assets		(95)	(155)
Proceeds from sales by nuclear decommissioning trusts		90	150
Decrease in loans to affiliates, net			14
Decrease in restricted cash		257	45
Increase in restricted cash		(329)	(40)
Other			(1)
Net cash used in investing activities		(791)	(509)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution		200	
Preferred dividends paid		(2)	(2)
Issuances of long-term debt			250
Payments on long-term debt		(5)	(5)
Increase in short-term debt, net			63
Other			(3)
Net cash provided by financing activities		193	303
(Decrease) increase in cash and cash equivalents		(42)	15
Cash and cash equivalents, January 1		127	13
Cash and cash equivalents, June 30	\$	85	\$ 28
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest payments, net of amounts capitalized	\$	64	\$ 58
Income tax payments, net		29	49

SUPPLEMENTAL DISCLOSURE OF NONCASH
ACTIVITIES

Increase in capital lease obligations for investments in property, plant, and equipment	\$	\$	183
Accrued capital expenditures		131	109
Dividends declared but not paid		1	1
See Notes to Condensed Consolidated Financial Statements.			

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010 (unaudited)	2011	2010
Operating revenues	\$ 876	\$ 834	\$ 1,932	\$ 2,016
Operating expenses				
Cost of natural gas	335	318	866	992
Operation and maintenance	327	293	615	555
Depreciation	82	77	163	152
Franchise fees and other taxes	29	28	66	65
Total operating expenses	773	716	1,710	1,764
Operating income	103	118	222	252
Other income, net	3	2	6	6
Interest expense	(18)	(16)	(35)	(33)
Income before income taxes	88	104	193	225
Income tax expense	(28)	(34)	(65)	(90)
Net income	60	70	128	135
Preferred dividend requirements	(1)	(1)	(1)	(1)
Earnings attributable to common shares	\$ 59	\$ 69	\$ 127	\$ 134
See Notes to Condensed Consolidated Financial Statements.				

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

	June 30, 2011 (unaudited)	December 31, 2010(1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 16	\$ 417
Accounts receivable - trade	363	534
Accounts receivable - other	54	49
Due from unconsolidated affiliates	287	63
Income taxes receivable	20	28
Inventories	35	105
Regulatory assets	7	12
Other	48	39
Total current assets	830	1,247
Other assets:		
Regulatory assets arising from pension and other postretirement benefit obligations	590	586
Other regulatory assets	126	123
Sundry	16	8
Total other assets	732	717
Property, plant and equipment:		
Property, plant and equipment	9,974	9,824
Less accumulated depreciation and amortization	(3,796)	(3,802)
Property, plant and equipment, net	6,178	6,022
Total assets	\$ 7,740	\$ 7,986
(1) Derived from audited financial statements.		
See Notes to Condensed Consolidated Financial Statements.		

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

	June 30, 2011 (unaudited)	December 31, 2010(1)
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable - trade	\$ 223	\$ 327
Accounts payable - other	58	79
Due to unconsolidated affiliate		11
Deferred income taxes	17	17
Accrued compensation and benefits	97	98
Regulatory balancing accounts, net	154	180
Current portion of long-term debt	8	262
Customer deposits	69	73
Other	165	163
Total current liabilities	791	1,210
Long-term debt	1,317	1,320
Deferred credits and other liabilities:		
Customer advances for construction	112	133
Pension and other postretirement benefit obligations, net of plan assets	620	613
Deferred income taxes	506	418
Deferred investment tax credits	24	25
Regulatory liabilities arising from removal obligations	1,219	1,208
Asset retirement obligations	808	788
Deferred taxes refundable in rates	115	138
Deferred credits and other	195	178
Total deferred credits and other liabilities	3,599	3,501
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Preferred stock	22	22
Common stock (100 million shares authorized; 91 million shares outstanding; no par value)	866	866
Retained earnings	1,166	1,089
Accumulated other comprehensive income (loss)	(21)	(22)
Total shareholders' equity	2,033	1,955
Total liabilities and shareholders' equity	\$ 7,740	\$ 7,986
(1) Derived from audited financial statements.		
See Notes to Condensed Consolidated Financial Statements.		

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

		Six months ended June 30,	
		2011	2010
		(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$	128 \$	135
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation		163	152
Deferred income taxes and investment tax credits		62	13
Other		(3)	(2)
Net change in other working capital components		74	325
Changes in other assets		16	4
Changes in other liabilities		(4)	(6)
Net cash provided by operating activities		436	621
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures for property, plant and equipment		(325)	(216)
Increase in loans to affiliates, net		(211)	(252)
Net cash used in investing activities		(536)	(468)
CASH FLOWS FROM FINANCING ACTIVITIES			
Common dividends paid		(50)	(100)
Payment of long-term debt		(250)	
Preferred dividends paid		(1)	(1)
Net cash used in financing activities		(301)	(101)
(Decrease) increase in cash and cash equivalents		(401)	52
Cash and cash equivalents, January 1		417	49
Cash and cash equivalents, June 30	\$	16 \$	101
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest payments, net of amounts capitalized	\$	34 \$	29
Income tax payments, net		6	44
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES			
Accrued capital expenditures	\$	78 \$	61
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, and its consolidated subsidiaries and variable interest entities (VIEs). Sempra Energy's principal subsidiaries are

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

§ Sempra Global is the holding company for our energy-related businesses, which are Sempra Generation, Sempra Pipelines & Storage and Sempra LNG. Sempra Pipelines & Storage also owns utilities in the U.S., Mexico, and South America.

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 our Annual Report on Form 10-K for the year ended December 31, 2010.

SDG&E

SDG&E's Condensed Consolidated Financial Statements include its accounts and the accounts of a VIE of which SDG&E is the primary beneficiary, as we discuss in Note 5 under "Variable Interest Entities." SDG&E's common stock is wholly owned by Enova Corporation, which is a wholly owned subsidiary of Sempra Energy.

SoCalGas

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

BASIS OF PRESENTATION

This is a combined report of Sempra Energy, SDG&E and SoCalGas. We provide separate information for SDG&E and SoCalGas as required. References in this report to "we," "our" and "Sempra Energy Consolidated" are to Sempra

Energy and its consolidated entities, unless otherwise indicated by the context. We have eliminated intercompany accounts and transactions within the consolidated financial statements of each reporting entity.

We have prepared the Condensed Consolidated Financial Statements in conformity with 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 June 30, 2011 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.

As we discuss in Note 3, in April 2011, Sempra Pipelines & Storage acquired two electric distribution utilities in South America. Sempra Pipelines & Storage also owns Mobile Gas Service Corporation (Mobile Gas) in southwest Alabama and Ecogas Mexico, S de RL de CV (Ecogas) in Northern Mexico, both natural gas distribution utilities. Previous to this quarterly report, we provided separate revenue and cost of revenue information on our consolidated statements of operations for the Sempra Utilities only, as the amounts for Mobile Gas and Ecogas were immaterial. Due to the addition of the South American utilities, beginning with this quarterly report, we are providing separate revenue and cost of revenue information on the Condensed Consolidated Statements of Operations on a combined basis for all of our utilities. Accordingly, amounts in the prior periods have been reclassified to conform with the current year presentation.

All December 31, 2010 balance sheet information in the Condensed Consolidated Financial Statements has been derived from our audited 2010 consolidated financial statements. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the interim-period-reporting provisions of GAAP and the Securities and Exchange Commission.

You should read the information in this Quarterly Report in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2010 (the Annual Report) and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, which are combined reports for Sempra Energy, SDG&E, PE and SoCalGas. PE is no longer obligated to file such annual or quarterly reports due to the redemption of its preferred stock as we discuss in Note 5.

We describe our significant accounting policies 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 and 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 AND SOCALGAS

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

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

§ quantitative information about the unobservable inputs

§ a description of the valuation process

§ a qualitative discussion about the sensitivity of the measurements

We will adopt ASU 2011-04 on January 1, 2012 as required and do not expect it to affect our financial position or results of operations. We will provide the additional disclosure in our 2012 interim financial statements.

ASU 2011-05, "Presentation of Comprehensive Income" (ASU 2011-05): ASU 2011-05 amends ASC Topic 220, Comprehensive Income, and eliminates the option to report other comprehensive income and its components in the statement of changes in equity. The ASU allows an entity an option to present the components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements.

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

We will adopt ASU 2011-05 on January 1, 2012 and present our 2012 interim financial statements as required by the ASU.

NOTE 3. ACQUISITION AND INVESTMENT ACTIVITY

SEMPRA PIPELINES & STORAGE

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

On April 6, 2011, Sempra Pipelines & Storage acquired from AEI its interests in Chilquinta Energía in Chile and Luz del Sur in Peru, and their subsidiaries. Prior to the acquisition, Sempra Pipelines & Storage and AEI each owned 50 percent of Chilquinta Energía and approximately 38 percent of Luz del Sur. Sempra Pipelines & Storage now owns 100 percent of Chilquinta Energía and approximately 76 percent of Luz del Sur, with the remaining shares of Luz del Sur held by institutional investors and the general public. As part of the transaction, Sempra Pipelines & Storage also acquired AEI's interests in two energy-services companies, Tecnores S.A. and Tecsur S.A. The adjusted purchase

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price of \$888 million resulted from valuing the net assets in Chile, Peru and other holding companies at \$495 million, \$385 million and \$8 million, respectively. We paid \$611 million in cash (\$888 million less \$245 million of cash acquired and \$32 million of consideration withheld for a liability related to the purchase).

As part of our acquisition of AEI's interest in Luz del Sur, we are required to launch a tender offer to the minority shareholders of Luz del Sur to purchase their shares (up to a maximum 14.73 percent interest in the company). On August 8, 2011, we initiated a public tender offer for up to 14.73 percent of Luz del Sur's stock to begin on August 9, 2011 and conclude on September 6, 2011 at a price of \$2.29 per share. If the maximum shares were to be tendered, this would require a cash expenditure of up to \$164 million. The per share value, computed according to procedures established by the local securities regulatory agency, was based on an independent appraiser's valuation of \$2.22 per share as of April 6, 2011, the date of acquisition, adjusted by an interest rate factor to the value as of August 1, 2011. The interest rate factor is published daily by the Central Bank of Peru.

We expect the acquisition to be accretive to our earnings per share in 2011 and beyond, based on historically strong operating performance of the companies within sound regulatory environments and stable, growing countries. We provide additional information about Semptra Pipelines & Storage's investments in Chilquinta Energía and Luz Del Sur in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

The allocation of the purchase price is preliminary and will be completed during the measurement period. Our analysis of acquired assets and liabilities is ongoing to ensure that all identifiable assets are properly valued. Accordingly, the amounts shown below, which include goodwill, deferred taxes and related amounts, could change upon completion of our analysis. The following table summarizes the preliminary consideration paid in the acquisition and the recognized amounts of the assets acquired and liabilities assumed, as well as the fair value at the acquisition date of the noncontrolling interests:

(Dollars in millions)	At April 6, 2011			Total
	Chilean entities	Peruvian entities	Other holding companies	
Fair value of businesses acquired:				
Cash consideration (fair value of total consideration)	\$ 495	\$ 385	\$ 8	888
Fair value of equity method investments immediately prior to the acquisition	495	385	2	882
Fair value of noncontrolling interests	37	242		279
Total fair value of businesses acquired	1,027	1,012	10	2,049
Recognized amounts of identifiable assets acquired and liabilities assumed:				
Cash	219	22	4	245
Accounts receivable(1)	159	101	6	266
Other current assets	20	19		39
Property, plant and equipment	554	931		1,485
Other noncurrent assets	66			66
Accounts payable	(79)	(59)		(138)
		(47)		(47)

Short-term debt and current portion of long-term debt				
Other current liabilities	(29)	(56)		(85)
Long-term debt	(294)	(179)		(473)
Other noncurrent liabilities	(90)	(178)		(268)
Total identifiable net assets	526	554	10	1,090
Goodwill	\$ 501 \$	458 \$	\$	959

Acquisition-related costs (included in Other Operation

and Maintenance expense on the

Condensed

Consolidated Statements of Operations for

the

three months and six months ended June

30, 2011)

(1)

\$ 1 \$ 1 \$ 2

We expect acquired accounts receivable to be substantially realizable in cash. Accounts receivable are net of collection allowances of \$6 million for Chile and \$1 million for Peru.

Our results for the three months and six months ended June 30, 2011 include a \$277 million gain (both pretax and after-tax) related to the remeasurement of equity method investments, included as Remeasurement of Equity Method Investments on the Condensed Consolidated Statements of Operations. We calculated the gain as the difference between the acquisition-date fair value (\$882 million) and the book value (\$605 million) of our equity interests in Chilquinta Energía and Luz del Sur immediately prior to the acquisition date. This book value of our equity interests included currency translation adjustment balances in Accumulated Other Comprehensive Income (Loss). The valuation techniques we used to measure the acquisition-date fair value of the businesses included discounted cash flow analysis and the market multiple approach (enterprise value to earnings before interest, taxes, depreciation and amortization (EBITDA)). Our assumptions for these measures included estimated future cash flows, use of appropriate discount rates, market trading multiples and market transaction multiples. Discount rates used reflect consideration of risk free rates, as well as country and company risk. Methodologies used to determine fair values of material assets as of the date of the acquisition included

§ the replacement cost approach for property, plant and equipment; and

§ goodwill associated primarily with the value of residual future cash flows that we believe these businesses will generate, to be tested for impairment annually. For income tax purposes, none of the goodwill recorded is deductible in Chile, Peru or the United States.

For substantially all other assets and liabilities, our analysis of fair value factors indicated that book value approximates fair value. We valued noncontrolling interests based on the fair value of tangible assets, and in the case of Luz del Sur, an allocation of goodwill based on relative enterprise value.

Our Condensed Consolidated Statements of Operations include 100 percent of the acquired companies' revenues, net income and earnings from the date of acquisition of \$361 million, \$48 million and \$40 million, respectively, for the three months and six months ended June 30, 2011. These amounts do not include the remeasurement gain.

Following are pro forma revenues and earnings for Sempra Energy had the acquisition occurred on January 1, 2010, which primarily reflect the incremental increase to revenues and earnings from our increased ownership and consolidation of the entities acquired. Although some short-term debt borrowings may have resulted from the actual acquisition in 2011, we have not assumed any additional interest expense in the pro forma impact on earnings below, as the amounts would be immaterial due to the low interest rates available to us on commercial paper.

(Dollars in millions)	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Revenues	\$ 2,422	\$ 2,353	\$ 5,199	\$ 5,163
Earnings(1)	234	245	517	647
(1)	Pro forma earnings in the six months ended June 30, 2010 include a \$277 million gain on this transaction related to the remeasurement of equity method investments.			

Chilquinta Energía is an electric distribution utility serving customers in the cities of Valparaíso and Viña del Mar in central Chile. Luz del Sur is an electric distribution utility in the southern zone of metropolitan Lima, Peru. The companies serve primarily regulated customers, and their revenues are based on tariffs that are set by the National Energy Commission (Comisión Nacional de Energía, or CNE) in Chile and the Energy and Mining Investment Supervisory Body (OSINERGMIN) of the National Electricity Office under the Ministry of Energy and Mines in Peru.

The tariffs charged are based on an efficient model distribution company defined by Chilean law in the case of Chilquinta Energía, and OSINERGMIN in the case of Luz del Sur. The tariffs include operation and maintenance costs, an internal rate of return on the new replacement value (VNR) of depreciable assets, charges for the use of transmission systems, and a component for the value added by the distributor. Tariffs are designed to provide for a pass-through to customers of the main noncontrollable cost items (mainly power purchases and transmission charges), recovery of reasonable operating and administrative costs, incentives to reduce costs and make needed capital investments and a regulated rate of return on the distributor's regulated asset base. Because the tariffs are based on a model and are intended to cover the costs of the model company, but are not based on the costs of the specific utility and may not result in full cost recovery, they do not meet the requirement necessary for treatment under applicable GAAP for regulatory accounting.

The components of the tariffs discussed above are reviewed and adjusted every four years. The next reviews for Chilquinta Energía and Luz del Sur are scheduled to be completed, with tariff adjustments also going into effect, in November 2012 and 2013, respectively.

The companies use their local currency, the Chilean Peso or the Peruvian Nuevo Sol, as their functional currency. We discuss the conversion of financial statements using a foreign currency as the functional currency in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

Mexican Pipeline and Natural Gas Infrastructure Assets

On April 30, 2010, Sempra Pipelines & Storage completed the acquisition of the Mexican pipeline and natural gas infrastructure assets of El Paso Corporation for \$307 million (\$292 million, net of cash acquired), as we discuss in Note 3 of the Notes to Consolidated Financial Statements in the Annual Report. Pro forma impacts on revenues and earnings for Sempra Energy had the acquisition occurred on January 1, 2010 were immaterial.

Rockies Express

In the six months ended June 30, 2010, Sempra Pipelines & Storage contributed \$65 million to Rockies Express, a joint venture to own and operate the Rockies Express Pipeline. The contribution was the last required for the construction phase of the project.

NOTE 4. INVESTMENTS IN UNCONSOLIDATED ENTITIES

As we discuss in Note 3, Sempra Pipelines & Storage's interests in Chile and Peru are no longer recorded as equity method investments, but are consolidated effective April 6, 2011. We provide additional information concerning all of our equity method investments in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

RBS SEMPRA COMMODITIES

RBS Sempra Commodities LLP (RBS Sempra Commodities) is a United Kingdom limited liability partnership that owned and operated commodities-marketing businesses. We account for our investment in RBS Sempra Commodities under the equity method, and report our share of partnership earnings in Parent and Other.

We and our partner in the joint venture, The Royal Bank of Scotland (RBS), sold substantially all of the partnership's businesses and assets in four separate transactions completed in July, November and December of 2010 and February of 2011. We expect our share of remaining proceeds to approximate \$439 million, the amount of our investment in RBS Sempra Commodities as of June 30, 2011.

On April 15, 2011, we and RBS entered into a letter agreement (Letter Agreement) which amended certain provisions of the agreements that formed RBS Sempra Commodities. The Letter Agreement addresses the wind-down of the partnership and the distribution of the partnership's remaining assets. In accordance with the Letter Agreement, we received a \$329 million distribution on April 15, 2011. This distribution included sales proceeds and our portion of 2010 distributable income totaling \$357 million, less amounts to settle certain liabilities that we owed to RBS of \$28 million. The Letter Agreement affirms that RBS Sempra Commodities will consider additional distributions of capital after taking into account various factors including available cash, the need for prudent reserves, potential payouts to the purchasers of the partnership's businesses, and any accrued or projected future operating losses or other wind-down expenses of the partnership. The availability of cash is also impacted by the transfer of trading accounts to JP Morgan, one of the buyers in the sales transactions. These transfers and the related collection of accounts receivable and net margin continue as planned, and will be done as promptly as practicable during 2011. Future distributions will generally be made 51 percent to RBS, and 49 percent to us. The Letter Agreement also allows RBS Sempra Commodities to make capital calls to us, subject to certain limits, if necessary to support the remaining operations, for other liabilities or for other payments owed in connection with the sales transactions (subject to additional limitations). We do not anticipate any such capital calls.

In connection with the Letter Agreement described above, we also released RBS from its indemnification obligations with respect to the items for which JP Morgan has agreed to indemnify us.

For the six months ended June 30, 2011, we recorded a pretax equity loss from RBS Sempra Commodities of \$8 million, all of which was recorded in the first quarter of 2011. Pretax equity losses from RBS Sempra Commodities were \$16 million and \$9 million for the three months and six months ended June 30, 2010, respectively.

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

NOTE 5. OTHER FINANCIAL DATA

VARIABLE INTEREST ENTITIES (VIE)

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

§ the purpose and design of the VIE;

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

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

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

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

Otay Mesa VIE

SDG&E has a 10-year agreement to purchase power generated at the Otay Mesa Energy Center (OMEC), a 605-megawatt (MW) generating facility. In addition to tolling, the agreement provides SDG&E with the option to purchase the power plant at the end of the contract term in 2019, or upon earlier termination of the purchased-power agreement, at a predetermined price subject to adjustments based on performance of the facility. If SDG&E does not exercise its option it may be required, under certain circumstances, 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. In addition to the risks absorbed under the tolling agreement, SDG&E absorbs separately through the put option a significant portion of the risk that the value of Otay Mesa VIE could decline. Otay Mesa VIE's equity of \$89 million at June 30, 2011 and \$113 million at December 31, 2010 is included on the Condensed Consolidated Balance Sheets in Other Noncontrolling Interests for Sempra Energy and in Noncontrolling Interest for SDG&E.

OMEC LLC has a loan outstanding of \$360 million at June 30, 2011, the proceeds of which were used for the construction of OMEC. The loan is with third party lenders and is secured by OMEC's property, plant and equipment. SDG&E is not a party to the loan agreement and does not have any additional implicit or explicit financial responsibility to OMEC LLC. The loan fully matures in April 2019 and bears interest at rates varying with market rates. In addition, OMEC LLC has entered into interest rate swap agreements to moderate its exposure to interest rate changes. We provide additional information concerning the interest rate swaps in Note 7.

Other Variable Interest Entities

SDG&E's power procurement is subject to reliability requirements that may require SDG&E to enter into various power purchase arrangements which include variable interests. SDG&E evaluates the respective entities to determine if variable interest entities 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 that relating to Otay Mesa VIE mentioned above, result in SDG&E being the primary beneficiary as of June 30, 2011. In addition to the tolling agreements described above, other variable interests involve various elements of fuel and power costs, including certain construction costs, tax credits, and other components of cash flow expected to be paid to or received by our counterparties. In most of these cases, the expectation of variability is not substantial, and SDG&E generally does not have the power to direct activities that most significantly impact the economic performance of the other VIEs. If our ongoing evaluation of these VIEs were to conclude that SDG&E becomes the primary beneficiary and consolidation by SDG&E becomes necessary, the effects are not expected to significantly affect the financial position, results of operations, or liquidity of SDG&E. SDG&E is not exposed to losses or gains as a result of these other VIEs, because all such variability would be recovered in rates.

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

GOODWILL

Goodwill is the excess of the purchase price over the fair value of the net assets of acquired companies. Goodwill is not amortized but is tested annually on October 1 for impairment. Impairment of goodwill occurs when the carrying amount (book value) of goodwill exceeds its implied fair value. If the book value of goodwill is greater than the fair value on the test date, an impairment loss is recorded.

Sempra Pipelines & Storage recorded goodwill of \$959 million in the second quarter of 2011 in connection with the acquisition of AEI's interests in Chilquinta Energía and Luz del Sur, which we discuss in Note 3.

Goodwill included on the Sempra Energy Condensed Consolidated Balance Sheets is recorded as follows:

GOODWILL

(Dollars in millions)

		June 30, 2011	December 31, 2010	
Sempra Pipelines & Storage(1)	\$	1,053	\$	81
Parent and Other		6		6

\$ 1,059 \$ 87

(1) Includes \$972 million at June 30, 2011 related to Chilquinta Energía and Luz del Sur, whose functional currencies are their local currencies. This causes the goodwill amount to fluctuate from period-to-period from the translation to U.S. dollars. We record the offset of this fluctuation to other comprehensive income.

We provide additional information concerning goodwill in Notes 1 and 3 of the Notes to Consolidated Financial Statements in the Annual Report.

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 -- SEMPRA ENERGY CONSOLIDATED

(Dollars in millions)

		Pension Benefits		Other Postretirement Benefits	
		Three months ended June 30,		Three months ended June 30,	
		2011	2010	2011	2010
Service cost	\$	21 \$	20 \$	8 \$	8
Interest cost		42	41	16	14
Expected return on assets		(36)	(36)	(12)	(11)
Amortization of:					
Prior service cost (credit)		1	1		(1)
Actuarial loss		9	7	5	2
Settlement		10			
Regulatory adjustment		4	10	2	2
Total net periodic benefit cost	\$	51 \$	43 \$	19 \$	14
		Six months ended June 30,		Six months ended June 30,	
		2011	2010	2011	2010
Service cost	\$	43 \$	42 \$	15 \$	15
Interest cost		85	84	33	29
Expected return on assets		(73)	(72)	(24)	(23)
Amortization of:					
Prior service cost (credit)		2	2		(1)
Actuarial loss		18	15	9	4
Settlement		10			
Regulatory adjustment		(25)	(19)	4	4
Total net periodic benefit cost	\$	60 \$	52 \$	37 \$	28

NET PERIODIC BENEFIT COST -- SDG&E

(Dollars in millions)

Pension Benefits		Other Postretirement Benefits	
Three months ended June 30,		Three months ended June 30,	
2011	2010	2011	2010

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Service cost	\$	8 \$	7 \$	2 \$	1
Interest cost		12	12	3	3
Expected return on assets		(13)	(11)	(2)	(1)
Amortization of:					
Prior service cost				1	1
Actuarial loss		3	3		
Settlement		1			
Regulatory adjustment		7	7		
Total net periodic benefit cost	\$	18 \$	18 \$	4 \$	4
		Six months ended June 30,		Six months ended June 30,	
		2011	2010	2011	2010
Service cost	\$	15 \$	14 \$	4 \$	3
Interest cost		25	24	5	5
Expected return on assets		(25)	(21)	(4)	(3)
Amortization of:					
Prior service cost		1	1	2	2
Actuarial loss		5	6		
Settlement		1			
Regulatory adjustment		(2)	(5)	1	1
Total net periodic benefit cost	\$	20 \$	19 \$	8 \$	8

NET PERIODIC BENEFIT COST -- SOCALGAS

(Dollars in millions)

		Pension Benefits		Other Postretirement Benefits	
		Three months ended June 30,		Three months ended June 30,	
		2011	2010	2011	2010
Service cost	\$	12 \$	11 \$	5 \$	5
Interest cost		25	24	14	11
Expected return on assets		(21)	(22)	(10)	(10)
Amortization of:					
Prior service credit				(1)	(1)
Actuarial loss		4	2	4	2
Settlement		1			
Regulatory adjustment		(3)	3	2	2
Total net periodic benefit cost	\$	18 \$	18 \$	14 \$	9
		Six months ended June 30,		Six months ended June 30,	
		2011	2010	2011	2010
Service cost	\$	24 \$	23 \$	10 \$	10
Interest cost		50	49	27	23
Expected return on assets		(43)	(45)	(20)	(20)
Amortization of:					
Prior service cost (credit)		1	1	(2)	(2)
Actuarial loss		8	5	9	4
Settlement		1			
Regulatory adjustment		(23)	(14)	3	3
Total net periodic benefit cost	\$	18 \$	19 \$	27 \$	18

Benefit Plan Contributions

The following table shows our year-to-date contributions to pension and other postretirement benefit plans and the amounts we expect to contribute in 2011:

(Dollars in millions)	Sempra Energy Consolidated	SDG&E	SoCalGas
Contributions through June 30, 2011:			
Pension plans	\$ 70	\$ 17	\$ 22
Other postretirement benefit plans	37	8	28
Total expected contributions in 2011:			
Pension plans	\$ 249	\$ 81	\$ 120
Other postretirement benefit plans	76	16	55

EARNINGS PER SHARE

The following table provides the per share computations for our earnings for the three months and six months ended June 30, 2011 and 2010. 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 June 30, 2011	2010	Six months ended June 30, 2011	2010
Numerator:				
Earnings/Income attributable to common shareholders	\$ 511	\$ 222	\$ 769	\$ 328
Denominator:				
Weighted-average common shares outstanding for basic EPS	239,415	246,784	239,769	246,435
Dilutive effect of stock options, restricted stock awards and restricted stock units	1,346	2,943	1,385	3,400
Weighted-average common shares outstanding for diluted EPS	240,761	249,727	241,154	249,835
Earnings per share:				
Basic	\$ 2.14	\$ 0.90	\$ 3.21	\$ 1.33
Diluted	\$ 2.12	\$ 0.89	\$ 3.19	\$ 1.31

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 and minus tax shortfalls 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 (out-of-the-money options). We had 2,118,042 and 2,119,677 such stock options outstanding during the three months and six months ended June 30, 2011, respectively. We had 2,177,855 and 2,171,016 such stock options outstanding during the three months and six months ended June 30, 2010, respectively.

We had 900 stock options outstanding during both the three months and six months ended June 30, 2011 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 during the three months or six months ended June 30, 2010.

The dilution from unvested restricted stock awards (RSAs) and restricted stock units (RSUs) is also based on the treasury stock method. Assumed proceeds equal to the unearned compensation and windfall tax benefits and 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 RSAs or RSUs and the deferred income taxes we recorded related to the compensation expense on such awards and units.

Each performance based restricted stock unit represents the right to receive between zero and 1.5 shares of Sempra Energy common stock based on Sempra Energy's four-year cumulative total shareholder return compared to the S&P 500 Utilities Index, as follows:

Four-Year Cumulative Total Shareholder Return Ranking versus S&P 500 Utilities Index(1)	Number of Sempra Energy Common Shares Received for Each Restricted Stock Unit
75th Percentile or Above	1.5
50th Percentile	1
35th Percentile or Below	

(1) If Sempra Energy ranks at or above the 50th percentile compared to the S&P 500 Utilities Index, participants will receive a maximum of 1.0 share for each restricted stock unit.

RSAs have a maximum potential of 100% vesting. We include our performance based RSAs and RSUs in potential dilutive shares at zero to 100 percent and zero to 150 percent, respectively, to the extent that they currently meet the performance requirements for vesting, subject to the application of the treasury stock method. Due to market fluctuations of both our company stock and the comparative index, dilutive RSA and RSU shares may vary widely from period-to-period. We include our RSAs, which are service based, in potential dilutive shares at 100 percent.

RSUs and RSAs may be excluded from potential dilutive shares by the application of unearned compensation in the treasury stock method or because performance goals are currently not met. The maximum excluded RSUs and RSAs, assuming performance goals were met at maximum levels, were 4,434,795 and 4,450,495 for the three months and six months ended June 30, 2011, respectively, and 2,203,973 and 1,801,758 for the three months and six months ended June 30, 2010, respectively.

COMMON STOCK REPURCHASE PROGRAM

In September 2010, we entered into a share repurchase program under which we prepaid \$500 million to repurchase shares of our common stock in a share forward transaction. The program was completed in March 2011 with a total of 9,574,435 shares repurchased at an average price of \$52.22 per share. Our outstanding shares used to calculate earnings per share were reduced by the number of shares repurchased when they were delivered to us, and the \$500 million purchase price was recorded as a reduction in shareholders' equity upon its prepayment. We received 5,670,006 shares during the quarter ended September 30, 2010; 2,407,994 shares on October 4, 2010 and 1,496,435 shares on March 22, 2011. We discuss the repurchase program further in Note 13 of the Notes to Consolidated Financial Statements in the Annual Report.

PREFERRED STOCK OF SUBSIDIARY

On June 30, 2011, PE redeemed all five series of its outstanding preferred stock for \$81 million. Each series was redeemed for cash at redemption prices ranging from \$100 to \$101.50 per share, plus accrued dividends up to the redemption date of an aggregate of \$1 million. The redeemed shares are no longer outstanding and represent only the right to receive the applicable redemption price, to the extent the shares have not yet been presented for payment. We provide more detail concerning PE's preferred stock in Note 12 of the Notes to Consolidated Financial Statements in the Annual Report.

SHARE-BASED COMPENSATION

We discuss our share-based compensation plans in Note 9 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 June 30, 2011 and 2010, respectively, and \$13 million for both the six months ended June 30, 2011 and 2010. Pursuant to our share-based compensation plans, we granted 1,045,821 RSUs and 11,876 RSAs during the six months ended June 30, 2011, primarily in January.

CAPITALIZED FINANCING COSTS

Capitalized financing costs include capitalized interest costs and, at the Sempra Utilities, an allowance for funds used during construction (AFUDC) related to both debt and equity financing of construction projects. The following table shows capitalized financing costs for the three months and six months ended June 30, 2011 and 2010.

CAPITALIZED FINANCING COSTS

(Dollars in millions)

		Three months ended June 30, 2011	2010	Six months ended June 30, 2011	2010
Sempra Energy Consolidated:					
AFUDC related to debt	\$	9	\$	5	\$ 10
AFUDC related to equity		22		14	41
Other capitalized financing costs		8		11	14
Total Sempra Energy Consolidated	\$	39	\$	30	\$ 72
SDG&E:					
AFUDC related to debt	\$	8	\$	4	\$ 7
AFUDC related to equity		18		10	33
					19

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Total SDG&E	\$	26	\$	14	\$	47	26
SoCalGas:							
AFUDC related to debt	\$	1	\$	1	\$	3	3
AFUDC related to equity		4		4		8	8
Total SoCalGas	\$	5	\$	5	\$	11	11

COMPREHENSIVE INCOME

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

COMPREHENSIVE INCOME

(Dollars in millions)

		Three months ended June 30,									
		Share- holders' Equity(1)	2011 Non- controlling Interests	Total Equity	Share- holders' Equity(1)	2010 Non- controlling Interests	Total Equity				
Sempra Energy Consolidated:											
Net income (loss)(2)	\$	514	\$	(12)	\$	225	\$	(20)	205		
Foreign currency translation adjustments		29		6		(17)			(17)		
Reclassification to net income of foreign currency translation adjustment related to equity method investments(3)		(54)		(54)							
Financial instruments Available-for-sale securities		(6)		(10)		(9)		2	(7)		
Net actuarial gain		5		5		(3)			(3)		
Comprehensive income (loss)	\$	488	\$	(16)	\$	472	\$	198	\$	(18)	180
SDG&E:											
Net income (loss)	\$	72	\$	(19)	\$	53	\$	76	\$	(21)	55
Financial instruments				(10)		(10)		2			2
Net actuarial gain						1					1
Comprehensive income (loss)	\$	72	\$	(29)	\$	43	\$	77	\$	(19)	58
SoCalGas:											
Net income	\$	60	\$		\$	60	\$	70	\$		70
Financial instruments		1				1		1			1
Comprehensive income	\$	61	\$		\$	61	\$	71	\$		71

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

(2) Before preferred dividends of subsidiaries.

(3) Related to the acquisition of Chilquinta Energía and Luz del Sur.

COMPREHENSIVE INCOME

(Dollars in millions)

Six months ended June 30,					
Share- holders'	2011 Non- controlling	Total	Share- holders'	2010 Non- controlling	Total