PACIFIC ENTERPRISES INC
Form 10-Q
May 04, 2010

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

(Mark One)
[X] **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2010

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)696-2034	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
1-40	PACIFIC ENTERPRISES 101 Ash Street San Diego, California 92101 (619)696-2020	California	94-0743670	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 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
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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

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

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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;

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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;

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business, regulatory, environmental and legal decisions and requirements;

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

§

the timing and success of business development efforts;

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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)	
REVENUES		
Sempra Utilities	$ 1,912	$ 1,642
Sempra Global and parent	622	466
Total revenues	2,534	2,108
EXPENSES AND OTHER INCOME		
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

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, 2010 (unaudited)	December 31, 2009
ASSETS		
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 (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 and other derivatives	251	241
Regulatory assets arising from pension and other 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 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, 2010 (unaudited)	December 31, 2009
LIABILITIES AND EQUITY		
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

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 March 31, 2010	2009
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
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
CASH FLOWS FROM INVESTING ACTIVITIES		
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)
CASH FLOWS FROM FINANCING ACTIVITIES		
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 March 31,	
	2010	2009
	(unaudited)	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest payments, net of amounts capitalized	$ 71	$ 56
Income tax refunds, net	73	52
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
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 March 31,	
	2010	2009
	(unaudited)	
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, 2010 (unaudited)	December 31, 2009
ASSETS		
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 and other derivatives	65	30
Other regulatory assets	4	4
Fixed-price contracts and other derivatives	34	40
Insurance receivable related to wildfire litigation (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 and other derivatives	250	241
Regulatory assets arising from pension and other postretirement 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 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, 2010 (unaudited)	December 31, 2009
LIABILITIES AND EQUITY		
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, 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; 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)

	Three months ended March 31, 2010	2009
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
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
CASH FLOWS FROM INVESTING ACTIVITIES		
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)
CASH FLOWS FROM FINANCING ACTIVITIES		
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
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest payments, net of amounts capitalized	$ 10	$ 14
Income tax payments (refunds), net	(26)	1
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
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 March 31,	
	2010	2009
	(unaudited)	
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, 2010 (unaudited)	December 31, 2009
ASSETS		
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 postretirement 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, 2010 (unaudited)	December 31, 2009
LIABILITIES AND EQUITY		
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, 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 million shares outstanding; 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 March 31, 2010	2009
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
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
CASH FLOWS FROM INVESTING ACTIVITIES		
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)
CASH FLOWS FROM FINANCING ACTIVITIES		
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
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest payments, net of amounts capitalized	$ 9	$ 9
Income tax refunds, net	23	23
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
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 March 31, 2010	2009
	(unaudited)	
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, 2010 (unaudited)	December 31, 2009
ASSETS		
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 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, 2010 (unaudited)	December 31, 2009
LIABILITIES AND SHAREHOLDERS' EQUITY		
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, 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 million shares outstanding; 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 March 31, 2010	2009
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
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	346	357
Changes in other assets	1	7
Changes in other liabilities	(1)	(4)
Net cash provided by operating activities	501	499
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(114)	(112)
Increase in loans to affiliates, net	(156)	-
Net cash used in investing activities	(270)	(112)
CASH FLOWS FROM FINANCING ACTIVITIES		
Common dividends paid	(100)	-
Net cash used in financing activities	(100)	-
Increase in cash and cash equivalents	131	387
Cash and cash equivalents, January 1	49	206
Cash and cash equivalents, March 31	$ 180	$ 593
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest payments, net of amounts capitalized	$ 9	$ 8
Income tax refunds, net	23	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 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

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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

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the European power and gas business

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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

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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):

	Three months ended March 31,	
(Dollars in millions)	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

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the purpose and design of the VIE;

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

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

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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 theses 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 -- SEMPRA 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	-	-

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:

(Dollars in millions)	Sempra Energy 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 March 31, 2010	2009
SDG&E:		
AFUDC related to debt	$ 3	$ 2
AFUDC related to equity	9	6
Total SDG&E	12	8
SoCalGas:		
AFUDC related to debt	2	1
AFUDC related to equity	4	2
Total SoCalGas	6	3
Sempra Global:		
Capitalized financing costs	7	22
Total Sempra Energy Consolidated	$ 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,					
	2010			2009		
	Share-holders' Equity(1)	Non-controlling Interests	Total Equity	Share-holders' Equity(1)	Non-controlling Interests	Total Equity
Sempra Energy Consolidated:						
Net income (loss)(2)	$ 108	$ (8)	$ 100	$ 318	$ 7	$ 325
Foreign currency translation 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
SDG&E:						
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
PE:						
Net income(2)	$ 65	$ -	$ 65	$ 59	$ -	$ 59
Financial instruments	-	-	-	1	-	1
Comprehensive income	$ 65	$ -	$ 65	$ 60	$ -	$ 60
SoCalGas:						
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,					
	2010			2009		
	Share-holders' Equity(1)	Non-controlling Interests	Total Equity	Share-holders' Equity(1)	Non-controlling Interests	Total Equity
Sempra Energy Consolidated:						
Financial instruments	$ -	$ -	$ -	$ 2	$ -	$ 2
Available-for-sale securities	-	-	-	3	-	3
Net actuarial gain	1	-	1	1	-	1
SDG&E:						
Financial instruments	$ -	$ -	$ -	$ 1	$ -	$ 1
PE:						
Financial instruments	$ -	$ -	$ -	$ 1	$ -	$ 1
SoCalGas:						
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 Energy Shareholders' Equity	Non-controlling Interests	Total 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 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 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 interests	-	6	6
Balance at March 31, 2009	$ 8,247	$ 266	$ 8,513

SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS
(Dollars in millions)

	SDG&E Shareholders' Equity	Non-controlling Interests	Total 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 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, 2010		December 31, 2009	
SDG&E				
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
Pacific Enterprises				
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
SoCalGas				
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, 2010	December 31, 2009
Fixed-price contracts and other derivatives - Net Asset (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
Sempra Energy Consolidated:		
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
SDG&E:		
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
SoCalGas and PE:		
Allowance for equity funds used during construction	$ 4	$ 2
Sundry, net	-	(1)
Total at SoCalGas and PE	$ 4	$ 1

(1) 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.

INCOME TAXES

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

	Three months ended March 31,			
	2010		2009	
	Income Tax Expense	Effective Income Tax Rate	Income Tax Expense	Effective Income 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:

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lower pretax income in countries with lower statutory rates;

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$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

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

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

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higher deductions for self-developed software costs; and

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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

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

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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.

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.

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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:

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

(1)Million British thermal units
(2)Megawatt hours

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

INTEREST RATE DERIVATIVES

We are exposed to interest 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:

	March 31, 2010		
(Dollars in millions)	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			
Derivatives designated as hedging instruments	Current assets: Fixed-price contracts and other derivatives(1)	Investments and other assets: Sundry	Current liabilities: Fixed-price contracts and other derivatives(2)	Deferred credits and other liabilities: Fixed-price contracts and other derivatives
Sempra Energy Consolidated:				
Interest rate instruments	$ 5	$ -	$ -	$ -
Commodity contracts not subject to rate recovery	1	-	-	-
Total	$ 6	$ -	$ -	$ -
SoCalGas:				
Interest rate instruments	$ 5	$ -	$ -	$ -
Commodity contracts not subject to rate recovery	1	-	-	-
Total	$ 6	$ -	$ -	$ -
Derivatives not designated as hedging instruments				
Sempra Energy Consolidated:				
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)
SDG&E:				
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)
SoCalGas:				
Commodity contracts subject to rate recovery	$ 6	$ -	$ (4)	$ -
Associated offsetting commodity contracts	(3)	-	3	-
Total	$ 3	$ -	$ (1)	$ -

	December 31, 2009			
Derivatives designated as hedging instruments	Current assets: Fixed-price contracts and other derivatives(1)	Investments and other assets: Sundry	Current liabilities: Fixed-price contracts and other derivatives(2)	Deferred credits and other liabilities: Fixed-price contracts and other derivatives
Sempra Energy Consolidated:				
Interest rate instruments	$ 12	$ 2	$ -	$ -
Commodity contracts not subject to rate recovery	1	-	-	-
Total	$ 13	$ 2	$ -	$ -
SoCalGas:				
Interest rate instruments	$ 6	$ 2	$ -	$ -
Derivatives not designated as hedging instruments				
Sempra Energy Consolidated:				
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)
SDG&E:				
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)
SoCalGas:				
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	
Sempra Energy Consolidated:					
Interest rate instruments(1)	Interest Expense	$	2	$	-
Interest rate instruments	Other Income, Net		(2)		(6)
Total		$	-	$	(6)
SoCalGas:					
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 pretax gain (loss) on derivative recognized in OCI (effective portion)	Gain (loss) reclassified from AOCI into earnings (effective portion)		
		Location		Amount
Sempra Energy Consolidated:				
Interest rate instruments	$ -	Interest Expense	$	(3)
Commodity contracts not subject to rate recovery	1	Equity Earnings: RBS Sempra Commodities LLP		2
Total	$ 1		$	(1)
SDG&E:				
Interest rate instruments	$ -	Interest Expense	$	(2)
SoCalGas:				
Interest rate instruments	$ -	Interest Expense	$	(1)

	Three months ended March 31, 2009			
	Amount of pretax gain (loss) on derivative recognized in OCI (effective portion)	Gain (loss) reclassified from AOCI into earnings (effective portion)		
		Location		Amount
Sempra Energy Consolidated:				
Interest rate instruments	$ (3)	Interest Expense	$	(3)
Commodity contracts not subject to rate recovery	11	Revenues: Sempra Global and Parent		17
Commodity contracts not subject to rate recovery	(4)	Cost of Natural Gas, Electric Fuel and Purchased Power		(5)
Commodity contracts not subject to rate recovery	-	Equity Earnings: RBS Sempra Commodities LLP		(9)
Total	$ 4		$	-
SDG&E:				
Interest rate instruments	$ -	Interest Expense	$	(2)
SoCalGas:				
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	
Sempra Energy Consolidated:					
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 to rate recovery	Cost of Natural Gas, Electric Fuel and Purchased Power		(6)		8
Commodity contracts subject to rate recovery	Cost of Electric Fuel and Purchased Power		(52)		(49)
Commodity contracts subject to rate recovery	Cost of Natural Gas		(2)		(1)
Commodity contracts subject to rate recovery	Cost of Natural Gas, Electric Fuel and Purchased Power		(3)		-
Total		$	(57)	$	(48)
SDG&E:					
Interest rate instruments(1)	Other Income, Net	$	(9)	$	10
Commodity contracts subject to rate recovery	Cost of Electric Fuel and Purchased Power		(52)		(49)
Total		$	(61)	$	(39)
SoCalGas:					
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 Amount	Fair Value	Carrying Amount	Fair Value
Sempra Energy Consolidated:				
Investments in affordable housing 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
SDG&E:				
Total long-term debt(3)	$ 2,672	$ 2,765	$ 2,672	$ 2,828
Contingently redeemable preferred stock	79	76	79	76
PE and SoCalGas:				
Total long-term debt(4)	$ 1,292	$ 1,354	$ 1,296	$ 1,382
PE:				
Preferred stock	$ 80	$ 66	$ 80	$ 61
Preferred stock of subsidiary	20	20	20	19
	$ 100	$ 86	$ 100	$ 80
SoCalGas:				
Preferred stock	$ 22	$ 21	$ 22	$ 20

(1) We discuss our investments in affordable housing partnerships in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

(2) Before reductions for unamortized discount of $17 million at March 31, 2010 and December 31, 2009.

(3) Before reductions for unamortized discount of $4 million at March 31, 2010 and December 31, 2009.

(4) Before reductions for unamortized discount of $2 million at March 31, 2010 and December 31, 2009.

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 Unrealized Gains		Gross Unrealized Losses		Estimated Fair Value	
As of March 31, 2010:								
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
As of December 31, 2009:								
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:

(Dollars in millions)	March 31, 2010	December 31, 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				
	Level 1	Level 2	Level 3	Collateral Netted	Total
Assets:					
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
Total	$ 605	$ 255	$ 9	$ (26)	$ 843
Liabilities:					
Interest rate instruments	$ -	$ 65	$ -	$ -	$ 65
Commodity contracts subject to rate recovery	57	11	-	(57)	11
Commodity contracts not subject to rate recovery	-	74	-	-	74
Total	$ 57	$ 150	$ -	$ (57)	$ 150

	At fair value as of December 31, 2009				
	Level 1	Level 2	Level 3	Collateral Netted	Total
Assets:					
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
Total	$ 572	$ 240	$ 10	$ (40)	$ 782
Liabilities:					
Interest rate instruments	$ -	$ 59	$ -	$ -	$ 59
	9	9	-	(9)	9

Commodity contracts subject to rate recovery										
Commodity contracts not subject to rate recovery		-		65		-		-		65
Total	$	9	$	133	$	-	$	(9)	$	133

(1) Excludes cash balances and cash equivalents.