

SAN DIEGO GAS & ELECTRIC CO

Form 10-Q

August 09, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

or

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

For the transition period from to

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

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

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

Yes X

No

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

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

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

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

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

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

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

Common stock outstanding on August 5, 2011:

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

SEMPRA ENERGY FORM 10-Q
 SAN DIEGO GAS & ELECTRIC COMPANY FORM 10-Q
 SOUTHERN CALIFORNIA GAS COMPANY FORM 10-Q
 TABLE OF CONTENTS

	Page
Information Regarding Forward-Looking Statements	4
PART I – FINANCIAL INFORMATION	
Item 1. Financial Statements	5
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	64
Item 3. Quantitative and Qualitative Disclosures About Market Risk	93
Item 4. Controls and Procedures	94
PART II – OTHER INFORMATION	
Item 1. Legal Proceedings	95
Item 1A. Risk Factors	95
Item 6. Exhibits	95
Signatures	98

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

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

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

We make statements in this report that are not historical fact and constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are necessarily based upon assumptions with respect to the future, involve risks and uncertainties, and are not guarantees of performance. These forward-looking statements represent our estimates and assumptions only as of the date of this report.

In this report, when we use words such as "believes," "expects," "anticipates," "plans," "estimates," "projects," "contemplates," "intends," "depends," "should," "could," "would," "will," "may," "potential," "target," "goals," or similar expressions, or when we discuss our strategy, plans or intentions, we are making forward-looking statements.

Factors, among others, that could cause our actual results and future actions to differ materially from those described in forward-looking statements include

- § local, regional, national and international economic, competitive, political, legislative and regulatory conditions and developments;
- § actions by the California Public Utilities Commission, California State Legislature, Federal Energy Regulatory Commission, Nuclear Regulatory Commission, California Energy Commission, California Air Resources Board, and other regulatory, governmental and environmental bodies in the United States and other countries in which we operate;
 - § capital markets conditions and inflation, interest and exchange rates;
 - § energy markets, including the timing and extent of changes and volatility in commodity prices;
 - § the availability of electric power, natural gas and liquefied natural gas;
 - § weather conditions and conservation efforts;
 - § war and terrorist attacks;
 - § business, regulatory, environmental and legal decisions and requirements;
 - § the status of deregulation of retail natural gas and electricity delivery;
 - § the timing and success of business development efforts;
 - § the resolution of litigation; and
 - § other uncertainties, all of which are difficult to predict and many of which are beyond our control.

We caution you not to rely unduly on any forward-looking statements. You should review and consider carefully the risks, uncertainties and other factors that affect our business as described in this report and in our Annual Report on

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

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SEMPRA ENERGY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions, except per share amounts)

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

Edgar Filing: SAN DIEGO GAS & ELECTRIC CO - Form 10-Q

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

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

See Notes to Condensed Consolidated Financial Statements.

SEMPRA ENERGY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

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

(1) Derived from audited financial statements.

See Notes to Condensed Consolidated Financial Statements.

SEMPRA ENERGY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

	June 30, 2011 (unaudited)	December 31, 2010(1)
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	\$ 453	\$ 158
Accounts payable - trade	783	755
Accounts payable - other	132	109
Due to unconsolidated affiliates		36
Deferred income taxes	31	
Dividends and interest payable	217	188
Accrued compensation and benefits	269	311
Regulatory balancing accounts, net	277	241
Current portion of long-term debt	144	349
Fixed-price contracts and other derivatives	85	106
Customer deposits	135	129
Reserve for wildfire litigation	422	639
Other	627	765
Total current liabilities	3,575	3,786
Long-term debt (\$350 and \$355 at June 30, 2011 and December 31, 2010, respectively, related to VIE)	9,648	8,980
Deferred credits and other liabilities:		
Customer advances for construction	139	154
Pension and other postretirement benefit obligations, net of plan assets	1,106	1,105
Deferred income taxes	1,826	1,561
Deferred investment tax credits	48	50
Regulatory liabilities arising from removal obligations	2,692	2,630
Asset retirement obligations	1,490	1,449
Other regulatory liabilities	115	138
Fixed-price contracts and other derivatives	279	290
Deferred credits and other	867	823
Total deferred credits and other liabilities	8,562	8,200
Contingently redeemable preferred stock of subsidiary	79	79
Commitments and contingencies (Note 10)		
Equity:		
Preferred stock (50 million shares authorized; none issued)		
Common stock (750 million shares authorized; 240 million shares outstanding at June 30, 2011 and December 31, 2010, no par value)	2,074	2,036
Retained earnings	7,868	7,329

Edgar Filing: SAN DIEGO GAS & ELECTRIC CO - Form 10-Q

Deferred compensation	(5)	(8)
Accumulated other comprehensive income (loss)	(358)	(330)
Total Sempra Energy shareholders' equity	9,579	9,027
Preferred stock of subsidiaries	20	100
Other noncontrolling interests	373	111
Total equity	9,972	9,238
Total liabilities and equity	\$ 31,836	\$ 30,283

(1) Derived from audited financial statements.

See Notes to Condensed Consolidated Financial Statements.

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

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

Edgar Filing: SAN DIEGO GAS & ELECTRIC CO - Form 10-Q

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

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

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

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

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

See Notes to Condensed Consolidated Financial Statements.

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

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

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

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

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

See Notes to Condensed Consolidated Financial Statements.

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

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

SUPPLEMENTAL DISCLOSURE OF NONCASH
ACTIVITIES

Increase in capital lease obligations for investments in property, plant, and equipment	\$	\$	183
Accrued capital expenditures		131	109
Dividends declared but not paid		1	1

See Notes to Condensed Consolidated Financial Statements.

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

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

See Notes to Condensed Consolidated Financial Statements.

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

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

(1) Derived from audited financial statements.

See Notes to Condensed Consolidated Financial Statements.

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

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

(1) Derived from audited financial statements.

See Notes to Condensed Consolidated Financial Statements.

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

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

SEMPRA ENERGY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. GENERAL

PRINCIPLES OF CONSOLIDATION

Sempra Energy

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

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

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

Sempra Energy uses the equity method to account for investments in affiliated companies over which we have the ability to exercise significant influence, but not control. We discuss our investments in unconsolidated subsidiaries in Note 4 below and Note 4 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2010.

SDG&E

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

SoCalGas

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

BASIS OF PRESENTATION

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

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

We have prepared the Condensed Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America (GAAP) and in accordance with the interim-period-reporting requirements of Form 10-Q. Results of operations for interim periods are not necessarily indicative of results for the entire year. We evaluated events and transactions that occurred after June 30, 2011 through the date the financial statements were issued, and in the opinion of management, the accompanying statements reflect all adjustments necessary for a fair presentation. These adjustments are only of a normal, recurring nature.

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

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

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

We describe our significant accounting policies in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report. We follow the same accounting policies for interim reporting purposes, except for the adoption of new accounting standards as we discuss in Note 2.

The Sempra Utilities and Sempra Pipelines & Storage's Mobile Gas and Ecogas prepare their financial statements in accordance with GAAP provisions governing regulated operations, as we discuss in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

NOTE 2. NEW ACCOUNTING STANDARDS

We describe below recent pronouncements that have had or may have a significant effect on our financial statements. We do not discuss recent pronouncements that are not anticipated to have an impact on or are unrelated to our financial condition, results of operations, or disclosures.

SEMPRA ENERGY, SDG&E AND SOCALGAS

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

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

§ quantitative information about the unobservable inputs

§ a description of the valuation process

§ a qualitative discussion about the sensitivity of the measurements

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

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

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

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

NOTE 3. ACQUISITION AND INVESTMENT ACTIVITY

SEMPRA PIPELINES & STORAGE

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

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

Edgar Filing: SAN DIEGO GAS & ELECTRIC CO - Form 10-Q

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

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

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

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

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

Edgar Filing: SAN DIEGO GAS & ELECTRIC CO - Form 10-Q

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

Acquisition-related costs (included in Other Operation

and Maintenance expense on the Condensed

Consolidated Statements of Operations for the

three months and six months ended June

30, 2011)

(1)

\$ 1 \$ 1 \$ \$ 2
 We expect acquired accounts receivable to be substantially realizable in cash. Accounts receivable are net of collection allowances of \$6 million for Chile and \$1 million for Peru.

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

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

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

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

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

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

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

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

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

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

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

Mexican Pipeline and Natural Gas Infrastructure Assets

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

Rockies Express

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

NOTE 4. INVESTMENTS IN UNCONSOLIDATED ENTITIES

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

RBS SEMPRA COMMODITIES

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

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

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

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

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

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

NOTE 5. OTHER FINANCIAL DATA

VARIABLE INTEREST ENTITIES (VIE)

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

§ the purpose and design of the VIE;

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

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

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

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

Otay Mesa VIE

SDG&E has a 10-year agreement to purchase power generated at the Otay Mesa Energy Center (OMEC), a 605-megawatt (MW) generating facility. In addition to tolling, the agreement provides SDG&E with the option to purchase the power plant at the end of the contract term in 2019, or upon earlier termination of the purchased-power agreement, at a predetermined price subject to adjustments based on performance of the facility. If SDG&E does not exercise its option it may be required, under certain circumstances, to purchase the power plant at a predetermined price.

The facility owner, Otay Mesa Energy Center LLC (OMEC LLC), is a VIE (Otay Mesa VIE), of which SDG&E is the primary beneficiary. SDG&E has no OMEC LLC voting rights and does not operate OMEC. In addition to the risks absorbed under the tolling agreement, SDG&E absorbs separately through the put option a significant portion of the risk that the value of Otay Mesa VIE could decline. Otay Mesa VIE's equity of \$89 million at June 30, 2011 and \$113 million at December 31, 2010 is included on the Condensed Consolidated Balance Sheets in Other Noncontrolling Interests for Sempra Energy and in Noncontrolling Interest for SDG&E.

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

Other Variable Interest Entities

SDG&E's power procurement is subject to reliability requirements that may require SDG&E to enter into various power purchase arrangements which include variable interests. SDG&E evaluates the respective entities to determine if variable interest entities exist and, based on the qualitative and quantitative analyses described above, if SDG&E, and thereby Sempra Energy, is the primary beneficiary. SDG&E has determined that no contracts, other than that relating to Otay Mesa VIE mentioned above, result in SDG&E being the primary beneficiary as of June 30, 2011. In addition to the tolling agreements described above, other variable interests involve various elements of fuel and power costs, including certain construction costs, tax credits, and other components of cash flow expected to be paid to or received by our counterparties. In most of these cases, the expectation of variability is not substantial, and SDG&E generally does not have the power to direct activities that most significantly impact the economic performance of the other VIEs. If our ongoing evaluation of these VIEs were to conclude that SDG&E becomes the primary beneficiary and consolidation by SDG&E becomes necessary, the effects are not expected to significantly affect the financial position, results of operations, or liquidity of SDG&E. SDG&E is not exposed to losses or gains as a result of these other VIEs, because all such variability would be recovered in rates.

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

GOODWILL

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

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

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

GOODWILL

(Dollars in millions)

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

\$ 1,059 \$ 87

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

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

PENSION AND OTHER POSTRETIREMENT BENEFITS

Net Periodic Benefit Cost

The following three tables provide the components of net periodic benefit cost:

NET PERIODIC BENEFIT COST -- SEMPra ENERGY CONSOLIDATED

(Dollars in millions)

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

NET PERIODIC BENEFIT COST -- SDG&E

(Dollars in millions)

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

Edgar Filing: SAN DIEGO GAS & ELECTRIC CO - Form 10-Q

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

NET PERIODIC BENEFIT COST -- SOCALGAS

(Dollars in millions)

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

Benefit Plan Contributions

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

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

EARNINGS PER SHARE

The following table provides the per share computations for our earnings for the three months and six months ended June 30, 2011 and 2010. Basic earnings per common share (EPS) is calculated by dividing earnings attributable to common stock by the weighted-average number of common shares outstanding for the period. Diluted EPS includes the potential dilution of common stock equivalent shares that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

EARNINGS PER SHARE COMPUTATIONS

(Dollars in millions, except per share amounts; shares in thousands)

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

The dilution from common stock options is based on the treasury stock method. Under this method, proceeds based on the exercise price plus unearned compensation and windfall tax benefits and minus tax shortfalls are assumed to be used to repurchase shares on the open market at the average market price for the period. The windfall tax benefits are

tax deductions we would receive upon the assumed exercise of stock options in excess of the deferred income taxes we recorded related to the compensation expense on the stock options. Tax shortfalls occur when the assumed tax deductions are less than recorded deferred income taxes. The calculation excludes options for which the exercise price on common stock was greater than the average market price during the period (out-of-the-money options). We had 2,118,042 and 2,119,677 such stock options outstanding during the three months and six months ended June 30, 2011, respectively. We had 2,177,855 and 2,171,016 such stock options outstanding during the three months and six months ended June 30, 2010, respectively.

We had 900 stock options outstanding during both the three months and six months ended June 30, 2011 that were antidilutive because of the unearned compensation and windfall tax benefits included in the assumed proceeds under the treasury stock method. We had no such antidilutive stock options during the three months or six months ended June 30, 2010.

The dilution from unvested restricted stock awards (RSAs) and restricted stock units (RSUs) is also based on the treasury stock method. Assumed proceeds equal to the unearned compensation and windfall tax benefits and minus tax shortfalls related to the awards and units are assumed to be used to repurchase shares on the open market at the average market price for the period. The windfall tax benefits or tax shortfalls are the difference between tax deductions we would receive upon the assumed vesting of RSAs or RSUs and the deferred income taxes we recorded related to the compensation expense on such awards and units.

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

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

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

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

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

COMMON STOCK REPURCHASE PROGRAM

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

PREFERRED STOCK OF SUBSIDIARY

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

SHARE-BASED COMPENSATION

We discuss our share-based compensation plans in Note 9 of the Notes to Consolidated Financial Statements in the Annual Report. We recorded share-based compensation expense, net of income taxes, of \$7 million and \$6 million for the three months ended June 30, 2011 and 2010, respectively, and \$13 million for both the six months ended June 30, 2011 and 2010. Pursuant to our share-based compensation plans, we granted 1,045,821 RSUs and 11,876 RSAs during the six months ended June 30, 2011, primarily in January.

CAPITALIZED FINANCING COSTS

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

CAPITALIZED FINANCING COSTS

(Dollars in millions)

		Three months ended June 30,		Six months ended June 30,				
		2011	2010	2011	2010			
Sempra Energy Consolidated:								
AFUDC related to debt	\$	9	\$	5	\$	17	\$	10
AFUDC related to equity		22		14		41		27
Other capitalized financing costs		8		11		14		18
Total Sempra Energy Consolidated	\$	39	\$	30	\$	72	\$	55
SDG&E:								
AFUDC related to debt	\$	8	\$	4	\$	14	\$	7
AFUDC related to equity		18		10		33		19

Edgar Filing: SAN DIEGO GAS & ELECTRIC CO - Form 10-Q

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

COMPREHENSIVE INCOME

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

COMPREHENSIVE INCOME

(Dollars in millions)

	Three months ended June 30,					
	Share- holders' Equity(1)	2011 Non- controlling Interests	Total Equity	Share- holders' Equity(1)	2010 Non- controlling Interests	Total Equity
Sempra Energy Consolidated:						
Net income (loss)(2)	\$ 514	\$ (12)	\$ 502	\$ 225	\$ (20)	\$ 205
Foreign currency translation adjustments	29	6	35	(17)		(17)
Reclassification to net income of foreign currency translation adjustment related to equity method investments(3)	(54)		(54)			
Financial instruments Available-for-sale securities	(6)	(10)	(16)	(9)	2	(7)
Net actuarial gain	5		5	2		2
Comprehensive income (loss)	\$ 488	\$ (16)	\$ 472	\$ 198	\$ (18)	\$ 180
SDG&E:						
Net income (loss)	\$ 72	\$ (19)	\$ 53	\$ 76	\$ (21)	\$ 55
Financial instruments		(10)	(10)		2	2
Net actuarial gain				1		1
Comprehensive income (loss)	\$ 72	\$ (29)	\$ 43	\$ 77	\$ (19)	\$ 58
SoCalGas:						
Net income	\$ 60	\$	\$ 60	\$ 70	\$	\$ 70
Financial instruments	1		1	1		1
Comprehensive income	\$ 61	\$	\$ 61	\$ 71	\$	\$ 71

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

(2) Before preferred dividends of subsidiaries.

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

COMPREHENSIVE INCOME

(Dollars in millions)

	Six months ended June 30,					
	Share- holders' Equity(1)	2011 Non- controlling Interests	Total Equity	Share- holders' Equity(1)	2010 Non- controlling Interests	Total Equity
Sempra Energy Consolidated:						
Net income (loss)(2)	\$ 774	\$ (8)	\$ 766	\$ 333	\$ (28)	\$ 305
Foreign currency translation adjustments	23	6	29	(21)		(21)
Reclassification to net income of foreign currency translation adjustment related to equity method investments(3)	(54)		(54)			
Financial instruments	(4)	(9)	(13)	(9)	4	(5)
Available-for-sale securities				(3)		(3)
Net actuarial gain	7		7	3		3
Comprehensive income (loss)	\$ 746	\$ (11)	\$ 735	\$ 303	\$ (24)	\$ 279
SDG&E:						
Net income (loss)	\$ 162	\$ (15)	\$ 147	\$ 160	\$ (29)	\$ 131
Financial instruments		(9)	(9)		4	4
Net actuarial gain				1		1
Comprehensive income (loss)	\$ 162	\$ (24)	\$ 138	\$ 161	\$ (25)	\$ 136
SoCalGas:						
Net income	\$ 128		\$ 128	\$ 135		\$ 135
Financial instruments	1		1	1		1
Comprehensive income	\$ 129		\$ 129	\$ 136		\$ 136

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

(2) Before preferred dividends of subsidiaries.

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

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 June 30,					
	Share- holders' Equity(1)	2011 Non- controlling Interests	Total Equity	Share- holders' Equity(1)	2010 Non- controlling Interests	Total Equity
Sempra Energy Consolidated:						
Financial instruments	\$ (1)	\$	\$ (1)	\$ (6)	\$	\$ (6)
Available-for-sale securities				(1)		(1)
Net actuarial gain	3		3	1		1
SoCalGas:						

Edgar Filing: SAN DIEGO GAS & ELECTRIC CO - Form 10-Q

Financial instruments	\$	1	\$	1	\$	1	\$	1
Six months ended June 30,								
		2011				2010		
		Share-	Non-	Total		Share-	Non-	Total
		holders'	controlling	Equity		holders'	controlling	Equity
		Equity(1)	Interests			Equity(1)	Interests	
Sempra Energy Consolidated:								
Financial instruments	\$		\$	\$		\$ (6)	\$	\$ (6)
Available-for-sale securities						(1)		(1)
Net actuarial gain		4		4		2		2
SoCalGas:								
Financial instruments	\$	1	\$	\$ 1		\$ 1	\$	\$ 1
Shareholders' equity of Sempra Energy Consolidated or SoCalGas as indicated in left (1)margin.								

Income tax amounts associated with other comprehensive income during the three months and six months ended June 30, 2011 and 2010 at SDG&E were negligible.

SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS

The following two tables provide a reconciliation of Sempra Energy's and SDG&E's shareholders' equity and noncontrolling interests for the six months ended June 30, 2011 and 2010.

SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS
(Dollars in millions)

		Sempra Energy Shareholders' Equity	Non- controlling Interests	Total Equity
Balance at December 31, 2010	\$	9,027 \$	211 \$	9,238
Comprehensive income (loss)		746	(11)	735
Share-based compensation expense		24		24
Common stock dividends declared		(230)		(230)
Preferred dividends of subsidiaries		(5)		(5)
Issuance of common stock		19		19
Tax benefit related to share-based compensation		5		5
Repurchase of common stock		(18)		(18)
Common stock released from ESOP		11		11
Distributions to noncontrolling interests			(6)	(6)
Acquisition of South American entities			279	279
Redemption of preferred stock of subsidiary			(80)	(80)
Balance at June 30, 2011	\$	9,579 \$	393 \$	9,972
Balance at December 31, 2009	\$	9,007 \$	244 \$	9,251
Comprehensive income (loss)		303	(24)	279

Edgar Filing: SAN DIEGO GAS & ELECTRIC CO - Form 10-Q

Share-based compensation expense		22		22
Common stock dividends declared		(193)		(193)
Preferred dividends of subsidiaries		(5)		(5)
Issuance of common stock		46		46
Tax benefit related to share-based compensation		1		1
Repurchase of common stock		(2)		(2)
Common stock released from ESOP		11		11
Balance at June 30, 2010	\$	9,190 \$	220 \$	9,410

SHAREHOLDER'S EQUITY AND NONCONTROLLING INTEREST
(Dollars in millions)

		SDG&E Shareholder's Equity	Non- controlling Interest	Total Equity
Balance at December 31, 2010	\$	3,108 \$	113 \$	3,221
Comprehensive income		162	(24)	138
Preferred stock dividends declared		(2)		(2)
Capital contribution		200		200
Balance at June 30, 2011	\$	3,468 \$	89 \$	3,557
Balance at December 31, 2009	\$	2,739 \$	146 \$	2,885
Comprehensive income (loss)		161	(25)	136
Preferred stock dividends declared		(2)		(2)
Balance at June 30, 2010	\$	2,898 \$	121 \$	3,019

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 4 of the Notes to Consolidated Financial Statements in the Annual Report. The loan has a \$24 million balance outstanding at a variable interest rate (7.3 percent as of June 30, 2011). In June 2011, the maturity date of the loan was extended from June 2011 to June 30, 2012. The loan is fully reserved at June 30, 2011.

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 AND SOCALGAS
(Dollars in millions)

		June 30, 2011	December 31, 2010
SDG&E			
Current:			
Due from SoCalGas	\$		\$ 11

Edgar Filing: SAN DIEGO GAS & ELECTRIC CO - Form 10-Q

Due from various affiliates		1		1
	\$	1	\$	12
Due to Sempra Energy	\$	28	\$	16
Due to SoCalGas		5		
	\$	33	\$	16
Income taxes due from Sempra Energy(1)	\$	55	\$	25
SoCalGas				
Current:				
Due from Sempra Energy	\$	282	\$	60
Due from SDG&E		5		
Due from various affiliates				3
	\$	287	\$	63
Due to SDG&E	\$		\$	11
Income taxes due to Sempra Energy(1)	\$	(7)	\$	(3)

(1) SDG&E 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 SEMPR
UTILITIES**
(Dollars in millions)

		Three months ended June 30,		Six months ended June 30,	
		2011	2010	2011	2010
SDG&E	\$	1 \$		4 \$	3 \$
SoCalGas		12		10	25
					5
					21

Transactions with RBS Sempra Commodities

Several of our business units have engaged in transactions with RBS Sempra Commodities. As a result of the divestiture of substantially all of RBS Sempra Commodities' businesses, transactions between our business units and RBS Sempra Commodities were assigned over time to the buyers of the joint venture businesses. The assignments of the related contracts were substantially completed by May 1, 2011. Amounts in our Condensed Consolidated Financial Statements related to these transactions are as follows:

**AMOUNTS RECORDED FOR TRANSACTIONS WITH RBS SEMPR
COMMODITIES**
(Dollars in millions)

	Three months ended June 30,		Six months ended June 30,	
	2011(1)	2010	2011(1)	2010

Edgar Filing: SAN DIEGO GAS & ELECTRIC CO - Form 10-Q

Revenues:

SoCalGas	\$		\$ 3	\$	\$ 7
Sempra Generation(2)		(5)		4	9
Sempra LNG		4	66	40	139
Total revenues	\$	(1)	\$ 69	\$ 44	\$ 155

Cost of natural gas:

SDG&E	\$		\$	\$	\$ 1
SoCalGas			11		23
Sempra Generation		4	12	30	28
Sempra Pipelines & Storage		7	7	14	16
Sempra LNG		2	78	30	145
Total cost of natural gas	\$	13	\$ 108	\$ 74	\$ 213

(1) With the exception of Sempra Pipelines & Storage, whose contract with RBS Sempra Commodities expired in July 2011, amounts only include activities prior to May 1, 2011, the date by which substantially all the contracts with RBS Sempra Commodities were assigned to buyers of the joint venture businesses.

(2) Includes amounts in 2010 for Sempra Rockies Marketing, previously reported in our former Sempra Commodities segment as we discuss in Note 11.

December 31,
2010

Fixed-price contracts and other derivatives - Net

Asset (Liability):

Sempra Generation	\$	17
Sempra LNG		(35)
Total	\$	(18)

Due to unconsolidated affiliates:

Sempra Generation	\$	11
Sempra LNG		13
Parent and other		11
Total	\$	35

Due from unconsolidated affiliates:

SoCalGas	\$	3
Sempra Generation		13
Sempra LNG		13
Parent and other		5
Total	\$	34

OTHER INCOME (EXPENSE), NET

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

OTHER INCOME (EXPENSE), NET
(Dollars in millions)

Edgar Filing: SAN DIEGO GAS & ELECTRIC CO - Form 10-Q

	Three months ended June 30,		Six months ended June 30,		
	2011	2010	2011	2010	
Sempra Energy Consolidated:					
Allowance for equity funds used during construction	\$	22 \$	14 \$	41 \$	27
Investment gains(1)		11	2	19	5
Gains (losses) on interest rate and foreign exchange instruments(2)		2	(14)	12	(23)
Regulatory interest, net		1		1	(1)
Sundry, net		(5)	6	1	8
Total	\$	31 \$	8 \$	74 \$	16
SDG&E:					
Allowance for equity funds used during construction	\$	18 \$	10 \$	33 \$	19
Losses on interest rate instruments(3)			(25)		(34)
Regulatory interest, net		1	1	1	
Sundry, net		(6)	(2)	(5)	(1)
Total	\$	13 \$	(16)\$	29 \$	(16)
SoCalGas:					
Allowance for equity funds used during construction	\$	4 \$	4 \$	8 \$	8
Sundry, net		(1)	(2)	(2)	(2)
Total	\$	3 \$	2 \$	6 \$	6

- (1) Represents investment gains 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.
- (2) Sempra Energy Consolidated includes Otay Mesa VIE and additional instruments.
- (3) Related to Otay Mesa VIE.

INCOME TAXES

INCOME TAX EXPENSE AND EFFECTIVE INCOME TAX RATES

(Dollars in millions)

	Three months ended June 30,			
	2011		2010	
	Income Tax Expense	Effective Income Tax Rate	Income Tax Expense	Effective Income Tax Rate
Sempra Energy Consolidated	\$ 92	16 %	\$ 59	25 %
SDG&E	42	44	44	44
SoCalGas	28	32	34	33
	Six months ended June 30,			
	2011		2010	
	Income Tax Expense	Effective Income Tax Rate	Income Tax Expense	Effective Income Tax Rate
Sempra Energy Consolidated	\$ 201	22 %	\$ 117	31 %
SDG&E	91	38	75	36
SoCalGas	65	34	90	40

Changes in Effective Income Tax Rates

Sempra Energy Consolidated

The decrease in the effective income tax rate for the three months ended June 30, 2011 was primarily due to:

§ higher income in countries with lower statutory rates, including a \$277 million non-taxable gain from remeasurement of our equity method investments related to our acquisition from AEI of their investments in Chile and Peru, discussed below; and

§ higher exclusions from taxable income of the equity portion of AFUDC; offset by

§ \$2 million tax expense in 2011 compared to \$4 million tax benefit in 2010 due to Mexican currency translation and inflation adjustments; and

§ lower planned investment tax credits.

For the six months ended June 30, 2011, the decrease in the effective income tax rate was primarily due to:

§ higher income in countries with lower statutory rates, including a \$277 million non-taxable gain from remeasurement of our equity method investments related to our acquisition from AEI of their investments in Chile and Peru, discussed below;

§ a \$16 million write-down in 2010 of the deferred tax assets related to other postretirement 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;

§ higher exclusions from taxable income of the equity portion of AFUDC; and

§ higher deductions for self-developed software costs; offset by

§ lower favorable adjustments related to prior years' income tax issues;

§ an increase in the amount by which book depreciation for the Sempra Utilities exceeds normalized tax depreciation, which is not treated as a deferred tax asset for ratemaking purposes; and

§ higher tax expense in 2011 due to Mexican currency translation and inflation adjustments.

As we discuss in Note 3, we recorded a \$277 million gain in connection with our acquisition of AEI's interests in Chilquinta Energía in Chile and Luz del Sur in Peru. However, we recorded no corresponding income tax expense because, for the foreseeable future, our investments in Chile and Peru are considered permanent in nature (i.e., will not be held out for sale). In addition, we continue to expect to reinvest indefinitely all cumulative undistributed earnings, for the foreseeable future, for all non-U.S. subsidiaries, including our subsidiaries in Chile and Peru. Deferred income tax expense related to all, or a part, of the \$277 million gain would need to be recorded if either, or both, of these investments were to be held out for sale. Deferred income tax expense would also need to be recorded if all, or part, of the cumulative undistributed earnings in either Chile or Peru, or both, were no longer considered to be reinvested indefinitely.

SDG&E

Although the effective tax rate for the three months ended June 30, 2011 remained constant compared to the same period in 2010, it was impacted by:

§ the impact of Otay Mesa VIE, as we discuss below;

§ lower pretax book income; and

§ higher exclusions from taxable income of the equity portion of AFUDC; offset by

§ higher unfavorable adjustments related to prior years' income tax issues.

SDG&E's effective tax rate increased for the six months ended June 30, 2011 primarily due to:

§ unfavorable adjustments related to prior years' income tax issues in 2011 versus favorable adjustments in 2010;

§ an increase in the amount by which book depreciation exceeds normalized tax depreciation, which is not treated as a deferred tax asset for ratemaking purposes; and

§ higher pretax book income; offset by

§ the impact of Otay Mesa VIE, as we discuss below;

§ higher exclusions from taxable income of the equity portion of AFUDC;

§ a \$3 million write-down in 2010 of the deferred tax assets related to other postretirement benefits as a result of a change in U.S. tax law, as we discuss above; and

§ higher deductions for self-developed software costs.

Results for Sempra Energy Consolidated and SDG&E include Otay Mesa VIE, which is consolidated, and therefore, their effective income tax rates are impacted by the VIE's stand-alone effective income tax rate.

SoCalGas

The decrease in SoCalGas' effective income tax rate for the three months ended June 30, 2011 was due to:

§ a decrease in the amount by which book depreciation exceeds normalized tax depreciation, which is not treated as a deferred tax asset for ratemaking purposes; and

§ lower pretax book income; offset by

§ higher unfavorable adjustments related to prior years' income tax issues.

The decrease in SoCalGas' effective income tax rate for the six months ended June 30, 2011 was due to:

§ a \$13 million write-down in 2010 of the deferred tax assets related to other postretirement benefits as a result of a change in U.S. tax law, as we discuss above;

§ higher deductions for self-developed software costs; and

§ lower pretax book income; offset by

§ an increase in the amount by which book depreciation exceeds normalized tax depreciation, which is not treated as a deferred tax asset for ratemaking purposes.

NOTE 6. DEBT AND CREDIT FACILITIES

COMMITTED LINES OF CREDIT

At June 30, 2011, Sempra Energy Consolidated had \$3.8 billion in committed lines of credit to provide liquidity and to support commercial paper and variable-rate demand notes, the major components of which we detail below. Available unused credit on these lines at June 30, 2011 was \$2.9 billion.

Sempra Energy

Sempra Energy has a \$1 billion, four-year syndicated revolving credit agreement expiring in October 2014. Citibank, N.A. serves as administrative agent for the syndicate of 23 lenders. No single lender has greater than a 7-percent share.

Borrowings bear interest at benchmark rates plus a margin that varies with market index rates and Sempra Energy's credit ratings. The facility requires Sempra Energy to maintain a ratio of total indebtedness to total capitalization (as defined in the agreement) of no more than 65 percent at the end of each quarter. The facility also provides for issuance of up to \$400 million of letters of credit on behalf of Sempra Energy with the amount of borrowings otherwise available under the facility reduced by the amount of outstanding letters of credit.

At June 30, 2011, Sempra Energy had \$20 million of variable-rate demand notes outstanding supported by the facility.

Sempra Global

Sempra Global has a \$2 billion, four-year syndicated revolving credit agreement expiring in October 2014. Citibank, N.A. serves as administrative agent for the syndicate of 23 lenders. No single lender has greater than a 7-percent share.

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. The facility requires Sempra Energy to maintain a ratio of total indebtedness to total capitalization (as defined in the agreement) of no more than 65 percent at the end of each quarter.

At June 30, 2011, Sempra Global had \$639 million of commercial paper outstanding supported by the facility. At June 30, 2011, \$200 million of the commercial paper outstanding is classified as long-term debt based on management's intent and ability to maintain this level of borrowing on a long-term basis either supported by this credit facility or by issuing long-term debt. At December 31, 2010, \$800 million of commercial paper outstanding was similarly classified

as long-term debt.

Sempra Utilities

SDG&E and SoCalGas have a combined \$800 million, four-year syndicated revolving credit agreement expiring in October 2014. JPMorgan Chase Bank serves as administrative agent for the syndicate of 22 lenders. No single lender has greater than a 7-percent share. 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 ratings. The agreement requires each utility to maintain a ratio of total indebtedness to total capitalization (as defined in the agreement) of no more than 65 percent at the end of each quarter.

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 June 30, 2011, SDG&E and SoCalGas had no outstanding borrowings under this facility and SDG&E had \$237 million of variable-rate demand notes outstanding supported by the facility. Available unused credit on the lines under this facility at June 30, 2011 was \$363 million at SDG&E and \$563 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

As we discuss in Note 4, in 2010 and early 2011, Sempra Energy, RBS and RBS Sempra Commodities sold substantially all of the businesses and assets within the partnership in four separate transactions. In connection with each of these transactions, the buyers are, subject to certain qualifications, obligated to replace any guarantees that we have issued in connection with the applicable businesses sold with guarantees of their own. During the process of replacing these guarantees, the buyers are obligated to indemnify us in accordance with the applicable transaction documents for any claims or losses in connection with the guarantees.

RBS is obligated to provide RBS Sempra Commodities with certain of its working-capital requirements. We provide back-up guarantees for a portion of RBS Sempra Commodities' remaining trading obligations. Some of these back-up guarantees may continue for a prolonged period of time. RBS has fully indemnified us for any claims or losses in connection with these arrangements, with the exception of those obligations for which JP Morgan has agreed to indemnify us. We discuss the indemnification release in Note 4.

RBS Sempra Commodities' net trading liabilities supported by Sempra Energy's guarantees at June 30, 2011 were \$66 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.

Other Guarantees

Sempra Generation and BP Wind Energy currently hold 50-percent ownership interests in Fowler Ridge II. In August 2010, Fowler Ridge II obtained a \$348 million term loan expiring in August 2022. The proceeds were used to return \$180 million of each owner's investment in the joint venture. The loan agreement requires Sempra Generation and BP Wind Energy to return cash to the project in the event that the project does not meet certain cash flow criteria or in the event that the project's debt service and operation and maintenance reserve accounts are not maintained at specific thresholds. Sempra Generation recorded a liability of \$9 million for the fair value of its obligation associated with the cash flow requirements, which constitutes a guarantee. This liability is being amortized over its expected life. The outstanding loan is not guaranteed by the partners.

WEIGHTED AVERAGE INTEREST RATES

The weighted average interest rates on the total short-term debt outstanding at Sempra Energy were 0.56 percent and 0.46 percent at June 30, 2011 and December 31, 2010, respectively. The weighted average interest rates at both June 30, 2011 and December 31, 2010 include interest rates for commercial paper borrowings classified as long-term, as we discuss above.

LONG-TERM DEBT

In March 2011, Sempra Energy publicly offered and sold \$500 million of 2-percent notes and \$300 million of floating rate notes (1.01 percent as of June 30, 2011), both maturing in 2014. The floating rate notes bear interest at a rate equal to the three-month London interbank offered rate (LIBOR) plus 0.76 percent. The interest rate is reset quarterly.

Luz del Sur has outstanding Peruvian corporate bonds, denominated in the local currency, registered with the Peruvian stock exchange with maturity dates ranging from 2011 to 2015 at fixed interest rates ranging from 5.78 percent to 7.91 percent. As of June 30, 2011, the outstanding balance on these bonds was \$181 million. Additionally, Luz del Sur has outstanding bank loans with maturity dates ranging from 2012 to 2016 at interest rates ranging from 5.45 percent to 6.75 percent. As of June 30, 2011, the outstanding balance on the bank loans was \$40 million.

Chilquinta Energía has outstanding Series A and Series B Chilean public bonds with maturity dates in 2014 and 2030, respectively, and stated interest rates of 2.75 percent and 4.25 percent, respectively. The bonds and related interest are denominated in Chilean Unidades de Fomento. The Chilean Unidad de Fomento is a unit of account used in Chile that is adjusted for inflation, and its value is quoted in Chilean Pesos. In 2009, Sempra Pipelines & Storage purchased \$58 million of the 2.75-percent bonds, which are eliminated in consolidation. Net of this elimination, as of June 30, 2011, the outstanding balance on these bonds was \$244 million (\$25 million of Series A and \$219 million of Series B).

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. We may also manage foreign exchange rate exposures using derivatives. 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 Consolidated Statements of 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.

§ The Sempra Utilities use natural gas energy derivatives, on their customers' behalf, with the objective of managing price risk and basis risks, and lowering natural gas costs. These derivatives include fixed price natural gas positions, options, and basis risk instruments, which are either exchange-traded or over-the-counter financial instruments. This activity is 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.

§ SDG&E is allocated and may purchase congestion revenue rights (CRRs), which serve to reduce the regional electricity price volatility risk that 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, which is recoverable in rates, on the Condensed Consolidated Statements of Operations.

§ Sempra Generation uses natural gas and electricity instruments to market energy products and optimize the earnings of its power generation fleet. Gains and losses associated with these undesignated derivatives are recognized in Energy-Related Businesses Revenues or in Cost of Natural Gas, Electric Fuel and Purchased Power on the Condensed Consolidated Statements of Operations.

§ Sempra LNG and Sempra Pipelines & Storage use natural gas derivatives to market energy products and optimize the earnings of our 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. These derivatives, which are recorded as commodity costs that are offset by regulatory account balances and recovered in rates, are recognized in Cost of Natural Gas on the Condensed Consolidated Statements of Operations. At Sempra Pipelines & Storage's non-utility businesses, derivatives are undesignated, and their impact on earnings is recorded in Energy-Related Businesses Revenues or in Cost of Natural Gas, Electric Fuel and Purchased Power on the Condensed Consolidated Statements of Operations. Sempra LNG's derivatives are undesignated, and their impact on earnings is recorded in Energy-Related Businesses Revenues 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.

We summarize net energy derivative volumes as of June 30, 2011 and December 31, 2010 as follows:

Business Unit and Commodity	June 30, 2011	December 31, 2010
Sempra Utilities:		
SDG&E:		
Natural gas	45 million MMBtu	51 million MMBtu(1)
Congestion revenue rights	13 million MWh	21 million MWh(2)
SoCalGas - natural gas	2 million MMBtu	
Energy-Related Businesses:		
Sempra Generation - electric power	1 million MWh	1 million MWh
Sempra Generation - natural gas	1 million MMBtu	
Sempra Pipelines & Storage - natural gas	9 million MMBtu	8 million MMBtu
Sempra LNG - natural gas	6 million MMBtu	7 million MMBtu
(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 and sales.

INTEREST RATE DERIVATIVES

Edgar Filing: SAN DIEGO GAS & ELECTRIC CO - Form 10-Q

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 on outstanding debt or 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. Separately, Otay Mesa VIE has entered into interest rate swap agreements to moderate its exposure to interest rate changes. This was designated as a cash flow hedge as of April 1, 2011.

The net notional amounts of our interest rate derivatives as of June 30, 2011 and December 31, 2010 were:

(Dollars in millions)	June 30, 2011		December 31, 2010	
	Notional Debt	Maturities	Notional Debt	Maturities
Sempra Energy Consolidated(1)	\$ 15-305	2013-2019	\$ 215-355	2011-2019
SDG&E(1)	285-360	2019	285-365	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 tables provide the fair values of derivative instruments, without consideration of margin deposits held or posted, on the Condensed Consolidated Balance Sheets as of June 30, 2011 and December 31, 2010:

DERIVATIVE INSTRUMENTS ON THE CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	June 30, 2011			
	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
Derivatives designated as hedging instruments				
Sempra Energy Consolidated:				
Interest rate instruments(3)	\$ 7	\$	\$ (17)	\$ (45)
SDG&E:				
Interest rate instruments(3)	\$	\$	\$ (17)	\$ (44)

Edgar Filing: SAN DIEGO GAS & ELECTRIC CO - Form 10-Q

Derivatives not designated as hedging instruments

Sempra Energy Consolidated:

Interest rate instruments	\$	9	\$	23	\$	(8)	\$	(17)
Commodity contracts not subject to rate recovery		56		23		(42)		(39)
Associated offsetting commodity contracts		(16)		(11)		16		11
Commodity contracts subject to rate recovery		9		1		(28)		(23)
Associated offsetting commodity contracts		(5)		(1)		5		1
Total	\$	53	\$	35	\$	(57)	\$	(67)

SDG&E:

Commodity contracts not subject to rate recovery	\$	1	\$		\$		\$	
Commodity contracts subject to rate recovery		5		2		(25)		(23)
Associated offsetting commodity contracts		(3)		(1)		3		1
Total	\$	3	\$	1	\$	(22)	\$	(22)

SoCalGas:

Commodity contracts not subject to rate recovery	\$	1	\$		\$		\$	
Commodity contracts subject to rate recovery		4				(3)		
Associated offsetting commodity contracts		(2)				2		
Total	\$	3	\$		\$	(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.

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

	December 31, 2010			
	Current assets: Fixed-price contracts and other	Investments and other assets:	Current liabilities: Fixed-price contracts and other	Deferred credits and other liabilities: Fixed-price contracts and other
Derivatives designated as hedging instruments	derivatives(1)	Sundry	derivatives(2)	derivatives

Edgar Filing: SAN DIEGO GAS & ELECTRIC CO - Form 10-Q

Sempra Energy Consolidated:					
Interest rate instruments	\$	3	\$	\$	\$
SoCalGas:					
Interest rate instrument	\$	3	\$	\$	\$
Derivatives not designated as hedging instruments					
Sempra Energy Consolidated:					
Interest rate instruments(3)	\$	9	\$	22	\$ (25) \$ (57)
Commodity contracts not subject to rate recovery		59		20	(44) (34)
Associated offsetting commodity contracts		(2)		(8)	2 8
Commodity contracts subject to rate recovery		5			(43) (27)
Associated offsetting commodity contracts		(37)		(26)	37 26
Total	\$	34	\$	8	\$ (73) \$ (84)
SDG&E:					
Interest rate instruments(3)	\$		\$		\$ (17) \$ (41)
Commodity contracts not subject to rate recovery		1			
Commodity contracts subject to rate recovery		2			(35) (27)
Associated offsetting commodity contracts		(34)		(26)	34 26
Total	\$	(31)	\$	(26)	\$ (18) \$ (42)
SoCalGas:					
Commodity contracts not subject to rate recovery	\$	1	\$		\$
Commodity contracts subject to rate recovery		3			(3)
Associated offsetting commodity contracts		(3)			3
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 and on Other Comprehensive Income (OCI) and Accumulated Other Comprehensive Income (AOCI) for the three months and six months ended June 30, 2011 and 2010 were:

FAIR VALUE HEDGE IMPACT ON THE CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in millions)

Edgar Filing: SAN DIEGO GAS & ELECTRIC CO - Form 10-Q

		Gain (loss) on derivatives recognized in earnings			
		Three months ended June 30,		Six months ended June 30,	
Location		2011	2010	2011	2010
Sempra Energy Consolidated:					
Interest rate instruments	Interest Expense	\$ 2	\$ 5	\$ 5	\$ 7
Interest rate instruments	Other Income, Net	8	(7)	3	(9)
Total(1)		\$ 10	\$ (2)	\$ 8	\$ (2)
SoCalGas:					
Interest rate instrument	Interest Expense	\$	\$ 1	\$ 1	\$ 3
Interest rate instrument	Other Income, Net			(3)	(2)
Total(1)		\$	\$ 1	\$ (2)	\$ 1

(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)

	Pretax gain (loss) recognized		Location	Gain (loss) reclassified from AOCI into earnings (effective portion)	
	in OCI (effective portion)			Three months ended June 30,	
	Three months ended June 30,	2010		2011	2010
Sempra Energy Consolidated:					
Interest rate instruments(1)	\$ (11)	\$	Interest Expense	\$ (2)	\$ (4)
Interest rate instruments			Other Income, Net(2)		10
Interest rate instruments	(8)		Equity Earnings, Net of Income Tax		
Commodity contracts not subject to rate recovery		(1)	Equity Earnings, Before Income Tax		5
Total	\$ (19)	\$ (1)		\$ (2)	\$ 11
SDG&E:					
Interest rate instruments(1)	\$ (11)	\$	Interest Expense	\$ (1)	\$ (2)
SoCalGas:					
Interest rate instruments	\$	\$	Interest Expense	\$ (1)	\$ (2)
		Six months ended June 30,		Six months ended June 30,	
		2011	2010	2011	2010
Sempra Energy Consolidated:					
Interest rate instruments(1)	\$ (11)	\$	Interest Expense	\$ (4)	\$ (7)
Interest rate instruments			Other Income, Net(2)		10
Interest rate instruments	(7)		Equity Earnings, Net of Income Tax	(1)	

Commodity contracts not subject

			Equity Earnings, Before			
	to rate recovery		Income Tax			7
	Total	\$ (18)	\$	\$ (5)	\$	10
SDG&E:						
	Interest rate instruments(1)	\$ (11)	\$	Interest Expense	\$ (2)	\$ (4)
SoCalGas:						
	Interest rate instruments	\$	\$	Interest Expense	\$ (2)	\$ (3)
(1)	Amounts include Otay Mesa VIE. All of SDG&E's interest rate derivative activity relates to Otay Mesa VIE. There has been a negligible amount of ineffectiveness related to these swaps.					
(2)	Gains reclassified into earnings due to changes in cash requirements and associated impacts on forecasted interest payments, primarily related to proceeds received from RBS Sempra Commodities. See Note 4.					

Sempra Energy expects that losses of \$9 million, which are net of income tax benefit, 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 into earnings depends on the interest rates in effect when derivative contracts that are currently outstanding mature. For all forecasted transactions, the maximum term over which we are hedging exposure to the variability of cash flows is 94 months at June 30, 2011.

SDG&E and SoCalGas expect that losses of \$4 million and \$1 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 and six months ended June 30, 2011 and 2010 were:

UNDESIGNATED DERIVATIVE IMPACT ON THE CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions)

	Location	Gain (loss) on derivatives recognized in earnings			
		Three months ended June 30,		Six months ended June 30,	
		2011	2010	2011	2010
Sempra Energy Consolidated:					
Interest rate and foreign exchange instruments(1)	Other Income, Net	\$ 2	\$ (24)	\$ 12	\$ (33)
Commodity contracts not subject to rate recovery	Revenues: Energy-Related Businesses	8	15	14	30
Commodity contracts not subject to rate recovery	Cost of Natural Gas, Electric Fuel and Purchased Power		(9)	1	(15)
Commodity contracts not subject to rate recovery	Other Operation and Maintenance	(1)		1	

Edgar Filing: SAN DIEGO GAS & ELECTRIC CO - Form 10-Q

Commodity contracts subject to rate recovery	Cost of Electric Fuel and Purchased Power		(9)	9	(61)
Commodity contracts subject to rate recovery	Cost of Natural Gas	1	1	1	(1)
Commodity contracts subject to rate recovery	Cost of Natural Gas, Electric Fuel and Purchased Power				(3)
Total		\$ 10	\$ (26)	\$ 38	\$ (83)
SDG&E: Interest rate instruments(1)	Other Income (Expense), Net	\$	\$ (25)	\$	\$ (34)
Commodity contracts not subject to rate recovery	Operation and Maintenance			1	
Commodity contracts subject to rate recovery	Cost of Electric Fuel and Purchased Power		(9)	9	(61)
Total		\$	\$ (34)	\$ 10	\$ (95)
SoCalGas: Commodity contracts not subject to rate recovery	Operation and Maintenance	\$	\$	\$ 1	\$
Commodity contracts subject to rate recovery	Cost of Natural Gas	1	1	1	(1)
Total		\$ 1	\$ 1	\$ 2	\$ (1)

(1) Amount for 2010 is 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 ratings. Generally, these provisions, if applicable, may reduce our credit limit if a specified credit rating agency reduces our ratings. In certain cases, if our credit ratings 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 June 30, 2011 is \$4 million. As of June 30, 2011, if the credit ratings of Sempra Energy were reduced below investment grade, \$4 million of additional assets could be required to be posted as collateral for these derivative contracts.

For Sempra Energy, SDG&E, 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 contracts. 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 June 30, 2011 and December 31, 2010:

FAIR VALUE OF FINANCIAL INSTRUMENTS

(Dollars in millions)

	June 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Sempra Energy Consolidated:				
Investments in affordable housing partnerships(1)	\$ 25	\$ 58	\$ 28	\$ 58
Total long-term debt(2)	9,400	10,001	8,330	8,883
Due to unconsolidated affiliate(3)			2	2
Preferred stock of subsidiaries	99	101	179	166
SDG&E:				
Total long-term debt(4)	\$ 3,300	\$ 3,346	\$ 3,305	\$ 3,300
Contingently redeemable preferred stock	79	80	79	78
SoCalGas:				
Total long-term debt(5)	\$ 1,312	\$ 1,380	\$ 1,566	\$ 1,638
Preferred stock	22	22	22	21

- (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 \$22 million at both June 30, 2011 and December 31, 2010, and excluding capital leases of \$214 million at June 30, 2011 and \$221 million at December 31, 2010, and commercial paper classified as long-term debt of \$200 million at June 30, 2011 and \$800 million at December 31, 2010. We discuss our long-term debt in Note 6 above and Note 5 of the Notes to Consolidated Financial Statements in the Annual Report.
- (3) Note payable was extinguished due to the increase in our ownership of Chilquinta Energía S.A. to 100% in the second quarter of 2011.
- (4) Before reductions for unamortized discount of \$9 million at both June 30, 2011 and December 31, 2010, and excluding capital leases of \$198 million at June 30, 2011 and \$202 million at December 31, 2010.
- (5) Before reductions for unamortized discount of \$2 million at June 30, 2011 and \$3 million at December 31, 2010, and excluding capital leases of \$15 million at June 30, 2011 and \$19 million at December 31, 2010.

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 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 6 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 June 30, 2011:				
Debt securities				
Debt securities issued by the U.S.				
Treasury and other				
U.S. government corporations and				
agencies(1)	\$ 159	\$ 15	\$ (2)	\$ 172
Municipal bonds(2)	116	4	(2)	118
Other securities(3)	21	3		24
Total debt securities	296	22	(4)	314
Equity securities	221	263	(1)	483
Cash and cash equivalents	11			11
Total	\$ 528	\$ 285	\$ (5)	\$ 808
As of December 31, 2010:				
Debt securities				
Debt securities issued by the U.S.				
Treasury and other				
U.S. government corporations and				
agencies	\$ 162	\$ 14	\$ (2)	\$ 174
Municipal bonds	101	2	(3)	100
Other securities	22	3		25
Total debt securities	285	19	(5)	299
Equity securities	219	242	(1)	460
Cash and cash equivalents	10			10
Total	\$ 514	\$ 261	\$ (6)	\$ 769
(1)	Maturity dates are 2011-2040.			
(2)	Maturity dates are 2013-2057.			
(3)	Maturity dates are 2011-2049.			

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 June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Proceeds from sales	\$ 48	\$ 110	\$ 90	\$ 150
Gross realized gains	1	2	2	3

Gross realized losses (1) (5) (2) (7)

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.

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 June 30, 2011 and December 31, 2010:

(Dollars in millions)	June 30, 2011	December 31, 2010
Sempra Energy Consolidated	\$ 30	\$ 32
SDG&E	18	25
SoCalGas	3	3

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 six months ended June 30, 2011.

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 June 30, 2011 and December 31, 2010. We also discuss our financial assets and liabilities recorded at fair value on a non-recurring basis. 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 provide detail about our financial assets and liabilities that were accounted for at fair value on a recurring basis in Note 11 of the Notes to Consolidated Financial Statements in the Annual Report.

Edgar Filing: SAN DIEGO GAS & ELECTRIC CO - Form 10-Q

(Dollars in millions)

	At fair value as of June 30, 2011				Total
	Level 1	Level 2	Level 3	Collateral netted	
Assets:					
Nuclear decommissioning trusts					
Equity securities	\$ 483	\$	\$	\$	\$ 483
Debt securities:					
Debt securities issued by the U.S.					
Treasury and other					
U.S. government corporations and agencies	144	28			172
Municipal bonds		118			118
Other securities		24			24
Total debt securities	144	170			314
Total nuclear decommissioning trusts(1)	627	170			797
Interest rate instruments		39			39
Commodity contracts subject to rate recovery	21	1	3		25
Commodity contracts not subject to rate recovery	14	48		(4)	58
Investments	13				13
Total	\$ 675	\$ 258	\$ 3	\$ (4)	\$ 932
Liabilities:					
Interest rate instruments	\$	\$ 87	\$	\$	\$ 87
Commodity contracts subject to rate recovery	42	4		(42)	4
Commodity contracts not subject to rate recovery		51			51
Total	\$ 42	\$ 142	\$	\$ (42)	\$ 142

At fair value as of December 31, 2010

	At fair value as of December 31, 2010				Total
	Level 1	Level 2	Level 3	Collateral netted	
Assets:					
Nuclear decommissioning trusts					
Equity securities	\$ 460	\$	\$	\$	\$ 460
Debt securities:					
Debt securities issued by the U.S.					
Treasury and other					
U.S. government corporations and agencies	144	30			174
Municipal bonds		100			100
Other securities		25			25
Total debt securities	144	155			299
Total nuclear decommissioning trusts(1)	604	155			759
Interest rate instruments		34			34
Commodity contracts subject to rate recovery	25	1	2		28
Commodity contracts not subject to rate recovery	9	66		(22)	53

Edgar Filing: SAN DIEGO GAS & ELECTRIC CO - Form 10-Q

Investments	1				1
Total	\$ 639	\$ 256	\$ 2	\$ (22)	\$ 875
Liabilities:					
Interest rate instruments	\$	\$ 82	\$	\$	\$ 82
Commodity contracts subject to rate recovery	60	8		(60)	8
Commodity contracts not subject to rate recovery		67			67
Total	\$ 60	\$ 157	\$	\$ (60)	\$ 157
(1)	Excludes cash balances and cash equivalents.				

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

	At fair value as of June 30, 2011				Total
	Level 1	Level 2	Level 3	Collateral netted	
Assets:					
Nuclear decommissioning trusts					
Equity securities	\$ 483	\$	\$	\$	\$ 483
Debt securities:					
Debt securities issued by the U.S. Treasury and other					
U.S. government corporations and agencies	144	28			172
Municipal bonds		118			118
Other securities		24			24
Total debt securities	144	170			314
Total nuclear decommissioning trusts(1)	627	170			797
Commodity contracts subject to rate recovery	18		3		21
Commodity contracts not subject to rate recovery	1				1
Total	\$ 646	\$ 170	\$ 3	\$	\$ 819
Liabilities:					
Interest rate instruments	\$	\$ 61	\$	\$	\$ 61
Commodity contracts subject to rate recovery	42	3		(42)	3
Total	\$ 42	\$ 64	\$	\$ (42)	\$ 64

	At fair value as of December 31, 2010				Total
	Level 1	Level 2	Level 3	Collateral netted	
Assets:					
Nuclear decommissioning trusts					
Equity securities	\$ 460	\$	\$	\$	\$ 460
Debt securities:					

Edgar Filing: SAN DIEGO GAS & ELECTRIC CO - Form 10-Q

Debt securities issued by the U.S.					
Treasury and other					
U.S. government corporations and agencies					
	144		30		174
Municipal bonds					
			100		100
Other securities					
			25		25
Total debt securities					
	144		155		299
Total nuclear decommissioning trusts(1)					
	604		155		759
Commodity contracts subject to rate recovery					
	24			2	26
Commodity contracts not subject to rate recovery					
	2				2
Total	\$ 630	\$ 155	\$ 2	\$	\$ 787
Liabilities:					
Interest rate instruments					
	\$	\$ 58	\$	\$	\$ 58
Commodity contracts subject to rate recovery					
	60	2		(60)	2
Total	\$ 60	\$ 60	\$	\$ (60)	\$ 60
(1)	Excludes cash balances and cash equivalents.				

RECURRING FAIR VALUE MEASURES -- SOCALGAS
(Dollars in millions)

At fair value as of June 30, 2011					
	Level 1	Level 2	Level 3	Collateral netted	Total
Assets:					
Commodity contracts subject to rate recovery	\$ 3	\$ 1	\$	\$	\$ 4
Commodity contracts not subject to rate recovery	2				2
Total	\$ 5	\$ 1	\$	\$	\$ 6
Liabilities:					
Commodity contracts subject to rate recovery	\$	\$ 1	\$	\$	\$ 1
At fair value as of December 31, 2010					
	Level 1	Level 2	Level 3	Collateral netted	Total
Assets:					
Interest rate instruments	\$	\$ 3	\$	\$	\$ 3
Commodity contracts subject to rate recovery	1	1			2
Commodity contracts not subject to rate recovery	3				3
Total	\$ 4	\$ 4	\$	\$	\$ 8

There were no transfers into or out of Level 1 or Level 2 for Sempra Energy Consolidated, SDG&E or SoCalGas during the periods presented.

Level 3 Information

The following table sets forth reconciliations of changes in the fair value of net trading and other derivatives classified as Level 3 in the fair value hierarchy for Sempra Energy Consolidated and SDG&E:

(Dollars in millions)	Three months ended June 30,	
	2011	2010
Balance as of April 1	\$ 3	\$ 9
Realized and unrealized gains (losses)	6	(2)
Allocated transmission instruments	1	
Settlements	(7)	
Balance as of June 30	\$ 3	\$ 7
Change in unrealized gains relating to instruments still held at June 30	\$	\$

(Dollars in millions)	Six months ended June 30,	
	2011	2010
Balance as of January 1	\$ 2	\$ 10
Realized and unrealized gains (losses)	12	(4)
Allocated transmission instruments	2	
Settlements	(13)	1
Balance as of June 30	\$ 3	\$ 7
Change in unrealized gains relating to instruments still held at June 30	\$	\$

There were no transfers into or out of Level 3 during the periods presented.

Level 3 recurring items are related to CRRs. These instruments are recorded at fair value based on the most current annual auction prices published by the California Independent System Operator (ISO). The earnings impact of CRRs are deferred and recorded in regulatory accounts to the extent they are recoverable or refundable through rates. Upon settlement, CRRs are included in Cost of Electric Fuel and Purchased Power on the Condensed Consolidated Statements of Operations.

Non-Recurring Fair Value Measures – Sempra Energy Consolidated

We discuss non-recurring fair value measures and the associated accounting impact on our investments in RBS Sempra Commodities and Argentina in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

NOTE 9. SEMPRAS UTILITIES' REGULATORY MATTERS

POWER PROCUREMENT AND RESOURCE PLANNING

Renewable Energy

In 2010, certain California electric retail sellers, including SDG&E, were required to deliver 20 percent of their retail energy sales from renewable energy sources. The rules governing this requirement, administered by both the California Public Utilities Commission (CPUC) and the California Energy Commission (CEC), are known as the Renewables Portfolio Standard (RPS) Program. In April 2011, the Governor of California signed Senate Bill X1 2 (33% RPS Program) which, when in effect, will supersede the current RPS Program and require each California utility to procure 33 percent of its annual electric energy requirements from renewable energy sources by 2020, with an average of 20 percent required from January 1, 2011 to December 31, 2013; 25 percent by December 31, 2016; and 33 percent by December 31, 2020. The CPUC began a rulemaking in May 2011 to address the implementation of the 33% RPS Program. We expect the 33% RPS Program to become effective by the end of 2011.

The 33% RPS Program contains new flexible compliance mechanisms, more restrictive than the prior mechanisms, that can be used to comply with or meet the 33% RPS Program mandates in 2011 and beyond. The new mechanisms provide for a CPUC waiver under certain conditions, including: 1) a finding of inadequate transmission, 2) delays in the start-up of commercial operations of renewable energy projects due to permitting or interconnection or 3) unexpected curtailment by an electric system balancing authority, such as the California Independent System Operator (ISO).

SDG&E continues to procure renewable energy supplies to achieve the 33% RPS Program requirements. A substantial number of these supply contracts, however, are contingent upon many factors, including:

- § access to electric transmission infrastructure;
- § timely regulatory approval of contracted renewable energy projects;
- § the renewable energy project developers' ability to obtain project financing and permitting; and
- § successful development and implementation of the renewable energy technologies.

For 2010, SDG&E satisfied its RPS procurement requirements through a combination of contracted deliveries and application of the flexible compliance mechanism, including the application of certain mechanisms that are no longer available under the 33% RPS Program. For 2011 and beyond, SDG&E believes it will be able to comply with the 33% RPS Program requirements based on its contracting activity and, if necessary, application of the new flexible compliance mechanisms. SDG&E's failure to comply with the RPS Program requirements could subject it to a CPUC-imposed penalty of 5 cents per kilowatt hour of renewable energy under-delivery.

GENERAL RATE CASE (GRC)

The CPUC uses a general rate case proceeding to prospectively set rates sufficient to allow the Sempra Utilities to recover their reasonable cost of operations and to provide the opportunity to realize their authorized rates of return on their investment. In December 2010, the Sempra Utilities filed their 2012 General Rate Case (GRC) applications to establish their authorized 2012 revenue requirements and the ratemaking mechanisms by which those requirements will change on an annual basis over the subsequent three-year (2013-2015) period. The CPUC issued a ruling in March 2011 setting the proceeding scope and schedule that projected a final CPUC decision around the month of March 2012 and granted the utilities' requests to establish regulatory accounts to allow recovery of their authorized

2012 revenue requirements retroactive to January 1, 2012.

In July 2011, the Sempra Utilities filed amendments to revise their original applications, primarily to reflect the impact of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. These amendments reduced the requested increases to their authorized revenue requirements, as compared to their 2011 authorized revenues, by \$22 million at SDG&E to \$231 million and by \$17 million at SoCalGas to \$263 million.

We provide further detail about the GRC applications in Note 15 of the Notes to Consolidated Financial Statements in the Annual Report.

UTILITY INCENTIVE MECHANISMS

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

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

Natural Gas Procurement

In June 2011, SoCalGas applied to the CPUC for approval of a Gas Cost Incentive Mechanism (GCIM) award of \$6.2 million for natural gas procured for its core customers during the 12-month period ending March 31, 2011. SoCalGas expects a CPUC decision in the first half of 2012.

In June 2010, SoCalGas applied to the CPUC for approval of a GCIM award of \$6 million for natural gas procured for its core customers during the 12-month period ending March 31, 2010. SoCalGas expects a CPUC decision in the third quarter of 2011.

In the first quarter of 2010, SoCalGas recorded a GCIM award of \$12 million for its procurement activities during the 12-month period ending March 31, 2009, approved by the CPUC in January 2010.

Energy Efficiency

The CPUC established incentive mechanisms that are based on the effectiveness of energy efficiency and demand side management programs. In June 2011, the Sempra Utilities filed requests with the CPUC seeking incentive awards of \$15.1 million for SDG&E and \$2.0 million for SoCalGas for their 2009 program year results. SDG&E's filing reflects changes that SDG&E believes were errors in the calculation method developed by the CPUC's Energy Division. SDG&E is working with the CPUC's Energy Division staff to validate these changes. If these proposed changes are not adopted by the CPUC, SDG&E's award would be reduced to zero. These changes do not have any impact on SoCalGas' award amount. We have requested a CPUC decision by the end of 2011.

The CPUC is also considering modifications to the incentive mechanism that would apply to the 2012 – 2014 program period, but has not established a schedule for a decision.

SDG&E REQUEST FOR AUTHORITY TO INVEST IN WIND FARM

In July 2011, the CPUC approved a settlement agreement filed by SDG&E in April 2011 regarding SDG&E's request to make a tax equity investment in the holding company of a wind farm project. This approval allows SDG&E to make an investment, after the wind farm project has met all of the conditions precedent set forth in the definitive documents and upon the initiation of commercial operation of the project, which would be included in the utility's rate base in an amount not to exceed 64.99 percent of the project costs or an aggregate amount of \$250 million. SDG&E would also make an incremental investment, to be excluded from the utility's rate base, of no less than 10 percent of the project costs. SDG&E expects the project to be in commercial operation in late 2012.

INSURANCE COST RECOVERY

In December 2010, the CPUC approved SDG&E's request for a \$29 million revenue requirement, which was implemented in rates effective January 1, 2011, for the recovery of the incremental increase in its general liability and wildfire liability insurance premium costs for the 2009/2010 policy period and authorized SDG&E to request recovery of any incremental insurance premiums for future policy periods, with a \$5 million deductible applied to each policy renewal period. This approval was in response to a request filed by SDG&E with the CPUC in August 2009 seeking authorization to recover higher liability insurance premiums (amounts in excess of those authorized to be recovered in the 2008 GRC), which SDG&E began incurring commencing July 1, 2009, and any losses realized due to higher deductibles associated with the new policies. SDG&E made the filing under the CPUC's rules allowing utilities to seek recovery of significant cost increases incurred between GRC filings resulting from unforeseen circumstances. The CPUC's rules allow a utility to seek recovery of incurred costs that meet certain criteria, subject to a \$5 million deductible per event.

In April 2011, SDG&E filed a request for an incremental revenue requirement of \$63 million for the 2010/2011 policy period. We expect a CPUC decision on the request in the second half of 2011. SDG&E also plans to file a request in the third quarter of 2011 for any incremental insurance premiums incurred for the first six months of the 2011/2012 policy period.

EXCESS WILDFIRE CLAIMS COST RECOVERY

SDG&E and SoCalGas filed an application, along with other related filings, with the CPUC in August 2009 proposing a new mechanism for the future recovery of all wildfire-related expenses for claims, litigation expenses and insurance premiums that are in excess of amounts authorized by the CPUC for recovery in rates. This application was made jointly with Southern California Edison (SCE) and Pacific Gas & Electric (PG&E). In July 2010, the CPUC approved SDG&E's and SoCalGas' requests for separate regulatory accounts to record the subject expenses while the joint utility application is pending before the CPUC. Several parties protested the original application and, in response, the four utilities jointly submitted an amended application in August 2010. A February 2011 ruling directing the utilities to show cause why the application should not be dismissed was stayed to permit continued settlement discussions between the four utilities and the CPUC and with the other parties to the proceeding. In June 2011, a ruling was issued scheduling evidentiary hearings in October with a decision scheduled in 2012. Settlement discussions between the four utilities and other interested parties are proceeding.

SDG&E will also seek the recovery of costs incurred by SDG&E for the 2007 wildfire losses that are in excess of amounts recovered from its insurance coverage and other potentially responsible third parties. SDG&E believes that the approval of a new mechanism for cost recovery for wildfires could provide a framework for recovery of these costs.

We provide additional information about 2007 wildfire litigation costs and their recovery in Note 10.

NATURAL GAS PIPELINE OPERATIONS SAFETY ASSESSMENTS

As a result of recent natural gas pipeline explosions in the U.S., including the September 2010 rupture in San Bruno, California of a natural gas pipeline owned and operated by PG&E (the San Bruno incident), various regulatory agencies, including the CPUC, are evaluating natural gas pipeline safety regulations, practices and procedures.

In February 2011, the CPUC opened a forward-looking proceeding to examine what changes should be made to existing pipeline safety regulations for California natural gas pipelines. The Sempra Utilities are parties to this proceeding. The CPUC also appointed an independent review panel to make recommendations for possible actions by the CPUC in light of the San Bruno incident. Those recommendations may include changes to design, construction, operation and maintenance practices of natural gas facilities in California.

In June 2011, the CPUC directed SoCalGas, SDG&E, PG&E and Southwest Gas to file implementation plans by August 26, 2011, to test or replace all natural gas transmission pipelines that have not been pressure tested. The Sempra Utilities are currently estimating that they will need to invest several hundred million dollars annually over a ten-year period to test or replace the natural gas transmission lines identified in this plan. Consistent with the CPUC directive, the Sempra Utilities will request that the incremental capital investment required as a result of any approved plan be included in rate base and that cost recovery be allowed for any other incremental cost not eligible for rate-base recovery.

In January 2011, the National Transportation Safety Board (NTSB) issued seven safety recommendations in connection with its investigation into the cause of the San Bruno incident. According to the NTSB, these safety recommendations “were issued to address record-keeping problems that could create conditions in which a pipeline is operated at a higher pressure than the pipe was built to withstand.” In response to a request from the CPUC, each of the Sempra Utilities reviewed its pipeline facilities located or operating in populated or high consequence areas, as defined by the NTSB, to identify those segments that have not had the maximum allowable operating pressure (MAOP) established through prior hydrostatic testing. Federal and state regulations allow natural gas pipelines installed prior to July 1, 1970 to establish MAOPs through prior operating history rather than through a strength test, but strength tests are required on natural gas pipelines installed subsequent to June 30, 1970 as an element in establishing MAOPs.

In response to the CPUC’s request, the Sempra Utilities conducted a detailed review of 1,622 miles of pipelines (1,416 miles for SoCalGas and 206 miles for SDG&E) installed in the subject class locations, and on April 15, 2011, the Sempra Utilities submitted a report to the CPUC on the results of their review and the actions they are taking in response to the NTSB recommendations.

The Sempra Utilities’ records review process did not reveal any significant concerns with the currently established MAOP for their pipelines, and the Sempra Utilities intend to continue to operate their pipelines in a safe and prudent manner.

NOTE 10. COMMITMENTS AND CONTINGENCIES

LEGAL PROCEEDINGS

We accrue losses for legal proceedings when it is probable that a loss has been incurred and the amounts of the loss can be reasonably estimated. However, the uncertainties inherent in legal proceedings make it difficult to estimate

with reasonable certainty the costs and effects of resolving these matters. Accordingly, actual costs incurred may differ materially from amounts accrued, may exceed applicable insurance coverages and could materially adversely affect our business, cash flows, results of operations, and financial condition. Unless otherwise indicated, we are unable to estimate reasonably possible losses in excess of any amounts accrued.

At June 30, 2011, Sempra Energy's accrued liabilities for material legal proceedings, on a consolidated basis, were \$615 million, of which \$24 million is for resolved matters. We provide detail regarding the resolved matters in Note 16 of the Notes to Consolidated Financial Statements in the Annual Report. At June 30, 2011, accrued liabilities for material legal proceedings for SDG&E and SoCalGas were \$550 million and \$33 million, respectively. At June 30, 2011, liabilities of \$549 million at Sempra Energy and SDG&E are related to wildfire litigation discussed below.

SDG&E

2007 Wildfire Litigation

In October 2007, San Diego County experienced several catastrophic wildfires. Reports issued by the California Department of Forestry and Fire Protection (Cal Fire) concluded that two of these fires (the Witch and Rice fires) were SDG&E "power line caused" and that a third fire (the Guejito fire) occurred when a wire securing a Cox Communications' (Cox) fiber optic cable came into contact with an SDG&E power line "causing an arc and starting the fire." Cal Fire reported that the Rice fire burned approximately 9,500 acres and damaged 206 homes and two commercial properties, and the Witch and Guejito fires merged and eventually burned approximately 198,000 acres, resulting in two fatalities, approximately 40 firefighters injured and approximately 1,141 homes destroyed.

A September 2008 staff report issued by the Consumer Protection and Safety Division of the CPUC reached substantially the same conclusions as the Cal Fire reports, but also contended that the power lines involved in the Witch and Rice fires and the lashing wire involved in the Guejito fire were not properly designed, constructed and maintained. In April 2010, proceedings initiated by the CPUC to determine if any of its rules were violated were settled with SDG&E's payment of \$14.75 million.

Numerous parties have sued SDG&E and Sempra Energy in San Diego County Superior Court seeking recovery of unspecified amounts of damages, including punitive damages, from the three fires. These include owners and insurers of properties that were destroyed or damaged in the fires and public entities seeking recovery of firefighting, emergency response, and environmental costs. They assert various bases for recovery, including inverse condemnation based upon a California Court of Appeal decision finding that another California investor-owned utility was subject to strict liability, without regard to foreseeability or negligence, for property damages resulting from a wildfire ignited by power lines.

In October 2010, the Court of Appeal affirmed the trial court's ruling that these claims must be pursued in individual lawsuits, rather than as class actions on behalf of all persons who incurred wildfire damages. In February 2011, the California Supreme Court denied a petition for review of the affirmance. The trial court has scheduled a Witch fire and Guejito fire trial to begin in February 2012.

SDG&E filed cross-complaints against Cox seeking indemnification for any liability that SDG&E might incur in connection with the Guejito fire, two SDG&E contractors seeking indemnification in connection with the Witch fire, and one SDG&E contractor seeking indemnification in connection with the Rice fire.

In December 2010, SDG&E and Cox reached an agreement settling SDG&E's claims against Cox and Cox's insurers in the wildfire litigation (Cox Settlement). Among other things, the settlement agreement provided that SDG&E receive approximately \$444 million, which it will use for wildfire related expenditures, and SDG&E will defend and

indemnify Cox against all compensatory damage claims and related costs arising out of the wildfires.

At December 31, 2010, the \$300 million Settlement Receivable Related to Wildfire Litigation on the Condensed Consolidated Balance Sheets of Sempra Energy and SDG&E represented cash to be received in accordance with the terms of the Cox Settlement in several payments through March 2011 and which was received. Restricted cash of \$172 million at June 30, 2011 on the Condensed Consolidated Balance Sheets of Sempra Energy and SDG&E represents amounts received from Cox not yet applied to wildfire related expenditures.

SDG&E has settled substantially all of the 19,000 claims of homeowner insurers relating to the three fires. Under the settlement agreements, SDG&E has paid or will pay 57.5 percent of the approximately \$1.6 billion paid or reserved for payment by the insurers to their policyholders and received an assignment of the insurers' claims against other parties potentially responsible for the fires.

The wildfire litigation also includes claims of non-insurer plaintiffs for damage to uninsured and underinsured structures, business interruption, evacuation expenses, agricultural damage, emotional harm, personal injuries and other losses. SDG&E has settled the claims of approximately 1,540 of these plaintiffs. Approximately 1,080 of the approximately 1,880 remaining individual and business plaintiffs have submitted settlement demands and damage estimates totaling approximately \$1 billion and government entity claims totaling approximately \$130 million. SDG&E expects to receive additional settlement demands and damage estimates as settlement negotiations continue. SDG&E has established reserves for the wildfire litigation as we discuss below.

SDG&E's settlement of claims and defense costs have exceeded its \$1.1 billion of liability insurance coverage. It expects that its wildfire reserves and amounts paid to resolve wildfire claims will continue to increase as it obtains additional information; it is presently unable to reasonably estimate the amount or timing of recoveries from other potentially responsible parties, other than Cox.

SDG&E has concluded, however, that it is probable that it will be permitted to recover from its utility customers substantially all reasonably incurred costs of resolving wildfire claims in excess of its liability insurance coverage and any amounts recovered from other potentially responsible parties. Accordingly, although such recovery will require future regulatory actions, as of June 30, 2011 and December 31, 2010, SDG&E recorded a regulatory asset in an amount substantially equal to the aggregate amount it has paid or reserved for payment for the resolution of wildfire claims and related costs in excess of its liability insurance coverage and amounts received from Cox. SDG&E will increase the regulatory asset as additional amounts are paid or reserves are recorded and reduce it by any amounts recovered from other potentially responsible parties.

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

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

In 2010 and 2011, as liabilities for wildfire litigation have become reasonably estimable in the form of settlement demands, damage estimates, and other damage information, SDG&E has recorded related reserves as a liability. The impact of this liability at June 30, 2011 is offset by \$172 million of restricted cash received from Cox and the

recognition of a regulatory asset, as discussed above, for reserves in excess of the insurance coverage and the Cox Settlement. The impact of the reserves on SDG&E's and Sempra Energy's after-tax earnings was \$1 million and \$7 million for the three months ended June 30, 2011 and 2010, respectively, and \$2 million and \$10 million for the six months ended June 30, 2011 and 2010, respectively. At June 30, 2011, wildfire litigation reserves were \$549 million (\$422 million in current and \$127 million in long-term).

Sunrise Powerlink Electric Transmission Line

SDG&E commenced construction on the Sunrise Powerlink in the fall of 2010. The Sunrise Powerlink is a new 117-mile, 500-kilovolt (kV) electric transmission line that is being built between the Imperial Valley and the San Diego region, along a route that generally runs south of the Anza-Borrego Desert State Park. The current project plan provides for the transmission line to be completed and in-service in the second half of 2012.

The Sunrise Powerlink project was originally approved by the CPUC in December 2008, including approval of the environmental impact review conducted jointly with the Bureau of Land Management (BLM). The CPUC has subsequently denied or dismissed all requests for rehearing of its approval of the project.

In February 2011, the California Supreme Court denied a petition filed jointly by the Utility Consumers' Action Network (UCAN) and the Center for Biological Diversity/Sierra Club (CBD). The petition challenged the CPUC's decision with regard to implementation of the California Environmental Quality Act (CEQA). In addition, in August 2010, the California Court of Appeal denied a petition previously filed by UCAN with the Court of Appeal challenging the CPUC decision on other legal grounds.

In January 2009, the BLM issued its decision approving the portions of the project, route and environmental review within its jurisdiction. The Interior Board of Land Appeals (IBLA) subsequently denied or dismissed all administrative appeals that were filed challenging the BLM's approval of the project.

The CPUC and BLM jointly approved the final Project Modification Report for Sunrise Powerlink in September 2010, accepting all of the proposed modifications to the approved route and finding that no additional environmental review was required. In December 2010, the IBLA dismissed an appeal challenging the BLM's approval of the Project Modification Report. On March 3, 2011, opponents of the Sunrise Powerlink filed a petition for writ of review or mandamus with the California Supreme Court challenging the CPUC's acceptance of the Project Modification Report. The California Supreme Court denied the petition on April 13, 2011.

In February 2010, parties opposed to the project filed a lawsuit in Federal District Court in San Diego seeking declaratory and injunctive relief and alleging that the BLM failed to properly address the environmental impacts of the approved Sunrise Powerlink route and the related potential development of renewable resources in east San Diego County and Imperial County. In June 2011, the Court granted the defendants' motion for summary judgment on the grounds that the plaintiffs were not challenging final government agency actions. The plaintiffs have filed a notice of appeal.

In July 2010, the United States Forest Service (USFS) issued its decision approving the portions of the project, route and environmental review within its jurisdiction. The USFS has subsequently denied all administrative appeals challenging its approval of the project.

In January 2011, project opponents filed a lawsuit in Federal District Court in San Diego alleging that the federal approvals for construction of the project on USFS land and BLM land violated the National Environmental Policy Act and other federal environmental laws. The lawsuit asks the Court for injunctive relief preventing the USFS and the BLM from approving any ongoing or future construction activities.

In February 2011, opponents of the Sunrise Powerlink filed a lawsuit in California Superior Court in Sacramento, California against the State Water Resources Control Board and SDG&E alleging that the water quality certification issued by the Board under the Federal Clean Water Act violated CEQA. The complaint seeks to have the certification set aside and requests an injunction be issued.

We provide additional information concerning Sunrise Powerlink in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report.

SoCalGas

SoCalGas, along with Monsanto Co., Solutia, Inc., Pharmacia Corp., and Pfizer, Inc., are defendants in two Los Angeles County Superior Court lawsuits served in May 2011 seeking recovery of unspecified amounts of damages, including punitive damages, as a result of plaintiffs' exposure to PCBs (polychlorinated biphenyls). The lawsuits allege plaintiffs were exposed to PCBs not only through the food chain and other various sources but from PCB-contaminated natural gas pipelines owned and operated by SoCalGas. This contamination allegedly caused plaintiffs to develop cancer and other serious illnesses. Plaintiffs assert various bases for recovery, including negligence and products liability.

Sempra Pipelines & Storage

Liberty Gas Storage, LLC (Liberty) received a demand for arbitration from Williams Midstream Natural Gas Liquids, Inc. (Williams) in February 2011 related to a sublease agreement. Williams alleges that Liberty was negligent in its attempt to convert certain salt caverns to natural gas storage and seeks damages of \$56.7 million. Liberty filed a counterclaim alleging breach of contract in the inducement and seeks damages of more than \$215 million. We provide more detail about these caverns in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

Sempra LNG

Sempra LNG has been engaged in a long-running land dispute relating to property adjacent to its Energía Costa Azul liquefied natural gas (LNG) receipt terminal near Ensenada, Mexico. The adjacent property is not required by environmental or other regulatory permits for the operation of the terminal. A claimant to the adjacent property has nonetheless asserted that his health and safety are endangered by the operation of the facility. In June 2010, a Mexican federal appeals court revoked a district court order, issued at the behest of the claimant, directing Mexican regulatory authorities to provisionally suspend authorizations for the operation of the LNG terminal. In February 2011, based on a complaint by the claimant, the new Ensenada Mayor attempted to temporarily close the terminal based on claims of irregularities in municipal permits issued six years earlier. This attempt was promptly countermanded by Mexican federal and Baja California state authorities. No terminal permits or operations were affected as a result of these proceedings or events and the terminal has continued to operate normally.

Sempra LNG expects additional Mexican court proceedings and governmental actions regarding the claimant's assertions as to whether the terminal's permits should be modified or revoked in any manner.

The property claimant has also filed a lawsuit against Sempra Energy in Federal District Court in San Diego seeking compensatory and punitive damages as well as the earnings from the Energía Costa Azul LNG terminal based on his allegations that he was wrongfully evicted from the adjacent property and that he has been harmed by other allegedly improper actions.

Other Litigation

In August 2007, the U.S. Court of Appeals for the Ninth Circuit issued a decision reversing and remanding certain Federal Energy Regulatory Commission (FERC) orders declining to provide refunds regarding short-term bilateral sales up to one month in the Pacific Northwest for the December 2000 to June 2001 time period. The FERC has not yet acted on the court's order. In December 2010, the FERC approved a comprehensive settlement previously reached by Sempra Energy and RBS Sempra Commodities with the State of California. The settlement resolves all issues with regard to sales between the California Department of Water Resources (DWR) and Sempra Commodities (see Note 11) in the Pacific Northwest, but potential claims may exist regarding sales between Sempra Commodities and other buyers in the Pacific Northwest.

Pursuant to the agreements related to the formation of RBS Sempra Commodities, we have indemnified RBS should the liability from the final resolution of these matters be greater than the reserves related to Sempra Commodities. Pursuant to our agreement with the Noble Group, we have also indemnified Noble Americas Gas & Power Corp. and its affiliates for all losses incurred by such parties resulting from these proceedings as related to Sempra Commodities.

Sempra Energy and several subsidiaries, along with three oil and natural gas companies, the City of Beverly Hills, and the Beverly Hills Unified School District, are defendants in a toxic tort lawsuit filed in Los Angeles County Superior Court by approximately 1,000 plaintiffs. This lawsuit claims that various emissions resulted in cancer or fear of cancer. We have submitted the case to our insurers, who have reserved their rights with respect to coverage. In November 2006, the court granted the defendants' summary judgment motions based on lack of medical causation for the 12 initial plaintiffs scheduled to go to trial first. The court also granted summary judgment excluding punitive damages. The court has stayed the case as to the remaining plaintiffs pending the appeal of the rulings. A mediation occurred in June 2010, after which the plaintiffs' counsel agreed to recommend a settlement of the lawsuits as to Sempra Energy and its subsidiaries for an amount that is not significant and has been recorded. Any such settlement will require approval by each of the plaintiffs. If approval is obtained, finalization of the settlement is expected to occur within six months.

We are also defendants in ordinary routine litigation incidental to our businesses, including personal injury, product liability, property damage and other claims. California juries have demonstrated an increasing willingness to grant large awards, including punitive damages, in these cases.

NUCLEAR INSURANCE

SDG&E and the other owners of San Onofre Nuclear Generating Station (SONGS) have insurance to cover claims from nuclear liability incidents arising at SONGS. This insurance provides \$375 million in coverage limits, the maximum amount available, including coverage for acts of terrorism. In addition, the Price-Anderson Act provides for up to \$12.2 billion of secondary financial protection (SFP). If a nuclear liability loss occurring at any U.S. licensed/commercial reactor exceeds the \$375 million insurance limit, all nuclear reactor owners could be required to contribute to the SFP. SDG&E's contribution would be up to \$47 million. This amount is subject to an annual maximum of \$7 million, unless a default occurs by any other SONGS owner. If the SFP is insufficient to cover the liability loss, SDG&E could be subject to an additional assessment.

The SONGS owners, including SDG&E, also have \$2.75 billion of nuclear property, decontamination, and debris removal insurance. In addition, the SONGS owners have up to \$490 million insurance coverage for outage expenses and replacement power costs due to accidental property damage. This coverage is limited to \$3.5 million per week for the first 52 weeks, then \$2.8 million per week for up to 110 additional weeks. There is a 12-week waiting period deductible. These insurance coverages are provided through a mutual insurance company. Insured members are subject to retrospective premium assessments. SDG&E could be assessed up to \$9.6 million.

The nuclear property insurance program includes an industry aggregate loss limit for non-certified acts of terrorism (as defined by the Terrorism Risk Insurance Act). The industry aggregate loss limit for property claims arising from non-certified acts of terrorism is \$3.24 billion. This is the maximum amount that will be paid to insured members who suffer losses or damages from these non-certified terrorist acts.

CONTRACTUAL COMMITMENTS

We discuss below significant changes in the first six months of 2011 to contractual commitments discussed in Note 16 of the Notes to Consolidated Financial Statements in the Annual Report.

Natural Gas Contracts

SoCalGas' natural gas purchase and pipeline capacity commitments have increased by \$5 million since December 31, 2010. The increase, primarily due to new natural gas purchase and pipeline capacity contracts of \$407 million, is offset by a reduction of \$402 million due to fulfillment of commitments in the first six months of 2011. Net future payments are therefore expected to decrease by \$200 million for 2011 and to increase by \$183 million for 2012 and \$23 million for 2013 and to decrease by \$1 million thereafter compared to December 31, 2010.

Sempra Generation's natural gas purchase commitments have decreased by \$94 million since December 31, 2010, primarily due to fulfillment of commitments in the first six months of 2011. Net future payments are therefore expected to decrease by \$55 million for 2011, \$3 million for 2012, \$2 million for 2013 and \$34 million for 2014 compared to December 31, 2010.

LNG Purchase Agreements

At June 30, 2011, Sempra LNG has various purchase agreements with major international companies for the supply of LNG to its Energía Costa Azul and Cameron receipt terminals. We discuss these agreements further in Note 16 of the Notes to Consolidated Financial Statements in the Annual Report. Sempra LNG's commitments under all LNG purchase agreements, reflecting the termination effective September 2011 of an LNG supply option agreement by one of the suppliers, changes in forward prices since December 31, 2010, and actual transactions for the first six months of 2011, are expected to decrease by \$591 million in 2011, \$395 million in 2012, and \$178 million in 2013, and to increase by \$3 million in 2014, \$26 million in 2015 and \$1.3 billion thereafter compared to December 31, 2010.

The LNG commitment amounts above are based on Sempra LNG's commitment to accept the maximum possible delivery of cargoes under the agreements. Actual LNG purchases for the six months ended June 30, 2011 have been significantly lower than the maximum amounts possible.

Purchased-Power Contracts

SDG&E's purchased-power contracts have increased by \$62 million since December 31, 2010. The increase is primarily due to extension of long-term renewable energy contracts and changes in expected prices. Net future payments are therefore expected to decrease by \$2 million for 2011 and to increase by \$1 million for 2012, \$2 million for 2013, \$2 million in 2014, \$2 million in 2015 and \$57 million thereafter compared to December 31, 2010.

In connection with the acquisition of AEI's interests in Chilquinta Energía and Luz del Sur, Sempra Pipelines & Storage has additional purchased-power contracts with various dates extending through 2025, which cover most of the consumption needs of the customers of the companies. Future payments for the purchased-power contracts at Luz del Sur are expected to be \$192 million for 2011, \$436 million for 2012, \$477 million for 2013, \$524 million for 2014, \$577 million for 2015 and \$4.7 billion thereafter. Future payments for the purchased-power contracts at Chilquinta Energía are expected to be \$141 million for 2011, \$283 million for 2012, \$306 million for 2013, \$320 million for 2014, \$355 million for 2015 and \$3.1 billion thereafter. These amounts are based on estimated future purchases at current contracted rates, as the contracts require no minimum purchases.

Construction and Development Projects

In the first six months of 2011, significant increases to contractual commitments at SDG&E were \$23 million for costs related to the replacement of the steam generators and other construction projects at SONGS, \$51 million for electric distribution systems, advanced metering infrastructure and electric generation plant and equipment and \$313 million for engineering, material procurement and construction costs associated with the Sunrise Powerlink project. The future payments for these contractual commitments are expected to be \$294 million for 2011, \$67 million for 2012, \$9 million for 2013, \$4 million for 2014, \$3 million for 2015 and \$10 million thereafter compared to December 31, 2010.

In the first six months of 2011, significant increases to contractual commitments at SoCalGas were \$345 million for construction and infrastructure improvements for natural gas transmission and distribution operations and advanced metering. The future payments for these contractual commitments are expected to be \$29 million for 2011, \$29 million for 2012, \$62 million for 2013, \$59 million for 2014, \$59 million for 2015 and \$107 million thereafter.

NOTE 11. SEGMENT INFORMATION

We have five separately managed reportable segments, as follows:

1. SDG&E provides electric service to San Diego and southern Orange counties and natural gas service to San Diego County.
2. SoCalGas is a natural gas distribution utility, serving customers throughout most of Southern California and part of central California.
3. Sempra Generation develops, owns and operates, or holds interests in, electric power plants and energy projects in Arizona, California, Colorado, Nevada, Indiana, Hawaii and Mexico to serve wholesale electricity markets in the United States and Mexico. Sempra Generation also includes the operating results of Sempra Rockies Marketing, which holds firm service capacity on the Rockies Express Pipeline.
4. Sempra Pipelines & Storage develops, owns and operates, or holds interests in, natural gas and propane pipelines and natural gas storage facilities in the United States and Mexico, and companies that provide natural gas or electricity services in Argentina, Chile, Mexico and Peru. We are currently pursuing the sale of our interests in the Argentine utilities, which we discuss further in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report. Sempra Pipelines & Storage also operates a natural gas distribution utility in Alabama.

In April 2011, Sempra Pipelines & Storage increased its interests in Chile and Peru, as we discuss in Note 3.

5. Sempra LNG develops, owns and operates receipt terminals for importing LNG into the U.S. and Mexico, and has supply and marketing agreements to purchase and sell LNG and natural gas.

We evaluate each segment's performance based on its contribution to Sempra Energy's reported earnings. The Sempra Utilities operate in essentially separate service territories, under separate regulatory frameworks and rate structures set by the CPUC. The Sempra Utilities' operations are based on rates set by the CPUC and the FERC. We describe the accounting policies of our segments in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

Prior to 2011, our Sempra Commodities segment contained our investment in RBS Sempra Commodities LLP (RBS Sempra Commodities), which held commodities-marketing businesses previously owned by us. Our investment in the partnership is reported on the equity method. We and RBS, our partner in the joint venture, sold substantially all of the partnership's businesses and assets in four separate transactions completed in July, November and December of 2010 and February of 2011. We discuss these transactions and other matters concerning the partnership in Note 4 above and in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

The activity in the partnership no longer meets the quantitative thresholds that require Sempra Commodities to be reported as a reportable segment under applicable GAAP, and we do not consider the remaining wind-down activities of the partnership to be of continuing significance. As a result, effective January 1, 2011, we are reporting the former Sempra Commodities segment in "All other" in the following tables and have restated prior year information to be consistent with this treatment.

Also, in the fourth quarter of 2010, we changed the composition of our reporting segments to include Sempra Rockies Marketing, which was previously included in the Sempra Commodities segment, in the Sempra Generation segment. We have revised segment disclosures for 2010 to reflect this.

The following tables show selected information by segment from our Condensed Consolidated Statements of Operations and Condensed Consolidated Balance Sheets. Amounts labeled as "All other" in the following tables consist primarily of parent organizations and the former commodities-marketing businesses.

SEGMENT INFORMATION (Dollars in millions)											
		Three months ended June 30,				Six months ended June 30,					
		2011		2010		2011		2010			
REVENUES											
SDG&E	\$	697	29 %	\$ 692	34 %	\$ 1,537	32 %	\$ 1,434	32 %		
SoCalGas		876	36	834	42	1,932	40	2,016	44		
Sempra Generation		268	11	268	13	537	11	586	13		
Sempra Pipelines & Storage		445	18	75	4	554	11	185	4		
Sempra LNG		159	7	166	8	345	7	371	8		
Adjustments and eliminations		1		(2)		1		1			
Intersegment revenues(1)		(24)	(1)	(25)	(1)	(50)	(1)	(51)	(1)		
Total	\$	2,422	100 %	\$ 2,008	100 %	\$ 4,856	100 %	\$ 4,542	100 %		
INTEREST EXPENSE											

Edgar Filing: SAN DIEGO GAS & ELECTRIC CO - Form 10-Q

SDG&E	\$	31		\$	31		\$	67		\$	62	
SoCalGas		18			16			35			33	
Sempra Generation		4			3			6			7	
Sempra Pipelines & Storage		27			6			35			15	
Sempra LNG		11			12			22			24	
All other(2)		60			61			117			122	
Intercompany eliminations(2)		(33)			(26)			(56)			(51)	
Total	\$	118		\$	103		\$	226		\$	212	
INTEREST INCOME												
Sempra Generation	\$	1		\$	3		\$	6		\$	5	
Sempra Pipelines & Storage		15			4			17			8	
Sempra LNG		1						2				
All other(2)								1				
Intercompany eliminations(2)		(5)			(3)			(11)			(5)	
Total	\$	12		\$	4		\$	15		\$	8	
DEPRECIATION AND AMORTIZATION												
SDG&E	\$	105	42 %	\$	95	44 %	\$	208	43 %	\$	187	44 %
SoCalGas		82	33		77	36		163	34		152	36
Sempra Generation		18	7		16	7		37	8		31	7
Sempra Pipelines & Storage		26	11		10	5		39	8		21	5
Sempra LNG		12	5		13	6		25	5		25	6
All other		5	2		4	2		7	2		9	2
Total	\$	248	100 %	\$	215	100 %	\$	479	100 %	\$	425	100 %
INCOME TAX EXPENSE (BENEFIT)												
SDG&E	\$	42		\$	44		\$	91		\$	75	
SoCalGas		28			34			65			90	
Sempra Generation		12			6			34			(32)	
Sempra Pipelines & Storage		22			7			29			13	
Sempra LNG		12			4			23			16	
All other		(24)			(36)			(41)			(45)	
Total	\$	92		\$	59		\$	201		\$	117	

SEGMENT INFORMATION

(Continued)

(Dollars in millions)

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
EQUITY EARNINGS (LOSSES)				
Earnings (losses) recorded before tax:				

Edgar Filing: SAN DIEGO GAS & ELECTRIC CO - Form 10-Q

Sempra Generation	\$	(1)	\$	(1)	\$	(1)
Sempra Pipelines & Storage		10		12		