SEMPRA ENERGY
Form 10-Q
August 04, 2015

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

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015

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 488 8th Avenue San Diego, California 92101 (619)696-2000	California	33-0732627	101 Ash Street San Diego, California 92101
1-03779	SAN DIEGO GAS & ELECTRIC COMPANY 8326 Century Park Court San Diego, California 92123 (619)696-2000	California	95-1184800	No change
1-01402	SOUTHERN CALIFORNIA GAS COMPANY 555 West Fifth Street Los Angeles, California 90013 (213)244-1200	California	95-1240705	No change

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

	Yes	X	No

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

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

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

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

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

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

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

Common stock outstanding on July 29, 2015:

Sempra Energy	247,915,696 shares
San Diego Gas & Electric Company	Wholly owned by Enova Corporation, which is wholly owned by Sempra Energy
Southern California Gas Company	Wholly owned by Pacific Enterprises, which is wholly owned by Sempra Energy

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

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

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

We make statements in this report that are not historical fact and constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are necessarily based upon assumptions with respect to the future, involve risks and uncertainties, and are not guarantees of performance. These forward-looking statements represent our estimates and assumptions only as of the filing date of this report. We assume no obligation to update or revise any forward-looking statement as a result of new information, future events or other factors.

In this report, when we use words such as “believes,” “expects,” “anticipates,” “plans,” “estimates,” “projects,” “forecasts,” “contemplates,” “intends,” “depends,” “should,” “could,” “would,” “will,” “confident,” “may,” “potential,” “possible,” “propo “pursue,” “goals,” “outlook,” “maintain,” or similar expressions, or when we discuss our guidance, strategy, plans, goals, opportunities, projections, initiatives, objectives or intentions, we are making forward-looking statements.

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

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

§ actions and the timing of actions, including issuances of permits to construct and licenses for operation, by the California Public Utilities Commission, California State Legislature, U.S. Department of Energy, Federal Energy Regulatory Commission, Nuclear Regulatory Commission, Atomic Safety and Licensing Board, California Energy Commission, U.S. Environmental Protection Agency, California Air Resources Board, and other regulatory, governmental and environmental bodies in the United States and other countries in which we operate;

§ the timing and success of business development efforts and construction, maintenance and capital projects, including risks in obtaining, maintaining or extending permits, licenses, certificates and other authorizations on a timely basis and risks in obtaining adequate and competitive financing for such projects;

§ energy markets, including the timing and extent of changes and volatility in commodity prices, and the impact of any protracted reduction in oil prices from historical averages;

§ the impact on the value of our natural gas storage assets from low natural gas prices, low volatility of natural gas prices and the inability to procure favorable long-term contracts for natural gas storage services;

§ delays in the timing of costs incurred and the timing of the regulatory agency authorization to recover such costs in rates from customers;

§ deviations from regulatory precedent or practice that result in a reallocation of benefits or burdens among shareholders and ratepayers;

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

§ inflation, interest and currency exchange rates;

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

§ the availability of electric power, natural gas and liquefied natural gas, and natural gas pipeline and storage capacity, including disruptions caused by failures in the North American transmission grid, pipeline explosions and equipment failures and the decommissioning of San Onofre Nuclear Generating Station (SONGS);

§ cybersecurity threats to the energy grid, natural gas storage and pipeline infrastructure, the information and systems used to operate our businesses and the confidentiality of our proprietary information and the personal information of our customers, terrorist attacks that threaten system operations and critical infrastructure, and wars;

§ the ability to win competitively bid infrastructure projects against a number of strong competitors willing to aggressively bid for these projects;

- weather conditions, conservation efforts, natural disasters, catastrophic accidents, and other events that may disrupt our operations, damage our facilities and systems, and subject us to third-party liability for property damage or personal injuries;
- risks that our partners or counterparties will be unable or unwilling to fulfill their contractual commitments;
- risks posed by decisions and actions of third parties who control the operations of investments in which we do not have a controlling interest;
- risks inherent with nuclear power facilities and radioactive materials storage, including the catastrophic release of such materials, the disallowance of the recovery of the investment in, or operating costs of, the nuclear facility due to an extended outage and facility closure, and increased regulatory oversight, including motions to modify settlements;
- business, regulatory, environmental and legal decisions and requirements;
- expropriation of assets by foreign governments and title and other property disputes;
- the impact on reliability of San Diego Gas & Electric Company's (SDG&E) electric transmission and distribution system due to increased amount and variability of power supply from renewable energy sources;
- the impact on competitive customer rates of the growth in distributed and local power generation and the corresponding decrease in demand for power delivered through SDG&E's electric transmission and distribution system;
- the inability or determination not to enter into long-term supply and sales agreements or long-term firm capacity agreements due to insufficient market interest, unattractive pricing or other factors;
- 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 herein and in our most recent Annual Report on Form 10-K filed 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,	
	2015	2014	2015	2014
	(unaudited)			
REVENUES				
Utilities	$ 2,133	$ 2,370	$ 4,555	$ 4,855
Energy-related businesses	234	308	494	618
Total revenues	2,367	2,678	5,049	5,473
EXPENSES AND OTHER INCOME				
Utilities:				
Cost of natural gas	(239)	(395)	(585)	(1,015)
Cost of electric fuel and purchased power	(498)	(571)	(979)	(1,081)
Energy-related businesses:				
Cost of natural gas, electric fuel and purchased power	(73)	(126)	(171)	(264)
Other cost of sales	(42)	(42)	(77)	(80)
Operation and maintenance	(713)	(729)	(1,371)	(1,405)
Depreciation and amortization	(307)	(288)	(610)	(574)
Franchise fees and other taxes	(96)	(92)	(203)	(197)
Plant closure adjustment			21	13
Gain on sale of equity interest and assets	62	2	62	29
Equity earnings, before income tax	27	23	46	40
Other income, net	37	49	76	89
Interest income	10	5	17	9
Interest expense	(139)	(138)	(273)	(274)
Income before income taxes and equity earnings of certain unconsolidated subsidiaries	396	376	1,002	763
Income tax expense	(98)	(93)	(261)	(220)
Equity earnings, net of income tax	22	9	37	15
Net income	320	292	778	558
Earnings attributable to noncontrolling interests	(24)	(22)	(45)	(41)
Preferred dividends of subsidiary	(1)	(1)	(1)	(1)
Earnings	$ 295	$ 269	$ 732	$ 516
Basic earnings per common share	$ 1.19	$ 1.10	$ 2.95	$ 2.10
Weighted-average number of shares outstanding, basic (thousands)	248,108	245,688	247,916	245,484
Diluted earnings per common share	$ 1.17	$ 1.08	$ 2.91	$ 2.07
Weighted-average number of shares outstanding, diluted (thousands)	251,491	250,061	251,264	249,816
Dividends declared per share of common stock	$ 0.70	$ 0.66	$ 1.40	$ 1.32

See Notes to Condensed Consolidated Financial Statements.

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

	Sempra Energy shareholders' equity				
	Pretax amount	Income tax (expense) benefit	Net-of-tax amount	Noncontrolling interests (after-tax)	Total
	Three months ended June 30, 2015 and 2014 (unaudited)				
2015:					
Net income	$ 394	$ (98)	$ 296	$ 24	$ 320
Other comprehensive income (loss):					
Foreign currency translation adjustments	(43)		(43)	(5)	(48)
Pension and other postretirement benefits	2	(1)	1		1
Financial instruments	95	(36)	59	6	65
Total other comprehensive income	54	(37)	17	1	18
Comprehensive income	448	(135)	313	25	338
Preferred dividends of subsidiary	(1)		(1)		(1)
Comprehensive income, after preferred dividends of subsidiary	$ 447	$ (135)	$ 312	$ 25	$ 337
2014:					
Net income	$ 363	$ (93)	$ 270	$ 22	$ 292
Other comprehensive income (loss):					
Foreign currency translation adjustments	2		2	1	3
Pension and other postretirement benefits	8	(3)	5		5
Financial instruments	(12)	5	(7)	(1)	(8)
Total other comprehensive loss	(2)	2			
Comprehensive income	361	(91)	270	22	292
Preferred dividends of subsidiary	(1)		(1)		(1)
Comprehensive income, after preferred dividends of subsidiary	$ 360	$ (91)	$ 269	$ 22	$ 291
	Six months ended June 30, 2015 and 2014 (unaudited)				
2015:					
Net income	$ 994	$ (261)	$ 733	$ 45	$ 778
Other comprehensive income (loss):					
Foreign currency translation adjustments	(105)		(105)	(13)	(118)
Pension and other postretirement benefits	4	(2)	2		2
Financial instruments	6	(2)	4	1	5
Total other comprehensive loss	(95)	(4)	(99)	(12)	(111)
Comprehensive income	899	(265)	634	33	667
Preferred dividends of subsidiary	(1)		(1)		(1)
Comprehensive income, after preferred dividends of subsidiary	$ 898	$ (265)	$ 633	$ 33	$ 666

2014:					
Net income	$ 737	$ (220)	$ 517	$ 41	$ 558
Other comprehensive income (loss):					
Foreign currency translation adjustments	(41)		(41)	(1)	(42)
Pension and other postretirement benefits	13	(5)	8		8
Financial instruments	(20)	8	(12)	(1)	(13)
Total other comprehensive loss	(48)	3	(45)	(2)	(47)
Comprehensive income	689	(217)	472	39	511
Preferred dividends of subsidiary	(1)		(1)		(1)
Comprehensive income, after preferred dividends of subsidiary	$ 688	$ (217)	$ 471	$ 39	$ 510

See Notes to Condensed Consolidated Financial Statements.

SEMPRA ENERGY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

	June 30, 2015 (unaudited)	December 31, 2014(1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 636	$ 570
Restricted cash	8	11
Trade accounts receivable, net	990	1,242
Other accounts and notes receivable, net	164	152
Due from unconsolidated affiliates	4	38
Income taxes receivable	100	45
Deferred income taxes	99	305
Inventories	266	396
Regulatory balancing accounts – undercollected	798	746
Fixed-price contracts and other derivatives	85	93
Asset held for sale, power plant		293
Other	356	293
Total current assets	3,506	4,184
Investments and other assets:		
Restricted cash	17	29
Due from unconsolidated affiliates	169	188
Regulatory assets	3,095	3,031
Nuclear decommissioning trusts	1,145	1,131
Investments	2,929	2,848
Goodwill	885	931
Other intangible assets	410	415
Dedicated assets in support of certain benefit plans	483	512
Sundry	674	561
Total investments and other assets	9,807	9,646

Property, plant and equipment:		
Property, plant and equipment	36,523	35,407
Less accumulated depreciation and amortization	(9,830)	(9,505)
Property, plant and equipment, net ($396 and $410 at June 30, 2015 and December 31, 2014, respectively, related to VIE)	26,693	25,902
Total assets	$ 40,006	$ 39,732

(1) Derived from audited financial statements.

See Notes to Condensed Consolidated Financial Statements.

SEMPRA ENERGY
CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)
(Dollars in millions)

	June 30, 2015 (unaudited)	December 31, 2014(1)
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	$ 738	$ 1,733
Accounts payable – trade	890	1,198
Accounts payable – other	124	155
Due to unconsolidated affiliate		2
Dividends and interest payable	300	282
Accrued compensation and benefits	271	373
Current portion of long-term debt	1,273	469
Fixed-price contracts and other derivatives	55	55
Customer deposits	150	153
Other	598	649
Total current liabilities	4,399	5,069
Long-term debt ($310 and $315 at June 30, 2015 and December 31, 2014, respectively, related to VIE)	12,626	12,167
Deferred credits and other liabilities:		
Customer advances for construction	144	144
Pension and other postretirement benefit plan obligations, net of plan assets	1,101	1,064
Deferred income taxes	3,016	3,003
Deferred investment tax credits	35	37
Regulatory liabilities arising from removal obligations	2,762	2,741
Asset retirement obligations	2,067	2,048
Fixed-price contracts and other derivatives	300	255
Deferred credits and other	1,081	1,104
Total deferred credits and other liabilities	10,506	10,396
Commitments and contingencies (Note 11)		

Equity:		
Preferred stock (50 million shares authorized; none issued)		
Common stock (750 million shares authorized; 248 million and 246 million shares outstanding at June 30, 2015 and December 31, 2014, respectively; no par value)	2,555	2,484
Retained earnings	9,724	9,339
Accumulated other comprehensive income (loss)	(596)	(497)
Total Sempra Energy shareholders' equity	11,683	11,326
Preferred stock of subsidiary	20	20
Other noncontrolling interests	772	754
Total equity	12,475	12,100
Total liabilities and equity	$ 40,006	$ 39,732

(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,	
	2015	2014
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 778	$ 558
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	610	574
Deferred income taxes and investment tax credits	203	105
Gain on sale of equity interest and assets	(62)	(29)
Plant closure adjustment	(21)	(13)
Equity earnings	(83)	(55)
Fixed-price contracts and other derivatives		(17)
Other	(8)	(6)
Net change in other working capital components	(116)	(125)
Changes in other assets	(89)	21
Changes in other liabilities	7	21
Net cash provided by operating activities	1,219	1,034
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(1,466)	(1,513)
Expenditures for investments and acquisition of business	(161)	(160)
Proceeds from sale of equity interest and assets, net of cash sold	347	66
Distributions from investments	9	6
Purchases of nuclear decommissioning and other trust assets	(229)	(356)
Proceeds from sales by nuclear decommissioning and other trusts	221	350
Decrease in restricted cash	49	87
Increase in restricted cash	(34)	(87)
Advances to unconsolidated affiliates	(20)	(24)

Repayments of advances to unconsolidated affiliates	74	
Other	9	10
Net cash used in investing activities	(1,201)	(1,621)
CASH FLOWS FROM FINANCING ACTIVITIES		
Common dividends paid	(308)	(301)
Preferred dividends paid by subsidiary	(1)	(1)
Issuances of common stock	31	28
Repurchases of common stock	(66)	(37)
Issuances of debt (maturities greater than 90 days)	1,547	2,345
Payments on debt (maturities greater than 90 days)	(846)	(1,475)
Decrease in short-term debt, net	(339)	(54)
Net distributions to noncontrolling interests	(14)	(23)
Other	46	(10)
Net cash provided by financing activities	50	472
Effect of exchange rate changes on cash and cash equivalents	(2)	
Increase (decrease) in cash and cash equivalents	66	(115)
Cash and cash equivalents, January 1	570	904
Cash and cash equivalents, June 30	$ 636	$ 789

See Notes to Condensed Consolidated Financial Statements.

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

	Six months ended June 30,	
	2015	2014
	(unaudited)	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest payments, net of amounts capitalized	$ 260	$ 269
Income tax payments, net of refunds	72	148
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Acquisition of business:		
Assets acquired	$ 10	$
Liabilities assumed	(2)	
Accrued purchase price	(6)	
Cash paid	$ 2	$
Accrued capital expenditures	$ 302	$ 287
Redemption of industrial development bonds	79	
Increase in capital lease obligations for investment in property, plant and equipment		60
Dividends declared but not paid	178	165
Financing of build-to-suit property	39	32

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,	
	2015	2014	2015	2014
	(unaudited)			
Operating revenues				
Electric	$ 874	$ 948	$ 1,679	$ 1,759
Natural gas	98	115	259	291
Total operating revenues	972	1,063	1,938	2,050
Operating expenses				
Cost of electric fuel and purchased power	251	329	479	595
Cost of natural gas	31	51	85	126
Operation and maintenance	255	256	472	508
Depreciation	149	131	294	261
Franchise fees and other taxes	59	54	120	110
Plant closure adjustment			(21)	(13)
Total operating expenses	745	821	1,429	1,587
Operating income	227	242	509	463
Other income, net	9	7	18	20
Interest expense	(52)	(51)	(104)	(101)
Income before income taxes	184	198	423	382
Income tax expense	(54)	(69)	(142)	(152)
Net income	130	129	281	230
Earnings attributable to noncontrolling interest	(4)	(6)	(8)	(8)
Earnings attributable to common shares	$ 126	$ 123	$ 273	$ 222

See Notes to Condensed Consolidated Financial Statements.

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

	SDG&E shareholder's equity				
	Pretax amount	Income tax expense	Net-of-tax amount	Noncontrolling interest (after-tax)	Total
	Three months ended June 30, 2015 and 2014 (unaudited)				
2015:					
Net income	$ 180	$ (54)	$ 126	$ 4	$ 130
Other comprehensive income:					

Financial instruments				3	3
Total other comprehensive income				3	3
Comprehensive income	$ 180	$ (54)	$ 126	$ 7	$ 133
2014:					
Net income	$ 192	$ (69)	$ 123	$ 6	$ 129
Other comprehensive income (loss):					
Pension and other postretirement benefits	2	(1)	1		1
Financial instruments				(1)	(1)
Total other comprehensive income (loss)	2	(1)	1	(1)	
Comprehensive income	$ 194	$ (70)	$ 124	$ 5	$ 129

Six months ended June 30, 2015 and 2014
(unaudited)

2015:					
Net income	$ 415	$ (142)	$ 273	$ 8	$ 281
Other comprehensive income:					
Financial instruments				1	1
Total other comprehensive income				1	1
Comprehensive income	$ 415	$ (142)	$ 273	$ 9	$ 282
2014:					
Net income	$ 374	$ (152)	$ 222	$ 8	$ 230
Other comprehensive income (loss):					
Pension and other postretirement benefits	2	(1)	1		1
Financial instruments				(1)	(1)
Total other comprehensive income (loss)	2	(1)	1	(1)	
Comprehensive income	$ 376	$ (153)	$ 223	$ 7	$ 230

See Notes to Condensed Consolidated Financial Statements.

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

	June 30, 2015 (unaudited)	December 31, 2014(1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 23	$ 8
Restricted cash	7	8
Accounts receivable – trade, net	314	285
Accounts receivable – other, net	21	35

Due from unconsolidated affiliates	1	1
Income taxes receivable	59	
Inventories	67	73
Regulatory balancing accounts – net undercollected	626	711
Regulatory assets	116	54
Fixed-price contracts and other derivatives	40	44
Other	86	125
Total current assets	1,360	1,344
Other assets:		
Restricted cash	12	11
Deferred taxes recoverable in rates	848	824
Other regulatory assets	1,026	1,086
Nuclear decommissioning trusts	1,145	1,131
Sundry	368	282
Total other assets	3,399	3,334
Property, plant and equipment:		
Property, plant and equipment	15,882	15,478
Less accumulated depreciation	(4,008)	(3,860)
Property, plant and equipment, net ($396 and $410 at June 30, 2015 and December 31, 2014, respectively, related to VIE)	11,874	11,618
Total assets	$ 16,633	$ 16,296

(1) Derived from audited financial statements.

See Notes to Condensed Consolidated Financial Statements.

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

	June 30, 2015 (unaudited)	December 31, 2014(1)
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	$ 40	$ 246
Accounts payable	361	441
Due to unconsolidated affiliates	7	21
Income taxes payable		30
Deferred income taxes	185	53
Interest payable	41	40
Accrued compensation and benefits	74	124
Current portion of long-term debt	470	365
Asset retirement obligations	100	120
Fixed-price contracts and other derivatives	45	40
Customer deposits	70	71
Other	203	237
Total current liabilities	1,596	1,788

Long-term debt ($310 and $315 at June 30, 2015 and December 31, 2014, respectively, related to VIE)	4,498	4,319
Deferred credits and other liabilities:		
Customer advances for construction	42	41
Pension and other postretirement benefit plan obligations, net of plan assets	225	216
Deferred income taxes	2,133	2,121
Deferred investment tax credits	20	22
Regulatory liabilities arising from removal obligations	1,584	1,557
Asset retirement obligations	745	754
Fixed-price contracts and other derivatives	179	153
Deferred credits and other	345	333
Total deferred credits and other liabilities	5,273	5,197
Commitments and contingencies (Note 11)		
Equity:		
Common stock (255 million shares authorized; 117 million shares outstanding; no par value)	1,338	1,338
Retained earnings	3,879	3,606
Accumulated other comprehensive income (loss)	(12)	(12)
Total SDG&E shareholder's equity	5,205	4,932
Noncontrolling interest	61	60
Total equity	5,266	4,992
Total liabilities and equity	$ 16,633	$ 16,296

(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,	
	2015	2014
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 281	$ 230
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	294	261
Deferred income taxes and investment tax credits	103	132
Plant closure adjustment	(21)	(13)
Fixed-price contracts and other derivatives	(2)	(3)
Other	(9)	(24)
Net change in other working capital components	(40)	(231)

Changes in other assets	(59)	37
Changes in other liabilities	3	19
Net cash provided by operating activities	550	408
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(600)	(543)
Purchases of nuclear decommissioning trust assets	(227)	(354)
Proceeds from sales by nuclear decommissioning trusts	221	350
Decrease in restricted cash	19	62
Increase in restricted cash	(19)	(64)
Net cash used in investing activities	(606)	(549)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuances of long-term debt	388	100
Payments on long-term debt	(105)	(20)
(Decrease) increase in short-term debt, net	(206)	68
Capital distributions made by Otay Mesa VIE	(6)	(13)
Net cash provided by financing activities	71	135
Increase (decrease) in cash and cash equivalents	15	(6)
Cash and cash equivalents, January 1	8	27
Cash and cash equivalents, June 30	$ 23	$ 21
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest payments, net of amounts capitalized	$ 99	$ 98
Income tax payments, net of refunds	99	12
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Accrued capital expenditures	$ 118	$ 103
Increase in capital lease obligations for investment in property, plant and equipment		60

See Notes to Condensed Consolidated Financial Statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
		(unaudited)		
Operating revenues	$ 780	$ 917	$ 1,828	$ 2,002
Operating expenses				
Cost of natural gas	196	321	463	829
Operation and maintenance	346	337	660	642
Depreciation	113	107	226	212
Franchise fees and other taxes	31	30	65	68

Total operating expenses	686	795	1,414	1,751
Operating income	94	122	414	251
Other income, net	9	3	17	7
Interest income	3		3	
Interest expense	(19)	(16)	(38)	(33)
Income before income taxes	87	109	396	225
Income tax expense	(16)	(28)	(111)	(66)
Net income	71	81	285	159
Preferred dividend requirements	(1)	(1)	(1)	(1)
Earnings attributable to common shares	$ 70	$ 80	$ 284	$ 158

See Notes to Condensed Consolidated Financial Statements.

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

	Pretax amount	Income tax expense	Net-of-tax amount
	Three months ended June 30, 2015 and 2014 (unaudited)		
2015:			
Net income/Comprehensive income	$ 87	$ (16)	$ 71
2014:			
Net income/Comprehensive income	$ 109	$ (28)	$ 81
	Six months ended June 30, 2015 and 2014 (unaudited)		
2015:			
Net income/Comprehensive income	$ 396	$ (111)	$ 285
2014:			
Net income/Comprehensive income	$ 225	$ (66)	$ 159

See Notes to Condensed Consolidated Financial Statements.

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

	June 30, 2015 (unaudited)	December 31, 2014(1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 231	$ 85
Accounts receivable – trade, net	348	586
Accounts receivable – other, net	76	51
Due from unconsolidated affiliates	273	4

Income taxes receivable		5
Inventories	57	181
Regulatory balancing accounts – net undercollected	172	35
Regulatory assets	7	5
Temporary LIFO liquidation	41	
Other	28	36
Total current assets	1,233	988
Other assets:		
Regulatory assets arising from pension obligations	650	617
Other regulatory assets	539	472
Other postretirement benefit plan assets, net of plan obligations	5	4
Sundry	146	136
Total other assets	1,340	1,229
Property, plant and equipment:		
Property, plant and equipment	13,403	12,886
Less accumulated depreciation	(4,767)	(4,642)
Property, plant and equipment, net	8,636	8,244
Total assets	$ 11,209	$ 10,461

(1) Derived from audited financial statements.

See Notes to Condensed Consolidated Financial Statements.

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

	June 30, 2015 (unaudited)	December 31, 2014(1)
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$	$ 50
Accounts payable – trade	305	532
Accounts payable – other	66	88
Due to unconsolidated affiliate		13
Income taxes payable	13	
Deferred income taxes	146	53
Accrued compensation and benefits	118	129
Current portion of long-term debt	9	
Customer deposits	73	75
Other	142	149
Total current liabilities	872	1,089
Long-term debt	2,498	1,906
Deferred credits and other liabilities:		
Customer advances for construction	102	102
Pension obligation, net of plan assets	666	633
Deferred income taxes	1,267	1,212
Deferred investment tax credits	14	16

Regulatory liabilities arising from removal obligations	1,160	1,167
Asset retirement obligations	1,281	1,255
Deferred credits and other	284	300
Total deferred credits and other liabilities	4,774	4,685
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Preferred stock	22	22
Common stock (100 million shares authorized; 91 million shares outstanding; no par value)	866	866
Retained earnings	2,195	1,911
Accumulated other comprehensive income (loss)	(18)	(18)
Total shareholders' equity	3,065	2,781
Total liabilities and shareholders' equity	$ 11,209	$ 10,461

(1) Derived from audited financial statements.

See Notes to Condensed Consolidated Financial Statements.

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

	Six months ended June 30,	
	2015	2014
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 285	$ 159
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	226	212
Deferred income taxes and investment tax credits	76	59
Other	(15)	(2)
Net change in other working capital components	(58)	61
Changes in other assets	(30)	(27)
Changes in other liabilities	(1)	1
Net cash provided by operating activities	483	463
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(603)	(500)
Increase in loans to affiliates, net	(279)	
Net cash used in investing activities	(882)	(500)
CASH FLOWS FROM FINANCING ACTIVITIES		
Preferred dividends paid	(1)	(1)
Issuances of long-term debt	599	248
Repayment of long-term debt		(250)
(Decrease) increase in short-term debt, net	(50)	31
Other	(3)	(2)

Net cash provided by financing activities		545		26
Increase (decrease) in cash and cash equivalents		146		(11)
Cash and cash equivalents, January 1		85		27
Cash and cash equivalents, June 30	$	231	$	16
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Interest payments, net of amounts capitalized	$	36	$	32
Income tax payments, net		14		19
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITY				
Accrued capital expenditures	$	143	$	102

See Notes to Condensed Consolidated Financial Statements.

SEMPRA ENERGY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. GENERAL

IMPACT OF SEASONALIZATION AT SEMPRA ENERGY AND SOUTHERN CALIFORNIA GAS COMPANY

In the first quarter of 2015, Southern California Gas Company (SoCalGas) adopted a California Public Utilities Commission (CPUC) decision in the Triennial Cost Allocation Proceeding (TCAP) requiring SoCalGas to recognize annual authorized revenue for core natural gas customers using seasonal factors established in the TCAP, instead of recognizing such revenue ratably over the year as was previously required. This “seasonalization” resulted in $72 million lower operating revenues and $48 million lower earnings for both Sempra Energy and SoCalGas for the three months ended June 30, 2015 compared to the same period in 2014, and $91 million higher operating revenues and $65 million higher earnings for both Sempra Energy and SoCalGas for the first six months of 2015 compared to the same period in 2014. While this seasonalization will cause variability in comparable revenue and earnings from quarter to quarter within the year, it will not impact full-year 2015 results nor have any impact on cash flow. Accordingly, substantially all of SoCalGas’ annual earnings will be recognized in the first and fourth quarters of the year. We discuss the CPUC decision further in Note 10.

PRINCIPLES OF CONSOLIDATION

Sempra Energy

Sempra Energy’s Condensed Consolidated Financial Statements include the accounts of Sempra Energy, a California-based Fortune 500 energy-services holding company, and its consolidated subsidiaries and variable interest

entities (VIEs). Sempra Energy's principal operating units are

- San Diego Gas & Electric Company (SDG&E) and SoCalGas, which are separate, reportable segments;
- Sempra International, which includes our Sempra South American Utilities and Sempra Mexico reportable segments; and
- Sempra U.S. Gas & Power, which includes our Sempra Renewables and Sempra Natural Gas reportable segments.

We provide descriptions of each of our segments in Note 12.

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

Our Sempra Mexico segment includes the operating companies of our subsidiary, Infraestructura Energética Nova, S.A.B. de C.V. (IEnova), as well as certain holding companies and risk management activity. We discuss IEnova further in Note 1 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2014 (the Annual Report), which includes the combined reports for Sempra Energy, SDG&E and SoCalGas.

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 entities in Notes 3 and 4 herein and in the Notes to Consolidated Financial Statements in the Annual Report.

SDG&E

SDG&E's Condensed Consolidated Financial Statements include its accounts and the accounts of 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 accounts and the de minimis accounts of inactive subsidiaries. SoCalGas' common stock is wholly owned by Pacific Enterprises, 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 (U.S. 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, 2015 through the date the financial statements were issued and, in the opinion of management, the accompanying statements reflect all adjustments necessary for a fair presentation. These adjustments are only of a normal, recurring nature.

All December 31, 2014 balance sheet information in the Condensed Consolidated Financial Statements has been derived from our audited 2014 Consolidated Financial Statements in the Annual Report. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to the interim-period-reporting provisions of U.S. GAAP and the Securities and Exchange Commission.

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.

You should read the information in this Quarterly Report in conjunction with the Annual Report.

Regulated Operations

Sempra South American Utilities has controlling interests in two electric distribution utilities in South America, Chilquinta Energía S.A. (Chilquinta Energía) in Chile and Luz del Sur S.A.A. (Luz del Sur) in Peru. Sempra Natural Gas owns Mobile Gas Service Corporation (Mobile Gas) in southwest Alabama and Willmut Gas Company (Willmut Gas) in Mississippi, and Sempra Mexico owns Ecogas México, S. de R.L. de C.V. (Ecogas) in northern Mexico, all natural gas distribution utilities. The California Utilities, Sempra Natural Gas' Mobile Gas and Willmut Gas, and Sempra Mexico's Ecogas prepare their financial statements in accordance with U.S. 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, cash flows or disclosures.

SEMPRA ENERGY, SDG&E AND SOCALGAS

Accounting Standards Update (ASU) 2014-09, “Revenue from Contracts with Customers” (ASU 2014-09): ASU 2014-09 provides accounting guidance for revenue arising from contracts with customers and affects all entities that enter into contracts to provide goods or services to their customers. The guidance also provides a model for the measurement and recognition of gains and losses on the sale of certain nonfinancial assets, such as property and equipment, including real estate. This guidance must be adopted using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach.

ASU 2014-09 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

ASU 2015-03, “Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs” (ASU 2015-03): ASU 2015-03 provides guidance on the financial statement presentation of debt issuance costs and requires an entity to present debt issuance costs in the balance sheet as a direct deduction from the carrying amount of the related long-term debt liability. This guidance must be applied using a full retrospective approach for all periods presented in the period of adoption.

We will adopt ASU 2015-03 for our annual reporting period ending December 31, 2015. The adoption will not affect our results of operations or cash flows. Deferred debt issuance costs that are the subject of ASU 2015-03 are included in Sundry on the Sempra Energy, SDG&E and SoCalGas Condensed Consolidated Balance Sheets and total $88 million, $34 million, and $18 million at June 30, 2015, respectively, and $84 million, $33 million, and $15 million at December 31, 2014, respectively.

NOTE 3. ACQUISITION AND DIVESTITURE ACTIVITY

SEMPRA RENEWABLES

In March 2014, Sempra Renewables formed a joint venture with Consolidated Edison Development (Con Edison Development), a non-related party, by selling a 50-percent interest in its 250-megawatt (MW) Copper Mountain Solar 3 solar power facility for $66 million in cash, net of $2 million cash sold. Sempra Renewables recognized a pretax gain on the sale of $27 million ($16 million after-tax), included in Gain on Sale of Equity Interest and Assets on our Condensed Consolidated Statement of Operations for the six months ended June 30, 2014. Our remaining 50-percent interest in Copper Mountain Solar 3 is accounted for under the equity method. Based on the nature of the underlying assets, this investment is considered in-substance real estate. Therefore, in accordance with applicable U.S. GAAP, the Copper Mountain Solar 3 equity method investment was measured at historical cost and no portion of the gain was attributable to a remeasurement of the retained investment to fair value.

The following table summarizes the deconsolidation:

DECONSOLIDATION OF SUBSIDIARY

(Dollars in millions)		
	Copper Mountain Solar 3 At March 13, 2014	
Proceeds from sale, net of negligible transaction costs	$	68
Cash		(2)
Property, plant and equipment, net		(247)
Other assets		(11)
Accounts payable and accrued expenses		82
Long-term debt, including current portion		97
Other liabilities		3
Accumulated other comprehensive income		(2)
Gain on sale of equity interest		(27)
(Increase) in equity method investment upon deconsolidation	$	(39)

In May 2014, Sempra Renewables invested $109 million (and an additional $12 million in November 2014, as adjusted for financial position at closing) to become a 50-percent partner with Con Edison Development in four fully operating solar facilities in California. We discuss our investment in the California solar partnership further in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

In March 2015, Sempra Renewables acquired a 100-percent interest in the Black Oak Getty Wind project, a 78-MW wind farm under development in Stearns County, Minnesota. The wind farm has a 20-year power purchase agreement with Minnesota Municipal Power Agency. The total acquisition cost for the project is $8 million, a portion of which was paid in the first quarter of 2015.

SEMPRA NATURAL GAS

Mesquite Power Sale

In April 2015, Sempra Natural Gas sold the remaining 625-MW block of the Mesquite Power plant, together with a related power sales contract, for net cash proceeds of $347 million. We recognized a pretax gain on the sale of $61 million ($36 million after-tax), included in Gain on Sale of Equity Interest and Assets on our Condensed Consolidated Statement of Operations. The asset was classified as held for sale at December 31, 2014.

NOTE 4. INVESTMENTS IN UNCONSOLIDATED ENTITIES

We provide additional information concerning our equity method investments in Notes 3 and 4 of the Notes to Consolidated Financial Statements in the Annual Report.

SEMPRA RENEWABLES

In addition to Sempra Renewables' investment in the California solar partnership discussed in Note 3 above, during the six months ended June 30, 2015 and 2014, Sempra Renewables invested cash of $18 million and $45 million, respectively, in its other joint ventures.

SEMPRA NATURAL GAS

During the six months ended June 30, 2015, Sempra Natural Gas invested $3 million of cash in its joint venture, Cameron LNG Holdings, LLC (Cameron LNG Holdings or Cameron LNG JV), accrued $7 million for a project capital call due and subsequently paid in July 2015, and capitalized $24 million of interest related to this equity method investment that has not commenced planned principal operations.

In April 2015, Sempra Natural Gas invested $113 million of cash in its equity method investment, Rockies Express Pipeline LLC, a partnership that operates the Rockies Express pipeline, to repay project debt that matured in early 2015.

NOTE 5. OTHER FINANCIAL DATA

INVENTORIES

The components of inventories by segment are as follows:

INVENTORY BALANCES
(Dollars in millions)

	Natural gas		Liquefied natural gas		Materials and supplies		Total	
	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
SDG&E	$ 3	$ 8	$	$	$ 64	$ 65	$ 67	$ 73
SoCalGas	29	155			28	26	57	181
Sempra South American Utilities					35	33	35	33

Sempra Mexico					10		9		9		9		19	18
Sempra Renewables									2		2		2	2
Sempra Natural Gas		81		83		4		5		1		1	86	89
Sempra Energy Consolidated	$	113	$	246	$	14	$	14	$	139	$	136	$ 266	$ 396

Temporary LIFO Liquidation

SoCalGas values natural gas inventory by the last-in first-out (LIFO) method. As inventories are sold, differences between the LIFO valuation and the estimated replacement cost are reflected in customer rates. Temporary LIFO liquidation represents the difference between the carrying value of natural gas inventory withdrawn during the period for delivery to customers and the projected cost of the replacement of that inventory during summer months. For interim periods, these differences result in an asset or liability, which at June 30, 2015 is an asset recorded in Temporary LIFO Liquidation on SoCalGas' Condensed Consolidated Balance Sheet and Other Current Assets on Sempra Energy's Condensed Consolidated Balance Sheet.

GOODWILL

We discuss goodwill in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report. The decrease in goodwill from $931 million at December 31, 2014 to $885 million at June 30, 2015 is due to foreign currency translation at Sempra South American Utilities. We record the offset of this fluctuation in Other Comprehensive Income (Loss).

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

Tolling Agreements

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 impact 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. We determine if SDG&E is the primary beneficiary in these cases based on a qualitative approach in which we consider the operational characteristics of the facility, including its expected power generation output relative to its capacity to generate and the financial structure of the entity, among other factors. If we determine that SDG&E is the primary beneficiary, SDG&E and Sempra Energy consolidate the entity that owns the facility as a VIE, as we discuss below.

Otay Mesa VIE

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

The facility owner, Otay Mesa Energy Center LLC (OMEC LLC), is a VIE (Otay Mesa VIE), of which SDG&E is the primary beneficiary. SDG&E has no OMEC LLC voting rights, holds no equity in OMEC LLC 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. Accordingly, SDG&E and Sempra Energy have consolidated Otay Mesa VIE. Otay Mesa VIE's equity of $61 million at June 30, 2015 and $60 million at December 31, 2014 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 $320 million at June 30, 2015, 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.

The Condensed Consolidated Statements of Operations of Sempra Energy and SDG&E include the following amounts associated with Otay Mesa VIE. The amounts are net of eliminations of transactions between SDG&E and Otay Mesa VIE. The captions in the table below generally correspond to SDG&E's Condensed Consolidated Statements of Operations.

AMOUNTS ASSOCIATED WITH OTAY MESA VIE
(Dollars in millions)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Operating expenses				
Cost of electric fuel and purchased power	$ (21)	$ (22)	$ (39)	$ (40)
Operation and maintenance	6	5	10	10
Depreciation	6	7	12	14
Total operating expenses	(9)	(10)	(17)	(16)

Operating income	9	10	17	16
Interest expense	(5)	(4)	(9)	(8)
Income before income taxes/Net income	4	6	8	8
Earnings attributable to noncontrolling interest	(4)	(6)	(8)	(8)
Earnings attributable to common shares	$	$	$	$

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

Sempra Natural Gas

Cameron LNG JV

Sempra Energy's equity-method investment in Cameron LNG JV is considered to be a VIE generally due to contractual provisions that transfer certain risks to customers. Sempra Energy is not the primary beneficiary because we do not have the power to direct the most significant activities of Cameron LNG JV. We will continue to evaluate Cameron LNG JV for any changes that may impact our determination of the primary beneficiary. The carrying value of our investment in Cameron LNG JV was $1,043 million and $1,007 million at June 30, 2015 and December 31, 2014, respectively. Our maximum exposure to loss includes the carrying value of our investment and the guarantees discussed in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

Other Variable Interest Entities

SDG&E's power procurement is subject to reliability requirements that may require SDG&E to enter into various power purchase arrangements which include variable interests. SDG&E evaluates the respective entities to determine if variable interests exist and, based on the qualitative and quantitative analyses described above, if SDG&E, and thereby Sempra Energy, is the primary beneficiary. SDG&E has determined that no contracts, other than the one relating to Otay Mesa VIE mentioned above, result in SDG&E being the primary beneficiary at June 30, 2015. 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. In addition, SDG&E is not exposed to losses or gains as a result of these other VIEs, because all such variability would be recovered in rates.

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

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,			
	2015	2014	2015	2014
Service cost	$ 29	$ 26	$ 7	$ 6
Interest cost	39	41	11	12
Expected return on assets	(44)	(43)	(17)	(16)
Amortization of:				
Prior service cost (credit)	2	3		(1)
Actuarial loss	11	5		
Settlement		6		
Regulatory adjustment	(30)			
Total net periodic benefit cost	$ 7	$ 38	$ 1	$ 1

	Six months ended June 30,			
	2015	2014	2015	2014
Service cost	$ 59	$ 52	$ 14	$ 12
Interest cost	78	82	23	24
Expected return on assets	(88)	(86)	(34)	(32)
Amortization of:				
Prior service cost (credit)	5	5	(1)	(2)
Actuarial loss	19	10		
Settlements		9		
Regulatory adjustment	(59)	(24)		
Total net periodic benefit cost	$ 14	$ 48	$ 2	$ 2

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

	Pension benefits		Other postretirement benefits	
	Three months ended June 30,			
	2015	2014	2015	2014
Service cost	$ 8	$ 7	$ 2	$ 1
Interest cost	10	11	2	2
Expected return on assets	(13)	(14)	(3)	(3)
Amortization of:				
Prior service cost	1	1	1	1
Actuarial loss	2	1		
Settlements		2		
Regulatory adjustment	(7)	6	(2)	(1)
Total net periodic benefit cost	$ 1	$ 14	$	$

	Six months ended June 30,			
	2015	2014	2015	2014
Service cost	$ 16	$ 15	$ 4	$ 3
Interest cost	20	22	4	4
Expected return on assets	(27)	(28)	(6)	(6)
Amortization of:				
Prior service cost	1	1	2	2
Actuarial loss	4	2		
Settlements		2		
Regulatory adjustment	(12)	1	(4)	(3)
Total net periodic benefit cost	$ 2	$ 15	$	$

NET PERIODIC BENEFIT COST – SOCALGAS
(Dollars in millions)

	Pension benefits		Other postretirement benefits	
	Three months ended June 30,			
	2015	2014	2015	2014
Service cost	$ 19	$ 16	$ 5	$ 4
Interest cost	24	26	9	10
Expected return on assets	(27)	(26)	(14)	(13)
Amortization of:				
Prior service cost (credit)	2	2	(2)	(2)
Actuarial loss	6	2		
Regulatory adjustment	(23)	(6)	2	1
Total net periodic benefit cost	$ 1	$ 14	$	$

	Six months ended June 30,			
	2015	2014	2015	2014
Service cost	$ 38	$ 32	$ 10	$ 8
Interest cost	49	51	18	19
Expected return on assets	(54)	(52)	(28)	(26)
Amortization of:				
Prior service cost (credit)	4	4	(4)	(4)

Actuarial loss	11	4		
Regulatory adjustment	(47)	(25)	4	3
Total net periodic benefit cost	$ 1	$ 14	$	$

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 2015:

BENEFIT PLAN CONTRIBUTIONS
(Dollars in millions)

	Sempra Energy Consolidated	SDG&E	SoCalGas
Contributions through June 30, 2015:			
Pension plans	$ 17	$ 2	$ 1
Other postretirement benefit plans	1		
Total expected contributions in 2015:			
Pension plans	$ 36	$ 3	$ 7
Other postretirement benefit plans	11	8	

RABBI TRUST

In support of its Supplemental Executive Retirement, Cash Balance Restoration and Deferred Compensation Plans, Sempra Energy maintains dedicated assets, including a Rabbi Trust and investments in life insurance contracts, which totaled $483 million and $512 million at June 30, 2015 and December 31, 2014, respectively.

EARNINGS PER SHARE

The following table provides the per share computations for our earnings for the three months and six months ended June 30, 2015 and 2014. 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,		Six months ended June 30,	
	2015	2014	2015	2014
Numerator:				
Earnings/Income attributable to common shares	$ 295	$ 269	$ 732	$ 516
Denominator:				
Weighted-average common shares outstanding for basic EPS(1)	248,108	245,688	247,916	245,484
Dilutive effect of stock options, restricted stock awards and restricted stock units	3,383	4,373	3,348	4,332
Weighted-average common shares outstanding for diluted EPS	251,491	250,061	251,264	249,816
Earnings per share:				
Basic	$ 1.19	$ 1.10	$ 2.95	$ 2.10
Diluted	1.17	1.08	2.91	2.07

(1) Includes fully vested restricted stock units of 501 and 476 held in our Deferred Compensation Plan for the three months and six months ended June 30, 2015, respectively, and 221 and 202 for the three months and six months ended June 30, 2014, respectively. These fully vested restricted stock units are included in weighted-average common shares outstanding for basic EPS because there are no conditions under which the corresponding shares will not be issued.

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 recognized, minus tax shortfalls recognized, 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 of dilutive common stock equivalents 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 no such antidilutive stock options outstanding for the three months or six months ended June 30, 2015 or 2014. For the three months and six months ended June 30, 2015 and 2014, we had no stock options outstanding that were antidilutive because of the unearned compensation and windfall tax benefits included in the assumed proceeds under the treasury stock method.

The dilution from unvested restricted stock awards (RSAs) and restricted stock units (RSUs) is also based on the treasury stock method. Proceeds equal to the unearned compensation and windfall tax benefits recognized, minus tax shortfalls recognized, 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 recognized 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. There were no antidilutive RSAs and 4,715 antidilutive RSUs from the application of unearned compensation in the treasury stock method for the three months and six months ended June 30, 2015. There were no such antidilutive RSAs or RSUs for the three months or six months ended June 30, 2014.

Our performance-based RSUs include awards that vest at the end of three-year (for awards granted in 2015) or four-year performance periods based on Sempra Energy’s total return to shareholders relative to that of specified market indices (Total Shareholder Return or TSR RSUs) or based on the compound annual growth rate of Sempra Energy’s EPS (EPS RSUs). The comparative market indices for the TSR RSUs are the Standard & Poor’s (S&P) 500

Utilities Index and the S&P 500 Index. Targets for our EPS RSUs were developed based on Sempra Energy's long-term earnings-per-share growth guidance as well as analyst consensus long-term earnings-per-share growth estimates for S&P 500 Utilities Index peer companies. TSR RSUs represent the right to receive from zero to 1.5 shares (2.0 shares for awards granted during or after 2014) of Sempra Energy common stock if performance targets are met. EPS RSUs represent the right to receive from zero to 2.0 shares of Sempra Energy common stock if performance targets are met. If performance falls between the targets specified for each performance metric, we calculate the payout using linear interpolation. Participants also receive additional shares for dividend equivalents on shares subject to RSUs, which are deemed reinvested to purchase additional units that become subject to the same vesting conditions as the RSUs to which the dividends relate.

Our RSAs, which are solely service-based, and those RSUs that are service-based or issued in connection with certain other performance goals represent the right to receive up to 1.0 share if the service requirements or certain other vesting conditions are met. These RSAs and RSUs have the same dividend equivalent rights as the performance-based RSUs described above. We include RSAs and these RSUs in potential dilutive shares at 100 percent, subject to the application of the treasury stock method. We include our TSR RSUs and EPS RSUs in potential dilutive shares at zero to up to 200 percent 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 Sempra Energy stock and the comparative indices, dilutive TSR RSU shares may vary widely from period-to-period. If it were assumed that performance goals for all performance-based RSUs were met at maximum levels and if the treasury stock method were not applied to any of our RSAs or RSUs, the incremental potential dilutive shares would be 1,370,460 and 1,424,855 for the three months and six months ended June 30, 2015, respectively, and 1,137,593 and 1,206,873 for the three months and six months ended June 30, 2014, respectively.

SHARE-BASED COMPENSATION

We discuss our share-based compensation plans in Note 8 of the Notes to Consolidated Financial Statements in the Annual Report. We recorded share-based compensation expense, net of income taxes, of $7 million for each of the three-month periods ended June 30, 2015 and 2014, and $15 million and $14 million for the six-month periods ended June 30, 2015 and 2014, respectively. Pursuant to our Sempra Energy share-based compensation plans, Sempra Energy's compensation committee granted 301,319 TSR RSUs, 76,675 EPS RSUs and 133,159 RSUs issued either as service-based awards or in connection with certain other performance goals during the six months ended June 30, 2015, primarily in January.

During the six months ended June 30, 2015, IEnova issued 148,781 RSUs from the IEnova 2013 Long-Term Incentive Plan, under which awards are cash settled at vesting based on the price of IEnova common stock.

CAPITALIZED FINANCING COSTS

Capitalized financing costs include capitalized interest costs and, primarily at the California Utilities, an allowance for funds used during construction (AFUDC) related to both debt and equity financing of construction projects.

Pipeline projects currently under construction by Sempra Mexico and Sempra Natural Gas that are both subject to certain regulation and meet U.S. GAAP regulatory accounting requirements record the impact of AFUDC related to

equity.

Sempra International's and Sempra U.S. Gas & Power's businesses capitalize interest costs incurred to finance capital projects and interest on equity method investments that have not commenced planned principal operations. The California Utilities also capitalize certain interest costs.

The following table shows capitalized financing costs for the three months and six months ended June 30, 2015 and 2014.

CAPITALIZED FINANCING COSTS
(Dollars in millions)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Sempra Energy Consolidated:				
AFUDC related to debt	$ 7	$ 4	$ 13	$ 10
AFUDC related to equity	31	24	58	49
Other capitalized financing costs	17	8	34	16
Total Sempra Energy Consolidated	$ 55	$ 36	$ 105	$ 75
SDG&E:				
AFUDC related to debt	$ 4	$ 3	$ 7	$ 7
AFUDC related to equity	10	7	18	18
Total SDG&E	$ 14	$ 10	$ 25	$ 25
SoCalGas:				
AFUDC related to debt	$ 3	$ 1	$ 6	$ 3
AFUDC related to equity	10	6	19	11
Total SoCalGas	$ 13	$ 7	$ 25	$ 14

COMPREHENSIVE INCOME

The following tables present the changes in Accumulated Other Comprehensive Income (Loss) (AOCI) by component and amounts reclassified out of AOCI to net income, excluding amounts attributable to noncontrolling interests:

CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) BY COMPONENT(1)
SEMPRA ENERGY CONSOLIDATED
(Dollars in millions)

		Pension and other postretirement benefits			
	Foreign currency translation adjustments	Unamortized net actuarial gain (loss)	Unamortized prior service cost	Financial instruments	Total accumulated other comprehensive income (loss)
	Three months ended June 30, 2015 and 2014				

2015:					
Balance as of March 31, 2015	$ (384)	$ (82)	$ (2)	$ (145)	$ (613)
Other comprehensive (loss) income before reclassifications	(43)			57	14
Amounts reclassified from accumulated other comprehensive income		1		2	3
Net other comprehensive (loss) income	(43)	1		59	17
Balance as of June 30, 2015	$ (427)	$ (81)	$ (2)	$ (86)	$ (596)
2014:					
Balance as of March 31, 2014	$ (172)	$ (70)	$	$ (31)	$ (273)
Other comprehensive income (loss) before reclassifications	2			(12)	(10)
Amounts reclassified from accumulated other comprehensive income		5		5	10
Net other comprehensive income (loss)	2	5		(7)	
Balance as of June 30, 2014	$ (170)	$ (65)	$	$ (38)	$ (273)

Six months ended June 30, 2015 and 2014

2015:					
Balance as of December 31, 2014	$ (322)	$ (83)	$ (2)	$ (90)	$ (497)
Other comprehensive (loss) income before reclassifications	(105)			3	(102)
Amounts reclassified from accumulated other comprehensive income		2		1	3
Net other comprehensive (loss) income	(105)	2		4	(99)
Balance as of June 30, 2015	$ (427)	$ (81)	$ (2)	$ (86)	$ (596)
2014:					
Balance as of December 31, 2013	$ (129)	$ (73)	$	$ (26)	$ (228)
Other comprehensive loss before reclassifications	(41)			(26)	(67)
Amounts reclassified from accumulated other comprehensive income		8		14	22
Net other comprehensive (loss) income	(41)	8		(12)	(45)
Balance as of June 30, 2014	$ (170)	$ (65)	$	$ (38)	$ (273)

(1) All amounts are net of income tax, if subject to tax, and exclude noncontrolling interests.

CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) BY COMPONENT(1)
SAN DIEGO GAS & ELECTRIC COMPANY

(Dollars in millions)

	Pension and other postretirement benefits		
	Unamortized net actuarial gain (loss)	Unamortized prior service credit	Total accumulated other comprehensive income (loss)
	Three months ended June 30, 2015 and 2014		
2015:			
Balance as of March 31, and June 30, 2015	$ (13)	$ 1	$ (12)
2014:			
Balance as of March 31, 2014	$ (10)	$ 1	$ (9)
Amounts reclassified from accumulated other comprehensive income	1		1
Net other comprehensive income	1		1
Balance as of June 30, 2014	$ (9)	$ 1	$ (8)
	Six months ended June 30, 2015 and 2014		
2015:			
Balance as of December 31, 2014 and June 30, 2015	$ (13)	$ 1	$ (12)
2014:			
Balance as of December 31, 2013	$ (10)	$ 1	$ (9)
Amounts reclassified from accumulated other comprehensive income	1		1
Net other comprehensive income	1		1
Balance as of June 30, 2014	$ (9)	$ 1	$ (8)

(1) All amounts are net of income tax, if subject to tax, and exclude noncontrolling interests.

RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
(Dollars in millions)

Details about accumulated other comprehensive income (loss) components	Amounts reclassified from accumulated other comprehensive income (loss)		Affected line item on Condensed Consolidated Statements of Operations
	Three months ended June 30,		
	2015	2014	
Sempra Energy Consolidated:			
Financial instruments:			
Interest rate and foreign exchange instruments	$ 3	$ 6	Interest Expense
Interest rate instruments	3	2	Equity Earnings, Before Income Tax
Total before income tax	6	8	
	(1)	(1)	Income Tax Expense
Net of income tax	5	7	
	(3)	(2)	Earnings Attributable to Noncontrolling Interests

	$ 2	$ 5	
Pension and other postretirement benefits:			
Amortization of actuarial loss	$ 2	$ 8	See note (1) below
	(1)	(3)	Income Tax Expense
Net of income tax	$ 1	$ 5	
Total reclassifications for the period, net of tax	$ 3	$ 10	
SDG&E:			
Financial instruments:			
Interest rate instruments	$ 3	$ 2	Interest Expense
	(3)	(2)	Earnings Attributable to Noncontrolling Interest
	$	$	
Pension and other postretirement benefits:			
Amortization of actuarial loss	$	$ 2	See note (1) below
		(1)	Income Tax Expense
Net of income tax	$	$ 1	
Total reclassifications for the period, net of tax	$	$ 1	

(1) Amounts are included in the computation of net periodic benefit cost (see "Pension and Other Postretirement Benefits" above).

RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
(Dollars in millions)

Details about accumulated other comprehensive income (loss) components	Amount reclassified from accumulated other comprehensive income (loss) Six months ended June 30, 2015	2014	Affected line item on Condensed Consolidated Statements of Operations
Sempra Energy Consolidated:			
Financial instruments:			
Interest rate and foreign exchange instruments	$ 9	$ 9	Interest Expense
Interest rate instruments		2	Gain on Sale of Equity Interest and Assets
Interest rate instruments	6	5	Equity Earnings, Before Income Tax
Commodity contracts not subject to rate recovery	(7)	10	Revenues: Energy-Related Businesses
Total before income tax	8	26	
		(7)	Income Tax Expense
Net of income tax	8	19	
	(7)	(5)	

			Earnings Attributable to Noncontrolling Interests
	$ 1	$ 14	
Pension and other postretirement benefits:			
Amortization of actuarial loss	$ 4	$ 13	See note (1) below
	(2)	(5)	Income Tax Expense
Net of income tax	$ 2	$ 8	
Total reclassifications for the period, net of tax	$ 3	$ 22	
SDG&E:			
Financial instruments:			
Interest rate instruments	$ 6	$ 5	Interest Expense
	(6)	(5)	Earnings Attributable to Noncontrolling Interest
	$	$	
Pension and other postretirement benefits:			
Amortization of actuarial loss	$	$ 2	See note (1) below
		(1)	Income Tax Expense
Net of income tax	$	$ 1	
Total reclassifications for the period, net of tax	$	$ 1	

(1) Amounts are included in the computation of net periodic benefit cost (see "Pension and Other Postretirement Benefits" above).

For the three months and six months ended June 30, 2015 and 2014, Other Comprehensive Income, excluding amounts attributable to noncontrolling interests, at SoCalGas was negligible, and reclassifications out of Accumulated Other Comprehensive Income (Loss) to Net Income were also negligible for SoCalGas.

SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS

The following tables provide reconciliations of changes in Sempra Energy's, SDG&E's and SoCalGas' shareholders' equity and noncontrolling interests for the six months ended June 30, 2015 and 2014.

SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS (Dollars in millions)	SEMPRA ENERGY CONSOLIDATED		
	Sempra Energy shareholders' equity	Non-controlling interests	Total equity
Balance at December 31, 2014	$ 11,326	$ 774	$ 12,100
Comprehensive income	634	33	667
Preferred dividends of subsidiary	(1)		(1)
Share-based compensation expense	26		26
Common stock dividends declared	(347)		(347)

Issuance of common stock	59		59
Repurchase of common stock	(66)		(66)
Tax benefit related to share-based compensation	52		52
Equity contributed by noncontrolling interest		1	1
Distributions to noncontrolling interests		(16)	(16)
Balance at June 30, 2015	$ 11,683	$ 792	$ 12,475
Balance at December 31, 2013	$ 11,008	$ 842	$ 11,850
Comprehensive income	472	39	511
Preferred dividends of subsidiary	(1)		(1)
Share-based compensation expense	21		21
Common stock dividends declared	(324)		(324)
Issuance of common stock	42		42
Repurchase of common stock	(37)		(37)
Tax benefit related to share-based compensation	13		13
Equity contributed by noncontrolling interest		1	1
Distributions to noncontrolling interests		(25)	(25)
Balance at June 30, 2014	$ 11,194	$ 857	$ 12,051

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

	SDG&E shareholder's equity	Non-controlling interest	Total equity
Balance at December 31, 2014	$ 4,932	$ 60	$ 4,992
Comprehensive income	273	9	282
Distributions to noncontrolling interest		(8)	(8)
Balance at June 30, 2015	$ 5,205	$ 61	$ 5,266
Balance at December 31, 2013	$ 4,628	$ 91	$ 4,719
Comprehensive income	223	7	230
Distributions to noncontrolling interest		(13)	(13)
Balance at June 30, 2014	$ 4,851	$ 85	$ 4,936

SHAREHOLDERS' EQUITY SOCALGAS
(Dollars in millions)

	SoCalGas shareholders' equity
Balance at December 31, 2014	$ 2,781
Comprehensive income	285
Preferred stock dividends declared	(1)
Balance at June 30, 2015	$ 3,065
Balance at December 31, 2013	$ 2,549
Comprehensive income	159
Preferred stock dividends declared	(1)
Balance at June 30, 2014	$ 2,707

Ownership interests that are held by owners other than Sempra Energy and SDG&E in subsidiaries or entities consolidated by them are accounted for and reported as noncontrolling interests. As a result, noncontrolling interests are reported as a separate component of equity on the Condensed Consolidated Balance Sheets. Earnings or losses attributable to noncontrolling interests are separately identified on the Condensed Consolidated Statements of Operations, and comprehensive income or loss attributable to noncontrolling interests is separately identified on the Condensed Consolidated Statements of Comprehensive Income.

Preferred Stock

At Sempra Energy, the preferred stock of SoCalGas is presented as a noncontrolling interest and preferred stock dividends are charges against income related to noncontrolling interests. We provide additional information concerning preferred stock in Note 11 of the Notes to Consolidated Financial Statements in the Annual Report.

Other Noncontrolling Interests

At June 30, 2015 and December 31, 2014, we reported the following noncontrolling ownership interests held by others (not including preferred shareholders) recorded in Other Noncontrolling Interests in Total Equity on Sempra Energy's Condensed Consolidated Balance Sheets:

OTHER NONCONTROLLING INTERESTS
(Dollars in millions)

	Percent ownership held by others					
	June 30, 2015		December 31, 2014		June 30, 2015	December 31, 2014
SDG&E:						
Otay Mesa VIE	100	%	100	%	$ 61	$ 60
Sempra South American Utilities:						
Chilquinta Energía subsidiaries(1)	23.5 – 43.4		23.6 – 43.4		22	23
Luz del Sur	16.4		16.4		171	177
Tecsur	9.8		9.8		3	4
Sempra Mexico:						
IEnova, S.A.B. de C.V.	18.9		18.9		476	452
Sempra Natural Gas:						
Bay Gas Storage Company, Ltd.	9.1		9.1		24	23
Liberty Gas Storage, LLC	25.0		25.0		14	14
Southern Gas Transmission Company	49.0		49.0		1	1
Total Sempra Energy					$ 772	$ 754

(1) Chilquinta Energía has four subsidiaries with noncontrolling interests held by others. Percentage range reflects the highest and lowest ownership percentages amongst these subsidiaries.

TRANSACTIONS WITH AFFILIATES

Current and noncurrent amounts due from unconsolidated affiliates on the Sempra Energy Condensed Consolidated Balance Sheets are as follows:

DUE FROM UNCONSOLIDATED AFFILIATES(1)
(Dollars in millions)

	June 30, 2015	December 31, 2014
Sempra South American Utilities:		
Eletrans S.A.:		
4% Note(2)	$ 61	$ 41
Sempra Mexico:		
Affiliates of joint venture with PEMEX:		
Note due November 13, 2017(3)(4)	3	44
Note due November 14, 2018(3)	41	40
Note due November 14, 2018(3)	33	33
Note due November 14, 2018(3)	8	8
Energía Sierra Juárez:		
Note due June 15, 2018(5)	23	22
Other(6)	4	38
Total	$ 173	$ 226

(1) Amounts include principal balances plus accumulated interest outstanding.

(2) U.S. dollar-denominated loan, at a fixed interest rate with no stated maturity date, to provide project financing for the construction of transmission lines at Eletrans S.A., an affiliate of Chilquinta Energía.

(3) U.S. dollar-denominated loan, at a variable interest rate based on a 30-day LIBOR plus 450 basis points (4.68 percent at June 30, 2015), to finance the Los Ramones Norte pipeline project.

(4) In May 2015, approximately $41 million was paid with proceeds from project financing at the joint venture.

(5) U.S. dollar-denominated loan, at a variable interest rate based on a 30-day LIBOR plus 637.5 basis points (6.56 percent at June 30, 2015), to finance the first phase of the Energía Sierra Juárez wind project.

(6) Amounts represent accounts receivable from various Sempra Renewables and Sempra Mexico joint venture investments.

Service Agreements

Sempra Energy, SDG&E and SoCalGas provide certain services to each other and are charged an allocable share of the cost of such services. Also, from time-to-time, SDG&E and SoCalGas may loan surplus cash to Sempra Energy at interest rates based on one-month commercial paper rates. Amounts due to/from affiliates are as follows:

AMOUNTS DUE TO AND FROM AFFILIATES AT SDG&E AND SOCALGAS

(Dollars in millions)

	June 30, 2015	December 31, 2014
SDG&E:		
Current:		
Due from various affiliates	$ 1	$ 1
Due to Sempra Energy	$ 7	$ 17
Due to SoCalGas		4
	$ 7	$ 21
Income taxes due from Sempra Energy(1)	$ 97	$ 16
SoCalGas:		
Current:		
Due from Sempra Energy(2)	$ 273	$
Due from SDG&E		4
	$ 273	$ 4
Due to Sempra Energy	$	$ 13
Income taxes due (to) from Sempra Energy(1)	$ (19)	$ 9

(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 each company having always filed a separate return.

(2) Net receivable includes a loan to Sempra Energy of $279 million at June 30, 2015 at an interest rate of 0.08 percent.

Revenues from unconsolidated affiliates at SDG&E and SoCalGas are as follows:

REVENUES FROM UNCONSOLIDATED AFFILIATES AT SDG&E AND SOCALGAS
(Dollars in millions)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
SDG&E	$ 2	$ 3	$ 5	$ 6
SoCalGas	17	16	36	34

OTHER INCOME, NET

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

OTHER INCOME, NET
(Dollars in millions)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Sempra Energy Consolidated:				
Allowance for equity funds used during construction	$ 31	$ 24	$ 58	$ 49
Investment (losses) gains(1)	(2)	15	7	23
(Losses) gains on interest rate and foreign exchange instruments, net	(3)	11	(3)	16
Electrical infrastructure relocation income(2)	4	3	4	3
Regulatory interest, net(3)	1	2	2	3
Foreign currency (losses) gains	(2)	1	(3)	1
Sundry, net	8	(7)	11	(6)
Total	$ 37	$ 49	$ 76	$ 89
SDG&E:				
Allowance for equity funds used during construction	$ 10	$ 7	$ 18	$ 18
Regulatory interest, net(3)	1	2	2	3
Sundry, net	(2)	(2)	(2)	(1)
Total	$ 9	$ 7	$ 18	$ 20
SoCalGas:				
Allowance for equity funds used during construction	$ 10	$ 6	$ 19	$ 11
Sundry, net	(1)	(3)	(2)	(4)
Total	$ 9	$ 3	$ 17	$ 7

(1) Represents investment (losses) 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) Income at Luz del Sur associated with the relocation of electrical infrastructure.

(3) Interest on regulatory balancing accounts.

INCOME TAXES

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

	Income tax expense	Effective income tax rate	Income tax expense	Effective income tax rate
	Three months ended June 30,			
	2015		2014	
Sempra Energy Consolidated	$ 98	25%	$ 93	25%
SDG&E	54	29	69	35
SoCalGas	16	18	28	26
	Six months ended June 30,			
	2015		2014	
Sempra Energy Consolidated	$ 261	26%	$ 220	29%

SDG&E	142	34	152	40
SoCalGas	111	28	66	29

Changes in Income Tax Expense and Effective Income Tax Rates

Sempra Energy Consolidated

The increase in income tax expense in the three months ended June 30, 2015 was mainly due to higher pretax income.

The increase in income tax expense in the six months ended June 30, 2015 was mainly due to higher pretax income, offset by a lower effective income tax rate. The lower effective income tax rate was primarily due to:

§ a $17 million charge in 2014 to reduce certain tax regulatory assets attributed to SDG&E's investment in the San Onofre Nuclear Generating Station (SONGS) that we discuss in Note 9; and

§ favorable resolution of prior years' income tax items in 2015.

Sempra Energy, SDG&E and SoCalGas record income taxes for interim periods utilizing a forecasted effective tax rate anticipated for the full year, as required by U.S. GAAP. The income tax effect of items that can be reliably forecasted are factored into the forecasted effective tax rate and their impact is recognized proportionately over the year. The forecasted items, anticipated on a full year basis, may include, among others:

§ utility self-developed software expenditures

§ repairs to certain utility plant assets

§ renewable energy income tax credits

§ deferred income tax benefits related to renewable energy projects

§ exclusions from taxable income of the equity portion of AFUDC

§ depreciation on a certain portion of utility plant assets

§ U.S. tax on repatriation of current year earnings from non-U.S. subsidiaries

Items that cannot be reliably forecasted (e.g., adjustments related to prior years' income tax items, remeasurement of deferred tax asset valuation allowances, Mexican currency translation and inflation adjustments, and deferred income tax benefit associated with the impairment of a book investment) are recorded in the interim period in which they actually occur, which can result in variability to income tax expense.

SDG&E

The decrease in SDG&E's income tax expense in the three months ended June 30, 2015 was due to lower pretax income and a lower effective income tax rate, which was primarily from the favorable resolution of prior years' income tax items in 2015.

The decrease in SDG&E's income tax expense in the six months ended June 30, 2015 was due to a lower effective income tax rate, offset by higher pretax income. The lower effective income tax rate was primarily due to:

- a $17 million charge in 2014 to reduce certain tax regulatory assets attributed to SDG&E's investment in SONGS that we discuss in Note 9; and

- favorable resolution of prior years' income tax items in 2015.

The results for Sempra Energy Consolidated and SDG&E include Otay Mesa VIE, which is not included in Sempra Energy's federal or state income tax returns but is consolidated for financial statement purposes, and therefore, Sempra Energy Consolidated's and SDG&E's effective income tax rates are impacted by the VIE's stand-alone effective income tax rate. We discuss Otay Mesa VIE above in "Variable Interest Entities."

SoCalGas

The decrease in SoCalGas' income tax expense in the three months ended June 30, 2015 was due to lower pretax income and a lower effective income tax rate. The lower pretax income was primarily due to recognizing core gas authorized revenue during interim periods based on seasonal factors beginning January 1, 2015 in accordance with the TCAP, compared to recognizing such revenue ratably over the year in 2014. We discuss the impact of the TCAP decision further in Note 10. The lower effective income tax rate was primarily due to:

- favorable resolution of prior years' income tax items in 2015;

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

- higher favorable impact of deductions for self-developed software expenditures.

The increase in SoCalGas' income tax expense in the six months ended June 30, 2015 was mainly due to higher pretax income, offset by a lower effective income tax rate. The higher pretax income was primarily due to recognizing core gas authorized revenue during interim periods based on seasonal factors beginning January 1, 2015 in accordance with the TCAP, compared to recognizing such revenue ratably over the year in 2014. We discuss the impact of the TCAP decision further in Note 10. The lower effective income tax rate was primarily due to the favorable resolution of prior years' income tax items in 2015.

For SDG&E and SoCalGas, the CPUC requires flow-through rate-making treatment for the current income tax benefit or expense arising from certain property-related and other temporary differences between the treatment for financial reporting and income tax, which will reverse over time. Under the regulatory accounting treatment required for these flow-through temporary differences, deferred income tax assets and liabilities are not recorded to deferred income tax expense, but rather to a regulatory asset or liability, which impacts the current effective income tax rate. As a result, changes in the relative size of these items compared to pretax income, from period to period, can cause variations in the effective income tax rate. The following items are subject to flow-through treatment:

- repairs expenditures related to a certain portion of utility plant assets

- the equity portion of AFUDC

- a portion of the cost of removal of utility plant assets

- utility self-developed software expenditures

- depreciation on a certain portion of utility plant assets

The AFUDC related to equity recorded for regulated construction projects at Sempra Mexico and Sempra Natural Gas has similar flow-through treatment.

We provide additional information about our accounting for income taxes in Notes 1 and 6 of the Notes to Consolidated Financial Statements in the Annual Report.

NOTE 6. DEBT AND CREDIT FACILITIES

LINES OF CREDIT

At June 30, 2015, Sempra Energy Consolidated had an aggregate of $4.1 billion in three primary committed lines of credit for Sempra Energy, Sempra Global and the California Utilities to provide liquidity and to support commercial paper, the major components of which we detail below. Available unused credit on these lines at June 30, 2015 was approximately $3.5 billion. Some of Sempra Energy's subsidiaries, primarily our foreign operations, have additional general purpose credit facilities, aggregating $848 million at June 30, 2015. Available unused credit on these lines totaled $576 million at June 30, 2015.

Sempra Energy

Sempra Energy has a $1.067 billion, five-year syndicated revolving credit agreement expiring in March 2017. Citibank, N.A. serves as administrative agent for the syndicate of 24 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. At June 30, 2015 and December 31, 2014, Sempra Energy was in compliance with this and all other financial covenants under the credit facility. The facility also provides for issuance of up to $635 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, 2015, Sempra Energy had no outstanding borrowings or letters of credit supported by the facility.

Sempra Global

Sempra Global has a $2.189 billion, five-year syndicated revolving credit agreement expiring in March 2017. Citibank, N.A. serves as administrative agent for the syndicate of 25 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, 2015 and December 31, 2014, Sempra Energy was in compliance with this and all other financial covenants under the credit facility.

At June 30, 2015, Sempra Global had $600 million of commercial paper outstanding supported by the facility.

California Utilities

SDG&E and SoCalGas have a combined $877 million, five-year syndicated revolving credit agreement expiring in March 2017. JPMorgan Chase Bank, N.A. serves as administrative agent for the syndicate of 24 lenders. No single lender has greater than a 7-percent share. The agreement permits each utility to individually borrow up to $658 million, subject to a combined limit of $877 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 $300 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. At June 30, 2015 and December 31, 2014, the California Utilities were in compliance with this and all other financial covenants under the credit facility.

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, 2015, SDG&E had $40 million of commercial paper outstanding, supported by the facility. SoCalGas had no outstanding borrowings supported by the facility. Available unused credit on the line at June 30, 2015 was $618 million and $658 million at SDG&E and SoCalGas, respectively, subject to the $877 million maximum combined credit limit.

Sempra Mexico

In 2014, IEnova entered into an agreement for a $200 million, U.S. dollar-denominated, three-year corporate revolving credit facility to finance working capital and for general corporate purposes. The lender is Banco Santander, (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander Mexico. At June 30, 2015, IEnova had $50 million of outstanding borrowings supported by the facility, and available unused credit on the line was $150 million.

Also in 2014, IEnova entered into an agreement for a $100 million, U.S. dollar-denominated, three-year corporate revolving credit facility to finance working capital and for general corporate purposes. The lender is Sumitomo Mitsui Banking Corporation. At June 30, 2015, IEnova had $25 million of outstanding borrowings supported by the facility, and available unused credit on the line was $75 million.

WEIGHTED AVERAGE INTEREST RATES

The weighted average interest rates on the total short-term debt at Sempra Energy Consolidated were 0.78 percent and 0.70 percent at June 30, 2015 and December 31, 2014, respectively. The weighted average interest rate on total short-term debt at SDG&E was 0.18 percent at June 30, 2015. At December 31, 2014, the weighted average interest rates on total short-term debt at SDG&E and SoCalGas were 0.27 percent and 0.25 percent, respectively.

LONG-TERM DEBT

Sempra Energy

In March 2015, Sempra Energy publicly offered and sold $500 million of 2.40-percent, fixed-rate notes maturing in 2020. Sempra Energy used the proceeds from this offering to repay outstanding commercial paper.

SDG&E

In March 2015, SDG&E publicly offered and sold $140 million of first mortgage bonds maturing in 2017 at a variable rate of three-month LIBOR plus 0.20 percent (0.48 percent at June 30, 2015) and $250 million of 1.914-percent amortizing first mortgage bonds maturing in 2022. SDG&E used the proceeds from the offering to repay outstanding commercial paper and for other general corporate purposes.

SDG&E will redeem, prior to maturity, certain outstanding long-term debt instruments with a total principal amount of $169 million. Accordingly, the debt is classified as current portion of long-term debt at June 30, 2015 on Sempra Energy’s and SDG&E’s Condensed Consolidated Balance Sheets. The coupon rate of these instruments ranges from 4.9 percent to 5.5 percent, with maturities from 2021 to 2027. The redemption is anticipated to occur during the third quarter of 2015.

SoCalGas

In June 2015, SoCalGas publicly offered and sold $250 million of 1.55-percent and $350 million of 3.20-percent first mortgage bonds maturing in 2018 and 2025, respectively. SoCalGas used the proceeds from the offering to repay outstanding commercial paper and for other general corporate purposes.

South American Utilities

In May and June 2015, Luz del Sur borrowed $13 million and $22 million, respectively, under a bank loan facility. The loans accrue interest at 5.18 percent and mature on May 18, 2018 and June 1, 2018, respectively.

Sempra Natural Gas

In June 2015, Sempra Natural Gas reduced its other long-term debt by $79 million through redemption of its investment in industrial development bonds at Mississippi Hub.

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. Our principal 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 (1) that could lead to declines in anticipated revenues or increases in anticipated expenses, or (2) 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 California 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 (loss) (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, foreign currency 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 instrument 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 California Utilities use energy derivatives, both natural gas and electricity, for the benefit of customers, with the objective of managing price risk and basis risks, and lowering natural gas and electricity costs. These derivatives include fixed price natural gas and electricity positions, options, and basis risk instruments, which are either exchange-traded or over-the-counter financial instruments, or bilateral physical transactions. This activity is governed by risk management and transacting activity plans that have been filed with and approved by the CPUC. Natural gas and electricity 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 Mexico and Sempra Natural Gas may use natural gas and electricity derivatives, as appropriate, to optimize the earnings of their assets which support the following businesses: liquefied natural gas (LNG), natural gas transportation, power generation, and Sempra Natural Gas' storage. Gains and losses associated with 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. Certain of these derivatives may also be designated as cash flow hedges. Sempra Mexico 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.

§ From time to time, our various businesses, including the California Utilities, may use other energy derivatives to hedge exposures such as the price of vehicle fuel.

We summarize net energy derivative volumes at June 30, 2015 and December 31, 2014 as follows:

NET ENERGY DERIVATIVE VOLUMES

Segment and Commodity	June 30, 2015	December 31, 2014
California Utilities:		
SDG&E:		
Natural gas	57 million MMBtu	55 million MMBtu(1)
Electricity	1 million MWh	(2)
Congestion revenue rights	23 million MWh	27 million MWh
SoCalGas - natural gas		1 million MMBtu
Energy-Related Businesses:		
Sempra Natural Gas - natural gas	29 million MMBtu	29 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 contractual obligations and assets, such as natural gas purchases and sales.

INTEREST RATE DERIVATIVES

We are exposed to interest rates primarily as a result of our current and expected use of financing. We periodically enter into interest rate derivative agreements intended to moderate our exposure to interest rates and to lower our overall costs of borrowing. We utilize interest rate swaps typically designated as fair value hedges, as a means to achieve our targeted level of variable rate debt as a percent of total debt. In addition, we may utilize interest rate swaps, 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 California Utilities as well as by other Sempra Energy subsidiaries. Although the California 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 energy derivatives. Interest rate derivatives are generally accounted for as hedges at the California Utilities, as well 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 activity was designated as a cash flow hedge as of April 1, 2011.

At June 30, 2015 and December 31, 2014, the net notional amounts of our interest rate derivatives, excluding the cross-currency swaps discussed below, were:

INTEREST RATE DERIVATIVES
(Dollars in millions)

	June 30, 2015		December 31, 2014	
	Notional debt	Maturities	Notional debt	Maturities
Sempra Energy Consolidated:				
Cash flow hedges(1)	$ 392	2015-2028	$ 399	2015-2028
Fair value hedges	300	2016	300	2016
SDG&E:				
Cash flow hedge(1)	320	2015-2019	325	2015-2019

(1) Includes Otay Mesa VIE. All of SDG&E's interest rate derivatives relate to Otay Mesa VIE.

FOREIGN CURRENCY DERIVATIVES

We are exposed to exchange rate movements at our Mexican subsidiaries, which have U.S. dollar denominated cash balances, receivables and payables (monetary assets and liabilities) that give rise to Mexican currency exchange rate movements for Mexican income tax purposes. These subsidiaries also have deferred income tax assets and liabilities that are denominated in the Mexican peso, which must be translated into U.S. dollars for financial reporting purposes. From time to time, we may utilize foreign currency derivatives at our subsidiaries and at the consolidated level as a means to manage the risk of exposure to significant fluctuations in our income tax expense from these impacts. We may also utilize cross-currency swaps to hedge exposure related to Mexican peso-denominated debt at our Mexican subsidiaries and joint ventures.

In addition, Sempra South American Utilities may utilize foreign currency derivatives at its subsidiaries and joint ventures as a means to manage foreign currency rate risk. We discuss such swaps at Chilquinta Energía's Eletrans joint venture investment in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

FINANCIAL STATEMENT PRESENTATION

Each Condensed Consolidated Balance Sheet reflects the offsetting of net derivative positions and cash collateral with the same counterparty when a legal right of offset exists. The following tables provide the fair values of derivative instruments on the Condensed Consolidated Balance Sheets at June 30, 2015 and December 31, 2014, including the amount of cash collateral receivables that were not offset, as the cash collateral is in excess of liability positions.

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

	June 30, 2015			
	Current assets: Fixed-price contracts	Investments and other	Current liabilities: Fixed-price contracts	Deferred credits and other liabilities: Fixed-price contracts

	and other derivatives(1)	assets: Sundry	and other derivatives(2)	and other derivatives
Sempra Energy Consolidated:				
Derivatives designated as hedging instruments:				
Interest rate and foreign exchange instruments(3)	$ 9	$ 2	$ (17)	$ (129)
Commodity contracts not subject to rate recovery	1			
Derivatives not designated as hedging instruments:				
Interest rate and foreign exchange instruments	8	24	(6)	(20)
Commodity contracts not subject to rate recovery	78	24	(76)	(16)
Associated offsetting commodity contracts	(69)	(15)	69	15
Associated offsetting cash collateral			5	1
Commodity contracts subject to rate recovery	15	75	(37)	(64)
Associated offsetting commodity contracts	(1)	(1)	1	1
Associated offsetting cash collateral			21	21
Net amounts presented on the balance sheet	41	109	(40)	(191)
Additional cash collateral for commodity contracts not subject to rate recovery	17			
Additional cash collateral for commodity contracts subject to rate recovery	27			
Total(4)	$ 85	$ 109	$ (40)	$ (191)
SDG&E:				
Derivatives designated as hedging instruments:				
Interest rate instruments(3)	$	$	$ (15)	$ (28)
Derivatives not designated as hedging instruments:				
Commodity contracts not subject to rate recovery			(1)	
Associated offsetting cash collateral			1	
Commodity contracts subject to rate recovery	14	75	(37)	(64)
Associated offsetting commodity contracts	(1)	(1)	1	1
Associated offsetting cash collateral			21	21
	13	74	(30)	(70)

Net amounts presented on the balance sheet					
Additional cash collateral for commodity contracts not subject to rate recovery		1			
Additional cash collateral for commodity contracts subject to rate recovery		26			
Total(4)	$	40	$ 74	$ (30)	$ (70)
SoCalGas:					
Derivatives not designated as hedging instruments:					
Commodity contracts not subject to rate recovery	$		$	$ (1)	$
Associated offsetting cash collateral				1	
Commodity contracts subject to rate recovery		1			
Net amounts presented on the balance sheet		1			
Additional cash collateral for commodity contracts not subject to rate recovery		2			
Additional cash collateral for commodity contracts subject to rate recovery		1			
Total	$	4	$	$	$

(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.

(4) Normal purchase contracts previously measured at fair value are excluded.

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

	December 31, 2014			
	Current assets: Fixed-price contracts and other derivatives(1)	Investments and other assets: Sundry	Current liabilities: Fixed-price contracts and other derivatives(2)	Deferred credits and other liabilities: Fixed-price contracts and other derivatives

Sempra Energy Consolidated:				
Derivatives designated as hedging instruments:				
Interest rate and foreign exchange instruments(3)	$ 10	$ 3	$ (17)	$ (109)
Commodity contracts not subject to rate recovery	25			
Derivatives not designated as hedging instruments:				
Interest rate instruments	8	27	(7)	(22)
Commodity contracts not subject to rate recovery	143	32	(135)	(29)
Associated offsetting commodity contracts	(129)	(27)	129	27
Associated offsetting cash collateral	(11)			
Commodity contracts subject to rate recovery	36	76	(36)	(20)
Associated offsetting commodity contracts	(3)	(1)	3	1
Associated offsetting cash collateral			23	13
Net amounts presented on the balance sheet	79	110	(40)	(139)
Additional cash collateral for commodity contracts subject to rate recovery	14			
Total(4)	$ 93	$ 110	$ (40)	$ (139)
SDG&E:				
Derivatives designated as hedging instruments:				
Interest rate instruments(3)	$	$	$ (16)	$ (31)
Derivatives not designated as hedging instruments:				
Commodity contracts subject to rate recovery	32	76	(32)	(20)
Associated offsetting commodity contracts		(1)		1
Associated offsetting cash collateral			23	13
Net amounts presented on the balance sheet	32	75	(25)	(37)
Additional cash collateral for commodity contracts subject to rate recovery	12			
Total(4)	$ 44	$ 75	$ (25)	$ (37)
SoCalGas:				
Derivatives not designated as hedging instruments:				
Commodity contracts subject to rate recovery	$ 4	$	$ (4)	$

Associated offsetting commodity contracts	(3)		3	
Net amounts presented on the balance sheet	1		(1)	
Additional cash collateral for commodity contracts subject to rate recovery	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.

(4) Normal purchase contracts previously measured at fair value are excluded.

The effects of derivative instruments designated as hedges on the Condensed Consolidated Statements of Operations and in Other Comprehensive Income (Loss) (OCI) and Accumulated Other Comprehensive Income (Loss) (AOCI) for the three months and six months ended June 30 were:

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

		Gain (loss) on derivatives recognized in earnings			
		Three months ended June 30,		Six months ended June 30,	
	Location	2015	2014	2015	2014
Sempra Energy Consolidated:					
Interest rate instruments	Interest Expense	$ 2	$ 2	$ 4	$ 5
Interest rate instruments	Other Income, Net	(3)	5	(2)	1
Total(1)		$ (1)	$ 7	$ 2	$ 6

(1) There was no hedge ineffectiveness on these swaps in the three months or six months ended June 30, 2015, respectively, and $7 million and $9 million in the three months and six months ended June 30, 2014, respectively. All other changes in the fair value of the interest rate swap agreements are exactly offset by changes in the fair value of the underlying long-term debt and are recorded in Other Income, Net.

CASH FLOW HEDGE IMPACT ON THE CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in millions)

	Pretax gain (loss) recognized in OCI (effective portion)	Pretax gain (loss) reclassified from AOCI into earnings (effective portion)

	Three months ended June 30,			Three months ended June 30,	
	2015	2014	Location	2015	2014
Sempra Energy Consolidated:					
Interest rate and foreign exchange instruments(1)	$ 6	$ (7)	Interest Expense	$ (3)	$ (6)
Interest rate instruments	89	(15)	Equity Earnings, Before Income Tax	(3)	(2)
Commodity contracts not subject to rate recovery	1		Revenues: Energy-Related Businesses		
Total(2)	$ 96	$ (22)		$ (6)	$ (8)
SDG&E:					
Interest rate instruments(1)(2)	$	$ (3)	Interest Expense	$ (3)	$ (2)

	Six months ended June 30,			Six months ended June 30,	
	2015	2014	Location	2015	2014
Sempra Energy Consolidated:					
Interest rate and foreign exchange instruments(1)	$ (12)	$ (10)	Interest Expense	$ (9)	$ (9)
Interest rate instruments		(2)	Gain on Sale of Equity Interest and Assets		(2)
Interest rate instruments	11	(30)	Equity Earnings, Before Income Tax	(6)	(5)
Commodity contracts not subject to rate recovery		(6)	Revenues: Energy-Related Businesses	7	(10)
Total(2)	$ (1)	$ (48)		$ (8)	$ (26)
SDG&E:					
Interest rate instruments(1)(2)	$ (5)	$ (6)	Interest Expense	$ (6)	$ (5)

(1) Amounts include Otay Mesa VIE. All of SDG&E's interest rate derivative activity relates to Otay Mesa VIE.

(2) There was a negligible amount of ineffectiveness related to these hedges in 2015 and 2014.

For Sempra Energy Consolidated we expect that losses of $22 million, which are net of income tax benefit, that are currently recorded in AOCI (including $13 million in noncontrolling interests, of which $12 million is related to Otay Mesa VIE at SDG&E) 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 depend on the interest rates in effect when derivative contracts that are currently outstanding mature.

SoCalGas expects that negligible losses, which are net of income tax benefit, currently recorded in AOCI related to cash flow hedges will be reclassified into earnings during the next twelve months as the hedged items affect earnings.

For all forecasted transactions, the maximum term over which we are hedging exposure to the variability of cash flows at June 30, 2015 is approximately 14 years and 4 years for Sempra Energy Consolidated and SDG&E, respectively. The maximum term of hedged interest rate variability is 20 years, and is related to debt at Sempra Renewables' equity method investees.

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 were:

UNDESIGNATED DERIVATIVE IMPACT ON THE CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in millions)

		Gain (loss) on derivatives recognized in earnings			
		Three months ended June 30,		Six months ended June 30,	
	Location	2015	2014	2015	2014
Sempra Energy Consolidated:					
Interest rate and foreign exchange instruments	Other Income, Net	$ (3)	$ 4	$ (3)	$ 7
Foreign exchange instruments	Equity Earnings, Net of Income Tax			(1)	(2)
Commodity contracts not subject to rate recovery	Revenues: Energy-Related Businesses	9	4	12	(1)
Commodity contracts not subject to rate recovery	Cost of Natural Gas, Electric Fuel and Purchased Power		1		2
Commodity contracts not subject to rate recovery	Operation and Maintenance	1		1	
Commodity contracts subject to rate recovery	Cost of Electric Fuel and Purchased Power	(53)	8	(73)	20
Commodity contracts subject to rate recovery	Cost of Natural Gas		(1)	1	1
Total		$ (46)	$ 16	$ (63)	$ 27
SDG&E:					
Commodity contracts subject to rate recovery	Cost of Electric Fuel and Purchased Power	$ (53)	$ 8	$ (73)	$ 20
SoCalGas:					
Commodity contracts not subject					

to rate recovery	Operation and Maintenance	$	1	$		$	1	$	
Commodity contracts subject to rate recovery	Cost of Natural Gas				(1)		1		1
Total		$	1	$	(1)	$	2	$	1

CONTINGENT FEATURES

For Sempra Energy Consolidated and SDG&E, certain of our derivative instruments contain credit limits which vary depending on 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 Consolidated, the total fair value of this group of derivative instruments in a net liability position at June 30, 2015 and December 31, 2014 is $5 million and $9 million, respectively. At June 30, 2015, if the credit ratings of Sempra Energy were reduced below investment grade, $5 million of additional assets could be required to be posted as collateral for these derivative contracts.

For SDG&E, the total fair value of this group of derivative instruments in a net liability position was $4 million and $2 million at June 30, 2015 and December 31, 2014, respectively. At June 30, 2015, if the credit ratings of SDG&E 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 Consolidated, 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

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 Note 1 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, 2015.

Recurring Fair Value Measures

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 at June 30, 2015 and December 31, 2014. 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 presented in accordance with our netting policy, as we discuss in Note 7 under "Financial Statement Presentation."

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).

Our financial assets and liabilities that were accounted for at fair value on a recurring basis at June 30, 2015 and December 31, 2014 in the tables below include the following:

- Nuclear decommissioning trusts reflect the assets of SDG&E's nuclear decommissioning trusts, excluding cash balances. A third party trustee values the trust assets using prices from a pricing service based on a market approach. We validate these prices by comparison to prices from other independent data sources. Equity and certain debt securities are valued using quoted prices listed on nationally recognized securities exchanges or based on closing prices reported in the active market in which the identical security is traded (Level 1). Other debt securities are valued based on yields that are currently available for comparable securities of issuers with similar credit ratings (Level 2).

- We enter into commodity contracts and interest rate derivatives primarily as a means to manage price exposures. We may also manage foreign exchange rate exposures using derivatives. We primarily use a market approach with market participant assumptions to value these derivatives. Market participant assumptions include those about risk, and the risk inherent in the inputs to the valuation techniques. These inputs can be readily observable, market corroborated, or generally unobservable. We have exchange-traded derivatives that are valued based on quoted prices in active markets for the identical instruments (Level 1). We also may have other commodity derivatives that are valued using industry standard models that consider quoted forward prices for commodities, time value, current market and contractual prices for the underlying instruments, volatility factors, and other relevant economic measures (Level 2). Level 3 recurring items relate to CRRs and long-term, fixed-price electricity positions at SDG&E, as we discuss below under "Level 3 Information." We record commodity derivative contracts that are subject to rate recovery as commodity costs that are offset by regulatory account balances and are recovered in rates.

- Investments include marketable securities that we value using a market approach based on closing prices reported in the active market in which the identical security is traded (Level 1).

There were no transfers into or out of Level 1, Level 2 or Level 3 for Sempra Energy Consolidated, SDG&E or SoCalGas during the periods presented, nor any changes in valuation techniques used in recurring fair value measurements.

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

	Fair value at June 30, 2015				
	Level 1	Level 2	Level 3	Netting(1)	Total
Assets:					
Nuclear decommissioning trusts:					
Equity securities	$ 665	$	$	$	$ 665
Debt securities:					

Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	50	48			98
Municipal bonds		152			152
Other securities		209			209
Total debt securities	50	409			459
Total nuclear decommissioning trusts(2)	715	409			1,124
Interest rate and foreign exchange instruments		43			43
Commodity contracts not subject to rate recovery	6	13		17	36
Commodity contracts subject to rate recovery		1	87	27	115
Total	$ 721	$ 466	$ 87	$ 44	$ 1,318
Liabilities:					
Interest rate and foreign exchange instruments	$	$ 172	$	$	$ 172
Commodity contracts not subject to rate recovery	4	4		(6)	2
Commodity contracts subject to rate recovery		54	45	(42)	57
Total	$ 4	$ 230	$ 45	$ (48)	$ 231

	Fair value at December 31, 2014				
	Level 1	Level 2	Level 3	Netting(1)	Total
Assets:					
Nuclear decommissioning trusts:					
Equity securities	$ 655	$	$	$	$ 655
Debt securities:					
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	62	47			109
Municipal bonds		129			129
Other securities		207			207
Total debt securities	62	383			445
Total nuclear decommissioning trusts(2)	717	383			1,100
Interest rate and foreign exchange instruments		48			48
Commodity contracts not subject to rate recovery	28	16		(11)	33
Commodity contracts subject to rate recovery		1	107	14	122
Total	$ 745	$ 448	$ 107	$ 3	$ 1,303
Liabilities:					
Interest rate and foreign exchange instruments	$	$ 155	$	$	$ 155
Commodity contracts not subject to rate recovery	3	9		(4)	8
		52		(36)	16

Commodity contracts subject to rate recovery					
Total	$ 3	$ 216	$	$ (40)	$ 179

(1) Includes the effect of the contractual ability to settle contracts under master netting agreements and with cash collateral, as well as cash collateral not offset.

(2) Excludes cash balances and cash equivalents.

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

	Fair value at June 30, 2015				
	Level 1	Level 2	Level 3	Netting(1)	Total
Assets:					
Nuclear decommissioning trusts:					
Equity securities	$ 665	$	$	$	$ 665
Debt securities:					
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	50	48			98
Municipal bonds		152			152
Other securities		209			209
Total debt securities	50	409			459
Total nuclear decommissioning trusts(2)	715	409			1,124
Commodity contracts not subject to rate recovery				1	1
Commodity contracts subject to rate recovery			87	26	113
Total	$ 715	$ 409	$ 87	$ 27	$ 1,238
Liabilities:					
Interest rate instruments	$	$ 43	$	$	$ 43
Commodity contracts not subject to rate recovery	1			(1)	
Commodity contracts subject to rate recovery		54	45	(42)	57
Total	$ 1	$ 97	$ 45	$ (43)	$ 100

	Fair value at December 31, 2014				
	Level 1	Level 2	Level 3	Netting(1)	Total
Assets:					
Nuclear decommissioning trusts:					
Equity securities	$ 655	$	$	$	$ 655
Debt securities:					
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	62	47			109
Municipal bonds		129			129
Other securities		207			207

Total debt securities	62	383			445
Total nuclear decommissioning trusts(2)	717	383			1,100
Commodity contracts subject to rate recovery			107	12	119
Total	$ 717	$ 383	$ 107	$ 12	$ 1,219
Liabilities:					
Interest rate instruments	$	$ 47	$	$	$ 47
Commodity contracts not subject to rate recovery	1			(1)	
Commodity contracts subject to rate recovery		51		(36)	15
Total	$ 1	$ 98	$	$ (37)	$ 62

(1) Includes the effect of the contractual ability to settle contracts under master netting agreements and with cash collateral, as well as cash collateral not offset.

(2) Excludes cash balances and cash equivalents.

RECURRING FAIR VALUE MEASURES – SOCALGAS
(Dollars in millions)

	Fair value at June 30, 2015				
	Level 1	Level 2	Level 3	Netting(1)	Total
Assets:					
Commodity contracts not subject to rate recovery	$	$	$	$ 2	$ 2
Commodity contracts subject to rate recovery		1		1	2
Total	$	$ 1	$	$ 3	$ 4
Liabilities:					
Commodity contracts not subject to rate recovery	$ 1	$	$	$ (1)	$
Total	$ 1	$	$	$ (1)	$

	Fair value at December 31, 2014				
	Level 1	Level 2	Level 3	Netting(1)	Total
Assets:					
Commodity contracts subject to rate recovery	$	$ 1	$	$ 2	$ 3
Total	$	$ 1	$	$ 2	$ 3
Liabilities:					
Commodity contracts not subject to rate recovery	$ 2	$	$	$ (2)	$
Commodity contracts subject to rate recovery		1			1
Total	$ 2	$ 1	$	$ (2)	$ 1

(1) Includes the effect of the contractual ability to settle contracts under master netting agreements and with cash collateral, as well as cash collateral not offset.

Level 3 Information

The following table sets forth reconciliations of changes in the fair value of Congestion Revenue Rights (CRRs) and long-term, fixed-price electricity positions classified as Level 3 in the fair value hierarchy for Sempra Energy Consolidated and SDG&E:

LEVEL 3 RECONCILIATIONS
(Dollars in millions)

	Three months ended June 30,	
	2015	2014
Balance as of April 1	$ 102	$ 95
Realized and unrealized (losses) gains	(60)	5
Allocated transmission instruments	1	
Settlements	(1)	(15)
Balance as of June 30	$ 42	$ 85
Change in unrealized gains or losses relating to instruments still held at June 30	$ 45	$

	Six months ended June 30,	
	2015	2014
Balance as of January 1	$ 107	$ 99
Realized and unrealized (losses) gains	(54)	6
Allocated transmission instruments	1	1
Settlements	(12)	(21)
Balance as of June 30	$ 42	$ 85
Change in unrealized gains or losses relating to instruments still held at June 30	$ 46	$

SDG&E's Energy and Fuel Procurement department, in conjunction with SDG&E's finance group, is responsible for determining the appropriate fair value methodologies used to value and classify CRRs and long-term, fixed-price electricity positions on an ongoing basis. Inputs used to determine the fair value of CRRs and fixed-priced electricity positions are reviewed and compared with market conditions to determine reasonableness. SDG&E expects all costs related to these instruments to be recoverable through customer rates. As such, there is no impact to earnings from changes in the fair value of these instruments.

CRRs are recorded at fair value based almost entirely on the most current auction prices published by the California Independent System Operator (CAISO), an objective source. Annual auction prices are published once a year, typically in the middle of November, and remain in effect for the following calendar year. The impact associated with discounting is negligible. Because auction prices are a less observable input, these instruments are classified as Level 3. From January 1, 2015 to December 31, 2015 the auction prices range from $(16) per MWh to $8 per MWh at a given location, and from January 1, 2014 to December 31, 2014 the auction prices ranged from $(6) per MWh to $12 per MWh at a given location. The fair value of these instruments is derived from auction price differences between two locations. Positive values between two locations represent expected future reductions in congestion costs, whereas negative values between two locations represent expected future charges. Valuation of our CRRs is sensitive to a change in auction price. If auction prices at one location increase (decrease) relative to another location, this could result in a higher (lower) fair value measurement. We summarize CRR volumes in Note 7.

Long-term electricity positions that are valued using significant unobservable data are classified as Level 3 because the contract terms relate to a delivery location or tenor for which observable market rate information is not available. The fair value of the net electricity positions classified as Level 3 is derived from a discounted cash flow model using market electricity forward price inputs that range from $26.75 per MWh to $63.33 per MWh. A significant increase or decrease in market electricity forward prices would result in a significantly higher or lower fair value, respectively.

Realized gains and losses associated with CRRs and long-term electricity positions are recorded in Cost of Electric Fuel and Purchased Power, which is recoverable in rates, on the Condensed Consolidated Statements of Operations. Unrealized gains and losses are recorded as regulatory assets and liabilities and therefore also do not affect earnings.

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. Investments in life insurance contracts that we hold in support of our Supplemental Executive Retirement, Cash Balance Restoration and Deferred Compensation Plans are carried at cash surrender values, which represent the amount of cash that could be realized under the contracts. The following table provides the carrying amounts and fair values of certain other financial instruments at June 30, 2015 and December 31, 2014:

FAIR VALUE OF FINANCIAL INSTRUMENTS
(Dollars in millions)

	June 30, 2015				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Sempra Energy Consolidated:					
Total long-term debt(1)(2)	$ 13,569	$	$ 13,772	$ 725	$ 14,497
Preferred stock of subsidiary	20		23		23
SDG&E:					
Total long-term debt(2)(3)	$ 4,747	$	$ 4,772	$ 320	$ 5,092
SoCalGas:					
Total long-term debt(4)	$ 2,512	$	$ 2,608	$	$ 2,608
Preferred stock	22		24		24

	December 31, 2014				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Sempra Energy Consolidated:					
Total long-term debt(1)(2)	$ 12,347	$	$ 12,782	$ 917	$ 13,699
Preferred stock of subsidiary	20		23		23
SDG&E:					
Total long-term debt(2)(3)	$ 4,461	$	$ 4,563	$ 425	$ 4,988
SoCalGas:					
Total long-term debt(4)	$ 1,913	$	$ 2,124	$	$ 2,124
Preferred stock	22		25		25

(1) Before reductions for unamortized discount (net of premium) of $21 million at both June 30, 2015 and December 31, 2014, and excluding build-to-suit and capital leases of $351 million and $310 million at June 30, 2015 and December 31, 2014, respectively. We discuss our long-term debt in Note 6 above and in Note 5 of the Notes to Consolidated Financial Statements in the Annual Report.

(2) Level 3 instruments include $320 million and $325 million at June 30, 2015 and December 31, 2014, respectively, related to Otay Mesa VIE.

(3) Before reductions for unamortized discount of $10 million and $11 million at June 30, 2015 and December 31, 2014, respectively, and excluding capital leases of $231 million and $234 million at June 30, 2015 and December 31, 2014, respectively.

(4) Before reductions for unamortized discount of $7 million and $8 million at June 30, 2015 and December 31, 2014, respectively, and excluding capital leases of $2 million and $1 million at June 30, 2015 and December 31, 2014, respectively.

We base the fair value of certain long-term debt and preferred stock on a market approach using quoted market prices for identical or similar securities in thinly-traded markets (Level 2). We value other long-term debt using an income approach based on the present value of estimated future cash flows discounted at rates available for similar securities (Level 3).

We provide the fair values for the securities held in the nuclear decommissioning trust funds related to SONGS in Note 9 below.

NOTE 9. SAN ONOFRE NUCLEAR GENERATING STATION (SONGS)

SDG&E has a 20-percent ownership interest in SONGS, a nuclear generating facility near San Clemente, California, which ceased operations in June 2013. On June 6, 2013, Southern California Edison Company (Edison), the majority owner and operator of SONGS, notified SDG&E that it had reached a decision to permanently retire SONGS and seek approval from the Nuclear Regulatory Commission (NRC) to start the decommissioning activities for the entire facility. SONGS is subject to the jurisdiction of the NRC and the CPUC.

SDG&E, and each of the other owners, holds its undivided interest as a tenant in common in the property. Each owner is responsible for financing its share of expenses and capital expenditures. SDG&E’s share of operating expenses is included in Sempra Energy’s and SDG&E’s Condensed Consolidated Statements of Operations.

SONGS Outage and Retirement

Background

As part of the Steam Generator Replacement Project (SGRP), the steam generators were replaced in SONGS Units 2 and 3, and the Units returned to service in 2010 and 2011, respectively. Both Units were shut down in early 2012 after a water leak occurred in the Unit 3 steam generator. Edison concluded that the leak was due to unexpected wear from tube-to-tube contact. At the time the leak was identified, Edison also inspected and tested Unit 2 and subsequently

found unexpected tube wear in Unit 2's steam generator. In March 2012, in response to the shutdown of SONGS, the NRC issued a Confirmatory Action Letter (CAL) which, among other things, outlined the requirements for Edison to meet before the NRC would approve a restart of either of the Units.

In October 2012, Edison submitted a restart plan to the NRC proposing to operate Unit 2 at a reduced power level for a period of five months, at which time the Unit would be brought down for further inspection. Edison did not file a restart plan for Unit 3, pending further inspection and analysis of what repairs or modifications would be required to return the Unit to service in a safe manner. The NRC was reviewing the restart plan for Unit 2 proposed by Edison when in May 2013, the Atomic Safety and Licensing Board (ASLB), an adjudicatory arm of the NRC, concluded that the CAL process constituted a de facto license amendment proceeding that was subject to a public hearing. This conclusion by the ASLB resulted in further uncertainty regarding when a final decision might be made on restarting Unit 2.

The replacement steam generators were designed and provided by Mitsubishi Heavy Industries, Ltd., Mitsubishi Nuclear Energy Systems, Inc., and Mitsubishi Heavy Industries America, Inc. (collectively MHI). In July 2013, SDG&E filed a lawsuit against MHI seeking to recover damages SDG&E has incurred and will incur related to the design defects in the steam generators. In October 2013, Edison instituted arbitration proceedings against MHI seeking damages as well. We discuss these proceedings in Note 11.

Settlement Agreement to Resolve the CPUC's Order Instituting Investigation (OII) into the SONGS Outage (SONGS OII)

SONGS OII

In November 2012, in response to the outage, the CPUC issued the SONGS OII, pursuant to California Public Utilities' Code Section 455.5, which applies to cost recovery issues resulting from long-term outages of operating assets. The SONGS OII consolidated most SONGS outage-related issues into a single proceeding. The SONGS OII, among other things, designated all revenues associated with the investment in, and operation of, SONGS since January 1, 2012 as subject to refund to customers, pending the outcome of all phases of the proceeding. The SONGS OII proceeding was intended to determine the ultimate recovery of the investment in SONGS and the costs incurred since the commencement of this outage, including purchased replacement power costs, which are typically recovered through the Energy Resource Recovery Account (ERRA).

Entry Into Settlement Agreement

Pursuant to CPUC rules concerning settlements, SDG&E, Edison, The Utility Reform Network (TURN), and the CPUC Office of Ratepayer Advocates (ORA) held a settlement conference in March 2014 to discuss the terms to resolve the SONGS OII, and in April 2014, SDG&E, along with Edison, TURN, ORA and two other intervenors who joined the Settlement Agreement to the SONGS OII proceeding (collectively, the Settling Parties), filed a Settlement Agreement with the CPUC. On September 5, 2014, the CPUC issued a ruling proposing specific changes that included, as they relate to SDG&E, greater ratepayer benefit from third party cost recoveries and funding of a research program to reduce greenhouse gas emissions at a shareholder cost of $1 million per year for 5 years.

On September 23, 2014, the Settling Parties executed an Amended and Restated Settlement Agreement (Amended Settlement Agreement), which amended the Settlement Agreement to adopt all of the modifications and clarifications requested in the CPUC ruling. On October 9, 2014, the CPUC issued a proposed decision approving the Amended Settlement Agreement, which was adopted by the CPUC as a final decision on November 20, 2014.

As approved by the CPUC, the Amended Settlement Agreement constitutes a complete and final resolution of the SONGS OII and related CPUC proceedings regarding the SGRP at SONGS and the related outage and subsequent shutdown of SONGS. This resolution also required the compliance filing referenced below under "Accounting and Financial Impacts." The Amended Settlement Agreement does not affect on-going or future proceedings before the NRC, or litigation or arbitration related to potential future recoveries from third parties (except for the allocation to ratepayers of any recoveries as described below) or proceedings addressing decommissioning activities and costs.

In November 2014, in accordance with the Amended Settlement Agreement, SDG&E filed an advice letter seeking authority from the CPUC, among other things, to implement the terms and establish the revenue requirement in accordance with the Amended Settlement Agreement in rates starting January 1, 2015. In December 2014, the CPUC approved the advice letter and authorized SDG&E to update rates accordingly, subject to revision pending the results of a CPUC review of the changes to the revenue requirement proposed by SDG&E for consistency with the terms of the approved settlement decision. In March 2015, SDG&E received a final disposition letter from the CPUC confirming that SDG&E's proposed rate changes were in compliance with the approved settlement decision.

In April 2015, a petition for modification (PFM) was filed with the CPUC by Alliance for Nuclear Responsibility (A4NR), an intervenor in the SONGS OII proceeding, asking the CPUC to set aside its decision approving the Amended Settlement Agreement and reopen the SONGS OII proceeding. In June 2015, TURN, a party to the Amended Settlement Agreement, filed a response supporting the A4NR petition. TURN does not question the merits of the Amended Settlement Agreement, but is concerned that certain allegations regarding Edison raised by A4NR have undermined the public's confidence in the regulatory process. SDG&E has responded that TURN's concerns regarding public perception do not impact the reasonableness of the Amended Settlement Agreement and are insufficient to overturn it. SDG&E is unable to determine what actions the CPUC will take, if any, in response to the PFM.

We discuss the terms of the Amended Settlement Agreement in Note 13 of the Notes to Consolidated Financial Statements in the Annual Report.

Accounting and Financial Impacts

Through June 30, 2015, the cumulative after-tax loss from plant closure recorded by Sempra Energy and SDG&E is $127 million, including a reduction in the after-tax loss of $13 million recorded in the first quarter of 2015 based on the CPUC's approval in March 2015 of SDG&E's compliance filing and establishment of the SONGS settlement revenue requirement.

In the second quarter of 2013, based on an initial assessment of the financial impact of the outcome of the SONGS OII proceeding, SDG&E reported an after-tax loss from plant closure of $119 million. In the first quarter of 2014, after entering into the Settlement Agreement, SDG&E recorded a $9 million increase in the after-tax loss. In the fourth quarter of 2014, based on the compliance filing regarding SDG&E's annual revenue requirement and the timing of refunds to ratepayers, SDG&E recorded a $12 million increase to the after-tax loss.

The regulatory asset for the expected recovery of SONGS costs, consistent with the Amended Settlement Agreement, is $284 million ($41 million current and $243 million long-term) at June 30, 2015 and is recorded on the Condensed Consolidated Balance Sheets in Other Current Assets and Regulatory Assets Noncurrent, respectively, at Sempra Energy, and in Regulatory Assets Current and Other Regulatory Assets Noncurrent, respectively, at SDG&E.

NRC Proceedings

In December 2013, Edison received a final NRC Inspection Report that identified a violation for the failure to verify the adequacy of the thermal-hydraulic and flow-induced vibration design of the Unit 3 replacement steam generator. In January 2014, Edison provided a response to the NRC Inspection Report stating that MHI, as contracted by Edison to prepare the SONGS replacement steam generator design, was the party responsible for validating the design of the steam generators.

In addition, the NRC issued an Inspection Report to MHI containing a Notice of Nonconformance for its flawed computer modeling in the design of the replacement steam generators.

Because SONGS has ceased operation, NRC inspection oversight of SONGS will now be continued through the NRC's Decommissioning Power Reactor Inspection Program to verify that decommissioning activities are being conducted safely, that spent fuel is safely stored onsite or transferred to another licensed location, and that the site operations and licensee termination activities conform to applicable regulatory requirements, licensee commitments and management controls.

Nuclear Decommissioning and Funding

As a result of Edison's decision to permanently retire SONGS Units 2 and 3, Edison has begun the decommissioning phase of the plant. We discuss the process of decommissioning SONGS in Note 13 of the Notes to Consolidated Financial Statements in the Annual Report.

In accordance with state and federal requirements and regulations, SDG&E has assets held in trusts, referred to as the Nuclear Decommissioning Trusts (NDT), to fund decommissioning costs for SONGS Units 1, 2 and 3. Decommissioning of Unit 1, removed from service in 1992, is largely complete. The remaining work will be done when Units 2 and 3 are decommissioned. At June 30, 2015, the fair value of SDG&E's NDT assets was $1.1 billion. Except for the use of funds for the planning of decommissioning activities or NDT administrative costs, CPUC approval is required for SDG&E to access the NDT assets to fund SONGS decommissioning costs for Units 2 and 3. In February 2014, SDG&E filed a request with the CPUC for such authorization for costs incurred in 2013. In April 2015, SDG&E withdrew its pending request and filed a new request based on updated decommissioning cost information, seeking authorization to access trust funds for up to $55 million in decommissioning costs incurred in 2013. The CPUC authorized the request in July 2015. SDG&E intends to withdraw $37 million of the authorized amount, $34 million of which will be funded to customers through the ERRA balancing account. Another $3 million of the amount withdrawn will be used to refund regulatory assets and certain costs pursuant to the SONGS OII Settlement Agreement. The remaining $18 million of the CPUC authorization is expected to be withdrawn pending satisfactory clarification by the Internal Revenue Service (IRS) that certain spent fuel costs and other costs are eligible decommissioning costs, payable from qualified nuclear decommissioning trusts. We do not know when such clarification will be provided. SDG&E will continue to use working capital to pay for any SONGS Units 2 and 3 decommissioning costs incurred, and file periodic requests with the CPUC seeking authorization to access funds for reimbursement from the NDT for incurred decommissioning costs.

We discuss the NDT and matters related to its funding and the funding of decommissioning costs by the NDT further in Note 13 of the Notes to Consolidated Financial Statements in the Annual Report.

Nuclear Decommissioning Trusts

The amounts collected in rates for SONGS' decommissioning are invested in externally managed trust funds. Amounts held by the trusts are invested in accordance with CPUC regulations. These trusts are shown on the Sempra Energy and SDG&E Condensed Consolidated Balance Sheets at fair value with the offsetting credits recorded in Regulatory Liabilities Arising from Removal Obligations.

The following table shows the fair values and gross unrealized gains and losses for the securities held in the NDT:

NUCLEAR DECOMMISSIONING TRUSTS
(Dollars in millions)

	Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
At June 30, 2015:				
Debt securities:				
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies(1)	$ 94	$ 4	$	$ 98
Municipal bonds(2)	147	6	(1)	152
Other securities(2)	214	4	(9)	209
Total debt securities	455	14	(10)	459
Equity securities	218	450	(3)	665
Cash and cash equivalents	21			21
Total	$ 694	$ 464	$ (13)	$ 1,145
At December 31, 2014:				
Debt securities:				
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	$ 103	$ 6	$	$ 109
Municipal bonds	121	8		129
Other securities	206	7	(6)	207
Total debt securities	430	21	(6)	445
Equity securities	215	444	(4)	655
Cash and cash equivalents	30	1		31
Total	$ 675	$ 466	$ (10)	$ 1,131

(1) Maturity dates are 2016-2060.
(2) Maturity dates are 2015-2115.

The following table shows the proceeds from sales of securities in the NDT 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,	
	2015	2014	2015	2014
Proceeds from sales(1)	$ 127	$ 155	$ 221	$ 350
Gross realized gains	4		6	4
Gross realized losses	(3)	(1)	(7)	(5)

(1) Excludes securities that are held to maturity.

Net unrealized gains (losses) are included in Regulatory Liabilities Arising from Removal Obligations on Sempra Energy's and SDG&E's Condensed Consolidated Balance Sheets. We determine the cost of securities in the trusts on the basis of specific identification.

We provide additional information about SONGS in Note 11.

NOTE 10. CALIFORNIA UTILITIES' REGULATORY MATTERS

We discuss regulatory matters affecting our California Utilities in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report, and provide updates to those discussions and details of any new matters below.

JOINT MATTERS

CPUC General Rate Case (GRC)

The CPUC uses a general rate case proceeding to prospectively set rates sufficient to allow the California Utilities to recover their reasonable cost of operations and maintenance and to provide the opportunity to realize their authorized rates of return on their investment.

The California Utilities filed their 2016 General Rate Case (2016 GRC) applications in November 2014. These filings requested revenue requirement increases of $133 million and $256 million for SDG&E and SoCalGas, respectively, over their 2015 revenue requirements. In February 2015, the CPUC issued a scoping memo setting the schedule for the proceeding, including the issuance of a proposed decision by the end of 2015. In March 2015, the California Utilities revised their requests to make various updates and reflect the impact of the Tax Increase Prevention Act signed into law in December 2014. At SoCalGas, this resulted in a reduction of $10 million compared to its original request, or a total revenue requirement in 2016 of $2.342 billion. This is an increase of $246 million or 12 percent over 2015, excluding the impact of the 2015 revenue requirement increase discussed below under "SoCalGas Matters — Increase to CPUC-Authorized Annual Revenue Requirement." At SDG&E, the March 2015 revised request resulted in a reduction of $6 million compared to its original request, or a total revenue requirement in 2016 of $1.905 billion. This is an increase of $111 million or 6 percent over 2015. This increase includes an adjustment of $16 million to the

comparable 2015 estimated revenue requirement since the November 2014 filings.

The ORA served its report and testimony in the 2016 GRC in April 2015. In May 2015, ORA revised its testimony and corrected a number of inconsistencies in its report. The ORA's revised report recommends an increase of $49 million (2.3 percent over 2015) in 2016 compared to SoCalGas' request of a $246 million increase. The ORA further recommended increases for SoCalGas of $75 million (3.5 percent) and $78 million (3.5 percent) in 2017 and 2018, respectively. With regard to SDG&E, the ORA recommends a decrease of $84 million (4.7 percent less than 2015) in 2016 compared to SDG&E's request for a $111 million increase. In 2017 and 2018, the ORA recommends increases for SDG&E of $60 million (3.5 percent) and $62 million (3.5 percent), respectively. In addition, the ORA recommends that SDG&E and SoCalGas continue a four-year rate case cycle (2016-2019), rather than adopt a three-year cycle. Testimony from other intervening parties was served on May 15, 2015 with ten days of public participation hearings from May 12 through June 10, 2015. The California Utilities filed rebuttal testimony to the ORA's and other intervenors' testimony in June 2015. Evidentiary hearings before the CPUC began in June and concluded in July 2015.

We provide additional information regarding the 2016 GRC in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report.

Natural Gas Pipeline Operations Safety Assessments

In June 2014, the CPUC issued a final decision in the Triennial Cost Allocation Proceeding (TCAP) addressing SDG&E's and SoCalGas' Pipeline Safety Enhancement Plan (PSEP). Specifically, the decision:

§ approved the utilities' model for implementing PSEP;

§ approved a process, including a reasonableness review, to determine the amount that the utilities will be authorized to recover from ratepayers for the interim costs incurred through the date of the final decision to implement PSEP, which is recorded in the regulatory accounts authorized by the CPUC as noted above;

§ approved balancing account treatment, subject to a reasonableness review, for incremental costs yet to be incurred to implement PSEP; and

§ established the criteria to determine the amounts that would not be eligible for cost recovery, including:

certain costs incurred or to be incurred searching for pipeline test records,

the cost of pressure testing pipelines installed after July 1, 1961 for which the company has not found sufficient records of testing, and

any undepreciated balances for pipelines installed after 1961 that were replaced due to insufficient documentation of pressure testing.

As a result of this decision, SoCalGas recorded an after-tax earnings charge of $5 million in 2014 for costs incurred in prior periods for which SoCalGas was disallowed recovery. After taking the amounts disallowed for recovery into consideration, as of June 30, 2015, SDG&E and SoCalGas have recorded PSEP costs of $5 million and $137 million, respectively, in the CPUC-authorized regulatory account. In regard to requesting recovery from customers for PSEP costs incurred and recorded in accordance with the TCAP decision, SDG&E and SoCalGas are authorized to file an application with the CPUC for recovery of such costs up to the date of the TCAP decision and then annually for costs incurred through the end of each calendar year beginning with the period ending December 31, 2015. SoCalGas and

SDG&E currently expect to file such applications no later than the third quarter of the year following and would expect a decision from the CPUC approximately 12 to 18 months following the date of the application (i.e., a decision on the recovery of costs recorded in the PSEP regulatory accounts as of December 31, 2015 would be expected by mid-2017).

In October 2014, SDG&E and SoCalGas filed a petition for modification with the CPUC requesting authority to begin to recover PSEP costs from customers in the year in which the costs are incurred, subject to refund pending the results of a reasonableness review by the CPUC, instead of in a subsequent year. This request is pending at the CPUC.

In December 2014, SDG&E and SoCalGas filed an application with the CPUC for recovery of $0.1 million and $46 million, respectively, in costs recorded in the regulatory account through June 11, 2014. In June 2015, SDG&E and SoCalGas agreed to remove certain projects from the filing and defer their review to future proceedings and, as a result, are now requesting recovery of $0.1 million and $26.8 million, respectively. We expect a decision on this application in the first half of 2016.

In July 2014, the ORA and TURN filed a joint application for rehearing of the CPUC's June 2014 final decision. The ORA and TURN alleged that the CPUC made a legal error in directing that ratepayers, not shareholders, be responsible for the costs associated with testing or replacing transmission pipelines that were installed between January 1, 1956 and July 1, 1961 for which the California Utilities do not have a record of a pressure test. In November 2014, the CPUC denied the ORA and TURN request for rehearing of the decision adopting the PSEP. In December 2014, ORA and TURN sought rehearing of the CPUC's decision on rehearing. In late December 2014, SoCalGas and SDG&E filed their opposition to this second application for rehearing, and are continuing to implement PSEP in accordance with the June 2014 CPUC decision. In March 2015, the CPUC issued a decision denying ORA's and TURN's second request for rehearing, but keeping the record in the proceeding open to admit additional evidence on the limited issue of pressure testing of pipelines installed between January 1, 1956 and July 1, 1961. As part of this review, the CPUC will allow parties to submit additional evidence relevant to this narrow issue to ensure a complete record, with no additional discovery allowed. The ORA and TURN filed their responses on May 1, 2015. A draft decision is expected in the second half of 2015.

We provide additional information regarding these rulemaking proceedings and the California Utilities' PSEP in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report.

Southern Gas System Reliability Project

In December 2013, SoCalGas and SDG&E filed a joint application with the CPUC seeking authority to recover the full cost of the Southern Gas System Reliability Project. Also known as the North-South Gas Project, the project will enhance reliability on the southern portions of the California Utilities' integrated natural gas transmission system (Southern System). The estimated cost of the project, as originally filed, is between $800 million to $850 million. As originally proposed, the project consisted of three components: 1) constructing an approximately 60-mile, 36-inch natural gas transmission pipeline between the SoCalGas Adelanto compressor station and the Moreno pressure limiting station; 2) upgrading the Adelanto compressor station; and 3) constructing an approximately 31-mile, 36-inch pipeline from the Moreno pressure limiting station to a pressure limiting station in Whitewater. In November 2014, the California Utilities revised the scope of the proposed project to only include connecting the Adelanto compressor station and Moreno pressure limiting station with approximately 65 miles of 36-inch pipeline and upgrading the Adelanto compressor station, and eliminating the Moreno-Whitewater pipeline. In March 2015, the CPUC issued a revised scoping ruling establishing a schedule, directing that the Moreno-Whitewater portion of the original project be excluded from scope and that any other future projects would be addressed separately. The estimated cost of the revised project, including updated cost estimates, remains unchanged from the original cost estimate of between $800

million and $850 million, while providing comparable benefits for customers. If approved by the CPUC and subject to environmental permitting, given the revised project scope and updated schedule in this proceeding, the project could commence construction in 2017 and be in service by the end of 2019.

We provide additional information about the project in Note 14 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 investor-owned utilities, under which the California 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 14 of the Notes to Consolidated Financial Statements in the Annual Report, and below.

Natural Gas Procurement

In February 2015, the CPUC issued a final decision approving SoCalGas' application for a gas cost incentive mechanism (GCIM) award of $13.7 million for natural gas procured for its core customers during the 12-month period ending March 31, 2014. SoCalGas recorded this award in the first quarter of 2015.

In June 2015, SoCalGas filed an application for a GCIM award of $7.25 million for natural gas procured for its core customers during the 12-month period ending March 31, 2015. We expect a CPUC decision in the first half of 2016.

SDG&E MATTERS

SONGS

We discuss regulatory and other matters related to SONGS in Note 9.

Power Procurement and Resource Planning

Cleveland National Forest Transmission Projects

SDG&E filed an application with the CPUC in October 2012 for a permit to construct various transmission line replacement projects in and around the Cleveland National Forest (CNF). The proposed projects will replace and fire-harden five existing transmission lines and six existing distribution lines at an estimated cost of between $400 million and $450 million. As directed by the CPUC, SDG&E filed an amended application in June 2013 to provide notice of certain alternatives proposed by the United States Forest Service (USFS) in connection with SDG&E's request for a Master Special Use Permit (MSUP). USFS approval of the MSUP will establish land rights and conditions for SDG&E's continued operation and maintenance of facilities located within the CNF. CPUC approval is not required for the MSUP, even though construction of the projects is subject to review by both the USFS and CPUC. A final environmental impact report (EIR/EIS), developed jointly by the CPUC and USFS, was issued in July 2015. SDG&E currently expects separate USFS and CPUC decisions on the transmission projects in the second half of 2015 and then expects the various phases of this project to be placed in service starting in 2016 and continuing through the end of the project in 2019.

Sycamore-Peñasquitos Transmission Project

In March 2014, the CAISO selected SDG&E, as a result of a competitive bid process, to construct the Sycamore-Peñasquitos 230-kilovolt (kV) transmission project, which will provide a 16.7-mile transmission connection between SDG&E's Sycamore Canyon and Peñasquitos substations. In July 2014, the CPUC notified SDG&E that the application requesting a Certificate of Public Convenience and Necessity (CPCN) to construct the line, which was filed with the CPUC in April 2014, is complete. The estimated $120 million to $150 million project was identified by the CAISO and a state task force as necessary to ensure grid reliability given the closure of SONGS. The project will also serve to strengthen renewable energy infrastructure in the region. In October 2014, SDG&E filed a request with the Federal Energy Regulatory Commission (FERC) seeking, among other things, a 100 basis point return on equity (ROE) adder for this project. In April 2015, FERC issued an order granting SDG&E's request for 100 percent abandoned plant cost recovery, but denying an ROE adder for the project. SDG&E expects a CPUC decision on the project in the first half of 2016, with the line expected to be in service in mid-2017.

South Orange County Reliability Enhancement

SDG&E filed an application with the CPUC in May 2012 requesting a CPCN for the South Orange County Reliability Enhancement project, as we discuss in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report. A draft environmental report was issued in the first quarter of 2015, and SDG&E expects a final CPUC decision on the estimated $350 million to $400 million project in the first half of 2016. As the project is planned in phases, SDG&E currently expects the entire project to be in service in 2020.

Electric Vehicle Charging Program

In April 2014, SDG&E filed a proposal with the CPUC requesting approval of a program under which SDG&E would build and own a total of 5,500 electric vehicle charging stations at an estimated cost of $103 million, of which $59 million is capital. Under the program, SDG&E will provide an hourly Vehicle-to-Grid Integration (VGI) rate that will help incent participants to charge their vehicles during times of the day that benefit the power grid. In June 2015, SDG&E and fifteen other parties filed a settlement agreement proposing a modified program that still allows SDG&E to build and own a total of 5,500 charging stations. The settlement is opposed by certain consumer advocates and other parties. SDG&E expects a CPUC decision in the fourth quarter of 2015.

Distribution Resource Plan

In July 2015, SDG&E filed an application with the CPUC submitting its Distribution Resource Plan. Distributed energy resources (DER) are typically smaller power sources, including advanced renewable and energy storage technologies, that are connected to the distribution grid and located near load centers. The distribution resource plan sets out a planning and investment framework comprised of three basic categories: 1) capital investments that can be

potentially deferred or replaced by DER solutions; 2) capital investment needed to accommodate higher DER deployment levels; and 3) traditional distribution investments that cannot be deferred or displaced by DER. SDG&E's planning framework would be used to determine future capital investment needs, which would then be addressed through its GRC process. The Distribution Resource Plan also proposes a number of demonstration projects and describes potential projects and investment that would support higher DER deployment. SDG&E expects a CPUC decision in the first half of 2016.

SOCALGAS MATTERS

Triennial Cost Allocation Proceeding (TCAP) – Adoption of Seasonal Factors

The TCAP decision issued by the CPUC in June 2014 for SoCalGas included, among other matters, the requirement for SoCalGas to apply seasonal factors throughout the year to SoCalGas' annual authorized revenue for its core natural gas customers effective January 1, 2015. Core customers are primarily residential and small commercial and industrial customers. The seasonal factors adopted are based on the core demand forecast provided by SoCalGas in the TCAP application. Prior to this decision, this annual authorized revenue was recognized ratably over the year. While this "seasonalization" will not impact SoCalGas' total calendar year revenue or earnings for 2015 or beyond, and does not change the annual total authorized revenue or our earnings from that revenue, it will cause variability in revenue and earnings from quarter to quarter. We expect that as a result of applying the seasonal factors during interim periods to the annual authorized revenue requirement, the core natural gas customer authorized revenue recognized in the first and fourth quarters of each year beginning with 2015 will be higher (approximately 34 percent in the first quarter and 29 percent in the fourth quarter) than that recognized in the second and third quarters of each year (approximately 21 percent in the second quarter and 16 percent in the third quarter). This compares to recognizing 25 percent of the annual authorized revenue in each quarter in prior years. As a result, beginning in 2015, substantially all of SoCalGas' annual earnings will be recognized in the first and fourth quarters of the year.

Seasonalization will not impact interim period cash flows or customers' bills. However, it should reduce the interim period variability in regulatory balancing accounts, as we expect customer billings to more closely align with interim period revenue recognition. This seasonalization is consistent with SDG&E's natural gas and power distribution authorized revenue treatment.

The CPUC regulatory framework authorizes SoCalGas to recover the actual cost of natural gas procured and delivered to its core customers in rates substantially as incurred. The regulatory framework also permits SoCalGas to recover its cost of operations, including depreciation of its fixed assets, in authorized revenue based on estimated annual natural gas demand forecasts approved in the TCAP, and any difference between actual gas demand and the annual natural gas demand approved in the TCAP is recovered in authorized revenue in the subsequent year. This design, commonly known as "decoupling," is intended to minimize any impact on SoCalGas' earnings of changes in the cost of natural gas procured and any variability in customer demand for natural gas. The adoption of applying seasonal factors to authorized annual revenue requirement for interim periods does not change the application of decoupling.

Increase to CPUC-Authorized Annual Revenue Requirement

In July 2011, SoCalGas updated its testimony in the 2012 GRC to reflect the impact of the extension of temporary bonus depreciation by the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (2010 Tax Act). The 2010 Tax Act's extension of bonus depreciation for U.S. federal income tax purposes for years 2010 through 2012 resulted in significant additional tax depreciation deductions. These additional deductions generated U.S. federal net operating losses (NOLs) and the creation of an NOL-based deferred tax asset. The 2012 GRC decision denied recovery of any return associated with the NOL-based deferred tax asset unless an IRS Private Letter Ruling (PLR) was obtained, at which point SoCalGas would be authorized to file an advice letter seeking an increase to its revenue requirement. In February 2015, the IRS issued a PLR that agreed with SoCalGas' position that the denial of any return on the NOL-based deferred tax asset was a violation of tax normalization rules.

In March 2015, SoCalGas filed an advice letter to provide the PLR to the CPUC and request an increase to its authorized GRC revenue requirement for 2012 through 2015 to comply with the normalization requirements as interpreted by the IRS in the PLR. In April 2015, the CPUC approved SoCalGas' advice letter. The approved increases to the pretax annual revenue requirements are $6.4 million for 2012, $6.3 million for 2013, $6.4 million for 2014 and $6.6 million for 2015. The resulting increase to after-tax earnings of an aggregate of $11.3 million for years 2012 through 2014 and $1.4 million and $0.8 million related to the first and second quarters of 2015, respectively, was recorded in the second quarter of 2015, with the remaining 2015 after-tax earnings of $1.8 million resulting from this revenue increase being recognized over the last two quarters of the year.

NOTE 11. COMMITMENTS AND CONTINGENCIES

LEGAL PROCEEDINGS

We accrue losses for a legal proceeding when it is probable that a loss has been incurred and the amount 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 coverage and could materially adversely affect our business, cash flows, results of operations, financial condition and prospects. Unless otherwise indicated, we are unable to estimate reasonably possible losses in excess of any amounts accrued.

At June 30, 2015, Sempra Energy's accrued liabilities for material legal proceedings, including associated legal fees and costs of litigation, on a consolidated basis, were $62 million. At June 30, 2015, accrued liabilities for material legal proceedings for SDG&E and SoCalGas were $39 million and $15 million, respectively.

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."

A September 2008 staff report issued by the CPUC's Consumer Protection and Safety Division, now known as the Safety and Enforcement Division, reached substantially the same conclusions as the Cal Fire reports, but also contended that the power lines involved in the Witch and Rice fires and the lashing wire involved in the Guejito fire were not properly designed, constructed and maintained. In 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 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. They asserted 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. SDG&E has resolved almost all of these lawsuits. One case remains subject to a damages-only trial, where the value of any compensatory damages resulting from the fires will be determined. Two plaintiffs have filed appeals after judgment in the trial court.

SDG&E's settled claims and defense costs have exceeded its $1.1 billion of liability insurance coverage for the covered period and the $824 million recovered from third party contractors and Cox. SDG&E has settled all of the approximately 19,000 claims brought by homeowner insurers for damage to insured property relating to the three fires. Under the settlement agreements, SDG&E agreed to 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. Through June 30, 2015, SDG&E has expended $494 million in excess of amounts covered by insurance and amounts recovered from third parties to pay for the settlement of wildfire claims and related costs.

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 now resolved almost all of these claims of the approximately 6,500 plaintiffs for a total of approximately $1.3 billion. SDG&E does not expect additional plaintiffs to file lawsuits given the applicable statutes of limitation, but could receive additional settlement demands and damage estimates from the remaining plaintiff until the case is resolved. SDG&E has established reserves for the wildfire litigation as we discuss below.

SDG&E has concluded that it is probable that it will be permitted to recover in rates a substantial portion of the costs incurred to resolve wildfire claims in excess of its liability insurance coverage and the amounts recovered from third parties. Accordingly, although such recovery will require future regulatory approval, at June 30, 2015, Sempra Energy and SDG&E have recorded assets of $373 million in Other Regulatory Assets (long-term) on their Condensed Consolidated Balance Sheets, including $367 million related to CPUC-regulated operations, which represents the amount substantially equal to the aggregate amount it has paid and reserved for payment for the resolution of wildfire claims and related costs in excess of its liability insurance coverage and amounts recovered from third parties.

SDG&E will continue to gather information to evaluate and assess the remaining wildfire claim and the likelihood, amount and timing of related recoveries in rates and will make appropriate adjustments to wildfire reserves and the related regulatory assets as additional information becomes available. Should SDG&E conclude that recovery in rates is no longer probable, SDG&E will record a charge against earnings at the time such conclusion is reached. If SDG&E

had concluded that the recovery of regulatory assets related to CPUC-regulated operations was no longer probable or was less than currently estimated at June 30, 2015, the resulting after-tax charge against earnings would have been up to approximately $218 million. Recovery of these costs from customers will require future regulatory actions, and a failure to obtain substantial or full 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 results of operations and cash flows.

We provide additional information about excess wildfire claims cost recovery and related CPUC actions in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report and discuss how we assess the probability of recovery of our regulatory assets in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

Sunrise Powerlink Electric Transmission Line

In February 2011, opponents of the Sunrise Powerlink, a 500-kV electric transmission line between the Imperial Valley and the San Diego region that was energized and placed in service in June 2012, filed a lawsuit in Sacramento County Superior Court 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 the California Environmental Quality Act. The Superior Court denied the plaintiffs' petition in July 2012, and the plaintiffs appealed. On May 19, 2015 the California Court of Appeals affirmed the lower court's decision and, on June 16, 2015, denied plaintiffs' request for rehearing. Plaintiffs did not seek review by the California Supreme Court within the prescribed time, so the Court of Appeals decision is final.

Smart Meters Patent Infringement Lawsuit

In October 2011, SDG&E was sued by a Texas design and manufacturing company in Federal District Court, Southern District of California, and later transferred to the Federal District Court, Western District of Oklahoma, alleging that SDG&E's recently installed smart meters infringed certain patents. The meters were purchased from a third party vendor that has agreed to defend and indemnify SDG&E. The lawsuit seeks injunctive relief and recovery of unspecified amounts of damages.

Lawsuit Against Mitsubishi Heavy Industries, Ltd.

On July 18, 2013, SDG&E filed a lawsuit in the Superior Court of California in the County of San Diego against Mitsubishi Heavy Industries, Ltd., Mitsubishi Nuclear Energy Systems, Inc., and Mitsubishi Heavy Industries America, Inc. (collectively MHI). The lawsuit seeks to recover damages SDG&E has incurred and will incur related to the design defects in the steam generators MHI provided to the SONGS nuclear power plant. The lawsuit asserts a number of causes of action, including fraud, based on the representations MHI made about its qualifications and ability to design generators free from defects of the kind that resulted in the permanent shutdown of the plant and further seeks to set aside the contractual limitation of damages that MHI has asserted. On July 24, 2013, MHI removed the lawsuit to the United States District Court for the Southern District of California and on August 8, 2013, MHI moved to stay the proceeding pending resolution of the dispute resolution process involving MHI and Edison arising from their contract for the purchase and sale of the steam generators. On October 16, 2013, Edison initiated an arbitration proceeding against MHI seeking damages stemming from the failure of the replacement steam generators. In late December 2013, MHI answered and filed a counterclaim against Edison. On March 14, 2014, MHI's motion to stay the United States District Court proceeding was granted with instructions that require the parties to allow SDG&E to participate in the ongoing Edison/MHI arbitration. As a result, SDG&E is now participating in the arbitration as a claimant and respondent.

Investment in Wind Farm

In 2011, the CPUC and FERC approved SDG&E's estimated $285 million tax equity investment in a wind farm project and its purchase of renewable energy credits from that project. SDG&E's contractual obligations to both invest

in the Rim Rock wind farm and to purchase renewable energy credits from the wind farm under the power purchase agreement are subject to the satisfaction of certain conditions which, if not achieved, would allow SDG&E to terminate the power purchase agreement and not make the investment. In December 2013, SDG&E received a closing notice from the project developer indicating that all such conditions had been met. SDG&E responded to the closing notice asserting that the contractual conditions had not been satisfied. On December 19, 2013, SDG&E filed a complaint against the project developer in San Diego Superior Court, asking that the court determine that SDG&E is entitled to terminate both the investment contract and the power purchase agreement due to the project developer's failure to satisfy certain conditions. The project developer filed a separate complaint against SDG&E in Montana state court asking that court to determine that SDG&E breached the investment contract and the power purchase agreement, and asking for several categories of relief, including requiring SDG&E to invest in the project, requiring SDG&E to continue performing under the power purchase agreement, and payment of damages.

On January 27, 2014, the Montana court ordered SDG&E to continue making payments under the power purchase agreement pending a hearing on the project developer's preliminary injunction motion. On March 14, 2014, SDG&E notified the project developer that the investment agreement expired by its own terms because a closing had not occurred by that date. The project developer is disputing SDG&E's position. On March 28, 2014, SDG&E filed an amended complaint against the project developer in San Diego seeking damages and declaratory relief that SDG&E was entitled to terminate the power purchase agreement and to permit the investment agreement to expire. On April 25, 2014, the Montana court granted the project developer's preliminary injunction motion to prevent SDG&E from terminating the power purchase agreement on the grounds that the project developer would be irreparably harmed if the payments were not made while the parties' respective rights were being determined in the litigation. The court did not rule on the merits of the parties' claims. On July 18, 2014, the Montana Supreme Court determined that the parties' contractual agreement to resolve any disputes in San Diego was mandatory, and ordered that the Montana action be dismissed. The San Diego court has scheduled a trial in January 2016.

SoCalGas

SoCalGas, along with Monsanto Co., Solutia, Inc., Pharmacia Corp. and Pfizer, Inc., are defendants in seven Los Angeles County Superior Court lawsuits filed beginning in April 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. SoCalGas has settled five of the seven lawsuits for an amount that is not significant.

Sempra Mexico

Permit Challenges and Property Disputes

Sempra Mexico has been engaged in a long-running land dispute relating to property adjacent to its Energía Costa Azul LNG terminal near Ensenada, Mexico. Ownership of the adjacent property is not required by any of the environmental or other regulatory permits issued 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, and filed an action in the Federal Court challenging the permits. In February 2011, based on a complaint by the claimant, the municipality of Ensenada opened an administrative proceeding and sought 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. In the second quarter of 2014, the municipality of Ensenada dismissed the administrative proceeding, this proceeding was appealed and in the second quarter of 2015, the Administrative Court of Baja California confirmed the municipality of Ensenada's ruling and dismissed the proceeding. Sempra Mexico 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 claimant also filed complaints in the federal Agrarian Court challenging the refusal of the Secretaría de la Reforma Agraria (now the Secretaría de Desarrollo Agrario, Territorial y Urbano, or SEDATU) in 2006 to issue a title to him for the disputed property. In November 2013, the Agrarian Court ordered that SEDATU issue the requested title and cause it to be registered. Both SEDATU and Sempra Mexico have challenged the rulings. Sempra Mexico expects additional proceedings regarding the claims, although such proceedings are not related to the permit challenges referenced above. The property claimant also filed a lawsuit in July 2010 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. Sempra Energy has disputed the claims and allegations in this lawsuit.

Additionally, several administrative challenges are pending in Mexico before the Mexican environmental protection agency (SEMARNAT) and the Federal Tax and Administrative Courts seeking revocation of the environmental impact authorization (EIA) issued to Energía Costa Azul in 2003. These cases generally allege that the conditions and mitigation measures in the EIA are inadequate and challenge findings that the activities of the terminal are consistent with regional development guidelines. The Mexican Supreme Court decided to exercise jurisdiction over one such case, and in March 2014, issued a resolution denying the relief sought by the plaintiff on the grounds its action was not timely presented. A similar administrative challenge seeking to revoke the port concession for our marine operations at our Energía Costa Azul LNG terminal was filed with and rejected by the Mexican Communications and Transportation Ministry. In April 2015, the Federal court confirmed the Mexican Communications and Transportation Ministry's ruling denying the request to revoke the port concession and decided in favor of Energía Costa Azul.

Two real property cases have been filed against Energía Costa Azul in which the plaintiffs seek to annul the recorded property titles for parcels on which the Energía Costa Azul LNG terminal is situated and to obtain possession of different parcels that allegedly sit in the same place; one of these cases was dismissed in September 2013 at the direction of the state appellate court. A third complaint was served in April 2013 seeking to invalidate the contract by which Energía Costa Azul purchased another of the terminal parcels, on the grounds the purchase price was unfair. Sempra Mexico expects further proceedings on the remaining two matters.

Sempra Natural Gas

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.

Since April 2012, a total of 13 lawsuits have been filed against Mobile Gas in Mobile County Circuit Court alleging that in the first half of 2008 Mobile Gas spilled tert-butyl mercaptan, an odorant added to natural gas for safety reasons, in Eight Mile, Alabama. Six of the lawsuits have been settled. The remaining seven lawsuits, which include more than 1,000 individual plaintiffs, allege nuisance and negligence causes of action, and seek unspecified compensatory and punitive damages. An initial trial involving approximately ten plaintiffs is expected to be scheduled for January 2016.

Other Litigation

Sempra Energy holds a noncontrolling interest in RBS Sempra Commodities LLP (RBS Sempra Commodities), a limited liability partnership in the process of being liquidated. The Royal Bank of Scotland plc (RBS), our partner in the joint venture, was notified by the United Kingdom's Revenue and Customs Department (HMRC) that it was investigating value-added tax (VAT) refund claims made by various businesses in connection with the purchase and sale of carbon credit allowances. HMRC advised RBS that it had determined that it had grounds to deny such claims by RBS related to transactions by RBS Sempra Energy Europe (RBS SEE), a former indirect subsidiary of RBS Sempra Commodities that was sold to JP Morgan. HMRC asserted that RBS was not entitled to reduce its VAT liability by VAT paid during 2009 because RBS knew or should have known that certain vendors in the trading chain did not remit their own VAT to HMRC. In September 2012, HMRC issued a protective assessment of £86 million for the VAT paid in connection with these transactions. In October 2014, RBS filed a Notice of Appeal of the September 2012 assessment with the First-tier Tribunal. As a condition of the appeal, RBS was required to pay the assessed amount. The payment also stops the accrual of interest that could arise should it ultimately be determined that RBS has a liability for some of the tax. In June 2015, liquidators for three companies that engaged in carbon credit trading via chains that included a company that RBS SEE traded with directly filed a claim in the High Court of Justice against RBS and RBS Sempra Commodities alleging that RBS Sempra Commodities' and RBS SEE's participation in transactions involving the sale and purchase of carbon credit transactions resulted in the companies' incurring VAT liability they were unable to pay. Our remaining balance in RBS Sempra Commodities is accounted for under the equity method. The investment balance of $71 million at June 30, 2015 reflects remaining distributions expected to be received from the partnership as it is liquidated. The timing and amount of distributions may be impacted by these matters. We discuss RBS Sempra Commodities further in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

In August 2007, the U.S. Court of Appeals for the Ninth Circuit issued a decision reversing and remanding certain FERC orders declining to provide refunds regarding short-term bilateral sales up to one month in the Pacific Northwest for the January 2000 to June 2001 time period. 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 resolved all issues with regard to sales between the California Department of Water Resources and Sempra Commodities in the Pacific Northwest, but potential claims may exist regarding sales in the Pacific Northwest between Sempra Commodities and other parties. The FERC is in the process of addressing these potential claims on remand. 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 Ltd., one of the buyers of RBS Sempra Commodities' businesses, 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.

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

CONTRACTUAL COMMITMENTS

We discuss below significant changes in the first six months of 2015 to contractual commitments discussed in Note 15 of the Notes to Consolidated Financial Statements in the Annual Report.

Natural Gas Contracts

SoCalGas' natural gas purchase and pipeline capacity commitments have decreased by $79 million since December 31, 2014, primarily due to fulfillment of payment obligations and changes to forward natural gas prices in the first six months of 2015. Net future payments are expected to decrease by $77 million in 2015, and $2 million thereafter compared to December 31, 2014.

Sempra Natural Gas' natural gas purchase and transportation commitments have decreased by $227 million since December 31, 2014, primarily due to payments on existing contracts and changes to forward natural gas prices in the first six months of 2015. Net future payments are expected to decrease by $156 million in 2015, $21 million in 2016, $20 million in 2017, $15 million in 2018, and $15 million in 2020 and thereafter compared to December 31, 2014.

LNG Purchase Agreement

Sempra Natural Gas has a purchase agreement for the supply of LNG to the Energía Costa Azul terminal. The agreement is priced using a predetermined formula based on natural gas market indices. Although this contract specifies a number of cargoes to be delivered, under its terms, the customer may divert certain cargoes, which would reduce amounts paid under the contracts by Sempra Natural Gas.

Sempra Natural Gas' commitment under the LNG purchase agreement, reflecting changes in forward prices since December 31, 2014 and actual transactions for the first six months of 2015, are expected to decrease by $212 million in 2015, $65 million in 2016, $97 million in 2017, $121 million in 2018, $123 million in 2019, and $997 million thereafter (through contract termination in 2029) compared to December 31, 2014. These amounts are based on forward prices of the index applicable to the contract from 2015 to 2024 and an estimated one percent escalation per year beyond 2024. The LNG commitment amounts above are based on the requirement for Sempra Natural Gas to accept the maximum possible delivery of cargoes under the agreement. Actual LNG purchases in the current and prior years have been significantly lower than the maximum amounts possible due to the customer electing to divert cargoes as allowed by the agreement.

Purchased-Power Contracts

SDG&E's commitments under purchased-power contracts have decreased by $385 million since December 31, 2014. Net future payments are therefore expected to decrease by $15 million in 2015, increase by $2 million in 2016, decrease by $12 million each year in 2017 and 2018, $18 million in 2019 and $330 million thereafter compared to December 31, 2014.

Operating Leases

Sempra Renewables' commitments under operating leases have increased by $47 million since December 31, 2014. The increase is primarily due to land leases associated with renewable energy development projects. Net future payments are expected to decrease by $1 million in 2015, and increase by $1 million in 2016, $2 million each year in 2017 through 2019 and $41 million thereafter compared to December 31, 2014.

Capital Leases – Power Purchase Agreements

In the first quarter of 2015, SDG&E entered into a CPUC-approved 25-year power purchase agreement with a peaker plant facility that is under construction. Beginning with the initial delivery of the contracted power, scheduled in June 2017, the power purchase agreement will be accounted for as a capital lease. Future minimum lease payments under the new power purchase agreement are as follows:

FUTURE MINIMUM PAYMENTS – POWER PURCHASE AGREEMENT (Dollars in millions)	
2015	$
2016	
2017	38
2018	65
2019	65
Thereafter	1,460
Total minimum lease payments(1)	1,628
Less: estimated executory costs	(392)
Less: interest(2)	(736)
Present value of net minimum lease payments	$ 500

(1) This amount will be recorded over the life of the lease as Cost of Electric Fuel and Purchased Power on Sempra Energy's and SDG&E's Condensed Consolidated Statements of Operations. This expense will receive ratemaking treatment consistent with purchased-power costs, which are recovered in rates.

(2) Amount necessary to reduce net minimum lease payments to estimated present value at the inception of the lease.

Construction and Development Projects

In the first six months of 2015, significant net decreases to contractual commitments at SDG&E were $64 million primarily due to fulfillment of payment obligations, partially offset by an increase in commitments. Net future payments under these contractual commitments are expected to decrease by $125 million in 2015, increase by $35 million in 2016, decrease by $5 million in 2017, and increase by $2 million in 2018, $25 million in 2019 and $4 million thereafter compared to December 31, 2014.

In the first six months of 2015, significant net decreases to contractual commitments at SoCalGas were $108 million primarily due to payments on existing contracts, partially offset by an increase in commitments in the first six months of 2015. Net future payments under these contractual commitments are expected to decrease by $127 million in 2015, and increase by $12 million in 2016 and $7 million in 2017, compared to December 31, 2014.

In the first six months of 2015, significant increases to contractual commitments at Sempra Mexico were $99 million, primarily related to pipeline projects. Net future payments under these contractual commitments are expected to increase by $42 million in 2015, $56 million in 2016, and $1 million thereafter compared to December 31, 2014.

In the first six months of 2015, significant increases to contractual commitments at Sempra Renewables were $275 million for contracts related to the construction of renewable energy projects. The future payments under these contractual commitments are expected to be $41 million in 2015 and $234 million in 2016.

In the first six months of 2015, significant increases to contractual commitments at Sempra Natural Gas were $38 million, primarily for natural gas transportation projects. The future payments under these contractual commitments are all expected to be made in 2015.

OTHER COMMITMENTS

Sempra Natural Gas' other commitments have decreased by $31 million since December 31, 2014. The decrease is due to a long-term operations and maintenance agreement that was assumed by the purchaser of the remaining 625-MW block of the Mesquite Power plant. We provide additional information about the agreement in Notes 3 and 15 of the Notes to Consolidated Financial Statements in the Annual Report.

GUARANTEES

We discuss guarantees related to Sempra Energy in Note 15 of the Notes to Consolidated Financial Statements in the Annual Report.

NUCLEAR INSURANCE

SDG&E and the other owners of 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 $13.2 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 could be up to $50.93 million. This amount is subject to an annual maximum of $7.6 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, subject to a $2.5 million deductible for "each and every loss." This insurance coverage is provided through Nuclear Electric Insurance Limited (NEIL). The NEIL policies have specific exclusions and limitations that can result in reduced or eliminated coverage. Insured members as a group are subject to retrospective premium assessments to cover losses sustained by NEIL under all issued policies. SDG&E could be assessed up to $9.7 million of retrospective premiums based on overall member claims. Edison, on behalf of itself and the minority owners of SONGS (including SDG&E), has placed NEIL on notice of claims under both the property damage and outage insurance policies as a result of SONGS' Units 2 and 3 outages in early 2012 and the resultant plant closure in June 2013.

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.

U.S. DEPARTMENT OF ENERGY (DOE) NUCLEAR FUEL DISPOSAL

The Nuclear Waste Policy Act of 1982 made the DOE responsible for the disposal of spent nuclear fuel. However, it is uncertain when the DOE will begin accepting spent nuclear fuel from SONGS. This delay will lead to increased costs for spent fuel storage. SDG&E will seek recovery for these costs from the appropriate sources, including, but not limited to, SDG&E's Nuclear Decommissioning Trust. SDG&E will also continue to support Edison in its pursuit of legal claims on behalf of the SONGS co-owners against the DOE for its failure to timely accept the spent nuclear fuel.

We provide additional information about SONGS in Note 9 herein and in Note 13 of the Notes to Consolidated Financial Statements in the Annual Report.

NOTE 12. SEGMENT INFORMATION

We have six separately managed reportable segments, as follows:

1.

SDG&E provides electric service to San Diego and southern Orange counties and natural gas service to San Diego County.

2. SoCalGas is a natural gas distribution utility, serving customers throughout most of Southern California and part of central California.

3. Sempra South American Utilities operates electric transmission and distribution utilities in Chile and Peru.

4. Sempra Mexico develops, owns and operates, or holds interests in, natural gas transmission pipelines and propane and ethane systems, a natural gas distribution utility, electric generation facilities (including wind), a terminal for the import of LNG, and marketing operations for the purchase of LNG and the purchase and sale of natural gas in Mexico.

5. Sempra Renewables develops, owns and operates, or holds interests in, wind and solar energy projects in Arizona, California, Colorado, Hawaii, Indiana, Kansas, Minnesota, Nebraska, Nevada and Pennsylvania to serve wholesale electricity markets in the United States.

6. Sempra Natural Gas develops, owns and operates, or holds interests in, natural gas pipelines and storage facilities, natural gas distribution utilities and a terminal for the import and export of LNG and sale of natural gas, all within the United States. Sempra Natural gas also owned and operated the Mesquite Power plant, a natural gas-fired electric generation asset, the remaining 625-MW block of which was sold in April 2015, as we discuss in Note 3.

Sempra South American Utilities and Sempra Mexico comprise our Sempra International operating unit. Sempra Renewables and Sempra Natural Gas comprise our Sempra U.S. Gas & Power operating unit.

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

Common services shared by the business segments are assigned directly or allocated based on various cost factors, depending on the nature of the service provided. Interest income and expense is recorded on intercompany loans. The loan balances and related interest are eliminated in consolidation.

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

SEGMENT INFORMATION
(Dollars in millions)

	Three months ended June 30,				Six months ended June 30,			
	2015		2014		2015		2014	
REVENUES								
SDG&E	$ 972	41%	$ 1,063	40%	$ 1,938	38%	$ 2,050	37%
SoCalGas	780	33	917	34	1,828	36	2,002	37
Sempra South American Utilities	389	16	390	15	778	15	768	14
Sempra Mexico	152	6	186	7	315	6	387	7

Sempra Renewables	10	1		9			18	1		15	
Sempra Natural Gas	155	7		236	9		352	7		496	9
Adjustments and eliminations	(1)			(2)			(1)			(2)	
Intersegment revenues(1)	(90)	(4)		(121)	(5)		(179)	(3)		(243)	(4)
Total	$ 2,367	100%	$	2,678	100%	$	5,049	100%	$	5,473	100%
INTEREST EXPENSE											
SDG&E	$ 52		$	51		$	104		$	101	
SoCalGas	19			16			38			33	
Sempra South American Utilities	8			9			13			17	
Sempra Mexico	6			4			11			8	
Sempra Renewables	1			1			2			1	
Sempra Natural Gas	23			33			44			65	
All other	65			57			128			115	
Intercompany eliminations	(35)			(33)			(67)			(66)	
Total	$ 139		$	138		$	273		$	274	
INTEREST INCOME											
SoCalGas	$ 3		$			$	3		$		
Sempra South American Utilities	5			3			9			6	
Sempra Mexico	2			1			4			1	
Sempra Renewables	1						1				
Sempra Natural Gas	25			32			44			63	
All other				1						1	
Intercompany eliminations	(26)			(32)			(44)			(62)	
Total	$ 10		$	5		$	17		$	9	
DEPRECIATION AND AMORTIZATION											
SDG&E	$ 149	48%	$	131	45%	$	294	48%	$	261	45%
SoCalGas	113	37		107	37		226	37		212	37
Sempra South American Utilities	12	4		13	5		25	4		27	5
Sempra Mexico	17	6		15	5		34	6		31	5
Sempra Renewables	1			2	1		3			3	1
Sempra Natural Gas	12	4		16	6		24	4		33	6
All other	3	1		4	1		4	1		7	1
Total	$ 307	100%	$	288	100%	$	610	100%	$	574	100%
INCOME TAX EXPENSE (BENEFIT)											
SDG&E	$ 54		$	69		$	142		$	152	
SoCalGas	16			28			111			66	
Sempra South American Utilities	18			18			34			33	
Sempra Mexico	5			12			13			24	
Sempra Renewables	(11)			(13)			(28)			(19)	
Sempra Natural Gas	27			3			29			9	
All other	(11)			(24)			(40)			(45)	
Total	$ 98		$	93		$	261		$	220	

SEGMENT INFORMATION
(CONTINUED)
(Dollars in millions)

	Three months ended June 30,				Six months ended June 30,			
	2015		2014		2015		2014	
EQUITY EARNINGS (LOSSES)								
Earnings recorded before tax:								
Sempra Renewables	$ 10		$ 9		$ 12		$ 11	
Sempra Natural Gas	17		14		34		29	
Total	$ 27		$ 23		$ 46		$ 40	
Earnings (losses) recorded net of tax:								
Sempra South American Utilities	$		$		$ (1)		$ (2)	
Sempra Mexico	22		9		38		17	
Total	$ 22		$ 9		$ 37		$ 15	
EARNINGS (LOSSES)								
SDG&E	$ 126	43 %	$ 123	46 %	$ 273	37 %	$ 222	43 %
SoCalGas(2)	70	24	80	30	284	39	158	31
Sempra South American Utilities	45	15	42	15	86	12	77	15
Sempra Mexico	50	17	34	13	97	13	76	15
Sempra Renewables	19	6	18	7	32	4	46	9
Sempra Natural Gas	40	14	4	1	42	6	13	2
All other	(55)	(19)	(32)	(12)	(82)	(11)	(76)	(15)
Total	$ 295	100%	$ 269	100 %	$ 732	100%	$ 516	100%

	Six months ended June 30,			
	2015		2014	
EXPENDITURES FOR PROPERTY, PLANT & EQUIPMENT				
SDG&E	$ 600	41 %	$ 543	36 %
SoCalGas	603	41	500	33
Sempra South American Utilities	66	5	89	6
Sempra Mexico	120	8	189	13
Sempra Renewables	22	1	122	8
Sempra Natural Gas	28	2	67	4
All other	27	2	3	
Total	$ 1,466	100 %	$ 1,513	100 %

	June 30, 2015		December 31, 2014	
ASSETS				
SDG&E	$ 16,633	42 %	$ 16,296	41%
SoCalGas	11,209	28	10,461	26
Sempra South American Utilities	3,312	8	3,379	9
Sempra Mexico	3,568	9	3,488	9
Sempra Renewables	1,312	3	1,338	3
Sempra Natural Gas	5,535	14	6,436	16
All other	893	2	895	2
	(2,456)	(6)	(2,561)	(6)

Intersegment receivables				
Total	$ 40,006	100%	$ 39,732	100%
INVESTMENTS IN EQUITY METHOD INVESTEES				
Sempra South American Utilities	$ (9)		$ (8)	
Sempra Mexico	474		434	
Sempra Renewables	868		911	
Sempra Natural Gas	1,510		1,347	
All other	86		164	
Total	$ 2,929		$ 2,848	

(1) Revenues for reportable segments include intersegment revenues of $3 million, $17 million, $24 million and $46 million for the three months ended June 30, 2015; $5 million, $36 million, $49 million and $89 million for the six months ended June 30, 2015; $2 million, $16 million, $23 million and $80 million for the three months ended June 30, 2014; and $5 million, $34 million, $45 million and $159 million for the six months ended June 30, 2014 for SDG&E, SoCalGas, Sempra Mexico and Sempra Natural Gas, respectively.

(2) After preferred dividends.

NOTE 13. SUBSEQUENT EVENT

SEMPRA MEXICO

IEnova and Petróleos Mexicanos (or PEMEX, the Mexican state-owned oil company), are 50-50 partners in the joint venture Gasoductos de Chihuahua (GdC). On July 31, 2015, IEnova entered into an agreement to purchase PEMEX's 50-percent interest for $1.325 billion (excluding the assumption of approximately $170 million of net debt), increasing its interest from 50 percent to 100 percent. GdC develops and operates energy infrastructure in Mexico. The assets involved in the acquisition include three natural gas pipelines, an ethane pipeline, and a liquid petroleum gas pipeline and associated storage terminal. The transaction excludes the Los Ramones Norte pipeline that IEnova will continue to develop under a joint venture with PEMEX at the existing holding company for the project, through which IEnova's interest in the project will remain at the current 25 percent. The transaction is subject to approval by IEnova shareholders, satisfactory completion of the Mexican anti-trust review and other customary closing conditions and is expected to close in the fourth quarter of 2015.

IEnova currently accounts for its 50-percent interest in GdC as an equity method investment. At closing, GdC will become a wholly owned, consolidated subsidiary of IEnova. We anticipate that we will recognize a noncash gain associated with the remeasurement of our equity interest in GdC upon consummation of the transaction, however, as the transaction is not expected to close until the fourth quarter of 2015, we are unable to estimate the gain at this time.

We expect the acquisition to be funded with a combination of debt and equity issuances at IEnova. Sempra Global has committed to IEnova to provide up to $1.325 billion of interim financing for the transaction. The commitment expires no later than the end of 2015. If IEnova elects to borrow money under this commitment, the loan will have a term of two months at an interest rate of one month LIBOR plus 120 basis points. The term may be extended, triggering a

reevaluation of the interest rate. After financing at the IEnova level, we expect the acquisition to be accretive to Sempra Energy's diluted earnings per share in 2016 and beyond, based on the joint venture's strong historical performance and the expected benefits of the acquisition. These benefits include an ongoing relationship with PEMEX for joint development of new projects in the future; opportunities for asset optimization and expansion into areas such as the transportation and storage of refined products; and a larger platform and presence in Mexico to participate in energy sector reform.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with the Condensed Consolidated Financial Statements and the Notes thereto contained in this Form 10-Q, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and the Notes thereto contained in our 2014 Annual Report on Form 10-K (Annual Report) and "Risk Factors" contained in our Annual Report.

OVERVIEW

Sempra Energy is a Fortune 500 energy-services holding company whose operating units invest in, develop and operate energy infrastructure, and provide gas and electricity services to their customers in North and South America. Our operations are divided principally between our California Utilities, which are San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas), and Sempra International and Sempra U.S. Gas & Power. SDG&E and SoCalGas are separate, reportable segments. Sempra International includes two reportable segments – Sempra South American Utilities and Sempra Mexico. Sempra U.S. Gas & Power also includes two reportable segments – Sempra Renewables and Sempra Natural Gas.

This report includes information for the following separate registrants:

- Sempra Energy and its consolidated entities
- SDG&E
- SoCalGas

References to "we," "our" and "Sempra Energy Consolidated" are to Sempra Energy and its consolidated entities, collectively, unless otherwise indicated by the context. All references to "Sempra International" and "Sempra U.S. Gas & Power," and to their respective principal segments, are not intended to refer to any legal entity with the same or similar name.

Below are summary descriptions of our operating units and their reportable segments.

SEMPRA ENERGY OPERATING UNITS AND REPORTABLE SEGMENTS

CALIFORNIA UTILITIES		
	MARKET	SERVICE TERRITORY
SAN DIEGO GAS & ELECTRIC COMPANY (SDG&E) A regulated public utility; infrastructure supports electric generation, transmission and distribution, and natural gas distribution	§ Provides electricity to a population of 3.5 million (1.4 million meters) § Provides natural gas to a population of 3.2 million (0.9 million meters)	Serves the county of San Diego, California and an adjacent portion of southern Orange County covering 4,100 square miles
SOUTHERN CALIFORNIA GAS COMPANY (SOCALGAS) A regulated public utility; infrastructure supports natural gas distribution, transmission and storage	§ Residential, commercial, industrial, utility electric generation and wholesale customers § Covers a population of 21.4 million (5.9 million meters)	Southern California and portions of central California (excluding San Diego County, the city of Long Beach and the desert area of San Bernardino County) covering 20,000 square miles

We refer to SDG&E and SoCalGas collectively as the California Utilities, which do not include the utilities in our Sempra International or Sempra U.S. Gas & Power operating units described below.

SEMPRA INTERNATIONAL		
	MARKET	GEOGRAPHIC REGION
SEMPRA SOUTH AMERICAN UTILITIES Infrastructure supports electric transmission and distribution	§ Provides electricity to approximately 2.4 million consumers (approximately 657,000 meters) in Chile and approximately 4.8 million consumers (approximately 1,029,000 meters) in Peru	§ Chile § Peru
SEMPRA MEXICO Develops, owns and operates, or holds interests in: § natural gas transmission pipelines and propane and ethane systems § a natural gas distribution utility § electric generation facilities, including wind § a terminal for the import of liquefied natural gas (LNG)	§ Natural gas § Wholesale electricity § Liquefied natural gas	§ Mexico

§ marketing operations for the purchase of LNG and the purchase and sale of natural gas

SEMPRA U.S. GAS & POWER		
	MARKET	GEOGRAPHIC REGION
SEMPRA RENEWABLES Develops, owns, operates, or holds interests in renewable energy generation projects	§ Wholesale electricity	§ U.S.A.
SEMPRA NATURAL GAS Develops, owns and operates, or holds interests in: § natural gas pipelines and storage facilities § natural gas distribution utilities § a terminal in the U.S. for the import and export of LNG and sale of natural gas § marketing operations	§ Natural gas § Liquefied natural gas § Wholesale electricity	§ U.S.A.

RESULTS OF OPERATIONS

We discuss the following in Results of Operations:

§ Overall results of our operations and factors affecting those results

§ Our segment results

§ Significant changes in revenues, costs and earnings between periods

Our earnings increased by $26 million (10%) to $295 million in the three months ended June 30, 2015, while diluted earnings per share increased by $0.09 per share (8%) to $1.17 per share. For the six months ended June 30, 2015, our earnings increased by $216 million (42%) to $732 million, while diluted earnings per share increased by $0.84 per share (41%) to $2.91 per share.

The net increases in our earnings and diluted earnings per share for the three-month period were primarily due to the following increases (decreases), by segment:

SoCalGas

- $(48) million lower earnings due to SoCalGas recognizing annual core gas authorized revenue during interim periods based on seasonal factors starting in 2015 due to the adoption of a Triennial Cost Allocation Proceeding (TCAP) decision. Prior to 2015, SoCalGas recognized such revenue ratably over the year. While this "seasonalization" impacts quarterly and quarterly year-to-date comparisons of operating revenues and earnings for both Sempra Energy and SoCalGas, it will not impact full-year results. We discuss the TCAP decision further in Note 10 of the Notes to Condensed Consolidated Financial Statements herein

- $13 million of earnings from a California Public Utilities Commission (CPUC)-approved retroactive increase in authorized general rate case (GRC) revenue requirement for years 2012 through 2014 and the first quarter of 2015 due to increased rate base

- $6 million higher CPUC base operating margin authorized for 2015

- $6 million write-off in 2014 of certain costs incurred that were disallowed for recovery in the final Pipeline Safety Enhancement Plan (PSEP) decision

- $6 million from the favorable resolution of a legal settlement in 2015

Sempra Mexico

- $17 million higher pipeline earnings, primarily due to the start of operations of the Los Ramones I pipeline and a section of the Sonora pipeline in the fourth quarter of 2014

- $(5) million increase in earnings attributable to noncontrolling interests at Infraestructura Energética Nova, S.A.B. de C.V (IEnova)

Sempra Natural Gas

- $36 million gain on the April 2015 sale of the remaining 625-megawatt (MW) block of the Mesquite Power plant

Parent and Other

- $(1) million investment loss in 2015 compared to $(10) million investment gain in 2014 on dedicated assets in support of our executive retirement and deferred compensation plans, net of the decrease in deferred compensation liability associated with the investments

The net increases in our earnings and diluted earnings per share for the six-month period ended June 30, 2015 were primarily due to the following increases (decreases), by segment:

SDG&E

- $33 million higher earnings from CPUC base operations and from electric transmission

- $13 million reduction to the loss from plant closure in 2015 based on CPUC approval of a compliance filing related to SDG&E's authorized recovery of its investment in San Onofre Nuclear Generating Station (SONGS) compared to a $9 million increase to the loss in 2014 as a result of reaching a preliminary settlement agreement on the closure, as we discuss in Note 9 of the Notes to Condensed Consolidated Financial Statements herein

SoCalGas

§ $65 million incremental earnings due to SoCalGas recognizing annual core gas authorized revenue during interim periods based on seasonal factors starting in 2015 due to the adoption of a TCAP decision

§ $16 million higher earnings from CPUC base operating margin authorized for 2015

§ $11 million of earnings from a CPUC-approved retroactive increase in authorized GRC revenue requirement for years 2012 through 2014 due to increased rate base

§ $8 million from the gas cost incentive mechanism (GCIM) award approved by the CPUC in February 2015

Sempra South American Utilities

§ $10 million higher earnings from operations mainly in Peru due to an increase in rates and volumes

Sempra Mexico

§ $31 million higher pipeline earnings, primarily due to the start of operations of the Los Ramones I pipeline and a section of the Sonora pipeline in the fourth quarter of 2014

§ $(6) million increase in earnings attributable to noncontrolling interests at IEnova

Sempra Renewables

§ $(16) million gain in 2014 from the sale of a 50-percent equity interest in Copper Mountain Solar 3

Sempra Natural Gas

§ $36 million gain on the April 2015 sale of the remaining 625-MW block of the Mesquite Power plant

The following table shows our earnings (losses) by segment, which we discuss below in “Segment Results.”

SEMPRA ENERGY EARNINGS (LOSSES) BY SEGMENT
(Dollars in millions)

	Three months ended June 30,				Six months ended June 30,			
	2015		2014		2015		2014	
California Utilities:								
SDG&E	$ 126	43%	$ 123	46%	$ 273	37%	$ 222	43%
SoCalGas(1)	70	24	80	30	284	39	158	31
Sempra International:								
Sempra South American Utilities	45	15	42	15	86	12	77	15
Sempra Mexico	50	17	34	13	97	13	76	15
Sempra U.S. Gas & Power:								
Sempra Renewables	19	6	18	7	32	4	46	9
Sempra Natural Gas	40	14	4	1	42	6	13	2
Parent and other(2)	(55)	(19)	(32)	(12)	(82)	(11)	(76)	(15)

Earnings	$ 295	100%	$ 269	100%	$ 732	100%	$ 516	100%

(1) After preferred dividends.

(2) Includes after-tax interest expense ($39 million and $34 million for the three months ended June 30, 2015 and 2014, respectively, and $77 million and $69 million for the six months ended June 30, 2015 and 2014, respectively), intercompany eliminations recorded in consolidation and certain corporate costs.

SEGMENT RESULTS

The following section is a discussion of earnings (losses) by Sempra Energy segment, as presented in the table above. Variance amounts are the after-tax earnings impact (based on applicable statutory tax rates), unless otherwise noted.

EARNINGS BY SEGMENT – CALIFORNIA UTILITIES
(Dollars in millions)

SDG&E

Our SDG&E segment recorded earnings of:

§ $126 million in the three months ended June 30, 2015

§ $123 million in the three months ended June 30, 2014

§ $273 million for the first six months of 2015

§ $222 million for the first six months of 2014

The increase in earnings of $3 million (2%) in the three months ended June 30, 2015 was primarily due to:

§ $10 million favorable resolution of prior years' income tax items;

§ $8 million higher CPUC base operating margin authorized for 2015, net of higher non-refundable operating costs; and

§ $7 million higher earnings from electric transmission operations primarily due to higher rate base; offset by

§ $8 million higher earnings in 2014 associated with SDG&E's annual Federal Energy Regulatory Commission (FERC) formulaic rate adjustment;

§ $4 million favorable settlement in 2014 associated with a long-term service agreement (LTSA);

§ $2 million higher generation major maintenance costs; and

§ $2 million higher litigation expenses.

The increase in earnings of $51 million (23%) in the first six months of 2015 was primarily due to:

§ $13 million reduction to the loss from plant closure in 2015 based on the CPUC approval of a compliance filing related to SDG&E's authorized recovery of its investment in SONGS compared to a $9 million increase to the loss in 2014 as a result of reaching a preliminary settlement agreement on the closure;

§ $21 million higher CPUC base operating margin authorized for 2015, and lower non-refundable operating costs;

§ $12 million higher earnings from electric transmission operations primarily due to higher rate base; and

§ $10 million favorable resolution of prior years' income tax items; offset by

§ $7 million higher earnings in 2014 associated with SDG&E's FERC formulaic rate adjustment; and

§ $3 million favorable settlement in 2014 associated with an LTSA.

SoCalGas

Our SoCalGas segment recorded earnings of:

§ $70 million in the three months ended June 30, 2015 ($71 million before preferred dividends)

§ $80 million in the three months ended June 30, 2014 ($81 million before preferred dividends)

§ $284 million for the first six months of 2015 ($285 million before preferred dividends)

§ $158 million for the first six months of 2014 ($159 million before preferred dividends)

The decrease in earnings of $10 million (13%) in the three months ended June 30, 2015 was primarily due to:

- $48 million lower earnings resulting from the seasonalization of interim period recognition of annual core gas authorized revenue starting in 2015 (after-tax impact is based on SoCalGas' effective tax rate); offset by
- $13 million of earnings from a CPUC-approved retroactive increase in authorized GRC revenue requirement for years 2012 through 2014 and the first quarter of 2015 due to increased rate base, as we discuss in Note 10 of the Notes to Condensed Consolidated Financial Statements herein;
- $7 million due primarily to a lower effective tax rate, as we discuss under "Income Taxes" below, including $3 million favorable resolution of prior years' income tax items in 2015;
- $6 million higher CPUC base operating margin authorized for 2015, and lower non-refundable operating costs;
- $6 million write-off in 2014 of certain costs incurred that were disallowed for recovery in the final PSEP decision, as we discuss in Note 10 of the Notes to Condensed Consolidated Financial Statements herein;
- $6 million from the favorable resolution of a legal settlement in 2015, including $2 million of related interest income; and
- $4 million increase in allowance for funds used during construction (AFUDC) related to equity.

The increase in earnings of $126 million (80%) in the first six months of 2015 was primarily due to:

- $65 million incremental earnings resulting from the seasonalization of interim period recognition of annual core gas authorized revenue starting in 2015 (after-tax impact is based on SoCalGas' effective tax rate);
- $16 million higher CPUC base operating margin authorized for 2015, and lower non-refundable operating costs;
- $11 million of earnings from a CPUC-approved retroactive increase in authorized GRC revenue requirement for years 2012 through 2014 due to increased rate base;
- $11 million due primarily to a lower effective tax rate, as we discuss under "Income Taxes" below, including $3 million favorable resolution of prior years' income tax items in 2015;
- $8 million from the GCIM award approved by the CPUC in February 2015;
- $8 million increase in AFUDC related to equity;
- $6 million write-off in 2014 of certain costs incurred that were disallowed for recovery in the final PSEP decision; and
- $6 million from the favorable resolution of a legal settlement in 2015, including $2 million of related interest income.

EARNINGS BY SEGMENT – SEMPRA INTERNATIONAL
(Dollars in millions)

Sempra South American Utilities

Our Sempra South American Utilities segment recorded earnings of:

- $45 million in the three months ended June 30, 2015
- $42 million in the three months ended June 30, 2014
- $86 million for the first six months of 2015
- $77 million for the first six months of 2014

The increase in earnings of $3 million (7%) in the three months ended June 30, 2015 was primarily due to:

- $6 million higher earnings from operations mainly in Peru due to an increase in rates and volumes; offset by
- $5 million lower earnings from foreign currency effects.

The increase in earnings of $9 million (12%) in the first six months of 2015 was primarily due to:

- $10 million higher earnings from operations mainly in Peru due to an increase in rates and volumes; and
- $4 million lower interest expense mainly in Chile related to inflationary effect on local bonds; offset by
- $9 million lower earnings from foreign currency effects.

Sempra Mexico

Our Sempra Mexico segment recorded earnings of:

§ $50 million in the three months ended June 30, 2015

§ $34 million in the three months ended June 30, 2014

§ $97 million for the first six months of 2015

§ $76 million for the first six months of 2014

The increase in earnings of $16 million (47%) in the three months ended June 30, 2015 was primarily due to:

§ $17 million higher pipeline earnings, primarily due to the start of operations of the Los Ramones I pipeline and a section of the Sonora pipeline in the fourth quarter of 2014; and

§ $6 million income tax variance primarily due to the effects from foreign currency and inflation; offset by

§ $5 million increase in earnings attributable to noncontrolling interests at IEnova; and

§ $3 million unfavorable translation effect primarily on Peso-denominated receivables.

The increase in earnings of $21 million (28%) in the first six months of 2015 was primarily due to:

§ $31 million higher pipeline earnings, primarily due to the start of operations of the Los Ramones I pipeline and a section of the Sonora pipeline in the fourth quarter of 2014; and

§ $9 million income tax variance primarily due to the effects from foreign currency and inflation; offset by

§ $6 million increase in earnings attributable to noncontrolling interests at IEnova;

§ $5 million lower earnings from LNG marketing operations;

§ $5 million unfavorable translation effect primarily on Peso-denominated receivables; and

§ $4 million lower earnings from operations at our Mexicali power plant from lower prices and volumes in 2015.

EARNINGS BY SEGMENT – SEMPRA U.S. GAS & POWER
(Dollars in millions)

Sempra Renewables

Our Sempra Renewables segment recorded earnings of:

- $19 million in the three months ended June 30, 2015
- $18 million in the three months ended June 30, 2014
- $32 million for the first six months of 2015
- $46 million for the first six months of 2014

Earnings for the three months ended June 30, 2015 were consistent with earnings for the three months ended June 30, 2014.

The decrease in earnings of $14 million (30%) in the first six months of 2015 was primarily due to a $16 million gain in 2014 from the sale of a 50-percent equity interest in Copper Mountain Solar 3.

Sempra Natural Gas

Our Sempra Natural Gas segment recorded earnings of:

- $40 million in the three months ended June 30, 2015
- $4 million in the three months ended June 30, 2014
- $42 million for the first six months of 2015

§ $13 million for the first six months of 2014

The increase in earnings of $36 million in the three months ended June 30, 2015 was primarily due to:

§ $36 million gain on the April 2015 sale of the remaining 625-MW block of the Mesquite Power plant, net of related expenses;

§ $5 million higher earnings from mark-to-market gains on commodity contracts and lower costs from the Mesquite Power plant due to the sale of the remaining block in April 2015; and

§ $3 million improved results from midstream activities; offset by

§ $14 million lower results from LNG marketing operations, including the effect of lower gas prices.

The increase in earnings of $29 million in the first six months of 2015 was primarily due to:

§ $36 million gain on the April 2015 sale of the remaining 625-MW block of the Mesquite Power plant, net of related expenses;

§ $6 million higher earnings from the power sales contract associated with the Mesquite Power plant and lower costs at the plant due to the sale of the remaining block in April 2015; and

§ $5 million improved results from midstream activities; offset by

§ $20 million lower results from LNG marketing operations, including the effect of lower gas prices; and

§ $5 million in development expense associated with the potential expansion of our LNG business.

Parent and Other

Losses for Parent and Other were

§ $55 million in the three months ended June 30, 2015

§ $32 million in the three months ended June 30, 2014

§ $82 million for the first six months of 2015

§ $76 million for the first six months of 2014

The increase in losses of $23 million in the three months ended June 30, 2015 was primarily due to:

§ $1 million investment loss in 2015 compared to $10 million investment gain in 2014 on dedicated assets in support of our executive retirement and deferred compensation plans, net of the decrease in deferred compensation liability associated with the investments; and

§ $7 million lower income tax benefits, including $6 million of income tax expense associated with the resolution of prior years' income tax items in 2015.

The increase in losses of $6 million (8%) in the first six months of 2015 was primarily due to:

§ $8 million lower investment gains on dedicated assets in support of our executive retirement and deferred compensation plans, net of the decrease in deferred compensation liability associated with the investments; offset by

§ $4 million higher income tax benefits, including

$5 million in net state income tax refunds related to our former commodities-marketing businesses, offset by

$6 million of income tax expense associated with the resolution of prior years' income tax items in 2015.

CHANGES IN REVENUES, COSTS AND EARNINGS

This section contains a discussion of the differences between periods in the specific line items of the Condensed Consolidated Statements of Operations for Sempra Energy, SDG&E and SoCalGas.

Utilities Revenues

Our utilities revenues include

Natural gas revenues at:

§ SDG&E

§ SoCalGas

§ Sempra Mexico's Ecogas México, S. de R.L. de C.V. (Ecogas)

§ Sempra Natural Gas' Mobile Gas Service Corporation (Mobile Gas) and Willmut Gas Company (Willmut Gas)

Electric revenues at:

§ SDG&E

§ Sempra South American Utilities' Chilquinta Energía S.A. (Chilquinta Energía) and Luz del Sur S.A.A. (Luz del Sur)

Intercompany revenues included in the separate revenues of each utility are eliminated in the Sempra Energy Condensed Consolidated Statements of Operations.

The California Utilities

The current regulatory framework for SoCalGas and SDG&E permits the cost of natural gas purchased for core customers (primarily residential and small commercial and industrial customers) to be passed through to customers in rates substantially as incurred. However, SoCalGas' gas cost incentive mechanism provides SoCalGas the opportunity to share in the savings and/or costs from buying natural gas for its core customers at prices below or above monthly

market-based benchmarks. This mechanism permits full recovery of costs incurred when average purchase costs are within a price range around the benchmark price. Any higher costs incurred or savings realized outside this range are shared between the core customers and SoCalGas. We provide further discussion in Notes 1 and 14 of the Notes to Consolidated Financial Statements in the Annual Report, and in Note 10 of the Notes to Condensed Consolidated Financial Statements herein.

The regulatory framework also permits SDG&E to recover the actual cost incurred to generate or procure electricity based on annual estimates of the cost of electricity supplied to customers. The differences in cost between estimates and actual are recovered in the next year through rates.

The table below summarizes revenues and cost of sales for our utilities, net of intercompany activity:

UTILITIES REVENUES AND COST OF SALES
(Dollars in millions)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Electric revenues:				
SDG&E	$ 874	$ 948	$ 1,679	$ 1,759
Sempra South American Utilities	363	364	726	718
Eliminations and adjustments	(2)	(3)	(4)	(5)
Total	1,235	1,309	2,401	2,472
Natural gas revenues:				
SoCalGas	780	917	1,828	2,002
SDG&E	98	115	259	291
Sempra Mexico	19	26	44	59
Sempra Natural Gas	18	20	60	67
Eliminations and adjustments	(17)	(17)	(37)	(36)
Total	898	1,061	2,154	2,383
Total utilities revenues	$ 2,133	$ 2,370	$ 4,555	$ 4,855
Cost of electric fuel and purchased power:				
SDG&E	$ 251	$ 329	$ 479	$ 595
Sempra South American Utilities	247	242	500	486
Total	$ 498	$ 571	$ 979	$ 1,081
Cost of natural gas:				
SoCalGas	$ 196	$ 321	$ 463	$ 829
SDG&E	31	51	85	126
Sempra Mexico	11	18	26	40
Sempra Natural Gas	5	7	20	27
Eliminations and adjustments	(4)	(2)	(9)	(7)
Total	$ 239	$ 395	$ 585	$ 1,015

Sempra Energy Consolidated

Electric Revenues

During the three months ended June 30, 2015, our electric revenues decreased by $74 million (6%) to $1.2 billion primarily due to:

§ $74 million decrease at SDG&E, which included

$78 million lower cost of electric fuel and purchased power, which we discuss below, and

$14 million lower recovery of costs associated with CPUC-authorized refundable programs, which revenues are fully offset in operation and maintenance expenses, offset by

$22 million higher revenues from CPUC-authorized 2015 attrition and, starting in 2015, authorized revenues for the recovery of the SONGS regulatory assets pursuant to an amended settlement agreement approved by the CPUC in 2014. The GRC decision for years 2012 through 2015 established a revenue attrition mechanism for the escalation of adopted revenue requirements based on fixed annual factors, and

$4 million higher authorized revenues from electric transmission

Our utilities' cost of electric fuel and purchased power decreased by $73 million (13%) to $498 million in the three months ended June 30, 2015 due to:

§ $78 million decrease at SDG&E, which we discuss below; offset by

§ $5 million increase at Sempra South American Utilities driven primarily by higher rates and volumes at both Luz del Sur and Chilquinta Energía, offset by foreign currency exchange rate effects.

During the six months ended June 30, 2015, our electric revenues decreased by $71 million (3%) to $2.4 billion primarily due to:

§ $80 million decrease at SDG&E, which included

$116 million lower cost of electric fuel and purchased power, which we discuss below, and

$15 million lower recovery of costs associated with CPUC-authorized refundable programs, which revenues are fully offset in operation and maintenance expenses, offset by

$43 million higher revenues from CPUC-authorized 2015 attrition and, starting in 2015, authorized revenues for the recovery of the SONGS regulatory assets pursuant to an amended settlement agreement approved by the CPUC in 2014, and

$17 million higher authorized revenues from electric transmission, offset by

§ $8 million increase at Sempra South American Utilities, primarily due to higher rates and volumes at both Luz del Sur and Chilquinta Energía, offset by foreign currency exchange rate effects.

Our utilities' cost of electric fuel and purchased power decreased by $102 million (9%) to $979 million in the six months ended June 30, 2015 due to:

§ $116 million decrease at SDG&E, which we discuss below; offset by

§ $14 million increase at Sempra South American Utilities driven primarily by higher rates and volumes at both Luz del Sur and Chilquinta Energía, offset by foreign currency exchange rate effects.

We discuss the changes in electric revenues and the cost of electric fuel and purchased power for SDG&E in more detail below.

Natural Gas Revenues

During the three months ended June 30, 2015, Sempra Energy's natural gas revenues decreased by $163 million (15%) to $898 million, and the cost of natural gas decreased by $156 million (39%) to $239 million. The decrease in natural gas revenues included

- decreases in cost of natural gas sold at SoCalGas and SDG&E, as we discuss below; and

- $72 million decrease resulting from the seasonalization of interim period recognition of annual core gas authorized revenue at SoCalGas starting in 2015; offset by

  - $21 million higher revenues from CPUC-authorized 2015 attrition at the California Utilities;

- $21 million increase at SoCalGas from a CPUC-approved retroactive increase in authorized GRC revenue requirement for years 2012 through 2014 and the first quarter of 2015 due to increased rate base; and

- $18 million higher recovery of costs at SoCalGas associated with CPUC-authorized refundable programs, which revenues are fully offset in operation and maintenance expenses.

During the first six months of 2015, Sempra Energy's natural gas revenues decreased by $229 million (10%) to $2.2 billion, and the cost of natural gas decreased by $430 million (42%) to $585 million. The decrease in natural gas revenues included

- decreases in cost of natural gas sold at SoCalGas and SDG&E, as we discuss below; offset by

- $91 million increase resulting from the seasonalization of interim period recognition of annual core gas authorized revenue at SoCalGas starting in 2015;

  - $36 million higher revenues from CPUC-authorized 2015 attrition at the California Utilities;

- $31 million higher recovery of costs at SoCalGas associated with CPUC-authorized refundable programs, which revenues are fully offset in operation and maintenance expenses;

- $19 million increase at SoCalGas from a CPUC-approved retroactive increase in authorized GRC revenue requirement for years 2012 through 2014 due to increased rate base; and

  - $14 million GCIM award approved by the CPUC in February 2015 at SoCalGas.

We discuss the changes in natural gas revenues and the cost of natural gas individually for SDG&E and SoCalGas below.

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

The table below shows electric revenues for SDG&E. Because the cost of electricity is substantially recovered in rates, changes in the cost are reflected in the changes in revenues. In addition to the change in cost, electric revenues recorded during a period are impacted by customer billing cycles causing a difference between customer billings and recorded or authorized costs. These differences are required to be balanced over time, resulting in over- and

undercollected regulatory balancing accounts. We discuss balancing accounts and their effects further in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

SDG&E
ELECTRIC DISTRIBUTION AND TRANSMISSION
(Volumes in millions of kilowatt-hours, dollars in millions)

	Six months ended June 30, 2015		Six months ended June 30, 2014	
Customer class	Volumes	Revenue	Volumes	Revenue
Residential	3,227	$ 610	3,383	$ 581
Commercial	3,223	656	3,311	606
Industrial	985	162	986	147
Direct access(1)	1,696	106	1,704	88
Street and highway lighting	41	8	44	7
	9,172	1,542	9,428	1,429
CAISO shared transmission revenue - net(2)		126		115
Other revenues		101		81
Balancing accounts		(90)		134
Total(3)		$ 1,679		$ 1,759

(1) The Direct Access (DA) program, which offered all customers the option to purchase their electric commodity services from a third-party Energy Service Provider instead of continuing to receive these services from SDG&E, was implemented in 1998 and suspended in 2001. In 2009, Senate Bill 695 required the CPUC to develop a process and rules for a limited re-opening of DA to be phased in over a period of time. In 2010, the CPUC adopted the process and rules for the limited re-opening of DA for non-residential customers under a 4-year phase-in schedule.

(2) California Independent System Operator (CAISO).

(3) Includes sales to affiliates of $4 million in 2015 and $5 million in 2014.

For the three months ended June 30, 2015, SDG&E’s electric revenues decreased by $74 million (8%) to $874 million compared to the corresponding period of 2014 primarily due to:

§ $78 million decrease in cost of electric fuel and purchased power, including:

a decrease in the cost of purchased power due to declining natural gas prices, and

lower demand mainly due to cooler weather, and, to a lesser extent, an increase in rooftop solar use, in the second quarter of 2015 compared to the same period in 2014, offset by

an increase from the incremental purchase of renewable energy at higher prices; and

§ $14 million lower recovery of costs associated with CPUC-authorized refundable programs, which revenues are fully offset in operation and maintenance expenses; offset by

§ $22 million higher revenues from CPUC-authorized 2015 attrition and, starting in 2015, authorized revenues for the recovery of the SONGS regulatory assets pursuant to an amended settlement agreement approved by the CPUC in 2014; and

§ $4 million higher authorized revenues from electric transmission.

In the first six months of 2015, SDG&E's electric revenues decreased by $80 million (5%) to $1.7 billion primarily due to:

§ $116 million decrease in cost of electric fuel and purchased power, including:

a decrease in the cost of purchased power due to declining natural gas prices, and

lower demand mainly due to cooler weather, and, to a lesser extent, an increase in rooftop solar use, in 2015 compared to the same period in 2014, offset by

an increase from the incremental purchase of renewable energy at higher prices; and

§ $15 million lower recovery of costs associated with CPUC-authorized refundable programs, which revenues are fully offset in operation and maintenance expenses; offset by

§ $43 million higher revenues from CPUC-authorized 2015 attrition and, starting in 2015, authorized revenues for the recovery of the SONGS regulatory assets pursuant to an amended settlement agreement approved by the CPUC in 2014; and

§ $17 million higher authorized revenues from electric transmission.

SDG&E and SoCalGas: Natural Gas Revenues and Cost of Natural Gas

The tables below show natural gas revenues for SDG&E and SoCalGas. Because the cost of natural gas is recovered in rates, changes in the cost are reflected in the changes in revenues. In addition to the change in market prices, natural gas revenues recorded during a period are impacted by the difference between customer billings and recorded or CPUC-authorized costs. These differences are required to be balanced over time, resulting in over- and undercollected regulatory balancing accounts. We discuss balancing accounts and their effects further in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

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

	Natural gas sales		Transportation		Total	
Customer class	Volumes	Revenue	Volumes	Revenue	Volumes	Revenue
Six months ended June 30, 2015:						
Residential	14	$ 175		$ 2	14	$ 177
Commercial and industrial	8	53	4	7	12	60
Electric generation plants			11		11	
	22	$ 228	15	$ 9	37	237
Other revenues						21
Balancing accounts						1
Total(1)						$ 259
Six months ended June 30, 2014:						

Residential	15	$ 188		$		15	$	188
Commercial and industrial	8	61	4		6	12		67
Electric generation plants			13		1	13		1
	23	$ 249	17	$	7	40		256
Other revenues								22
Balancing accounts								13
Total(1)							$	291

(1) Includes sales to affiliates of $1 million in each of 2015 and 2014.

During the three months ended June 30, 2015, SDG&E's natural gas revenues decreased by $17 million (15%) to $98 million, while the cost of natural gas sold decreased by $20 million (39%) to $31 million. The decrease in revenues was primarily due to:

§ lower cost of natural gas sold, as we discuss below; offset by

§ $4 million increase in revenues from CPUC-authorized 2015 attrition.

SDG&E's average cost of natural gas for the three months ended June 30, 2015 was $3.56 per thousand cubic feet (Mcf) compared to $5.83 per Mcf for the corresponding period in 2014, a 39-percent decrease of $2.27 per Mcf, resulting in lower revenues and cost of $20 million.

During the six months ended June 30, 2015, SDG&E's natural gas revenues decreased by $32 million (11%) to $259 million, and the cost of natural gas sold decreased by $41 million (33%) to $85 million. The decrease in revenues was primarily due to:

§ lower cost of natural gas sold, and lower demand, as we discuss below; offset by

§ $5 million increase in revenues from CPUC-authorized 2015 attrition; and

§ $5 million higher recovery of costs associated with CPUC-authorized refundable programs, which revenues are fully offset in operation and maintenance expenses.

SDG&E's average cost of natural gas for the six months ended June 30, 2015 was $3.91 per Mcf compared to $5.50 per Mcf for the corresponding period in 2014, a 29-percent decrease of $1.59 per Mcf, resulting in lower revenues and cost of $35 million. The decrease in the cost of natural gas sold was also due to lower demand for natural gas primarily from a warmer winter in 2015 compared to the same period in 2014, which resulted in lower revenues and cost of $6 million.

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

	Natural gas sales		Transportation		Total	
Customer class	Volumes	Revenue	Volumes	Revenue	Volumes	Revenue
Six months ended June 30, 2015:						
Residential	102	$ 1,036	2	$ 10	104	$ 1,046
Commercial and industrial	48	324	141	126	189	450
Electric generation plants			69	16	69	16
Wholesale			73	13	73	13
	150	$ 1,360	285	$ 165	435	1,525

Other revenues						90
Balancing accounts						213
Total(1)						$ 1,828
Six months ended June 30, 2014:						
Residential	109	$ 1,189	1	$ 6	110	$ 1,195
Commercial and industrial	48	411	145	132	193	543
Electric generation plants			85	20	85	20
Wholesale			72	13	72	13
	157	$ 1,600	303	$ 171	460	1,771
Other revenues						49
Balancing accounts						182
Total(1)						$ 2,002

(1) Includes sales to affiliates of $36 million in 2015 and $34 million in 2014.

During the three months ended June 30, 2015, SoCalGas' natural gas revenues decreased by $137 million (15%) to $780 million, and the cost of natural gas sold decreased by $125 million (39%) to $196 million. The revenue decrease included

§ the decrease in the cost of natural gas sold, offset by higher sales volumes, as we discuss below; and

§ $72 million decrease resulting from the seasonalization of interim period recognition of annual core gas authorized revenue starting in 2015; offset by

§ $21 million increase from a CPUC-approved retroactive increase in authorized GRC revenue requirement for years 2012 through 2014 and the first quarter of 2015 due to increased rate base;

§ $18 million higher recovery of costs associated with CPUC-authorized refundable programs, which revenues are fully offset in operation and maintenance expenses;

§ $17 million increase in revenues from CPUC-authorized 2015 attrition; and

§ $9 million write-off in 2014 of certain costs incurred that were disallowed for recovery in the final PSEP decision.

SoCalGas' average cost of natural gas for the three months ended June 30, 2015 was $3.08 per Mcf compared to $5.28 per Mcf for the corresponding period in 2014, a 42-percent decrease of $2.20 per Mcf, resulting in lower revenues and cost of $140 million. The decrease in the average cost of natural gas sold was offset by higher sales volumes, which resulted in higher revenues and cost of $15 million. The higher sales volumes were mainly driven by cooler weather in the second quarter of 2015 compared to the same quarter in 2014.

During the six months ended June 30, 2015, SoCalGas' natural gas revenues decreased by $174 million (9%) to $1.8 billion, and the cost of natural gas sold decreased by $366 million (44%) to $463 million. The revenue decrease included

§ the decrease in the cost of natural gas sold, as we discuss below; offset by

§ $91 million increase resulting from the seasonalization of interim period recognition of annual core gas authorized revenue starting in 2015;

§ $31 million higher recovery of costs associated with CPUC-authorized refundable programs, which revenues are fully offset in operation and maintenance expenses;

§ $31 million higher revenues from CPUC-authorized 2015 attrition;

§ $19 million increase from a CPUC-approved retroactive increase in authorized GRC revenue requirement for years 2012 through 2014 due to increased rate base;

§ $14 million GCIM award approved by the CPUC in February 2015; and

§ $9 million write-off in 2014 of certain costs incurred that were disallowed for recovery in the final PSEP decision.

For the first six months of 2015, SoCalGas' average cost of natural gas was $3.09 per Mcf compared to $5.27 per Mcf for the corresponding period in 2014, a 41-percent decrease of $2.18 per Mcf, resulting in lower revenues and cost of $327 million. The decrease in the average cost of natural gas sold was also due to lower demand for natural gas primarily from a warmer winter in 2015 compared to the same period in 2014, which resulted in lower revenues and cost of $39 million.

Other Utilities: Revenues and Cost of Sales

Revenues generated by Chilquinta Energía and Luz del Sur are based on tariffs that are set by government agencies in their respective countries based on an efficient model distribution company defined by those agencies. The bases for the tariffs do not meet the requirements necessary for regulatory accounting treatment under applicable accounting principles generally accepted in the United States of America (U.S. GAAP). We discuss revenue recognition further for Chilquinta Energía and Luz del Sur in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

Operations of Mobile Gas, Willmut Gas and Ecogas qualify for regulatory accounting treatment under applicable U.S. GAAP, similar to the California Utilities.

The table below summarizes natural gas and electric revenues for our utilities outside of California for the six-month periods ended June 30, 2015 and 2014:

OTHER UTILITIES
NATURAL GAS AND ELECTRIC REVENUES
(Dollars in millions)

	Six months ended June 30, 2015		Six months ended June 30, 2014	
	Volumes	Revenue	Volumes	Revenue
Natural Gas Sales (billion cubic feet):				
Sempra Mexico – Ecogas	13	$ 44	11	$ 59
Sempra Natural Gas:				
Mobile Gas (including transportation)	24	49	20	52
Willmut Gas	2	11	2	15
Total	39	$ 104	33	$ 126
Electric Sales (million kilowatt hours):				
Sempra South American Utilities:				
Luz del Sur	3,841	$ 440	3,668	$ 428
Chilquinta Energía	1,496	266	1,496	265
	5,337	706	5,164	693

Other service revenues	20	25
Total	$ 726	$ 718

Energy-Related Businesses: Revenues and Cost of Sales

The table below shows revenues and cost of sales for our energy-related businesses:

ENERGY-RELATED BUSINESSES: REVENUES AND COST OF SALES
(Dollars in millions)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Energy-related businesses revenues:				
Sempra South American Utilities	$ 26	$ 26	$ 52	$ 50
Sempra Mexico	133	160	271	328
Sempra Renewables	10	9	18	15
Sempra Natural Gas	137	216	292	429
Intersegment revenues, adjustments and eliminations(1)	(72)	(103)	(139)	(204)
Total energy-related businesses revenues	$ 234	$ 308	$ 494	$ 618
Cost of natural gas, electric fuel and purchased power(2):				
Sempra South American Utilities	$ 7	$ 4	$ 16	$ 7
Sempra Mexico	45	81	96	164
Sempra Natural Gas	87	143	192	294
Adjustments and eliminations(1)	(66)	(102)	(133)	(201)
Total cost of natural gas, electric fuel and purchased power	$ 73	$ 126	$ 171	$ 264
Other cost of sales(2):				
Sempra South American Utilities	$ 18	$ 19	$ 29	$ 33
Sempra Mexico	4	2	9	5
Sempra Natural Gas	23	23	43	46
Adjustments and eliminations(1)	(3)	(2)	(4)	(4)
Total other cost of sales	$ 42	$ 42	$ 77	$ 80

(1) Includes eliminations of intercompany activity.

(2) Excludes depreciation and amortization, which are shown separately on the Condensed Consolidated Statements of Operations.

During the three months ended June 30, 2015, revenues from our energy-related businesses decreased by $74 million (24%) to $234 million. The decrease included

§ $79 million decrease at Sempra Natural Gas mainly from lower natural gas prices, as well as from the deconsolidation of Cameron LNG, LLC as of October 1, 2014; and

§

$27 million lower revenues at Sempra Mexico primarily due to lower natural gas and power prices and volumes, offset by higher transportation revenues from a section of the Sonora natural gas pipeline that commenced operations in the fourth quarter of 2014; offset by

§ $31 million primarily from lower intercompany eliminations associated with sales between Sempra Natural Gas and Sempra Mexico.

During the three months ended June 30, 2015, the cost of natural gas, electric fuel and purchased power for our energy-related businesses decreased by $53 million (42%) to $73 million primarily due to:

§ $56 million decrease at Sempra Natural Gas primarily due to lower natural gas costs; and

§ $36 million decrease at Sempra Mexico primarily due to lower natural gas costs and volumes; offset by

§ $36 million primarily from lower intercompany eliminations of costs associated with sales between Sempra Natural Gas and Sempra Mexico.

For the first six months of 2015, revenues from our energy-related businesses decreased by $124 million (20%) to $494 million. The decrease included

§ $137 million decrease at Sempra Natural Gas mainly from lower natural gas prices, as well as from the deconsolidation of Cameron LNG, LLC as of October 1, 2014; and

§ $57 million lower revenues at Sempra Mexico primarily due to lower natural gas and power prices and volumes, offset by higher transportation revenues from a section of the Sonora natural gas pipeline that commenced operations in the fourth quarter of 2014; offset by

§ $65 million primarily from lower intercompany eliminations associated with sales between Sempra Natural Gas and Sempra Mexico.

For the first six months of 2015, the cost of natural gas, electric fuel and purchased power for our energy-related businesses decreased by $93 million (35%) to $171 million primarily due to:

§ $102 million decrease at Sempra Natural Gas primarily due to lower natural gas costs; and

§ $68 million decrease at Sempra Mexico primarily due to lower natural gas costs and volumes; offset by

§ $68 million from lower intercompany eliminations of costs associated with sales between Sempra Natural Gas and Sempra Mexico.

Operation and Maintenance

Sempra Energy Consolidated

Our operation and maintenance expenses decreased by $16 million (2%) to $713 million in the three months ended June 30, 2015 and decreased by $34 million (2%) but remained at $1.4 billion in the first six months of 2015.

SDG&E

For the three months ended June 30, 2015, SDG&E's operation and maintenance expenses decreased by $1 million to $255 million primarily due to:

§ $13 million lower expenses associated with CPUC-authorized refundable programs, for which all costs incurred are fully recovered in revenue (refundable program expenses); offset by

§ $5 million higher litigation expense; and

§ $5 million higher non-refundable operating costs, including labor, contract services and administrative and support costs.

In the first six months of 2015, SDG&E's operation and maintenance expenses decreased by $36 million (7%) to $472 million primarily due to:

§ $26 million lower non-refundable operating costs, including $12 million lower major maintenance costs at its electric generating facilities, as well as labor, contract services and administrative and support costs; and

§ $10 million lower expenses associated with CPUC-authorized refundable programs, for which all costs incurred are fully recovered in revenue (refundable program expenses).

SoCalGas

For the three months ended June 30, 2015, SoCalGas' operation and maintenance expenses increased by $9 million (3%) to $346 million primarily due to:

§ $18 million higher expenses associated with CPUC-authorized refundable programs for which all costs incurred are fully recovered in revenue (refundable program expenses); offset by

§ $7 million lower non-refundable operating costs, including labor, contract services and administrative and support costs; and

§ $2 million lower litigation expense, including $6 million from the favorable resolution of a legal settlement in 2015, offset by $4 million higher other litigation expense.

In the first six months of 2015, SoCalGas' operation and maintenance expenses increased by $18 million (3%) to $660 million primarily due to:

§ $31 million higher expenses associated with CPUC-authorized refundable programs for which all costs incurred are fully recovered in revenue (refundable program expenses); offset by

§ $11 million lower non-refundable operating costs, including labor, contract services and administrative and support costs; and

§ $2 million lower litigation expense, including $6 million from the favorable resolution of a legal settlement in 2015, offset by $4 million higher other litigation expense.

Plant Closure Adjustment

SDG&E has a 20-percent ownership interest in SONGS, a nuclear generating facility near San Clemente, California. SONGS' Units 2 and 3 were shut down in early 2012 due to steam generator issues, and, in June 2013, Southern

California Edison, the majority owner and operator of SONGS, made a decision to permanently retire these two units. In the second quarter of 2013, SDG&E recorded a pretax charge of $200 million, which represents the portion of SDG&E's investment in SONGS and associated costs that management estimated may not be recovered in rates based on prior CPUC precedent. In addition to the plant closure loss recorded in 2013, during the first quarter of 2014, SDG&E recorded a $13 million pretax reduction to the loss from plant closure. During the first quarter of 2015, SDG&E recorded a $21 million pretax reduction to the loss from plant closure. We discuss SONGS further in Note 9 of the Notes to Condensed Consolidated Financial Statements herein.

Gain on Sale of Equity Interest and Assets

In the second quarter of 2015, Sempra Natural Gas completed the sale of the remaining 625-MW block of the Mesquite Power plant for net cash proceeds of $347 million, resulting in a pretax gain on sale of the asset of $61 million ($36 million after-tax). In the first quarter of 2014, Sempra Renewables recorded a pretax gain of $27 million ($16 million after-tax) from the sale of a 50-percent equity interest in Copper Mountain Solar 3.

Other Income, Net

Sempra Energy Consolidated

For the three months and six months ended June 30, 2015, other income, net, decreased by $12 million and $13 million, respectively.

The decrease in the three-month period was primarily due to:

- $2 million investment losses in 2015 compared to $15 million gains in 2014 on dedicated assets in support of our executive retirement and deferred compensation plans; and
- $3 million losses on interest rate and foreign exchange instruments in 2015 compared to $11 million gains in 2014; offset by
  - $7 million increase in equity-related AFUDC at the California Utilities; and
  - $6 million income from the sale of other investments.

The decrease in the six-month period was primarily due to:

- $16 million lower investment gains on dedicated assets in support of our executive retirement and deferred compensation plans; and
- $3 million losses on interest rate and foreign exchange instruments in 2015 compared to $16 million gains in 2014; offset by
  - $9 million increase in equity-related AFUDC, primarily at SoCalGas; and
  - $6 million income from the sale of other investments.

Income Taxes

The table below shows the income tax expense and effective income tax rates for Sempra Energy, SDG&E and SoCalGas.

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

	Income tax expense	Effective income tax rate	Income tax expense	Effective income tax rate
	Three months ended June 30,			
	2015		2014	
Sempra Energy Consolidated	$ 98	25%	$ 93	25%
SDG&E	54	29	69	35
SoCalGas	16	18	28	26
	Six months ended June 30,			
	2015		2014	
Sempra Energy Consolidated	$ 261	26%	$ 220	29%
SDG&E	142	34	152	40
SoCalGas	111	28	66	29

Sempra Energy Consolidated

The increase in income tax expense in the three months ended June 30, 2015 was mainly due to higher pretax income.

The increase in income tax expense in the six months ended June 30, 2015 was mainly due to higher pretax income, offset by a lower effective income tax rate. The lower effective income tax rate was primarily due to:

§ a $17 million charge in 2014 to reduce certain tax regulatory assets attributed to SDG&E's investment in SONGS that we discuss in Note 9 of the Notes to Condensed Consolidated Financial Statements herein; and

§ favorable resolution of prior years' income tax items in 2015.

As noted in "Results of Operations – Changes in Revenues, Costs and Earnings – Income Taxes" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report, all repatriated earnings (reduced for previously taxed income) are subject to U.S. income tax (with credits for foreign income taxes), and repatriation from Peru is subject to local country withholding tax. We plan to repatriate a portion of current year earnings from certain of our non-U.S. subsidiaries in Mexico and Peru. Because this potential repatriation would only be from earnings since January 1, 2015, it does not change our current assertion that we intend to continue to indefinitely reinvest our cumulative undistributed non-U.S. earnings from prior years. Therefore, we do not intend to use these cumulative undistributed earnings as a source of funding for U.S. operations.

As we discuss in Note 5 of the Notes to Condensed Consolidated Financial Statements herein, Sempra Energy, SDG&E and SoCalGas record income taxes for interim periods utilizing a forecasted effective tax rate anticipated for the full year, as required by U.S. GAAP. The income tax effect of items that can be reliably forecasted on a full year basis are factored into the forecasted effective tax rate and their impact is recognized proportionately over the year. Items that cannot be reliably forecasted are recorded in the interim period in which they actually occur, which can result in variability to income tax expense.

Due to the extension of bonus depreciation, Sempra Energy generated a U.S. federal net operating loss (NOL) in 2011, 2012, 2013 and 2014. We further discuss the impact of NOLs on Sempra Energy in "Results of Operations – Changes in Revenues, Costs and Earnings – Income Taxes" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report and in Note 6 of the Notes to Consolidated Financial Statements in the Annual Report.

SDG&E

The decrease in SDG&E's income tax expense in the three months ended June 30, 2015 was due to lower pretax income and a lower effective income tax rate, which was primarily from the favorable resolution of prior years' income tax items in 2015.

The decrease in SDG&E's income tax expense in the six months ended June 30, 2015 was due to a lower effective income tax rate, offset by higher pretax income. The lower effective income tax rate was primarily due to:

§ a $17 million charge in 2014 to reduce certain tax regulatory assets attributed to SDG&E's investment in SONGS that we discuss in Note 9 of the Notes to Condensed Consolidated Financial Statements herein; and

§ favorable resolution of prior years' income tax items in 2015.

The results for Sempra Energy Consolidated and SDG&E include Otay Mesa VIE, which is not included in Sempra Energy's federal or state income tax returns but is consolidated for financial statement purposes, and therefore, Sempra Energy Consolidated's and SDG&E's effective income tax rates are impacted by the VIE's stand-alone effective income tax rate. We discuss Otay Mesa VIE further in Note 5 of the Notes to Condensed Consolidated Financial Statements herein.

SoCalGas

The decrease in SoCalGas' income tax expense in the three months ended June 30, 2015 was due to lower pretax income and a lower effective income tax rate. The lower pretax income was primarily due to recognizing core gas authorized revenue during interim periods based on seasonal factors beginning January 1, 2015 in accordance with the TCAP, compared to recognizing such revenue ratably over the year in 2014. We discuss the impact of the TCAP decision further in Note 10 of the Notes to Condensed Consolidated Financial Statements herein. The lower effective income tax rate was primarily due to:

§ favorable resolution of prior years' income tax items in 2015;

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

§ higher favorable impact of deductions for self-developed software expenditures.

The increase in SoCalGas' income tax expense in the six months ended June 30, 2015 was mainly due to higher pretax income, offset by a lower effective income tax rate. The higher pretax income was primarily due to recognizing core gas authorized revenue during interim periods based on seasonal factors beginning January 1, 2015 in accordance with the TCAP, compared to recognizing such revenue ratably over the year in 2014. We discuss the impact of the TCAP decision further in Note 10 of the Notes to Condensed Consolidated Financial Statements herein. The lower effective income tax rate was primarily due to the favorable resolution of prior years' income tax items in 2015.

SDG&E and SoCalGas both generated a U.S. federal NOL in 2011 and 2012, primarily due to bonus depreciation. We further discuss the impact of NOLs on SDG&E and SoCalGas in "Results of Operations – Changes in Revenues, Costs

of Earnings – Income Taxes" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report and in Note 6 of the Notes to Consolidated Financial Statements in the Annual Report.

Foreign Currency Exchange Rate and Inflation Impact on Income Taxes and Related Economic Hedging Activity

Our Mexican subsidiaries have U.S. dollar denominated cash balances, receivables and payables (monetary assets and liabilities) that give rise to Mexican currency exchange rate movements for Mexican income tax purposes. They also have deferred income tax assets and liabilities that are denominated in the Mexican peso, which must be translated to U.S. dollars for financial reporting purposes. In addition, monetary assets and liabilities are adjusted for Mexican inflation for Mexican income tax purposes.

The fluctuations in both the currency exchange rate for the Mexican peso against the U.S. dollar, with regard to Mexican monetary assets and liabilities, and Mexican inflation are subject to Mexican income tax and thus may expose us to fluctuations in our income tax expense. The income tax expense of Sempra Mexico is impacted by these factors. From time to time, we may utilize short-term foreign currency derivatives at our subsidiaries and at the consolidated level as a means to manage these exposures.

The income tax expense of our South American subsidiaries is similarly impacted by the factors we discuss above. Such impact was not material in either the three months or six months ended June 30, 2015 or 2014.

For Sempra Energy Consolidated, the impacts at Sempra Mexico related to the factors described above are as follows:

MEXICAN CURRENCY IMPACT ON INCOME TAXES AND RELATED ECONOMIC HEDGING ACTIVITY
(Dollars in millions)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Income tax benefit on currency exchange rate movement of monetary assets and liabilities	$ 4	$	$ 8	$
Translation of non-U.S. deferred income tax balances	2		4	
Income tax expense on inflation				(1)
Total impact included in Income Tax Benefit (Expense)	6		12	(1)
After-tax losses on Mexican peso exchange rate instruments (included in Other Income, Net)	(1)		(1)	
Net impacts on Sempra Energy Condensed Consolidated Statements of Operations	$ 5	$	$ 11	$ (1)

Equity Earnings, Net of Income Tax

For the three months and six months ended June 30, 2015, equity earnings, net of income tax, increased by $13 million and $22 million, respectively, primarily due to the start of operations of Los Ramones I, a pipeline project which Sempra Mexico owns through its joint venture with Petróleos Mexicanos (or PEMEX, the Mexican state-owned oil company).

Earnings Attributable to Noncontrolling Interests

Earnings attributable to noncontrolling interests increased by $2 million and $4 million in the three months and six months ended June 30, 2015, respectively. The changes included increases of $5 million and $6 million, respectively, attributable to noncontrolling interests of IEnova.

Earnings

We discuss variations in earnings by segment above in “Segment Results.”

CAPITAL RESOURCES AND LIQUIDITY

We expect our cash flows from operations to fund a substantial portion of our capital expenditures and dividends. In addition, we may meet our cash requirements through the issuance of securities, distributions from our equity method investments and project financing.

Our lines of credit provide liquidity and support commercial paper. As we discuss in Note 6 of the Notes to Condensed Consolidated Financial Statements herein, Sempra Energy, Sempra Global (the holding company for our subsidiaries not subject to California utility regulation) and the California Utilities each have five-year revolving credit facilities, expiring in 2017. At Sempra Energy and the California Utilities, the agreements are syndicated broadly among 24 different lenders and at Sempra Global, among 25 different lenders. No single lender has greater than a 7-percent share in any agreement. The table below shows the amount of available funds under these credit facilities at June 30, 2015:

AVAILABLE FUNDS AT JUNE 30, 2015
(Dollars in millions)

	Sempra Energy Consolidated	SDG&E	SoCalGas
Unrestricted cash and cash equivalents(1)	$ 636	$ 23	$ 231
Available unused credit(2)	3,493	618	658

(1) Amounts at Sempra Energy Consolidated include $372 million held in non-U.S. jurisdictions that are unavailable to fund U.S. operations unless repatriated, as we discuss below.

(2) Available credit is the total available on Sempra Energy's, Sempra Global's and the California Utilities' credit facilities that we discuss in Note 6 of the Notes to Condensed Consolidated Financial Statements herein. Borrowings on the shared line of credit at SDG&E and SoCalGas are limited to $658 million for each utility and a combined total of $877 million. SDG&E's available funds reflect commercial paper outstanding of $40 million supported by the line. Some of Sempra Energy's subsidiaries, primarily our foreign operations, have additional general purpose credit facilities, aggregating $848 million at June 30, 2015. Available unused credit on these lines totaled $576 million at June 30, 2015.

Sempra Energy Consolidated

We believe that these available funds, combined with cash flows from operations, distributions from equity method investments, proceeds of securities issuances, project financing and partnering in joint ventures will be adequate to fund operations, including to:

§ finance capital expenditures

§ meet liquidity requirements

§ fund shareholder dividends

§ fund new business acquisitions or start-ups

§ repay maturing long-term debt

In June 2015, SoCalGas issued $250 million of 1.55-percent and $350 million of 3.20-percent first mortgage bonds maturing in 2018 and 2025, respectively. In March 2015, Sempra Energy issued $500 million of 2.40-percent notes maturing in 2020. Also in March 2015, SDG&E issued $140 million of variable rate first mortgage bonds maturing in 2017 and $250 million of 1.914-percent amortizing first mortgage bonds maturing in 2022. In 2014, Sempra Energy and SoCalGas publicly offered and sold debt securities totaling $500 million and $750 million, respectively. Sempra Energy and the California Utilities currently have ready access to the long-term debt markets and are not currently constrained in their ability to borrow at reasonable rates. However, changing economic conditions could affect the availability and cost of both short-term and long-term financing. Also, cash flows from operations may be impacted by the timing of completion of large projects at Sempra International and Sempra U.S. Gas & Power. If cash flows from operations were to be significantly reduced or we were unable to borrow under acceptable terms, we would likely first reduce or postpone discretionary capital expenditures (not related to safety) and investments in new businesses. If these measures were necessary, they would primarily impact certain of our Sempra International and Sempra U.S. Gas & Power businesses before we would reduce funds necessary for the ongoing needs of our utilities. We monitor our ability to finance the needs of our operating, investing and financing activities in a manner consistent with our intention to maintain strong, investment-grade credit ratings and capital structure.

In addition to capital expenditures, changes in publicly traded debt securities and net changes to commercial paper borrowings on the Sempra Global and California Utilities credit facilities, the net increase in Sempra Energy Consolidated cash and cash equivalents at June 30, 2015 compared to December 31, 2014 of $66 million was primarily due to cash flows from operations, partially offset by common dividends paid and a decrease in foreign cash used to repay short-term debt. Proceeds received from Sempra Natural Gas’ sale of the remaining 625-MW block of its Mesquite Power plant were used to pay down commercial paper borrowings.

At June 30, 2015, our cash and cash equivalents held in non-U.S. jurisdictions that are unavailable to fund U.S. operations unless repatriated are $372 million. As we discuss in "Results of Operations – Changes in Revenues, Costs and Earnings – Income Taxes" above, we plan to repatriate a portion of current year earnings from certain of our non-U.S. subsidiaries in Mexico and Peru. Because this potential repatriation would only be from earnings since January 1, 2015, it does not change our current assertion that we intend to continue to indefinitely reinvest our cumulative undistributed non-U.S. earnings from prior years. Therefore, we do not intend to use these cumulative undistributed earnings as a source of funding for U.S. operations.

We have significant investments in several trusts to provide for future payments of pensions and other postretirement benefits, and nuclear decommissioning. Changes in asset values, which are dependent on the activity in the equity and fixed income markets, have not affected the trust funds' abilities to make required payments. However, changes in asset values may, along with a number of other factors such as changes to discount rates, assumed rates of return, mortality tables, and regulations, impact funding requirements for pension and other postretirement benefit plans and SDG&E's nuclear decommissioning trusts. At the California Utilities, funding requirements are generally recoverable in rates.

We discuss our principal credit agreements more fully in Note 6 of the Notes to Condensed Consolidated Financial Statements herein.

Our short-term debt is primarily used to meet liquidity requirements, fund shareholder dividends, temporarily finance capital expenditures, and fund new business acquisitions or start-ups. Our corporate short-term, unsecured promissory notes, or commercial paper, were our primary sources of short-term debt funding in the first six months of 2015. At our California Utilities, short-term debt is used to meet working capital needs and temporarily finance capital expenditures.

Master Limited Partnership

In June 2015, we announced that our Board of Directors authorized us to pursue the formation and initial public offering of a master limited partnership (MLP) to be called Sempra Partners, LP. Initially, the MLP is expected to own one or more of the following assets: an interest in a U.S. entity with contracts related to deliveries of LNG at the Energía Costa Azul regasification facility; interests in certain of Sempra Energy's contracted renewable energy projects; or other assets with attributes attractive for inclusion in the MLP. Further, we expect to grant the MLP a right of first offer on certain LNG-related infrastructure projects, including our 50-percent interest in the first three trains of the Cameron natural gas liquefaction terminal and our 100-percent interest in the Cameron Interstate Pipeline, as well as our interests in certain contracted wind and solar projects. We expect the MLP to file a registration statement with the Securities and Exchange Commission in the second half of 2015. The anticipated offering would be subject to the final approval of our Board of Directors and market conditions. There can be no assurance as to the timing or consummation of any MLP transaction. Our announcement of this plan did not, and this disclosure does not, constitute an offer to sell or the solicitation of an offer to buy any securities and shall not constitute an offer, solicitation or sale in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of that jurisdiction.

California Utilities

SDG&E and SoCalGas expect that available funds, cash flows from operations and debt issuances will continue to be adequate to meet their working capital and capital expenditure requirements.

SoCalGas declared and paid $100 million in common dividends in 2014 and $50 million in 2013. As a result of an increase in SoCalGas' capital investment programs over the next few years, and the increase in SoCalGas' authorized common equity weighting effective January 1, 2013 as approved by the CPUC in the most recent cost of capital proceeding, SoCalGas' dividends on common stock declared on an annual historical basis may not be indicative of future declarations, or may be temporarily suspended over the next few years to maintain SoCalGas' authorized capital structure during the periods of high capital investments. We discuss the cost of capital proceeding in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report.

SDG&E declared and paid common dividends of $200 million in 2014. As a result of SDG&E's large capital investment program over the past few years, SDG&E did not pay common dividends to Sempra Energy in 2013. However, due to the completion of construction of the Sunrise Powerlink transmission power line in June 2012, SDG&E resumed the declaration and payment of dividends on its common stock in 2014.

SDG&E uses the Energy Resource Recovery Account (ERRA) balancing account to record the net of its actual cost incurred for electric fuel and purchased power and the amount billed to customers in rates. Primarily as a result of delays in the CPUC issuing final decisions on SDG&E's ERRA-related filings, SDG&E's ERRA balance at both June 30, 2015 and December 31, 2014 was undercollected by $280 million. We discuss CPUC decisions in 2014 regarding rate changes resulting from the approved revenue requirement for ERRA costs in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report. We provide information on how the increasing undercollected balance in ERRA has impacted SDG&E in our discussion of "Cash Flows From Operating Activities" below.

SDG&E will redeem, prior to maturity, certain outstanding long-term debt instruments with a total principal amount of $169 million. Accordingly, the debt is classified as current portion of long-term debt at June 30, 2015 on Sempra Energy's and SDG&E's Condensed Consolidated Balance Sheets. The coupon rate of these instruments ranges from 4.9 percent to 5.5 percent, with maturities from 2021 to 2027. The redemption is anticipated to occur during the third quarter of 2015.

Sempra South American Utilities

We expect projects and loans to affiliates at Chilquinta Energía and Luz del Sur to be funded by available funds, funds internally generated by those businesses and by external borrowings.

Sempra Mexico

We expect projects, joint venture investments and dividends in Mexico to be funded through a combination of available funds, including credit facilities, funds internally generated by the Mexico businesses, securities issuances, project financing, interim funding from the parent, and partnering in joint ventures. We expect IEnova's pending acquisition of its joint venture partner's 50-percent interest in Gasoductos de Chihuahua (GdC) to be funded with a combination of debt and equity issuances at IEnova. Sempra Global has committed to IEnova to provide up to $1.325 billion of interim financing for the transaction. The commitment expires no later than the end of 2015. If IEnova elects to borrow money under this commitment, the loan will have a term of two months at an interest rate of one month LIBOR plus 120 basis points. The term may be extended, triggering a reevaluation of the interest rate. We expect to

fund this commitment primarily with commercial paper under Sempra Global's credit facility. We discuss this pending acquisition from Sempra Mexico's joint venture partner, Petróleos Mexicanos (or PEMEX, the Mexican state-owned oil company) further in Note 13 of the Notes to Condensed Consolidated Financial Statements herein.

Sempra Renewables

We expect Sempra Renewables to require funds for the development of and investment in electric renewable energy projects. Projects at Sempra Renewables may be financed through a combination of operating cash flow, project financing, funds from the parent, partnering in joint ventures, and other forms of equity sales. The Sempra Renewables projects have planned in-service dates through 2016.

Sempra Natural Gas

We expect Sempra Natural Gas to require funding for the development and expansion of its portfolio of projects, which may be financed through a combination of operating cash flow, funding from the parent and project financing. In April 2015, Sempra Natural Gas invested $113 million in Rockies Express Pipeline LLC (Rockies Express) to repay project debt that matured in early 2015.

In April 2015, Sempra Natural Gas sold the remaining 625-MW block of the Mesquite Power plant, together with a related power sales contract, and received net cash proceeds of $347 million. The sale proceeds were used to pay down commercial paper at Sempra Energy. We discuss this sale further in Note 3 of the Notes to Condensed Consolidated Financial Statements herein.

Sempra Natural Gas, through the Cameron LNG Holdings, LLC (Cameron LNG Holdings or Cameron LNG JV) joint venture, is developing a natural gas liquefaction export facility at the Cameron LNG JV terminal. The majority of the liquefaction project is project-financed, with most or all of the remainder of the capital requirements to be provided by the project partners, including Sempra Energy, through equity contributions under a joint venture agreement. We expect that our remaining equity requirements to complete the project will be met by a combination of our share of cash generated from each liquefaction train as it comes on line and additional cash contributions. Under the financing agreements, Sempra Energy signed completion guarantees for 50.2 percent of the debt, which corresponds to $3.7 billion of the total $7.4 billion principal amount of the debt committed under the financing agreements. The project financing and completion guarantees became effective on October 1, 2014, the effective date of the joint venture formation. The completion guarantees will terminate upon satisfaction of certain conditions, including all three trains achieving commercial operation and meeting certain operational performance tests. The completion guarantees are anticipated to be terminated in the second half of 2019.

We discuss Cameron LNG JV and the joint venture financing further in Notes 3 and 4 of the Notes to Consolidated Financial Statements in the Annual Report.

Some of Sempra Natural Gas' long-term power sale contracts contain collateral requirements which require its affiliates and/or the counterparty to post cash or other acceptable collateral to the other party for exposure in excess of established thresholds. Sempra Natural Gas may be required to provide collateral when the fair value of the contract with our counterparty exceeds established thresholds. We have no collateral receivables or payables with our

counterparties at June 30, 2015 pursuant to these requirements.

CASH FLOWS FROM OPERATING ACTIVITIES

CASH PROVIDED BY OPERATING ACTIVITIES
(Dollars in millions)

	Six months ended June 30, 2015	2015 Change		Six months ended June 30, 2014
Sempra Energy Consolidated	$ 1,219	$ 185	18%	$ 1,034
SDG&E	550	142	35	408
SoCalGas	483	20	4	463

Sempra Energy Consolidated

Cash provided by operating activities at Sempra Energy increased in 2015 primarily due to:

§ $300 million higher net income, adjusted for noncash items included in earnings, in 2015 compared to 2014, primarily due to improved operations and lower cost of electric fuel and purchased power at SDG&E, as well as the impact of the seasonalization during interim periods of authorized core customer revenue in 2015 at SoCalGas, as we discuss in “Results of Operations” above. The impact of seasonalization in net income is offset by working capital changes in regulatory balancing accounts;

§ $37 million net increase in net undercollected regulatory balancing accounts in 2015 at the California Utilities (including long-term amounts included in regulatory assets) compared to a $289 million net increase in 2014. Over- and undercollected regulatory balancing accounts reflect the difference between customer billings and recorded or CPUC-authorized costs. These differences are required to be balanced over time. See further discussion of changes in regulatory balances at both SDG&E and SoCalGas below; and

§ $124 million decrease in inventories in 2015 compared to a $16 million decrease in 2014, primarily due to higher net withdrawal and lower prices of natural gas at SoCalGas; offset by

§ $198 million decrease in accounts payable in 2015 compared to a $29 million increase in 2014, primarily due to lower purchase volume and lower average cost of natural gas purchased at SoCalGas;

§ $112 million increase in greenhouse gas allowances ($79 million at SDG&E and $33 million at SoCalGas);

§ $41 million increase in the seasonal asset related to temporary LIFO liquidation in 2015 at SoCalGas, primarily due to changes in natural gas inventory value, as we discuss in Note 5 of the Notes to Condensed Consolidated Financial Statements herein; and

§ $216 million decrease in accounts receivable in 2015 compared to a $260 million decrease in 2014.

SDG&E

Cash provided by operating activities at SDG&E increased in 2015 primarily due to:

§ $102 million decrease in net undercollected regulatory balancing accounts in 2015 compared to a $152 million increase in 2014 (including long-term amounts included in regulatory assets). The impact of the change in the regulatory balancing accounts on cash provided by operating activities was primarily due to:

$13 million increase in 2015 compared to a $200 million increase in 2014 in the undercollected balance for electric commodity costs and costs at SDG&E's electric generating facilities; and

$31 million decrease in 2015 compared to a $44 million increase in 2014 in the undercollected balance in the electric rate design balancing account; and

§ $63 million higher net income, adjusted for noncash items included in earnings, in 2015 compared to 2014, primarily due to improved operations and lower cost of electric fuel and purchased power; offset by

§ $79 million increase in greenhouse gas allowances in 2015;

§ $60 million increase in income taxes receivable in 2015; and

§ $19 million decrease in accounts payable to affiliates in 2015.

SoCalGas

Cash provided by operating activities at SoCalGas increased in 2015 primarily due to:

§ $144 million higher net income, adjusted for noncash items included in earnings, in 2015 compared to 2014, primarily due to improved operations and the impact of the seasonalization during interim periods of authorized core customer revenue in 2015;

§ $124 million decrease in inventories in 2015 compared to a $5 million decrease in 2014, primarily due to higher net withdrawal and lower prices of natural gas in 2015; and

§ $21 million increase in income taxes payable in 2015 compared to a $12 million decrease in 2014; offset by

§ $224 million decrease in accounts payable in 2015 compared to a $31 million decrease in 2014. The decrease in 2015 was primarily due to lower volumes and average cost of natural gas purchased;

§ $41 million increase in the seasonal asset related to temporary LIFO liquidation in 2015, primarily due to changes in natural gas inventory value;

§ $33 million increase in greenhouse gas allowances in 2015; and

§ $139 million increase in net undercollected regulatory balancing accounts in 2015 (including long-term amounts included in regulatory assets) compared to a $137 million increase in 2014, primarily due to:

$127 million increase in 2015 compared to an $82 million increase in 2014 in the undercollected balance associated with the fixed cost balancing accounts, offset by

$56 million decrease in 2015 compared to a $93 million decrease in 2014 in the overcollected balance associated with public purpose programs.

The table below shows the contributions to pension and other postretirement benefit plans.

CONTRIBUTIONS TO PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS
(Dollars in millions)

	Six months ended June 30, 2015	
	Pension benefits	Other postretirement benefits
Sempra Energy Consolidated	$ 17	$ 1
SDG&E	2	
SoCalGas	1	

CASH FLOWS FROM INVESTING ACTIVITIES

CASH USED IN INVESTING ACTIVITIES
(Dollars in millions)

	Six months ended June 30, 2015	2015 Change		Six months ended June 30, 2014
Sempra Energy Consolidated	$ (1,201)	$ (420)	(26)%	$ (1,621)
SDG&E	(606)	57	10	(549)
SoCalGas	(882)	382	76	(500)

Sempra Energy Consolidated

Cash used in investing activities at Sempra Energy decreased in 2015 primarily due to:

§ $347 million of net proceeds received from Sempra Natural Gas' sale of the remaining 625-MW block of its Mesquite Power plant; and

§ $74 million repayments of advances to unconsolidated affiliates; offset by

§ in 2014, $66 million, net of $2 million cash sold, of proceeds received from the sale of a 50-percent equity interest in Copper Mountain Solar 3.

SDG&E

Cash used in investing activities at SDG&E increased in 2015 due to a $57 million increase in capital expenditures.

SoCalGas

Cash used in investing activities at SoCalGas increased in 2015 due to:

§ $279 million of advances to Sempra Energy; and

§ $103 million increase in capital expenditures.

ANNUAL CONSTRUCTION EXPENDITURES AND INVESTMENTS

The amounts and timing of capital expenditures are generally subject to approvals by various regulatory and other governmental and environmental bodies, including the CPUC and the Federal Energy Regulatory Commission (FERC). However, in 2015, we expect to make capital expenditures and investments of approximately $3.5 billion. These expenditures include

§ $2.4 billion at the California Utilities for capital projects and plant improvements ($1.1 billion at SDG&E and $1.3 billion at SoCalGas)

§ $1.1 billion at our other subsidiaries for capital projects in Mexico and South America, and development of LNG, natural gas and renewable generation projects

The California Utilities' 2015 planned capital expenditures and investments include

SDG&E

§ $700 million for improvements to natural gas and electric distribution systems

§ $400 million for improvements to electric transmission systems

SoCalGas

§ $1.1 billion for improvements to distribution, transmission and storage systems, and for pipeline safety

§ $210 million for advanced metering infrastructure

§ $30 million for other natural gas projects

The California Utilities expect to finance these expenditures and investments with cash flows from operations and debt issuances.

In 2015, the expected capital expenditures and investments of approximately $1.1 billion (excluding amounts expended by joint ventures and net of anticipated project financing and joint venture structures as noted below) at our other subsidiaries include

Sempra South American Utilities

§ approximately $210 million for capital projects in South America (approximately $160 million and $50 million in Peru and Chile, respectively), primarily related to improvements to electric transmission and distribution systems

Sempra Mexico

§ approximately $430 million for capital projects in Mexico, net of project financing, including approximately $380 million for the development of the Sonora, Ojinaga, and San Isidro - Samalayuca pipeline projects, all developed solely by Sempra Mexico. These amounts exclude the pending acquisition of our joint venture partner's 50-percent interest in GdC, as we discuss in Note 13 of the Notes to Condensed Consolidated Financial Statements herein. Also, following the pending acquisition, Sempra Mexico would fund 100 percent of the joint venture's projects, excluding the Los Ramones Norte pipeline project

Sempra Renewables

§ approximately $120 million for the development of wind and solar renewable projects, including the Black Oak Getty wind project, Mesquite Solar 2, Mesquite Solar 3 and Copper Mountain Solar 4

Sempra Natural Gas

§ approximately $320 million for development of LNG and natural gas transportation projects, including

approximately $160 million equity investment in Rockies Express

approximately $50 million capitalized interest related to our investment in the Cameron LNG JV project, and $60 million for development of the Cameron Interstate Pipeline

Parent and Other

§ approximately $40 million related to the build-to-suit lease for Sempra Energy's new headquarters

Capital expenditure amounts include capitalized interest. At the California Utilities, the amounts also include the portion of AFUDC related to debt, but exclude the portion of AFUDC related to equity. At Sempra Mexico and Sempra Natural Gas, the amounts also exclude AFUDC related to equity. We provide further details about AFUDC in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

CASH FLOWS FROM FINANCING ACTIVITIES

CASH FLOWS FROM FINANCING ACTIVITIES
(Dollars in millions)

	Six months ended June 30, 2015	2015 Change	Six months ended June 30, 2014
Sempra Energy Consolidated	$ 50	$ (422)	$ 472
SDG&E	71	(64)	135
SoCalGas	545	519	26

Sempra Energy Consolidated

Cash provided by financing activities at Sempra Energy decreased in 2015 primarily due to:

- $798 million lower issuances of debt, including a decrease in commercial paper and other short-term debt borrowings with maturities greater than 90 days of $1.2 billion ($19 million increase in 2015 compared to $1.2 billion in 2014), offset by an increase in issuances of long-term debt of $373 million ($1.5 billion in 2015 compared to $1.2 billion in 2014); and
  - $339 million decrease in short-term debt in 2015 compared to a $54 million decrease in 2014; offset by
- $629 million lower payments on debt, including lower payments of long-term debt of $931 million ($172 million in 2015 compared to $1.1 billion in 2014), offset by higher payments of commercial paper and other short-term debt with maturities greater than 90 days of $302 million ($674 million in 2015 compared to $372 million in 2014).

SDG&E

Cash provided by financing activities at SDG&E decreased in 2015 primarily due to:

- $206 million decrease in short-term debt in 2015 compared to a $68 million increase in 2014; and
- $85 million higher payments on long-term debt in 2015; offset by
- $288 million higher issuances of long-term debt in 2015.

SoCalGas

Cash provided by financing activities at SoCalGas increased in 2015 primarily due to:

- $351 million higher issuances of long-term debt in 2015; and
- $250 million payments on long-term debt in 2014; offset by
- $50 million decrease in short-term debt in 2015 compared to a $31 million increase in 2014.

COMMITMENTS

We discuss significant changes to contractual commitments at Sempra Energy, SDG&E and SoCalGas in Note 11 of the Notes to Condensed Consolidated Financial Statements herein.

CREDIT RATINGS

The credit ratings of Sempra Energy, SDG&E and SoCalGas remained at investment grade levels during the first six months of 2015. Our credit ratings may affect the rates at which borrowings bear interest and of commitment fees on available unused credit. We provide additional information about our credit ratings at Sempra Energy, SDG&E and SoCalGas in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Annual Report.

FACTORS INFLUENCING FUTURE PERFORMANCE

CALIFORNIA UTILITIES

Overview

The California Utilities’ operations have historically provided relatively stable earnings and liquidity.

The California Utilities’ performance will depend primarily on the ratemaking and regulatory process, environmental regulations, economic conditions, actions by the California legislature and the changing energy marketplace. Their performance will also depend on the successful completion of capital projects that we discuss in various sections of this report and below. We discuss certain regulatory matters below and in Notes 9 and 10 of the Notes to Condensed Consolidated Financial Statements herein and Notes 13 and 14 of the Notes to Consolidated Financial Statements in the Annual Report.

Joint Matters

Natural Gas Pipeline Operations Safety Assessments

Pending the outcome of the various regulatory agency evaluations of natural gas pipeline safety regulations, practices and procedures, Sempra Energy, including the California Utilities, may incur incremental expense and capital investment associated with their natural gas pipeline operations and investments. In August 2011, SoCalGas, SDG&E, Pacific Gas and Electric Company (PG&E) and Southwest Gas filed implementation plans with the CPUC to test or replace natural gas transmission pipelines located in populated areas that have not been pressure tested, as we discuss in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report. The California Utilities’ current total estimated cost for Phase 1 (the 10-year period of 2012 to 2022) of a two-phase plan is $2.1 billion ($1.6 billion for SoCalGas and $500 million for SDG&E). The California Utilities requested 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. The costs that are the subject of these plans were outside the

scope of the 2012 General Rate Case proceedings concluded in 2013. Similarly, these costs are not included in our 2016 General Rate Case filings.

In June 2014, the CPUC issued a final decision in the Triennial Cost Allocation Proceeding (TCAP) addressing SDG&E's and SoCalGas' Pipeline Safety Enhancement Plan (PSEP) that approved the utilities' model for implementing PSEP, and established the criteria to determine the amounts related to PSEP that may be recovered from ratepayers and the processes for recovery of such amounts, including providing that such costs are subject to a reasonableness review.

As a result of this decision, SoCalGas recorded an after-tax earnings charge of $5 million in 2014 for costs incurred in prior periods for which SoCalGas was disallowed recovery. After taking the amounts disallowed for recovery into consideration, as of June 30, 2015, SDG&E and SoCalGas have recorded PSEP costs of $5 million and $137 million, respectively, in the CPUC-authorized regulatory account. In October 2014, SDG&E and SoCalGas filed a petition for modification with the CPUC requesting authority to recover PSEP costs from customers as incurred, subject to refund pending the results of a reasonableness review by the CPUC, instead of in the subsequent year. This request is pending at the CPUC. In December 2014, SDG&E and SoCalGas filed an application with the CPUC for recovery of $0.1 million and $46 million, respectively, in costs recorded in the regulatory account through June 11, 2014. In June 2015, SDG&E and SoCalGas agreed to remove certain projects from the filing and defer their review to future proceedings and, as a result, are now requesting recovery of $0.1 million and $26.8 million, respectively. We expect a decision on this application in the first half of 2016.

In July 2014, the CPUC Office of Ratepayer Advocates (ORA) and The Utility Reform Network (TURN) filed a joint application for rehearing of the CPUC's June 2014 final decision. The ORA and TURN allege that the CPUC made a legal error in directing that ratepayers, not shareholders, be responsible for the costs associated with testing or replacing transmission pipelines that were installed between January 1, 1956 and July 1, 1961 for which the California Utilities do not have a record of a pressure test. In November 2014, the CPUC denied the ORA and TURN request for rehearing of the decision adopting the PSEP. In December 2014, ORA and TURN sought rehearing of the CPUC's decision on rehearing. In late December 2014, SoCalGas and SDG&E filed their opposition to this second application for rehearing, and are continuing to implement PSEP in accordance with the June 2014 CPUC decision. In March 2015, the CPUC issued a decision denying ORA's and TURN's second request for rehearing but keeping the record in the proceeding open to admit additional evidence on the limited issue of pressure testing of pipelines installed between January 1, 1956 and July 1, 1961. As part of this review, the CPUC will allow parties to submit additional evidence relevant to this narrow issue to ensure a complete record, with no additional discovery allowed. The ORA and TURN filed their responses on May 1, 2015. We expect a CPUC decision in the second half of 2015.

We provide additional information regarding these rulemaking proceedings and the California Utilities' PSEP in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report and in Note 10 of the Notes to Condensed Consolidated Financial Statements herein.

Safety Enforcement

California Senate Bill (SB) 291, enacted in October 2013, requires the CPUC to develop and implement a safety enforcement program that includes procedures for monitoring, data tracking and analysis, and investigations, as well as delegating citation authority to CPUC staff personnel under the direction of the CPUC Executive Director. SB 291 requires the CPUC to implement the enforcement program for gas safety by July 1, 2014 and for electric safety by January 1, 2015. In exercising the citation authority, the CPUC staff will take into account voluntary reporting of potential violations, voluntary resolution efforts undertaken, prior history of violations, the gravity of the violation, and the degree of culpability. In December 2014, the CPUC adopted an electric safety enforcement program whereby electric utilities may be cited by CPUC staff for violations of the CPUC's safety requirements or federal standards.

In December 2011, the CPUC adopted a gas safety citation program whereby natural gas distribution companies can be cited by CPUC staff for violations of the CPUC's safety standards. In September 2013, the CPUC's safety and enforcement division issued its Standard Operating Procedures setting forth its principles and management process for the natural gas safety citation program.

Under each enforcement program, each day of an ongoing violation may be counted as an additional offense. The maximum penalty is $50,000 per offense. Citations under either program may be appealed to the CPUC. The CPUC plans to make further refinements to the electric and gas safety enforcement programs in 2015.

SDG&E Matters

2007 Wildfire Litigation

In regard to the 2007 wildfire litigation, SDG&E's payments for claims settlements plus funds estimated to be required for settlement of outstanding claims and legal fees have exceeded its liability insurance coverage and amounts recovered from third parties. However, SDG&E has concluded that it is probable that it will be permitted to recover in rates a substantial portion of the reasonably incurred costs of resolving wildfire claims in excess of its liability insurance coverage and amounts recovered from third parties. Consequently, Sempra Energy and SDG&E expect no significant earnings impact from the resolution of the remaining wildfire claims. At June 30, 2015, Sempra Energy's and SDG&E's Condensed Consolidated Balance Sheets include assets of $373 million in Other Regulatory Assets (long-term), of which $367 million is related to CPUC-regulated operations and $6 million is related to FERC-regulated operations, for costs incurred and the estimated settlement of pending claims. Recovery of these costs in rates will require future regulatory approval, and a failure to obtain substantial or full 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 financial condition, cash flows and results of operations.

SDG&E will continue to gather information to evaluate and assess the remaining wildfire claim and the likelihood, amount and timing of recoveries in rates and will make appropriate adjustments to wildfire reserves and the related regulatory assets as additional information becomes available.

Should SDG&E conclude that recovery of excess wildfire costs in rates is no longer probable, at that time SDG&E will record a charge against earnings. If SDG&E had concluded that the recovery of regulatory assets related to CPUC-regulated operations was no longer probable or was less than currently estimated, at June 30, 2015, the resulting after-tax charge against earnings would have been up to approximately $218 million. We discuss how we assess the probability of recovery of our regulatory assets in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

We provide additional information concerning these matters in Note 11 of the Notes to Condensed Consolidated Financial Statements herein and in Notes 14 and 15 of the Notes to Consolidated Financial Statements in the Annual Report.

SONGS

We discuss regulatory and other matters related to SONGS in the Notes to Condensed Consolidated Financial Statements herein as follows:

In Note 9:

§ SONGS Outage and Retirement

§ Settlement Agreement to Resolve the CPUC's Order Instituting Investigation (OII) into the SONGS Outage (SONGS OII)

§ Nuclear Regulatory Commission Proceedings

§ Nuclear Decommissioning and Funding

§ Nuclear Decommissioning Trusts

In Note 11:

§ Legal Proceedings – SDG&E – Lawsuit Against Mitsubishi Heavy Industries, Ltd.

§ Nuclear Insurance

§ U.S. Department of Energy (DOE) Nuclear Fuel Disposal

We also discuss SONGS in Notes 13 and 15 of the Notes to Consolidated Financial Statements in the Annual Report, and in "Risk Factors" in the Annual Report.

Investment in Wind Farm

In 2011, the CPUC and FERC approved SDG&E's estimated $285 million tax equity investment in the Rim Rock wind farm project. SDG&E and the project developer are in dispute regarding whether all conditions precedent in the contribution agreement have been achieved by the developer of the project. As a result, SDG&E has not made the investment, and the project developer and SDG&E are in dispute regarding SDG&E's contractual obligation to invest in the project, as we discuss in Note 11 of the Notes to Condensed Consolidated Financial Statements herein and in Note 15 of the Notes to Consolidated Financial Statements in the Annual Report.

Electric Rate Reform – State of California Assembly Bill 327

In October 2013, the Governor of California signed Assembly Bill (AB) 327. This bill became law on January 1, 2014. This new law restores the authority to establish electric residential rates for electric utility companies in California to the CPUC and removes the rate caps established in AB 1X adopted in early 2001 during California's energy crisis, as well as SB 695 adopted in 2009. Additionally, the bill provides the CPUC the authority to adopt up to a $10.00 monthly fixed charge for all non-CARE (California Alternate Rates for Energy) residential customers and up to a $5.00 monthly fixed charge for CARE customers. Beginning January 1, 2016, the maximum allowable fixed charge may be adjusted by no more than the annual percentage increase in the Consumer Price Index for the prior calendar year. In February 2014, SDG&E filed comprehensive proposals with the CPUC that provide a roadmap to reforming electric residential rate design beginning in 2015 and continuing through 2018, consistent with the provisions of AB 327. In July 2015, the CPUC adopted a revised Administrative Law Judge (ALJ)-proposed decision that establishes comprehensive reform and a framework for rates that are more transparent, fair and sustainable. The revised ALJ-proposed decision directs changes beginning in summer 2015 and provides a path for continued reforms through 2020, including a minimum monthly bill of $10 ($5 for CARE customers). The changes also include fewer rate tiers and a gradual reduction in the difference between the tiered rates, similar to the tier differential that existed prior to the 2000-2001 Energy Crisis. The number of tiers would be reduced from four to three in 2015 and to two in 2016. The rate differential between the highest and lowest tiers would be reduced from approximately 2.4 times to

2.18 times this year, down to 1.25 times by 2019. The revised ALJ-proposed decision also directs the utilities to pursue expanded time of use (TOU) rates and implements a super user electric (SUE) surcharge in 2017 for usage that exceeds average customer usage by approximately 400 percent. The adopted decision still allows the utilities to seek a fixed charge, but sets certain conditions for its implementation, which would be no sooner than 2020. The changes implemented should result in significant rate relief for higher-use SDG&E customers who do not exceed the SUE threshold and will result in a rate structure that better aligns rates with the actual cost to serve customers.

In July 2014, the CPUC initiated a rulemaking proceeding to develop a successor tariff to the state's existing net energy metering (NEM) program pursuant to the provisions of AB 327 that require the CPUC to establish a revised NEM tariff or similar program by December 31, 2015. The NEM program is an electric billing tariff mechanism designed to promote the installation of on-site renewable generation. It was originally established in California in 1995 with the adoption of SB 656, as codified in Section 2827 of the Public Utilities Code. Currently, customers who install and operate eligible renewable generation facilities of one megawatt or less may choose to participate in the NEM program. Under NEM, customer-generators receive a full retail-rate for the power they generate that is fed back to the utility's power grid during times when the customer's generation exceeds their own energy usage. In addition, if a NEM customer net generates any electricity over the annual measurement period, they receive compensation at a rate equal to a wholesale energy price.

Appropriate NEM reform is necessary to ensure that SDG&E is authorized to recover, from NEM customers, the costs incurred in providing grid and energy services, as well as mandated legislative and regulatory public policy programs. If the CPUC fails to reform SDG&E's rate structures to allow it to recover costs associated with the services provided to NEM customers, such failure could have a material adverse effect on SDG&E's business, cash flows, financial condition, results of operations and/or prospects. On August 3, 2015, SDG&E proposed a successor NEM tariff that is intended to ensure that all NEM customers pay for the grid and other services they receive, supports the continued growth and adoption of distributed energy resources and helps California meet its energy policy goals. A CPUC decision should be issued by the end of 2015. SDG&E would implement the successor tariff by the earlier of July 1, 2017 or when SDG&E reaches its existing NEM program limit, which may occur as early as the second half of 2016. For additional discussion, see "Risk Factors" in the Annual Report.

SoCalGas Matter

Triennial Cost Allocation Proceeding (TCAP) – Adoption of Seasonal Factors

The TCAP decision issued by the CPUC in June 2014 requires SoCalGas to recognize interim period revenue for its core natural gas customers by applying seasonal factors to its annual authorized revenue beginning in 2015, instead of recognizing such revenue ratably over the year as was previously required. While this "seasonalization" will not impact SoCalGas' cash flows or total calendar year revenue and earnings for 2015 or beyond, and does not change the annual total authorized revenue or our earnings from that revenue, it will cause variability in revenue and earnings from quarter to quarter. We expect that core natural gas customer authorized revenue recognized in the first and fourth quarters of each year will be higher (approximately 34 percent in the first quarter and 29 percent in the fourth quarter) than that recognized in the second and third quarters of each year (approximately 21 percent in the second quarter and 16 percent in the third quarter). This seasonalization resulted in a decrease to Sempra Energy's and SoCalGas' revenue and earnings for the three-month period ended June 30, 2015 of $72 million and $48 million, respectively, and an increase to Sempra Energy's and SoCalGas' revenue and earnings for the six-month period ended June 30, 2015 of $91 million and $65 million, respectively, compared to the same periods in 2014. Also as a result of seasonalization, beginning in 2015, substantially all of SoCalGas' annual earnings will be recognized in the first and fourth quarters of the year. The reduced revenue expected to be recognized in the second and third quarters of each year could result in losses for SoCalGas in these quarters.

Industry Developments and Capital Projects

We describe capital projects, electric and natural gas regulation and rates, and other pending proceedings and investigations that affect the California Utilities in Note 10 of the Notes to Condensed Consolidated Financial Statements herein and in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report.

SEMPRA INTERNATIONAL

As we discuss in "Cash Flows From Investing Activities," our investments will significantly impact our future performance. In addition to the discussion below, we provide information about these investments in "Capital Resources and Liquidity" herein and in the "Capital Resources and Liquidity" and "Factors Influencing Future Performance" sections of "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report.

Sempra South American Utilities

Overview

In connection with the increase in 2011 of our interests in our two utilities in South America, Chilquinta Energía and Luz del Sur, Sempra Energy has $788 million in goodwill on its Condensed Consolidated Balance Sheet at June 30, 2015. Goodwill is subject to impairment testing, annually and under other potential circumstances, which may cause its fair value to vary if differing estimates and assumptions are used in the valuation techniques applied as indicated by changing market or other conditions.

Sempra South American Utilities has historically provided relatively stable earnings and liquidity, and its performance will depend primarily on the ratemaking and regulatory process, environmental regulations, foreign currency rate fluctuations and economic conditions. Sempra South American Utilities is also expected to provide earnings from construction projects when completed and from other investments, but will require substantial funding for these investments.

Revenues at Chilquinta Energía are based on tariffs set by the National Energy Commission (Comisión Nacional de Energía, or CNE) every four years. Rates for four-year periods related to distribution and sub-transmission are reviewed separately on an alternating basis every two years. In late 2011, Chilquinta Energía initiated the process to establish its distribution rates for the period from November 2012 to October 2016. This process was completed in November 2012, with rates published in April 2013, and tariff adjustments going into effect retroactively from November 2012. This resulted in a 3.2 percent decrease in rates.

In April 2013, the CNE completed the process to establish sub-transmission rates for the period January 2011 to December 2014, with tariff adjustments going into effect retroactively from January 2011. This resulted in immaterial

changes in rates. The sub-transmission rates period has been extended for one year, for one time only, to December 2015, due to a change in law issued in December 2014. Accordingly, the next reviews are scheduled to be completed, with tariff adjustments also going into effect, in January 2016 for sub-transmission, and again for distribution in November 2016. Sub-transmission will cover the period from January 2016 to December 2019 and distribution will cover the period from November 2016 to October 2020.

Luz del Sur serves primarily regulated customers in Peru and revenues are based on rates set by the Energy and Mining Investment Supervisory Body (Organismo Supervisor de la Inversión en Energía y Minería, or OSINERGMIN). The rates are reviewed and adjusted every four years. OSINERGMIN's final distribution rate setting resolution for the 2013-2017 period was published in October 2013 and went into effect on November 1, 2013. There was no material change in the rates.

In September 2014, tax reform legislation was passed in Chile. The main amendments established in the tax reform include, among others, a gradual increase in the corporate income tax rate and the introduction of two options to pay the secondary tax (shareholder tax) on corporate profits (either immediate payment of tax or deferment of tax until earnings are distributed) with different impacts to the total income tax burden. We discuss this tax reform in "Results of Operations – Changes in Revenues, Costs and Earnings – Income Taxes" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report.

In December 2014, the Peruvian government passed a tax reform law. Among other changes, the new law gradually reduces the 30 percent corporate tax rate in 2014 to 26 percent by 2019 with an offsetting increase in the withholding tax rate on dividends. We discuss this tax reform in "Results of Operations – Changes in Revenues, Costs and Earnings – Income Taxes" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report.

Field, technical and administrative employees at Luz del Sur are represented by the Unified Trade Union of Electricity Workers of Lima and Callao, and the Trade Union of Employees of Electrolima. A collective bargaining agreement was signed in February 2015 with both of these trade unions covering these employees and was also extended to 149 nonrepresented employees. It covers wages, working conditions and other benefit plans, and is in effect from January 1, 2015 through December 31, 2015.

Santa Teresa

Luz del Sur is in the final stages of completion of Santa Teresa, a 100-MW hydroelectric power plant in Peru's Cusco region. Construction has been completed and we expect it to be in commercial operation in the third quarter of 2015.

Transmission Projects

Chilquinta Energía. Chilquinta Energía has 50-percent ownership in two joint ventures, Eletrans S.A. and Eletrans II S.A., with Sociedad Austral de Electricidad Sociedad Anónima (SAESA) to construct transmission lines in Chile.

In May 2012, Eletrans S.A. was awarded two 220-kilovolt (kV) transmission lines in Chile. The transmission lines will extend 150 miles, and we estimate the projects will cost approximately $180 million in total and be completed in 2016 and 2017.

In June 2013, Eletrans II S.A. was awarded two 220-kV transmission lines in Chile. The transmission lines will extend approximately 60 miles, and we estimate the projects will cost approximately $80 million in total and be completed in 2018.

Sempra South American Utilities has a U.S. dollar-denominated loan to Eletrans S.A. totaling $61 million at June 30, 2015 to provide project financing for the construction of transmission lines. Eletrans S.A. is an affiliate of Chilquinta

Energía.

The projects will be financed by the joint venture partners. Other financing may be pursued upon completion of the projects.

Luz del Sur. Luz del Sur has received regulatory approval for an amended transmission investment plan that includes the development and operation of four substations and their related transmission lines in Lima. We estimate that the project will cost approximately $150 million and be in service in 2016 and 2017 as portions are completed. Once in operation, the capitalized cost will earn the regulated return for 30 years. The project will be financed through Luz del Sur's existing debt program in Peru's capital markets.

Sempra Mexico

Overview

Sempra Mexico is expected to provide earnings from construction projects when completed and from joint venture investments. We expect projects, joint venture investments and dividends in Mexico to be funded through a combination of available funds, including credit facilities, funds internally generated by the Mexico businesses, securities issuances, project financing, interim funding from the parent, and partnering in joint ventures.

IEnova and PEMEX are 50-50 partners in the joint venture Gasoductos de Chihuahua (GdC). In July 2015, IEnova entered into an agreement to purchase PEMEX's 50-percent interest for $1.325 billion, excluding the assumption of approximately $170 million of net debt. GdC develops and operates energy infrastructure in Mexico. The assets involved in the acquisition include three natural gas pipelines, an ethane pipeline, and a liquid petroleum gas pipeline and associated storage terminal. All the assets are regulated and covered by long-term contracts. The transaction excludes the Los Ramones Norte pipeline that IEnova will continue to develop under a joint venture with PEMEX at the existing holding company for the project, through which IEnova's interest in the project will remain at the current 25 percent. The transaction is subject to approval by IEnova shareholders, satisfactory completion of the Mexican anti-trust review and other customary closing conditions and is expected to close in the fourth quarter of 2015.

IEnova currently accounts for its 50-percent interest in GdC as an equity method investment. At closing, GdC will become a wholly owned, consolidated subsidiary of IEnova. We anticipate that we will recognize a noncash gain associated with the remeasurement of our equity interest in GdC upon consummation of the transaction, however, as the transaction is not expected to close until the fourth quarter of 2015, we are unable to estimate the gain at this time.

We discuss the financing of the transaction above, under "Capital Resources and Liquidity – Sempra Mexico." After financing at the IEnova level, we expect the acquisition to be accretive to Sempra Energy's diluted earnings per share in 2016 and beyond, based on the joint venture's strong historical performance and the expected benefits of the acquisition. These benefits include an ongoing relationship with PEMEX for joint development of new projects in the future; opportunities for asset optimization and expansion into areas such as the transportation and storage of refined products; and a larger platform and presence in Mexico to participate in energy sector reform.

We discuss IEnova's credit facilities in Note 6 of the Notes to Condensed Consolidated Financial Statements herein.

We discuss the impact of Mexican tax reform in “Results of Operations – Changes in Revenues, Costs and Earnings – Income Taxes” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Annual Report.

Pipeline Projects

In October 2012, IEnova was awarded two contracts by the Federal Electricity Commission (Comisión Federal de Electricidad, or CFE) to build and operate an approximately 500-mile pipeline network (Sonora pipeline) to transport natural gas from the U.S.-Mexico border south of Tucson, Arizona through the Mexican state of Sonora to the northern part of the Mexican state of Sinaloa along the Gulf of California. The network will be comprised of two segments that will interconnect to the U.S. interstate pipeline system. We estimate it will cost approximately $1 billion. A section of the project was completed in October 2014. We expect to complete the remaining sections in stages in 2015 and 2016. The capacity is fully contracted by the CFE under two 25-year contracts denominated in U.S. dollars.

In December 2012, through its joint venture with PEMEX, IEnova executed an ethane transportation services agreement with PEMEX to construct and operate an approximately 140-mile pipeline (Ethane pipeline) to transport ethane from Tabasco, Mexico to Veracruz, Mexico. We estimate it will cost approximately $330 million. The first and second sections of the pipeline were completed in January and July 2015, respectively, and we expect to complete the remaining section in 2015. PEMEX has fully contracted the capacity under a 21-year contract denominated in U.S. dollars.

In 2014, IEnova’s joint venture with PEMEX and affiliates of PEMEX executed agreements for the development of Los Ramones Norte, a natural gas pipeline of approximately 275 miles and two compression stations, which will connect with the first phase of Los Ramones and run to the vicinity of San Luis Potosi, with an estimated cost of approximately $1.3 billion to $1.5 billion. IEnova’s joint venture with PEMEX has a 50-percent interest in the project. In June 2014, the project executed an engineering, procurement and construction (EPC) contract, and in July 2014, the project issued the full notice to proceed. We expect expenditures for the project to be funded by the joint venture’s cash flows from operations and project financing, plus additional contributions from its partners. The pipeline’s capacity is fully contracted under a 25-year transportation services agreement with PEMEX denominated in Mexican pesos, with a contract rate based on the U.S. dollar investment, adjusted annually for inflation and fluctuation of the exchange rate.

Sempra Mexico has loans to affiliates of its joint venture with PEMEX totaling $85 million at June 30, 2015.

In December 2014, Sempra Mexico entered into the Ojinaga pipeline natural gas transportation services agreement with CFE for a 25-year term, denominated in U.S. dollars. CFE contracted 100 percent of the transport capacity of the Ojinaga pipeline, equal to 1.4 billion cubic feet (Bcf) per day. Sempra Mexico will be responsible for the development, construction and operation of the approximately 137-mile, 42-inch pipeline, with an estimated cost of $300 million. We expect the pipeline to begin operations in the first half of 2017.

In July 2015, Sempra Mexico entered into the San Isidro - Samalayuca pipeline (San Isidro pipeline) natural gas transportation services agreement with CFE for a 25-year term, denominated in U.S. dollars. CFE contracted 100 percent of the transport capacity of the San Isidro pipeline, equal to 1.1 Bcf per day. Sempra Mexico will be responsible for the development, construction and operation of the approximately 14-mile pipeline, with an estimated cost of $110 million. We expect the pipeline to begin operations in the first half of 2017. IEnova continues to monitor CFE project opportunities and carefully analyze CFE bids in order to participate in those that fit its overall growth strategy.

Energía Sierra Juárez

In 2014, we consummated the sale of a 50-percent equity interest in the first phase of Energía Sierra Juárez to a wholly owned subsidiary of InterGen N.V. The project is designed to provide up to 1,200 MW of capacity if fully developed. The 155-MW first phase of the Energía Sierra Juárez wind generation project is fully contracted by SDG&E and began commercial operations in June 2015. Future expansion of Energía Sierra Juárez will depend, among other factors, on the ability to obtain additional power purchase contracts.

Energía Costa Azul LNG Terminal

In February 2015, Sempra Natural Gas, IEnova, and a subsidiary of PEMEX entered into a Memorandum of Understanding (MOU) to collaborate in the development of a natural gas liquefaction project at IEnova's existing regasification terminal at Energía Costa Azul. The MOU defines the basis for the parties to explore PEMEX's participation in this potential liquefaction project, including joining efforts on its development and structuring agreements that would allow opportunities for PEMEX to become a customer, natural gas supplier and investor; we have also started to share development costs with PEMEX. Energía Costa Azul has profitable long-term regasification contracts for 100 percent of the facility, making the decision to pursue a new liquefaction facility dependent in part on whether the investment in a new liquefaction facility would, over the long term, be more beneficial than continuing to supply regasification services under our existing contracts. In addition, this project requires the receipt of a number of permits and regulatory approvals, finding suitable partners and customers, obtaining financing and negotiating suitable construction contracts. For a discussion of these risks, see "Risk Factors" in our Annual Report.

SEMPRA U.S. GAS & POWER

Sempra Renewables

Overview

Sempra Renewables is developing and investing in renewable energy generation projects that have long-term contracts with electric load serving entities, which provide electric service to end-users and wholesale customers. The renewable energy projects have planned in-service dates through 2016. These projects require construction financing which may come from a variety of sources including operating cash flow, project financing, funds from the parent, partnering in joint ventures and, potentially, other forms of equity sales. The varying costs of these alternative financing sources impact the projects' returns.

Sempra Renewables' future performance and the demand for renewable energy is impacted by various market factors, most notably state mandated requirements to deliver a portion of total energy load from renewable energy sources. The rules governing these requirements are generally known as the Renewables Portfolio Standard (RPS). Additionally, the phase out or extension of U.S. federal income tax incentives, primarily investment tax credits and production tax credits, and grant programs could significantly impact future renewable energy resource availability and investment decisions.

Black Oak Getty Wind Project

In March 2015, Sempra Renewables acquired the Black Oak Getty Wind project, a 78-MW wind farm under development in Stearns County, Minnesota. Sempra Renewables will complete the development of the wind farm, and we expect the project to be fully operational by the end of 2016. Minnesota Municipal Power Agency has contracted for the energy generated from the project for 20 years.

Copper Mountain Solar

Copper Mountain Solar is a photovoltaic generation facility operated and under development by Sempra Renewables in Boulder City, Nevada. When fully developed, the project will be capable of producing up to approximately 550 MW of solar power; it is being developed in multiple phases as power sales become contracted. Copper Mountain Solar is comprised of four separate projects.

Copper Mountain Solar 1 is a 58-MW photovoltaic generation facility currently in operation, which is fully contracted for 20 years to PG&E.

Copper Mountain Solar 2 is divided into two phases totaling 150 MW. The 92-MW first phase was placed in service in November 2012 and the 58-MW second phase was placed in service in April 2015. PG&E has contracted for all of the solar power at Copper Mountain Solar 2 for 25 years. In July 2013, we completed the sale of 50 percent of our equity in Copper Mountain Solar 2 to Con Edison Development.

Copper Mountain Solar 3 achieved full commercial operation in April 2015, and totals 250 MW. The cities of Los Angeles and Burbank have contracted for all of the solar power at Copper Mountain Solar 3 for 20 years. In addition to solar power, the power sales agreement provides the cities of Los Angeles and Burbank the option to purchase the Copper Mountain Solar 3 facility at years 10, 15 and 20 of the contract term, or upon earlier termination of the agreement. In March 2014, we completed the sale of 50 percent of our equity in Copper Mountain Solar 3 to Con Edison Development, as we discuss in Note 3 of the Notes to Condensed Consolidated Financial Statements herein.

In July 2014, Sempra Renewables signed a 20-year power sale agreement with Southern California Edison Company (Edison) for all of the solar power from Copper Mountain Solar 4 beginning in 2020. We expect Copper Mountain Solar 4 to be in service in 2016, marketing its output prior to the commencement of the power sale agreement. Copper Mountain Solar 4 will total 94 MW when completed. The CPUC approved the power sale agreement in March 2015.

Mesquite Solar

Mesquite Solar is a photovoltaic generation facility under development by Sempra Renewables in Maricopa County, Arizona. If fully developed, the project will be capable of producing up to approximately 700 MW of solar power with 150 MW currently in operation in a joint venture with Con Edison Development. In June 2015, Sempra Renewables signed a 20-year power sale agreement with Edison for 100 MW of solar power from the second phase of Mesquite Solar. The power sale agreement is subject to approval by the CPUC. In July 2015, Sempra Renewables signed a 25-year power sale agreement with the Western Area Power Administration for 150-MW of solar power from the third phase of Mesquite Solar. We expect the second and third phases of Mesquite Solar to be in service in 2016.

Sempra Natural Gas

Mesquite Power Natural Gas-Fired Plant

In February 2013, Sempra Natural Gas completed the sale of one 625-MW block of its Mesquite Power plant to the Salt River Project Agricultural Improvement and Power District for $371 million in cash. Sempra Natural Gas retained ownership of the second block of the Mesquite Power plant.

On April 9, 2015, Sempra Natural Gas sold the remaining 625-MW block of the Mesquite Power plant, together with the related power sales contract, for net cash proceeds of $347 million. We discuss this sale further in Note 3 of the Notes to Condensed Consolidated Financial Statements herein.

Rockies Express

Sempra Natural Gas owns a 25-percent interest in Rockies Express Pipeline LLC (Rockies Express), a partnership that operates a natural gas pipeline, the Rockies Express pipeline (REX), which links the Rocky Mountains region to the upper Midwest and the eastern United States. All of REX's original capacity sales provide for west-to-east service. Sempra Natural Gas has an agreement for such capacity on REX through November 2019. The capacity costs are offset by revenues from releases of the capacity contracted to third parties. Certain capacity release commitments totaling $22 million concluded during 2013. Contracting activity related to that capacity has not been sufficient to offset all of our capacity payments to Rockies Express.

In November 2013, FERC issued a decision ruling that east-to-west service offerings within a single REX rate zone would not result in potential rate reductions under provisions in the original customers' west-to-east contracts ("most favored nation" provisions). In December 2013, certain west-to-east customers sought rehearing of that decision. In 2014, Rockies Express reached settlements with three west-to-east customers, with one customer continuing to seek rehearing. The triggering of these provisions would result in significantly reduced revenue to REX from these west-to-east contracts.

In April 2014, prior to the launching of an open season, Rockies Express had secured binding financial commitments with four shippers totaling 1.2 Bcf per day of capacity for east-to-west transportation services for a term of 20 years originating at or near Clarington, Ohio. In February 2015, Rockies Express received FERC approval for the project. Rockies Express began construction on the project, and the capacity went into service on August 1, 2015. In June 2014, Rockies Express finished constructing the Seneca Lateral, an initial 0.25 Bcf per day capacity project that connects natural gas production sources in Ohio to REX. The lateral's capability was further expanded to 0.6 Bcf per day of capacity in January 2015. The lateral is fully contracted through September 2021.

In March 2015, Rockies Express requested FERC approval of the Zone 3 Capacity Enhancement Project. The project is an expansion of REX's east-to-west capability of 0.8 Bcf per day. Rockies Express conducted both a non-binding and a binding open season for service on the Zone 3 Capacity Enhancement Project and secured binding financial commitments with six Appalachian shippers totaling 0.7 Bcf per day of capacity for east-to-west transportation services for a term of 15 years originating at or near Clarington, Ohio. We expect the project to be in-service in the fourth quarter of 2016. This expansion, with an estimated cost of approximately $530 million, will require additional capital investment by the partners and is subject to regulatory approval. When completed, REX's total east-to-west capability within Zone 3 will be 2.6 Bcf per day.

In April 2015, Sempra Natural Gas invested $113 million in Rockies Express to repay project debt that matured in early 2015.

On January 29, 2015, REX experienced a rupture that resulted in no injuries or fire. This incident occurred near Bowling Green, Missouri. Rockies Express returned the segment of the pipeline to service on February 8, 2015. Rockies Express is fully cooperating with the Pipeline and Hazardous Materials Safety Administration.

Natural Gas Storage

Our natural gas storage assets include operational and development assets at Bay Gas in Alabama and Mississippi Hub in Mississippi, as well as our development project, LA Storage, LLC (LA Storage) in Louisiana. LA Storage could be positioned to support LNG export from the Cameron LNG JV terminal and other liquefaction projects, if anticipated cash flows support further investment. However, changes in the U.S. natural gas market could also lead to diminished natural gas storage values.

Historically, the value of natural gas storage services has positively correlated with the difference between the seasonal prices of natural gas, among other factors. In general, over the past several years, seasonal differences in natural gas prices have declined, which have contributed to lower prices for storage services. As our legacy (higher rate) sales contracts mature at Bay Gas and Mississippi Hub, replacement sales contract rates could be lower than has historically been the case. Lower sales revenues may not be offset by cost reductions, which could lead to depressed asset values. In addition, our LA Storage development project may be unable to attract cash flow commitments sufficient to support further investment. In April 2015, we received authorization from FERC to begin construction on the LA Storage project. In an order issued on May 7, 2015, FERC approved our request to extend the construction permit for the project for an additional two years, so that it now will expire in June 2017, absent an additional extension. The LA Storage project also includes an existing 23.3-mile pipeline header system, the LA Storage pipeline, that is uncontracted. We perform recovery testing of our recorded asset values when market conditions indicate that such values may not be recoverable. In the event such values are not recoverable, we would consider the fair value of these assets relative to their recorded value. To the extent the book value is in excess of the fair value, we would record a noncash impairment charge. The book value of our long-lived natural gas storage assets at June 30, 2015 is $1.5 billion.

Sempra Natural Gas has 42 Bcf of operational working natural gas storage capacity (20 Bcf at Bay Gas and 22 Bcf at Mississippi Hub). Sempra Natural Gas may, over the long term, develop additional storage capacity at its facilities.

Sempra Natural Gas' natural gas storage facilities and projects include

§ Bay Gas, a facility located 40 miles north of Mobile, Alabama, that provides underground storage and delivery of natural gas. Sempra Natural Gas owns 91 percent of the project. It is the easternmost salt dome storage facility on the Gulf Coast, with direct service to the Florida market and markets across the Southeast, Mid-Atlantic and Northeast regions.

§ Mississippi Hub, located 45 miles southeast of Jackson, Mississippi, an underground salt dome natural gas storage project with access to shale basins of East Texas and Louisiana, traditional gulf supplies and LNG, with multiple interconnections to serve the Southeast and Northeast regions.

§ LA Storage, a salt cavern development project in Cameron Parish, Louisiana. Sempra Natural Gas owns 75 percent of the project and ProLiance Transportation LLC owns the remaining 25 percent. The project's location provides access to several LNG facilities in the area.

Cameron Liquefaction Project

The Cameron LNG, LLC regasification terminal in Hackberry, Louisiana, 100-percent owned by Sempra Natural Gas until October 1, 2014, is capable of processing 1.5 Bcf of natural gas per day. The terminal currently generates revenue under a terminal services agreement for approximately 3.75 Bcf of natural gas storage and associated send-out rights of approximately 600 million cubic feet (MMcf) of natural gas per day through 2029. The agreement allows the customer to pay capacity reservation and usage fees to use the facilities to receive, store and regasify the customer's LNG. Sempra Natural Gas also may enter into short-term supply agreements to purchase LNG to be received, stored, and regasified at the terminal for sale to other parties.

In August 2014, Sempra Energy and three project partners provided their respective final investment decision with regard to the Cameron LNG Holdings, LLC (Cameron LNG Holdings or Cameron LNG JV) joint venture for the development, construction and operation of a natural gas liquefaction export facility at the Cameron LNG, LLC terminal. On October 1, 2014, we contributed our share of equity to the joint venture through the contribution of Cameron LNG, LLC. Beginning from the October 1, 2014 joint venture effective date, Cameron LNG, LLC is no longer wholly owned, and Sempra Natural Gas accounts for its investment in the new joint venture under the equity method. We expect that our remaining equity requirements to complete the project will be met by a combination of

our share of cash generated from each liquefaction train as it comes on line and additional cash contributions. If construction, financing or other project costs are higher than we currently expect, we may have to contribute additional cash exceeding our current expectations.

The current project, which will utilize Cameron LNG JV's existing facilities, is comprised of three liquefaction trains designed to a nameplate capacity of 13.9 million tonnes per annum (Mtpa) of LNG with an expected export capability of 12 Mtpa of LNG, or approximately 1.7 Bcf per day. We expect the project to achieve commercial operation of all three trains in 2018, and have the first year of full operations in 2019. The anticipated incremental investment in the three-train liquefaction project is estimated to be approximately $7 billion, including the cost of the lump-sum, turnkey construction contract, development engineering costs and permitting costs, but excluding capitalized interest and other financing costs. The majority of the incremental investment will be project-financed and the balance provided by the project partners. The total cost of the facility, including the cost of our original facility plus interest during construction, financing costs and required reserves, is estimated to be approximately $10 billion.

The joint venture has authorization to export LNG to both Free Trade Agreement (FTA) countries and to countries that do not have an FTA with the United States. Cameron LNG JV has 20-year liquefaction and regasification tolling capacity agreements in place with GDF SUEZ S.A. and affiliates of Mitsubishi Corporation and Mitsui & Co, Ltd., that subscribe the full nameplate capacity of the facility.

Sempra Natural Gas has agreements totaling 1.45 Bcf per day of firm natural gas transportation service to the Cameron LNG JV facilities on the Cameron Interstate Pipeline with GDF SUEZ S.A. and affiliates of Mitsubishi Corporation and Mitsui & Co., Ltd. The terms of these agreements are concurrent with the liquefaction and regasification tolling capacity agreements.

Construction on the current project began in the second half of 2014 under an EPC contract with a joint venture between CB&I Shaw Constructors, Inc., a wholly owned subsidiary of Chicago Bridge & Iron Company N.V., and Chiyoda International Corporation, a wholly owned subsidiary of Chiyoda Corporation.

In August 2014, Sempra Energy and the project partners executed project financing documents for senior secured debt in an initial aggregate principal amount up to $7.4 billion for the purpose of financing the cost of development and construction of the Cameron LNG JV liquefaction project. Concurrently, Sempra Energy entered into completion guarantees under which it has severally guaranteed 50.2 percent of the debt, or a maximum principal amount of $3.7 billion. The project financing and completion guarantees became effective on October 1, 2014, and will terminate upon financial completion of the project, which will occur upon satisfaction of certain conditions, including all three trains achieving commercial operation and meeting certain operational performance tests. We expect the project to achieve financial completion and the completion guarantees to be terminated in the second half of 2019.

Large-scale construction projects like the design, development and construction of the Cameron LNG JV liquefaction facility involve numerous risks and uncertainties, including among others, the potential for unforeseen engineering problems, substantial construction delays and increased costs. As noted above, Cameron LNG JV has a turnkey EPC contract with a joint venture between CB&I Shaw Constructors, Inc. and Chiyoda International Corporation. If the contractor becomes unwilling or unable to perform according to the terms and timetable of the EPC contract, Cameron LNG JV would be required to engage a substitute contractor, which would result in project delays and increased costs, which could be significant. For a discussion of these risks and other risks relating to the development of the Cameron LNG JV liquefaction project that could adversely affect our future performance, see "Risk Factors" in our Annual Report.

Cameron LNG JV has a terminal services agreement with one customer that requires the customer to pay capacity reservation and usage fees to use its facilities to receive, store and regasify the customer's LNG. There is a termination agreement in place that will result in the termination of this services agreement at the point during construction of the new liquefaction facilities where piping tie-ins to the existing regasification terminal become necessary. Based on the

full notice to proceed that was issued to Cameron LNG JV's EPC contractor in October 2014, we expect this termination date to occur during the first half of 2017.

In December 2014, Cameron LNG JV filed with the DOE for authorization to match the total export volumes allowed to be exported to FTA countries under the FERC permit. This would allow for increased export from the three-train facility of up to 2.95 Mtpa. In April 2015, Cameron LNG JV filed the corresponding DOE Non-FTA permit application. Cameron LNG JV is also pursuing the permitting to expand the current configuration from the current three liquefaction trains. The expansion project is expected to include up to two additional liquefaction trains, capable of increasing LNG production capacity by approximately 9 Mtpa to 10 Mtpa, and one additional full containment LNG storage tank; a fourth tank was permitted with the base liquefaction project but not built. In February 2015, Cameron LNG JV filed the DOE FTA application and the pre-filing application at FERC for the two additional trains and one containment tank. In May 2015, the joint venture filed a corresponding DOE Non-FTA permit application. In July 2015, Cameron LNG JV received approval of the DOE FTA application. Under the Cameron LNG JV financing agreements, expansion of the Cameron LNG JV facilities beyond the first three trains is subject to certain restrictions and conditions, including among others, timing restrictions on expansion of the project unless appropriate prior consent is obtained from lenders. In addition, expansion of the Cameron LNG JV facilities beyond the first three trains is subject to a number of risks and uncertainties, including completing the required commercial agreements, securing all necessary permits and approvals, obtaining financing, reaching a final investment decision and other factors associated with the potential investment. See the "Risk Factors" section of our Annual Report.

We discuss the deconsolidation of Cameron LNG, LLC, the Cameron LNG JV project financing obligations and Sempra Energy's completion guarantee further in Notes 3 and 4 of the Notes to Consolidated Financial Statements in the Annual Report.

Other LNG Liquefaction Development

Design, regulatory and commercial activities are ongoing for potential LNG liquefaction developments at Sempra Mexico's Energía Costa Azul facility and at our Port Arthur, Texas site. For these development projects, we have been meeting with potential customers and continue to see long-term demand for LNG supplies beginning in the 2020 to 2023 time frame. Total expenditures on LNG liquefaction development in the six months ended June 30, 2015 were $15.6 million, including capitalized costs of $7.5 million (pretax). After-tax LNG development costs expensed in the three months and six months ended June 30, 2015 were $1 million and $5 million, respectively.

Port Arthur. In March 2015, Sempra Natural Gas submitted a request to the FERC to initiate the pre-filing review for the proposed Port Arthur LNG natural gas liquefaction and export facility in Port Arthur, Texas. The proposed project is designed to include two natural gas liquefaction trains with total export capability of approximately 10 Mtpa, or 1.4 Bcf per day; two 160,000-cubic-meter storage tanks; marine facilities for vessel berthing and loading; natural gas liquids and refrigerant storage; feed gas pre-treatment; truck loading and unloading areas; and combustion turbine generators for self-generation of electrical power.

In March 2015, Sempra Natural Gas also submitted a request to the FERC to initiate the pre-filing review for the proposed Port Arthur pipeline project. The proposed project consists of two 42-inch-diameter feed gas pipelines (7- and 27-miles long), two compressor stations, receipt meter stations, and other appurtenant facilities in Orange and Jefferson Counties, Texas, and Cameron Parish, Louisiana. The pipelines would provide up to 1.6 Bcf per day of capacity to the Port Arthur LNG facilities.

In March and June 2015, Sempra Natural Gas filed permit applications with the DOE for authorization to export the LNG produced from the proposed project to all current and future FTA and Non-FTA countries, respectively.

In June 2015, Sempra Natural Gas entered into a non-binding MOU with an affiliate of Woodside Petroleum Ltd. (Woodside) to commence discussions and assessments for the potential development of the proposed Port Arthur

LNG liquefaction project. The non-binding MOU is the initial step for Sempra Natural Gas and Woodside to explore this opportunity and undertake due diligence for the potential development of the Port Arthur LNG liquefaction project. Any decision to proceed with a binding agreement between Woodside and Sempra Natural Gas in relation to the potential development of the project, including the establishment of any joint venture or partnership between Sempra Natural Gas and Woodside, is contingent upon completing project assessments and achieving other necessary internal and external approvals for each party.

Development of the Port Arthur LNG liquefaction project is subject to a number of risks and uncertainties, including completing the required commercial agreements, securing all necessary permits and approvals, obtaining financing and incentives, reaching a final investment decision and other factors associated with the potential investment. See the "Risk Factors" section of our Annual Report.

Energía Costa Azul. We further discuss Sempra Natural Gas' participation in potential LNG liquefaction development at Sempra Mexico's Energía Costa Azul facility above under "Sempra Mexico – Energía Costa Azul LNG Terminal."

RBS Sempra Commodities

In three separate transactions in 2010 and one in early 2011, we and The Royal Bank of Scotland plc (RBS), our partner in the RBS Sempra Commodities joint venture, sold substantially all of the businesses and assets of our commodities-marketing partnership. The investment balance of $71 million at June 30, 2015 reflects remaining distributions expected to be received from the partnership as it is dissolved. The amount of distributions may be impacted by the matters we discuss related to RBS Sempra Commodities under "Other Litigation" in Note 11 of the Notes to Condensed Consolidated Financial Statements herein. In addition, amounts may be retained by the partnership for an extended period of time to help offset unanticipated future general and administrative costs necessary to complete the dissolution of the partnership.

OTHER SEMPRA ENERGY MATTERS

We may be further impacted by depressed and rapidly changing economic conditions. Moreover, the dollar may fluctuate significantly compared to some foreign currencies, especially in Mexico and South America where we have significant operations. We discuss foreign currency rate risk further under "Foreign Currency Rate Risk" in Item 3. "Quantitative and Qualitative Disclosures About Market Risk" below. North American natural gas prices, when in decline, negatively affect profitability at Sempra Renewables and Sempra Natural Gas. In addition, an extended decline in current and forward projections of crude oil prices, coupled with slow economic growth, could cause a corresponding reduction in projected global demand for LNG. This could result in increased competition among those working on projects in an environment of declining LNG demand, such as the Sempra Energy-sponsored export initiatives. For a discussion of these risks and other risks involving changing natural gas and crude oil prices, see "Risk Factors" in the Annual Report.

In July 2010, federal legislation to reform financial markets was enacted that significantly alters how over-the-counter (OTC) derivatives are regulated, which may impact all of our businesses. The law increased regulatory oversight and transparency requirements of OTC energy derivatives, including (1) requiring standardized OTC derivatives to be traded on registered exchanges regulated by the U.S. Commodity Futures Trading Commission (CFTC), (2) imposing new and potentially higher capital and margin requirements and (3) authorizing the establishment of overall volume and position limits, the latter of which is pending final approval in 2015. The law gives the CFTC authority to exempt end users of energy commodities which could reduce, but not eliminate, the applicability of these measures to us and other end users. These requirements could cause our OTC transactions to be more costly and have a material adverse

effect on our liquidity due to additional capital requirements. In addition, as these reforms aim to standardize OTC products, they could limit the effectiveness and extent of our hedging programs, because we would have less ability to tailor OTC derivatives to match the precise risk we are seeking to mitigate and may be restricted on the size of our hedging program.

Our future performance depends substantially on the timing and success of our business development efforts and our construction, maintenance and capital projects. We discuss this and additional matters that could affect our future performance in Notes 10 and 11 of the Notes to Condensed Consolidated Financial Statements herein, in Notes 14 and 15 of the Notes to Consolidated Financial Statements in the Annual Report, and in “Risk Factors” in the Annual Report.

LITIGATION

We describe legal proceedings which could adversely affect our future performance in Note 11 of the Notes to Condensed Consolidated Financial Statements herein.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We view certain accounting policies as critical because their application is the most relevant, judgmental, and/or material to our financial position and results of operations, and/or because they require the use of material judgments and estimates. We discuss these accounting policies in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Annual Report.

We describe our significant accounting policies in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report. We follow the same accounting policies for interim reporting purposes.

NEW ACCOUNTING STANDARDS

We discuss the relevant pronouncements that have recently become effective and have had or may have an impact on our financial statements and/or disclosures in Note 2 of the Notes to Condensed Consolidated Financial Statements herein.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We provide disclosure regarding derivative activity in Note 7 of the Notes to Condensed Consolidated Financial Statements herein. We discuss our market risk and risk policies in detail in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report.

INTEREST RATE RISK

The table below shows the nominal amount and the one-year Value at Risk (VaR) for long-term debt at June 30, 2015 and December 31, 2014:

NOMINAL AMOUNT AND ONE-YEAR VALUE AT RISK OF LONG-TERM DEBT(1)
(Dollars in millions)

	Sempra Energy Consolidated		SDG&E		SoCalGas	
	Nominal debt	One-year VaR(2)	Nominal debt	One-year VaR(2)	Nominal debt	One-year VaR(2)
At June 30, 2015:						
California Utilities fixed-rate	$ 6,799	$ 1,007	$ 4,287	$ 656	$ 2,512	$ 351
California Utilities variable-rate	460	12	460	12		
All other, fixed-rate and variable-rate	6,310	461				
At December 31, 2014:						
California Utilities fixed-rate	$ 6,049	$ 502	$ 4,136	$ 341	$ 1,913	$ 161
California Utilities variable-rate	325	13	325	13		
All other, fixed-rate and variable-rate	5,973	306				

(1) Excluding capital lease obligations, build-to-suit lease and interest rate swaps, and before reductions/increases for unamortized discount/premium.

(2) After the effects of interest rate swaps.

We provide additional information about interest rate swap transactions in Note 7 of the Notes to Condensed Consolidated Financial Statements herein.

FOREIGN CURRENCY RATE RISK

We discuss our foreign currency exposure at our Mexican subsidiaries in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Changes in Revenues, Costs and Earnings – Income Taxes – Foreign Currency Exchange Rate and Inflation Impact on Income Taxes and Related Economic Hedging Activity” herein. We also discuss our foreign currency exposure at our Mexican and South American subsidiaries in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Foreign Currency Rate Risk” in the Annual Report. At June 30, 2015, there were no significant changes to our exposure to foreign currency rate risk since December 31, 2014.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Sempra Energy, SDG&E and SoCalGas have designed and maintain disclosure controls and procedures to ensure that information required to be disclosed in their respective reports is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and is accumulated and communicated to the management of each company, including each respective Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. In designing and evaluating these controls and procedures, the management of each company recognizes that any system of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives; therefore, the management of each company applies judgment in evaluating the cost-benefit relationship of other possible controls and procedures.

Under the supervision and with the participation of management, including the Chief Executive Officers and Chief Financial Officers of Sempra Energy, SDG&E and SoCalGas, each company evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of June 30, 2015, the end of the period covered by this report. Based on these evaluations, the Chief Executive Officers and Chief Financial Officers of Sempra Energy, SDG&E and SoCalGas concluded that their respective company’s disclosure controls and procedures were effective at the reasonable assurance level.

INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in the companies’ internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the companies’ internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not party to, and our property is not the subject of, any material pending legal proceedings (other than ordinary routine litigation incidental to our businesses) except for the matters 1) described in Notes 9, 10 and 11 of the Notes to Condensed Consolidated Financial Statements herein and Notes 13, 14 and 15 of the Notes to Consolidated Financial Statements in the Annual Report, or 2) referred to in “Management's Discussion and Analysis of Financial Condition and Results of Operations” herein and in the Annual Report.

ITEM 1A. RISK FACTORS

There have not been any material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014.

ITEM 6. EXHIBITS

The following exhibits relate to each registrant as indicated.

EXHIBIT 10 -- MATERIAL CONTRACTS

Compensation

Sempra Energy

10.1	Amendment to the Amended and Restated Sempra Energy 2005 Deferred Compensation Plan, now known as Sempra Energy Employee and Director Retirement Savings Plan.

EXHIBIT 12 -- STATEMENTS RE: COMPUTATION OF RATIOS

Sempra Energy

12.1	Sempra Energy Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.

San Diego Gas & Electric Company

12.2	San Diego Gas & Electric Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.

Southern California Gas Company

12.3	Southern California Gas Company Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.

EXHIBIT 31 -- SECTION 302 CERTIFICATIONS

Sempra Energy

31.1	Statement of Sempra Energy’s Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.
31.2	Statement of Sempra Energy’s Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

San Diego Gas & Electric Company

31.3	Statement of San Diego Gas & Electric Company’s Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.
31.4	Statement of San Diego Gas & Electric Company’s Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

Southern California Gas Company

31.5	Statement of Southern California Gas Company’s Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.
31.6	Statement of Southern California Gas Company’s Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

EXHIBIT 32 -- SECTION 906 CERTIFICATIONS

Sempra Energy

32.1	Statement of Sempra Energy’s Chief Executive Officer pursuant to 18 U.S.C. Sec. 1350.

32.2	Statement of Sempra Energy's Chief Financial Officer pursuant to 18 U.S.C. Sec. 1350.
San Diego Gas & Electric Company	
32.3	Statement of San Diego Gas & Electric Company's Chief Executive Officer pursuant to 18 U.S.C. Sec. 1350.
32.4	Statement of San Diego Gas & Electric Company's Chief Financial Officer pursuant to 18 U.S.C. Sec. 1350.
Southern California Gas Company	
32.5	Statement of Southern California Gas Company's Chief Executive Officer pursuant to 18 U.S.C. Sec. 1350.
32.6	Statement of Southern California Gas Company's Chief Financial Officer pursuant to 18 U.S.C. Sec. 1350.

EXHIBIT 101 -- INTERACTIVE DATA FILE

Sempra Energy / San Diego Gas & Electric Company / Southern California Gas Company

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Sempra Energy:

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SEMPRA ENERGY,
(Registrant)

Date: August 4, 2015 By: /s/ Trevor I. Mihalik

Trevor I. Mihalik
Senior Vice President, Controller and
Chief Accounting Officer

San Diego Gas & Electric Company:

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SAN DIEGO GAS & ELECTRIC COMPANY,
(Registrant)

Date: August 4, 2015

By: /s/ Bruce A. Folkmann
Bruce A. Folkmann
Vice President, Controller, Chief Financial
Officer and Chief Accounting Officer

Southern California Gas Company:

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SOUTHERN CALIFORNIA GAS COMPANY,
(Registrant)

Date: August 4, 2015

By: /s/ Bruce A. Folkmann
Bruce A. Folkmann
Vice President, Controller, Chief Financial
Officer and Chief Accounting Officer