SAN DIEGO GAS & ELECTRIC CO
Form 10-Q
May 04, 2012

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

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2012

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

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

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

Yes	X		No

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

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

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

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

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

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

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

Common stock outstanding on April 30, 2012:

Sempra Energy	240,991,088 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,” “contemplates,” “intends,” “depends,” “should,” “could,” “would,” “will,” “may,” “potential,” “target,” “pursue,” “goals,” or similar expressio discuss our guidance, strategy, plans, goals, 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 by the California Public Utilities Commission, California State Legislature, Federal Energy Regulatory Commission, U.S. Department of Energy, Nuclear Regulatory Commission, California Energy Commission, California Air Resources Board, and other regulatory, governmental and environmental bodies in the United States and other countries in which we operate;

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

§ inflation, interest and exchange rates;

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

§ the timing and success of business development efforts and construction, maintenance and capital projects, including risks inherent in the ability to obtain, and the timing of granting of, permits, licenses, certificates and other authorizations;

§ energy markets, including the timing and extent of changes and volatility in commodity prices;

§ the availability of electric power, natural gas and liquefied natural gas, including disruptions caused by failures in the North American transmission grid, pipeline explosions and equipment failures;

§ weather conditions, natural disasters, catastrophic accidents, and conservation efforts;

§

risks inherent in nuclear power generation and radioactive materials storage, including the catastrophic release of such materials;

§ risks posed by decisions and actions of third parties who control the operations of investments in which we do not have a controlling interest;

§ wars, terrorist attacks and cybersecurity threats;

§ business, regulatory, environmental and legal decisions and requirements;

§ expropriation of assets by foreign governments and title and other property disputes;

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

§ the inability or determination not to enter into long-term supply and sales agreements or long-term firm capacity agreements;

§ the resolution of litigation; and

§ other uncertainties, all of which are difficult to predict and many of which are beyond our control.

We caution you not to rely unduly on any forward-looking statements. You should review and consider carefully the risks, uncertainties and other factors that affect our business as described in this report and in our Annual Report on Form 10-K and other reports that we file with the Securities and Exchange Commission.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SEMPRA ENERGY
CONDENSED CONSOLIDATED STATEMENTS
OF OPERATIONS
(Dollars in millions, except per share amounts)

	Three months ended March 31,	
	2012	2011(1)
	(unaudited)	
REVENUES		
Utilities	$ 2,091	$ 1,946
Energy-related businesses	292	488
Total revenues	2,383	2,434
EXPENSES AND OTHER INCOME		
Utilities:		
Cost of natural gas	(431)	(642)
Cost of electric fuel and purchased power	(388)	(171)
Energy-related businesses:		

Cost of natural gas, electric fuel and purchased power		(129)		(230)
Other cost of sales		(33)		(23)
Operation and maintenance		(671)		(639)
Depreciation and amortization		(257)		(230)
Franchise fees and other taxes		(96)		(95)
Equity earnings, before income tax		12		1
Other income, net		75		43
Interest income		5		3
Interest expense		(113)		(108)
Income before income taxes and equity earnings of certain unconsolidated subsidiaries		357		343
Income tax expense		(117)		(114)
Equity earnings, net of income tax		11		31
Net income		251		260
Earnings attributable to noncontrolling interests		(13)		(4)
Preferred dividends of subsidiaries		(2)		(2)
Earnings	$	236	$	254
Basic earnings per common share	$	0.98	$	1.06
Weighted-average number of shares outstanding, basic (thousands)		240,566		240,128
Diluted earnings per common share	$	0.97	$	1.05
Weighted-average number of shares outstanding, diluted (thousands)		243,761		241,903
Dividends declared per share of common stock	$	0.60	$	0.48

(1) As adjusted for the retrospective effect of a change in accounting principle as we discuss in Note 1.

See Notes to Condensed Consolidated Financial Statements.

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

	Three months ended March 31,					
	2012			2011(1)		
	(unaudited)					
	Sempra Energy	Non-controlling Interests	Total	Sempra Energy	Non-controlling Interests	Total
Net income	$ 238	$ 13	$ 251	$ 256	$ 4	$ 260
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments	67	4	71	(6)		(6)
Net actuarial gain	1		1	2		2
Financial instruments	3		3	2	1	3
Total other comprehensive income (loss)	71	4	75	(2)	1	(1)
Total comprehensive income	309	17	326	254	5	259
Preferred dividends of subsidiaries	(2)		(2)	(2)		(2)
Total comprehensive income, after preferred dividends of subsidiaries	$ 307	$ 17	$ 324	$ 252	$ 5	$ 257

(1) As adjusted for the retrospective effect of a change in accounting principle as we discuss in Note 1.

See Notes to Condensed Consolidated Financial Statements.

SEMPRA ENERGY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

	March 31, 2012 (unaudited)	December 31, 2011(1)(2)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 404	$ 252
Restricted cash	23	24
Trade accounts receivable, net	1,062	1,198
Other accounts and notes receivable, net	177	147
Inventories	222	346
Regulatory balancing accounts — undercollected	71	38
Regulatory assets	105	89
Fixed-price contracts and other derivatives	83	85
Settlement receivable related to wildfire litigation	5	10
Other	146	143
Total current assets	2,298	2,332
Investments and other assets:		
Restricted cash	24	22
Regulatory assets arising from pension and other postretirement benefit obligations	1,074	1,126
Regulatory assets arising from wildfire litigation costs	603	594
Other regulatory assets	1,070	1,060
Nuclear decommissioning trusts	865	804
Investments	1,722	1,671
Goodwill	1,071	1,036
Other intangible assets	443	448
Sundry	799	691
Total investments and other assets	7,671	7,452
Property, plant and equipment:		
Property, plant and equipment	31,995	31,192
Less accumulated depreciation and amortization	(7,919)	(7,727)
Property, plant and equipment, net ($488 and $494 at March 31, 2012 and December 31, 2011, respectively, related to VIE)	24,076	23,465
Total assets	$ 34,045	$ 33,249

(1) As adjusted for the retrospective effect of a change in accounting principle as we discuss in Note 1.
(2) Derived from audited financial statements.
See Notes to Condensed Consolidated Financial Statements.

SEMPRA ENERGY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in millions)

	March 31, 2012 (unaudited)	December 31, 2011(1)(2)
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	$ 426	$ 449
Accounts payable — trade	901	983
Accounts payable — other	112	124
Income taxes payable	53	5
Deferred income taxes	172	173
Dividends and interest payable	297	219
Accrued compensation and benefits	203	323
Regulatory balancing accounts — overcollected	240	105
Current portion of long-term debt	713	336
Fixed-price contracts and other derivatives	92	92
Customer deposits	148	142
Reserve for wildfire litigation	441	586
Other	682	615
Total current liabilities	4,480	4,152
Long-term debt ($342 and $345 at March 31, 2012 and December 31, 2011, respectively, related to VIE)	10,180	10,078
Deferred credits and other liabilities:		
Customer advances for construction	143	142
Pension and other postretirement benefit obligations, net of plan assets	1,373	1,423
Deferred income taxes	1,601	1,520
Deferred investment tax credits	48	49
Regulatory liabilities arising from removal obligations	2,621	2,551
Asset retirement obligations	1,927	1,905
Other regulatory liabilities	80	87
Fixed-price contracts and other derivatives	281	301
Deferred credits and other	862	784
Total deferred credits and other liabilities	8,936	8,762
Contingently redeemable preferred stock of subsidiary	79	79
Commitments and contingencies (Note 10)		
Equity:		
Preferred stock (50 million shares authorized; none issued)		
Common stock (750 million shares authorized; 241 million and 240 million shares outstanding at March 31, 2012 and December 31, 2011, respectively; no par value)	2,117	2,104

Retained earnings		8,254		8,162
Deferred compensation		(1)		(2)
Accumulated other comprehensive income (loss)		(418)		(489)
Total Sempra Energy shareholders' equity		9,952		9,775
Preferred stock of subsidiaries		20		20
Other noncontrolling interests		398		383
Total equity		10,370		10,178
Total liabilities and equity	$	34,045	$	33,249

(1) As adjusted for the retrospective effect of a change in accounting principle as we discuss in Note 1.

(2) Derived from audited financial statements.

See Notes to Condensed Consolidated Financial Statements.

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

	Three months ended March 31,	
	2012	2011(1)
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 251	$ 260
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	257	230
Deferred income taxes and investment tax credits	31	82
Equity earnings	(23)	(32)
Fixed-price contracts and other derivatives	(12)	(9)
Other	14	(13)
Net change in other working capital components	168	297
Changes in other assets	12	(5)
Changes in other liabilities	1	(5)
Net cash provided by operating activities	699	805
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(811)	(607)
Expenditures for investments	(51)	(4)
Distributions from investments	8	21
Purchases of nuclear decommissioning and other trust assets	(134)	(45)
Proceeds from sales by nuclear decommissioning and other trusts	135	46
Decrease in restricted cash	39	160
Increase in restricted cash	(40)	(320)
Other	(5)	(7)
Net cash used in investing activities	(859)	(756)
CASH FLOWS FROM FINANCING ACTIVITIES		
Common dividends paid	(115)	(94)
Preferred dividends paid by subsidiaries	(2)	(2)
Issuances of common stock	13	15
Repurchases of common stock	(16)	(18)
Issuances of debt (maturities greater than 90 days)	1,008	803
Payments on debt (maturities greater than 90 days)	(347)	(260)
Decrease in short-term debt, net	(224)	(192)
Other	(7)	6
Net cash provided by financing activities	310	258
Effect of exchange rate changes on cash and cash equivalents	2	
Increase in cash and cash equivalents	152	307
Cash and cash equivalents, January 1	252	912
Cash and cash equivalents, March 31	$ 404	$ 1,219

(1) As adjusted for the retrospective effect of a change in accounting principle as we discuss in Note 1.

See Notes to Condensed Consolidated Financial Statements.

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

	Three months ended March 31,	
	2012	2011
	(unaudited)	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest payments, net of amounts capitalized	$ 62	$ 63
Income tax payments, net of refunds	38	37
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Accrued capital expenditures	$ 336	$ 233
Dividends declared but not paid	151	118

See Notes to Condensed Consolidated Financial Statements.

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

	Three months ended March 31, 2012	Three months ended March 31, 2011
	(unaudited)	
Operating revenues		
Electric	$ 671	$ 665
Natural gas	163	175
Total operating revenues	834	840
Operating expenses		
Cost of electric fuel and purchased power	163	171
Cost of natural gas	67	83
Operation and maintenance	268	273
Depreciation and amortization	112	103
Franchise fees and other taxes	46	47
Total operating expenses	656	677
Operating income	178	163
Other income, net	30	16
Interest expense	(36)	(36)
Income before income taxes	172	143
Income tax expense	(60)	(49)
Net income	112	94
Earnings attributable to noncontrolling interest	(6)	(4)
Earnings	106	90
Preferred dividend requirements	(1)	(1)
Earnings attributable to common shares	$ 105	$ 89

See Notes to Condensed Consolidated Financial Statements.

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

	Three months ended March 31, 2012			2011		
	(unaudited)					
	SDG&E	Non-controlling Interest	Total	SDG&E	Non-controlling Interest	Total
Net income	$ 106	$ 6	$ 112	$ 90	$ 4	$ 94
Other comprehensive income, net of tax:						
Financial instruments					1	1
Total other comprehensive income					1	1
Total comprehensive income	$ 106	$ 6	$ 112	$ 90	$ 5	$ 95

See Notes to Condensed Consolidated Financial Statements.

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

	March 31, 2012 (unaudited)	December 31, 2011(1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 139	$ 29
Restricted cash	18	21
Accounts receivable – trade, net	228	267
Accounts receivable – other, net	23	23
Due from unconsolidated affiliates	1	67
Income taxes receivable	109	102
Inventories	77	82
Regulatory balancing accounts, net	71	38
Regulatory assets arising from fixed-price contracts and other derivatives	81	67
Other regulatory assets	11	11
Fixed-price contracts and other derivatives	28	27
Settlement receivable related to wildfire litigation	5	10
Other	37	51
Total current assets	828	795
Other assets:		
Restricted cash	24	22
Deferred taxes recoverable in rates	585	570
Regulatory assets arising from fixed-price contracts and other derivatives	183	191
Regulatory assets arising from pension and other postretirement benefit obligations	314	309
Regulatory assets arising from wildfire litigation costs	603	594
Other regulatory assets	162	160
Nuclear decommissioning trusts	865	804
Income taxes receivable	104	
Sundry	73	70
Total other assets	2,913	2,720
Property, plant and equipment:		
Property, plant and equipment	13,352	13,003
Less accumulated depreciation and amortization	(3,045)	(2,963)
Property, plant and equipment, net ($488 and $494 at March 31, 2012 and December 31, 2011, respectively, related to VIE)	10,307	10,040
Total assets	$ 14,048	$ 13,555

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

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

	March 31, 2012 (unaudited)	December 31, 2011(1)
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 305	$ 375
Due to unconsolidated affiliates	36	14
Deferred income taxes	59	62
Accrued compensation and benefits	65	124
Current portion of long-term debt	19	19
Fixed-price contracts and other derivatives	59	55
Customer deposits	67	62
Reserve for wildfire litigation	441	586
Other	202	139
Total current liabilities	1,253	1,436
Long-term debt ($342 and $345 at March 31, 2012 and December 31, 2011, respectively, related to VIE)	4,303	4,058
Deferred credits and other liabilities:		
Customer advances for construction	19	20
Pension and other postretirement benefit obligations, net of plan assets	347	342
Deferred income taxes	1,337	1,167
Deferred investment tax credits	25	26
Regulatory liabilities arising from removal obligations	1,527	1,462
Asset retirement obligations	704	693
Fixed-price contracts and other derivatives	232	243
Deferred credits and other	270	188
Total deferred credits and other liabilities	4,461	4,141
Contingently redeemable preferred stock	79	79
Commitments and contingencies (Note 10)		
Equity:		
Common stock (255 million shares authorized; 117 million shares outstanding; no par value)	1,338	1,338
Retained earnings	2,516	2,411
Accumulated other comprehensive income (loss)	(10)	(10)
Total SDG&E shareholder's equity	3,844	3,739
Noncontrolling interest	108	102
Total equity	3,952	3,841
Total liabilities and equity	$ 14,048	$ 13,555

(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)

	Three months ended March 31, 2012	2011
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 112	$ 94
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	112	103
Deferred income taxes and investment tax credits	152	75
Fixed price contracts and other derivatives	(3)	(4)
Other	(27)	(12)
Net change in other working capital components	(85)	241
Changes in other assets	8	7
Changes in other liabilities	(3)	(3)
Net cash provided by operating activities	266	501
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(398)	(348)
Purchases of nuclear decommissioning trust assets	(133)	(44)
Proceeds from sales by nuclear decommissioning trusts	131	42
Decrease in restricted cash	37	109
Increase in restricted cash	(36)	(311)
Net cash used in investing activities	(399)	(552)
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital contribution		200
Preferred dividends paid	(1)	(1)
Issuance of long-term debt	249	
Payments on long-term debt	(3)	(3)
Other	(2)	
Net cash provided by financing activities	243	196
Increase in cash and cash equivalents	110	145
Cash and cash equivalents, January 1	29	127
Cash and cash equivalents, March 31	$ 139	$ 272
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest payments, net of amounts capitalized	$ 17	$ 17
Income tax (refunds) payments, net	(62)	24
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		

Accrued capital expenditures	$ 134	$ 145
Dividends declared but not paid	1	1

See Notes to Condensed Consolidated Financial Statements.

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

	Three months ended March 31, 2012	2011
	(unaudited)	
Operating revenues	$ 880	$ 1,056
Operating expenses		
Cost of natural gas	349	531
Operation and maintenance	289	288
Depreciation and amortization	87	81
Franchise fees and other taxes	36	37
Total operating expenses	761	937
Operating income	119	119
Other income, net	4	3
Interest expense	(17)	(17)
Income before income taxes	106	105
Income tax expense	(40)	(37)
Net income/Earnings attributable to common shares	$ 66	$ 68

See Notes to Condensed Consolidated Financial Statements.

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

	Three months ended March 31, 2012	2011
	(unaudited)	
Net income	$ 66	$ 68
Total other comprehensive income, net of tax		
Comprehensive income attributable to common and preferred shareholders	$ 66	$ 68

See Notes to Condensed Consolidated Financial Statements.

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

	March 31, 2012 (unaudited)	December 31, 2011(1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 70	$ 36
Accounts receivable – trade, net	457	578
Accounts receivable – other, net	70	63
Due from unconsolidated affiliates	229	40
Income taxes receivable		17
Inventories	42	151
Regulatory assets	7	9
Temporary LIFO liquidation	32	
Other	26	28
Total current assets	933	922
Other assets:		
Regulatory assets arising from pension and other postretirement benefit obligations	751	808
Other regulatory assets	138	137
Sundry	8	8
Total other assets	897	953
Property, plant and equipment:		
Property, plant and equipment	10,679	10,565
Less accumulated depreciation and amortization	(4,017)	(3,965)
Property, plant and equipment, net	6,662	6,600
Total assets	$ 8,492	$ 8,475

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

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

	March 31, 2012 (unaudited)	December 31, 2011(1)
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable – trade	$ 195	$ 315
Accounts payable – other	73	78
Due to unconsolidated affiliate		2
Income taxes payable	5	
Deferred income taxes	44	44
Accrued compensation and benefits	82	99
Regulatory balancing accounts, net	240	105
Current portion of long-term debt	256	257
Customer deposits	76	75
Other	197	172
Total current liabilities	1,168	1,147
Long-term debt	1,063	1,064
Deferred credits and other liabilities:		
Customer advances for construction	111	110
Pension and other postretirement benefit obligations, net of plan assets	778	833
Deferred income taxes	599	576
Deferred investment tax credits	22	23
Regulatory liabilities arising from removal obligations	1,080	1,075
Asset retirement obligations	1,173	1,161
Deferred taxes refundable in rates	80	87
Deferred credits and other	209	206
Total deferred credits and other liabilities	4,052	4,071
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Preferred stock	22	22
Common stock (100 million shares authorized; 91 million shares outstanding; no par value)	866	866
Retained earnings	1,342	1,326
Accumulated other comprehensive income (loss)	(21)	(21)
Total shareholders' equity	2,209	2,193
Total liabilities and shareholders' equity	$ 8,492	$ 8,475

(1) Derived from audited financial statements.

See Notes to Condensed Consolidated Financial Statements.

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

	Three months ended March 31, 2012	2011
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 66	$ 68
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	87	81
Deferred income taxes and investment tax credits	14	48
Other	(1)	(2)
Net change in other working capital components	280	168
Changes in other assets	3	12
Changes in other liabilities		(4)
Net cash provided by operating activities	449	371
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(165)	(168)
Increase in loans to affiliates, net	(200)	(287)
Net cash used in investing activities	(365)	(455)
CASH FLOWS FROM FINANCING ACTIVITIES		
Common dividends paid	(50)	(50)
Payment of long-term debt		(250)
Net cash used in financing activities	(50)	(300)
Increase (decrease) in cash and cash equivalents	34	(384)
Cash and cash equivalents, January 1	36	417
Cash and cash equivalents, March 31	$ 70	$ 33
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest payments, net of amounts capitalized	$ 5	$ 8
Income tax refunds, net	17	14
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Accrued capital expenditures	$ 64	$ 76

See Notes to Condensed Consolidated Financial Statements.

SEMPRA ENERGY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. GENERAL

PRINCIPLES OF CONSOLIDATION

2012 Business Segment Realignment

Effective January 1, 2012, management realigned some of the company's major subsidiaries to better fit its strategic direction and to enhance the management and integration of our assets. This realignment resulted in a change in reportable segments in 2012. In accordance with accounting principles generally accepted in the United States (GAAP), historical information for Sempra Energy has been restated in its Condensed Consolidated Financial Statements and these Notes to reflect the effect of this change. All discussions of our operating units and reportable segments in these Notes reflect the new segments and operating structure.

Sempra Energy

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

§ San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas);

§ 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 11.

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.

Sempra Energy uses the equity method to account for investments in affiliated companies over which we have the ability to exercise significant influence, but not control. We discuss our investments in unconsolidated subsidiaries in Note 4 herein and Note 4 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2011.

SDG&E

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

SoCalGas

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

BASIS OF PRESENTATION

This is a combined report of Sempra Energy, SDG&E and SoCalGas. We provide separate information for SDG&E and SoCalGas as required. References in this report to "we," "our" and "Sempra Energy Consolidated" are to Sempra Energy and its consolidated entities, unless otherwise indicated by the context. We have eliminated intercompany accounts and transactions within the consolidated financial statements of each reporting entity.

We have prepared the Condensed Consolidated Financial Statements in conformity with GAAP and in accordance with the interim-period-reporting requirements of Form 10-Q. Results of operations for interim periods are not necessarily indicative of results for the entire year. We evaluated events and transactions that occurred after March 31, 2012 through the date the financial statements were issued and, in the opinion of management, the accompanying statements reflect all adjustments necessary for a fair presentation. These adjustments are only of a normal, recurring nature.

As we discuss in Note 3, in April 2011, Sempra South American Utilities acquired controlling interests in two electric distribution utilities in South America. Sempra Natural Gas owns Mobile Gas Service Corporation (Mobile Gas) in southwest Alabama and Sempra Mexico owns Ecogas Mexico, S de RL de CV (Ecogas) in Northern Mexico, both natural gas distribution utilities. Previous to the quarterly report for the quarter ended June 30, 2011, we provided separate revenue and cost of revenue information on our consolidated statements of operations for the California Utilities only, as the amounts for Mobile Gas and Ecogas were immaterial. Due to the addition of the South American utilities, beginning with the quarterly report for the quarter ended June 30, 2011, we have provided separate revenue and cost of revenue information on the Condensed Consolidated Statements of Operations on a combined basis for all of our utilities. Accordingly, amounts in the quarterly period ended March 31, 2011 have been reclassified to conform with the current year presentation.

All December 31, 2011 balance sheet information in the Condensed Consolidated Financial Statements has been derived from our audited 2011 consolidated financial statements. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the interim-period-reporting provisions of GAAP and the Securities and Exchange Commission.

You should read the information in this Quarterly Report in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2011 (the Annual Report) which is a combined report for Sempra Energy, SDG&E and SoCalGas.

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 change in accounting principle discussed below and the adoption of new accounting standards as we discuss in Note 2.

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

Change in Accounting Principle

Effective January 1, 2012, we changed our method of accounting for investment tax credits (ITC) from the flow-through method to the deferral method for Sempra Energy. Under the flow-through method, we reduced our income tax expense by the amount of ITC in the year in which the qualifying assets were placed in service. Under the deferral method, we record ITC in the year when the qualifying assets are placed in service as a reduction to the cost of the asset that generated the ITC. This results in lower book depreciation over the life of the asset. This change has no historical or prospective impact on the California Utilities because ITC is effectively deferred as a result of the application of regulatory accounting required under GAAP.

The flow-through method and the deferral method are both acceptable under GAAP, but the deferral method is the preferred method. We believe that the deferral method is preferable for the ITC we receive because it recognizes ITC benefits over the same periods as the associated costs for which the ITC are intended to compensate.

We applied this change in accounting principle by retrospectively adjusting the historical financial statement amounts for all periods presented. Upon adopting the deferral method, we recorded an adjustment for the cumulative effect of the change in accounting principle to reduce Sempra Energy Consolidated retained earnings as of January 1, 2011 by $37 million.

For certain solar generating assets being placed into service during 2012, we have elected to seek cash grants rather than ITC for which the projects also qualify. Accordingly, cash grant accounting, which is similar to deferral accounting of ITC, is required to be applied. As a result, the impact of our change in accounting policy for ITC on our financial statements for the three months ending March 31, 2012 is insignificant.

The following tables summarize the effects of the change in accounting principle on Sempra Energy Consolidated's condensed financial statements for historical periods presented.

EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE
(Dollars in millions, except per share amounts)

	Three months ended March 31, 2011		
Sempra Energy Consolidated	As Originally Reported	Adjustments	Retrospectively Adjusted
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS			
Depreciation and amortization	$ 231	$ (1)	$ 230
Income before income taxes and equity earnings of certain unconsolidated subsidiaries	342	1	343
Income tax expense	109	5	114
Net income	264	(4)	260
Earnings	258	(4)	254

Basic earnings per common share	$	1.07	$	(0.01)	$	1.06
Diluted earnings per common share	$	1.07	$	(0.02)	$	1.05
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS						
Net income	$	264	$	(4)	$	260
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization		231		(1)		230
Deferred income taxes and investment tax credits		88		(6)		82
Net change in other working capital components (income taxes)		286		11		297

	As of December 31, 2011					
	As Originally Reported		Adjustments		Retrospectively Adjusted	
CONDENSED CONSOLIDATED BALANCE SHEET						
Property, plant and equipment	$	31,303	$	(111)	$	31,192
Less accumulated depreciation and amortization		(7,731)		4		(7,727)
Property, plant and equipment, net	$	23,572	$	(107)	$	23,465
Income taxes payable	$	16	$	(11)	$	5
Deferred income taxes, noncurrent liability		1,554		(34)		1,520
Deferred credits and other		783		1		784
Retained earnings(1)		8,225		(63)		8,162

(1) Adjustment includes the cumulative effect of the change in accounting principle of reductions in net income and earnings of $26 million, $30 million, a negligible amount, and $7 million for the years ended December 31, 2011, 2010, 2009 and 2008, respectively.

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

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

§ quantitative information about the unobservable inputs

§ a description of the valuation process

§ a qualitative discussion about the sensitivity of the measurements

We adopted ASU 2011-04 on January 1, 2012 and it did not affect our financial position, results of operations or cash flows. The required disclosure is provided in Note 8.

ASU 2011-05, "Presentation of Comprehensive Income" (ASU 2011-05) and ASU 2011-12, "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05" (ASU 2011-12): ASU 2011-05 amends ASC Topic 220, Comprehensive Income, and eliminates the option to report other comprehensive income and its components in the statement of changes in equity. The ASU allows an entity an option to present the components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive, statements.

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

ASU 2011-12 defers the requirement to separately present on the face of the statement of operations or statement of comprehensive income reclassification adjustments for items that are reclassified from other comprehensive income to net income.

We adopted ASU 2011-05 on January 1, 2012 and have elected to present the components of net income and other comprehensive income in two separate, but consecutive, statements.

ASU 2011-11, "Disclosures about Offsetting Assets and Liabilities" (ASU 2011-11): In order to allow for balance sheet comparison between GAAP and IFRSs, ASU 2011-11 requires enhanced disclosures related to financial assets and liabilities eligible for offsetting in the statement of financial position. An entity will have to disclose both gross and net information about financial instruments and transactions subject to a master netting arrangement and eligible for offset, including cash collateral received and posted.

We will adopt ASU 2011-11 on January 1, 2013 as required and do not expect it to affect our financial position, results of operations or cash flows. We will provide the additional disclosure in our 2013 interim financial statements.

NOTE 3. ACQUISITION AND INVESTMENT ACTIVITY

We discuss our investments in unconsolidated entities in Note 4.

SEMPRA SOUTH AMERICAN UTILITIES

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

On April 6, 2011, Sempra South American Utilities acquired from AEI its interests in Chilquinta Energía in Chile and Luz del Sur in Peru, and their subsidiaries. Prior to the acquisition, Sempra South American Utilities and AEI each owned 50 percent of Chilquinta Energía and approximately 38 percent of Luz del Sur and accounted for the investments under the equity method. Upon completion of the acquisition and a public tender offer to the minority shareholders of Luz del Sur, Sempra South American Utilities owned 100 percent of Chilquinta Energía and approximately 80 percent of Luz del Sur, with the remaining shares of Luz del Sur held by institutional investors and the general public. As part of the transaction, Sempra South American Utilities also acquired AEI's interests in two energy-services companies, Tecnored S.A. (Tecnored) and Tecsur S.A. (Tecsur). We provide additional information about Sempra South American Utilities' acquisition of Chilquinta Energía and Luz del Sur and the public tender offer in Note 3 of the Notes to Consolidated Financial Statements in the Annual Report.

Our Condensed Consolidated Statements of Operations for the three months ended March 31, 2012 include 100 percent of the acquired companies' revenues, net income and earnings of $357 million, $49 million and $43 million, respectively. Net income and earnings include holding companies reported in Parent and Other. For the three months ended March 31, 2011, the acquired companies were accounted for as equity method investments and equity earnings were $12 million for each of Chilquinta Energía and Luz del Sur.

Following are pro forma revenues and earnings for Sempra Energy had the acquisition occurred at the beginning of the year prior to the year of acquisition, which primarily reflect the incremental increase to revenues and earnings from our increased ownership and consolidation of the entities acquired. Although some short-term debt borrowings may have resulted from the actual acquisition in 2011, we have not assumed any additional interest expense in the pro forma impact on earnings below, as the amounts would be immaterial due to the low interest rates available to us on commercial paper. The pro forma amounts do not include the impact of the increased ownership in Luz del Sur resulting from the tender offer completed in September 2011 discussed above and in Note 3 of the Notes to Consolidated Financial Statements in the Annual Report.

	Three months ended	
(Dollars in millions)	March 31, 2011	
Revenues	$	2,777
Earnings		279

NOTE 4. INVESTMENTS IN UNCONSOLIDATED ENTITIES

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

SEMPRA RENEWABLES

For the three months ended March 31, 2012, Sempra Renewables invested $50 million in its renewable wind generation joint ventures, of which $43 million was invested in the Flat Ridge 2 Wind Farm project.

SEMPRA NATURAL GAS

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), that links producing areas in the Rocky Mountains region to the upper Midwest and the eastern United States. Kinder Morgan Energy Partners L.P. (KMP) and ConocoPhillips (Conoco) own the remaining interests of 50 percent and 25 percent, respectively. Our total investment in Rockies Express is accounted for as an equity method investment.

KMP has announced its intention to sell certain assets, including its interest in REX. KMP is proposing to divest these assets in order for KMP's general partner, Kinder Morgan, Inc., to obtain approval for a proposed acquisition. We believe that this sales process could result in an indication of fair value for KMP's interest in REX. If so, we would consider what, if any, impacts this information could have on our recorded value for REX. If such information indicated an impairment of our investment, we would also need to evaluate whether such impairment, if any, was other than temporary, in accordance with applicable accounting standards for equity method investments.

RBS SEMPRA COMMODITIES

RBS Sempra Commodities LLP (RBS Sempra Commodities) is a United Kingdom limited liability partnership that owned and operated commodities-marketing businesses previously owned by us. We and our partner in the joint venture, The Royal Bank of Scotland plc (RBS), sold substantially all of the partnership's businesses and assets in four separate transactions completed in July, November and December of 2010 and February of 2011. We account for our investment in RBS Sempra Commodities under the equity method, and report our share of partnership earnings and other associated costs in Parent and Other.

In April 2011, we and RBS entered into a letter agreement (Letter Agreement) which amended certain provisions of the agreements that formed RBS Sempra Commodities. The Letter Agreement addresses the wind-down of the partnership and the distribution of the partnership's remaining assets. The investment balance of $126 million at March 31, 2012 reflects remaining distributions expected to be received from the partnership in accordance with the Letter Agreement. The timing and amount of distributions may be impacted by the matters we discuss related to RBS Sempra Commodities in Note 10 under "Other Litigation." 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.

In connection with the Letter Agreement described above, we also released RBS from its indemnification obligations with respect to the items for which J.P. Morgan Chase & Co. (JP Morgan), one of the buyers of the partnership's businesses, has agreed to indemnify us.

Pretax equity losses from RBS Sempra Commodities were $8 million for the three months ended March 31, 2011. We recorded no equity earnings or loss related to the partnership in the first quarter of 2012. The fair value measurement of our investment in RBS Sempra Commodities was significantly impacted by unobservable inputs (i.e., Level 3 inputs) as defined by the accounting guidance for fair value measurements which we discuss in Note 11 in the Notes to Consolidated Financial Statements in the Annual Report. The inputs included estimated future cash distributions expected from the partnership.

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

NOTE 5. OTHER FINANCIAL DATA

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.

VARIABLE INTEREST ENTITIES (VIE)

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

§ the purpose and design of the VIE;

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

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

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

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

Otay Mesa VIE

SDG&E has a 10-year agreement to purchase power generated at the Otay Mesa Energy Center (OMEC), a 605-megawatt (MW) generating facility that began operations in October 2009. 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 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. Sempra Energy and SDG&E have consolidated Otay Mesa VIE since the second quarter of 2007. Otay Mesa VIE's equity of $108 million at March 31, 2012 and $102 million at December 31, 2011 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 $352 million at March 31, 2012, the proceeds of which were used for the construction of OMEC. The loan is with third party lenders and is secured by OMEC's property, plant and equipment. SDG&E is not a party to the loan agreement and does not have any additional implicit or explicit financial responsibility to OMEC LLC. The loan fully matures in April 2019 and bears interest at rates varying with market rates. In addition, OMEC LLC has entered into interest rate swap agreements to moderate its exposure to interest rate changes. We provide additional information concerning the interest rate swaps in Note 7.

Other Variable Interest Entities

SDG&E's power procurement is subject to reliability requirements that may require SDG&E to enter into various power purchase arrangements which include variable interests. SDG&E evaluates the respective entities to determine if variable 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 as of March 31, 2012. In addition to the tolling agreements described above, other variable interests involve various elements of fuel and power costs, including certain construction costs, tax credits, and other components of cash flow expected to be paid to or received by our counterparties. In most of these cases, the expectation of variability is not substantial, and SDG&E generally does not have the power to direct activities that most significantly impact the economic performance of the other VIEs. If our ongoing evaluation of these VIEs were to conclude that SDG&E becomes the primary beneficiary and consolidation by SDG&E becomes necessary, the effects are not expected to significantly affect the financial position, results of operations, or liquidity of SDG&E. SDG&E is not exposed to losses or gains as a result of these other VIEs, because all such variability would be recovered in rates.

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

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 financial statements of other consolidated VIEs are not material to the financial statements of Sempra Energy. The captions on the table below correspond to SDG&E's Condensed Consolidated Statements of Operations.

AMOUNTS ASSOCIATED WITH OTAY MESA VIE (Dollars in millions)		
	Three months ended March 31,	
	2012	2011
Operating revenues		
Electric	$	$
Natural gas		
Total operating revenues		
Operating expenses		
Cost of electric fuel and purchased power	(19)	(17)
Operation and maintenance	4	4
Depreciation and amortization	6	6
Total operating expenses	(9)	(7)
Operating income	9	7
Interest expense	(3)	(3)
Income before income taxes/Net income	6	4
Earnings attributable to noncontrolling interest	(6)	(4)
Earnings	$	$

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

GOODWILL

Goodwill is the excess of the purchase price over the fair value of the identifiable net assets of acquired companies measured at the time of acquisition. Goodwill is not amortized but is tested annually on October 1 for impairment. Impairment of goodwill occurs when the carrying amount (book value) of goodwill exceeds its implied fair value. If the carrying value of the reporting unit, including goodwill, exceeds its fair value, and the book value of goodwill is greater than its fair value on the test date, we record a goodwill impairment loss.

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

GOODWILL (Dollars in millions)					
		Sempra South American Utilities	Sempra Mexico	Sempra Natural Gas	Total
Balance as of December 31, 2011	$	949 $	25 $	62 $	1,036
Foreign currency translation(1)		35			35
Balance at March 31, 2012	$	984 $	25 $	62 $	1,071

(1) We record the offset of this fluctuation to other comprehensive income.

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

PENSION AND OTHER POSTRETIREMENT BENEFITS

Remeasurement

The SoCalGas union collective bargaining agreement (CBA) covering wages, hours, working conditions and medical and other benefit plans was ratified on March 1, 2012 and is effective January 1, 2012 through September 30, 2015. The new CBA includes a change in plans offered for post-65 medical benefits. As a result, SoCalGas changed the option for administering the Medicare Part D benefit to an Employer Group Waiver Plan (EGWP). The EGWP allows a plan sponsor to contract with a Medicare Part D sponsor to receive the benefit of the subsidy through reduced premiums. Because this change in benefits is a significant event under GAAP, SoCalGas was required to remeasure the benefit obligations for this postretirement welfare plan as of February 29, 2012 and selected a discount rate of 4.65% for the remeasurement. The effect of the remeasurement was a $66 million decrease in the recorded liability for other postretirement benefits as of March 31, 2012 at SoCalGas and Sempra Energy Consolidated. We discuss the Medicare Part D benefit in Note 8 of the Notes to Consolidated Financial Statements in the Annual Report.

Net Periodic Benefit Cost

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

NET PERIODIC BENEFIT COST – SEMPRA ENERGY CONSOLIDATED
(Dollars in millions)

	Pension Benefits		Other Postretirement Benefits	
	Three months ended March 31,		Three months ended March 31,	
	2012	2011	2012	2011
Service cost	$ 23	$ 22	$ 8	$ 7
Interest cost	41	43	14	17
Expected return on assets	(39)	(37)	(13)	(12)
Amortization of:				
Prior service cost	1	1		
Actuarial loss	12	9	3	4
Regulatory adjustment	(30)	(29)	3	2
Total net periodic benefit cost	$ 8	$ 9	$ 15	$ 18

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

	Pension Benefits		Other Postretirement Benefits	
	Three months ended March 31,		Three months ended March 31,	
	2012	2011	2012	2011
Service cost	$ 7	$ 7	$ 2	$ 2
Interest cost	12	13	2	2
Expected return on assets	(12)	(12)	(1)	(2)
Amortization of:				
Prior service cost		1	1	1
Actuarial loss	4	2		

Regulatory adjustment	(10)	(9)		1
Total net periodic benefit cost	$ 1	$ 2	$ 4	$ 4

NET PERIODIC BENEFIT COST – SOCALGAS
(Dollars in millions)

	Pension Benefits Three months ended March 31,		Other Postretirement Benefits Three months ended March 31,	
	2012	2011	2012	2011
Service cost	$ 13	$ 12	$ 5	$ 5
Interest cost	25	25	11	13
Expected return on assets	(24)	(22)	(11)	(10)
Amortization of:				
Prior service cost (credit)	1	1	(1)	(1)
Actuarial loss	6	4	3	5
Regulatory adjustment	(20)	(20)	3	1
Total net periodic benefit cost	$ 1	$	$ 10	$ 13

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 2012:

(Dollars in millions)	Sempra Energy Consolidated	SDG&E	SoCalGas
Contributions through March 31, 2012:			
Pension plans	$ 10	$	$ 2
Other postretirement benefit plans	15	4	10
Total expected contributions in 2012:			
Pension plans	$ 218	$ 67	$ 113
Other postretirement benefit plans	46	14	27

EARNINGS PER SHARE

The following table provides the per share computations for our earnings for the three months ended March 31, 2012 and 2011. Basic earnings per common share (EPS) is calculated by dividing earnings attributable to common stock by the weighted-average number of common shares outstanding for the period. Diluted EPS includes the potential dilution of common stock equivalent shares that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

EARNINGS PER SHARE COMPUTATIONS
(Dollars in millions, except per share amounts; shares in thousands)

	Three months ended March 31,	
	2012	2011(1)
Numerator:		
Earnings/Income attributable to common shareholders	$ 236	$ 254

Denominator:				
Weighted-average common shares outstanding for basic EPS		240,566		240,128
Dilutive effect of stock options, restricted stock awards and restricted stock units		3,195		1,775
Weighted-average common shares outstanding for diluted EPS		243,761		241,903
Earnings per share:				
Basic	$	0.98	$	1.06
Diluted	$	0.97	$	1.05

(1) As adjusted for the retrospective effect of a change in accounting principle as we discuss in Note 1.

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 and 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 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 767,833 and 2,120,225 such antidilutive stock options outstanding during the three months ended March 31, 2012 and 2011, respectively.

We had no stock options outstanding during the three months ended March 31, 2012 and 10,800 stock options outstanding during the three months ended March 31, 2011 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 and 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 recognized 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 RSUs from the application of unearned compensation in the treasury stock method for the three months ended March 31, 2012 and 997,609 such antidilutive RSUs for the three months ended March 31, 2011. There were 15,932 such antidilutive RSAs for the three months ended March 31, 2012 and none for the three months ended March 31, 2011.

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

Four-Year Cumulative Total Shareholder Return Ranking versus S&P 500 Utilities Index(1)	Number of Sempra Energy Common Shares Received for Each Restricted Stock Unit(2)
75th Percentile or Above	1.5
50th Percentile	1
35th Percentile or Below	

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

(2) Participants may also receive additional shares for dividend equivalents on shares subject to restricted stock units, which are reinvested to purchase additional shares that become subject to the same vesting conditions as the restricted stock units to which the dividends relate.

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

RSUs and RSAs may be excluded from potential dilutive shares by the application of unearned compensation in the treasury stock method or because performance goals are currently not met. The maximum excluded RSUs and RSAs, assuming performance goals were met at maximum levels, were 3,191,073 and 3,959,911 for the three months ended March 31, 2012 and 2011, respectively.

COMMON STOCK REPURCHASE PROGRAM

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

SHARE-BASED COMPENSATION

We discuss our share-based compensation plans in Note 9 of the Notes to Consolidated Financial Statements in the Annual Report. We recorded share-based compensation expense, net of income taxes, of $5 million and $6 million for the three months ended March 31, 2012 and 2011, respectively. Pursuant to our share-based compensation plans, we granted 905,868 RSUs and 15,932 RSAs during the three months ended March 31, 2012, primarily in January.

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. The following table shows capitalized financing costs for the three months ended March 31, 2012 and 2011.

CAPITALIZED FINANCING COSTS (Dollars in millions)		
	Three months ended March 31,	
	2012	2011
Sempra Energy Consolidated:		

AFUDC related to debt	$	14 $	8
AFUDC related to equity		35	19
Other capitalized financing costs		11	6
Total Sempra Energy Consolidated	$	60 $	33
SDG&E:			
AFUDC related to debt	$	12 $	6
AFUDC related to equity		29	15
Total SDG&E	$	41 $	21
SoCalGas:			
AFUDC related to debt	$	2 $	2
AFUDC related to equity		6	4
Total SoCalGas	$	8 $	6

COMPREHENSIVE INCOME

The amounts for comprehensive income in the Condensed Consolidated Statements of Comprehensive Income are net of income tax expense (benefit) as follows:

INCOME TAX EXPENSE (BENEFIT) ASSOCIATED WITH OTHER COMPREHENSIVE INCOME
(Dollars in millions)

	Three months ended March 31,					
	2012			2011		
	Sempra Energy	Non-controlling Interests	Total	Sempra Energy	Non-controlling Interests	Total
Sempra Energy Consolidated:						
Net actuarial gain	$ 1	$	$ 1	$ 1	$	$ 1
Financial instruments	3		3	1		1

Income tax amounts associated with other comprehensive income during the three months ended March 31, 2012 and 2011 at SDG&E and SoCalGas were negligible.

SHAREHOLDERS’ EQUITY AND NONCONTROLLING INTERESTS

The following two tables provide a reconciliation of Sempra Energy’s and SDG&E’s shareholders’ equity and noncontrolling interests for the three months ended March 31, 2012 and 2011.

SHAREHOLDERS’ EQUITY AND NONCONTROLLING INTERESTS
(Dollars in millions)

		Sempra Energy Shareholders’ Equity	Non-controlling Interests	Total Equity
Balance at December 31, 2011	$	9,775 $	403 $	10,178
Comprehensive income		309	17	326

Preferred dividends of subsidiaries		(2)		(2)
Share-based compensation expense		11		11
Common stock dividends declared		(144)		(144)
Issuance of common stock		13		13
Repurchase of common stock		(16)		(16)
Common stock released from ESOP		6		6
Distributions to noncontrolling interests			(2)	(2)
Balance at March 31, 2012	$	9,952 $	418 $	10,370
Balance at December 31, 2010	$	8,990 $	211 $	9,201
Comprehensive income		254	5	259
Preferred dividends of subsidiaries		(2)		(2)
Share-based compensation expense		11		11
Common stock dividends declared		(115)		(115)
Issuance of common stock		15		15
Tax benefit related to share-based compensation		2		2
Repurchase of common stock		(17)		(17)
Common stock released from ESOP		7		7
Equity contributed by noncontrolling interests			1	1
Balance at March 31, 2011	$	9,145 $	217 $	9,362

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

		SDG&E Shareholder's Equity	Non-controlling Interest	Total Equity
Balance at December 31, 2011	$	3,739 $	102 $	3,841
Comprehensive income		106	6	112
Preferred stock dividends declared		(1)		(1)
Balance at March 31, 2012	$	3,844 $	108 $	3,952
Balance at December 31, 2010	$	3,108 $	113 $	3,221
Comprehensive income		90	5	95
Preferred stock dividends declared		(1)		(1)
Capital contribution		200		200
Equity contributed by noncontrolling interest			1	1
Balance at March 31, 2011	$	3,397 $	119 $	3,516

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. Net income or loss attributable to the noncontrolling interests is separately identified on the Condensed Consolidated Statements of Operations, and comprehensive income attributable to the noncontrolling interests is separately identified on the Condensed Consolidated Statements of Comprehensive Income.

The preferred stock of SoCalGas is presented at Sempra Energy as a noncontrolling interest at March 31, 2012 and December 31, 2011. The preferred stock of SDG&E is contingently redeemable preferred stock. At Sempra Energy, the preferred stock dividends of both SDG&E and SoCalGas are charges against income related to noncontrolling interests. We provide additional information concerning preferred stock in Note 12 of the Notes to Consolidated Financial Statements in the Annual Report. At March 31, 2012 and December 31, 2011, Sempra Energy Consolidated reported the following other noncontrolling ownership interests held by others:

OWNERSHIP INTERESTS HELD BY OTHERS
(Dollars in millions)

	Percent Ownership Held by Others	March 31, 2012	December 31, 2011
Bay Gas Storage, Ltd.(1)	9 %	$ 18	$ 17
Southern Gas Transmission Company(1)	49	1	1
Liberty Gas Storage, LLC(1)	25	9	9
Tecsur	10	3	4
Luz del Sur	20	222	216
Chilquinta Energía subsidiaries	15 - 43	37	34
Otay Mesa VIE (at SDG&E)	100	108	102
Total Sempra Energy		$ 398	$ 383

(1) Part of Sempra Natural Gas.

TRANSACTIONS WITH AFFILIATES

Loans to Unconsolidated Affiliates

Sempra South American Utilities has a U.S. dollar-denominated loan to Camuzzi Gas del Sur S.A., an affiliate of the segment's Argentine investments, which we discuss in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report. The loan has an $18 million principal balance outstanding plus $6 million of accumulated interest at a variable interest rate (7.58 percent as of March 31, 2012). In June 2011, the maturity date of the loan was extended from June 2011 to June 30, 2012. The loan was fully reserved at March 31, 2012 and December 31, 2011.

Investments

Sempra Energy, at Parent and Other, has an investment in bonds issued by Chilquinta Energía that we discuss in Note 5 of the Notes to Consolidated Financial Statements in the Annual Report.

Other Affiliate Transactions

Sempra Energy, SDG&E and SoCalGas provide certain services to each other and are charged an allocable share of the cost of such services. Amounts due to/from affiliates are as follows:

AMOUNTS DUE TO AND FROM AFFILIATES AT SDG&E AND SOCALGAS
(Dollars in millions)

	March 31, 2012	December 31, 2011
SDG&E		

Current:				
Due from SoCalGas	$		$	2
Due from various affiliates		1		65
	$	1	$	67
Due to Sempra Energy	$	25	$	14
Due to SoCalGas		11		
	$	36	$	14
Income taxes due from Sempra Energy(1)	$	85	$	97
SoCalGas				
Current:				
Due from Sempra Energy	$	218	$	23
Due from SDG&E		11		
Due from various affiliates				17
	$	229	$	40
Due to SDG&E	$		$	2
Income taxes due (to) from Sempra Energy(1)	$	(9)	$	17

(1) SDG&E and SoCalGas are included in the consolidated income tax return of Sempra Energy and are allocated income tax expense from Sempra Energy in an amount equal to that which would result from the companies' having always filed a separate return.

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

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

	Three months ended March 31,			
	2012		2011	
SDG&E	$	2	$	2
SoCalGas		15		13

Transactions with RBS Sempra Commodities

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

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

		Three months ended March 31, 2011
Revenues:		
Sempra Mexico	$	33
Sempra Natural Gas		12
Cost of natural gas:		
Sempra Mexico	$	58
Sempra Natural Gas		3

OTHER INCOME, NET

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

OTHER INCOME, NET
(Dollars in millions)

		Three months ended March 31, 2012		2011
Sempra Energy Consolidated:				
Allowance for equity funds used during construction	$	35	$	19
Investment gains(1)		19		8
Gains on interest rate and foreign exchange instruments, net		11		10
Regulatory interest, net(2)		1		
Sundry, net		9		6
Total	$	75	$	43
SDG&E:				
Allowance for equity funds used during construction	$	29	$	15
Regulatory interest, net(2)		1		
Sundry, net				1
Total	$	30	$	16
SoCalGas:				
Allowance for equity funds used during construction	$	6	$	4
Sundry, net		(2)		(1)
Total	$	4	$	3

(1) Represents investment gains on dedicated assets in support of our executive retirement and deferred compensation plans. These amounts are partially offset by corresponding changes in compensation expense related to the plans.

(2) Interest on regulatory balancing accounts.

INCOME TAXES

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

	Three months ended March 31, 2012	2011

	Income Tax Expense	Effective Income Tax Rate	Income Tax Expense	Effective Income Tax Rate
Sempra Energy Consolidated	$ 117	33 %	$ 114	33 %
SDG&E	60	35	49	34
SoCalGas	40	38	37	35

Changes in Effective Income Tax Rates

Sempra Energy Consolidated

While our effective tax rate for the three months ended March 31, 2012 remained unchanged from the prior year, it was impacted by:

§ higher income tax expense in 2012 due to Mexican currency translation adjustments;

§ lower deductions for self-developed software costs; and

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

§ lower book depreciation over income tax depreciation related to a certain portion of utility plant fixed assets; and

§ higher planned renewable energy income tax credits and deferred income tax benefits related to renewable energy projects.

Sempra Energy, SDG&E and SoCalGas record income taxes for interim periods utilizing a forecasted effective tax rate, 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 spread evenly over the year. The forecasted items may include, among others, self-developed software, renewable energy income tax credits, exclusions from taxable income of the equity portion of AFUDC, and depreciation on a certain portion of utility plant assets. Items that cannot be reliably forecasted (e.g., adjustments related to prior years' income tax issues, Mexican currency translation and inflation adjustments, etc.) are recorded in the interim period in which they actually occur, which can result in variability to income tax expense.

Our plan for assets placed into service in 2012 includes assets that were under construction in 2011. We have used grant accounting for these assets in anticipation of applying for cash grants. Grant accounting for cash grants is very similar to the deferral method of accounting for investment tax credits, the primary difference being the recording of a grant receivable instead of an income tax receivable.

Under the deferral method of accounting for ITC and under grant accounting for cash grants, a deferred income tax benefit, on day one, is reflected in income tax expense by recording a deferred tax asset when renewable energy assets are placed in service. This deferred tax asset results from the day-one difference in the income tax basis and financial statement basis of the renewable energy assets, referred to as the "day-one basis difference." The financial statement basis of the assets is reduced by 100 percent of the ITC or grant expected; U.S. Federal income tax basis is reduced by only 50 percent for both ITC and grants; and state income tax basis is reduced 50 percent for grants and not at all for ITC.

SDG&E

The increase in SDG&E's effective income tax rate for the three months ended March 31, 2012 was primarily due to:

§ lower deductions for self-developed software costs; and

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

§ lower book depreciation over income tax depreciation related to a certain portion of utility plant fixed assets; and

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

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

SoCalGas

The increase in SoCalGas' effective income tax rate for the three months ended March 31, 2012 was primarily due to:

§ lower deductions for self-developed software costs; and

§ unfavorable adjustments related to prior years' income tax issues in 2012 versus favorable adjustments in 2011; offset by

§ lower book depreciation over income tax depreciation related to a certain portion of utility plant fixed assets.

The California Public Utilities Commission (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 taxes are not recorded to deferred income tax expense, but rather to a regulatory asset or liability. 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:

§ the equity portion of AFUDC

§ cost of removal of utility plant assets

§ self-developed software costs

§ depreciation on a certain portion of utility plant assets

NOTE 6. DEBT AND CREDIT FACILITIES

COMMITTED LINES OF CREDIT

At March 31, 2012, Sempra Energy Consolidated had $4.1 billion in committed lines of credit to provide liquidity and to support commercial paper and variable-rate demand notes, the major components of which we detail below.

Available unused credit on these lines at March 31, 2012 was $3.4 billion.

Sempra Energy

In March 2012, Sempra Energy entered into a new $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. The new facility replaces the $1.0 billion credit agreement set to expire in 2014.

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

At March 31, 2012, Sempra Energy had $2 million of variable-rate demand notes outstanding supported by the facility.

Sempra Global

In March 2012, Sempra Global entered into 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. The new facility replaces the $2.0 billion credit agreement set to expire in 2014.

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 March 31, 2012, Sempra Global had $417 million of commercial paper outstanding supported by the facility. At December 31, 2011, $400 million of commercial paper outstanding was classified as long-term debt based on management’s intent and ability to maintain this level of borrowing on a long-term basis either supported by this credit facility or by issuing long-term debt. This classification has no impact on cash flows. As a result of issuances of long-term debt in the three months ended March 31, 2012, as we discuss below, none of the commercial paper outstanding at March 31, 2012 is classified as long-term debt.

California Utilities

In March 2012, SDG&E and SoCalGas entered into a new 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 $200 million for both utilities. The amount of borrowings otherwise available under the facility is reduced by the amount of outstanding letters of credit. The new facility replaces the $800 million combined credit agreement set to expire in 2014.

Borrowings under the facility bear interest at benchmark rates plus a margin that varies with market index rates and the borrowing utility's credit ratings. The agreement requires each utility to maintain a ratio of total indebtedness to total capitalization (as defined in the agreement) of no more than 65 percent at the end of each quarter.

Each utility's obligations under the agreement are individual obligations, and a default by one utility would not constitute a default by the other utility or preclude borrowings by, or the issuance of letters of credit on behalf of, the other utility.

At March 31, 2012, SDG&E and SoCalGas had no outstanding borrowings and SDG&E had $237 million variable-rate demand notes outstanding supported by the facility. Available unused credit on the lines at March 31, 2012 was $421 million at SDG&E and $640 million at SoCalGas; SoCalGas' availability reflects the impact of SDG&E's use of the combined credit available on the line.

GUARANTEES

RBS Sempra Commodities

As we discuss in Note 4, in 2010 and early 2011, Sempra Energy, RBS and RBS Sempra Commodities sold substantially all of the businesses and assets within the partnership in four separate transactions. In connection with each of these transactions, the buyers were, subject to certain qualifications, obligated to replace any guarantees that we had issued in connection with the applicable businesses sold with guarantees of their own. The buyers substantially completed this process in 2011 with regard to existing, open positions. For those guarantees which have not been replaced, the buyers are obligated to indemnify us in accordance with the applicable transaction documents for any claims or losses in connection with the guarantees that we issued associated with the businesses sold.

At March 31, 2012, RBS Sempra Commodities no longer requires significant working capital support. However, we have provided back-up guarantees for a portion of RBS Sempra Commodities' remaining trading obligations. A few of these back-up guarantees may continue for a prolonged period of time. RBS has fully indemnified us for any claims or losses in connection with these arrangements, with the exception of those obligations for which JP Morgan has agreed to indemnify us. We discuss the indemnification release in Note 4.

RBS Sempra Commodities' net trading liabilities supported by Sempra Energy's guarantees at March 31, 2012 were negligible, consisting of guaranteed trading obligations net of collateral. The amount of guaranteed net trading liabilities varies from day to day with the value of the trading obligations and related collateral. We discuss additional matters related to our investment in RBS Sempra Commodities in Note 10.

WEIGHTED AVERAGE INTEREST RATES

The weighted average interest rates on the total short-term debt outstanding at Sempra Energy were 0.72 percent and 0.93 percent at March 31, 2012 and December 31, 2011, respectively. The weighted average interest rates at December 31, 2011 include interest rates for commercial paper borrowings classified as long-term, as we discuss above.

LONG-TERM DEBT

In March 2012, Sempra Energy publicly offered and sold $600 million of 2.3-percent notes maturing in 2017.

In March 2012, SDG&E publicly offered and sold $250 million of 4.3-percent first mortgage bonds maturing in 2042.

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 (cash flow hedge), on the balance sheet (fair value hedges and regulatory offsets), or recognized in earnings. We classify cash flows from the settlements of derivative instruments as operating activities on the Condensed Consolidated Statements of Cash Flows.

In certain cases, we apply the normal purchase or sale exception to derivative accounting and have other commodity contracts that are not derivatives. These contracts are not recorded at fair value and are therefore excluded from the disclosures below.

HEDGE ACCOUNTING

We may designate a derivative as a cash flow hedging instrument if it effectively converts anticipated revenues or expenses to a fixed dollar amount. We may utilize cash flow hedge accounting for derivative commodity instruments and interest rate instruments. Designating cash flow hedges is dependent on the business context in which the instrument is being used, the effectiveness of the instrument in offsetting the risk that a given future revenue or expense item may vary, and other criteria.

We may designate an interest rate derivative as a fair value hedging instrument if it effectively converts our own debt from a fixed interest rate to a variable rate. The combination of the derivative and debt instruments results in fixing that portion of the fair value of the debt that is related to benchmark interest rates. Designating fair value hedges is dependent on the instrument being used, the effectiveness of the instrument in offsetting changes in the fair value of our debt instruments, and other criteria.

ENERGY DERIVATIVES

Our market risk is primarily related to natural gas and electricity price volatility and the specific physical locations where we transact. We use energy derivatives to manage these risks. The use of energy derivatives in our various businesses depends on the particular energy market, and the operating and regulatory environments applicable to the business.

§ The California Utilities use natural gas energy derivatives, on their customers' behalf, with the objective of managing price risk and basis risks, and lowering natural gas costs. These derivatives include fixed price natural gas positions, options, and basis risk instruments, which are either exchange-traded or over-the-counter financial instruments. This activity is governed by risk management and transacting activity plans that have been filed with and approved by the CPUC. Natural gas derivative activities are recorded as commodity costs that are offset by regulatory account balances and are recovered in rates. Net commodity cost impacts on the Condensed Consolidated Statements of Operations are reflected in Cost of Electric Fuel and Purchased Power or in Cost of Natural Gas.

§ SDG&E is allocated and may purchase congestion revenue rights (CRRs), which serve to reduce the regional electricity price volatility risk that may result from local transmission capacity constraints. Unrealized gains and losses do not impact earnings, as they are offset by regulatory account balances. Realized gains and losses associated with CRRs are recorded in Cost of Electric Fuel and Purchased Power, which is recoverable in rates, on the Condensed Consolidated Statements of Operations.

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

§ Sempra Mexico and Sempra Natural Gas use natural gas derivatives to market energy commodities and optimize the earnings of our liquefied natural gas (LNG) business and Sempra Natural Gas' natural gas storage and transportation assets and LNG assets. These derivatives are undesignated, and their impact on earnings is recorded in Energy-Related Businesses Revenues on the Condensed Consolidated Statements of Operations. 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 as of March 31, 2012 and December 31, 2011 as follows:

Segment and Commodity	March 31, 2012	December 31, 2011
California Utilities:		
SDG&E:		
Natural gas	32 million MMBtu	35 million MMBtu(1)
Congestion revenue rights	17 million MWh	19 million MWh(2)
Energy-Related Businesses:		

Sempra Natural Gas:		
Electric power	4 million MWh	5 million MWh
Natural gas	15 million MMBtu	20 million MMBtu
Sempra Mexico - natural gas	1 million MMBtu	1 million MMBtu

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

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

INTEREST RATE DERIVATIVES

We are exposed to interest rates primarily as a result of our current and expected use of financing. We periodically enter into interest rate derivative agreements intended to moderate our exposure to interest rates and to lower our overall costs of borrowing. We utilize interest rate swaps typically designated as fair value hedges, as a means to achieve our targeted level of variable rate debt as a percent of total debt. In addition, we may utilize interest rate swaps, which are typically designated as cash flow hedges, to lock in interest rates on outstanding debt or in anticipation of future financings.

Interest rate derivatives are utilized by the 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 natural gas derivatives. Accordingly, 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.

The net notional amounts of our interest rate derivatives as of March 31, 2012 and December 31, 2011 were:

	March 31, 2012		December 31, 2011	
(Dollars in millions)	Notional Debt	Maturities	Notional Debt	Maturities
Sempra Energy Consolidated(1)	$ 15-305	2013-2019	$ 15-305	2013-2019
SDG&E(1)	285-352	2019	285-355	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 primarily as a result of our Mexican subsidiaries, which have U.S. dollar denominated 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 short-term 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.

FINANCIAL STATEMENT PRESENTATION

The following tables provide the fair values of derivative instruments, without consideration of margin deposits held or posted, on the Condensed Consolidated Balance Sheets as of March 31, 2012 and December 31, 2011:

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

	March 31, 2012			
Derivatives designated as hedging instruments	Current assets: Fixed-price contracts and other derivatives(1)	Investments and other assets: Sundry	Current liabilities: Fixed-price contracts and other derivatives(2)	Deferred credits and other liabilities: Fixed-price contracts and other derivatives
Sempra Energy Consolidated:				
Interest rate instruments(3)	$ 7	$ 12	$ (17)	$ (61)
SDG&E:				
Interest rate instruments(3)	$	$	$ (17)	$ (61)
Derivatives not designated as hedging instruments				
Sempra Energy Consolidated:				
Interest rate instruments	$ 8	$ 37	$ (8)	$ (31)
Commodity contracts not subject to rate recovery	234	23	(232)	(40)
Associated offsetting commodity contracts	(208)	(19)	208	19
Commodity contracts subject to rate recovery	21	7	(69)	(23)
Associated offsetting commodity contracts	(6)	(1)	6	1
Total	$ 49	$ 47	$ (95)	$ (74)
SDG&E:				
Commodity contracts subject to rate recovery	$ 18	$ 7	$ (66)	$ (23)
Associated offsetting commodity contracts	(3)	(1)	3	1
Total	$ 15	$ 6	$ (63)	$ (22)
SoCalGas:				
Commodity contracts not subject to rate recovery	$ 1	$	$	$
Commodity contracts subject to rate recovery	2		(3)	
Associated offsetting commodity contracts	(2)		2	
Total	$ 1	$	$ (1)	$

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

(2) Included in Current Liabilities: Other for SoCalGas.
(3) Includes Otay Mesa VIE. All of SDG&E's amounts relate to Otay Mesa VIE.

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

	December 31, 2011			
Derivatives designated as hedging instruments	Current assets: Fixed-price contracts and other derivatives(1)	Investments and other assets: Sundry	Current liabilities: Fixed-price contracts and other derivatives(2)	Deferred credits and other liabilities: Fixed-price contracts and other derivatives
Sempra Energy Consolidated:				
Interest rate instruments(3)	$ 5	$ 11	$ (17)	$ (65)
SDG&E:				
Interest rate instruments(3)	$	$	$ (16)	$ (65)
Derivatives not designated as hedging instruments				
Sempra Energy Consolidated:				
Interest rate instruments	$ 8	$ 41	$ (7)	$ (36)
Commodity contracts not subject to rate recovery	156	72	(148)	(94)
Associated offsetting commodity contracts	(120)	(68)	120	68
Commodity contracts subject to rate recovery	28	8	(62)	(24)
Associated offsetting commodity contracts	(10)	(2)	10	2
Total	$ 62	$ 51	$ (87)	$ (84)
SDG&E:				
Commodity contracts subject to rate recovery	$ 22	$ 8	$ (55)	$ (24)
Associated offsetting commodity contracts	(5)	(2)	5	2
Total	$ 17	$ 6	$ (50)	$ (22)
SoCalGas:				
Commodity contracts subject to rate recovery	$ 6	$	$ (7)	$
Associated offsetting commodity contracts	(5)		5	
Total	$ 1	$	$ (2)	$

(1)

(2)	Included in Current Assets: Other for SoCalGas. Included in Current Liabilities: Other for SoCalGas.
(3)	Includes Otay Mesa VIE. All of SDG&E's amounts relate to Otay Mesa VIE.

The effects of derivative instruments designated as hedges on the Condensed Consolidated Statements of Operations and on Other Comprehensive Income (OCI) and Accumulated Other Comprehensive Income (AOCI) for the three months ended March 31 were:

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

	Location	Gain (loss) on derivatives recognized in earnings Three months ended March 31, 2012		2011	
Sempra Energy Consolidated:					
Interest rate instruments	Interest Expense	$	2	$	3
Interest rate instruments	Other Income, Net		2		(5)
Total(1)		$	4	$	(2)
SoCalGas:					
Interest rate instrument	Interest Expense	$		$	1
Interest rate instrument	Other Income, Net				(3)
Total(1)		$		$	(2)

(1) There has been no hedge ineffectiveness on these swaps. Changes in the fair values of the interest rate swap agreements are exactly offset by changes in the fair value of the underlying long-term debt.

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

	Pretax gain recognized in OCI (effective portion) Three months ended March 31, 2012		2011		Location	Loss reclassified from AOCI into earnings (effective portion) Three months ended March 31, 2012		2011	
Sempra Energy Consolidated:									
Interest rate instruments(1)	$	3	$		Interest Expense	$	(1)	$	(2)
Interest rate instruments		1		1	Equity Earnings, Net of Income Tax		(2)		(1)
Total	$	4	$	1		$	(3)	$	(3)
SDG&E:									
	$		$		Interest Expense	$		$	(1)

Interest rate instruments(1)								
SoCalGas:								
Interest rate instruments	$		$		Interest Expense	$	(1)	$	(1)

(1) Amounts include Otay Mesa VIE. All of SDG&E's interest rate derivative activity relates to Otay Mesa VIE. There has been a negligible amount of ineffectiveness related to these swaps.

Sempra Energy expects that losses of $14 million, which are net of income tax benefit, that are 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. Actual amounts ultimately reclassified into earnings depend on the interest rates in effect when derivative contracts that are currently outstanding mature.

SDG&E and SoCalGas expect that losses of $5 million and $1 million, respectively, which are net of income tax benefit, that are 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 March 31, 2012 is 85 months for Sempra Energy and SDG&E. The maximum term of exposure related to contracts at Sempra Renewables' equity method investees is 18 years.

We recorded negligible hedge ineffectiveness in the three months ended March 31, 2012.

The effects of derivative instruments not designated as hedging instruments on the Condensed Consolidated Statements of Operations for the three months ended March 31 were:

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

		Gain (loss) on derivatives recognized in earnings			
		Three months ended March 31,			
	Location	2012		2011	
Sempra Energy Consolidated:					
Interest rate and foreign exchange instruments	Other Income, Net	$	11	$	10
Commodity contracts not subject to rate recovery	Revenues: Energy-Related Businesses				