

SAN DIEGO GAS & ELECTRIC CO  
 Form 10-Q  
 August 06, 2013

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

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

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

Yes      X      No

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

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

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

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

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

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

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

Common stock outstanding on August 2, 2013:

Sempra Energy	244,248,233 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  
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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.

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## INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

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

In this report, when we use words such as “believes,” “expects,” “anticipates,” “plans,” “estimates,” “projects,” “forecasts,” “contemplates,” “intends,” “depends,” “should,” “could,” “would,” “will,” “may,” “potential,” “target,” “pursue,” “goals,” or s

expressions, or when we 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 and the timing of actions by the California Public Utilities Commission, California State Legislature, Federal Energy Regulatory Commission, U.S. Department of Energy, Nuclear Regulatory Commission, Atomic Safety and Licensing Board, 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 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, equipment failures and the decommissioning of San Onofre Nuclear Generating Station (SONGS);

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

§ risks inherent in nuclear power facilities and radioactive materials storage, including the catastrophic release of such materials, the disallowance of the recovery of the investment in or operating costs of the nuclear facility due to an extended outage and facility closure, and increased regulatory oversight;

§ 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 impact on reliability of SDG&E's electric transmission and distribution system due to increased power supply from renewable energy sources;

§ the impact on competitive customer rates of the growth in distributed and local power generation and the corresponding decrease in demand for power delivered through our electric transmission and distribution system;

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

§ 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 most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission.

## PART I – FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(unaudited)			
<b>REVENUES</b>				
Utilities	\$ 2,332	\$ 1,838	\$ 4,666	\$ 3,929
Energy-related businesses	319	251	635	543
Total revenues	2,651	2,089	5,301	4,472
<b>EXPENSES AND OTHER INCOME</b>				
Utilities:				
Cost of natural gas	(365)	(221)	(921)	(652)
Cost of electric fuel and purchased power	(477)	(349)	(924)	(737)
Energy-related businesses:				
Cost of natural gas, electric fuel and purchased power	(94)	(81)	(205)	(210)
Other cost of sales	(49)	(41)	(97)	(74)
Operation and maintenance	(740)	(727)	(1,464)	(1,398)
Depreciation and amortization	(247)	(266)	(542)	(523)
Franchise fees and other taxes	(81)	(79)	(187)	(175)
Loss from plant closure	(200)		(200)	
Gain on sale of assets		7	74	7
Equity earnings (losses), before income tax	8	(293)	18	(281)
Other income, net	26	18	63	93
Interest income	4	4	10	9
Interest expense	(138)	(113)	(276)	(226)

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Income (losses) before income taxes and equity earnings					
of certain unconsolidated subsidiaries	298	(52)	650	305	
Income tax (expense) benefit	(32)	118	(210)	1	
Equity earnings, net of income tax	1	8	5	19	
Net income	267	74	445	325	
Earnings attributable to noncontrolling interests	(21)	(11)	(19)	(24)	
Preferred dividends of subsidiaries	(1)	(1)	(3)	(3)	
Earnings	\$ 245	\$ 62	\$ 423	\$ 298	
Basic earnings per common share	\$ 1.00	\$ 0.26	\$ 1.74	\$ 1.24	
Weighted-average number of shares outstanding, basic (thousands)	243,603	241,141	243,449	240,853	
Diluted earnings per common share	\$ 0.98	\$ 0.25	\$ 1.70	\$ 1.21	
Weighted-average number of shares outstanding, diluted (thousands)	248,515	246,260	248,279	245,766	
Dividends declared per share of common stock	\$ 0.63	\$ 0.60	\$ 1.26	\$ 1.20	

See Notes to Condensed Consolidated Financial Statements.

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

	Three months ended June 30,					
	2013			2012		
	(unaudited)					
	Sempra Energy	Non-controlling Interests	Total	Sempra Energy	Non-controlling Interests	Total
Net income	\$ 246	\$ 21	\$ 267	\$ 63	\$ 11	\$ 74
Other comprehensive income (loss), net of income tax:						
Foreign currency translation adjustments	134	(20)	114	(33)	(1)	(34)
Net actuarial gain	1		1	4		4
Financial instruments	23	15	38	(9)	(9)	(18)
Total other comprehensive income (loss)	158	(5)	153	(38)	(10)	(48)
Total comprehensive income	404	16	420	25	1	26
Preferred dividends of subsidiaries	(1)		(1)	(1)		(1)
Total comprehensive income, after preferred dividends of subsidiaries	\$ 403	\$ 16	\$ 419	\$ 24	\$ 1	\$ 25
	Six months ended June 30,					
	2013			2012		
	(unaudited)					
	Sempra Energy	Non-controlling Interests	Total	Sempra Energy	Non-controlling Interests	Total

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Net income	\$ 426	\$ 19	\$ 445	\$ 301	\$ 24	\$ 325
Other comprehensive income (loss), net of income tax:						
Foreign currency translation adjustments	144	(24)	120	34	3	37
Net actuarial gain	4		4	5		5
Financial instruments	9	18	27	(6)	(9)	(15)
Total other comprehensive income (loss)	157	(6)	151	33	(6)	27
Total comprehensive income	583	13	596	334	18	352
Preferred dividends of subsidiaries	(3)		(3)	(3)		(3)
Total comprehensive income, after preferred dividends of subsidiaries	\$ 580	\$ 13	\$ 593	\$ 331	\$ 18	\$ 349

See Notes to Condensed Consolidated Financial Statements.

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

	June 30, 2013 (unaudited)	December 31, 2012(1)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 954	\$ 475
Restricted cash	89	46
Trade accounts receivable, net	1,007	1,146
Other accounts and notes receivable, net	154	153
Income taxes receivable	129	56
Deferred income taxes	76	148
Inventories	357	408
Regulatory balancing accounts – undercollected	325	395
Regulatory assets	190	62
Fixed-price contracts and other derivatives	81	95
U.S. Treasury grants receivable	164	258
Asset held for sale, power plant		296
Other	135	157
Total current assets	3,661	3,695
Investments and other assets:		
Restricted cash	22	22
Regulatory assets arising from pension and other postretirement benefit obligations	1,170	1,151
Regulatory assets arising from wildfire litigation costs	352	364
Other regulatory assets	1,872	1,227
Nuclear decommissioning trusts	938	908
Investments	1,466	1,516
Goodwill	1,042	1,111

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Other intangible assets	431	436
Sundry	895	878
Total investments and other assets	8,188	7,613
Property, plant and equipment:		
Property, plant and equipment	33,728	33,528
Less accumulated depreciation and amortization	(8,557)	(8,337)
Property, plant and equipment, net (\$452 and \$466 at June 30, 2013 and December 31, 2012, respectively, related to VIE)	25,171	25,191
Total assets	\$ 37,020	\$ 36,499
(1)	Derived from audited financial statements.	
See Notes to Condensed Consolidated Financial Statements.		

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

	June 30, 2013 (unaudited)	December 31, 2012(1)
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Short-term debt	\$ 510	\$ 546
Accounts payable – trade	959	976
Accounts payable – other	114	134
Dividends and interest payable	271	266
Accrued compensation and benefits	235	337
Regulatory balancing accounts – overcollected	290	141
Current portion of long-term debt	1,540	725
Fixed-price contracts and other derivatives	71	77
Customer deposits	142	143
Reserve for wildfire litigation	182	305
Other	411	608
Total current liabilities	4,725	4,258
Long-term debt (\$330 and \$335 at June 30, 2013 and December 31, 2012, respectively, related to VIE)	10,530	11,621
Deferred credits and other liabilities:		
Customer advances for construction	140	144
Pension and other postretirement benefit obligations, net of plan assets	1,471	1,456
Deferred income taxes	2,389	2,100
Deferred investment tax credits	44	46
Regulatory liabilities arising from removal obligations	2,842	2,720
Asset retirement obligations	1,949	2,033
Fixed-price contracts and other derivatives	237	252



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Deferred credits and other	1,066	1,107
Total deferred credits and other liabilities	10,138	9,858
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; 244 million and 242 million shares outstanding at June 30, 2013 and December 31, 2012, respectively; no par value)	2,366	2,217
Retained earnings	8,557	8,441
Accumulated other comprehensive income (loss)	(219)	(376)
Total Sempra Energy shareholders' equity	10,704	10,282
Preferred stock of subsidiary	20	20
Other noncontrolling interests	824	381
Total equity	11,548	10,683
Total liabilities and equity	\$ 37,020	\$ 36,499

(1) Derived from audited financial statements.

See Notes to Condensed Consolidated Financial Statements.

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

	Six months ended June 30,	
	2013	2012
	(unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 445	\$ 325
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	542	523
Deferred income taxes and investment tax credits	251	(53)
Gain on sale of assets	(74)	(7)
Loss from plant closure	200	
Equity (earnings) losses	(23)	262
Fixed-price contracts and other derivatives	(28)	1
Other	1	8
Net change in other working capital components	20	28
Changes in other assets	(237)	13
Changes in other liabilities	8	52
Net cash provided by operating activities	1,105	1,152
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Expenditures for property, plant and equipment	(1,130)	(1,517)
	(5)	(303)

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Expenditures for investments and acquisition of business, net of cash acquired		
Proceeds from sale of assets and investment	384	9
Proceeds from U.S. Treasury grants	74	
Distributions from investments	95	31
Purchases of nuclear decommissioning and other trust assets	(330)	(327)
Proceeds from sales by nuclear decommissioning and other trusts	326	329
Decrease in restricted cash	143	68
Increase in restricted cash	(186)	(61)
Other	2	(10)
Net cash used in investing activities	(627)	(1,781)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Common dividends paid	(299)	(260)
Preferred dividends paid by subsidiaries	(3)	(3)
Issuances of common stock	22	45
Repurchases of common stock	(45)	(16)
Issuances of debt (maturities greater than 90 days)	894	1,167
Payments on debt (maturities greater than 90 days)	(1,134)	(559)
Proceeds from sale of noncontrolling interests, net of \$25 in offering costs	574	
(Decrease) increase in short-term debt, net	(10)	241
Distributions to noncontrolling interests	(13)	(10)
Other	18	(11)
Net cash provided by financing activities	4	594
Effect of exchange rate changes on cash and cash equivalents	(3)	4
Increase (decrease) in cash and cash equivalents	479	(31)
Cash and cash equivalents, January 1	475	252
Cash and cash equivalents, June 30	\$ 954 \$	221
See Notes to Condensed Consolidated Financial Statements.		

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

	Six months ended June 30,	
	2013	2012
	(unaudited)	
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest payments, net of amounts capitalized	\$ 269 \$	209
Income tax payments, net of refunds	78	93
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES</b>		
Acquisition of business:		
Assets acquired	\$	\$ 29

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Cash paid, net of cash acquired			(19)
Liabilities assumed	\$	\$	10

Nuclear facility plant reclassified to regulatory asset, net of depreciation and amortization	\$	512 \$	
Accrued capital expenditures		214	354
Capital expenditures recoverable by U.S. Treasury grants receivable		3	42
Sequestration of U.S. Treasury grants receivable		(23)	

SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES

Dividends declared but not paid	\$	158 \$	149
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See Notes to Condensed Consolidated Financial Statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
		(unaudited)		
Operating revenues				
Electric	\$	943 \$	680 \$	1,351
Natural gas		121	100	263
Total operating revenues		1,064	780	1,614
Operating expenses				
Cost of electric fuel and purchased power		252	140	303
Cost of natural gas		45	34	101
Operation and maintenance		289	275	543
Depreciation and amortization		107	119	231
Franchise fees and other taxes		46	43	89
Loss from plant closure		200	200	
Total operating expenses		939	611	1,267
Operating income		125	169	347
Other income, net		9	24	54
Interest income			1	
Interest expense		(49)	(39)	(75)
Income before income taxes		85	154	326
Income tax expense		(12)	(53)	(113)
Net income		73	101	213
(Earnings) losses attributable to noncontrolling interest		(7)	(5)	(11)
Earnings		66	96	202
Preferred dividend requirements		(1)	(1)	(2)
Earnings attributable to common shares	\$	65 \$	95 \$	200

See Notes to Condensed Consolidated Financial Statements.

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

	Three months ended June 30,					
	2013			2012		
	SDG&E	Non-controlling Interest	Total	SDG&E	Non-controlling Interest	Total
Net income	\$ 66	\$ 7	\$ 73	\$ 96	\$ 5	\$ 101
Other comprehensive income (loss), net of income tax:						
Net actuarial gain	1		1			
Financial instruments		12	12		(9)	(9)
Total other comprehensive income (loss)	1	12	13		(9)	(9)
Total comprehensive income (loss)	\$ 67	\$ 19	\$ 86	\$ 96	\$ (4)	\$ 92
	Six months ended June 30,					
	2013			2012		
	SDG&E	Non-controlling Interest	Total	SDG&E	Non-controlling Interest	Total
Net income	\$ 158	\$ (4)	\$ 154	\$ 202	\$ 11	\$ 213
Other comprehensive income (loss), net of income tax:						
Net actuarial gain	1		1			
Financial instruments		15	15		(9)	(9)
Total other comprehensive income (loss)	1	15	16		(9)	(9)
Total comprehensive income	\$ 159	\$ 11	\$ 170	\$ 202	\$ 2	\$ 204

See Notes to Condensed Consolidated Financial Statements.

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

	June 30, 2013 (unaudited)	December 31, 2012(1)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 13	\$ 87
Restricted cash	8	10
Accounts receivable – trade, net	268	252

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Accounts receivable – other, net	26	21
Due from unconsolidated affiliates	1	39
Income taxes receivable		35
Deferred income taxes	29	
Inventories	73	82
Regulatory balancing accounts, net	325	395
Regulatory assets arising from fixed-price contracts and other derivatives	39	39
Other regulatory assets	140	10
Fixed-price contracts and other derivatives	25	41
Other	32	76
Total current assets	979	1,087
Other assets:		
Restricted cash	22	22
Deferred taxes recoverable in rates	760	718
Regulatory assets arising from fixed-price contracts and other derivatives	104	110
Regulatory assets arising from pension and other postretirement benefit obligations	299	303
Regulatory assets arising from wildfire litigation costs	352	364
Other regulatory assets	740	252
Nuclear decommissioning trusts	938	908
Sundry	147	117
Total other assets	3,362	2,794
Property, plant and equipment:		
Property, plant and equipment	13,862	14,124
Less accumulated depreciation and amortization	(3,307)	(3,261)
Property, plant and equipment, net (\$452 and \$466 at June 30, 2013 and December 31, 2012, respectively, related to VIE)	10,555	10,863
Total assets	\$ 14,896	\$ 14,744
(1) Derived from audited financial statements. See Notes to Condensed Consolidated Financial Statements.		

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

	June 30, 2013 (unaudited)	December 31, 2012(1)
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Short-term debt	\$ 53	\$
Accounts payable	296	300
Due to unconsolidated affiliates	19	19

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Income taxes payable	28	
Deferred income taxes		26
Dividends and interest payable	37	36
Accrued compensation and benefits	64	129
Current portion of long-term debt	146	16
Fixed-price contracts and other derivatives	47	56
Customer deposits	59	60
Construction deposits	51	51
Reserve for wildfire litigation	182	305
Other	132	106
Total current liabilities	1,114	1,104
Long-term debt (\$330 and \$335 at June 30, 2013 and December 31, 2012, respectively, related to VIE)	4,155	4,292
Deferred credits and other liabilities:		
Customer advances for construction	20	17
Pension and other postretirement benefit obligations, net of plan assets	338	340
Deferred income taxes	1,768	1,636
Deferred investment tax credits	25	25
Regulatory liabilities arising from removal obligations	1,641	1,603
Asset retirement obligations	726	733
Fixed-price contracts and other derivatives	183	209
Deferred credits and other	380	408
Total deferred credits and other liabilities	5,081	4,971
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	3,051	2,895
Accumulated other comprehensive income (loss)	(10)	(11)
Total SDG&E shareholder's equity	4,379	4,222
Noncontrolling interest	88	76
Total equity	4,467	4,298
Total liabilities and equity	\$ 14,896	\$ 14,744
(1) Derived from audited financial statements.		
See Notes to Condensed Consolidated Financial Statements.		

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

Six months ended

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	2013	June 30, (unaudited)	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$	154 \$	213
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		241	231
Deferred income taxes and investment tax credits		34	308
Loss from plant closure		200	
Fixed-price contracts and other derivatives		(5)	(6)
Other		(9)	(51)
Net change in other working capital components		(115)	(438)
Changes in other assets		(177)	14
Changes in other liabilities		6	38
Net cash provided by operating activities		329	309
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Expenditures for property, plant and equipment		(446)	(729)
Purchases of nuclear decommissioning trust assets		(327)	(325)
Proceeds from sales by nuclear decommissioning trusts		326	320
Decrease in restricted cash		40	61
Increase in restricted cash		(38)	(48)
Net cash used in investing activities		(445)	(721)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Preferred dividends paid		(2)	(2)
Issuance of long-term debt			249
Payments on long-term debt		(5)	(5)
Increase in short-term debt, net		53	173
Other		(4)	(3)
Net cash provided by financing activities		42	412
Decrease in cash and cash equivalents		(74)	
Cash and cash equivalents, January 1		87	29
Cash and cash equivalents, June 30	\$	13 \$	29
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>			
Interest payments, net of amounts capitalized	\$	94 \$	69
Income tax payments (refunds), net		19	(26)
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES</b>			
Nuclear facility plant reclassified to regulatory asset, net of depreciation and amortization	\$	512 \$	
Accrued capital expenditures		68	108
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES</b>			

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Dividends declared but not paid \$ 1 \$ 1  
 See Notes to Condensed Consolidated Financial Statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(unaudited)			
Operating revenues	\$ 904	\$ 720	\$ 1,887	\$ 1,600
Operating expenses				
Cost of natural gas	303	179	757	528
Operation and maintenance	316	328	622	617
Depreciation and amortization	80	90	180	177
Franchise fees and other taxes	26	28	66	64
Total operating expenses	725	625	1,625	1,386
Operating income	179	95	262	214
Other income, net	3	4	7	8
Interest expense	(18)	(17)	(35)	(34)
Income before income taxes	164	82	234	188
Income tax expense	(45)	(28)	(69)	(68)
Net income	119	54	165	120
Preferred dividend requirements	(1)	(1)	(1)	(1)
Earnings attributable to common shares	\$ 118	\$ 53	\$ 164	\$ 119

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 June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(unaudited)		(unaudited)	
Net income	\$ 119	\$ 54	\$ 165	\$ 120
Other comprehensive income, net of income tax:				
Financial instruments	1	1	1	1
Total other comprehensive income	1	1	1	1
Total comprehensive income	\$ 120	\$ 55	\$ 166	\$ 121



Total other comprehensive income		1		1
Total comprehensive income	\$	166	\$	121

See Notes to Condensed Consolidated Financial Statements.

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

		June 30, 2013 (unaudited)		December 31, 2012(1)
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$	20	\$	83
Accounts receivable – trade, net		373		539
Accounts receivable – other, net		56		51
Due from unconsolidated affiliates		259		24
Income taxes receivable		139		104
Deferred income taxes				3
Inventories		69		151
Regulatory assets		3		4
Other		48		35
Total current assets		967		994
Other assets:				
Regulatory assets arising from pension and other postretirement benefit obligations		858		835
Other regulatory assets		269		148
Sundry		118		77
Total other assets		1,245		1,060
Property, plant and equipment:				
Property, plant and equipment		11,389		11,187
Less accumulated depreciation and amortization		(4,240)		(4,170)
Property, plant and equipment, net		7,149		7,017
Total assets	\$	9,361	\$	9,071

(1) Derived from audited financial statements.

See Notes to Condensed Consolidated Financial Statements.

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

June 30, December 31,

	2013 (unaudited)	2012(1)
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable – trade	\$ 353	\$ 383
Accounts payable – other	66	82
Due to unconsolidated affiliate		37
Deferred income taxes	31	
Accrued compensation and benefits	103	116
Regulatory balancing accounts, net	290	141
Current portion of long-term debt	252	4
Customer deposits	75	76
Other	101	124
Total current liabilities	1,271	963
Long-term debt	1,159	1,409
Deferred credits and other liabilities:		
Customer advances for construction	106	111
Pension and other postretirement benefit obligations, net of plan assets	877	855
Deferred income taxes	935	881
Deferred investment tax credits	19	20
Regulatory liabilities arising from removal obligations	1,187	1,103
Asset retirement obligations	1,158	1,238
Deferred credits and other	299	256
Total deferred credits and other liabilities	4,581	4,464
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	1,479	1,365
Accumulated other comprehensive income (loss)	(17)	(18)
Total shareholders' equity	2,350	2,235
Total liabilities and shareholders' equity	\$ 9,361	\$ 9,071
(1)	Derived from audited financial statements.	
See Notes to Condensed Consolidated Financial Statements.		

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

	Six months ended June 30,	
	2013	2012
	(unaudited)	

**CASH FLOWS FROM OPERATING ACTIVITIES**

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Net income	\$	165 \$	120
Adjustments to reconcile net income to net cash provided by			
operating activities:			
Depreciation and amortization		180	177
Deferred income taxes and investment tax credits		43	26
Other		(3)	(4)
Net change in other working capital components		257	385
Changes in other assets		(73)	1
Changes in other liabilities		(6)	7
Net cash provided by operating activities		563	712
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Expenditures for property, plant and equipment		(340)	(316)
Increase in loans to affiliates, net		(235)	(270)
Net cash used in investing activities		(575)	(586)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Common dividends paid		(50)	(150)
Preferred dividends paid		(1)	(1)
Net cash used in financing activities		(51)	(151)
Decrease in cash and cash equivalents		(63)	(25)
Cash and cash equivalents, January 1		83	36
Cash and cash equivalents, June 30	\$	20 \$	11
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>			
Interest payments, net of amounts capitalized	\$	32 \$	31
Income tax payments, net of refunds		58	46
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES</b>			
Accrued capital expenditures	\$	81 \$	67
See Notes to Condensed Consolidated Financial Statements.			

SEMPRA ENERGY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 1. GENERAL

PRINCIPLES OF CONSOLIDATION

## Sempra Energy

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

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

We provide descriptions of each of our segments in Note 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.

In the first quarter of 2013, a Sempra Energy subsidiary, Infraestructura Energética Nova, S.A.B. de C.V. (IEnova), completed a private offering in the U.S. and outside of Mexico and a concurrent public offering in Mexico of common stock. The aggregate shares of common stock sold in the offerings represent approximately 18.9 percent of IEnova's outstanding ownership interest. IEnova is reported within the Sempra Mexico reportable segment. We discuss the offerings and IEnova further in Note 5.

Sempra Energy uses the equity method to account for investments in companies over which we have the ability to exercise significant influence, but not control. We discuss our investments in unconsolidated entities in Note 4 herein and in Note 4 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2012.

## SDG&E

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

## SoCalGas

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

## BASIS OF PRESENTATION

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

We have prepared the Condensed Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States (U.S. GAAP) and in accordance with the interim-period-reporting requirements of Form 10-Q. Results of operations for interim periods are not necessarily indicative of results for the entire year. We evaluated events and transactions that occurred after June 30, 2013 through the date the financial statements were issued and, in the opinion of management, the accompanying statements reflect all adjustments necessary for a fair presentation. These adjustments are only of a normal, recurring nature.

All December 31, 2012 balance sheet information in the Condensed Consolidated Financial Statements has been derived from our audited 2012 consolidated financial statements. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to the interim-period-reporting provisions of U.S. GAAP and the Securities and Exchange Commission.

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, 2012 (the Annual Report) and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, which are combined reports for Sempra Energy, SDG&E and SoCalGas.

Sempra South American Utilities has controlling interests in two electric distribution utilities in South America. Sempra Natural Gas owns Mobile Gas Service Corporation (Mobile Gas) in southwest Alabama and Willmut Gas Company (Willmut Gas) in Mississippi, and Sempra Mexico owns Ecogas Mexico, S. de R.L. de C.V. (Ecogas) in Northern Mexico, all natural gas distribution utilities. The California Utilities, Sempra Natural Gas’ Mobile Gas and Willmut Gas, and Sempra Mexico’s Ecogas prepare their financial statements in accordance with U.S. GAAP provisions governing regulated operations, as we discuss in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

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

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## 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) 2011-11, “Disclosures about Offsetting Assets and Liabilities” (ASU 2011-11) and ASU 2013-01, “Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities” (ASU 2013-01): In order to allow for balance sheet comparison between U.S. GAAP and International Financial Reporting Standards (IFRS), ASU 2011-11 requires enhanced disclosures related to financial assets and liabilities eligible for offsetting in the statement of financial position. An entity must 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.

ASU 2013-01 clarifies that the scope of ASU 2011-11 applies to derivatives, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions.

We adopted ASU 2011-11 and ASU 2013-01 on January 1, 2013 as required and it did not affect our financial condition, results of operations or cash flows. We provide the additional disclosure in Note 7.

ASU 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" (ASU 2013-02): ASU 2013-02 requires an entity to present, either on the face of the statement of operations or in the notes to financial statements, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts.

We adopted ASU 2013-02 on January 1, 2013 as required and it did not affect our financial condition, results of operations or cash flows. We provide the additional disclosure in Note 5.

ASU 2013-04, "Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date" (ASU 2013-04): ASU 2013-04 provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of the ASU is fixed at the reporting date, except for obligations addressed within existing guidance in U.S. GAAP. The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance in the ASU also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations.

We will adopt ASU 2013-04 on January 1, 2014 as required and do not expect it to affect our financial condition, results of operations or cash flows. We will provide the additional disclosure in our 2014 interim financial statements.

ASU 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists" (ASU 2013-11): ASU 2013-11 provides explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. ASU 2013-11 requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. If a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purposes, an entity is required to present the unrecognized tax benefit in the financial statements as a liability instead of combined with deferred tax assets.

We will adopt ASU 2013-11 on January 1, 2014 as required and do not expect it to significantly affect our financial condition, results of operations or cash flows.

### NOTE 3. ACQUISITION AND DIVESTITURE ACTIVITY

We discuss our investments in unconsolidated entities in Note 4.

#### SEMPRA NATURAL GAS

##### Mesquite Power Sale

In February 2013, Sempra Natural Gas sold one 625-megawatt (MW) block of its 1,250-MW Mesquite Power natural gas-fired power plant in Arizona, including a portion related to common plant, for approximately \$371 million in cash to the Salt River Project Agricultural Improvement and Power District (SRP). The asset was classified as held for sale at December 31, 2012 and we recognized a pretax gain on the sale of \$74 million (\$44 million after-tax) in 2013. In connection with the sale, we entered into a 20-year operations and maintenance agreement with SRP on February 28, 2013, whereby SRP assumes plant operations and maintenance of the facility, including our remaining 625-MW block. We provide additional information concerning the operations and maintenance agreement in Note 10.

##### Willmut Gas Company

In May 2012, Sempra Natural Gas acquired 100 percent of the outstanding common stock of Willmut Gas, a regulated natural gas distribution utility serving approximately 20,000 customers in Hattiesburg, Mississippi, for \$19 million in cash and the assumption of \$10 million of liabilities. Pro forma impacts on revenues and earnings for Sempra Energy had the acquisition occurred on January 1, 2011 were additional revenues of \$7 million and negligible earnings for the six months ended June 30, 2012 and additional revenues of \$1 million and negligible earnings for the three months ended June 30, 2012.

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### 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 SOUTH AMERICAN UTILITIES

Sempra South American Utilities previously owned 43 percent of two Argentine natural gas utility holding companies, Sodigas Pampeana and Sodigas Sur. In December 2006, we decided to sell our Argentine investments and actively pursued their sale since that time. In the first quarter of 2013, we recorded a noncash impairment charge of \$10 million (\$7 million after-tax) to reduce the carrying value of our investments to estimated fair value. The net charge is reported in Equity Earnings, Net of Income Tax on the Condensed Consolidated Statement of Operations for the six months ended June 30, 2013. In June 2013, we completed the sale of our Argentine investments for \$13 million in cash. Our results for the three months and six months ended June 30, 2013 include an additional \$7 million loss (\$4 million after-tax) on the sale, which is also included in Equity Earnings, Net of Income Tax. We provide additional information concerning our investments in Sodigas Pampeana and Sodigas Sur in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

As a result of the devaluation of the Argentine peso at the end of 2001 and subsequent changes in the value of the peso, Sempra South American Utilities had reduced the carrying value of its investments by a cumulative total of \$270 million prior to the sale. These noncash adjustments, based on fluctuations in the value of the Argentine peso, did not affect earnings, but were recorded in Comprehensive Income and Accumulated Other Comprehensive Income (Loss). As a result of the sale of our investments, this cumulative foreign currency translation adjustment was reclassified to Equity Earnings, Net of Income Tax, where it was substantially offset by the elimination of a \$250 million accrued liability established in 2006.

Chilquinta Energía has entered into two 50-percent owned joint ventures, Eletrans S.A. and Eletrans II S.A. (collectively, Eletrans), with Sociedad Austral de Electricidad Sociedad Anónima (SAESA) to construct four transmission lines in Chile. In 2013, Eletrans entered into a forward exchange contract to manage the foreign currency exchange rate risk of the Chilean Unidad de Fomento (CLF) relative to the U.S. dollar, related to certain construction commitments that are denominated in CLF. The forward exchange contract settles based on anticipated payments to vendors, generally monthly, ending in November 2017. For the three months and six months ended June 30, 2013, we recorded \$3 million of equity losses related to this forward contract in Equity Earnings, Net of Income Tax on the Condensed Consolidated Statements of Operations.

#### SEMPRA RENEWABLES

Sempra Renewables invested \$5 million and \$243 million in its wind generation joint ventures in the six months ended June 30, 2013 and 2012, respectively.

In May 2013, Sempra Renewables entered into agreements with Consolidated Edison Development (ConEdison Development) to sell 50-percent interests in its 150-MW Copper Mountain Solar 2 and 150-MW Mesquite Solar 1 solar power facilities. In July 2013, the sale of 50 percent of our equity in Copper Mountain Solar 2 to ConEdison Development was consummated. At June 30, 2013, Copper Mountain Solar 2 had approximately \$267 million in net property, plant and equipment and \$146 million in long-term debt.

#### 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. In November 2012, Kinder Morgan Energy Partners L.P. (KMP) sold its 50-percent interest in Rockies Express, as part of a larger asset group, to Tallgrass Energy Partners, L.P. (Tallgrass). Phillips 66 owns the remaining interest of 25 percent. Our total investment in Rockies Express is accounted for as an equity method investment.

The general partner of KMP is Kinder Morgan, Inc. (KMI). As a condition of KMI receiving antitrust approval from the Federal Trade Commission (FTC) for its acquisition of El Paso Corporation, KMI agreed to divest certain assets in its natural gas pipeline group. Included in the asset group, as noted above, was KMP's interest in Rockies Express. KMP recorded remeasurement losses during 2012 associated with these operations (classified as discontinued operations by KMP). We recorded an impairment of our partnership investment in Rockies Express of \$300 million (\$179 million after-tax) in the quarter ended June 30, 2012, which is included in Equity Earnings (Losses), Before Income Tax on the Condensed Consolidated Statements of Operations. Our remaining carrying value in Rockies Express as of June 30, 2013 is \$339 million. We discuss the fair value measurement of our investment in Rockies Express in Note 11 of the Notes to Consolidated Financial Statements in the Annual Report.



## RBS SEMBRA 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 2010 and early 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. In accordance with the Letter Agreement, we received a distribution of \$50 million in May 2013. The investment balance of \$76 million at June 30, 2013 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.

We recorded no equity earnings or losses related to the partnership for either the three months or six months ended June 30, 2013 and 2012.

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.

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## NOTE 5. OTHER FINANCIAL DATA

### U.S. TREASURY GRANTS RECEIVABLE

As of June 30, 2013, Sempra Renewables has \$164 million remaining in U.S. Treasury grants receivable. Based on eligible costs at its Mesquite Solar 1 and Copper Mountain Solar 2 generating facilities, grants were recognized as receivables when the projects, or portions of projects, were placed into service. In June 2013, we received \$74 million in cash related to the Copper Mountain Solar 2 grant. The remaining grant receivable for Mesquite Solar 1 is also expected to be received in 2013. During the first quarter of 2013, the federal government imposed automatic federal budget cuts, known as "sequestration," as required by The Budget Control Act of 2011. As a result, cash grant payments to eligible taxpayers for renewable energy projects were reduced, and Sempra Renewables recorded a reduction to its grants receivable of \$23 million and a reversal of income tax benefit of \$5 million during the first quarter of 2013.

### INVENTORIES

The components of inventories by segment are as follows:

**INVENTORY BALANCES**

(Dollars in millions)

	Natural Gas		Liquefied Natural Gas		Materials and Supplies		Total	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
SDG&E	\$ 1	\$ 3	\$	\$	\$ 72	\$ 79	\$ 73	\$ 82
SoCalGas	42	128			27	23	69	151
Sempra South American Utilities					40	34	40	34
Sempra Mexico			6	8	15	8	21	16
Sempra Renewables					3	3	3	3
Sempra Natural Gas	139	109	5	8	7	5	151	122
Sempra Energy Consolidated	\$ 182	\$ 240	\$ 11	\$ 16	\$ 164	\$ 152	\$ 357	\$ 408

**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 or whenever events or changes in circumstances necessitate an evaluation. 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 at December 31, 2012	\$	1,014	25	72	1,111
Foreign currency translation(1)		(69)			(69)
Balance at June 30, 2013	\$	945	25	72	1,042

(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.

**VARIABLE INTEREST ENTITIES (VIE)**

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

§ the purpose and design of the VIE;

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

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

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

## SDG&E

### Tolling Agreements

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

### Otay Mesa VIE

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

The facility owner, Otay Mesa Energy Center LLC (OMEC LLC), is a VIE (Otay Mesa VIE), of which SDG&E is the primary beneficiary. SDG&E has no OMEC LLC voting rights 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. SDG&E and Sempra Energy have consolidated Otay Mesa VIE since the second quarter of 2007. Otay Mesa VIE's equity of \$88 million at June 30, 2013 and \$76 million at December 31, 2012 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 \$340 million at June 30, 2013, 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 June 30, 2013. In addition to the tolling agreements described above, other variable interests involve various elements of fuel and power costs, including certain construction costs, tax credits, and other components of cash flow expected to be paid to or received by our counterparties. In most of these cases, the expectation of variability is not substantial, and SDG&E generally does not have the power to direct activities that most significantly impact the economic performance of the other VIEs. If our ongoing evaluation of these VIEs were to conclude that SDG&E becomes the primary beneficiary and consolidation by SDG&E becomes necessary, the effects are not expected to significantly affect the financial position, results of operations, or liquidity of SDG&E. In addition, SDG&E is not exposed to losses or gains as a result of these other VIEs, because all such variability would be recovered in rates.

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

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 generally correspond to SDG&E's Condensed Consolidated Statements of Operations.

## AMOUNTS ASSOCIATED WITH OTAY MESA VIE

(Dollars in millions)

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Operating revenues				
Electric	\$ 5	\$	\$ 4	\$
Natural gas				
Total operating revenues	5		4	
Operating expenses				
Cost of electric fuel and purchased power	(21)	(21)	(38)	(40)
Operation and maintenance	9	7	26	11
Depreciation and amortization	6	6	13	12
Total operating expenses	(6)	(8)	1	(17)
Operating income	11	8	3	17
Other loss, net		(1)		(1)
Interest expense	(4)	(2)	(7)	(5)
	7	5	(4)	11

Income (loss) before income taxes/Net income (loss)				
(Earnings) losses attributable to noncontrolling interest	(7)	(5)	4	(11)
Earnings	\$	\$	\$	\$

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

#### ASSET RETIREMENT OBLIGATIONS

We discuss asset retirement obligations in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

The changes in asset retirement obligations are as follows:

#### CHANGES IN ASSET RETIREMENT OBLIGATIONS

(Dollars in millions)

	Sempra Energy Consolidated		SDG&E		SoCalGas	
	2013	2012	2013	2012	2013	2012
Balance as of January 1(1)	\$ 2,056	\$ 1,925	\$ 741	\$ 698	\$ 1,253	\$ 1,175
Accretion expense	49	46	22	21	25	24
Liabilities incurred	2	2				
Revisions(2)(3)	(135)	(6)	(30)		(105)	
Balance as of June 30(1)	\$ 1,972	\$ 1,967	\$ 733	\$ 719	\$ 1,173	\$ 1,199

- The current portions of the obligations are included in Other Current Liabilities on the Condensed Consolidated Balance Sheets.
- (1) Consolidated Balance Sheets.
- (2) The decrease in asset retirement obligations in 2013 at SDG&E is due to revised estimates related to the 2012 General Rate Case. These revisions included increases in asset service lives ranging from 2 percent to 7 percent, and lower estimated cost of removal.
- (3) The decrease in asset retirement obligations in 2013 at SoCalGas is due to revised estimates related to the 2012 General Rate Case, including increases in asset service lives ranging from 4 percent to 6 percent. The decreases in the obligations were partially offset by a higher estimated cost of removal.

#### PENSION AND OTHER POSTRETIREMENT BENEFITS

##### Net Periodic Benefit Cost

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

#### NET PERIODIC BENEFIT COST – SEMPRA ENERGY CONSOLIDATED

(Dollars in millions)

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

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	2013		2012		2013		2012	
Service cost	\$	27 \$		22 \$		6 \$		7
Interest cost		39		41		12		14
Expected return on assets		(42)		(39)		(14)		(14)
Amortization of:								
Prior service cost (credit)		1		1		(1)		(2)
Actuarial loss		15		11		3		4
Settlement				7				
Regulatory adjustment		(19)		12		2		2
Total net periodic benefit cost	\$	21 \$		55 \$		8 \$		11
		Six months ended June 30,				Six months ended June 30,		
		2013		2012		2013		2012
Service cost	\$	54 \$		45 \$		13 \$		15
Interest cost		76		82		23		28
Expected return on assets		(82)		(78)		(29)		(27)
Amortization of:								
Prior service cost (credit)		2		2		(2)		(2)
Actuarial loss		30		23		5		7
Settlement				7				
Regulatory adjustment		(51)		(18)		4		5
Total net periodic benefit cost	\$	29 \$		63 \$		14 \$		26

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

		Pension Benefits		Other Postretirement Benefits	
		Three months ended June 30,	Three months ended June 30,	Three months ended June 30,	Three months ended June 30,
		2013	2012	2013	2012
Service cost	\$	8 \$	7 \$	2 \$	2
Interest cost		11	11	2	2
Expected return on assets		(13)	(12)	(2)	(3)
Amortization of:					
Prior service cost		1	1	1	1
Actuarial loss		3	3		
Settlement			2		
Regulatory adjustment		2	10		1
Total net periodic benefit cost	\$	12 \$	22 \$	3 \$	3
		Six months ended June 30,		Six months ended June 30,	
		2013	2012	2013	2012
Service cost	\$	16 \$	14 \$	4 \$	4
Interest cost		21	23	4	4
Expected return on assets		(26)	(24)	(4)	(4)
Amortization of:					
Prior service cost		1	1	2	2
Actuarial loss		7	7		
Settlement			2		
Regulatory adjustment		(6)			1
Total net periodic benefit cost	\$	13 \$	23 \$	6 \$	7

## NET PERIODIC BENEFIT COST – SOCALGAS

(Dollars in millions)

	Pension Benefits		Other Postretirement Benefits	
	Three months ended June 30,		Three months ended June 30,	
	2013	2012	2013	2012
Service cost	\$ 17	\$ 14	\$ 4	\$ 5
Interest cost	23	25	9	11
Expected return on assets	(24)	(25)	(12)	(12)
Amortization of:				
Prior service credit			(2)	(3)
Actuarial loss	8	5	2	4
Settlement		1		
Regulatory adjustment	(21)	2	2	1
Total net periodic benefit cost	\$ 3	\$ 22	\$ 3	\$ 6
	Six months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Service cost	\$ 33	\$ 27	\$ 8	\$ 10
Interest cost	46	50	18	22
Expected return on assets	(49)	(49)	(24)	(23)
Amortization of:				
Prior service cost (credit)	1	1	(4)	(4)
Actuarial loss	17	11	4	7
Settlement		1		
Regulatory adjustment	(45)	(18)	4	4
Total net periodic benefit cost	\$ 3	\$ 23	\$ 6	\$ 16

## 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 2013:

(Dollars in millions)	Sempra Energy Consolidated	SDG&E	SoCalGas
Contributions through June 30, 2013:			
Pension plans	\$ 26	\$ 11	\$ 3
Other postretirement benefit plans	14	6	6
Total expected contributions in 2013:			
Pension plans	\$ 139	\$ 53	\$ 60
Other postretirement benefit plans	23	11	7

## RABBI TRUST

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In support of its Supplemental Executive Retirement, Cash Balance Restoration and Deferred Compensation Plans, Sempra Energy maintains dedicated assets, including investments in life insurance contracts, in a Rabbi Trust, which trust totaled \$500 million and \$510 million at June 30, 2013 and December 31, 2012, respectively.

EARNINGS PER SHARE

The following table provides the per share computations for our earnings for the three months and six months ended June 30, 2013 and 2012. Basic earnings per common share (EPS) is calculated by dividing earnings attributable to common shares by the weighted-average number of common shares outstanding for the period. Diluted EPS includes the potential dilution of common stock equivalent shares that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

**EARNINGS PER SHARE COMPUTATIONS**

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Numerator:				
Earnings/Income attributable to common shares	\$ 245	\$ 62	\$ 423	\$ 298
Denominator:				
Weighted-average common shares outstanding for basic EPS	243,603	241,141	243,449	240,853
Dilutive effect of stock options, restricted stock awards and restricted stock units	4,912	5,119	4,830	4,913
Weighted-average common shares outstanding for diluted EPS	248,515	246,260	248,279	245,766
Earnings per share:				
Basic	\$ 1.00	\$ 0.26	\$ 1.74	\$ 1.24
Diluted	\$ 0.98	\$ 0.25	\$ 1.70	\$ 1.21

The dilution from common stock options is based on the treasury stock method. Under this method, proceeds based on the exercise price plus unearned compensation and windfall tax benefits recognized, minus tax shortfalls recognized, are assumed to be used to repurchase shares on the open market at the average market price for the period. The windfall tax benefits are tax deductions we would receive upon the assumed exercise of stock options in excess of the deferred income taxes we recorded related to the compensation expense on the stock options. Tax shortfalls occur when the assumed tax deductions are less than recorded deferred income taxes. The calculation excludes options for which the exercise price on common stock was greater than the average market price during the period (out-of-the-money options). We had no such antidilutive stock options outstanding during either the three months or six months ended June 30, 2013. We had no such antidilutive stock options outstanding during the three months ended June 30, 2012 and 681,700 such options outstanding during the six months ended June 30, 2012.

We had no stock options outstanding during either the three months or six months ended June 30, 2013 or 2012 that were antidilutive because of the unearned compensation and windfall tax benefits included in the assumed proceeds under the treasury stock method.



The dilution from unvested restricted stock awards (RSAs) and restricted stock units (RSUs) is also based on the treasury stock method. Proceeds equal to the unearned compensation and windfall tax benefits recognized, minus tax shortfalls recognized, related to the awards and units are assumed to be used to repurchase shares on the open market at the average market price for the period. The windfall tax benefits 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 1,477 antidilutive RSUs from the application of unearned compensation in the treasury stock method for the three months ended June 30, 2013 and no such antidilutive RSUs for the six months ended June 30, 2013. There were 1,864 such antidilutive RSUs for both the three months and six months ended June 30, 2012. There were no such antidilutive RSAs for the three months ended June 30, 2013 and 3,877 such antidilutive RSAs for the six months ended June 30, 2013. There were no such antidilutive RSAs for the three months ended June 30, 2012 and 12,039 such antidilutive RSAs for the six months ended June 30, 2012.

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 Performance-Based 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 RSU.
(2)	Participants also receive additional shares for dividend equivalents on shares subject to RSUs, which are reinvested to purchase additional units that become subject to the same vesting conditions as the RSUs to which the dividends relate.

RSAs and those RSUs which are solely service-based have a maximum potential of 100 percent vesting and have the same dividend equivalent rights as performance-based RSUs. We include our performance-based RSUs in potential dilutive shares at zero to 150 percent to the extent that they currently meet the performance requirements for vesting, subject to the application of the treasury stock method. Due to market fluctuations of both Sempra Energy stock and the comparative index, dilutive performance-based RSUs may vary widely from period-to-period. We include our RSAs, which are solely service-based, and those RSUs that are solely 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, as we discuss above, or because performance goals are currently not met. The maximum excluded RSAs and RSUs, assuming performance goals were met at maximum levels, were 1,006,657 and 1,098,081 for the three months and six months ended June 30, 2013, respectively, and 1,327,534 and 1,459,377 for the three months and six months ended June 30, 2012, respectively.

## 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 \$8 million for the three months ended June 30, 2013 and 2012, respectively, and \$11 million and \$13 million for the six months ended June 30, 2013 and 2012, respectively. Pursuant to our share-based compensation plans, we granted 646,177 performance-based RSUs, 105,590 service-based RSUs and 4,617 RSAs during the six months ended June 30, 2013, primarily in January.

In April 2013, the IEnova board of directors approved the IEnova 2013 Long-Term Incentive Plan. The purpose of this plan is to align the interests of employees and directors of IEnova with their shareholders. All awards issued from this plan and any related dividend equivalents will settle in cash based on the fair market value of the awards, based on IEnova's common stock value, upon vesting. In 2013, 996,209 RSUs were issued from this plan.

## 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 and six months ended June 30, 2013 and 2012.

### CAPITALIZED FINANCING COSTS

(Dollars in millions)

		Three months ended June 30,		Six months ended June 30,	
		2013	2012	2013	2012
Sempra Energy Consolidated:					
AFUDC related to debt	\$	5 \$		13 \$	11 \$
AFUDC related to equity		15		32	30
Other capitalized financing costs		8		16	13
Total Sempra Energy Consolidated	\$	28 \$		61 \$	54 \$
SDG&E:					
AFUDC related to debt	\$	4 \$		11 \$	8 \$
AFUDC related to equity		10		26	20
Total SDG&E	\$	14 \$		37 \$	28 \$
SoCalGas:					
AFUDC related to debt	\$	1 \$		2 \$	3 \$
AFUDC related to equity		5		6	10
Total SoCalGas	\$	6 \$		8 \$	13 \$

## COMPREHENSIVE INCOME

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

### CHANGES IN COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (1)

(Dollars in millions)

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Three months ended June 30, 2013

	Foreign				Total Accumulated Other Comprehensive Income (Loss)	
	Currency Translation Adjustments	Unamortized Net Actuarial Loss	Unamortized Prior Service Credit	Financial Instruments		
<b>Sempra Energy Consolidated:</b>						
Balance as of March 31, 2013	\$ (230)	\$ (99)	\$ 1	\$ (49)		(377)
Other comprehensive income (loss) before reclassifications	(136)			23		(113)
Amounts reclassified from accumulated other comprehensive income	270 (2)	1				271
Net other comprehensive income	134	1		23		158
Balance as of June 30, 2013	\$ (96)	\$ (98)	\$ 1	\$ (26)	\$	(219)
<b>SDG&amp;E:</b>						
Balance as of March 31, 2013	\$	\$ (12)	\$ 1		\$	(11)
Amounts reclassified from accumulated other comprehensive income		1				1
Net other comprehensive income		1				1
Balance as of June 30, 2013	\$	\$ (11)	\$ 1	\$	\$	(10)
<b>SoCalGas:</b>						
Balance as of March 31, 2013	\$	\$ (4)	\$ 1	\$ (15)		(18)
Amounts reclassified from accumulated other comprehensive income				1		1
Net other comprehensive income				1		1
Balance as of June 30, 2013	\$	\$ (4)	\$ 1	\$ (14)	\$	(17)

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

(2) Represents cumulative foreign currency translation adjustment related to the impairment of our Argentine investments in 2006, which is substantially offset by an accrued liability established at that time. We provide additional information about these investments in Note 4.

**CHANGES IN COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (1)**  
(Dollars in millions)

Six months ended June 30, 2013

	Foreign				Total Accumulated Other Comprehensive Income (Loss)	
	Currency Translation Adjustments	Unamortized Net Actuarial Loss	Unamortized Prior Service Credit	Financial Instruments		
<b>Sempra Energy Consolidated:</b>						
Balance as of December 31, 2012	\$ (240)	\$ (102)	\$ 1	\$ (35)		(376)
Other comprehensive income (loss) before reclassifications	(126)			7		(119)

Amounts reclassified from accumulated other comprehensive income		270 (2)	4		2	276
Net other comprehensive income		144	4		9	157
Balance as of June 30, 2013	\$	(96)\$	(98)	\$ 1	\$ (26)	\$ (219)
SDG&E:						
Balance as of December 31, 2012	\$	\$	(12)\$	1 \$	\$	(11)
Amounts reclassified from accumulated other comprehensive income			1			1
Net other comprehensive income			1			1
Balance as of June 30, 2013	\$	\$	(11)	\$ 1	\$	(10)
SoCalGas:						
Balance as of December 31, 2012	\$	\$	(4)\$	1 \$	(15)\$	(18)
Amounts reclassified from accumulated other comprehensive income					1	1
Net other comprehensive income					1	1
Balance as of June 30, 2013	\$	\$	(4)	\$ 1	\$ (14)	\$ (17)

(1) All amounts are net of income tax, if subject to tax, and exclude noncontrolling interests.  
(2) Represents cumulative foreign currency translation adjustment related to the impairment of our Argentine investments in 2006, which is substantially offset by an accrued liability established at that time. We provide additional information about these investments in Note 4.

**RECLASSIFICATIONS FROM ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**  
(Dollars in millions)

	Three months ended June 30, 2013		
Details about accumulated other comprehensive income (loss) components	Amount reclassified from accumulated other comprehensive income (loss)		Affected line item on Condensed Consolidated Statement of Operations
Sempra Energy Consolidated:			
Foreign currency translation	\$ 270		Equity Earnings, Net of Income Tax(1)
Financial instruments:			
Interest rate instruments	\$ 3		Interest Expense
Interest rate instruments	2		Equity Earnings, Before Income Tax
Commodity contracts not subject to rate recovery	(5)		Cost of Natural Gas, Electric Fuel and Purchased Power
Total before income tax		2	Income Tax
Net of income tax		2	Earnings Attributable to Noncontrolling Interests
		(2)	
	\$		
Amortization of defined benefit pension			

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and postretirement benefits items:		
Actuarial loss	\$ 2	(2)
	(1)	Income Tax
Net of income tax	\$ 1	
SDG&E:		
Financial instruments:		
Interest rate instruments	\$ 2	Interest Expense
	(2)	Earnings Attributable to Noncontrolling Interest
	\$	
Amortization of defined benefit pension and postretirement benefits items:		
Actuarial loss	\$ 1	(2)
		Income Tax
Net of income tax	\$ 1	
SoCalGas:		
Financial instruments:		
Interest rate instruments	\$ 1	Interest Expense
		Income Tax
Net of income tax	\$ 1	
(1)	Represents cumulative foreign currency translation adjustment related to the impairment of our Argentine investments in 2006, which is substantially offset by an accrued liability established at that time. We provide additional information about these investments in Note 4.	
(2)	Amounts are included in the computation of net periodic benefit cost (see "Pension and Other Postretirement Benefits" above).	

**RECLASSIFICATIONS FROM ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**  
(Dollars in millions)

Details about accumulated other comprehensive income (loss) components	Six months ended June 30, 2013	
	Amount reclassified from accumulated other comprehensive income (loss)	Affected line item on Condensed Consolidated Statement of Operations
Sempra Energy Consolidated:		
Foreign currency translation	\$ 270	Equity Earnings, Net of Income Tax(1)
Financial instruments:		
Interest rate instruments	\$ 6	Interest Expense
Interest rate instruments	4	Equity Earnings, Before Income Tax
Commodity contracts not subject to rate recovery	(5)	Cost of Natural Gas, Electric Fuel and Purchased Power
Total before income tax	5	
	1	Income Tax
Net of income tax	6	
	(4)	Earnings Attributable to Noncontrolling Interests

	\$	2	
Amortization of defined benefit pension and postretirement benefits items:			
Actuarial loss	\$	7	(2)
		(3)	Income Tax
Net of income tax	\$	4	
SDG&E:			
Financial instruments:			
Interest rate instruments	\$	4	Interest Expense
		(4)	Earnings Attributable to Noncontrolling Interest
	\$		
Amortization of defined benefit pension and postretirement benefits items:			
Actuarial loss	\$	1	(2)
			Income Tax
Net of income tax	\$	1	
SoCalGas:			
Financial instruments:			
Interest rate instruments	\$	1	Interest Expense
			Income Tax
Net of income tax	\$	1	

- (1) Represents cumulative foreign currency translation adjustment related to the impairment of our Argentine investments in 2006, which is substantially offset by an accrued liability established at that time. We provide additional information about these investments in Note 4.
- (2) Amounts are included in the computation of net periodic benefit cost (see "Pension and Other Postretirement Benefits" above).

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 June 30,					
	2013			2012		
	Sempra Energy Share-holders' Equity	Non-controlling Interests	Total Equity	Sempra Energy Share-holders' Equity	Non-controlling Interests	Total Equity
Sempra Energy Consolidated:						
Other comprehensive income before reclassifications:						
Financial instruments	\$ 12	\$	\$ 12	\$ (7)	\$	\$ (7)

Amounts reclassified from accumulated other

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comprehensive income:						
Pension and other						
postretirement benefits	\$ 1	\$	\$ 1	\$ 2	\$	\$ 2
Financial instruments	(2)		(2)			
			Six months ended June 30,			
			2013			2012
			Sempra			Sempra
			Energy			Energy
			Share-	Non-		Share-
			holders'	controlling		holders'
			Equity	Interests	Total	Equity
			Equity	Interests	Equity	Equity
Sempra Energy Consolidated:						
Other comprehensive income before						
reclassifications:						
Financial instruments	\$ 5	\$	\$ 5	\$ (5)	\$	\$ (5)
Amounts reclassified from accumulated						
other						
comprehensive income:						
Pension and other						
postretirement benefits	\$ 3	\$	\$ 3	\$ 3	\$	\$ 3
Financial instruments	(1)		(1)	1		1

Income tax amounts associated with other comprehensive income during the three months and six months ended June 30, 2013 and 2012 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 six months ended June 30, 2013 and 2012.

#### SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS (Dollars in millions)

		Sempra Energy Shareholders' Equity	Non- controlling Interests	Total Equity
Balance at December 31, 2012	\$	10,282 \$	401 \$	10,683
Comprehensive income		583	13	596
Preferred dividends of subsidiaries		(3)		(3)
Share-based compensation expense		20		20
Common stock dividends declared		(307)		(307)
Issuance of common stock		22		22
Repurchase of common stock		(45)		(45)
Tax benefit related to share-based compensation		17		17
Sale of noncontrolling interests, net of offering costs		135	439	574

Equity contributed by noncontrolling interest			4	4
Distributions to noncontrolling interests			(13)	(13)
Balance at June 30, 2013	\$	10,704 \$	844 \$	11,548
Balance at December 31, 2011	\$	9,775 \$	403 \$	10,178
Comprehensive income		334	18	352
Preferred dividends of subsidiaries		(3)		(3)
Share-based compensation expense		24		24
Common stock dividends declared		(289)		(289)
Issuance of common stock		45		45
Repurchase of common stock		(16)		(16)
Common stock released from ESOP		9		9
Equity contributed by noncontrolling interest			3	3
Distributions to noncontrolling interests			(10)	(10)
Balance at June 30, 2012	\$	9,879 \$	414 \$	10,293

#### SHAREHOLDER'S EQUITY AND NONCONTROLLING INTEREST

(Dollars in millions)

		SDG&E Shareholder's Equity	Non- controlling Interest	Total Equity
Balance at December 31, 2012	\$	4,222 \$	76 \$	4,298
Comprehensive income		159	11	170
Preferred stock dividends declared		(2)		(2)
Distributions to noncontrolling interest			(3)	(3)
Equity contributed by noncontrolling interest			4	4
Balance at June 30, 2013	\$	4,379 \$	88 \$	4,467
Balance at December 31, 2011	\$	3,739 \$	102 \$	3,841
Comprehensive income		202	2	204
Preferred stock dividends declared		(2)		(2)
Distributions to noncontrolling interest			(1)	(1)
Balance at June 30, 2012	\$	3,939 \$	103 \$	4,042

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 or loss attributable to the noncontrolling interests is separately identified on the Condensed Consolidated Statements of Comprehensive Income.

#### Sale of Noncontrolling Interests

On March 21, 2013, Sempra Energy's subsidiary, Infraestructura Energética Nova, S.A.B. de C.V. (IEnova) priced a private offering in the U.S. and outside of Mexico and a concurrent initial public offering in Mexico of new shares of Class II, Single Series common stock at \$2.75 per share in U.S. dollars or 34.00 Mexican pesos. The initial purchasers



in the private offering and the underwriters in the Mexican public offering were granted a 30-day option to purchase additional common shares at the initial offering price, less the underwriting discount, to cover overallocments. These options were exercised before the settlement date of the offerings, which was March 27, 2013. After the initial offerings and the exercise of the overallocment options, the aggregate shares of common stock sold in the offerings totaled 218,110,500 shares of common stock, representing approximately 18.9 percent of IEnova's outstanding ownership interest.

The net proceeds of the offerings, including the additional option shares, were approximately \$574 million in U.S. dollars or 7.1 billion Mexican pesos. IEnova expects to use the net proceeds of the offerings primarily for general corporate purposes, and for the funding of its current investments and ongoing expansion plans. All U.S. dollar equivalents presented here were based on an exchange rate of 12.3841 Mexican pesos to 1.00 U.S. dollar as of March 21, 2013, the pricing date for the offerings. Net proceeds are after reduction for underwriting discounts and commissions and offering expenses. Following completion of the initial offerings and overallocment options, we beneficially owned 81.1 percent of IEnova and its subsidiaries. Consistent with applicable accounting guidance, changes in noncontrolling interests that do not result in a change of control are accounted for as equity transactions. When there are changes in noncontrolling interests of a subsidiary that do not result in a change of control, any difference between carrying value and fair value related to the change in ownership is recorded as an adjustment to shareholders' equity. As a result of the offerings and overallocment options, we recorded an increase in Sempra Energy's shareholders' equity of \$135 million for the sale of IEnova shares to noncontrolling interests.

IEnova is a separate legal entity, formerly known as Sempra México, S.A. de C.V., comprised primarily of Sempra Energy's operations in Mexico. IEnova is included within our Sempra Mexico reportable segment, but is not the same in its entirety as the reportable segment. In addition to the IEnova operating companies, the Sempra Mexico segment includes, among other things, certain holding companies and risk management activity. Also, IEnova's financial results are reported in Mexico under IFRS, as required by the Mexican Stock Exchange (the Bolsa Mexicana de Valores, S.A.B. de C.V.) where the new shares are now traded under the symbol IENOVA.

The private offering was exempt from registration under the U.S. Securities Act of 1933, as amended (the Securities Act), and shares in the private offering were offered and sold only to qualified institutional buyers pursuant to Rule 144A under the Securities Act and to persons outside of the United States, in accordance with Regulation S under the Securities Act. The shares were not registered under the Securities Act or any state securities laws, and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act and applicable securities laws.

#### Preferred Stock

The preferred stock of SoCalGas is presented at Sempra Energy as a noncontrolling interest at June 30, 2013 and December 31, 2012. 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 June 30, 2013 and December 31, 2012, we reported the following other noncontrolling ownership interests held by others (not including preferred shareholders) recorded in Other Noncontrolling Interests in Total Equity on Sempra Energy's Condensed Consolidated Balance Sheets:

#### OTHER NONCONTROLLING INTERESTS (Dollars in millions)

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	Percent Ownership Held by Others	June 30, 2013	December 31, 2012
SDG&E:			
Otay Mesa VIE	100 %	\$ 88	\$ 76
Sempra South American Utilities:			
Chilquinta Energía subsidiaries(1)	24.4 – 43.4	27	29
Luz del Sur	20.2	221	236
Tecsur	9.8	4	4
Sempra Mexico:			
IEnova, S.A.B. de C.V.	18.9	448	
Sempra Natural Gas:			
Bay Gas Storage, Ltd.	9.1	21	20
Liberty Gas Storage, LLC	25.0	14	15
Southern Gas Transmission Company	49.0	1	1
Total Sempra Energy		\$ 824	\$ 381

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

TRANSACTIONS WITH AFFILIATES

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

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

(Dollars in millions)

	June 30, 2013	December 31, 2012
SDG&E		
Current:		
Due from SoCalGas	\$	\$ 37
Due from various affiliates	1	2
	\$ 1	\$ 39
Due to Sempra Energy	\$ 17	\$ 19
Due to SoCalGas	2	
	\$ 19	\$ 19
Income taxes due from Sempra Energy(1)	\$ 1	\$ 12
SoCalGas		
Current:		
Due from Sempra Energy	\$ 257	\$ 24
Due from SDG&E	2	
	\$ 259	\$ 24
Due to SDG&E	\$	\$ 37
Income taxes due from Sempra Energy(1)	\$ 132	\$ 99

- (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 June 30,		Six months ended June 30,	
		2013	2012	2013	2012
SDG&E	\$	3	\$	2	5
SoCalGas		16		16	31
					4
					31

**OTHER INCOME, NET**

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

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

		Three months ended June 30,		Six months ended June 30,	
		2013	2012	2013	2012
Sempra Energy Consolidated:					
Allowance for equity funds used during construction	\$	15	\$	32	\$
Investment gains (losses)(1)		12		(9)	22
Gains (losses) on interest rate and foreign exchange instruments, net		6		(1)	13
Regulatory interest, net(2)		1		2	1
Sundry, net		(8)		(4)	5
Total	\$	26	\$	18	\$
SDG&E:					
Allowance for equity funds used during construction	\$	10	\$	26	\$
Regulatory interest, net(2)		1		2	1
Sundry, net		(2)		(2)	(2)
Total	\$	9	\$	24	\$
SoCalGas:					
Allowance for equity funds used during construction	\$	5	\$	6	\$
Sundry, net		(2)		(2)	(3)
Total	\$	3	\$	4	\$

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

- (2) Interest on regulatory balancing accounts.

## INCOME TAXES

## INCOME TAX EXPENSE (BENEFIT) AND EFFECTIVE INCOME TAX RATES

(Dollars in millions)

	Three months ended June 30,			
	2013		2012	
	Income Tax Expense	Effective Income Tax Rate	Income Tax Expense (Benefit)	Effective Income Tax Rate
Sempra Energy Consolidated	\$ 32	11 %	\$ (118)	227 %
SDG&E	12	14	53	34
SoCalGas	45	27	28	34
	Six months ended June 30,			
	2013		2012	
	Income Tax Expense	Effective Income Tax Rate	Income Tax Expense (Benefit)	Effective Income Tax Rate
Sempra Energy Consolidated	\$ 210	32 %	\$ (1)	%
SDG&E	63	29	113	35
SoCalGas	69	29	68	36

## Changes in Income Tax Expense and Effective Income Tax Rates

## Sempra Energy Consolidated

The income tax expense in the three months ended June 30, 2013 compared to income tax benefit in the same period in 2012 was due to pretax income in 2013 compared to a pretax loss in 2012 resulting from the write-down of our investment in Rockies Express. Pretax income in 2013 included the loss from the early retirement of SONGS, as we discuss further in Note 9. Pretax income was also higher in 2013 due to the cumulative effect of the application of the final decision in the California Utilities' 2012 General Rate Case (GRC), as we discuss in Note 9. The income tax benefits for both the loss from the early retirement of SONGS and the write-down of our investment in Rockies Express were recorded at relevant U.S. federal and state statutory income tax rates. Items affecting the effective income tax rate included:

§ \$54 million income tax benefit in 2012 primarily associated with our decision in the second quarter of 2012 to hold life insurance contracts kept in support of certain benefit plans to term. Previously, we took the position that we might cash in or sell these contracts before maturity, which required that we record deferred income taxes on unrealized gains on investments held within the insurance contracts;

§ lower deferred income tax benefits related to renewable energy projects, offset by higher renewable energy income tax credits;

§ lower income tax benefits due to Mexican currency translation and inflation adjustments;

§ higher deductions for self-developed software expenditures;

§ favorable impact in 2013 of non-U.S. earnings taxed at lower statutory income tax rates than the U.S. rates, compared to unfavorable impact in 2012 of such non-U.S. earnings due to a pretax loss for Sempra Energy Consolidated; and

§ income tax benefit in 2013 resulting from favorable changes made in the second half of 2012 in the income tax treatment of certain repairs expenditures at SDG&E and SoCalGas that are capitalized for financial statement purposes. Because the changes in income tax treatment were not made until the second half of 2012 (in the third quarter for SDG&E and the fourth quarter for SoCalGas), the first two quarters of 2012 did not benefit from this favorable treatment; offset by

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

The increase in income tax expense in the six months ended June 30, 2013 was primarily due to significantly higher pretax income in 2013 compared to the same period in 2012 and a higher effective income tax rate. The higher pretax income was primarily due to the write-down of our investment in Rockies Express in 2012 and the favorable impact of the application of the 2012 GRC in 2013, offset by the loss from the early retirement of SONGS in 2013. The income tax benefits for both the loss from the early retirement of SONGS and the write-down of our investment in Rockies Express were recorded at relevant U.S. federal and state statutory income tax rates. The higher effective income tax rate in 2013 was mainly due to:

§ \$63 million income tax expense in 2013 resulting from a corporate reorganization in connection with the IEnova stock offerings. We discuss the stock offerings above in "Shareholders' Equity and Noncontrolling Interests;"

§ \$54 million income tax benefit in 2012 primarily associated with our decision in the second quarter of 2012 to hold life insurance contracts kept in support of certain benefit plans to term, as we discuss above; and

§ lower deferred income tax benefits related to renewable energy projects, offset by higher renewable energy income tax credits; offset by

§ income tax benefit in 2013 resulting from changes made in the second half of 2012 in the income tax treatment of certain repairs expenditures that are capitalized for financial statement purposes as we discuss above; and

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

Sempra Energy, SDG&E and SoCalGas record income taxes for interim periods utilizing a forecasted effective tax rate anticipated for the full year, as required by U.S. GAAP. The income tax effect of items that can be reliably forecasted are factored into the forecasted effective tax rate and their impact is recognized proportionately over the year. The forecasted items, anticipated on a full year basis, may include, among others, self-developed software expenditures, repairs to certain utility plant fixed assets, renewable energy income tax credits, deferred income tax benefits related to renewable energy projects, exclusions from taxable income of the equity portion of AFUDC, 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 items, Mexican currency translation and inflation adjustments, and deferred income tax benefit associated with the impairment of a book investment, etc.) are recorded in the interim period in which they actually occur, which can result in variability to income tax expense.

SDG&E

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The decrease in SDG&E's income tax expense in both the three months and six months ended June 30, 2013 was due to significantly lower pretax income (due to the loss from the early retirement of SONGS) and a lower effective income tax rate. The income tax benefit for the loss from the early retirement of SONGS was recorded at relevant U.S. federal and state statutory income tax rates. The lower effective income tax rates in the three months and six months ended June 30, 2013 was primarily due to:

§ income tax benefit in 2013 resulting from a favorable change, not made until the third quarter of 2012, in the income tax treatment of certain repairs expenditures for electric transmission and distribution assets that are capitalized for financial statement purposes, as we discuss above for Sempra Energy Consolidated; and

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

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

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

### SoCalGas

The increase in SoCalGas' income tax expense in the three months ended June 30, 2013 was primarily due to higher pretax income offset by a lower effective income tax rate. The lower effective income tax rate in the three months ended June 30, 2013 was primarily due to:

§ income tax benefit in 2013 resulting from a favorable change, not made until the fourth quarter of 2012, in the income tax treatment of certain repairs expenditures for gas assets that are capitalized for financial statement purposes, as we discuss above for Sempra Energy Consolidated; offset by

§ lower favorable impact from self-developed software expenditures; and

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

The increase in SoCalGas' income tax expense in the six months ended June 30, 2013 was primarily due to higher pretax income offset by a lower effective income tax rate. The lower effective income tax rate in the six months ended June 30, 2013 was primarily due to:

§ income tax benefit in 2013 resulting from a favorable change, not made until the fourth quarter of 2012, in the income tax treatment of certain repairs expenditures for gas assets that are capitalized for financial statement purposes, as we discuss above for Sempra Energy Consolidated; offset by

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

§ lower favorable impact from self-developed software expenditures; and

§ lower exclusions from taxable income of the equity portion of AFUDC.

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:

§ repairs expenditures related to a certain portion of utility plant fixed assets

§ the equity portion of AFUDC

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

§ self-developed software expenditures

§ depreciation on a certain portion of utility plant fixed assets

We provide additional information about our accounting for income taxes in Notes 1 and 7 of the Notes to Consolidated Financial Statements in the Annual Report.

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## NOTE 6. DEBT AND CREDIT FACILITIES

### COMMITTED LINES OF CREDIT

At June 30, 2013, Sempra Energy Consolidated had an aggregate of \$4.1 billion in committed lines of credit to provide liquidity and to support commercial paper, the major components of which we detail below. Available unused credit on these lines at June 30, 2013 was \$3.6 billion.

#### Sempra Energy

Sempra Energy has a \$1.067 billion, five-year syndicated revolving credit agreement expiring in March 2017. Citibank, N.A. serves as administrative agent for the syndicate of 24 lenders. No single lender has greater than a 7-percent share.

Borrowings bear interest at benchmark rates plus a margin that varies with market index rates and Sempra Energy's credit ratings. The facility requires Sempra Energy to maintain a ratio of total indebtedness to total capitalization (as defined in the agreement) of no more than 65 percent at the end of each quarter. At June 30, 2013, Sempra Energy was in compliance with this and all other financial covenants under the credit facility. The facility also provides for issuance of up to \$635 million of letters of credit on behalf of Sempra Energy with the amount of borrowings otherwise available under the facility reduced by the amount of outstanding letters of credit.

At June 30, 2013, Sempra Energy had \$34 million of letters of credit outstanding supported by the facility.

#### Sempra Global

Sempra Global has a \$2.189 billion, five-year syndicated revolving credit agreement expiring in March 2017. Citibank, N.A. serves as administrative agent for the syndicate of 25 lenders. No single lender has greater than a 7-percent share.

Sempra Energy guarantees Sempra Global's obligations under the credit facility. Borrowings bear interest at benchmark rates plus a margin that varies with market index rates and Sempra Energy's credit ratings. The facility requires Sempra Energy to maintain a ratio of total indebtedness to total capitalization (as defined in the agreement) of no more than 65 percent at the end of each quarter. At June 30, 2013, Sempra Global was in compliance with this and all of the financial covenants under the credit facility.

At June 30, 2013, Sempra Global had \$423 million of commercial paper outstanding supported by the facility. At December 31, 2012, \$300 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 six months ended June 30, 2013, as we discuss below, none of the commercial paper outstanding at June 30, 2013 is classified as long-term debt.

#### California Utilities

SDG&E and SoCalGas have a combined \$877 million, five-year syndicated revolving credit agreement expiring in March 2017. JPMorgan Chase Bank, N.A. serves as administrative agent for the syndicate of 24 lenders. No single lender has greater than a 7-percent share. The agreement permits each utility to individually borrow up to \$658 million, subject to a combined limit of \$877 million for both utilities. It also provides for the issuance of letters of credit on behalf of each utility subject to a combined letter of credit commitment of \$200 million for both utilities. The amount of borrowings otherwise available under the facility is reduced by the amount of outstanding letters of credit.

Borrowings under the facility bear interest at benchmark rates plus a margin that varies with market index rates and the borrowing utility's credit ratings. The agreement requires each utility to maintain a ratio of total indebtedness to total capitalization (as defined in the agreement) of no more than 65 percent at the end of each quarter. At June 30, 2013, the California Utilities were in compliance with this and all other financial covenants under the credit facility.

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

At June 30, 2013, SoCalGas had no outstanding borrowings and SDG&E had \$53 million of commercial paper outstanding supported by the facility. Available unused credit on the line at June 30, 2013 was \$605 million at SDG&E and \$658 million at SoCalGas, subject to the combined limit on the facility of \$877 million.

#### 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 have substantially completed this process with regard to all existing, open positions, except for one remaining position



expected to terminate by January 2014. 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. We discuss additional matters related to our investment in RBS Sempra Commodities in Note 10.

#### Other Guarantees

Sempra Renewables and BP Wind Energy each currently hold 50-percent interests in the Flat Ridge 2 Wind Farm. The project obtained construction financing in December 2012, and proceeds from the loans were used to return \$148 million of each owner's joint venture investment in 2012. After completion of the project in March 2013, the construction financing was converted into permanent financing consisting of a term loan and a fixed-rate note. The term loan of \$242 million expires in June 2023 and the fixed-rate note of \$110 million expires in June 2035. The financing agreement requires Sempra Renewables and BP Wind Energy, severally for each partner's 50-percent interest, to return cash to the project in the event that the project does not meet certain cash flow criteria or in the event that the project's debt service, operation and maintenance and firm transmission and production tax credits reserve accounts are not maintained at specific thresholds. Sempra Renewables recorded a liability of \$3 million in the first quarter of 2013 for the fair value of its obligations associated with the cash flow requirements, which constitutes a guarantee. The liability is being amortized over its expected life. The outstanding loans are not guaranteed by the partners.

Sempra Renewables and BP Wind Energy each currently hold 50-percent interests in the Mehoopany Wind Farm. The project obtained construction financing in June 2012, and proceeds from the loans were used to return \$17 million and \$13 million of each owner's joint venture investment in 2012 and 2013, respectively. After completion of the project in May 2013, the construction financing was converted into permanent financing consisting of a term loan. The term loan of \$162 million expires in May 2031. The financing agreement requires Sempra Renewables and BP Wind Energy, severally for each partner's 50-percent interest, to return cash to the project in the event that the project does not meet certain cash flow criteria or in the event that the project's debt service, operation and maintenance and production tax credits reserve accounts are not maintained at specific thresholds. Additionally, in conjunction with the term loan conversion, Sempra Renewables and BP Wind Energy have provided guarantees to the lenders in lieu of Mehoopany Wind Farm funding a reserve account requirement. Sempra Renewables recorded liabilities of \$11 million in the second quarter of 2013 for the fair value of its obligations associated with the cash flow and reserve account requirements, which constitute guarantees. The liabilities are being amortized over their expected lives. The outstanding loans are not guaranteed by the partners.

#### WEIGHTED AVERAGE INTEREST RATES

The weighted average interest rates on the total short-term debt outstanding at Sempra Energy were 0.55 percent and 0.72 percent at June 30, 2013 and December 31, 2012, respectively. The weighted average interest rate on the total short-term debt outstanding at SDG&E was 0.15 percent at June 30, 2013. The weighted average interest rates at Sempra Energy at December 31, 2012 include interest rates for commercial paper borrowings classified as long-term, as we discuss above.

#### LONG-TERM DEBT

Sempra Mexico

On February 14, 2013, IEnova publicly offered and sold in Mexico \$306 million (U.S. dollar equivalent) of 6.3-percent notes maturing in 2023 with a U.S. dollar equivalent rate of 4.12 percent after entering into a cross-currency swap for U.S. dollars at the time of issuance. IEnova also publicly offered and sold in Mexico \$102 million (U.S. dollar equivalent) of variable rate notes, maturing in 2018, which after a floating-to-fixed cross-currency swap for U.S. dollars at the time of issuance, carry a U.S. dollar equivalent rate of 2.66 percent. The notes and related interest are denominated in Mexican pesos, and the interest rate for the variable rate notes is based on the 28-day Interbank Equilibrium Interest Rate plus 30 basis points. IEnova used \$357 million of the proceeds of the notes for the repayment of intercompany debt, including accrued interest, primarily to other Sempra Energy consolidated foreign entities.

#### Sempra Renewables

In May 2013, Copper Mountain Solar 2 entered into a loan agreement with a syndicate of banks to borrow up to \$286 million and took a draw of \$146 million in May 2013, the proceeds of which were distributed to Sempra Renewables to reimburse it for the first phase of construction costs of the project. The loan, which is secured by the project, is payable semi-annually and fully matures in May 2023. To partially moderate its exposure to interest rate changes, Copper Mountain Solar 2 entered into floating-to-fixed interest rate swaps for 75 percent of the loan amount, resulting in an effective fixed rate of 5.33 percent. The remaining 25 percent bears interest at rates varying with market rates (2.81 percent at June 30, 2013). In connection with the loan agreement, Copper Mountain Solar 2 may also utilize up to \$60 million under a letter of credit facility, which may be used to meet project collateral requirements and debt service reserve requirements.

#### Sempra South American Utilities

In May 2013, Chilquinta Energía retired \$86 million of outstanding Series A Chilean public bonds maturing in 2014 with a stated interest rate of 2.75 percent.

### INTEREST RATE SWAPS

We discuss our fair value interest rate swaps and interest rate swaps to hedge cash flows in Note 7.

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### 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, foreign currency instruments and interest rate instruments. Designating cash flow hedges is dependent on the business context in which the instrument is being used, the effectiveness of the instrument in offsetting the risk that a given future revenue or expense item may vary, and other criteria.

We may designate an interest rate derivative as a fair value hedging instrument if it effectively converts our own debt from a fixed interest rate to a variable rate. The combination of the derivative and debt 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 and Sempra Natural Gas may use natural gas and electricity derivatives, as appropriate, to optimize the earnings of their assets which support the following businesses: liquefied natural gas (LNG), natural gas transportation, power generation, and Sempra Natural Gas' storage. Gains and losses associated with undesignated derivatives are recognized in Energy-Related Businesses Revenues or in Cost of Natural Gas, Electric Fuel and Purchased Power on the Condensed Consolidated Statements of Operations. Certain of these derivatives may also be designated as cash flow hedges. Sempra Mexico also uses natural gas energy derivatives with the objective of

managing price risk and lowering natural gas prices at its Mexican distribution operations. These derivatives, which are recorded as commodity costs that are offset by regulatory account balances and recovered in rates, are recognized in Cost of Natural Gas on the Condensed Consolidated Statements of Operations.

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

We summarize net energy derivative volumes as of June 30, 2013 and December 31, 2012 as follows:

#### NET ENERGY DERIVATIVE VOLUMES

Segment and Commodity	June 30, 2013	December 31, 2012
California Utilities:		
SDG&E:		
Natural gas	23 million MMBtu	25 million MMBtu(1)
Congestion revenue rights	24 million MWh	30 million MWh(2)
SoCalGas - natural gas	1 million MMBtu	
Energy-Related Businesses:		
Sempra Natural Gas:		
Electric power	1 million MWh	1 million MWh
Natural gas	43 million MMBtu	36 million MMBtu
Sempra Mexico - natural gas		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 assets and other contractual obligations, such as natural gas and electric power 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, excluding the cross-currency swaps discussed below, as of June 30, 2013 and December 31, 2012 were:

#### INTEREST RATE DERIVATIVES

(Dollars in millions)

	June 30, 2013		December 31, 2012	
	Notional Debt	Maturities	Notional Debt	Maturities
Sempra Energy Consolidated:				
Cash flow hedges(1)	\$ 422	2013-2028	\$ 439	2013-2028
Fair value hedges	500	2013-2016	500	2013-2016
Undesignated contracts	216	2015-2035		
SDG&E:				
Cash flow hedge(1)	340	2019	345	2019
(1)	Includes Otay Mesa VIE. All of SDG&E's interest rate derivatives relate to Otay Mesa VIE.			

#### FOREIGN CURRENCY DERIVATIVES

We are exposed to exchange rate movements at our Mexican subsidiaries, which have U.S. dollar denominated cash balances, receivables and payables (monetary assets and liabilities) that give rise to Mexican currency exchange rate movements for Mexican income tax purposes. These subsidiaries also have deferred income tax assets and liabilities that are denominated in the Mexican peso, which must be translated into U.S. dollars for financial reporting purposes. From time to time, we may utilize 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. We may also utilize cross-currency swaps to hedge exposure related to Mexican peso-denominated debt at our Mexican subsidiaries. On February 14, 2013, Sempra Mexico entered into cross-currency swap agreements, which were designated as cash flow hedges. We discuss the notional amount of the cross-currency swaps in Note 6.

In addition, Sempra South American Utilities may utilize foreign currency derivatives at its subsidiaries and joint ventures as a means to manage foreign currency rate risk. We discuss such a swap at Chilquinta Energía's Eletrans joint venture investment in Note 4.

#### FINANCIAL STATEMENT PRESENTATION

Each Condensed Consolidated Balance Sheet reflects the offsetting of net derivative positions and cash collateral with the same counterparty when management believes a legal right of offset exists. The following tables provide the fair values of derivative instruments on the Condensed Consolidated Balance Sheets as of June 30, 2013 and December 31, 2012, including the amount of cash collateral receivables that were not offset, as the cash collateral is in excess of liability positions.

#### DERIVATIVE INSTRUMENTS ON THE CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

		June 30, 2013	
	Current assets:	Current liabilities:	Deferred credits and other liabilities:

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	Fixed-price contracts and other derivatives(1)	Investments and other assets: Sundry	Fixed-price contracts and other derivatives(2)	Fixed-price contracts and other derivatives
Sempra Energy Consolidated:				
Derivatives designated as hedging instruments:				
Interest rate and foreign exchange instruments(3)	\$ 17	\$ 11	\$ (18)	\$ (74)
Commodity contracts not subject to rate recovery	4			
Derivatives not designated as hedging instruments:				
Interest rate and foreign exchange instruments	9	36	(10)	(22)
Commodity contracts not subject to rate recovery:	82	14	(75)	(13)
Associated offsetting commodity contracts	(62)	(11)	62	11
Associated offsetting cash collateral	(3)		1	
Commodity contracts subject to rate recovery:	13	34	(26)	(2)
Associated offsetting commodity contracts	(2)		2	
Associated offsetting cash collateral			15	2
Net amounts presented on the balance sheet	58	84	(49)	(98)
Additional margin posted for commodity contracts not subject to rate recovery	9			
Additional margin posted for commodity contracts subject to rate recovery	14			
Total	\$ 81	\$ 84	\$ (49)	\$ (98)
SDG&E:				
Derivatives designated as hedging instruments:				
Interest rate instruments(3)	\$	\$	\$ (16)	\$ (44)
Derivatives not designated as hedging instruments:				
Commodity contracts subject to rate recovery:	12	34	(24)	(2)
Associated offsetting commodity contracts	(1)		1	
Associated offsetting cash collateral			15	2
Net amounts presented on the balance sheet	11	34	(24)	(44)

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Additional margin posted for commodity contracts not subject to rate recovery(4)		2				
Additional margin posted for commodity contracts subject to rate recovery		12				
Total	\$	25	\$	34	\$	(24) \$ (44)
SoCalGas:						
Derivatives not designated as hedging instruments:						
Commodity contracts subject to rate recovery:	\$	1	\$		\$	(2) \$
Associated offsetting commodity contracts		(1)				1
Net amounts presented on the balance sheet						(1)
Additional margin posted for commodity contracts not subject to rate recovery(4)		3				
Additional margin posted for commodity contracts subject to rate recovery		2				
Total	\$	5	\$		\$	(1) \$
(1)	Included in Current Assets: Other for SoCalGas.					
(2)	Included in Current Liabilities: Other for SoCalGas.					
(3)	Includes Otay Mesa VIE. All of SDG&E's amounts relate to Otay Mesa VIE.					
(4)	Includes cash collateral not offset related to a negligible amount of commodity contracts not subject to rate recovery.					

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

	December 31, 2012			
	Current assets: Fixed-price contracts and other derivatives(1)	Investments and other assets: Sundry	Current liabilities: Fixed-price contracts and other derivatives(2)	Deferred credits and other liabilities: Fixed-price contracts and other derivatives
Sempra Energy Consolidated:				
Derivatives designated as hedging instruments:				
Interest rate instruments(3)	\$	7	\$	(19) \$ (64)
		1		

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Commodity contracts not subject to rate recovery					
Derivatives not designated as hedging instruments:					
Interest rate instruments	8	40	(8)	(35)	
Commodity contracts not subject to rate recovery:	117	15	(116)	(27)	
Associated offsetting commodity contracts	(102)	(12)	102	12	
Associated offsetting cash collateral			4	7	
Commodity contracts subject to rate recovery:	30	35	(35)	(1)	
Associated offsetting commodity contracts	(4)		4		
Associated offsetting cash collateral			22	1	
Net amounts presented on the balance sheet	57	90	(46)	(107)	
Additional margin posted for commodity contracts not subject to rate recovery	22				
Additional margin posted for commodity contracts subject to rate recovery	13				
Total	\$ 92	\$ 90	\$ (46)	\$ (107)	
SDG&E:					
Derivatives designated as hedging instruments:					
Interest rate instruments(3)	\$	\$	\$ (17)	\$ (64)	
Derivatives not designated as hedging instruments:					
Commodity contracts subject to rate recovery:	28	35	(33)	(1)	
Associated offsetting commodity contracts	(3)		3		
Associated offsetting cash collateral			22	1	
Net amounts presented on the balance sheet	25	35	(25)	(64)	
Additional margin posted for commodity contracts not subject to rate recovery(4)	1				
Additional margin posted for commodity contracts subject to rate recovery	12				
Total	\$ 38	\$ 35	\$ (25)	\$ (64)	
SoCalGas:					
Derivatives not designated as hedging instruments:	\$ 2	\$	\$ (2)	\$	



Commodity contracts subject to rate recovery:

Associated offsetting commodity contracts	(1)				1	
Net amounts presented on the balance sheet		1				(1)
Additional margin posted for commodity contracts not subject to rate recovery(4)			2			
Additional margin posted for commodity contracts subject to rate recovery				1		
<b>Total</b>		\$	4	\$		\$ (1) \$

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

(2) Included in Current Liabilities: Other for SoCalGas.

(3) Includes Otay Mesa VIE. All of SDG&E's amounts relate to Otay Mesa VIE.

(4) Includes cash collateral not offset related to a negligible amount of commodity contracts not subject to rate recovery.

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

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

Location	Gain (loss) on derivatives recognized in earnings		Gain (loss) on derivatives recognized in earnings	
	Three months ended June 30, 2013	2012	Six months ended June 30, 2013	2012
Sempra Energy Consolidated:				
Interest rate instruments Expense	\$ 2	\$ 2	\$ 4	\$ 4
Interest rate instruments Net	(5)		(5)	2
<b>Total(1)</b>	\$ (3)	\$ 2	\$ (1)	\$ 6

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

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

Pretax gain (loss) recognized in OCI (effective portion) Three months ended June 30,	Gain (loss) reclassified from AOCI into earnings (effective portion) Three months ended June 30,
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	2013	2012	Location	2013	2012
Sempra Energy Consolidated:					
Interest rate and foreign exchange instruments(1)	\$ 33	\$ (18)	Interest Expense	\$ (3)	\$ (1)
Interest rate instruments	13	(7)	Equity Earnings (Losses),		
Commodity contracts not subject to rate recovery	4		Before Income Tax	(2)	2
Total	\$ 50	\$ (25)	Cost of Natural Gas, Electric Fuel and Purchased Power	5	
SDG&E:				\$	\$
Interest rate instruments(1)	\$ 10	\$ (10)	Interest Expense	\$ (2)	\$ (1)
SoCalGas:					
Interest rate instruments	\$	\$	Interest Expense	\$ (1)	\$
	Six months ended June 30, 2013	Six months ended June 30, 2012	Location	Six months ended June 30, 2013	Six months ended June 30, 2012
Sempra Energy Consolidated:					
Interest rate and foreign exchange instruments(1)	\$ 5	\$ (15)	Interest Expense	\$ (6)	\$ (2)
Interest rate instruments	14	(6)	Equity Earnings (Losses),		
Commodity contracts not subject to rate recovery	4		Before Income Tax	(4)	
Total	\$ 23	\$ (21)	Cost of Natural Gas, Electric Fuel and Purchased Power	5	
SDG&E:				\$	\$
Interest rate instruments(1)	\$ 11	\$ (10)	Interest Expense	\$ (4)	\$ (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 Consolidated expects that losses of \$22 million, which are net of income tax benefit, that are currently recorded in AOCI (including losses of \$11 million in noncontrolling interests) 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 and certain commodity prices in effect when derivative contracts that are currently outstanding mature. The Sempra Energy Consolidated amount includes losses of \$10 million at SDG&E in noncontrolling interest related to Otay Mesa VIE.

SoCalGas expects that losses of \$1 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.

For all forecasted transactions, the maximum term over which we are hedging exposure to the variability of cash flows at June 30, 2013 is approximately 16 years and 6 years for Sempra Energy and SDG&E, respectively. The maximum term of hedged interest rate variability related to debt at Sempra Renewables' equity method investees is 18 years.

We recorded \$1 million of hedge ineffectiveness in the three-month and six-month periods ended June 30, 2013 and negligible hedge ineffectiveness in the three-month and six-month periods ended June 30, 2012.

The effects of derivative instruments not designated as hedging instruments on the Condensed Consolidated Statements of Operations for the three months and six months ended June 30 were:

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

	Location	Gain (loss) on derivatives recognized in earnings			
		Three months ended June 30,		Six months ended June 30,	
		2013	2012	2013	2012
<b>Sempra Energy Consolidated:</b>					
Interest rate and foreign exchange instruments	Other Income, Net	\$ 6	\$ (1)	\$ 13	\$ 10
Foreign exchange instruments	Equity Earnings, Net of Income Tax	4		4	
Commodity contracts not subject to rate recovery	Revenues: Energy-Related Businesses	21	(9)	1	2
Commodity contracts not subject to rate recovery	Operation and Maintenance		(1)		
Commodity contracts subject to rate recovery	Cost of Electric Fuel and Purchased Power	(18)	12	(9)	(9)
Commodity contracts subject to rate recovery	Cost of Natural Gas	(1)	(1)	(1)	(1)
<b>Total</b>		\$ 12	\$	\$ 8	\$ 2
<b>SDG&amp;E:</b>					
Commodity contracts subject to rate recovery	Cost of Electric Fuel and Purchased Power	\$ (18)	\$ 12	\$ (9)	\$ (9)
<b>SoCalGas:</b>					
Commodity contracts not subject to rate recovery	Operation and Maintenance	\$	\$ (1)	\$	\$

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

## CONTINGENT FEATURES

For Sempra Energy and SDG&E, certain of our derivative instruments contain credit limits which vary depending upon our credit ratings. Generally, these provisions, if applicable, may reduce our credit limit if a specified credit rating agency reduces our ratings. In certain cases, if our credit ratings were to fall below investment grade, the counterparty to these derivative liability instruments could request immediate payment or demand immediate and ongoing full collateralization.

For Sempra Energy, the total fair value of this group of derivative instruments in a net liability position at June 30, 2013 and December 31, 2012 is \$6 million and \$8 million, respectively. As of June 30, 2013, if the credit ratings of Sempra Energy were reduced below investment grade, \$6 million of additional assets could be required to be posted as collateral for these derivative contracts.

For SDG&E, the total fair value of this group of derivative instruments in a net liability position at June 30, 2013 and December 31, 2012 is \$4 million and \$6 million, respectively. As of June 30, 2013, if the credit ratings of SDG&E were reduced below investment grade, \$4 million of additional assets could be required to be posted as collateral for these derivative contracts.

For Sempra Energy, SDG&E and SoCalGas, some of our derivative contracts contain a provision that would permit the counterparty, in certain circumstances, to request adequate assurance of our performance under the contracts. Such additional assurance, if needed, is not material and is not included in the amounts above.

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## NOTE 8. FAIR VALUE MEASUREMENTS

We discuss the valuation techniques and inputs we use to measure fair value and the definition of the three levels of the fair value hierarchy in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report. We have not changed the valuation techniques or inputs we use to measure fair value during the six months ended June 30, 2013.

### Recurring Fair Value Measures

The three tables below, by level within the fair value hierarchy, set forth our financial assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2013 and December 31, 2012. We classify financial assets and liabilities in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities, and their placement within the fair value hierarchy levels.

The fair value of commodity derivative assets and liabilities is presented in accordance with our netting policy, as we discuss in Note 7 under "Financial Statement Presentation."

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The determination of fair values, shown in the tables below, incorporates various factors, including but not limited to, the credit standing of the counterparties involved and the impact of credit enhancements (such as cash deposits, letters of credit and priority interests).

Our financial assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2013 and December 31, 2012 in the tables below include the following:

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

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

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

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

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

	At fair value as of June 30, 2013				Total
	Level 1	Level 2	Level 3	Collateral netted	
Assets:					
Nuclear decommissioning trusts:					
Equity securities	\$ 559	\$	\$	\$	\$ 559
Debt securities:					
Debt securities issued by the U.S.					
Treasury and other					
U.S. government corporations and agencies	94	70			164
Municipal bonds		74			74
Other securities		136			136
Total debt securities	94	280			374

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Total nuclear decommissioning trusts(1)	653	280		933
Interest rate instruments		73		73
Commodity contracts subject to rate recovery	12		47	59
Commodity contracts not subject to rate recovery	29	13	(10)	32
Total	\$ 694	\$ 366	\$ 37	\$ 1,097
Liabilities:				
Interest rate and foreign exchange instruments	\$	\$ 124	\$	\$ 124
Commodity contracts subject to rate recovery	17	9	(17)	9
Commodity contracts not subject to rate recovery	1	14	(1)	14
Total	\$ 18	\$ 147	\$ (18)	\$ 147

At fair value as of December 31, 2012

	Level 1	Level 2	Level 3	Collateral netted	Total
Assets:					
Nuclear decommissioning trusts:					
Equity securities	\$ 539	\$	\$	\$	\$ 539
Debt securities:					
Debt securities issued by the U.S. Treasury and other					
U.S. government corporations and agencies	87	69			156
Municipal bonds		63			63
Other securities		130			130
Total debt securities	87	262			349
Total nuclear decommissioning trusts(1)	626	262			888
Interest rate instruments		68			68
Commodity contracts subject to rate recovery	13		61		74
Commodity contracts not subject to rate recovery	28	15			43
Investments	1				1
Total	\$ 668	\$ 345	\$ 61	\$	\$ 1,074
Liabilities:					
Interest rate instruments	\$	\$ 126	\$	\$	\$ 126
Commodity contracts subject to rate recovery	23	9		(23)	9
Commodity contracts not subject to rate recovery	6	23		(11)	18
Total	\$ 29	\$ 158	\$	\$ (34)	\$ 153

(1) Excludes cash balances and cash equivalents.

## RECURRING FAIR VALUE MEASURES – SDG&amp;E

(Dollars in millions)

	At fair value as of June 30, 2013				Total
	Level 1	Level 2	Level 3	Collateral netted	
Assets:					
Nuclear decommissioning trusts:					
Equity securities	\$ 559	\$	\$	\$	\$ 559
Debt securities:					
Debt securities issued by the U.S.					
Treasury and other					
U.S. government corporations and agencies					
	94	70			164
Municipal bonds		74			74
Other securities		136			136
Total debt securities	94	280			374
Total nuclear decommissioning trusts(1)	653	280			933
Commodity contracts subject to rate recovery					
	10		47		57
Commodity contracts not subject to rate recovery					
	2				2
Total	\$ 665	\$ 280	\$ 47	\$	\$ 992
Liabilities:					
Interest rate instruments					
	\$	\$ 60	\$	\$	\$ 60
Commodity contracts subject to rate recovery					
	17	8		(17)	8
Total	\$ 17	\$ 68	\$	\$ (17)	\$ 68

	At fair value as of December 31, 2012				Total
	Level 1	Level 2	Level 3	Collateral netted	
Assets:					
Nuclear decommissioning trusts:					
Equity securities	\$ 539	\$	\$	\$	\$ 539
Debt securities:					
Debt securities issued by the U.S.					
Treasury and other					
U.S. government corporations and agencies					
	87	69			156
Municipal bonds		63			63
Other securities		130			130
Total debt securities	87	262			349
Total nuclear decommissioning trusts(1)	626	262			888
Commodity contracts subject to rate recovery					
	12		61		73
Commodity contracts not subject to rate recovery					
	1				1
Total	\$ 639	\$ 262	\$ 61	\$	\$ 962
Liabilities:					

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Interest rate instruments	\$	\$	81	\$	\$	\$	81	
Commodity contracts subject to rate recovery		23	8		(23)		8	
Total	\$	23	\$	89	\$	(23)	\$	89

(1) Excludes cash balances and cash equivalents.

**RECURRING FAIR VALUE MEASURES – SOCALGAS**  
(Dollars in millions)

At fair value as of June 30, 2013					
	Level 1	Level 2	Level 3	Collateral netted	Total
<b>Assets:</b>					
Commodity contracts subject to rate recovery	\$ 2	\$	\$	\$	\$ 2
Commodity contracts not subject to rate recovery	3				3
Total	\$ 5	\$	\$	\$	\$ 5
<b>Liabilities:</b>					
Commodity contracts subject to rate recovery	\$	\$ 1	\$	\$	\$ 1
Total	\$	\$ 1	\$	\$	\$ 1
At fair value as of December 31, 2012					
	Level 1	Level 2	Level 3	Collateral netted	Total
<b>Assets:</b>					
Commodity contracts subject to rate recovery	\$ 1	\$	\$	\$	\$ 1
Commodity contracts not subject to rate recovery	3				3
Total	\$ 4	\$	\$	\$	\$ 4
<b>Liabilities:</b>					
Commodity contracts subject to rate recovery	\$	\$ 1	\$	\$	\$ 1
Total	\$	\$ 1	\$	\$	\$ 1

Level 3 Information

The following table sets forth reconciliations of changes in the fair value of congestion revenue rights (CRRs) classified as Level 3 in the fair value hierarchy for Sempra Energy Consolidated and SDG&E:

**LEVEL 3 RECONCILIATIONS**  
(Dollars in millions)



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	Three months ended June 30,	
	2013	2012
Balance as of April 1	\$ 58	\$ 21
Realized and unrealized (losses) gains	(2)	5
Settlements	(9)	(13)
Balance as of June 30	\$ 47	\$ 13
Change in unrealized gains or losses relating to instruments still held at June 30	\$ (1)	\$

**LEVEL 3 RECONCILIATIONS**

(Dollars in millions)

	Six months ended June 30,	
	2013	2012
Balance as of January 1	\$ 61	\$ 23
Realized and unrealized (losses) gains	(3)	7
Allocated transmission instruments		1
Settlements	(11)	(18)
Balance as of June 30	\$ 47	\$ 13
Change in unrealized gains or losses relating to instruments still held at June 30	\$ (1)	\$

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

CRRs are recorded at fair value based almost entirely on the most current auction prices published by the California Independent System Operator (ISO), an objective source. The impact associated with discounting is negligible. Because auction prices are a less observable input, these instruments are classified as Level 3. Auction prices range from \$(8) per MWh to \$8 per MWh at a given location, and the fair value of these instruments is derived from auction price differences between two locations. Positive values between two locations represent expected future reductions in congestion costs, whereas negative values between two locations represent expected future charges. Valuation of our CRRs is sensitive to a change in auction price. If auction prices at one location increase (decrease) relative to another location, this could result in a higher (lower) fair value measurement. We summarize CRR volumes in Note 7. 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. Unrealized gains and losses are recorded as regulatory assets and liabilities and therefore also do not affect earnings.

**Fair Value of Financial Instruments**

The fair values of certain of our financial instruments (cash, temporary investments, accounts and notes receivable, dividends and accounts payable, short-term debt and customer deposits) approximate their carrying amounts. Investments in life insurance contracts that we hold in support of our Supplemental Executive Retirement, Cash Balance Restoration and Deferred Compensation Plans are carried at cash surrender values, which represent the

amount of cash that could be realized under the contracts. The following table provides the carrying amounts and fair values of certain other financial instruments at June 30, 2013 and December 31, 2012:

#### FAIR VALUE OF FINANCIAL INSTRUMENTS

(Dollars in millions)

	Carrying Amount	June 30, 2013			Total
		Level 1	Level 2	Level 3	
Sempra Energy Consolidated:					
Total long-term debt(1)	\$ 11,901	\$	\$ 11,646	\$ 1,076	\$ 12,722
Preferred stock of subsidiaries	99		106		106
SDG&E:					
Total long-term debt(2)	\$ 4,130	\$	\$ 4,089	\$ 340	\$ 4,429
Contingently redeemable preferred stock	79		83		83
SoCalGas:					
Total long-term debt(3)	\$ 1,413	\$	\$ 1,515	\$	\$ 1,515
Preferred stock	22		25		25

	Carrying Amount	December 31, 2012			Total
		Level 1	Level 2	Level 3	
Sempra Energy Consolidated:					
Investments in affordable housing partnerships(4)	\$ 12	\$	\$	\$ 36	\$ 36
Total long-term debt(1)	11,873		12,287	956	13,243
Preferred stock of subsidiaries	99		107		107
SDG&E:					
Total long-term debt(2)	\$ 4,135	\$	\$ 4,243	\$ 345	\$ 4,588
Contingently redeemable preferred stock	79		85		85
SoCalGas:					
Total long-term debt(3)	\$ 1,413	\$	\$ 1,599	\$	\$ 1,599
Preferred stock	22		24		24

- (1) Before reductions for unamortized discount (net of premium) of \$16 million at both June 30, 2013 and December 31, 2012, and excluding capital leases of \$185 million at June 30, 2013 and \$189 million at December 31, 2012, and commercial paper classified as long-term debt of \$300 million at December 31, 2012. We discuss our long-term debt in Note 6 above and in Note 5 of the Notes to Consolidated Financial Statements in the Annual Report.
- (2) Before reductions for unamortized discount of \$11 million at June 30, 2013 and \$12 million at December 31, 2012, and excluding capital leases of \$182 million at June 30, 2013 and \$185 million at December 31, 2012.
- (3) Before reductions for unamortized discount of \$4 million at both June 30, 2013 and December 31, 2012, and excluding capital leases of \$2 million at June 30, 2013 and \$4 million at December 31, 2012.
- (4) Investments in affordable housing partnerships at Parent and Other.

We base the fair value of certain of our long-term debt and preferred stock on a market approach using quoted market prices for identical or similar securities in thinly-traded markets (Level 2). We value other long-term debt using an

income approach based on the present value of estimated future cash flows discounted at rates available for similar securities (Level 3).

We calculated the fair value of our investments in affordable housing partnerships using an income approach based on the present value of estimated future cash flows discounted at rates available for similar investments (Level 3).

#### Nuclear Decommissioning Trusts

We discuss SDG&E's investments in nuclear decommissioning trust funds in Note 6 of the Notes to Consolidated Financial Statements in the Annual Report. The following table shows the fair values and gross unrealized gains and losses for the securities held in the trust funds:

#### NUCLEAR DECOMMISSIONING TRUSTS (Dollars in millions)

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
As of June 30, 2013:				
Debt securities:				
Debt securities issued by the U.S.				
Treasury and other				
U.S. government corporations and agencies(1)	\$ 163	\$ 4	\$ (3)	\$ 164
Municipal bonds(2)	72	3	(1)	74
Other securities(3)	139	2	(5)	136
Total debt securities	374	9	(9)	374
Equity securities	230	333	(4)	559
Cash and cash equivalents	5			5
Total	\$ 609	\$ 342	\$ (13)	\$ 938
As of December 31, 2012:				
Debt securities:				
Debt securities issued by the U.S.				
Treasury and other				
U.S. government corporations and agencies	\$ 147	\$ 9	\$	\$ 156
Municipal bonds	57	6		63
Other securities	121	10	(1)	130
Total debt securities	325	25	(1)	349
Equity securities	249	292	(2)	539
Cash and cash equivalents	20			20
Total	\$ 594	\$ 317	\$ (3)	\$ 908

(1) Maturity dates are 2013-2056.

(2) Maturity dates are 2013-2062.

(3) Maturity dates are 2013-2111.

The following table shows the proceeds from sales of securities in the trusts and gross realized gains and losses on those sales:

## SALES OF SECURITIES

(Dollars in millions)

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Proceeds from sales	\$ 192	\$ 191	\$ 326	\$ 320
Gross realized gains	6	5	11	9
Gross realized losses	(4)	(5)	(7)	(5)

Net unrealized gains (losses) are included in Regulatory Liabilities Arising from Removal Obligations on the Condensed Consolidated Balance Sheets. We determine the cost of securities in the trusts on the basis of specific identification.

## NOTE 9. CALIFORNIA UTILITIES' REGULATORY MATTERS

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

## JOINT MATTERS

## CPUC General Rate Case (GRC)

The CPUC uses a general rate case proceeding to prospectively set rates sufficient to allow the California Utilities to recover their reasonable cost of operations and maintenance and to provide the opportunity to realize their authorized rates of return on their investment. In December 2010, the California Utilities filed their 2012 General Rate Case (2012 GRC) applications to establish their authorized 2012 revenue requirements and the ratemaking mechanisms by which those requirements would change on an annual basis over the subsequent three-year (2013-2015) period.

In May 2013, the CPUC approved a final decision (Final GRC Decision) in the California Utilities' 2012 GRC. The Final GRC Decision establishes a 2012 revenue requirement of \$1.733 billion for SDG&E and \$1.959 billion for SoCalGas. This represents an increase of \$119 million (7.4 percent) and \$115 million (6.2 percent) over SDG&E's and SoCalGas' authorized 2011 revenue requirements, respectively. The Final GRC Decision is effective retroactive to January 1, 2012, and SDG&E and SoCalGas recorded the cumulative earnings effect of the retroactive application of the Final GRC Decision of \$69 million and \$37 million, respectively, in the second quarter of 2013. For SDG&E and SoCalGas, respectively, these amounts include an incremental earnings impact of \$52 million and \$25 million related to 2012 and \$17 million and \$12 million related to the first quarter of 2013.

The amount of revenue associated with the retroactive period is expected to be recovered in SDG&E's rates over a 28-month period beginning in September 2013, and in SoCalGas' rates over a 31-month period beginning in June 2013. At June 30, 2013, SoCalGas is reporting on its Condensed Consolidated Balance Sheet a regulatory asset of \$130 million, with \$78 million as noncurrent, representing the retroactive revenue from the Final GRC Decision to be recovered in rates through December 2015. Through June 30, 2013, SDG&E has accumulated and is reporting on its Condensed Consolidated Balance Sheet \$334 million as a regulatory asset, with \$215 million classified as noncurrent,

representing the retroactive revenue from the Final GRC Decision to be recovered by SDG&E in rates during the period September 2013 through December 2015. Since SDG&E will not be adjusting its rates pursuant to the Final GRC Decision until September 2013, SDG&E will continue to accumulate in the regulatory asset the additional amount of revenue awarded pursuant to the Final GRC Decision for the months of July and August of 2013 not currently being recovered in rates.

The Final GRC Decision also establishes a four-year GRC period (through 2015) with a revenue attrition mechanism for the escalation of the adopted revenue requirements for years 2013, 2014, and 2015 based on fixed annual factors of 2.65 percent, 2.75 percent and 2.75 percent, respectively.

For SDG&E, the Final GRC Decision also provides the revenue requirement for cost recovery of wildfire insurance premiums beginning January 1, 2012, as we discuss in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report.

We provide additional information regarding the 2012 GRC in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report.

#### CPUC Cost of Capital

A cost of capital proceeding determines a utility's authorized capital structure and authorized rate of return on rate base (ROR), which is a weighted average of the authorized returns on debt, preferred stock, and common equity (return on equity or ROE), weighted on a basis consistent with the authorized capital structure. The authorized ROR is the rate that the California Utilities are authorized to use in establishing rates to recover the cost of debt and equity used to finance their investment in electric and natural gas distribution, natural gas transmission and electric generation assets. In addition, a cost of capital proceeding also addresses the automatic ROR adjustment mechanism which applies market-based benchmarks to determine whether an adjustment to the authorized ROR is required during the interim years between cost of capital proceedings.

SDG&E and SoCalGas filed separate applications with the CPUC in April 2012 to update their cost of capital effective January 1, 2013. The CPUC issued a ruling in June 2012 bifurcating the proceeding. Phase 1 addressed each utility's cost of capital for 2013, with a final decision issued in December 2012, which granted SDG&E and SoCalGas an authorized ROR of 7.79 percent and 8.02 percent, respectively. The CPUC-authorized ROR in effect prior to the effective date of this decision was 8.40 percent for SDG&E and 8.68 percent for SoCalGas. We provide additional details regarding the cost of capital proceeding in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report. Phase 2 addressed the cost of capital adjustment mechanisms for SDG&E, SoCalGas, Southern California Edison (Edison) and Pacific Gas & Electric Company (PG&E).

SDG&E, SoCalGas, PG&E, Edison and the Division of Ratepayer Advocates (DRA) sponsored a joint stipulation in Phase 2 of the proceeding. In March 2013, the CPUC's final decision adopted the joint stipulation, as proposed. SDG&E retains its current cost of capital adjustment mechanism, and SoCalGas has implemented this same adjustment mechanism, which we describe in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report. Both utilities are forgoing their proposed off-ramp provision.

#### Natural Gas Pipeline Operations Safety Assessments

Various regulatory agencies, including the CPUC, are evaluating natural gas pipeline safety regulations, practices and procedures. In February 2011, the CPUC opened a forward-looking rulemaking proceeding to examine what changes should be made to existing pipeline safety regulations for California natural gas pipelines. The California Utilities are parties to this proceeding.

In June 2011, the CPUC directed SoCalGas, SDG&E, PG&E and Southwest Gas to file comprehensive implementation plans to test or replace all natural gas transmission pipelines that have not been pressure tested. The California Utilities filed their Pipeline Safety Enhancement Plan (PSEP) with the CPUC in August 2011. The proposed safety measures, investments and estimated costs are not included in the California Utilities' 2012 GRC process discussed above.

In December 2011, the assigned Commissioner to the rulemaking proceeding for the pipeline safety regulations ruled that SDG&E's and SoCalGas' Triennial Cost Allocation Proceeding (TCAP) would be the most logical proceeding to conduct the reasonableness and ratemaking review of the companies' PSEP.

In January 2012, the CPUC Consumer Protection and Safety Division (CPSD) issued a Technical Report of the California Utilities' PSEP. The report, along with testimony and evidentiary hearings, will be used to evaluate the PSEP in the regulatory process. Generally, the report found that the PSEP approach to pipeline replacement and pressure testing and other proposed enhancements is reasonable.

In February 2012, the assigned Commissioner in the TCAP issued a ruling setting a schedule for the review of the SDG&E and SoCalGas PSEP with evidentiary hearings held in August 2012. SDG&E and SoCalGas expect a final decision in 2013. In April 2012, the CPUC issued an interim decision in the rulemaking proceeding formally transferring the PSEP to the TCAP and authorizing SDG&E and SoCalGas to establish regulatory accounts to record the incremental costs of initiating the PSEP prior to a final decision on the PSEP. The TCAP proceeding will address the recovery of the costs recorded in the regulatory account.

In April 2012, the CPUC issued a decision expanding the scope of the rulemaking proceeding to incorporate the provisions of California Senate Bill (SB) 705, which requires gas utilities to develop and implement a plan for the safe and reliable operation of their gas pipeline facilities. SDG&E and SoCalGas submitted their pipeline safety plans in June 2012. The CPUC decision also orders the utilities to undergo independent management and financial audits to assure that the utilities are fully meeting their safety responsibilities. CPSD will select the independent auditors and will oversee the audits. A schedule for the audits has not been established. In December 2012, the CPUC issued a final decision accepting the utility safety plans filed pursuant to SB 705.

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

#### Utility Incentive Mechanisms

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

We provide additional information regarding these incentive mechanisms in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report, and below.

#### Natural Gas Procurement

In the first quarter of 2012, SoCalGas recorded its Gas Cost Incentive Mechanism (GCIM) award of \$6.2 million for natural gas procured for its core customers during the 12-month period ending March 31, 2011. In July 2013, the CPUC approved SoCalGas' application requesting a GCIM award of \$5.4 million for the 12-month period ending March 31, 2012, which SoCalGas will record in the third quarter of 2013. In June 2013, SoCalGas applied to the CPUC for approval of a GCIM award of \$5.8 million for natural gas procured for its core customers during the

12-month period ending March 31, 2013. SoCalGas expects a CPUC decision on this application in the first half of 2014.

## SDG&E MATTERS

### San Onofre Nuclear Generating Station (SONGS)

SDG&E has a 20-percent ownership interest in San Onofre Nuclear Generating Station (SONGS), a 2,150-MW nuclear generating facility near San Clemente, California. SONGS is operated by Southern California Edison (Edison), the majority owner, and is subject to the jurisdiction of the Nuclear Regulatory Commission (NRC) and the CPUC.

On June 6, 2013, Edison notified SDG&E that it had reached a decision to permanently retire SONGS Units 2 and 3 and seek approval to start the decommissioning activities for the entire facility. Edison advised SDG&E that its management had made the unilateral decision to retire the units once Edison concluded that the considerable uncertainty about when, or if, the NRC would allow a restart of Unit 2 could not be resolved. Given this uncertainty, Edison decided to retire both Units and seek the authority from the NRC to commence the decommissioning of SONGS.

The steam generators were replaced in Units 2 and 3, and the Units returned to service in 2010 and 2011, respectively. Both Units have been shut down since early 2012 after a water leak occurred in the Unit 3 steam generator. Edison concluded that the leak was due to unexpected wear from tube-to-tube contact. At the time the leak was identified, Edison also inspected and tested Unit 2 and subsequently found unexpected tube wear in Unit 2's steam generators, as well. In March 2012, in response to the shutdown of SONGS, the NRC issued a Confirmatory Action Letter (CAL) which, among other things, outlined the requirements Edison would be required to meet before the NRC would approve a restart of either of the Units.

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

Since the unscheduled outage started, SDG&E has procured power to meet its customers' needs to replace the power that would have been supplied to SDG&E from SONGS, had SONGS been in operation. The estimated cost of the purchased replacement power, determined consistent with the methodology used in the CPUC's Order Instituting Investigation (OII) into the SONGS outage, incurred from January 2012 through June 6, 2013, the date Edison notified SDG&E of the early closure of SONGS, was approximately \$166 million.

In response to the prolonged outage, the CPUC issued the OII, pursuant to California Public Utilities' Code Section 455.5. The OII consolidates all SONGS issues in various proceedings into a single proceeding. The OII, among other things, ruled that all revenues associated with the investment in, and operation of, SONGS since January 1, 2012 are subject to refund to customers, pending the outcome of the proceeding. The OII proceeding will also determine the ultimate recovery of the investment in SONGS and the costs incurred since the commencement of this outage, including purchased replacement power costs that are typically recovered through the Energy Resource Recovery

Account (ERRA) balancing account subject only to a reasonableness review by the CPUC. In addition to the estimated cost of the purchased replacement power mentioned above, SDG&E's share of SONGS' operating costs, including depreciation, and the return on its investment in SONGS from January 1, 2012 through June 30, 2013, was approximately \$300 million. We provide additional information regarding the OII in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report.

Given the decision by Edison to close SONGS, SDG&E management assessed the appropriate accounting for an early-retired plant. In conducting this assessment, management took into consideration, among other things, the interrelationship of any recovery of SDG&E's investment in SONGS, the cost of operations, the cost of purchased replacement power and the probability of having to refund to customers a portion or all of the revenue subject to refund, management's assessment took into account that the CPUC is considering all of these elements on a combined basis in the OII. After considering the regulatory precedent regarding rate recovery of investments in and costs incurred related to early-retired plants, management considered a number of possible regulatory outcomes from the OII proceeding, none of which management considered certain, and given SDG&E's non-operator and minority interest position and the regulatory precedent on such matters, management believes that it is probable that SDG&E will recover in rates a substantial portion of its investment in SONGS, the associated costs incurred to date and the cost of the purchased replacement power. The amount that management has deemed to be probable of recovery was determined based on management's assessment of the likelihood of the potential regulatory outcomes identified.

As a result of Edison's decision to permanently retire SONGS Units 2 and 3, and as a result of our assessment described above, in the second quarter of 2013, Sempra Energy and SDG&E have:

- § Removed SDG&E's investment in SONGS plant and nuclear fuel, which had a net book value of \$512 million at May 31, 2013, from Property, Plant and Equipment reported on the Condensed Consolidated Balance Sheet;
- § Removed SDG&E's SONGS-related materials and supplies, which were \$10 million at May 31, 2013, from Inventory on the Condensed Consolidated Balance Sheet;
- § Established a new regulatory asset, included in Other Assets—Other Regulatory Assets on the Condensed Consolidated Balance Sheet, in the amount of \$322 million, not including the cost of the purchased replacement power, based on management's assessment of the amount probable, but not certain, of recovery in rates for SDG&E's investment in SONGS; and
- § Recorded a pretax Loss From Plant Closure of \$200 million on the Condensed Consolidated Statement of Operations.

The amount that SDG&E will eventually recover will require a regulatory decision from the CPUC that could result in recovery of an amount that is significantly different than management's estimate. In addition to recoveries through the regulatory process, SDG&E intends to pursue all avenues for recovery from other potentially responsible parties and insurance carriers. However, these anticipated recoveries, if any, cannot be included in our current estimates. SDG&E will continue to assess the probability of recovery in rates of the regulatory asset related to the plant closure and the cost of purchased replacement power of \$166 million incurred by SDG&E since the start of the outage. Should SDG&E conclude that recovery in rates is less than the amount anticipated or no longer probable, SDG&E will record an additional charge against earnings at the time such a conclusion is reached.

Power Procurement and Resource Planning

East County Substation



In June 2012, the CPUC approved SDG&E's application for authorization to proceed with the East County Substation project, estimated to cost \$435 million. The Bureau of Land Management (BLM) issued its record of decision in August 2012. SDG&E began construction in the second quarter of 2013 and expects the substation to be placed in service in 2014.

#### FERC Formulaic Rate Filing

SDG&E submitted its Electric Transmission Formula Rate (TO4) filing with the Federal Energy Regulatory Commission (FERC) in February 2013 to be effective September 1, 2013. This proceeding will set the rate making methodology and rate of return for SDG&E's FERC-regulated electric transmission operations and assets. SDG&E's TO4 filing is requesting a rate making formula that is essentially the same as currently authorized by the FERC. SDG&E's TO4 filing is requesting: 1) rates to be determined by a base period of historical costs and a forecast of capital investments and 2) a true-up period similar to balancing account treatment that is designed to provide SDG&E earnings of no more and no less than its actual cost of service including its authorized return on investment.

This TO4 proceeding will also set SDG&E's authorized ROE on FERC rate base. SDG&E's current authorized FERC ROE is 11.35 percent and SDG&E's TO4 filing proposes a FERC ROE of 11.3 percent. In June 2013, the FERC issued an order that conditionally accepted the TO4 filing, including the methodology used by SDG&E to calculate the proposed ROE. At the end of July 2013, the FERC issued another order adopting the rates proposed by SDG&E, based on the 11.3 percent ROE, with such revenues subject to refund pending an approved settlement or final decision in the proceeding.

#### Excess Wildfire Claims Cost Recovery

SDG&E and SoCalGas filed an application, along with other related filings, with the CPUC in August 2009 proposing a new framework and mechanism for the future recovery of all wildfire-related expenses for claims, litigation expenses and insurance premiums that are in excess of amounts authorized by the CPUC for recovery in distribution rates. In December 2012, the CPUC issued a final decision that ultimately did not approve the proposed framework for the utilities but allowed SDG&E to maintain its authorized memorandum account, so that SDG&E may file applications with the CPUC requesting recovery of amounts properly recorded in the memorandum account at a later time, subject to reasonableness review.

SDG&E intends to pursue recovery of such costs in a future application. SDG&E will continue to assess the potential for recovery of these costs in rates. Should SDG&E conclude that recovery in rates is no longer probable, SDG&E will record a charge against earnings at the time such conclusion is reached. If SDG&E had concluded that the recovery of regulatory assets related to CPUC-regulated operations was no longer probable or was less than currently estimated at June 30, 2013, the resulting after-tax charge against earnings would have been up to \$190 million. In addition, in periods following any such conclusion, SDG&E's earnings will be adversely impacted by increases in the estimated cost to litigate or settle pending wildfire claims. We discuss how we assess the probability of recovery of our regulatory assets in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

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

#### SOCALGAS MATTER

Aliso Canyon Natural Gas Storage Compressor Replacement

In September 2009, SoCalGas filed an application with the CPUC requesting approval to replace certain obsolete natural gas turbine compressors used in the operations of SoCalGas' Aliso Canyon natural gas storage reservoir with a new electric compressor station. In April 2012, the CPUC issued a draft environmental impact report (EIR) for the project concluding that no significant or unavoidable adverse environmental impacts have been identified from the construction or operation of the proposed project. In July 2013, the CPUC issued a final EIR confirming the conclusions and findings in the draft EIR. We expect a CPUC decision certifying the final EIR and approving the estimated \$200 million project in 2013.

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## NOTE 10. COMMITMENTS AND CONTINGENCIES

### LEGAL PROCEEDINGS

We accrue losses for legal proceedings when it is probable that a loss has been incurred and the amounts of the loss can be reasonably estimated. However, the uncertainties inherent in legal proceedings make it difficult to estimate with reasonable certainty the costs and effects of resolving these matters. Accordingly, actual costs incurred may differ materially from amounts accrued, may exceed applicable insurance coverage and could materially adversely affect our business, cash flows, results of operations, financial condition and prospects. Unless otherwise indicated, we are unable to estimate reasonably possible losses in excess of any amounts accrued.

At June 30, 2013, Sempra Energy's accrued liabilities for material legal proceedings, on a consolidated basis, were \$231 million. At June 30, 2013, accrued liabilities for material legal proceedings for SDG&E and SoCalGas were \$216 million and \$5 million, respectively. At June 30, 2013, accrued liabilities of \$214 million at Sempra Energy and SDG&E were related to wildfire litigation discussed below.

### SDG&E

#### 2007 Wildfire Litigation

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

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

Numerous parties have sued SDG&E and Sempra Energy in San Diego County Superior Court seeking recovery of unspecified amounts of damages, including punitive damages, from the three fires. These include owners and insurers

of properties that were destroyed or damaged in the fires and government entities seeking recovery of firefighting, emergency response, and environmental costs. They assert various bases for recovery, including inverse condemnation based upon a California Court of Appeal decision finding that another California investor-owned utility was subject to strict liability, without regard to foreseeability or negligence, for property damages resulting from a wildfire ignited by power lines.

In October 2010, the Court of Appeal affirmed the trial court's ruling that these claims must be pursued in individual lawsuits, rather than as class actions on behalf of all persons who incurred wildfire damages. In February 2011, the California Supreme Court denied a petition for review of the affirmance. A trial has been set for September 26, 2014.

SDG&E filed cross-complaints against Cox seeking indemnification for any liability that SDG&E might incur in connection with the Guejito fire, two SDG&E contractors seeking indemnification in connection with the Witch fire, and one SDG&E contractor seeking indemnification in connection with the Rice fire. SDG&E settled its claims against Cox and the three contractors for a total of approximately \$824 million. Among other things, the settlement agreements provide that SDG&E will defend and indemnify Cox and the three contractors against all compensatory damage claims and related costs arising out of the wildfires.

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

The wildfire litigation also includes claims of non-insurer plaintiffs for damage to uninsured and underinsured structures, business interruption, evacuation expenses, agricultural damage, emotional harm, personal injuries and other losses. SDG&E has settled the claims of approximately 5,800 of these plaintiffs, including all of the government entities. Substantially all of the approximately 350 remaining individual and business plaintiffs have submitted settlement demands and damage estimates totaling approximately \$750 million. SDG&E does not expect a significant number of additional plaintiffs to file lawsuits given the applicable statutes of limitation, but does expect to receive additional settlement demands and damage estimates from existing plaintiffs as settlement negotiations continue. SDG&E has established reserves for the wildfire litigation as we discuss below.

SDG&E's settled claims and defense costs have exceeded its \$1.1 billion of liability insurance coverage for the covered period and the \$824 million recovered from third parties. It expects that its wildfire reserves and amounts paid to resolve wildfire claims will continue to increase as it obtains additional information.

As we discuss in Note 9, SDG&E has concluded that it is probable that it will be permitted to recover in rates a substantial portion of its reasonably incurred costs of resolving wildfire claims in excess of its liability insurance coverage and the amounts recovered from third parties. Accordingly, although such recovery will require future regulatory approval, at June 30, 2013, Sempra Energy and SDG&E have recorded assets of \$352 million in Regulatory Assets Arising From Wildfire Litigation Costs on their Condensed Consolidated Balance Sheets, including \$320 million related to CPUC-regulated operations, which represents the amount substantially equal to the aggregate amount it has paid or reserved for payment for the resolution of wildfire claims and related costs in excess of its liability insurance coverage and amounts recovered from third parties. SDG&E will increase the regulatory assets if the estimate of amounts to settle remaining claims increases.

SDG&E will continue to assess the probability of recovery of these excess wildfire costs in rates. Should SDG&E conclude that recovery in rates is no longer probable, SDG&E will record a charge against earnings at the time such conclusion is reached. If SDG&E had concluded that the recovery of regulatory assets related to CPUC-regulated operations was no longer probable or was less than currently estimated at June 30, 2013, the resulting after-tax charge against earnings would have been up to \$190 million. In addition, in periods following any such conclusion, SDG&E's earnings will be adversely impacted by increases in the estimated cost to litigate or settle pending wildfire claims. We

provide additional information about excess wildfire claims cost recovery and related CPUC actions in Note 9 and discuss how we assess the probability of recovery of our regulatory assets in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

SDG&E's cash flow may be materially adversely affected due to the timing differences between the resolution of claims and the recoveries in rates, which may extend over a number of years. Also, recovery from customers will require future regulatory actions, and a failure to obtain substantial or full recovery, or any negative assessment of the likelihood of recovery, would likely have a material adverse effect on Sempra Energy's and SDG&E's businesses, financial condition, cash flows, results of operations and prospects.

SDG&E will continue to gather information to evaluate and assess the remaining wildfire claims and the likelihood, amount and timing of related recoveries in rates and will make appropriate adjustments to wildfire reserves and the related regulatory assets as additional information becomes available.

Since 2010, as liabilities for wildfire litigation have become reasonably estimable in the form of settlement demands, damage estimates, and other damage information, SDG&E has recorded related reserves as a liability. The impact of this liability at June 30, 2013 is offset by the recognition of regulatory assets, as discussed above, for reserves in excess of the insurance coverage and recoveries from third parties. The adverse impact of the change in the reserves on SDG&E's and Sempra Energy's after-tax earnings was \$0 and \$3.3 million for the three months ended June 30, 2013 and 2012, respectively, and \$0.3 million and \$4.9 million for the six months ended June 30, 2013 and 2012, respectively. At June 30, 2013, wildfire litigation reserves were \$214 million (\$182 million current and \$32 million long-term). Additionally, through June 30, 2013, SDG&E has expended \$241 million (cumulative, excluding amounts covered by insurance and amounts recovered from third parties) to pay for the settlement of wildfire claims and related costs.

#### Sunrise Powerlink Electric Transmission Line

The Sunrise Powerlink is a 117-mile, 500-kilovolt (kV) electric transmission line between the Imperial Valley and the San Diego region that was energized and placed in service in June 2012. The Sunrise Powerlink project was approved by the CPUC in December 2008, the BLM in January 2009, and the USFS in July 2010. Numerous administrative appeals and legal challenges have been resolved in favor of the project. Three legal challenges are pending.

In February 2010, project opponents filed a lawsuit in Federal District Court in San Diego alleging that the BLM failed to properly address the environmental impacts of the approved Sunrise Powerlink route and the related potential development of renewable resources in east San Diego County and Imperial County. In July 2012, the U.S. Court of Appeals for the Ninth Circuit affirmed the District Court's grant of the defendants' motion for summary judgment.

In January 2011, project opponents filed a lawsuit in Federal District Court in San Diego alleging that the federal approvals for construction of the project on USFS land and BLM land violated the National Environmental Policy Act and other federal environmental laws. In June 2012, the U.S. Court of Appeals for the Ninth Circuit affirmed the District Court's denial of plaintiffs' motion for a preliminary injunction.

In February 2011, opponents of the Sunrise Powerlink filed a lawsuit in Sacramento County Superior Court against the State Water Resources Control Board and SDG&E alleging that the water quality certification issued by the Board under the Federal Clean Water Act violated the California Environmental Quality Act. The Superior Court denied the plaintiffs' petition in July 2012, and the plaintiffs have appealed.

A claim for additional compensation has been submitted by one of SDG&E's contractors on the Sunrise Powerlink project. The contractor was awarded the transmission line overhead and underground construction contract on a fixed-fee basis of \$456 million after agreed-upon amendments. The contractor has asserted that it is owed additional

compensation above the fixed-fee portion of the contract. In May 2013, the contractor filed two civil complaints, one in San Diego County and the other in Imperial County, seeking Foreclosure of Mechanics Liens previously filed in the sum of \$99.2 million and \$81.1 million. SDG&E has not been formally served with the complaints. At this time, based on the documentation submitted by the contractor and the terms of the fixed-fee agreement, SDG&E has concluded that the contractor has not supported its claim for additional compensation in the amount it has requested.

#### September 2011 Power Outage

In September 2011, a power outage lasting approximately 12 hours affected millions of people from Mexico to southern Orange County, California. Within several days of the outage, several SDG&E customers filed a class action lawsuit in Federal District Court in San Diego against Arizona Public Service Company, Pinnacle West, and SDG&E alleging that the companies failed to prevent the outage. The lawsuit seeks recovery of unspecified amounts of damages, including punitive damages. In July 2012, the court granted SDG&E's motion to dismiss the punitive damages request and dismissed Arizona Public Service Company and Pinnacle West from the lawsuit. SDG&E has filed a motion for summary judgment seeking a determination by the court that it has no liability for the damages sought in the lawsuit.

The FERC and North American Electric Reliability Corporation (NERC) conducted a joint inquiry to determine the cause of the power failure and issued a report in May 2012 regarding their findings. The report does not make any findings of failure on SDG&E's part that led to the power failure. However, this report is not dispositive on any potential liability of SDG&E related to the events of that power outage.

More than 7,000 customers' claims, primarily related to food spoilage, have been submitted directly to SDG&E.

#### Smart Meters Patent Infringement Lawsuit

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

#### Lawsuit Against Mitsubishi Heavy Industries, Ltd.

On July 18, 2013, SDG&E filed a lawsuit in the Superior Court of California in the County of San Diego against Mitsubishi Heavy Industries, Ltd., Mitsubishi Nuclear Energy Systems, Inc., and Mitsubishi Heavy Industries America, Inc. (collectively MHI). The lawsuit seeks to recover damages SDG&E has incurred and will incur related to the design defects in the steam generators MHI provided to the SONGS nuclear power plant. The lawsuit asserts a number of causes of action, including fraud, based on the representations MHI made about its qualifications and ability to design generators free from defects of the kind that resulted in the permanent shutdown of the plant and further seeks to set aside the contractual limitation of damages that MHI has asserted. On July 24, 2013, MHI removed the lawsuit to the United States District Court for the Southern District of California.

#### SoCalGas

SoCalGas, along with Monsanto Co., Solutia, Inc., Pharmacia Corp., and Pfizer, Inc., are defendants in seven Los Angeles County Superior Court lawsuits filed beginning in April 2011 seeking recovery of unspecified amounts of damages, including punitive damages, as a result of plaintiffs' exposure to PCBs (polychlorinated biphenyls). The lawsuits allege plaintiffs were exposed to PCBs not only through the food chain and other various sources but from PCB-contaminated natural gas pipelines owned and operated by SoCalGas. This contamination allegedly caused

plaintiffs to develop cancer and other serious illnesses. Plaintiffs assert various bases for recovery, including negligence and products liability. SoCalGas has settled two of the seven lawsuits for an amount that is not significant and has been recorded.

#### Sempra Natural Gas

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

#### Sempra Mexico

Sempra Mexico has been engaged in a long-running land dispute relating to property adjacent to its Energía Costa Azul LNG terminal near Ensenada, Mexico. The adjacent property is not required by environmental or other regulatory permits for the operation of the terminal. A claimant to the adjacent property has nonetheless asserted that his health and safety are endangered by the operation of the facility. In February 2011, based on a complaint by the claimant, the then new Ensenada Mayor attempted to temporarily close the terminal based on claims of irregularities in municipal permits issued six years earlier. This attempt was promptly countermanded by Mexican federal and Baja California state authorities. No terminal permits or operations were affected as a result of these proceedings or events and the terminal has continued to operate normally. Sempra Mexico expects additional Mexican court proceedings and governmental actions regarding the claimant's assertions as to whether the terminal's permits should be modified or revoked in any manner.

The property claimant also filed a lawsuit in July 2010 against Sempra Energy in Federal District Court in San Diego seeking compensatory and punitive damages as well as the earnings from the Energía Costa Azul LNG terminal based on his allegations that he was wrongfully evicted from the adjacent property and that he has been harmed by other allegedly improper actions.

Additionally, several administrative challenges are pending in Mexico before the Mexican environmental protection agency (SEMARNAT) and/or the Federal Tax and Administrative Courts seeking revocation of the environmental impact authorization (EIA) issued to Energía Costa Azul in 2003. These cases generally allege that the conditions and mitigation measures in the EIA are inadequate and challenge findings that the activities of the terminal are consistent with regional development guidelines. A similar administrative challenge seeking to revoke the port concession for our marine operations at our Energía Costa Azul LNG terminal, which was filed with and rejected by the Mexican Communications and Transportation Ministry, remains on appeal in Mexican federal court as well. Also, there are two real property cases pending against Energía Costa Azul in which the plaintiffs seek to annul the recorded property titles for parcels on which the Energía Costa Azul LNG terminal is situated and to obtain possession of different parcels that allegedly sit in the same place. A third complaint was served in April 2013 seeking to invalidate the contract by which Energía Costa Azul, S. de R.L. de C.V. purchased another of the terminal parcels, on the grounds the purchase price was unfair. Sempra Mexico expects further proceedings on each of these matters.

In July 2012, a Mexicali state court issued a ruling declaring the purchase contract by which Termoeléctrica de Mexicali (TDM) acquired the property on which the facility is located to be invalid, on the grounds that the proceeding in which the seller acquired title was invalid. In June 2013, an appellate court overturned the lower court ruling.

In October 2012, a competitor for one of the two contracts awarded by the Mexican Federal Electricity Commission (Comisión Federal de Electricidad, or CFE) for the construction and operation of a natural gas pipeline in Sonora filed

an amparo in the Mexican federal district court in Mexico City, challenging the tender process and the award to us. The competitor, a subsidiary of Fermaca, Sásabe Pipeline, S. de R.L. de C.V., filed suit against 11 different governmental authorities, including the CFE, the President of Mexico, and the Mexican Energy Ministry. Sásabe Pipeline, which was the second-place bidder, alleges CFE discriminated against it in the bidding process, including by failing to accept its comments on the bid guidelines. In February 2013, we were notified that Guaymas Pipeline S. de R. L. de C.V., another subsidiary of Fermaca, filed another, similar amparo challenging the process by which the second of the two contracts was awarded, although it did not submit a bid for the project. Both cases were dismissed in April 2013.

#### Other Litigation

As described in Note 4, we hold a noncontrolling interest in RBS Sempra Commodities, a limited liability partnership in the process of being liquidated. In March 2012, RBS received a letter from the United Kingdom's Revenue and Customs Department (HMRC) regarding a value-added-tax (VAT) matter related to RBS Sempra Energy Europe (RBS SEE), a former indirect subsidiary of RBS Sempra Commodities that was sold to JP Morgan. The letter states that HMRC is conducting a number of investigations into VAT tax refund claims made by various businesses related to the purchase and sale of carbon credit allowances. The letter also states that HMRC believes it has grounds to deny RBS the ability to reduce its VAT liability by VAT paid during 2009 because it knew or should have known that certain vendors in the trading chain did not remit their own VAT to HMRC. In September 2012, HMRC issued an assessment of £86 million for the VAT paid in connection with these transactions and identified several options for responding, including requesting a review by HMRC and appealing to an independent tribunal. HMRC indicated that the assessment was issued on a protective basis as discussion about the issues is continuing.

In August 2007, the U.S. Court of Appeals for the Ninth Circuit issued a decision reversing and remanding certain FERC orders declining to provide refunds regarding short-term bilateral sales up to one month in the Pacific Northwest for the January 2000 to June 2001 time period. In December 2010, the FERC approved a comprehensive settlement previously reached by Sempra Energy and RBS Sempra Commodities with the State of California. The settlement resolves all issues with regard to sales between the California Department of Water Resources (DWR) and Sempra Commodities in the Pacific Northwest, but potential claims may exist regarding sales in the Pacific Northwest between Sempra Commodities and other parties. The FERC is in the process of addressing these potential claims on remand. Pursuant to the agreements related to the formation of RBS Sempra Commodities, we have indemnified RBS should the liability from the final resolution of these matters be greater than the reserves related to Sempra Commodities. Pursuant to our agreement with the Noble Group Ltd., one of the buyers of RBS Sempra Commodities' businesses, we have also indemnified Noble Americas Gas & Power Corp. and its affiliates for all losses incurred by such parties resulting from these proceedings as related to Sempra Commodities.

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

#### NUCLEAR INSURANCE

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

assessment.

The SONGS owners, including SDG&E, also have \$2.75 billion of nuclear property, decontamination, and debris removal insurance. In addition, the SONGS owners have insurance coverage for outage expenses and replacement power costs due to accidental property damage. These insurance coverages are provided through Nuclear Electric Insurance Limited (NEIL), a mutual insurance company. The NEIL policies have specific exclusions and limitations that can result in reduced or eliminated coverage. Insured members are subject to retrospective premium assessments. SDG&E could be assessed up to \$9.7 million. Edison, on behalf of itself and the other minority owners of SONGS (including SDG&E), has placed NEIL on notice of claims under both the property damage and outage insurance policies as a result of SONGS' Units 2 and 3 being shut down since early 2012.

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

We provide additional information about SONGS in Note 9.

## CONTRACTUAL COMMITMENTS

We discuss below significant changes in the first six months of 2013 to contractual commitments discussed in Note 15 of the Notes to Consolidated Financial Statements in the Annual Report.

### Natural Gas Contracts

SoCalGas' natural gas purchase and pipeline capacity commitments have decreased by \$112 million since December 31, 2012. The decrease, primarily due to fulfillment of commitments in the first six months of 2013 of \$366 million, is partially offset by an increase of \$254 million from new natural gas purchase and pipeline capacity contracts. Net future payments are expected to decrease by \$220 million in 2013 and to increase by \$108 million in 2014 compared to December 31, 2012.

Sempra Natural Gas' natural gas purchase and storage capacity commitments have increased by \$11 million since December 31, 2012, primarily due to additional storage capacity under existing contracts in the first six months of 2013. Net future payments are expected to decrease by \$29 million in 2013, and increase by \$12 million in 2014, \$5 million in 2015, \$5 million in 2016, \$5 million in 2017 and \$13 million thereafter compared to December 31, 2012.

Sempra Rockies Marketing, a subsidiary of Sempra Natural Gas, has an agreement for capacity on the Rockies Express Pipeline through November 2019, as we discuss in Note 4. Historically, the capacity costs have been more than offset by revenues from releases of the capacity. However, certain capacity release commitments will conclude during 2013 and new contracting activity related to that capacity may not be sufficient to offset all of our capacity commitments. Including capacity released to others, Sempra Rockies Marketing's obligation to Rockies Express Pipeline LLC for future capacity payments are expected to be \$6 million in 2013, \$14 million each year in 2014 through 2017 and \$83 million thereafter.

### LNG Purchase Agreements



At June 30, 2013, Sempra Natural Gas has various purchase agreements with major international companies for the supply of LNG to the Energía Costa Azul and Cameron terminals. We discuss these agreements further in Note 15 of the Notes to Consolidated Financial Statements in the Annual Report. Sempra Natural Gas' commitments under all LNG purchase agreements, reflecting changes in forward prices since December 31, 2012 and actual transactions for the first six months of 2013, are expected to decrease by \$281 million in 2013, \$35 million in 2014, \$23 million in 2015, \$18 million in 2016 and \$10 million in 2017 and increase by \$666 million thereafter compared to December 31, 2012.

The LNG commitment amounts above are based on Sempra Natural Gas' commitment to accept the maximum possible delivery of cargoes under the agreements. Actual LNG purchases for the six months ended June 30, 2013 have been significantly lower than the maximum amounts possible.

#### Purchased-Power Contracts

SDG&E's commitments under purchased-power contract commitments have increased by \$2.9 billion since December 31, 2012. The increase is primarily due to new contracts associated with renewable energy development projects. Net future payments are therefore expected to increase by \$7 million in 2013, \$81 million in 2014, \$124 million in 2015, \$125 million in 2016, \$125 million in 2017 and \$2.4 billion thereafter compared to December 31, 2012.

#### Operating Leases

Sempra Renewables entered into a land lease for the Copper Mountain Solar 3 project, which lease expires in 2050. Future payments on the lease are \$2 million each year in 2014 through 2017 and \$75 million thereafter.

#### Construction and Development Projects

In the first six months of 2013, significant net increases to contractual commitments at SoCalGas were \$28 million primarily for the Pipeline Safety Enhancement Program. The future payments under these contractual commitments are expected to be \$26 million in 2013 and \$2 million in 2014.

In the first six months of 2013, significant net increases to contractual commitments at Sempra Mexico were \$374 million for contracts related to the construction of an approximately 500-mile natural gas transport pipeline network and \$144 million for the Energía Sierra Juárez wind project. The future payments under these contractual commitments are expected to be \$101 million in 2013, \$303 million in 2014 and \$114 million in 2015.

In the first six months of 2013, significant net increases to contractual commitments at Sempra Renewables were \$42 million for the construction of Copper Mountain Solar 3 facilities. The future payments under this contractual commitment are expected to be \$41 million in 2013 and \$1 million in 2014.

#### Guarantees

In the first six months of 2013, Sempra Renewables provided additional guarantees to certain wind farm joint ventures aggregating a maximum of \$170 million with an associated aggregated carrying value of \$14 million for debt service and operation of the wind farms, as we discuss in Note 6.

#### Other

In February 2013, Sempra Natural Gas entered into a long-term operations and maintenance agreement for its remaining block of the Mesquite Power natural gas-fired power plant, which expires in 2033. The total cost associated with this agreement is estimated to be approximately \$36 million. The future payments for this contractual commitment are expected to be \$1 million in 2013, \$2 million each year in 2014 through 2017 and \$27 million thereafter. We provide additional information about Mesquite Power in Note 3.

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NOTE 11. SEGMENT INFORMATION

We have six separately managed reportable segments, as follows:

1. SDG&E provides electric service to San Diego and southern Orange counties and natural gas service to San Diego County.
2. SoCalGas is a natural gas distribution utility, serving customers throughout most of Southern California and part of central California.
3. Sempra South American Utilities operates electric transmission and distribution utilities in Chile and Peru. In June 2013, we sold our interests in two Argentine utilities, which we discuss further in Note 4 above.
4. Sempra Mexico develops, owns and operates, or holds interests in, natural gas transmission pipelines and propane and ethane systems, a natural gas distribution utility, electric generation facilities (including wind), a terminal for the import of LNG, and marketing operations for the purchase of LNG and the purchase and sale of natural gas in Mexico.
5. Sempra Renewables develops, owns and operates, or holds interests in, wind and solar energy projects in Arizona, California, Colorado, Hawaii, Indiana, Kansas, Nevada and Pennsylvania to serve wholesale electricity markets in the United States.
6. Sempra Natural Gas develops, owns and operates, or holds interests in, a natural gas-fired electric generation asset, natural gas pipelines and storage facilities, natural gas distribution utilities and a terminal for the import and export of LNG and sale of natural gas, all within the United States.

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

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

During the fourth quarter of 2012, Sempra Mexico initiated a public debt offering process through one of its subsidiaries. We discuss this debt issuance, which occurred on February 14, 2013, in Note 6. The subsidiary issuing the debt, now IEnova, was previously included in Parent and Other. As a result of our anticipated debt issuance, we

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revised the manner in which we make resource allocation decisions to our Sempra Mexico segment and assess its performance. As a result, we have reclassified certain amounts from Parent and Other, which contains interest and other corporate costs and certain holding company activities, to our Sempra Mexico segment. Earnings reclassified as a result of the restatement were \$4 million in the three months ended June 30, 2012, and, net of losses reclassified in the first quarter of 2012, there was no net effect for the six months ended June 30, 2012. In accordance with U.S. GAAP, the historical segment disclosures have been restated to be consistent with the current presentation.

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

**SEGMENT INFORMATION**

(Dollars in millions)

	Three months ended June 30,				Six months ended June 30,							
	2013		2012		2013		2012					
<b>REVENUES</b>												
SDG&E	\$	1,064	40 %	\$	780	37 %	\$	2,003	38 %	\$	1,614	36 %
SoCalGas		904	34		720	34		1,887	36		1,600	36
Sempra South												
American Utilities		371	14		348	17		755	14		705	16
Sempra Mexico		163	6		118	6		331	6		254	6
Sempra Renewables		30	1		14	1		51	1		22	
Sempra Natural Gas		218	8		198	9		471	9		467	10
Adjustments and eliminations		(2)			(1)			(2)			(2)	
Intersegment revenues(1)		(97)	(3)		(88)	(4)		(195)	(4)		(188)	(4)
Total	\$	2,651	100 %	\$	2,089	100 %	\$	5,301	100 %	\$	4,472	100 %
<b>INTEREST EXPENSE</b>												
SDG&E	\$	49		\$	39		\$	97		\$	75	
SoCalGas		18			17			35			34	
Sempra South												
American Utilities		5			6			12			16	
Sempra Mexico		3						5			3	
Sempra Renewables		9			3			17			7	
Sempra Natural Gas		23			26							