

PACIFIC ENTERPRISES INC  
Form 10-K  
February 26, 2010

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

(Mark One)

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

For the fiscal year ended

December 31, 2009

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	State of Incorporation	I.R.S. Employer Identification Nos.
1-14201	SEMPRA ENERGY 101 Ash Street San Diego, California 92101 (619)696-2034	California	33-0732627
1-3779	SAN DIEGO GAS & ELECTRIC COMPANY 8326 Century Park Court San Diego, California 92123 (619)696-2000	California	95-1184800
1-40	PACIFIC ENTERPRISES 101 Ash Street San Diego, California 92101 (619)696-2020	California	94-0743670

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1-1402	SOUTHERN CALIFORNIA GAS COMPANY 555 West Fifth Street Los Angeles, California 90013 (213)244-1200	California	95-1240705
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SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	Name of Each Exchange on Which Registered
Sempra Energy Common Stock, without par value	NYSE
SDG&E Preference Stock (Cumulative) Without Par Value (except \$1.70 Series)	NYSE Amex
SDG&E Cumulative Preferred Stock, \$20 Par Value (except 4.60% Series)	NYSE Amex
Pacific Enterprises Preferred Stock: \$4.75 dividend, \$4.50 dividend \$4.40 dividend, \$4.36 dividend	NYSE Amex

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

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

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

Yes X No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

X

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

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Sempra Energy	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
San Diego Gas & Electric Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Pacific Enterprises	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Southern California Gas Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

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

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

Exhibit Index on page 47. Glossary on page 56.

Aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2009:

Sempra Energy	\$12.1 billion (based on the price at which the common equity was last sold as of the last business day of the most recently completed second fiscal quarter)
San Diego Gas & Electric Company	\$0
Pacific Enterprises	\$0
Southern California Gas Company	\$0

Common Stock outstanding, without par value, as of February 23, 2010:

Sempra Energy	247,003,443 shares
San Diego Gas & Electric Company	Wholly owned by Enova Corporation, which is wholly owned by Sempra Energy
Pacific Enterprises	Wholly owned by Sempra Energy
Southern California Gas Company	Wholly owned by Pacific Enterprises

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the 2009 Annual Report to Shareholders of Sempra Energy, San Diego Gas & Electric Company, Pacific Enterprises and Southern California Gas Company are incorporated by reference into Parts I, II and IV.

Portions of the Sempra Energy Proxy Statement prepared for the May 2010 annual meeting of shareholders are incorporated by reference into Parts II and III.

Portions of the San Diego Gas & Electric Company, Southern California Gas Company and Pacific Enterprises Information Statement are incorporated by reference into Part III.

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**This combined Form 10-K is separately filed by Sempra Energy, San Diego Gas & Electric Company, Pacific Enterprises and Southern California Gas Company. Information contained herein relating to any individual company is filed by such company on its own behalf. Each company 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 Item 6 and 8 sections are provided for each reporting company, except for the Notes to Consolidated Financial Statements. The Notes to Consolidated Financial Statements for all of the reporting companies are combined. All Items other than 6 and 8 are combined for the reporting companies.**





## INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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actions by the California Public Utilities Commission, the California State Legislature, the California Department of Water Resources, the Federal Energy Regulatory Commission, the Federal Reserve Board, and other regulatory and governmental bodies in the United States and other countries in which we operate;

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capital markets conditions and inflation, interest and exchange rates;

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

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the availability of electric power, natural gas and liquefied natural gas;

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weather conditions and conservation efforts;

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war and terrorist attacks;

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business, regulatory, environmental and legal decisions and requirements;

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

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the timing and success of business development efforts;

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the resolution of litigation; and

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

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

PART I

ITEM 1. BUSINESS

**DESCRIPTION OF BUSINESS**

We provide a description of Sempra Energy and its subsidiaries in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 2009 Annual Report to Shareholders (Annual Report), which is incorporated by reference.

This report includes information for the following separate registrants:

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Sempra Energy and its consolidated entities

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San Diego Gas & Electric Company (SDG&E)

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Pacific Enterprises (PE), the holding company for Southern California Gas Company

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Southern California Gas Company (SoCalGas)

References in this report to "we," "our" and "our company" are to Sempra Energy and its subsidiaries, collectively. SDG&E and SoCalGas are collectively referred to as the Sempra Utilities.

Sempra Energy has five separately managed reportable segments consisting of SDG&E, SoCalGas, Sempra Commodities, Sempra Generation and Sempra Pipelines & Storage. Sempra Commodities, Sempra Generation, Sempra Pipelines & Storage, and an additional business unit, Sempra LNG (liquefied natural gas) are subsidiaries of Sempra Global. Sempra Global is a holding company for most of our subsidiaries that are not subject to California utility regulation.

SDG&E, PE and SoCalGas are subsidiaries of Sempra Energy. Sempra Energy directly or indirectly owns all the common stock and substantially all of the voting stock of each of the three companies.

***Sempra Commodities - Pending Transaction***

In April 2008, Sempra Energy formed a partnership with The Royal Bank of Scotland plc (RBS) to purchase and operate our commodities-marketing businesses, which generally comprised the Sempra Commodities segment. In November 2009, RBS announced its intention to divest its interest in this joint venture, RBS Sempra Commodities LLP (RBS Sempra Commodities), following a directive from the European Commission to dispose of certain assets.

On February 16, 2010, Sempra Energy, RBS and the partnership entered into an agreement with J.P. Morgan Ventures Energy Corporation (J.P. Morgan Ventures), whereby J.P. Morgan Ventures will purchase the following businesses from the joint venture:

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the global oil, metals, coal, emissions (other than emissions related to the joint venture's North American power business), plastics, agricultural commodities and concentrates commodities trading and marketing business

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the European power and gas business

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the investor products business

RBS Sempra Commodities will retain its North American power and natural gas trading businesses and its retail energy solutions business. These businesses have historically generated 40 to 60 percent of total earnings of the businesses in the partnership, and have averaged more than 50 percent.

Subject to obtaining various regulatory approvals and other conditions, the transaction is expected to close in the second quarter of 2010. J.P. Morgan Ventures will pay an aggregate purchase price equal to the estimated book value at closing of the businesses purchased, generally computed on the basis of international financial reporting standards (as adopted by the European Union), plus an amount equal to \$468 million. Sempra Energy will be entitled to 53 -1/3 percent of the aggregate purchase price, and RBS will be entitled to 46-2/3 percent of the aggregate purchase price.

In connection with the transaction, we and RBS entered into a letter agreement to negotiate, prior to closing of the transaction, definitive documentation to amend certain provisions of the Limited Liability Partnership Agreement dated April 1, 2008 between Sempra Energy and RBS. As RBS continues to be obligated to divest its remaining interest in the partnership, the letter agreement also provides for negotiating the framework for the entertaining bids for the remaining part of the partnership's business.

We provide further discussion about RBS Sempra Commodities and the pending transaction with J.P. Morgan Ventures in Notes 3, 4, 6 and 20 of the Notes to Consolidated Financial Statements. The partnership is also discussed in "Sempra Global Competition - Sempra Commodities" below.

## COMPANY WEBSITES

Company website addresses are:

Sempra Energy <http://www.sempra.com>

SDG&E <http://www.sdge.com>

PE/SoCalGas <http://www.socalgas.com>

We make available free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission. The charters of the audit, compensation and corporate governance committees of Sempra Energy's board of directors (the board), the board's corporate governance guidelines, and Sempra Energy's code of business conduct and ethics for directors and officers are posted on Sempra Energy's website.

SDG&E and SoCalGas make available free of charge via a hyperlink on their websites their annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission.

Printed copies of all of these materials may be obtained by writing to our Corporate Secretary at Sempra Energy, 101 Ash Street, San Diego, CA 92101-3017.

## GOVERNMENT REGULATION

The most significant government regulation affecting Sempra Energy is the regulation of our utility subsidiaries.

### *California Utility Regulation*

The Sempra Utilities are regulated in California by the California Public Utilities Commission (CPUC), the California Energy Commission (CEC), and the California Air Resources Board (CARB).

The California Public Utilities Commission:

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consists of five commissioners appointed by the Governor of California for staggered, six-year terms.

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regulates SDG&E's and SoCalGas's rates and conditions of service, sales of securities, rates of return, capital structure, rates of depreciation, and long-term resource procurement, except as described below in "United States Utility Regulation."

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has jurisdiction over the proposed construction of major new electric transmission, electric distribution, and natural gas storage, transmission and distribution facilities in California.

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conducts reviews and audits of utility performance and compliance with regulatory guidelines, and conducts investigations into various matters, such as deregulation, competition and the environment, to determine its future policies.

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regulates the interactions and transactions of the Sempra Utilities with Sempra Energy and its other affiliates.

We provide further discussion in Notes 15 and 16 of the Notes to Consolidated Financial Statements in the Annual Report.

SDG&E is also subject to regulation by the CEC, which publishes electric demand forecasts for the state and for specific service territories. Based upon these forecasts, the CEC:

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determines the need for additional energy sources and conservation programs;

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sponsors alternative-energy research and development projects;

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promotes energy conservation programs;

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maintains a statewide plan of action in case of energy shortages; and

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certifies power-plant sites and related facilities within California.

The CEC conducts a 20-year forecast of available supplies and prices for every market sector that consumes natural gas in California. This forecast includes resource evaluation, pipeline capacity needs, natural gas demand and wellhead prices, and costs of transportation and distribution. This analysis is one of many resource materials used to support the Sempra Utilities' long-term investment decisions.

The State of California requires certain California electric retail sellers, including SDG&E, to deliver 20 percent of their 2010 retail demand from renewable energy sources. The rules governing this requirement, administered by both the CPUC and the CEC, are generally known as the Renewables Portfolio Standard (RPS) Program. Certification of a generation project by the CEC as an Eligible

Renewable Energy Resource (ERR) allows the purchase of output from a generation facility to be counted towards fulfillment of the RPS Program requirements. This may affect the demand for output from renewables projects developed by Sempra Generation, particularly from California utilities. Final certification as an ERR for Sempra Generation's El Dorado solar generation facility was approved in June 2009.

In September 2009, the Governor of California issued an Executive Order which directs the California utilities to procure 33 percent of their electric energy requirements from renewable sources by 2020. This Executive Order designates the CARB as the agency responsible for establishing the compliance rules and regulations for this program.

California Assembly Bill 32, the California Global Warming Solutions Act of 2006, assigns responsibility to CARB for monitoring and establishing policies for reducing greenhouse gas (GHG) emissions. The bill requires CARB to develop and adopt a comprehensive plan for achieving real, quantifiable and cost-effective GHG emission reductions, including a statewide GHG emissions cap, mandatory reporting rules, and regulatory and market mechanisms to achieve reductions of GHG emissions. CARB is a department within the California Environmental Protection Agency, an organization which reports directly to the Governor's Office in the Executive Branch of California State Government. As the CARB formulates its plan, provisions of the plan may apply to the Sempra Utilities.

### ***United States Utility Regulation***

The Sempra Utilities are also regulated by the Federal Energy Regulatory Commission (FERC) and the Nuclear Regulatory Commission (NRC).

In the case of SDG&E, the FERC regulates the interstate sale and transportation of natural gas, the transmission and wholesale sales of electricity in interstate commerce, transmission access, rates of return on transmission investment, the uniform systems of accounts, rates of depreciation and electric rates involving sales for resale.

In the case of SoCalGas, the FERC regulates the interstate sale and transportation of natural gas and the uniform systems of accounts.

The NRC oversees the licensing, construction and operation of nuclear facilities in the United States, including the San Onofre Nuclear Generating Station (SONGS), in which SDG&E owns a 20-percent interest. NRC regulations require extensive review of the safety, radiological and environmental aspects of these facilities. Periodically, the NRC requires that newly developed data and techniques be used to reanalyze the design of a nuclear power plant and, as a result, may require plant modifications as a condition of continued operation.

Sempra Pipelines & Storage operates Mobile Gas Service Corporation (Mobile Gas), a small natural gas distribution utility serving Southwest Alabama that is regulated by the Alabama Public Service Commission (APSC). The FERC regulates Mobile Gas interstate transportation of natural gas, the uniform systems of accounts, and rates of depreciation.

### ***Local Regulation Within the U.S.***

SoCalGas has natural gas franchises with the 243 separate counties and cities in its service territory. These franchises allow SoCalGas to locate, operate and maintain facilities for the transmission and distribution of natural gas. Most of the franchises have indefinite lives with no expiration date. Some franchises have fixed expiration dates, ranging from 2010 to 2048.

SDG&E has

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electric franchises with the two counties and the 26 cities in its electric service territory, and

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natural gas franchises with the one county and the 18 cities in its natural gas service territory.



These franchises allow SDG&E to locate, operate and maintain facilities for the transmission and distribution of electricity and/or natural gas. Most of the franchises have indefinite lives with no expiration dates. Some franchises have fixed expiration dates, ranging from 2012 to 2035.

Sempra Generation, Sempra LNG and Sempra Pipelines & Storage have operations or development projects in Alabama, Arizona, California, Indiana, Louisiana, Mississippi, Nevada, Texas, and Hawaii. These entities are subject to state and local laws, and to regulations in the states in which they operate.

### ***Other Regulation***

RBS Sempra Commodities is subject to regulation by the U.K. Financial Services Authority, the New York Mercantile Exchange, the Commodity Futures Trading Commission, the FERC, the London Metals Exchange, NYSE Euronext, the U.S. Federal Reserve Bank and the National Futures Association.

In the United States, the FERC regulates Sempra Generation's, Sempra Pipelines & Storage's and Sempra LNG's operations. Sempra Pipelines & Storage also owns an interest in the Rockies Express Pipeline, a natural gas pipeline which operates in several states in the United States and is subject to regulation by the FERC.

Sempra Pipelines & Storage's Bay Gas Storage Company (Bay Gas) is regulated by the APSC and its intrastate storage contracts are subject to APSC approval. Bay Gas provides long-term services for customers that include storage and transportation of natural gas from interstate and intrastate sources. As an intrastate facility, Bay Gas is regulated by the FERC as a 311 facility, and the FERC has also approved market-based rates for interstate storage services and cost-based rates for transportation services.

Several of our segments operate in Mexico as follows:

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Sempra Generation owns and operates a natural gas-fired power plant in Baja California, Mexico

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Sempra Pipelines & Storage's Mexican utilities build and operate natural gas distribution systems in Mexicali, Chihuahua, and the La Laguna-Durango zone in north-central Mexico

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Sempra Pipelines & Storage transports gas between the U.S. border and Baja California, Mexico

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Sempra LNG owns and operates the Energía Costa Azul LNG receipt terminal located in Baja California, Mexico

These operations are subject to regulation by the Comisión Reguladora de Energía and by the labor and environmental agencies of city, state and federal governments in Mexico.

Sempra Pipelines & Storage also has investments in South America that are subject to laws and regulations in the localities and countries in which they operate.

### ***Licenses and Permits***

The Sempra Utilities obtain numerous permits, authorizations and licenses in connection with the transmission and distribution of natural gas and electricity and the operation and construction of related assets. Because these permits, authorizations and licenses require periodic renewal, the Sempra Utilities are continuously regulated by the granting agencies.

Our other subsidiaries are also required to obtain numerous permits, authorizations and licenses in the normal course of business. Some of these permits, authorizations and licenses require periodic renewal.

Sempra Generation and its subsidiaries obtain a number of permits, authorizations and licenses in connection with the construction and operation of power generation facilities, and in connection with the wholesale distribution of electricity.

Sempra Pipelines & Storage's Mexican subsidiaries obtain numerous permits, authorizations and licenses for their natural gas distribution and transmission systems from the local governments where the service is provided. Sempra Pipelines & Storage's U.S. operations obtain licenses and permits for natural gas storage facilities and pipelines.

Sempra LNG obtains licenses and permits for the construction and operation of LNG facilities.

We describe other regulatory matters in Notes 15 and 16 of the Notes to Consolidated Financial Statements in the Annual Report.

### **CALIFORNIA NATURAL GAS UTILITY OPERATIONS**

SoCalGas and SDG&E sell, distribute, and transport natural gas. SoCalGas purchases and stores natural gas for itself and SDG&E on a combined portfolio basis and provides natural gas storage services for others. The Sempra Utilities resource planning, natural gas procurement, contractual commitments, and related regulatory matters are discussed below. We also provide further discussion in the Annual Report in "Management's Discussion and Analysis of Financial Condition and Results of Operations," and in Notes 16 and 17 of the Notes to Consolidated Financial Statements.

### ***Customers***

For regulatory purposes, end-use customers are classified as either core or noncore customers. Core customers are primarily residential and small commercial and industrial customers. Noncore customers at SoCalGas consist primarily of electric generation, wholesale, large commercial, industrial, and enhanced oil recovery customers. Noncore customers at SDG&E consist primarily of electric generation, and large commercial and industrial customers.

Most core customers purchase natural gas directly from SoCalGas or SDG&E. While core customers are permitted to purchase directly from producers, marketers or brokers, the Sempra Utilities are obligated to provide reliable supplies of natural gas to serve the requirements of their core customers. Noncore customers are responsible for the procurement of their natural gas requirements.

In 2009, SoCalGas added 27,000 new customer natural gas meters at a growth rate of 0.5 percent; in 2008, it added 41,000 new meters at a growth rate of 0.7 percent. In 2009, SDG&E added 4,200 new customer natural gas meters at a growth rate of 0.5 percent; in

2008, it added 3,000 new meters at a growth rate of 0.4 percent. We expect levels to remain low in 2010, and both SoCalGas and SDG&E expect new meter growth in 2010 to be comparable to that in 2009.

### ***Natural Gas Procurement and Transportation***

SoCalGas purchases natural gas under short-term and long-term contracts for the Sempra Utilities' core customers. SoCalGas purchases natural gas from Canada, the U.S. Rockies and the southwestern U.S. to meet customer requirements and maintain pipeline reliability. It also purchases some California natural gas production and additional supplies delivered directly to California for its remaining requirements. Natural gas prices for substantially all contracts are based on published monthly bid-week indices.

To ensure the delivery of the natural gas supplies to its distribution system and to meet the seasonal and annual needs of customers, SoCalGas has entered into firm interstate pipeline capacity contracts that require the payment of fixed reservation charges to reserve firm transportation rights. Interstate pipeline companies, primarily El Paso Natural Gas Company, Transwestern Pipeline Company, and Kern River Gas Transmission Company, provide transportation services into SoCalGas' intrastate transmission system for supplies purchased by SoCalGas or its transportation customers from outside of California. The FERC regulates the rates that interstate pipeline companies may charge for natural gas and transportation services.

SoCalGas has natural gas transportation contracts with various interstate pipelines. These contracts expire on various dates between 2010 and 2025.

### ***Natural Gas Storage***

SoCalGas provides natural gas storage services for core, noncore and non-end-use customers. The Sempra Utilities' core customers are allocated a portion of SoCalGas' storage capacity. SoCalGas offers the remaining storage capacity for sale to others through an open bid process. The storage service program provides opportunities for these customers to purchase and store natural gas when natural gas costs are low, usually during the summer, thereby reducing purchases when natural gas costs are expected to be higher. This program allows customers to better manage their fuel procurement and transportation needs.

### ***Demand for Natural Gas***

Growth in the demand for natural gas largely depends on the health and expansion of the Southern California economy, prices of alternative energy products, environmental regulations, renewable energy, legislation, and the effectiveness of energy efficiency programs. External factors such as weather, the price of electricity, electric deregulation, the use of hydroelectric power, development of renewable energy resources, development of new natural gas supply sources, and general economic conditions can also result in significant shifts in demand and market price.

The Sempra Utilities face competition in the residential and commercial customer markets based on the customers' preferences for natural gas compared with other energy products. In the noncore industrial market, some customers are capable of securing alternate fuel supplies from other suppliers which can affect the demand for natural gas. The Sempra Utilities' ability to maintain their respective industrial market shares is largely dependent on the relative spread between delivered energy prices.

Natural gas demand for electric generation within Southern California competes with electric power generated throughout the western U.S. Natural gas transported for electric generating plant customers may be significantly affected to the extent that regulatory changes and electric transmission infrastructure investment divert electric generation from the Sempra Utilities' respective service areas. We provide additional information regarding electric industry restructuring in Note 15 of the Notes to Consolidated Financial Statements in the Annual Report.

*Short-Term Demand.* The demand for natural gas by electric generators is influenced by a number of factors, including:

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the availability of alternative sources of generation; for example, the availability of hydroelectricity is highly dependent on precipitation in the western U.S. and Canada;

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the performance of other generation sources in the western U.S., including nuclear and coal, renewable energy and other natural gas facilities outside the service area; and

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the changes in end-use electricity demand; for example, natural gas use generally increases during extended heat waves.

*Long-Term Demand.* The demand for natural gas used to generate electricity will be influenced by additional factors such as the location of new power plants and the development of renewable energy resources. Recently, more generation capacity has been constructed outside the Sempra Utilities' service area than within it. This new generation will displace the output of older, less-efficient local generation, thereby reducing the use of natural gas for local electric generation. Over the next few years, however, the construction of smaller natural gas-fired peaking and other electric generation facilities within the Sempra Utilities' respective service areas are expected to result in a slight overall increase in the demand for local natural gas for electric generation.

The natural gas distribution business is seasonal, and revenues generally are greater during the winter heating months. As is prevalent in the industry, SoCalGas injects natural gas into storage during the summer months (usually April through October) for withdrawal from storage during the winter months (usually November through March) when customer demand is higher.

## **ELECTRIC UTILITY OPERATIONS**

### *Customers*

SDG&E's service area covers 4,100 square miles. At December 31, 2009, SDG&E had 1.4 million customer meters consisting of:

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1,225,500 residential

§

146,700 commercial

§

500 industrial

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2,000 street and highway lighting

§

4,500 direct access

In 2009, SDG&E added 7,000 new electric customer meters at a growth rate of 0.5 percent; in 2008, it added 7,400 new customers at a growth rate of 0.5 percent. Based on forecasts of new housing starts, SDG&E expects that its new meter growth rate in 2010 will be comparable to that in 2009.

### ***Resource Planning and Power Procurement***

SDG&E's resource planning, power procurement and related regulatory matters are discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Notes 15, 16 and 17 of the Notes to Consolidated Financial Statements in the Annual Report.

### ***Electric Resources***

The supply of electric power available to SDG&E for resale is based on CPUC-approved purchased-power contracts currently in place with its various suppliers, its Palomar and Miramar generating facilities, its 20-percent ownership interest in SONGS and purchases on a spot basis. This supply as of December 31, 2009 is as follows:

#### **SDG&E ELECTRIC RESOURCES**

Supplier	Source	Expiration date	Megawatts (MW)
<b>PURCHASED-POWER CONTRACTS:</b>			
Department of Water Resources (DWR)- allocated contracts:			
JP Morgan	Natural gas	2010	325
Sunrise Power Co. LLC	Natural gas	2012	570
Other (5 contracts)	Natural gas/Wind	2011 to 2013	259
Total			1,154
Other contracts with Qualifying Facilities (QFs)(1):			
Applied Energy Inc.	Cogeneration	2019	116
Yuma Cogeneration	Cogeneration	2024	56
Goal Line Limited Partnership	Cogeneration	2025	50
Other (18 contracts)	Cogeneration	2009(2) and thereafter	48
Total			270
Other contracts with renewable sources:			
Oasis Power Partners	Wind	2019	60
Kumeyaay	Wind	2025	50
Covanta Delano	Bio-mass	2017	49
Iberdrola Renewables	Wind	2018	25
WTE/FPL	Wind	2019	