

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, 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	State of Incorporation	I.R.S. Employer Identification Nos.
1-14201	SEMPRA ENERGY 101 Ash Street San Diego, California 92101 (619)696-2000	California	33-0732627
1-03779	SAN DIEGO GAS & ELECTRIC COMPANY 8326 Century Park Court San Diego, California 92123 (619)696-2000	California	95-1184800
1-01402	SOUTHERN CALIFORNIA GAS COMPANY 555 West Fifth Street Los Angeles, California 90013 (213)244-1200	California	95-1240705

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

Southern California Gas Company Preferred Stock, \$25 par value
6% Series A, 6% Series

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	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
San Diego Gas & Electric Company	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
Southern California Gas Company	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>

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	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
San Diego Gas & Electric Company	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
Southern California Gas Company	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its 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 registrant was required to submit and post such files).

Sempra Energy	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
San Diego Gas & Electric Company	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
Southern California Gas Company	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>

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.

Sempra Energy	<u>X</u>
San Diego Gas & Electric Company	<u>X</u>
Southern California Gas Company	<u>X</u>

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	<u> </u>	No	<u>X</u>
San Diego Gas & Electric Company	Yes	<u> </u>	No	<u>X</u>
Southern California Gas Company	Yes	<u> </u>	No	<u>X</u>

Aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2013:

Sempra Energy	\$19.9 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
Southern California Gas Company	\$0

Common Stock outstanding, without par value, as of February 21, 2014:

Sempra Energy	245,089,822 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

SAN DIEGO GAS & ELECTRIC COMPANY MEETS THE CONDITIONS OF GENERAL INSTRUCTIONS I(1)(a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS REPORT WITH A REDUCED DISCLOSURE FORMAT AS PERMITTED BY GENERAL INSTRUCTION 1(2).

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the 2013 Annual Report to Shareholders of Sempra Energy, San Diego Gas & Electric Company and Southern California Gas Company are incorporated by reference into Parts I, II and IV.

Portions of the Sempra Energy Proxy Statement prepared for its May 2014 annual meeting of shareholders are incorporated by reference into Part III.

Portions of the Southern California Gas Company Information Statement prepared for its June 2014 annual meeting of shareholders are incorporated by reference into Part III.

**SEMPRA ENERGY FORM 10-K
SAN DIEGO GAS & ELECTRIC COMPANY FORM 10-K
SOUTHERN CALIFORNIA GAS COMPANY FORM 10-K
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This combined Form 10-K 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 Item 6 and 8 sections are provided for each reporting company, except for the Notes to Consolidated Financial Statements in Item 8. The Notes to Consolidated Financial Statements for all of the reporting companies are combined. All Items other than Items 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 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,” “outlook,” “maintain,” or similar expressions, or when we discuss our guidance, strategy, plans, goals, opportunities, projections, initiatives, objectives or intentions, we are making forward-looking statements.

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

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

§ actions and the timing of actions, including issuances of permits to construct and licenses for operation, by the California Public Utilities Commission, California State Legislature, U.S. Department of Energy, Federal Energy Regulatory Commission, Nuclear Regulatory Commission, Atomic Safety and

Licensing Board, California Energy Commission, 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;
- § the timing and success of business development efforts and construction, maintenance and capital projects, including risks in obtaining permits, licenses, certificates and other authorizations on a timely basis and risks in obtaining adequate and competitive financing for such projects;
- § 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;
- § energy markets, including the timing and extent of changes and volatility in commodity prices;
- § the availability of electric power, natural gas and liquefied natural gas, including disruptions caused by failures in the North American transmission grid, pipeline explosions and equipment failures and the decommissioning of San Onofre Nuclear Generating Station (SONGS);
- § weather conditions, natural disasters, catastrophic accidents, and conservation efforts;
- § risks inherent with nuclear power facilities and radioactive materials storage, including the catastrophic release of such materials, the disallowance of the recovery of the investment in, or operating costs of, the nuclear facility due to an extended outage and facility closure, and increased regulatory oversight;
- § 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 San Diego Gas & Electric Company's electric transmission and distribution system due to increased amount and variability of power supply from renewable energy sources;
- § the impact on competitive customer rates of the growth in distributed and local power generation and the corresponding decrease in demand for power delivered through 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 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 2013 Annual Report to Shareholders (Annual Report), which is attached as Exhibit 13.1 to this report and is incorporated by reference.

This report includes information for the following separate registrants:

- § Sempra Energy and its consolidated entities
- § San Diego Gas & Electric Company (SDG&E)
- § Southern California Gas Company (SoCalGas)

References in this report to "we," "our," "us," "our company" and "Sempra Energy Consolidated" are to Sempra Energy and its consolidated entities, collectively, unless otherwise indicated by the context. SDG&E and SoCalGas are collectively referred to as the California Utilities. They are subsidiaries of Sempra Energy, and Sempra Energy indirectly owns all of the capital stock of SDG&E and all of the common stock and substantially all of the voting stock of SoCalGas.

Sempra Energy's principal operating units are

§ SDG&E and SoCalGas, which are separate, reportable segments;

§ Sempra International, which includes our Sempra South American Utilities and Sempra Mexico reportable segments; and

§ Sempra U.S. Gas & Power, which includes our Sempra Renewables and Sempra Natural Gas reportable segments.

All references to “Sempra International,” “Sempra U.S. Gas & Power” and their respective reportable segments are not intended to refer to any legal entity with the same or similar name. Sempra International and Sempra U.S. Gas & Power also own utilities which are not included in our references to the California Utilities. We provide financial information about all of our reportable segments and about the geographic areas in which we do business in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Note 16 of the Notes to Consolidated Financial Statements in the Annual Report.

COMPANY WEBSITES

Company website addresses are:

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

SDG&E – <http://www.sdge.com>

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 (SEC). 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 SEC.

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.

The information on the websites of Sempra Energy, SDG&E and SoCalGas is not part of this report or any other report that we file with or furnish to the SEC, and is not incorporated herein by reference.

GOVERNMENT REGULATION

California State Utility Regulation

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

The California Public Utilities Commission:

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

§ regulates SDG&E’s and SoCalGas’ 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.”

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

§ 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.

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

The CPUC also oversees and regulates new products and services, including solar energy, bioenergy and other forms of renewable energy. In addition, the CPUC’s safety and enforcement role includes inspections, investigations and penalty and citation processes for safety violations.

We provide further discussion in Notes 13 and 14 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:

§ determines the need for additional energy sources and conservation programs;

§ sponsors alternative-energy research and development projects;

§ promotes energy conservation programs;

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

§ 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 California Utilities' long-term investment decisions.

In 2010, the State of California required certain California electric retail sellers, including SDG&E, to deliver 20 percent of their retail energy sales 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. In December 2011, California Senate Bill 2(1X) (33% RPS Program) went into effect, superseding the previous RPS program. The 33% RPS Program requires each California utility to procure 33 percent of its annual electric energy requirements from renewable energy sources by 2020, with an average 20 percent required over the three-year period January 1, 2011 through December 31, 2013; 25 percent by December 31, 2016; and 33 percent by December 31, 2020. We discuss this requirement as it applies to SDG&E in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report.

Certification of a generation project by the CEC as an Eligible Renewable Energy Resource (ERR) allows the purchase of output from such generation facility to be counted towards fulfillment of the RPS Program requirements, if such purchase meets the provisions of California Senate Bill 2(1X). This may affect the demand for output from renewables projects developed by Sempra Renewables and Sempra Mexico, particularly from California utilities. Sempra Renewables' Copper Mountain Solar 1 facility in Nevada is certified as an ERR. Sempra Renewables has 50-percent interests in both the Copper Mountain Solar 2 and Mesquite Solar 1 facilities, both of which have ERR certification. Sempra Renewables has received pre-certification of the Copper Mountain Solar 3 facility and will submit an application for ERR certification of each phase as it begins operations. We plan to obtain ERR certification for all of our renewable facilities operating in and/or providing power to California as they become operational.

California Assembly Bill (AB) 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 that reports directly to the Governor's Office in the Executive Branch of California State Government. Sempra Natural Gas and Sempra Mexico are also subject to the rules and regulations of CARB. We provide further discussion in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report.

United States Utility Regulation

The California Utilities are also regulated by the Federal Energy Regulatory Commission (FERC), the Nuclear Regulatory Commission (NRC) and the U.S. Department of Transportation (DOT).

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, operation and decommissioning 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. The majority owner of SONGS, Southern California Edison Company (Edison), made a decision to permanently retire the facility in June 2013. We provide further discussion of current SONGS matters involving the NRC and the closure of the facility in Note 13 of the Notes to Consolidated Financial Statements in the Annual Report.

The DOT has established regulations regarding engineering standards and operating procedures applicable for the California Utilities' natural gas transmission and distribution pipelines. The DOT has certified the CPUC to administer oversight and compliance with these regulations for the entities they regulate in California.

State and Local Regulation Within the U.S.

SoCalGas has natural gas franchises with the 12 counties and the 222 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 2014 to 2062.

SDG&E has

§ electric franchises with the three counties and the 27 cities in or adjoining its electric service territory; and

§ 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 natural gas and some electric franchises have fixed expiration dates that range from 2015 to 2037.

Sempra Natural Gas also operates Mobile Gas Service Corporation (Mobile Gas), a natural gas distribution utility serving southwest Alabama that is regulated by the Alabama Public Service Commission. Mobile Gas has franchise agreements with the two counties and eight cities in its service territory, with fixed expiration dates ranging from 2015 to 2033, which allow it to locate, operate and maintain facilities for the transmission and distribution of natural gas.

Sempra Renewables has operations, investments or development projects in Arizona, California, Colorado, Hawaii, Indiana, Kansas, Nebraska, Nevada and Pennsylvania. Sempra Natural Gas develops and operates natural gas storage and related pipeline facilities in Alabama, Louisiana and Mississippi, operates its Mesquite Power natural gas generation facility in Arizona and has marketing operations in Texas and California. Sempra Natural Gas also operates Willmut Gas Company (Willmut Gas), a natural gas distribution utility serving Hattiesburg, Mississippi and regulated by the Mississippi Public Service Commission. These entities are subject to state and local laws, and to regulations in the states in which they operate.

Other U.S. Regulation

In the United States, the FERC, with ratemaking authority over sales of wholesale power and the transportation and storage of natural gas in interstate commerce, and siting and permitting authority for liquefied natural gas (LNG) terminals, regulates Sempra Renewables' and Sempra Natural Gas' operations. Sempra Renewables and Sempra Natural Gas operate under the jurisdiction of the North American Electric Reliability Corporation, which is subject to oversight by the FERC. Sempra Natural Gas also owns an interest in the Rockies Express Pipeline, a natural gas pipeline that operates in eight states in the United States and is subject to regulation by the FERC. We discuss our investment in the pipeline further in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

The FERC may regulate rates and terms of service based on a cost-of-service approach or, in geographic and product markets determined by the FERC to be sufficiently competitive, rates may be market-based. Our LNG terminal in the United States is subject to market-based rates and terms of service. FERC-regulated rates at the following businesses are

- § Sempra Renewables and Sempra Natural Gas: market-based for wholesale electricity sales
- § Sempra Natural Gas: cost-based and market-based for the transportation and storage of natural gas, respectively
- § Sempra Natural Gas: market-based for the receipt, storage, and vaporization of LNG and liquefaction of natural gas and the purchase and sale of LNG and natural gas

The California Utilities and Sempra Natural Gas are subject to regulation by the U.S. Commodity Futures Trading Commission. Sempra Natural Gas is also subject to DOT rules and regulations regarding pipeline safety. Our Cameron LNG terminal is also subject to regulations of the U.S. Department of Energy (DOE) regarding the export of LNG.

Foreign Regulation

Our Sempra Mexico segment owns and operates the following in Mexico:

- § a natural gas-fired power plant in Baja California, Mexico
- § natural gas distribution systems in Mexicali, Chihuahua, and the La Laguna-Durango zone in north-central Mexico
- § natural gas pipelines between the U.S. border and Baja California, Mexico and Sonora, Mexico. Sempra Mexico also owns a 50-percent interest in a joint venture with PEMEX (the Mexican state-owned oil company) that operates several natural gas pipelines and propane systems in Mexico
- § the Energía Costa Azul LNG terminal located in Baja California, Mexico

These operations are subject to regulation by the Energy Regulatory Commission (Comisión Reguladora de Energía, or CRE) and by the labor and environmental agencies of city, state and federal governments in Mexico.

Sempra Mexico's operations in Mexico are primarily contained in the Sempra Energy subsidiary Infraestructura Energética Nova, S.A.B. de C.V. (IEnova). In the first quarter of 2013, IEnova completed a private offering in the U.S. and outside of Mexico and concurrent public offering in Mexico of common stock. The issuance of shares was approved and is subject to regulation by the Mexican National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores, CNBV) for registration of the shares with the Mexican National Securities Registry (Registro Nacional de Valores, RNV) maintained by the CNBV. IEnova's shares are traded on the Mexican Stock Exchange (La Bolsa Mexicana de Valores, S.A.B. de C.V., BMV) under the symbol "IENOVA."

Sempra South American Utilities has two utilities in South America that are subject to laws and regulations in the localities and countries in which they operate. Chilquinta Energía S.A. (including its subsidiaries, Chilquinta Energía) is an electric distribution utility serving customers in the cities of Valparaíso and Viña del Mar in central Chile. Luz del Sur S.A.A. (including its subsidiaries, Luz del Sur) is an electric distribution utility in the southern zone of metropolitan Lima, Peru. These utilities serve primarily regulated customers, and their revenues are based on tariffs that are set by the National Energy Commission (Comisión Nacional de Energía, or CNE) in Chile and the Energy and Mining Investment Supervisory Body (Organismo Supervisor de la Inversión en Energía y Minería, or OSINERGMIN) of the National Electricity Office under the Ministry of Energy and Mines in Peru.

Licenses and Permits

The California 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, some of which may require periodic renewal.

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 Mexico and Sempra South American Utilities obtain numerous permits, authorizations and licenses for their electric and natural gas distribution and transmission systems from the local governments where the service is provided. The concession to operate from the Ministerio de Energía for both Chilquinta Energía's and Luz del Sur's distribution operations is for an indefinite term, not requiring renewal.

Sempra Mexico and Sempra Natural Gas obtain licenses and permits for the operation and expansion of LNG facilities, and the import and export of LNG and natural gas.

Sempra Renewables obtains 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 Natural Gas obtains a number of permits, authorizations and licenses in connection with the construction and operation of power generation facilities and natural gas storage facilities and pipelines, and in connection with the wholesale distribution of electricity.

Most of the permits and licenses associated with construction and operations within the Sempra Renewables and Sempra Natural Gas businesses are for periods generally in alignment with the construction cycle or life of the asset and in many cases greater than 20 years. We do not anticipate that our ongoing requirement to renew or extend shorter duration permits and licenses would have a material impact to the ongoing operations of these businesses.

We describe other regulatory matters in Note 14 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 its core customers and SDG&E's core customers on a combined portfolio basis and provides natural gas storage services for others. The California Utilities' resource planning, natural gas procurement, contractual commitments, and related regulatory matters are discussed below. We also provide further discussion in "Management's Discussion and Analysis of Financial Condition and Results of Operations," and in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report.

Customers

At December 31, 2013, SoCalGas had 5.8 million customer meters consisting of approximately:

§ 5,568,200 residential

§ 246,700 commercial

§ 27,000 industrial

§ 40 electric generation and wholesale

At December 31, 2013, SDG&E had approximately 865,000 natural gas customer meters consisting of approximately:

§ 832,000 residential

§ 28,600 commercial

§ 3,700 electric generation and cogeneration

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 and industrial, and enhanced oil recovery customers. SoCalGas' wholesale customers are primarily other investor-owned utilities (IOUs), including SDG&E, or municipally owned natural gas distribution systems. 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 California 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 2013, SoCalGas added approximately 23,000 new connected natural gas customer meters, representing an annual growth rate of 0.4 percent; in 2012, it added approximately 18,000 new connected meters, representing an annual growth rate of 0.3 percent. SDG&E's connected natural gas customer meters increased by nearly 5,000 in both 2013 and 2012, representing an annual growth rate of 0.6 percent in both years. Based on forecasts of new housing starts, SoCalGas and SDG&E each expects that its new meter annual growth rates in 2014 will be slightly higher than those in 2013.

Natural Gas Procurement and Transportation

SoCalGas purchases natural gas under short-term and long-term contracts for the California Utilities' core customers. SoCalGas purchases natural gas from Canada, the U.S. Rockies and the southwestern U.S. to meet its and SDG&E's core 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. Purchases of natural gas are primarily priced 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. These contracts expire on various dates between 2014 and 2028. Pipeline companies, primarily El Paso Natural Gas Company, Transwestern Pipeline Company, Gas Transmission Northwest, Pacific Gas and Electric Company (PG&E), 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.

Natural Gas Storage

SoCalGas provides natural gas storage services for core, noncore and non-end-use customers. The California Utilities' core customers are allocated a portion of SoCalGas' storage capacity. SoCalGas offers the remaining storage capacity for sale to others, including SDG&E for its non-core customer requirements, 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 natural gas 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, 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 market price, which may in turn impact demand.

The California Utilities face competition in the residential and commercial customer markets based on 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 California Utilities' ability to maintain their respective industrial market shares is largely dependent on the relative price spread between delivered natural gas and potential fuel alternatives such as propane.

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 affected by the growth in renewable generation, the addition of more efficient gas technologies and to the extent that regulatory changes and electric transmission infrastructure investment divert electric generation from the California Utilities' respective service areas. The demand may also fluctuate due to volatility in the demand for electricity and the availability of competing supplies of electricity such as hydroelectric generation and other renewable energy sources. We provide additional information regarding the electric industry in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report.

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

SDG&E

Customers

SDG&E's service area covers 4,100 square miles. At December 31, 2013, SDG&E had 1.4 million electric customer meters consisting of approximately:

- § 1,252,400 residential
- § 148,000 commercial
- § 500 industrial
- § 2,100 street and highway lighting
- § 5,400 direct access

SDG&E's active electric customer meters increased by approximately 7,000 in both 2013 and 2012, representing annual growth rates of 0.5 percent in both years. Based on forecasting of new housing starts, SDG&E expects that its new meter annual growth rate in 2014 will be slightly higher than the growth in 2013.

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 14 and 15 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 wholly owned generating facilities, and purchases on a spot basis. This supply as of December 31, 2013 is as follows:

SDG&E ELECTRIC RESOURCES

Resource	Number of Contracts	Expiration date	Megawatts (MW)
PURCHASED-POWER CONTRACTS:			
Contracts with Qualifying Facilities (QFs)(1):			
Cogeneration	4	2015 and thereafter	246
Other contracts with renewable sources:			
Wind	9	2018 - 2033	1,056

Solar PV	6	2033 - 2038	565
Bio-gas/Hydro/Wind	21	2014 and thereafter	46
Biomass	2	2017, 2025	60
Geothermal	1	2014	25
Total			<u>1,752</u>
Other long-term and tolling contracts(2):			
Natural gas	3	2019 - 2035	752
Hydro/Pump storage	1	2037	40
Demand response/Distributed generation	1	2016	25
Total			<u>817</u>
Total contracted			<u>2,815</u>
OWNED GENERATION, NATURAL GAS:			
Palomar Energy Center			560
Miramar Energy Center			96
Desert Star Energy Center			495
Cuyamaca Peak Energy Plant			42
Total generation			<u>1,193</u>
TOTAL CONTRACTED AND GENERATION			<u>4,008</u>

(1) A QF is a generating facility which meets the requirements for QF status under the Public Utility Regulatory Policies Act of 1978. It includes cogeneration facilities, which produce electricity and another form of useful thermal energy (such as heat or steam) used for industrial, commercial, residential or institutional purposes.

(2) Tolling contracts are purchased-power agreements under which SDG&E provides the fuel for generation to the energy supplier.

Charges under most of the contracts with QFs are based on SDG&E's avoided cost. Charges under the remaining contracts are for firm and as-generated energy, and are based on the amount of energy received or are tolls based on available capacity. The prices under these contracts are based on the market value at the time the contracts were negotiated.

Natural Gas Supply

SDG&E buys natural gas under short-term contracts for its Palomar, Miramar, Desert Star and Cuyamaca Peak generating facilities and for the Otay Mesa Energy Center LLC, Orange Grove Energy L.P., El Cajon Energy, LLC and Escondido Energy Center, LLC tolling contracts. Purchases are from various southwestern U.S. suppliers and are primarily priced based on published monthly bid-week indices. SDG&E's natural gas is typically delivered from Southern California border receipt points to the SoCal CityGate pool via backbone transmission system rights which expire on September 30, 2014. The natural gas is then delivered to the generating facilities through SoCalGas' and SDG&E's pipeline systems in accordance with a transportation agreement that expires on May 31, 2015. SDG&E has also contracted with SoCalGas for natural gas storage through March 31, 2014.

Power Pool

SDG&E is a participant in the Western Systems Power Pool, which includes an electric-power and transmission-rate agreement with utilities and power agencies located throughout the United States and Canada. More than 300 investor-owned and municipal utilities, state and federal power agencies, energy brokers and power marketers share power and information in order to increase efficiency and competition in the bulk power market. Participants are able to make power transactions on standardized terms, including market-based rates, preapproved by the FERC.

Transmission Arrangements

SDG&E's 500-kilovolt (kV) Southwest Powerlink transmission line, which is shared with Arizona Public Service Company and Imperial Irrigation District, extends from Palo Verde, Arizona to San Diego, California. SDG&E's share of the line is 1,162 MW, although it can be less under certain system conditions.

SDG&E's Sunrise Powerlink is a 500-kV transmission line project built by SDG&E that is delivering up to 800 MW of energy and is designed to deliver more than 1,000 MW of power from the Imperial Valley to the San Diego region. The line was placed in service in June 2012. We provide further discussion of Sunrise Powerlink in Note 15 of the Notes to Consolidated Financial Statements in the Annual Report.

Mexico's Baja California system is connected to SDG&E's system via two 230-kV interconnections with combined capacity up to 408 MW in the north-to-south direction and 800 MW in the south-to-north direction, although it can be less under certain system conditions.

Edison's transmission is connected to SDG&E's system at SONGS via five 230-kV transmission lines with a total firm capacity up to 2,500 MW into SDG&E's system, although it can be less under certain system conditions.

Transmission Access

The National Energy Policy Act governs procedures for requests for transmission service. The FERC approved the California IOUs' transfer of operation and control of their transmission facilities to the Independent System Operator in 1998. We provide additional information regarding transmission issues in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report.

Chilquinta Energía

Customers

Chilquinta Energía is an electric distribution utility serving approximately 640,000 customers in the cities of Valparaiso and Viña del Mar in central Chile, with a main service area covering 4,400 square miles. At December 31, 2013, its customers consisted of approximately:

- § 590,500 residential
- § 37,200 commercial
- § 1,400 industrial
- § 5,900 street and highway lighting
- § 4,700 agricultural

In Chile, customers are also classified as regulated and non-regulated customers based on installed capacity. Regulated customers are those whose installed capacity is less than 500 kilowatts (kW). Non-regulated customers are those whose installed capacity is greater than 2,000 kW. Customers with installed capacity between 500 kW and 2,000 kW may choose to be classified as regulated or non-regulated. Non-regulated customers can buy power from other sources, such as directly from the generator.

In 2013, Chilquinta Energía added approximately 17,000 new customers at a growth rate of 2.7 percent. Chilquinta Energía's electric energy sales increased by approximately 158,000 megawatt hours (MWh) and 178,000 MWh in 2013 and 2012, respectively, representing an annual growth rate of 6 percent in 2013 and 7 percent in 2012.

Electric Resources

The supply of electric power available to Chilquinta Energía comes from power purchase contracts currently in place with its various suppliers and its generating facilities. This supply as of December 31, 2013 is as follows:

CHILQUINTA ENERGÍA ELECTRIC RESOURCES			
Resource	Number of Contracts	Expiration date	Megawatts (MW)
PURCHASED-POWER CONTRACTS(1)(2):			
Thermal/Hydro/Wind	10	2020 to 2026	436
SMALL GENERATION PLANTS(3):			
Thermal			11
TOTAL CONTRACTED AND GENERATION			447

(1) Contracts with fuel sources that include natural gas, coal or diesel are collectively referred to as thermal.

(2) In 2013, energy contracts in the Central Interconnected System, where Chilquinta Energía operates, were supplied from 61 percent thermal, 38 percent hydro and 1 percent wind sources.

(3) Compañía de Petróleos de Chile Copec S.A. supplies diesel fuel to six small generation plants using trucks from different stations throughout the region.

Power Generation System

The Centers for Economic Load Dispatch (Centros de Despacho Económico de Carga, or CDEC) are private organizations in charge of coordinating the operation of the electricity system. Each interconnected system is subject to its own CDEC; there is a CDEC-SIC (Sistema Interconectado Central, Central Interconnected System) and CDEC-SING (Sistema Interconectado del Norte Grande, Northern Interconnected System) for the central and the northern interconnected system, respectively. Chilquinta Energía operates within CDEC-SIC.

Transmission System and Access

Chile's transmission system is divided into two parts, main transmission (sistema de transmisión troncal) and the sub-transmission (sistema de subtransmisión). In Chile, main transmission lines must be greater than or equal to 220 kV. Chilquinta Energía primarily uses Transelec, a third party, for its main transmission. In general, sub-transmission systems operate at voltage levels greater than 23 kV and lower than or equal to 110 kV. Sub-transmission systems, including those owned by Chilquinta Energía, are comprised of infrastructure that is interconnected to the electricity system to supply non-regulated or regulated end-users located in the distribution service area.

Luz del Sur

Customers

Luz del Sur is an electric distribution utility serving approximately 996,000 customers in the southern zone of metropolitan Lima, Peru, with a main service area covering 1,160 square miles. At December 31, 2013, its customers consisted of approximately:

- § 924,500 residential
- § 61,400 commercial
- § 3,900 industrial
- § 4,900 street and highway lighting
- § 1,300 agricultural

In Peru, customers are also classified as regulated and non-regulated customers based on capacity demand. Regulated customers are those whose capacity demand is less than 200 kW and their energy supply is considered public service. Customers with capacity demand between 200 kW and 2,500 kW may choose to be classified as regulated or non-regulated.

In 2013, Luz del Sur added approximately 37,000 new customers at a growth rate of 3.9 percent. Luz del Sur's electric energy sales increased by approximately 316,000 MWh and 359,000 MWh in 2013 and 2012, respectively, representing an annual growth rate of 5 percent in 2013 and 6 percent in 2012.

Electric Resources

The supply of electric power available to Luz del Sur comes from power purchase contracts currently in place with various suppliers, as well as purchases made on a spot basis. This supply as of December 31, 2013 is as follows:

LUZ DEL SUR ELECTRIC RESOURCES			
Resource	Number of Contracts	Expiration date	Megawatts (MW)
PURCHASED-POWER CONTRACTS(1):			
Bilateral contracts:			
Hydro	1	2014	20
Auction contracts:			
Hydro	7	2014-2021	269
Thermal	5	2021-2023	674
Hydro/Thermal	3	2021-2023	510
Total			1,453
TOTAL CONTRACTED			1,473

(1) Contracts with fuel sources that include natural gas, coal or diesel are collectively referred to as thermal.

Power Generation System

The Sistema Eléctrico Interconectado Nacional (SEIN) is the Peruvian national interconnected system. Peru also has several isolated regional and smaller systems that provide electricity to specific areas. The OSINERGMIN is an autonomous public regulatory entity that controls and enforces compliance with legal and technical regulations related to electric activities, sets tariffs and supervises the bidding processes required by distribution companies to purchase energy from generators.

The Committee of Economic Operation of the National Interconnected System (Comité de Operación Económica del Sistema Interconectado Nacional, or COES) coordinates the operation and dispatch of electricity of the SEIN, and manages the short-term market. The COES oversees generation, transmission and distribution companies, as well unregulated customers with a demand higher than 200 kW.

Transmission System and Access

Transmission lines in Peru are divided into principal and secondary systems. The principal system lines are accessible by all generators and allow the flow of energy through the national grid. The secondary system lines connect principal transmission with the network of distribution companies or connect directly to certain final customers. The transmission company receives tariff revenues and collects tolls based on a charge per unit of electricity.

RATES AND REGULATION – UTILITIES

We provide information concerning rates and regulation applicable to our utilities in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Notes 1, 13 and 14 of the Notes to Consolidated Financial Statements in the Annual Report.

SEMPRA INTERNATIONAL AND SEMPra U.S. GAS & POWER

Sempra International and Sempra U.S. Gas & Power contain most of our subsidiaries that are not subject to California utility regulation. In addition to the discussion of our South American utilities above, we provide descriptions of these operating units' segments and information concerning their operations in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Notes 1, 3, 4, 15 and 16 of the Notes to Consolidated Financial Statements in the Annual Report.

Competition

Sempra Energy's non-utility businesses are among many others in the energy industry providing similar services. They are engaged in highly competitive activities that require significant capital investments and highly skilled and experienced personnel. Among these competitors there may be significant variation in financial, personnel and other resources compared to Sempra International and Sempra U.S. Gas & Power.

Generation – Renewables

Sempra Renewables primarily competes for wholesale contracts for the generation and sale of electricity through its development of and investments in wind and solar generation facilities. For sales of non-contracted renewable energy, Sempra Renewables competes with other non-utility generators, regulated utilities, unregulated subsidiaries of regulated utilities, and other energy service companies. The number and type of competitors may vary based on location, generation type and project size. Also, recently enacted regulatory initiatives designed to enhance energy consumption from renewable resources for regulated utility companies may increase competition from these types of institutions. These utilities may have a lower cost of capital than most independent renewable power producers and often are able to recover fixed costs through rate base mechanisms. This recovery allows them to build, buy and upgrade renewable generation projects without relying exclusively on market clearing prices to recover their investments. Additionally, generation from Sempra Renewables' renewable energy assets is exposed to fluctuations in naturally occurring conditions such as wind, inclement weather and hours of sunlight.

Our renewable energy competitors include, among others:

§ Exelon Energy	§ NextEra Energy Resources
§ Iberdrola Renewables	§ NRG Energy
§ MidAmerican Energy	

Generation – Natural Gas

For sales of non-contracted power, Sempra Natural Gas is subject to competition from energy marketers, utilities, industrial companies and other independent power producers. For a number of years, natural gas has been the fuel of choice for new power generation facilities for economic, operational and environmental reasons. While natural gas-fired facilities will continue to be an important part of the nation's generation portfolio, some regulated utilities are now constructing units powered by renewable resources, often with subsidies or under legislative mandate. These utilities may have a lower cost of capital than most independent power producers and often are able to recover fixed costs through rate base mechanisms. This recovery may allow them to build, buy and upgrade generation without relying exclusively on market clearing prices to recover their investments.

When Sempra Natural Gas sells power not subject to long-term contractual commitments, it is exposed to market fluctuations in prices based on a number of factors, including the amount of capacity available to meet demand, the price and availability of fuel, and the presence of transmission constraints. Some of our competitors, such as electric utilities and generation companies, have their own generation capacity, including natural gas, coal and nuclear generation. These companies, generally larger than our segments engaged in the natural gas business, may have a lower cost of capital and may have competitive advantages as a result of their scale and the location of their generation facilities. In January 2014, management approved a plan to market and sell Sempra Natural Gas' remaining generation asset, a 625-MW block of the Mesquite Power natural gas-fired power plant in Arizona, as we discuss in Note 18 of the Notes to Consolidated Financial Statements in the Annual Report.

Our natural gas generation competitors include, among others:

§ Calpine	§ NextEra Energy Resources
§ Dynegy	§ NRG Energy
§ Exelon Corporation	

Because Sempra Mexico sells the power that it generates at its Termoeléctrica de Mexicali plant into California, it is also impacted by these competitive factors.

Natural Gas Pipelines and Storage Facilities

Within its market area, Sempra Natural Gas' and Sempra Mexico's pipelines businesses and Sempra Natural Gas' storage facilities businesses compete with other regulated and unregulated storage facilities and pipelines. They compete primarily on the basis of price (in terms of storage and transportation fees), available capacity and interconnections to downstream markets.

Sempra Natural Gas' competitors include, among others:

§ AGL Resources	§ Enterprise Products Partners
§ Boardwalk Pipeline Partners	§ Kinder Morgan
§ Cardinal Gas Storage Partners	§ Macquarie Infrastructure Partners
§ Clean Energy	§ NiSource
§ Duke Energy	§ Plains All American Pipeline
§ Enbridge	§ Spectra Energy
§ Energy Transfer Partners	§ TransCanada
§ Enstor	§ The Williams Companies

Sempra Mexico's natural gas pipeline competitors include, among others:

§ EDF Energy	§ Kinder Morgan
§ Elecnor	§ Mitsui
§ Enagas	§ PEMEX (MGI)
§ Fermaca	§ Promigas

LNG

Technological advances associated with shale gas and tight oil production have reduced the forecasted need for North American LNG import facilities and increased interest in liquefaction and export opportunities.

At current forward gas prices, brownfield U.S. Gulf Coast liquefaction appears to be among the most price competitive potential LNG supply in the world. Its price competitiveness results from many factors, including:

- § high levels of undeveloped North American unconventional natural gas and tight oil resources relative to domestic consumption levels;
- § increasing gas and oil drilling productivity and decreasing unit costs of gas production;
- § low breakeven prices of marginal North American unconventional gas production;
- § proximity to ample existing gas transmission pipeline and underground gas storage capacity; and
- § existing LNG tankage and berths.

It is expected that global LNG competition, primarily from Canada, Russia, East Africa and Australia, will limit U.S. LNG exports, as international liquefaction projects attempt to match U.S. Gulf Coast LNG production costs. Host governments for international liquefaction projects are altering fiscal and tax regimes in an effort to make projects in their jurisdictions competitive relative to U.S. projects. It is expected that United States LNG exports will greatly increase competition for current and future global natural gas demand, and thereby facilitate development of a global commodity market for natural gas.

Sempra Natural Gas is currently progressing with plans for a development project to utilize its Cameron LNG receipt terminal for the liquefaction of natural gas and export of LNG. Sempra Natural Gas has signed long-term contracts for liquefaction services that allow us to fully utilize our existing regasification infrastructure while minimizing our future additional capital investment. The liquefaction facility will utilize Cameron LNG's existing facilities, including two marine berths, three LNG storage tanks, and vaporization capability of 1.5 billion cubic feet (Bcf) per day. In January 2012, the DOE approved Cameron LNG's application for authorization to export LNG to Free Trade Agreement (FTA) countries. In February 2014, the DOE issued a conditional authorization to export LNG to countries that do not have an FTA with the U.S.

In May 2013, Cameron LNG signed a joint venture agreement with its liquefaction customers, affiliates of GDF SUEZ S.A., Mitsubishi Corporation (through a related company jointly established with Nippon Yusen Kabushiki Kaisha (NYK)), and Mitsui & Co., Ltd., subject to a final investment decision, finalization of permit authorizations, securing financing commitments and other conditions. These customers compete globally to market and sell LNG to end users, including gas and electric utilities located in LNG importing countries around the world. By providing liquefaction services, Cameron LNG would compete indirectly with liquefaction projects currently operating and those under development in the global LNG market. In addition to the U.S., these competitors are located in the Middle East, Southeast Asia, Africa, South America, Australia and Europe.

Our planned LNG liquefaction business' major domestic and international competitors include, among others, the following companies and their related LNG affiliates:

- | | |
|------------------------------------|---------------------|
| § BG | § Kogas |
| § BP | § Mitsubishi |
| § Cheniere Energy | § Mitsui |
| § Chevron | § Petronas |
| § China National Petroleum Company | § Qatar Petroleum |
| § ConocoPhillips | § Santos |
| § Dow Chemical | § Royal Dutch Shell |
| § ExxonMobil | § Total |
| § GDF SUEZ | § Woodside |
| § Kinder Morgan | |

ENVIRONMENTAL MATTERS

We discuss environmental issues affecting us in Note 15 of the Notes to Consolidated Financial Statements in the Annual Report. You should read the following additional information in conjunction with those discussions.

Hazardous Substances

In 1994, the CPUC approved the Hazardous Waste Collaborative mechanism, allowing California's IOUs to recover hazardous waste cleanup costs for certain sites, including those related to certain Superfund sites. This mechanism permits the California Utilities to recover in rates 90 percent of hazardous waste cleanup costs and related third-party litigation costs, and 70 percent of the related insurance-litigation expenses. In addition, the California Utilities have the opportunity to retain a percentage of any recoveries from insurance carriers and other third parties to offset the cleanup and associated litigation costs not recovered in rates.

At December 31, 2013, we had accrued estimated remaining investigation and remediation liabilities of \$5.5 million at SDG&E and \$15.1 million at SoCalGas, both related to hazardous waste sites for which the Hazardous Waste Collaborative mechanism applies, as described above. The accruals include costs for numerous locations, most of which had been manufactured-gas plants at SoCalGas. This estimated cost excludes remediation costs of \$0.1 million associated with SDG&E's former fossil-fuel power plants and other locations for which the cleanup costs are not being recovered in rates. We believe that any costs not ultimately recovered through rates, insurance or other means will not have a material adverse effect on the consolidated results of operations, cash flows or financial condition of Sempra Energy, SDG&E or SoCalGas.

We record estimated liabilities for environmental remediation when amounts are probable and estimable. In addition, we record amounts authorized to be recovered in rates under the Hazardous Waste Collaborative mechanism as regulatory assets.

Air and Water Quality

The electric and natural gas industries are subject to increasingly stringent air-quality and greenhouse gas standards, such as those established by the United States Environmental Protection Agency (EPA) and the CARB. We discuss these standards in "Government Regulation – California State Utility Regulation" above. The California Utilities generally recover in rates the costs to comply with these standards.

In connection with the issuance of operating permits, SDG&E and the other owners of SONGS have an agreement with the California Coastal Commission (CCC) to mitigate environmental impacts to the marine environment attributed to the cooling-water discharge from SONGS during its operation. SONGS' early retirement, described in Note 13 of the Notes to Consolidated Financial Statements in the Annual Report, does not reduce SDG&E's mitigation obligation. SDG&E's share of the mitigation costs is estimated to be \$57 million, of which \$43 million had been incurred through December 31, 2013, and \$14 million is accrued for the remaining costs through 2050. Artificial kelp reef, fish hatchery and wetlands restoration projects are complete, but continue to be studied until the CCC accepts the projects. The remaining costs are to meet CCC acceptance requirements and maintain the projects through 2050.

EXECUTIVE OFFICERS OF THE REGISTRANTS

Sempra Energy

Name	Age(1)	Position(1)
Debra L. Reed	57	Chairman and Chief Executive Officer
Mark A. Snell	57	President
Joseph A. Householder	58	Executive Vice President and Chief Financial Officer
Martha B. Wyrsh	56	Executive Vice President and General Counsel
Trevor I. Mihalik	47	Senior Vice President, Controller and Chief Accounting Officer
G. Joyce Rowland	59	Senior Vice President – Human Resources, Diversity and Inclusion

(1) Ages and positions are as of February 27, 2014.

With the exception of Ms. Wyrsh and Mr. Mihalik, each executive officer has been an officer of Sempra Energy or its subsidiaries for more than the last five years. Before joining Sempra Energy in September 2013, Ms. Wyrsh served as President of Vestas American Wind Systems from 2009 to 2012. Previously, Ms. Wyrsh spent nearly ten years at Duke Energy and its spinoff, Spectra Energy Corporation. She joined Duke Energy in 1999 as Senior Vice President of Legal Affairs and Deputy Counsel and, later, was promoted to Group Vice President and General Counsel. In 2005, she moved to Duke Energy Gas Transmission as its President and Chief Executive Officer. Subsequently, she became the President and Chief Executive Officer of Spectra Energy Transmission.

Before joining Sempra Energy in July 2012, Mr. Mihalik served as Senior Vice President of Finance for the past two years and as Vice President – Controller for the prior four years, in each case at Iberdrola Renewables Holdings, Inc., a diversified renewables and natural gas company.

SDG&E and SoCalGas

Name	Age(1)	Position(1)
SAN DIEGO GAS & ELECTRIC COMPANY		
Jeffrey W. Martin	52	Chief Executive Officer
Steven D. Davis	58	President and Chief Operating Officer
James P. Avery	57	Senior Vice President – Power Supply
J. Chris Baker	54	Senior Vice President – Chief Information Technology Officer
Lee Schavrien	59	Senior Vice President – Finance, Regulatory and Legislative Affairs
W. Davis Smith	64	Senior Vice President and General Counsel
Robert M. Schlax	58	Vice President, Controller, Chief Financial Officer, Chief Accounting Officer and Treasurer

SOUTHERN CALIFORNIA GAS COMPANY

Anne S. Smith(2)	60	Chairman and Chief Executive Officer
Dennis V. Arriola(3)	53	President
J. Bret Lane	54	Chief Operating Officer
J. Chris Baker	54	Senior Vice President and Chief Information Technology Officer
Erbin B. Keith	53	Senior Vice President and General Counsel

(1) *Ages and positions are as of February 27, 2014.*

(2) *Ms. Smith will retire effective February 28, 2014.*

(3) *On March 1, 2014, Mr. Arriola will become the Chief Executive Officer of SoCalGas and retain his position as President of SoCalGas.*

With the exception of Mr. Arriola, each executive officer of SDG&E and SoCalGas has been an officer or employee of Sempra Energy or its subsidiaries for at least the last five years. Mr. Arriola was a Senior Vice President and the Chief Financial Officer of SDG&E and SoCalGas from September 2006 to November 2008, and held numerous management positions with Sempra Energy or its subsidiaries prior to that period. In November 2008, Mr. Arriola became a Senior Vice President and the Chief Financial Officer of SunPower Corporation. From April 2010 to March 2012, he was the Executive Vice President and Chief Financial Officer of SunPower Corporation. In August 2012, he joined SoCalGas as President and Chief Operating Officer, and in December 2012, he also joined the SoCalGas Board of Directors.

OTHER MATTERS

Employees of the Registrants

At December 31, each company had the following number of employees:

	December 31,	
	2013	2012
Sempra Energy Consolidated(1)	17,122	16,893
SDG&E	4,603	4,996
SoCalGas	8,196	7,788

(1) *Excludes employees of variable interest entities as defined by accounting principles generally accepted in the U.S.*

Labor Relations

SoCalGas

Field, technical and most clerical employees at SoCalGas are represented by the Utility Workers Union of America or the International Chemical Workers Union Council (collectively “Union”) under a single collective bargaining agreement. The provisions of the collective bargaining agreement for these employees covering wages, hours, working conditions, medical and all other benefit plans are in effect through September 30, 2015. At December 31, 2013, SoCalGas had 8,196 employees, 64 percent of which are represented by the Union.

SDG&E

Field employees and some clerical and technical employees at SDG&E are represented by the International Brotherhood of Electrical Workers. Provisions of the collective bargaining agreement for these employees covering wages are in effect through August 31, 2014, and through August 31, 2015, for working conditions. For these same employees, the agreement covering health and welfare benefits is in effect through December 31, 2014, and the agreement covering pension and savings plan benefits is in effect through October 1, 2015. At December 31, 2013, SDG&E had 4,603 employees, 29 percent of which are covered by these agreements.

Luz del Sur

Field, technical and administrative employees at Luz del Sur representing 34 percent of the total workforce of 819 employees are represented by the Unified Trade Union of Electricity Workers of Lima and Callao, and the Trade Union of Employees of Electrolima. A collective bargaining agreement signed on January 2, 2014 covers these employees and is also extended to 159 non-represented employees. It covers wages, working conditions and medical and other benefit plans and is in effect from January 1, 2014 through December 31, 2014.

Chilquinta Energía

Field, technical and administrative employees at Chilquinta Energía are represented by Labor Union Number 1 Chilquinta Energía, Labor Union Number 2 Chilquinta Energía, Litoral Labor Union, Luzlinares Labor Union, Tecnored Labor Union Number 1, Negotiating Group Luzparral and Negotiating Group Casablanca. The collective bargaining agreements for employees represented by these unions and negotiating groups cover wages, hours, working conditions and medical and other benefit plans and are in effect through various dates from 2014 to 2016.

Professional employees at Chilquinta Energía are represented by Group of University Graduates of Chilquinta Energía. The collective bargaining agreement for these employees covers wages, hours, working conditions and medical and other benefit plans and is in effect through July 2, 2017.

At December 31, 2013, Chilquinta Energía had a total of 1,381 employees, of which 37 percent are covered under a labor agreement.

Sempra Mexico

At December 31, 2013, Sempra Mexico had 496 employees, 7 percent of which are covered by various collective bargaining agreements with different labor unions. The collective bargaining agreements are subject to renegotiation on an annual basis with respect to wages, and otherwise on a bi-annual basis.

Mobile Gas

Field employees at Mobile Gas are represented by the United Steelworkers Union under a single collective bargaining agreement. The agreement for these employees covers wages, hours, working conditions and medical and other benefit plans and is in effect through November 30, 2017. At December 31, 2013, Mobile Gas had a total of 215 employees, 36 percent of which are covered under this agreement.

ITEM 1A. RISK FACTORS

When evaluating our company and its subsidiaries, you should consider carefully the following risk factors and all other information contained in this report. These risk factors could materially adversely affect our actual results and cause such results to differ materially from those expressed in any forward-looking statements made by us or on our behalf. We may also be materially harmed by risks and uncertainties not currently known to us or that we currently deem to be immaterial. If any of the following occurs, our businesses, cash flows, results of operations, financial condition and/or prospects could be materially negatively impacted. In addition, the trading prices of our securities and those of our subsidiaries could substantially decline due to the occurrence of any of these risks. These risk factors should be read in conjunction with the other detailed information concerning our company set forth in the Annual Report, including, without limitation, the information set forth in the Notes to Consolidated Financial Statements and in “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” In this section, when we state that a risk or uncertainty may, could or will have a “material adverse effect” on us or may, could or will materially adversely affect us we mean that the risk or uncertainty may, could or will have a material adverse effect on our businesses, cash flows, results of operations, financial condition, prospects and/or the trading prices of our securities.

Sempra Energy’s cash flows, ability to pay dividends and ability to meet its debt obligations largely depend on the performance of its subsidiaries and the ability to utilize the cash flows from those subsidiaries.

Sempra Energy’s ability to pay dividends and meet its debt obligations depends almost entirely on cash flows from its subsidiaries and, in the short term, its ability to raise capital from external sources. In the long term, cash flows from the subsidiaries depend on their ability to generate operating cash flows in excess of their own expenditures and long-term debt obligations. In addition, the subsidiaries are separate and distinct legal entities that are not obligated to pay dividends and could be precluded from making such distributions under certain circumstances, including, without limitation, as a result of legislation, regulation, court order, contractual restrictions or in times of financial distress.

A significant portion of our worldwide cash reserves are generated by, and therefore held in, foreign jurisdictions. Some jurisdictions restrict the amount of cash that can be transferred to the United States or impose taxes and penalties on such transfers of cash, which reduces the cash available to us. To the extent we have excess cash in foreign locations that could be used in, or is needed by, our United States operations, we may incur significant taxes and/or penalties to repatriate these funds.

Conditions in the financial markets and economic conditions generally may materially adversely affect us.

Our businesses are capital intensive and we rely significantly on long-term debt to fund a portion of our capital expenditures and refund outstanding debt, and on short-term borrowings to fund a portion of day-to-day business operations.

The credit markets and financial services industry have experienced periods of extreme world-wide turmoil characterized by the bankruptcy, failure, collapse or sale of many financial institutions and by extraordinary levels of government intervention and regulation.

Limitations on the availability of credit and increases in interest rates or credit spreads may materially adversely affect our businesses, cash flows, results of operations, financial condition and/or prospects, as well as our ability to meet contractual and other commitments. In difficult credit markets, we may find it necessary to fund our operations and capital expenditures at a higher cost or we may be unable to raise as much funding as we need to support business activities. This could cause us to reduce capital expenditures and could increase our cost of funding, both of which could significantly reduce our short-term and long-term profitability.

The availability and cost of credit for our businesses may be greatly affected by credit ratings. If the credit ratings of SoCalGas or SDG&E were to be reduced, their cash flows and results of operations could be materially adversely affected and any reduction in Sempra Energy’s credit ratings could materially adversely affect the cash flows and results of operations of Sempra Energy and its non-utility subsidiaries. If the credit ratings of Sempra Energy or its non-utility subsidiaries were to decline, especially below investment grade, financing costs and borrowings would likely increase because certain counterparties may require collateral in the form of cash, a letter of credit or other forms of security for new and existing transactions. Such amounts may be material and could adversely affect our cash flows, results of operations and financial condition.

Sempra Energy has substantial investments in Mexico and South America which expose us to foreign currency, legal, tax, economic and management oversight risk.

Our foreign operations pose complex management, foreign currency, legal, tax and economic risks, which we may not be able to fully mitigate with our actions. We have foreign operations in Mexico and South America. These risks differ from and potentially may be greater than those associated with our domestic businesses. Our international businesses are sensitive to changes in the priorities and budgets of international customers and to geo-political uncertainties, which may be driven by changes in threat environments and potentially volatile worldwide economic conditions, various regional and local economic and political factors, risks and uncertainties, as well as U.S. foreign policy. Foreign currency exchange rates and fluctuations may have an impact on our revenue, costs or cash flows from our international operations, which could materially adversely affect our financial performance. Our primary currency exposures are to the Latin America currencies. Our primary objective in reducing foreign currency risk is to preserve the economic value of our foreign investments and to reduce earnings volatility that would otherwise occur due to exchange rate fluctuations. We may attempt to offset material cross-currency transactions and earnings exposure through various means, including financial instruments and short-term investments. Because we generally do not hedge our net investments in foreign countries, we are susceptible to volatility in other comprehensive income caused by exchange rate fluctuations.

Risks Related to All Sempra Energy Subsidiaries

Our businesses are subject to complex government regulations and may be materially adversely affected by changes in these regulations or in their interpretation or implementation.

In recent years, the regulatory environment that applies to the electric power and natural gas industries has undergone significant changes, on both federal and state levels. These changes have affected the nature of these industries and the manner in which their participants conduct their businesses. These changes are ongoing, and we cannot predict the future course of changes in this regulatory environment or the ultimate effect that this changing regulatory environment will have on our businesses. Moreover, existing regulations, laws and tariffs may be revised or reinterpreted, and new regulations, laws and tariffs may be adopted or become applicable to us and our facilities. Special tariffs may also be imposed on components used in our businesses that could increase costs.

Our businesses are subject to increasingly complex accounting and tax requirements, and the regulations, laws and tariffs that affect us may change in response to economic or political conditions. Compliance with these requirements could increase our operating costs, and new tax legislation, regulations or other interpretations could materially adversely affect our tax expense. Changes in regulations, laws and tariffs and changes in the way regulations, laws and tariffs are implemented and interpreted may have a material adverse effect on our businesses, cash flows, financial condition, results of operations and/or prospects.

Our operations are subject to rules relating to transactions among the California Utilities and other Sempra Energy operations. These rules are commonly referred to as the Affiliate Transaction Rules. These businesses could be materially adversely affected by changes in these rules or by additional CPUC or FERC rules that further restrict our ability to sell electricity or natural gas, or to trade with the California Utilities and with each other. Affiliate Transaction Rules also could require us to obtain prior approval from the CPUC before entering into any such transactions with the California Utilities. Any such restrictions on or approval requirements for transactions among affiliates could materially adversely affect the LNG terminals, natural gas pipelines, electric generation facilities, or other operations of our subsidiaries, which could have a material adverse effect on our businesses, results of operations and/or prospects.

Our businesses require numerous permits, licenses and other governmental approvals from various federal, state, local and foreign governmental agencies; any failure to obtain or maintain required permits, licenses or approvals could cause our sales to materially decline and/or our costs to materially increase, and otherwise materially adversely affect our businesses, cash flows, financial condition, results of operations and/or prospects.

All of our existing and planned development projects require multiple approvals. The acquisition, construction, ownership and operation of LNG terminals, natural gas pipelines and storage facilities, and electric generation and transmission facilities require numerous permits, licenses, certificates and other approvals from federal, state, local and foreign governmental agencies. Once received, approvals may be subject to litigation, and projects may be delayed or approvals reversed in litigation. In addition, permits, licenses, certificates, and other approvals may be modified or rescinded by one or more of the governmental agencies and authorities that oversee our businesses. If there is a delay in obtaining any required regulatory approvals or failure to obtain or maintain any required approvals or to comply with any applicable laws or regulations, we may not be able to construct or operate our facilities, or we may be forced to incur additional costs. Any such delay or failure to obtain or maintain the necessary permits, licenses, certificates and other approvals could cause our sales to materially decline, and/or our costs to materially increase, and otherwise materially adversely affect our businesses, cash flows, financial condition, results of operations and/or prospects.

Our California Utilities are also affected by the activities of organizations such as The Utility Reform Network (TURN), Utility Consumers' Action Network (UCAN) and other stakeholder and advocacy groups. Operations that may be influenced by these groups include

- § the rates charged to our customers;
- § our ability to site and construct new facilities;
- § our ability to purchase or construct generating facilities;
- § safety;
- § the issuance of securities;
- § accounting matters;
- § transactions between affiliates;
- § the installation of environmental emission controls equipment;
- § our ability to decommission generating facilities and recover the remaining carrying value of such facilities;
- § the amount of certain sources of energy we must use, such as renewable sources and reductions in energy usage by customers; and
- § the amount of costs associated with these operations that may be recovered from customers.

Our businesses have significant environmental compliance costs, and future environmental compliance costs could have a material adverse effect on our cash flows and results of operations.

Our businesses are subject to extensive federal, state, local and foreign statutes, rules and regulations relating to environmental protection, including, in particular, climate change and greenhouse gas, or GHG, emissions. We are required to obtain numerous governmental permits, licenses, certificates and other approvals to construct and operate our businesses. Additionally, to comply with these legal requirements, we must spend significant sums on environmental monitoring, pollution control equipment, mitigation costs and emissions fees. In addition, we are generally responsible for all on-site liabilities associated with the environmental condition of our electric generation facilities and other energy projects, regardless of when the liabilities arose and whether they are known or unknown. Our facilities are subject to regulations protecting migratory birds, which have recently been the subject of increased enforcement activity with respect to wind farms. Failure to comply with applicable environmental laws may subject our businesses to substantial penalties and fines and/or significant curtailments of our operations, which could materially adversely affect our cash flows and/or results of operations.

The scope and effect of new environmental laws and regulations, including their effects on our current operations and future expansions, are difficult to predict. Increasing international, national, regional and state-level concerns as well as new or proposed legislation and regulation may have substantial negative effects on our operations, operating costs, and the scope and economics of proposed expansion, which could have a material adverse effect on our results of operations, cash flows and/or prospects. In particular, state-level laws and regulations, as well as proposed national and international legislation and regulation relating to the control and reduction of GHG emissions (including carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulfur hexafluoride), may materially limit or otherwise materially adversely affect our operations. The implementation of recent and proposed California and federal legislation and regulation may materially adversely affect our unregulated businesses by imposing, among other things, additional costs associated with emission limits, controls and the possible requirement of carbon taxes or the purchase of emissions credits. Similarly, the California Utilities may be materially adversely affected if these additional costs are not recoverable in rates. Even if recoverable, the effects of existing and proposed greenhouse gas emission reduction standards may cause rates to increase to levels that substantially reduce customer demand and growth. SDG&E may also be subject to significant penalties and fines if certain mandated renewable energy goals are not met.

In addition, existing and future laws and regulation on mercury, nitrogen and sulfur oxides, particulates, or other emissions could result in requirements for additional pollution control equipment or emission fees and taxes that could materially adversely affect our results of operations and/or cash flows. Moreover, existing rules and regulations may be interpreted or revised in ways that may materially adversely affect our results of operations and/or cash flows.

We provide further discussion of these matters in Notes 14 and 15 of the Notes to Consolidated Financial Statements in the Annual Report.

Severe weather conditions, natural disasters, catastrophic accidents or acts of terrorism could materially adversely affect our businesses, financial condition, results of operations, cash flows and/or prospects.

Like other major industrial facilities, ours may be damaged by natural disasters, catastrophic accidents, or acts of terrorism. Because we are in the business of using, storing, transporting and disposing of highly flammable and explosive materials, as well as radioactive materials, and operating highly energized equipment, the risk to our facilities and infrastructure, as well as the risks to the surrounding communities is substantially greater than a typical business. Such facilities and infrastructure include, but are not limited to:

- | | |
|--|---|
| § power generation plants | § natural gas, propane and ethane pipelines and storage |
| § electric transmission and distribution | § nuclear fuel and nuclear waste storage facilities |
| § LNG terminals and storage | § nuclear power facilities |
| § chartered LNG tankers | |

Such incidents could result in severe business disruptions, significant decreases in revenues, and/or significant additional costs to us. Any such incident could have a material adverse effect on our businesses, financial condition, results of operations, cash flows and/or prospects.

Depending on the nature and location of the facilities and infrastructure affected, any such incident also could cause catastrophic fires, leaks, radioactive releases, explosions, spills or other significant damage to natural resources or property belonging to third parties, or cause personal injuries or fatalities. Any of these consequences could lead to significant claims against us. In some cases, we may be liable for damages even though we are not at fault, and in cases where the concept of inverse condemnation applies, we may be liable for damages without being found to be at fault or to have been negligent. Insurance coverage may significantly increase in cost or become unavailable for certain of these risks, and any insurance proceeds we receive may be insufficient to cover our losses or liabilities, which could materially adversely affect our businesses, financial condition, results of operations, cash flows and/or prospects.

Severe weather conditions may also impact our businesses. On January 17, 2014, the Governor of California declared a state of emergency because of severe drought conditions in the state. The drought conditions in California and the western United States increase the risk of catastrophic wildfires in SDG&E's and SoCalGas' service territories, which could place our electric and natural gas infrastructure in jeopardy. The drought conditions also reduce the amount of power available from hydro-electric generation facilities in the Northwest United States which could adversely impact the availability of a reliable energy supply into the California electric grid managed by the California ISO. If alternate supplies of electric generation are not available to replace the lower level of power available from hydro-electric generation facilities, this could result in temporary power shortages in SDG&E's service territory.

Our businesses, results of operations, financial condition and/or cash flows may be materially adversely affected by the outcome of pending litigation against us.

Sempra Energy and its subsidiaries are defendants in numerous lawsuits and arbitration proceedings. We have spent, and continue to spend, substantial amounts of money and time defending these lawsuits and proceedings, and in related investigations and regulatory proceedings. We discuss these proceedings in Note 15 of the Notes to Consolidated Financial Statements and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report. The uncertainties inherent in lawsuits, arbitrations and other legal proceedings make it difficult to estimate with any degree of certainty the costs and effects of resolving these matters. In addition, California juries have demonstrated a willingness to grant large awards, including punitive damages, in personal injury, product liability, property damage and other claims. Accordingly, actual costs incurred may differ materially from insured or reserved amounts and may not be recoverable in whole or in part from our customers, which in each case could materially adversely affect our businesses, cash flows, results of operations and/or financial condition.

We cannot and do not attempt to fully hedge our assets or contract positions against changes in commodity prices. In addition, for those contract positions that are hedged, our hedging procedures may not mitigate our risk as planned.

To reduce financial exposure related to commodity price fluctuations, we may enter into contracts to hedge our known or anticipated purchase and sale commitments, inventories of natural gas and LNG, electric generation capacity, and natural gas storage and pipeline capacity. As part of this strategy, we may use forward contracts, physical purchase and sales contracts, futures, financial swaps, and options. We do not hedge the entire exposure to market price volatility of our assets or our contract positions, and the coverage will vary over time. To the extent we have unhedged positions, or if our hedging strategies do not work as planned, fluctuating commodity prices could have a material adverse effect on our results of operations, cash flows and/or financial condition.

In addition, certain of the contracts we use for hedging purposes are subject to fair value accounting. Such accounting may result in gains or losses in earnings for that contract. In certain cases, these gains or losses may not reflect the associated losses or gains of the underlying position being hedged.

Risk management procedures may not prevent losses.

Although we have in place risk management systems and control systems that use advanced methodologies to quantify and manage risk, these systems may not always prevent material losses. Risk management procedures may not always be followed as required by our businesses or may not always work as planned. In addition, daily value-at-risk and loss limits are based on historic price movements. If prices significantly or persistently deviate from historic prices, the limits may not protect us from significant losses. As a result of these and other factors, there is no assurance that our risk management procedures will prevent losses that would materially adversely affect our results of operations, cash flows and/or financial condition.

The operation of our facilities depends on good labor relations with our employees.

Several of our businesses have entered into and have in place collective bargaining agreements with different labor unions. Our collective bargaining agreements are generally negotiated on a facility-by-facility basis.

Any failure to reach an agreement on new labor contracts or to negotiate these labor contracts might result in strikes, boycotts or other labor disruptions. These potential labor disruptions could have a material adverse effect on our businesses, results of operations and/or cash flows. Labor disruptions, strikes or significant negotiated wage and benefit increases, whether due to union activities, employee turnover or otherwise, could have a material adverse effect on our businesses, results of operations and/or cash flows.

New business technologies present a risk for attacks on our information systems and the integrity of our energy grid.

Cybersecurity and the protection of our operations and activities are a priority at Sempra Energy, SDG&E and SoCalGas. We believe that the most significant cybersecurity risks to our businesses reside within the operations of our utilities. In addition to general information and cyber risks that all Fortune 500 corporations face (e.g. malware, malicious intent by insiders and inadvertent disclosure of sensitive information), the utility industry faces new cybersecurity risks associated with automated metering (virtually all of our SDG&E customers have such metering and SoCalGas is in the process of converting its customers to such metering) and with Smart Grid infrastructure. Deployment of these new business technologies represents a new and large-scale opportunity for attacks on the utilities' information systems and, more importantly, on the integrity of the energy grid. While our computer systems have been, and will likely continue to be, subjected to computer viruses or other malicious codes, unauthorized access attempts, and cyber- or phishing-attacks, to date we have not experienced a material breach of cybersecurity. Addressing these risks is the subject of significant ongoing activities across Sempra Energy's businesses, but we cannot ensure that a successful attack will not occur. An attack to our information systems, the integrity of the energy grid, or one of our facilities could have a material adverse effect on our businesses, cash flows, financial condition, results of operations and/or prospects. In addition, in the ordinary course of business, Sempra Energy and its subsidiaries collect and retain sensitive information, including personal identification information about customers and employees, customer energy usage and other information. The theft, damage or improper disclosure of sensitive electronic data can subject us to penalties for violation of applicable privacy laws, subject us to claims from third parties, require compliance with notification and monitoring regulations, and harm our reputation.

Our businesses will continue to have to adapt to technological change and may not be successful or may have to incur significant expenditures to adapt to technological change.

We expect that new technologies will emerge that may be superior to, or may not be compatible with, some of our existing technologies, and may require us to make significant expenditures to remain competitive. Our future success will depend, in part, on our ability to anticipate and adapt to technological changes in a cost-effective manner and to offer, on a timely basis, services that meet customer demands and evolving industry standards. If we fail to adapt successfully to any technological change or obsolescence, or fail to obtain access to important technologies or incur significant expenditures in adapting to technological change, our businesses, operating results and financial condition could be materially and adversely affected. Examples of technological change that could impact our businesses include

§ California Utilities—Factors that could change the utilization of natural gas distribution and electric generation, transmission and distribution assets include

- efficient battery storage technology, combined with
- the expanded cost effective utilization of distributed generation (i.e., solar rooftop, community solar projects)

§ Sempra U.S. Gas & Power

- At Sempra Renewables, technological advances in distributed and local power generation and energy storage could reduce the demand for large-scale renewable electricity generation. Sempra Renewables' power sales customers' ability to perform under long-term agreements could be impacted by utility rate structures and advances in distributed and local power generation.
- At Sempra Natural Gas, technological advances in alternative fuels and other alternative energy sources could reduce the demand for natural gas.
- At our LNG businesses, technologies that lower global natural gas and LNG consumption would have the greatest impact on the business. These technologies include cost effective batteries for renewable electricity generation, economic gas to liquids conversion processes and advances associated with seabed or Arctic gas hydrate exploitation.

Risks Related to the California Utilities

The California Utilities are subject to extensive regulation by state, federal and local legislative and regulatory authorities, which may materially adversely affect us.

The CPUC regulates the California Utilities' rates, except SDG&E's electric transmission rates which are regulated by the FERC. The CPUC also regulates the California Utilities':

§ conditions of service
§ capital structure
§ rates of return

§ rates of depreciation
§ long-term resource procurement
§ sales of securities

The CPUC conducts various reviews and audits of utility performance, compliance with CPUC regulations and standards, affiliate relationships and other matters. These reviews and audits may result in disallowances, fines and penalties that could materially adversely affect our financial condition, results of operations and/or cash flows. SoCalGas and SDG&E may be subject to penalties or fines related to their operation of natural gas pipelines and, for SDG&E, electric operations, under new regulations concerning natural gas pipeline safety and new citation programs concerning both gas and electric safety, which could have a material adverse effect on their results of operations, financial condition and/or cash flows. We discuss various CPUC proceedings relating to the California Utilities' rates, costs, incentive mechanisms, and performance-based regulation in Notes 13 and 14 of the Notes to Consolidated Financial Statements and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report.

The California Utilities may invest a significant amount of money in a major capital project prior to receiving regulatory approval. If the project does not receive regulatory approval, if the regulatory approval is conditioned on major changes, or if management decides not to proceed with the project, they may be unable to recover all amounts invested in that project, which could materially adversely affect their financial condition, results of operations, cash flows and/or prospects.

The CPUC periodically approves the California Utilities' rates based on authorized capital expenditures, operating costs, including income taxes, and an authorized rate of return on investment. If actual capital expenditures and/or operating costs were to exceed the amounts approved by the CPUC, results of operations, financial condition, cash flows and/or prospects could be materially adversely affected. Reductions in key benchmark interest rates may trigger automatic adjustment mechanisms which would reduce the California Utilities' authorized rates of return, changes in which could materially adversely affect results of operations, financial condition, cash flows and/or prospects.

The CPUC applies performance-based measures and incentive mechanisms to all California utilities. Under these, earnings potential above authorized base margins is tied to achieving or exceeding specific performance and operating goals, rather than relying solely on expanding utility plant (rate base) to increase earnings. At the California Utilities, the areas that are currently eligible for incentives are operational activities designated by the CPUC, energy efficiency programs and, at SoCalGas, natural gas procurement and unbundled natural gas storage and system operator hub services. Although the California Utilities have received incentive awards in the past, there can be no assurance that they will receive awards in the future, or that any future awards earned would be in amounts comparable to prior periods. Additionally, if the California Utilities fail to achieve certain minimum performance levels established under such mechanisms, they may be assessed financial disallowances, penalties and fines which could have a material adverse effect on their results of operations, financial condition and/or cash flows.

The FERC regulates electric transmission rates, the transmission and wholesale sales of electricity in interstate commerce, transmission access, the rates of return on investments in electric transmission assets, and other similar matters involving SDG&E.

The California Utilities may be materially adversely affected by new regulations, decisions, orders or interpretations of the CPUC, the FERC or other regulatory bodies. New legislation, regulations, decisions, orders or interpretations could change how they operate, could affect their ability to recover various costs through rates or adjustment mechanisms, or could require them to incur substantial additional expenses.

The construction and expansion of the California Utilities' natural gas pipelines, SoCalGas' storage facilities, and SDG&E's electric transmission and distribution facilities require numerous permits, licenses and other approvals from federal, state and local governmental agencies. If there are delays in obtaining these approvals, or failure to obtain or maintain these approvals, or to comply with applicable laws or regulations, the California Utilities' businesses, cash flows, results of operations, financial condition and/or prospects could be materially adversely affected. Coordinating these projects so that they are on time and within budget requires competent execution from our employees and contractors, cooperation of third parties and the absence of litigation and regulatory delay. In the event that one or more of these major projects is delayed or experiences significant cost overruns, this could have a material adverse effect on the California Utilities.

Natural gas pipeline safety assessments may not be fully or adequately recovered in rates.

Pending the outcome of various regulatory agency evaluations of natural gas pipeline safety regulations, practices and procedures, the California Utilities may incur substantial incremental expense and capital investment associated with their natural gas pipeline operations and investments. In August 2011, SoCalGas, SDG&E, PG&E and Southwest Gas filed implementation plans with the CPUC to test or replace all natural gas transmission pipelines that have not been pressure tested. In their 2011 filing with the CPUC, the California Utilities estimated the total cost for Phase 1 of the two-phase plan to be \$3.1 billion (\$2.5 billion for SoCalGas and \$600 million for SDG&E) over a 10-year period. The California Utilities requested that the incremental capital investment required as a result of any approved plan be included in rate base and that cost recovery be allowed for any other incremental cost not eligible for rate-base recovery. The costs that are the subject of these plans are outside the scope of the 2012 general rate case, or GRC proceedings discussed elsewhere in this report. If the CPUC were to decide that the incremental capital investment not be considered as incremental rate base outside the GRC process or that this incremental capital investment earn a return on rate base lower than what is otherwise authorized, or that cost recovery not be allowed for any other incremental cost, it could materially adversely affect the respective company's cash flows, financial condition, results of operations and prospects upon commencement of this program. We provide additional information in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report.

The California Utilities are subject to increasingly stringent safety standards and the potential for significant penalties if regulators deem either SDG&E or SoCalGas to be out of compliance.

The California State Senate passed legislation in 2013 which requires the CPUC to develop and maintain a safety enforcement program that includes procedures for monitoring, data tracking and analysis, and investigations, as well as delegates citation authority to CPUC staff personnel under the direction of the CPUC Executive Director. This legislation requires the CPUC to implement the enforcement program for natural gas safety by July 1, 2014 and for electric safety by January 1, 2015. In exercising the citation authority, the CPUC staff will take into account voluntary reporting of potential violations, voluntary resolution efforts undertaken, prior history of violations, the gravity of the violation, and the degree of culpability. The CPUC is planning to adopt an administrative limit on the maximum monetary penalty that may be set by the CPUC staff.

In December 2011, the CPUC adopted a natural gas safety citation program whereby natural gas distribution companies can be fined by CPUC staff for violations of the CPUC's safety standards or federal standards. Each day of an ongoing violation may be counted as an additional offense. The maximum penalty is \$50,000 per offense. In September 2013, the CPUC issued Standard Operating Procedures setting forth its principles and management process for the gas safety citation program.

If the CPUC or its staff determine that either of SDG&E's or SoCalGas' operations and practices are not in compliance with the safety standards, the corrective actions required to be in conformance and any penalties imposed could materially adversely affect the respective company's cash flows, financial condition, results of operations and prospects upon commencement of this program. We provide additional information in Note 14 of the Notes to Consolidated Financial Statements in the Annual Report.

Meaningful rate reform is necessary due to the increased power supply from renewable energy sources and the growth in distributed and local power generation, and the failure by the CPUC to reform SDG&E's rate structure in a relevant manner could have a material adverse effect on its business, cash flows, financial condition, results of operations and/or prospects.

The current electric rate structure in California places an undue burden on customers with heavy electric use while subsidizing low and moderate use customers. In addition, customers who self-generate their own power (primarily solar installations) currently do not pay most transmission and distribution charges, subject to certain limitations. As more heavy use customers purchase solar panels or obtain local off-the-grid sources of power, the burden on the remaining heavy use customers increases, which in turn encourages more self-generation and increases rate pressures. In addition, the increase of solar and other local off-the-grid sources of power adversely impacts the reliability of the electric transmission and distribution system. Over the mid- to long-term, this rate structure is unsustainable. On January 1, 2014, AB 327 became effective. This new law restores to the CPUC the authority to establish electric rates for electric utility companies in California and removes the rate caps established in AB 1X adopted in early 2001 during California's energy crisis, as well as Senate Bill 695 adopted in 2009. Additionally, the law provides the CPUC with the authority to adopt up to a \$10.00 monthly fixed charge for all residential customers effective January 1, 2015. The CPUC will implement AB 327 through its current Order Instituting Rulemaking proceeding regarding electric rate reform. If the CPUC fails to reform rate structures to maintain competitive and affordable electric rates and the reliability of the electric transmission and distribution system, such failure could have a material adverse effect on our business, cash flows, financial condition, results of operations and/or prospects.

Recovery of 2007 Wildfire Litigation Costs Requires Future Regulatory Approval.

SDG&E is seeking to recover in rates its reasonably incurred costs of resolving 2007 wildfire claims in excess of its liability insurance coverage and amounts recovered from third parties. Through December 31, 2013, SDG&E's costs to settle these claims and its estimated future settlement costs and defense costs are approximately \$2.4 billion, which exceeds its \$1.1 billion of liability insurance coverage and the approximately \$824 million recovered from third parties. SDG&E has concluded that it is probable that SDG&E will be permitted to recover a substantial portion of these excess costs in rates, and at December 31, 2013, Sempra Energy's and SDG&E's Consolidated Balance Sheets include assets of \$330 million in Other Regulatory Assets, of which \$315 million is related to CPUC-regulated operations and \$15 million is related to FERC-regulated operations, with respect to these excess costs. However, recovery of these amounts in rates will require future regulatory approval.

In August 2009, SDG&E and SoCalGas filed an application with the CPUC proposing a new mechanism for the future recovery of 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 denied the proposed blanket cost recovery framework for the utilities but allowed SDG&E to maintain its authorized memorandum account, enabling SDG&E to file applications with the CPUC requesting recovery of amounts properly recorded in the memorandum account, subject to reasonableness review, at a later date. For a description of this proceeding and information about 2007 wildfire litigation costs and their recovery, see Notes 14 and 15 of the Notes to Consolidated Financial Statements in the Annual Report.

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 as of December 31, 2013, the resulting after-tax charge against earnings would have been up to \$186 million. In addition, in periods following any such conclusion, SDG&E's earnings will be adversely impacted by increases in the estimated costs to litigate or settle pending wildfire claims.

As noted above, recovery of excess wildfire costs in rates will require future regulatory approval, and a failure to obtain all or a significant portion of the expected recovery, or a conclusion that recovery in rates is no longer probable, would likely have a material adverse effect on Sempra Energy's and SDG&E's cash flows, financial condition and/or results of operations. In addition, if recovery is permitted, the collection process may extend over a number of years and Sempra Energy's and SDG&E's cash flows may be materially adversely affected due to the timing differences between resolution of claims and the recovery in rates. 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.

SDG&E may incur substantial costs and liabilities as a result of its partial ownership of a nuclear facility.

SDG&E has a 20-percent ownership interest in SONGS, a 2,150-MW nuclear generating facility near San Clemente, California, operated by Southern California Edison Company, or Edison. The NRC has broad authority under federal law to impose licensing and safety-related requirements for the operation of nuclear generation facilities. SONGS' Units 2 and 3 have been shut down since early 2012, and 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 from the NRC to start the decommissioning activities for the entire facility. Although the facility will be decommissioned in the future, SDG&E's ownership interest in SONGS continues to subject it to the risks of owning a partial interest in a nuclear generation facility, which include

- § the potential that a natural disaster such as an earthquake or tsunami could cause a catastrophic failure of the safety systems in place that are designed to prevent the release of radioactive material. If such a failure were to occur, a substantial amount of radiation could be released and cause catastrophic harm to human health and the environment;
- § the potential harmful effects on the environment and human health resulting from the prior operation of nuclear facilities and the storage, handling and disposal of radioactive materials;
- § limitations on the amounts and types of insurance commercially available to cover losses that might arise in connection with operations and the decommissioning of the facility;
- § uncertainties with respect to the technological and financial aspects of decommissioning the facility; and

§ the results of the CPUC's Order Instituting Investigation (OII), as described in more detail below, into the SONGS outage that began in the first quarter of 2012.

In addition, SDG&E maintains two trusts for the purposes of providing funds to decommission SONGS. Up to approximately 33 percent of the trust assets has been generally invested in equity securities, which are subject to market fluctuation. A decline in the market value of trust assets or an adverse change in the law regarding funding requirements for decommissioning trusts could increase the funding requirements for these trusts, which in each case may not be fully recoverable in rates.

The occurrence of any of these events could have a material adverse effect on SDG&E's and Sempra Energy's businesses, cash flows, financial condition, results of operations and/or prospects.

Ongoing regulatory and maintenance issues at SONGS may have a material adverse effect on us.

SONGS' Units 2 and 3 have been shut down since early 2012, after a water leak occurred in the Unit 3 steam generator. Since the unscheduled outage started, SDG&E has procured power to ensure a reliable supply of power to meet customers' needs, replacing the power that would have been available had SONGS been in operation. The estimated cost of the purchased replacement power incurred from January 2012 through June 6, 2013, the date Edison notified SDG&E of its decision to permanently close SONGS, was approximately \$165 million. Of this total, \$98 million was incurred in 2012 and has been approved for collection in rates pursuant to prior Energy Resource Recovery Account (ERRA) proceedings. The remaining \$67 million represents replacement power costs incurred through June 6, 2013 that have not yet been approved for recovery in rates. In addition to the estimated cost of the purchased replacement power, 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.

In November 2012, the CPUC issued an OII into the SONGS outage to determine whether SDG&E should remove from customer rates some or all of the revenue requirement associated with the portion of the facility that was out of service. This OII will consolidate most SONGS issues from related regulatory proceedings and consider the appropriate cost recovery for SONGS during the shutdown, including among other costs, the cost of the steam generator replacement project, replacement power costs, capital expenditures, operation and maintenance costs and seismic study costs, and the appropriate rate design regarding the recovery of the remaining investment in and any return on the remaining investment in SONGS from the time the Units were taken off-line. The OII requires that all costs related to SONGS incurred since January 1, 2012 be tracked in memorandum accounts, and that all revenues collected since January 1, 2012, for recovery of such costs and for the return on SDG&E's investment in SONGS be subject to refund. The OII will address the extent to which such revenues, if any, will be required to be refunded to customers.

As a result of Edison's decision to permanently retire SONGS' Units 2 and 3 and seek approval to start the decommissioning activities of the entire facility, SDG&E has removed the net book value of its investment in SONGS and established a new regulatory asset, in accordance with accounting principles generally accepted in the United States of America for regulated entities, representing the amount management believes is probable of recovery in future rates. As a result of this analysis, Sempra Energy's and SDG&E's financial results for the year ended December 31, 2013 include an after-tax loss of \$119 million reflected in the regulatory asset to reduce the amount that management believes is probable of recovery in rates in the future to \$303 million, which is included in Other Regulatory Assets on Sempra Energy's and SDG&E's Consolidated Balance Sheets at December 31, 2013. Any failure to recover some or all of this regulatory asset, the cost of purchased replacement power of \$98 million approved in prior ERRA proceedings for collection in rates, or operating or other costs associated with SONGS (including approximately \$184 million of operations and maintenance expenses incurred by SDG&E since the start of the forced outages), or any decision by the CPUC to require refund of revenues collected in recovery of the costs above could materially adversely affect SDG&E's and Sempra Energy's results of operations, cash flows and financial condition.

Should SDG&E conclude that recovery in rates is different than the amount anticipated or is no longer probable, SDG&E will record an additional charge against earnings at the time such a conclusion is reached, which could materially adversely affect SDG&E's and Sempra Energy's results of operations, cash flows and financial condition.

We discuss SONGS matters in Note 13 of the Notes to Consolidated Financial Statements in the Annual Report.

Risks Related to our Sempra International and Sempra U.S. Gas & Power Businesses

Our businesses are exposed to market risks, including fluctuations in commodity prices, and our businesses, financial condition, results of operations, cash flows and/or prospects may be materially adversely affected by these risks.

Sempra Mexico, Sempra Renewables and Sempra Natural Gas generate electricity that they sell under long-term contracts and into the spot market or other competitive markets. Sempra Mexico and Sempra Natural Gas purchase natural gas to fuel their power plants and may also purchase electricity in the open market to satisfy their contractual obligations. As part of their risk management strategy, they may hedge a substantial portion of their electricity sales and natural gas purchases to manage their portfolios, which subjects us to the risk that the counterparty to such hedge may be unable to fulfill its obligations. Such a failure could materially adversely affect our cash flows, financial condition and/or results of operations.

We buy energy-related commodities from time to time, for power plants or for LNG terminals to satisfy contractual obligations with customers, in regional markets and other competitive markets in which we compete. Our revenues and results of operations could be materially adversely affected if the prevailing market prices for electricity, natural gas, LNG or other commodities that we buy change in a direction or manner not anticipated and for which we had not provided adequately through purchase or sale commitments or other hedging transactions.

Unanticipated changes in market prices for energy-related commodities result from multiple factors, including:

§ weather conditions

§ seasonality

§ changes in supply and demand

§ transmission or transportation constraints or inefficiencies

- § availability of competitively priced alternative energy sources
- § commodity production levels
- § actions by oil producing nations or organizations affecting the global supply of crude oil
- § federal, state and foreign energy and environmental regulation and legislation
- § natural disasters, wars, embargoes and other catastrophic events
- § expropriation of assets by foreign countries

The FERC has jurisdiction over wholesale power and transmission rates, independent system operators, and other entities that control transmission facilities or that administer wholesale power sales in some of the markets in which we operate. The FERC may impose additional price limitations, bidding rules and other mechanisms, or terminate existing price limitations from time to time. Any such action by the FERC may result in prices for electricity changing in an unanticipated direction or manner and, as a result, may have a material adverse effect on our businesses, cash flows, results of operations and/or prospects.

When our businesses enter into fixed-price long-term contracts to provide services or commodities, they are exposed to inflationary pressures such as rising commodity prices, and interest rate risks.

Sempra Mexico, Sempra Renewables and Sempra Natural Gas generally endeavor to secure long-term contracts with customers for services and commodities to optimize the use of their facilities, reduce volatility in earnings, and support the construction of new infrastructure. However, if these contracts are at fixed prices, the profitability of the contract may be materially adversely affected by inflationary pressures, including rising operational costs, costs of labor, materials, equipment and commodities, and rising interest rates that affect financing costs. We may try to mitigate these risks by using variable pricing tied to market indices, anticipating an escalation in costs when bidding on projects, providing for cost escalation, providing for direct pass-through of operating costs or entering into hedges. However, these measures, if implemented, may not ensure that the increase in revenues they provide will fully offset increases in operating expenses and/or financing costs. The failure to so fully or substantially offset these increases could have a material adverse effect on our financial condition, cash flows and/or results of operations.

Business development activities may not be successful and projects under construction may not commence operation as scheduled or be completed within budget, which could have a material adverse effect on our businesses, financial condition, cash flows, results of operations and/or prospects.

The acquisition, development, construction and expansion of LNG terminals, natural gas, propane and ethane pipelines and storage facilities, electric generation and transmission facilities, and other energy infrastructure projects involve numerous risks. We may be required to spend significant sums for preliminary engineering, permitting, fuel supply, resource exploration, legal, and other expenses before we can determine whether a project is feasible, economically attractive, or capable of being built.

Success in developing a particular project is contingent upon, among other things:

- § negotiation of satisfactory engineering, procurement and construction agreements
- § negotiation of supply and natural gas sales agreements or firm capacity service agreements
- § timely receipt of required governmental permits, licenses, authorizations, and rights of way
- § timely implementation and satisfactory completion of construction
- § obtaining adequate and reasonably priced financing for the project

Successful completion of a particular project may be materially adversely affected by:

- § unforeseen engineering problems
- § construction delays and contractor performance shortfalls
- § work stoppages
- § equipment unavailability or delay and cost increases
- § adverse weather conditions
- § environmental and geological conditions
- § litigation
- § unsettled property rights
- § other factors

If we are unable to complete the development of a facility or if we have substantial delays or cost overruns, this could have a material adverse effect on our businesses, financial condition, cash flows, results of operations and/or prospects.

The operation of existing and future facilities also involves many risks, including the breakdown or failure of electric generation or natural gas regasification, liquefaction and storage facilities or other equipment or processes, labor disputes, fuel interruption, environmental contamination and operating performance below expected levels. In addition, weather-related incidents and other natural disasters can disrupt generation, regasification, liquefaction, storage and transmission systems. The occurrence of any of these events could lead to our facilities being idled for an extended period of time or our facilities operating well below expected capacity levels, which may result in lost revenues or increased expenses, including higher maintenance costs and penalties. Such occurrences could materially adversely affect our businesses, financial condition, cash flows, results of operations and/or prospects.

With respect to our proposed project to add LNG export capability at our Cameron facility, we currently anticipate building a facility consisting of three liquefaction trains with a total nameplate capacity of 13.5 million tonnes per annum (Mtpa) of LNG with an expected export capability of 12 Mtpa of LNG, or approximately 1.7 Bcf per day. The anticipated incremental investment in the three-train liquefaction project, subject to final design specifications, is estimated to be approximately \$6 billion to \$7 billion, excluding capitalized interest and other financing costs. While we have signed commercial development agreements with Mitsubishi Corporation, Mitsui & Co., Ltd. and a subsidiary of GDF SUEZ S.A., these agreements only bind the parties to fund certain development costs, including design, permitting and engineering costs of the proposed project and to negotiate in good faith 20-year tolling agreements with respect to 12 Mtpa of LNG, which tolling agreements were executed in May 2013. However, the development agreements do not obligate the parties to finance the actual construction of this new facility. The joint venture agreement and the three tolling agreements are subject to a final investment decision to proceed by each party, finalization of permit authorizations and securing financing commitments, as well as other customary conditions. If one or more of the parties decides not to move forward with the project, or if we are unable to arrange suitable financing, the project may be substantially delayed, reduced or terminated. If the project is terminated, we may not recover our share of any project development or other related costs expended, and we may be required to write off our share of any such previously capitalized costs. In addition, this project may be delayed, reduced or terminated in the event we are unable to obtain all of the necessary permits, licenses and authorizations in a timely manner. The anticipated cost of this project is based on a number of assumptions that may prove incorrect and is subject to final design specifications, and the ultimate cost could significantly exceed the current estimate of \$6 billion to \$7 billion of incremental investment, excluding capitalized interest and other financing costs. Customers look at a number of factors when evaluating participation in a project, and changes in these factors, including global natural gas and LNG prices, could have an impact on the project going forward. Prior to our final investment decision and in the event we decide not to proceed with the project, these risks could have a material adverse effect on our prospects. Following our final investment decision and in the event we decide to proceed with the project, these risks could have a material adverse effect on our business, results of operations, cash flows, financial condition, and/or prospects.

We may elect not to, or may not be able to, enter into or replace expiring long-term supply and sales agreements or long-term firm capacity agreements for our projects, which would subject our revenues to increased volatility and our businesses to increased competition.

The electric generation and wholesale power sales industries are highly competitive. As more plants are built and competitive pressures increase, wholesale electricity prices may become more volatile. Without the benefit of long-term power sales agreements, our revenues may be subject to increased price volatility, and we may be unable to sell the power that Sempra Natural Gas' and Sempra Mexico's facilities are capable of producing or to sell it at favorable prices, which could materially adversely affect our results of operations, cash flows and/or prospects.

Sempra Mexico and Sempra Natural Gas utilize their LNG terminals by entering into long-term capacity agreements. Under these agreements, customers pay us capacity reservation and usage fees to receive, store and regasify the customer's LNG. These segments also may enter into short-term and/or long-term supply agreements to purchase LNG to be received, stored and regasified at their terminals for sale to other parties. The long-term supply agreement contracts are expected to reduce our exposure to changes in natural gas prices through corresponding natural gas sales agreements or by tying LNG supply prices to prevailing natural gas market price indices. If the counterparties, customers or suppliers to one or more of the key agreements for the LNG facilities were to fail to perform or become unable to meet their contractual obligations on a timely basis, it could have a material adverse effect on our results of operations, cash flows and/or prospects. Also, although our Cameron LNG terminal is not fully contracted for regasification, given our current progress on the liquefaction project discussed above, we do not expect to contract or sell any additional LNG import capacity at the Cameron terminal. Our potential LNG suppliers also may be subject to international political and economic pressures and risks, which may also affect the supply of LNG.

Sempra Mexico's and Sempra Natural Gas' natural gas pipeline operations are dependent on demand for and supply of LNG and/or natural gas from their transportation customers, which may include our LNG facilities. A significant sustained decrease in demand for and supply of LNG and/or natural gas from such customers could have a material adverse effect on our businesses, results of operations, cash flows and/or prospects.

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). Sempra Natural Gas and the partnership have agreements for capacity on REX that expire at various dates through 2019. As these agreements expire, new contracting activity related to that capacity may not be sufficient to replace the revenues from the expiring agreements.

We provide information about these matters in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 15 of the Notes to Consolidated Financial Statements in the Annual Report.

Our businesses depend on counterparties, business partners, customers, and suppliers performing in accordance with their agreements. If they fail to so perform, we could incur substantial expenses and business disruptions and be exposed to commodity price risk and volatility, which could materially adversely affect our businesses, financial condition, cash flows, results of operations and/or prospects.

Our businesses are exposed to the risk that counterparties, business partners, customers, and suppliers that owe money or commodities as a result of market transactions or other long-term agreements will not perform their obligations in accordance with such agreements. Should they fail to so perform, we may be required to acquire alternative hedging arrangements or to honor the underlying commitment at then-current market prices. In such event, we may incur additional losses to the extent of amounts already paid to such counterparties or suppliers. In addition, many of our agreements are essential to the conduct and growth of our businesses. The failure of any of the parties to perform in accordance with these agreements could materially adversely affect our businesses, results of operations, cash flows, financial condition and/or prospects. Finally, we often extend credit to counterparties and customers. While we perform significant credit analyses prior to extending credit, we are exposed to the risk that we may not be able to collect amounts owed to us.

Sempra Mexico's and Sempra Natural Gas' obligations and those of their suppliers for LNG supplies are contractually subject to (1) suspension or termination for "force majeure" events beyond the control of the parties; and (2) substantial limitations of remedies for other failures to perform, including limitations on damages to amounts that could be substantially less than those necessary to provide full recovery of costs for breach of the agreements, which in either event could have a material adverse effect on our results of operations, cash flows, financial condition and/or prospects.

Legal actions challenging our property rights could materially adversely affect our businesses, financial condition, cash flows, results of operations and/or prospects.

We are engaged in disputes regarding our title to the properties on and adjacent to our LNG terminal in Mexico, as we discuss in Note 15 of the Notes to Consolidated Financial Statements in the Annual Report. In the event that we are unable to defend and retain title to the properties on which our LNG terminal is located, we could lose our rights to occupy and use such properties and the related terminal, which could result in breaches of one or more permits or contracts that we have entered into with respect to such terminal. If we are unable to occupy and use such properties and the related terminal, it could have a material adverse effect on our businesses, financial condition, results of operations, cash flows and/or prospects.

We rely on transportation assets and services, much of which we do not own or control, to deliver electricity and natural gas.

We depend on electric transmission lines, natural gas pipelines, and other transportation facilities owned and operated by third parties to:

- § deliver the electricity and natural gas we sell to wholesale markets,
- § supply natural gas to our electric generation facilities, and
- § provide retail energy services to customers.

Sempra Mexico and Sempra Natural Gas also depend on natural gas pipelines to interconnect with their ultimate source or customers of the commodities they are transporting. Sempra Mexico and Sempra Natural Gas also rely on specialized ships to transport LNG to their facilities and on natural gas pipelines to transport natural gas for customers of the facilities. Sempra Natural Gas, Sempra Renewables, Sempra South American Utilities and Sempra Mexico rely on transmission lines to sell electricity to their customers. If transportation is disrupted, or if capacity is inadequate, we may be unable to sell and deliver our commodities, electricity and other services to some or all of our customers. As a result, we may be responsible for damages incurred by our customers, such as the additional cost of acquiring alternative natural gas supplies and LNG at then-current spot market rates, which could have a material adverse effect on our businesses, financial condition, cash flows, results of operations and/or prospects.

Our international businesses are exposed to different local, regulatory and business risks and challenges, which could have a material adverse effect on our businesses, financial condition, cash flows, results of operations and/or prospects.

We own or have interests in Mexico in electricity generation, distribution and transmission facilities, natural gas, propane and ethane distribution, storage and transportation projects, and an LNG terminal, and electricity transmission and distribution businesses in Chile and Peru. Developing infrastructure projects, owning energy assets, and operating businesses in foreign jurisdictions subject us to significant political, legal, regulatory and financial risks that vary by country, including:

- § changes in foreign laws and regulations, including tax and environmental laws and regulations, and U.S. laws and regulations, in each case, that are related to foreign operations
- § governance by and decisions of local regulatory bodies, including setting of rates and tariffs that may be earned by our businesses
- § high rates of inflation
- § volatility in exchange rates between the U.S. dollar and currencies of the countries in which we operate
- § changes in government policies or personnel
- § trade restrictions
- § limitations on U.S. company ownership in foreign countries
- § permitting and regulatory compliance
- § changes in labor supply and labor relations
- § adverse rulings by foreign courts or tribunals, challenges to permits and approvals, difficulty in enforcing contractual and property rights, and unsettled property rights and titles in Mexico and other foreign jurisdictions
- § expropriation of assets
- § adverse changes in the stability of the governments in the countries in which we operate
- § general political, social, economic and business conditions

Our international businesses also are subject to foreign currency risks. These risks arise from both volatility in foreign currency exchange and inflation rates and devaluations of foreign currencies. In such cases, an appreciation of the U.S. dollar against a local currency could materially reduce the amount of cash and income received from those foreign subsidiaries. We may or may not choose to hedge these risks, and any hedges entered into may or may not be effective. Fluctuations in foreign currency exchange and inflation rates may result in significantly increased taxes in foreign countries and materially adversely affect our cash flows, financial condition, results of operations and/or prospects.

We discuss litigation related to Sempra Mexico's Energía Costa Azul LNG terminal and other international energy projects in Note 15 of the Notes to Consolidated Financial Statements in the Annual Report.

Other Risks

Sempra Energy has substantial investments and other obligations in businesses that it does not control or manage or in which it shares control.

As described above, SDG&E holds a 20-percent ownership interest in SONGS, which is operated by Edison. Also, Sempra Natural Gas owns a 25-percent interest in Rockies Express, a joint venture that operates a natural gas pipeline. Our investment in Rockies Express is \$329 million at December 31, 2013. Rockies Express is controlled by Tallgrass Energy Partners, which holds a 50-percent interest. At December 31, 2013, Sempra Renewables has investments totaling \$707 million in several joint ventures to develop and operate renewable generation facilities. Sempra Mexico owns a 50-percent interest in a joint venture with PEMEX that operates several natural gas pipelines and propane systems in northern Mexico. At December 31, 2013, this investment is \$379 million. Sempra Energy has an investment balance of \$73 million at December 31, 2013 that reflects remaining distributions expected to be received from the RBS Sempra Commodities LLP (RBS Sempra Commodities) partnership as it is dissolved. The timing and amount of distributions may be impacted by the matters we discuss related to RBS Sempra Commodities in Note 15 of the Notes to Consolidated Financial Statements in the Annual Report. The failure to collect all or a substantial portion of our remaining investment in the partnership could have a corresponding effect on our cash flows, financial condition and results of operations. We continue to make investments in entities that we do not control or manage or in which we share control. We discuss these investments further in Notes 3, 4 and 10 of the Notes to Consolidated Financial Statements in the Annual Report.

Sempra Natural Gas is currently progressing with plans to develop its Cameron LNG regasification facility for liquefaction capability in a joint venture structure with three partners where we will have 50.2 percent of the joint venture. We discuss these plans further in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Factors Influencing Future Performance” in the Annual Report.

We have limited influence over these and other businesses in which we do not have a controlling interest. In addition to the other risks inherent in these businesses, if their management were to fail to perform adequately or the other investors in the businesses were unable or otherwise failed to perform their obligations to provide capital and credit support for these businesses, it could have a material adverse effect on our results of operations, financial condition, cash flows and/or prospects.

Market performance or changes in other assumptions could require Sempra Energy, SDG&E and/or SoCalGas to make significant unplanned contributions to their pension and other postretirement benefit plans.

Sempra Energy, SDG&E and SoCalGas provide defined benefit pension plans and other postretirement benefits to eligible employees and retirees. A decline in the market value of plan assets may increase the funding requirements for these plans. In addition, the cost of providing pension and other postretirement benefits is also affected by other factors, including the assumed rate of return on plan assets, employee demographics, discount rates used in determining future benefit obligations, rates of increase in health care costs, levels of assumed interest rates and future governmental regulation. An adverse change to any of these factors could cause a material increase in our funding obligations which could have a material adverse effect on our results of operations, financial condition, cash flows and/or prospects.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

ELECTRIC PROPERTIES – SDG&E

At December 31, 2013, SDG&E owns and operates four natural gas-fired power plants:

- § a 560-MW electric generation facility (the Palomar generation facility) in Escondido, California
- § a 485-MW electric generation facility (the Desert Star generation facility) in Boulder City, Nevada
- § a 96-MW electric generation peaking facility (the Miramar Energy Center) in San Diego, California
- § a 47-MW electric generation facility (the Cuyamaca Peak Energy Plant) in El Cajon, California

SDG&E’s interest in SONGS is described above in Item 1 under “Electric Utility Operations – SDG&E.” We also discuss matters related to SONGS’ retirement and related issues in Note 13 of the Notes to Consolidated Financial Statements in the Annual Report.

At December 31, 2013, SDG&E’s electric transmission and distribution facilities included substations, and overhead and underground lines. These electric facilities are located in San Diego, Imperial and Orange counties of California, and in Arizona and Nevada. The facilities consist of 2,076 miles of transmission lines and 23,891 miles of distribution lines. Periodically, various areas of the service territory require expansion to accommodate customer growth.

NATURAL GAS PROPERTIES – CALIFORNIA UTILITIES

At December 31, 2013, SDG&E’s natural gas facilities consisted of two compressor stations, 168 miles of transmission pipelines, 8,546 miles of distribution pipelines and 6,460 miles of service pipelines.

At December 31, 2013, SoCalGas’ natural gas facilities included 2,964 miles of transmission and storage pipelines, 49,832 miles of distribution pipelines and 47,472 miles of service pipelines. They also included 11 transmission compressor stations and four underground natural gas storage reservoirs with a combined working capacity of 136 Bcf.

ENERGY PROPERTIES – SEMPRA INTERNATIONAL AND SEMPRA U.S. GAS & POWER

At December 31, 2013, Sempra Mexico, Sempra Renewables and Sempra Natural Gas operate or own interests in power plants and renewable generation facilities in North America with a total capacity of 2,632 MW. Our share of this capacity is 1,971 MW. We provide additional information in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in Note 4 of the Notes to Consolidated Financial Statements in the Annual Report.

Sempra South American Utilities operates Chilquinta Energía located in Valparaiso, Chile. Its property consists of 9,852 miles of distribution lines, 342 miles of transmission lines and 47 substations.

Sempra South American Utilities operates Luz del Sur located in Lima, Peru. Its property consists of 12,281 miles of distribution lines and 180 miles of transmission lines. Luz del Sur expects to complete construction of Santa Teresa, a 100-MW hydroelectric power plant located in the Cusco region of Peru, in 2014.

At December 31, 2013, Sempra Mexico’s operations included 1,954 miles of distribution pipelines, 224 miles of transmission pipelines and three compressor stations. Sempra Mexico operates its Energía Costa Azul LNG terminal on land it owns in Baja California, Mexico.

Sempra Renewables owns properties in Arizona and leases properties in Nevada for currently operating solar electric generation facilities with the potential to develop additional solar electric generation facilities on these properties. Sempra Renewables also owns or leases property in California, Georgia, Kansas and Nebraska for potential development of solar and wind electric generation facilities. Sempra Mexico leases properties in Mexico for potential development of wind electric generation facilities.

In 2006, Sempra Natural Gas and ProLiance Transportation and Storage, LLC acquired three existing salt caverns representing 10 Bcf to 12 Bcf of natural gas storage capacity in Cameron Parish, Louisiana, with plans for development of a natural gas storage facility.

Sempra Natural Gas owns and operates Mobile Gas, a natural gas distribution utility located in Mobile and Baldwin counties in Alabama. Its property consists of distribution mains, service lines and regulating equipment.

Sempra Natural Gas also owns and operates Willmut Gas, a natural gas distribution utility located in Forrest County, Mississippi, serving Forrest, Simpson, Lamar, Jones, Covington and Rankin counties. Its property consists of distribution mains, service lines and regulating equipment.

In Washington County, Alabama, Sempra Natural Gas operates a 15.5 Bcf natural gas storage facility, Bay Gas, under a land lease, with current plans to expand total working capacity to 21 Bcf to be in-service in 2014. Sempra Natural Gas also owns land in Simpson County, Mississippi, on which it operates a 15 Bcf natural gas storage facility, Mississippi Hub, with current plans to expand total working capacity to 23 Bcf to be in-service in 2014. Portions of both these properties are currently under construction.

Sempra Natural Gas has a land lease and owns land in Hackberry, Louisiana, where it operates its Cameron LNG terminal. Sempra Natural Gas also owns land in Port Arthur, Texas, for potential development.

OTHER PROPERTIES

Sempra Energy occupies its 19-story corporate headquarters building in San Diego, California, pursuant to an operating lease that expires in 2015. In August 2013, Sempra Energy entered into a 25-year, build-to-suit lease for its future San Diego, California, headquarters. The lease has five five-year renewal options. We discuss the details of this lease further in Note 15 of the Notes to Consolidated Financial Statements in the Annual Report.

SoCalGas leases approximately one-fourth of a 52-story office building in downtown Los Angeles, California, pursuant to an operating lease expiring in 2026. The lease has four five-year renewal options.

SDG&E occupies a six-building office complex in San Diego pursuant to two separate operating leases, both ending in December 2024. One lease has four five-year renewal options and the other lease has three five-year renewal options.

Sempra International and Sempra U.S. Gas & Power own or lease office facilities at various locations in the U.S., Mexico, Chile and Peru, with the leases ending from 2014 to 2039.

Sempra Energy, SDG&E and SoCalGas own or lease other land, easements, rights of way, warehouses, offices, operating and maintenance centers, shops, service facilities and equipment necessary to conduct their businesses.

ITEM 3. LEGAL PROCEEDINGS

We are not party to, and our property is not the subject of, any material pending legal proceedings (other than ordinary routine litigation incidental to our businesses) except for the matters (1) described in Notes 13, 14 and 15 of the Notes to Consolidated Financial Statements in the Annual Report, or (2) referred to in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Annual Report.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

COMMON STOCK AND RELATED SHAREHOLDER MATTERS

The common stock, related shareholder, and dividend restriction information required by Item 5 is included in "Common Stock Data" in the Annual Report.

SEMPRA ENERGY EQUITY COMPENSATION PLANS

Sempra Energy has a long-term incentive plan that permits the grant of a wide variety of equity and equity-based incentive awards to directors, officers and key employees. At December 31, 2013, outstanding awards consisted of stock options, restricted stock, and restricted stock units held by 380 employees.

The following table sets forth information regarding our equity compensation plan at December 31, 2013.

	Number of shares to be issued upon exercise of outstanding options, warrants and rights(A)	Weighted-average exercise price of outstanding options, warrants and rights(B)	Number of additional shares remaining available for future issuance(C)(D)
Equity compensation plan approved by shareholders: 2013 Long-Term Incentive Plan	4,839,304	\$ 53.18	7,210,346
(A) Consists of 1,459,145 options to purchase shares of our common stock, all of which were granted at an exercise price of 100% of the grant date fair market value of the shares subject to the option, 215,598 service-based restricted stock units and 3,164,561 performance-based restricted stock units. Each performance-based restricted stock unit represents the right to receive one share of our common stock if applicable performance conditions are satisfied; up to an additional 50 percent of shares represented by these units may be issued if Sempra Energy exceeds target performance conditions. The 4,839,304 also includes awards granted under two previously shareholder-approved long-term incentive plans (Predecessor Plans). No new awards may be granted under these Predecessor Plans.			
(B) Represents only the weighted-average exercise price of the 1,459,145 options to purchase shares of common stock.			
(C) The number of shares available for future issuance is increased by the number of shares withheld or surrendered to satisfy the exercise price or to satisfy tax withholding obligations relating to any plan awards.			
(D) The number of shares available for future issuance is increased by the number of shares subject to awards that expire or are forfeited, canceled or otherwise terminated without the issuance of shares.			

We provide additional discussion of share-based compensation in Note 8 of the Notes to Consolidated Financial Statements in the Annual Report.

PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

On September 11, 2007, the Sempra Energy board of directors authorized the repurchase of Sempra Energy common stock provided that the amounts spent for such purpose do not exceed the greater of \$2 billion or amounts spent to purchase no more than 40 million shares.

During 2008, we expended \$1 billion to purchase a total of 18,416,241 shares. No shares were repurchased under this authorization during 2009.

Under a program initiated in 2010, we prepaid \$500 million to repurchase a total of 9,574,435 shares of our common stock in 2010 and 2011. We discuss this program in Note 12 of the Notes to Consolidated Financial Statements in the Annual Report.

Therefore, approximately \$500 million remains authorized by the board for the purchase of additional shares, not to exceed approximately 12 million shares. We also may, from time to time, purchase shares of our common stock from restricted stock plan participants who elect to sell a sufficient number of vesting restricted shares to meet minimum statutory tax withholding requirements.

ITEM 6. SELECTED FINANCIAL DATA

The information required by Item 6 is included in "Five-Year Summaries" in the Annual Report.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by Item 7 is set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report, on pages 2 through 79.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by Item 7A is set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations – Market Risk" in the Annual Report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by Item 8 is set forth on pages 92 through 239 of the Annual Report. Item 15(a)1 of Part IV of this report includes a listing of financial statements included.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

The information required by Item 9A is provided in "Controls and Procedures" in the Annual Report.

ITEM 9B. OTHER INFORMATION

None.

PART III

Because SDG&E meets the conditions of General Instructions I(1)(a) and (b) of Form 10-K and is therefore filing this report with a reduced disclosure format as permitted by General Instruction I(2), the information required by Items 10, 11, 12 and 13 below is not required for SDG&E. We have, however, provided the information required by Item 10 with respect to SDG&E's executive officers in Part I, Item 1. Business under "Executive Officers of the Registrants – SDG&E and SoCalGas."

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

SEMPRA ENERGY

We provide the information required by Item 10 with respect to executive officers for Sempra Energy in Part I, Item 1. Business under "Executive Officers of the Registrants – Sempra Energy." All other information required by Item 10 is incorporated by reference from "Corporate Governance" and "Share Ownership" in the Proxy Statement prepared for the May 2014 annual meeting of shareholders.

SOCALGAS

We provide the information required by Item 10 with respect to executive officers for SoCalGas in Part I, Item 1. Business under "Executive Officers of the Registrants – SDG&E and SoCalGas." All other information required by Item 10 is incorporated by reference from the company's Information Statement prepared for its June 2014 annual meeting of shareholders.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated by reference from "Corporate Governance" and "Executive Compensation," including "Compensation Discussion and Analysis" and "Compensation Committee Report" in the Proxy Statement prepared for the May 2014 annual meeting of shareholders for Sempra Energy and from the Information Statement prepared for the June 2014 annual meeting of shareholders for SoCalGas.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

Information regarding securities authorized for issuance under equity compensation plans as required by Item 12 is included in Item 5.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The security ownership information required by Item 12 is incorporated by reference from "Share Ownership" in the Proxy Statement prepared for the May 2014 annual meeting of shareholders for Sempra Energy and from the Information Statement prepared for the June 2014 annual meeting of shareholders for SoCalGas.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 is incorporated by reference from “Corporate Governance” in the Proxy Statement prepared for the May 2014 annual meeting of shareholders for Sempra Energy and from the Information Statement prepared for the June 2014 annual meeting of shareholders for SoCalGas.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information regarding principal accountant fees and services, as required by Item 14, is presented below for Sempra Energy, SDG&E and SoCalGas. The following table shows the fees paid to Deloitte & Touche LLP, the independent registered public accounting firm for Sempra Energy, SDG&E and SoCalGas, for services provided for 2013 and 2012.

PRINCIPAL ACCOUNTANT FEES

(Dollars in thousands)

	Sempra Energy Consolidated		SDG&E		SoCalGas	
	Fees	% of Total	Fees	% of Total	Fees	% of Total
2013:						
Audit fees:						
Consolidated financial statements and internal controls audits, subsidiary and statutory audits	\$ 9,462		\$ 2,451		\$ 2,246	
Regulatory filings and related services	155		64		—	
Total audit fees	9,617	80 %	2,515	87 %	2,246	92 %
Audit-related fees:						
Employee benefit plan audits	475		125		192	
Other audit-related services, accounting consultation	325		66		—	
Total audit-related fees	800	7	191	7	192	8
Tax fees:						
Tax planning and compliance	1,473		175		—	
Other tax services	—		—		—	
Total tax fees	1,473	12	175	6	—	—
All other fees	77	1	—	—	—	—
Total fees	\$ 11,967	100 %	\$ 2,881	100 %	\$ 2,438	100 %

	Sempra Energy Consolidated		SDG&E		SoCalGas	
	Fees	% of Total	Fees	% of Total	Fees	% of Total
2012:						
Audit fees:						
Consolidated financial statements and internal controls audits, subsidiary and statutory audits	\$ 9,290		\$ 2,055		\$ 2,000	
Regulatory filings and related services	480		186		59	
Total audit fees	9,770	82 %	2,241	78 %	2,059	91 %
Audit-related fees:						
Employee benefit plan audits	470		126		187	
Other audit-related services, accounting consultation	445		34		—	
Total audit-related fees	915	8	160	6	187	8
Tax fees:						
Tax planning and compliance	1,006		449		—	
Other tax services	—		—		—	
Total tax fees	1,006	8	449	16	—	—
All other fees	196	2	13	—	13	1
Total fees	\$ 11,887	100 %	\$ 2,863	100 %	\$ 2,259	100 %

The Audit Committee of Sempra Energy’s Board of Directors is directly responsible and has sole authority for selecting, appointing, retaining and overseeing the work and approving the compensation of the independent registered public accounting firm for Sempra Energy and its subsidiaries, including SDG&E and SoCalGas. As a matter of good corporate governance, the SDG&E and SoCalGas Boards of Directors also reviewed the performance of Deloitte & Touche LLP and concurred with the determination by the Sempra Energy Audit Committee to retain them as the independent registered public accounting firm for each of Sempra Energy, SDG&E and SoCalGas. Sempra Energy’s board has determined that each member of its Audit Committee is an independent director and is financially literate, and that Mr. Brocksmith, the chair of the committee, and Mr. Taylor are each an audit committee financial expert as defined by the rules of the Securities and Exchange Commission.

Except where pre-approval is not required by the Securities and Exchange Commission rules, Sempra Energy’s Audit Committee pre-approves all audit and permissible non-audit services provided by Deloitte & Touche LLP for Sempra Energy and its subsidiaries. The committee’s pre-approval policies and procedures provide for the general pre-approval of specific types of services and give detailed guidance to management as to the services that are eligible for general pre-approval. They require specific pre-approval of all other permitted services. For both types of pre-approval, the committee considers whether the services to be provided are consistent with maintaining the firm’s independence. The policies and procedures also delegate authority to the chair of the committee to address any requests for pre-approval of services between committee meetings, with any pre-approval decisions to be reported to the committee at its next scheduled meeting.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

1. FINANCIAL STATEMENTS

	Page in Annual Report(1)		
	Sempra Energy	San Diego Gas & Electric Company	Southern California Gas Company
Management's Report On Internal Control Over Financial Reporting	84	84	84
Reports of Independent Registered Public Accounting Firm	86	88	90
Consolidated Statements of Operations for the years ended December 31, 2013, 2012 and 2011	92	100	107
Consolidated Statements of Comprehensive Income for the years ended December 31, 2013, 2012 and 2011	93	101	108
Consolidated Balance Sheets at December 31, 2013 and 2012	94	102	109
Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011	96	104	111
Consolidated Statements of Changes in Equity for the years ended December 31, 2013, 2012 and 2011	98	106	N/A
Consolidated Statement of Changes in Shareholders' Equity for the years ended December 31, 2013, 2012 and 2011	N/A	N/A	112
Notes to Consolidated Financial Statements	113	113	113

(1) Incorporated by reference from the indicated pages of the 2013 Annual Report to Shareholders, filed as Exhibit 13.1.

2. FINANCIAL STATEMENT SCHEDULES

Sempra Energy

Schedule I--Sempra Energy Condensed Financial Information of Parent may be found on page 46 of this report.

Any other schedule for which provision is made in Regulation S-X is not required under the instructions contained therein, is inapplicable or the information is included in the Consolidated Financial Statements and Notes thereto in the Annual Report.

3. EXHIBITS

See Exhibit Index on page 54 of this report.

CONSENTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM AND REPORT ON SCHEDULE

SEMPRA ENERGY

To the Board of Directors and Shareholders of Sempra Energy:

We consent to the incorporation by reference in Registration Statement No. 333-176855 on Form S-3 and 333-188526, 333-182225, 333-56161, 333-50806, 333-49732, 333-121073, 333-128441, 333-151184, 333-155191, 333-129774 and 333-157567 on Form S-8 of our reports dated February 27, 2014, relating to the consolidated financial statements of Sempra Energy and subsidiaries (the "Company"), and the effectiveness of the Company's internal control over financial reporting, incorporated by reference in this Annual Report on Form 10-K of Sempra Energy for the year ended December 31, 2013.

Our audits of the financial statements referred to in our aforementioned report relating to the consolidated financial statements also included the financial statement schedule of the Company, listed in Item 15. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ **DELOITTE & TOUCHE LLP**

February 27, 2014

SAN DIEGO GAS & ELECTRIC COMPANY

To the Board of Directors and Shareholder of San Diego Gas & Electric Company:

We consent to the incorporation by reference in Registration Statement No. 333-181639 on Form S-3 of our reports dated February 27, 2014, relating to the consolidated financial statements of San Diego Gas & Electric Company (the "Company"), and the effectiveness of the Company's internal control over financial reporting, incorporated by reference in this Annual Report on Form 10-K of San Diego Gas & Electric Company for the year ended December 31, 2013.

/s/ **DELOITTE & TOUCHE LLP**

San Diego, California

February 27, 2014

SOUTHERN CALIFORNIA GAS COMPANY

To the Board of Directors and Shareholders of Southern California Gas Company:

We consent to the incorporation by reference in Registration Statement No. 333-182557 on Form S-3 of our reports dated February 27, 2014, relating to the consolidated financial statements of Southern California Gas Company and subsidiaries (the "Company"), and the effectiveness of the Company's internal control over financial reporting, incorporated by reference in this Annual Report on Form 10-K of Southern California Gas Company for the year ended December 31, 2013.

/s/ **DELOITTE & TOUCHE LLP**

San Diego, California

February 27, 2014

SCHEDULE I – SEMPRA ENERGY CONDENSED FINANCIAL INFORMATION OF PARENT

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

	Years ended December 31,		
	2013	2012	2011
Interest income	\$ 42	\$ 83	\$ 109
Interest expense	(239)	(247)	(242)
Operation and maintenance	(63)	(68)	(64)
Other income, net	41	66	42
Income tax benefits	117	145	82
Loss before equity in earnings of subsidiaries	(102)	(21)	(73)
Equity in earnings of subsidiaries, net of income taxes	1,103	880	1,404
Net income/earnings	\$ 1,001	\$ 859	\$ 1,331
Basic earnings per common share	\$ 4.10	\$ 3.56	\$ 5.55
Weighted-average number of shares outstanding (thousands)	243,863	241,347	239,720
Diluted earnings per common share	\$ 4.01	\$ 3.48	\$ 5.51
Weighted-average number of shares outstanding (thousands)	249,332	246,693	241,523

See Notes to Condensed Financial Information of Parent.

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

Years ended December 31, 2013, 2012 and 2011

	Pretax Amount	Income Tax (Expense) Benefit	Net-of-tax Amount
2013:			
Net income	\$ 884	\$ 117	\$ 1,001
Other comprehensive income:			
Foreign currency translation adjustments	111	—	111
Pension and other postretirement benefits	47	(19)	28
Financial instruments	13	(4)	9
Total other comprehensive income	171	(23)	148
Comprehensive income	\$ 1,055	\$ 94	\$ 1,149
2012:			
Net income	\$ 714	\$ 145	\$ 859
Other comprehensive income (loss):			
Foreign currency translation adjustments	119	—	119
Pension and other postretirement benefits	(4)	2	(2)
Financial instruments	(6)	2	(4)
Total other comprehensive income	109	4	113
Comprehensive income	\$ 823	\$ 149	\$ 972
2011:			
Net income	\$ 1,249	\$ 82	\$ 1,331
Other comprehensive loss:			
Foreign currency translation adjustments	(79)	3	(76)
Reclassification to net income of foreign currency translation adjustment related to remeasurement of equity method investments	(54)	—	(54)
Available-for-sale securities	(2)	1	(1)
Pension and other postretirement benefits	(20)	8	(12)
Financial instruments	(26)	10	(16)
Total other comprehensive loss	(181)	22	(159)
Comprehensive income	\$ 1,068	\$ 104	\$ 1,172

See Notes to Condensed Financial Information of Parent.

**SEMPRA ENERGY
CONDENSED BALANCE SHEETS**

(Dollars in millions)

	December 31, 2013	December 31, 2012
Assets:		
Cash and cash equivalents	\$ 6	\$ 18
Due from affiliates	132	125
Deferred income taxes	170	109
Other current assets	16	16
Total current assets	324	268
Investments in subsidiaries	13,866	12,545
Due from affiliates	802	1,759
Deferred income taxes	1,466	1,541
Other assets	555	576
Total assets	\$ 17,013	\$ 16,689
Liabilities and shareholders' equity:		
Current portion of long-term debt	\$ 800	\$ 652
Due to affiliates	273	539
Income taxes payable	64	26
Other current liabilities	276	260
Total current liabilities	1,413	1,477
Long-term debt	4,117	4,409
Other long-term liabilities	475	521
Shareholders' equity	11,008	10,282
Total liabilities and shareholders' equity	\$ 17,013	\$ 16,689

See Notes to Condensed Financial Information of Parent.

**SEMPRA ENERGY
CONDENSED STATEMENTS OF CASH FLOWS**

(Dollars in millions)

	Years ended December 31,		
	2013	2012	2011
Net cash used in operating activities	\$ (131)	\$ (809)	\$ (287)
Dividends received from subsidiary	50	250	50
Expenditures for property, plant and equipment	(1)	(1)	(2)
Purchase of trust assets	(5)	(6)	(7)
Proceeds from sales by trust	10	10	12
Capital contribution to subsidiaries	(6)	—	(200)
Decrease (increase) in loans to affiliates, net	962	(33)	82
Cash provided by (used in) investing activities	1,010	220	(65)
Common stock dividends paid	(606)	(550)	(440)
Issuances of common stock	62	78	28
Repurchases of common stock	(45)	(16)	(18)
Issuances of long-term debt	498	1,100	799
Payments on long-term debt	(650)	(8)	(24)

Decrease in loans from affiliates, net	(147)	—	(136)
Other	(3)	(8)	(3)
Cash (used in) provided by financing activities	(891)	596	206
(Decrease) increase in cash and cash equivalents	(12)	7	(146)
Cash and cash equivalents, January 1	18	11	157
Cash and cash equivalents, December 31	\$ 6	\$ 18	\$ 11

See Notes to Condensed Financial Information of Parent.

SEMPRA ENERGY

NOTES TO CONDENSED FINANCIAL INFORMATION OF PARENT

Note 1. Basis of Presentation

Sempra Energy accounts for the earnings of its subsidiaries under the equity method in this unconsolidated financial information.

Other Income, Net, on the Condensed Statements of Operations includes \$39 million, \$41 million and \$22 million of gains on dedicated assets in support of our executive retirement and deferred compensation plans in 2013, 2012 and 2011, respectively.

Because of its nature as a holding company, Sempra Energy classifies dividends received from subsidiaries as an investing cash flow.

Note 2. Long-Term Debt

(Dollars in millions)	December 31, 2013	December 31, 2012
6% Notes February 1, 2013	\$ —	\$ 400
8.9% Notes November 15, 2013, including \$200 at variable rates after fixed-to-floating rate swaps effective January 2011	—	250
2% Notes March 15, 2014	500	500
Notes at variable rates (1.01% at December 31, 2013) March 15, 2014	300	300
6.5% Notes June 1, 2016, including \$300 at variable rates after fixed-to-floating rate swaps effective January 2011 (4.46% at December 31, 2013)	750	750
2.3% Notes April 1, 2017	600	600
6.15% Notes June 15, 2018	500	500
9.8% Notes February 15, 2019	500	500
2.875% Notes October 1, 2022	500	500
4.05% Notes December 1, 2023	500	—
6% Notes October 15, 2039	750	750
Market value adjustments for interest rate swaps, net (expire November 2013 and June 2016)	12	19
Build-to-suit lease	14	—
	4,926	5,069
Current portion of long-term debt	(800)	(652)
Unamortized discount on long-term debt	(9)	(8)
Total long-term debt	\$ 4,117	\$ 4,409

Maturities of long-term debt are \$800 million in 2014, \$750 million in 2016, \$600 million in 2017, \$500 million in 2018 and \$2.3 billion thereafter.

Additional information on Sempra Energy's long-term debt is provided in Note 5 of the Notes to Consolidated Financial Statements in the Annual Report.

Note 3. Commitments and Contingencies

For contingencies and guarantees related to Sempra Energy, refer to Notes 5 and 15 of the Notes to Consolidated Financial Statements in the Annual Report.

Sempra Energy:

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SEMPRA ENERGY,
(Registrant)

By: /s/ Debra L. Reed
Debra L. Reed
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Name/Title	Signature	Date
Principal Executive Officer:		
Debra L. Reed Chief Executive Officer	<u>/s/ Debra L. Reed</u>	February 27, 2014
Principal Financial Officer:		
Joseph A. Householder Executive Vice President and Chief Financial Officer	<u>/s/ Joseph A. Householder</u>	February 27, 2014
Principal Accounting Officer:		
Trevor I. Mihalik Senior Vice President, Controller and Chief Accounting Officer	<u>/s/ Trevor I. Mihalik</u>	February 27, 2014
Directors:		
Debra L. Reed, Chairman	<u>/s/ Debra L. Reed</u>	February 27, 2014
Alan L. Boeckmann, Director	<u>/s/ Alan L. Boeckmann</u>	February 27, 2014
James G. Brocksmith, Jr., Director	<u>/s/ James G. Brocksmith, Jr.</u>	February 27, 2014
Kathleen L. Brown, Director	<u>/s/ Kathleen L. Brown</u>	February 27, 2014
Pablo A. Ferrero, Director	<u>/s/ Pablo A. Ferrero</u>	February 27, 2014
William D. Jones, Director	<u>/s/ William D. Jones</u>	February 27, 2014
William G. Ouchi, Ph.D., Director	<u>/s/ William G. Ouchi</u>	February 27, 2014
William C. Rusnack, Director	<u>/s/ William C. Rusnack</u>	February 27, 2014
William P. Rutledge, Director	<u>/s/ William P. Rutledge</u>	February 27, 2014
Lynn Schenk, Director	<u>/s/ Lynn Schenk</u>	February 27, 2014
Jack T. Taylor, Director	<u>/s/ Jack T. Taylor</u>	February 27, 2014
Luis M. Téllez, Ph.D., Director	<u>/s/ Luis M. Téllez</u>	February 27, 2014
James C. Yardley, Director	<u>/s/ James C. Yardley</u>	February 27, 2014

San Diego Gas & Electric Company:**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SAN DIEGO GAS & ELECTRIC COMPANY,
(Registrant)

By: /s/ Jeffrey W. Martin

Jeffrey W. Martin
Chief Executive Officer

Date: February 27, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Name/Title	Signature	Date
Principal Executive Officer:		
Jeffrey W. Martin Chief Executive Officer	<u>/s/ Jeffrey W. Martin</u>	February 27, 2014

Principal Financial and Accounting Officer:

Robert M. Schlax

Vice President, Controller, Chief Financial Officer and Chief

Accounting Officer

/s/ Robert M. Schlax

February 27, 2014

Directors:

Jessie J. Knight, Jr., Chairman

/s/ Jessie J. Knight, Jr.

February 27, 2014

Steven D. Davis, Director

/s/ Steven D. Davis

February 27, 2014

Joseph A. Householder, Director

/s/ Joseph A. Householder

February 27, 2014

Jeffrey W. Martin, Director

/s/ Jeffrey W. Martin

February 27, 2014

Southern California Gas Company:**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SOUTHERN CALIFORNIA GAS COMPANY,
(Registrant)

By: /s/ Anne S. Smith

Anne S. Smith

Chairman and Chief Executive Officer

Date: February 27, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Name/Title	Signature	Date
Principal Executive Officer: Anne S. Smith Chief Executive Officer	<u>/s/ Anne S. Smith</u>	February 27, 2014
Principal Financial and Accounting Officer: Robert M. Schlax Vice President, Controller, Chief Financial Officer and Chief Accounting Officer	<u>/s/ Robert M. Schlax</u>	February 27, 2014
Directors: Anne S. Smith, Chairman	<u>/s/ Anne S. Smith</u>	February 27, 2014
Dennis V. Arriola, Director	<u>/s/ Dennis V. Arriola</u>	February 27, 2014
Joseph A. Householder, Director	<u>/s/ Joseph A. Householder</u>	February 27, 2014
Martha B. Wyrsh, Director	<u>/s/ Martha B. Wyrsh</u>	February 27, 2014

EXHIBIT INDEX

The exhibits filed under the Registration Statements, Proxy Statements and Forms 8-K, 10-K and 10-Q that are incorporated herein by reference were filed under Commission File Number 1-14201 (Sempra Energy), Commission File Number 1-40 (Pacific Lighting Corporation), Commission File Number 1-03779 (San Diego Gas & Electric Company) and/or Commission File Number 1-01402 (Southern California Gas Company).

The following exhibits relate to each registrant as indicated.

EXHIBIT 3 -- BYLAWS AND ARTICLES OF INCORPORATION

Sempra Energy

- 3.1 Amended and Restated Articles of Incorporation of Sempra Energy effective May 23, 2008 (Appendix B to the 2008 Sempra Energy Definitive Proxy Statement, filed on April 15, 2008).
- 3.2 Amended and Restated Bylaws of Sempra Energy effective September 13, 2012 (Sempra Energy Form 8-K filed on September 18, 2012, Exhibit 3(ii)).

San Diego Gas & Electric Company

- 3.3 Amended and Restated Bylaws of San Diego Gas & Electric effective June 15, 2010 (Form 8-K filed on June 17, 2010, Exhibit 3).
- 3.4 Restated Articles of Incorporation of San Diego Gas & Electric Company as amended effective November 13, 2006 (2006 SDG&E Form 10-K, Exhibit 3.02).

Southern California Gas Company

- 3.5 Amended and Restated Bylaws of Southern California Gas Company effective June 14, 2010 (Form 8-K filed on June 17, 2010, Exhibit 3.1).
- 3.6 Restated Articles of Incorporation of Southern California Gas Company effective October 7, 1996 (1996 SoCalGas Form 10-K, Exhibit 3.01).

EXHIBIT 4 -- INSTRUMENTS DEFINING THE RIGHTS OF SECURITY HOLDERS, INCLUDING INDENTURES

The companies agree to furnish a copy of each such instrument to the Commission upon request.

Sempra Energy

- 4.1 Description of rights of Sempra Energy Common Stock (Amended and Restated Articles of Incorporation of Sempra Energy effective May 23, 2008, Exhibit 3.1 above).
- 4.2 Indenture dated as of February 23, 2000, between Sempra Energy and U.S. Bank Trust National Association, as Trustee (Sempra Energy Registration Statement on Form S-3 (No. 333-153425), filed on September 11, 2008, Exhibit 4.1).

Southern California Gas Company

- 4.3 Description of preferences of Preferred Stock, Preference Stock and Series Preferred Stock (Southern California Gas Company Restated Articles of Incorporation, Exhibit 3.6 above).

Sempra Energy / San Diego Gas & Electric Company

- 4.4 Mortgage and Deed of Trust dated July 1, 1940 (SDG&E Registration Statement No. 2-4769, Exhibit B-3).
- 4.5 Second Supplemental Indenture dated as of March 1, 1948 (SDG&E Registration Statement No. 2-7418, Exhibit B-5B).
- 4.6 Ninth Supplemental Indenture dated as of August 1, 1968 (SDG&E Registration Statement No. 333-52150, Exhibit 4.5).
- 4.7 Tenth Supplemental Indenture dated as of December 1, 1968 (SDG&E Registration Statement No. 2-36042, Exhibit 2-K).
- 4.8 Sixteenth Supplemental Indenture dated August 28, 1975 (SDG&E Registration Statement No. 33-34017, Exhibit 4.2).

Sempra Energy / Southern California Gas Company

- 4.9 First Mortgage Indenture of Southern California Gas Company to American Trust Company dated October 1, 1940 (Registration Statement No. 2-4504 filed by Southern California Gas Company on September 16, 1940, Exhibit B-4).
- 4.10 Supplemental Indenture of Southern California Gas Company to American Trust Company dated as of August 1, 1955 (Registration Statement No. 2-11997 filed by Pacific Lighting Corporation on October 26, 1955, Exhibit 4.07).
- 4.11 Supplemental Indenture of Southern California Gas Company to American Trust Company dated as of December 1, 1956 (2006 Sempra Energy Form 10-K, Exhibit 4.09).
- 4.12 Supplemental Indenture of Southern California Gas Company to Wells Fargo Bank dated as of June 1, 1965 (2006 Sempra Energy Form 10-K, Exhibit 4.10).
- 4.13 Supplemental Indenture of Southern California Gas Company to Wells Fargo Bank, National Association dated as of August 1, 1972 (Registration Statement No. 2-59832 filed by Southern California Gas Company on September 6, 1977, Exhibit 2.19).
- 4.14 Supplemental Indenture of Southern California Gas Company to Wells Fargo Bank, National Association dated as of May 1, 1976 (Registration Statement No. 2-56034 filed by Southern California Gas Company on April 14, 1976, Exhibit 2.20).
- 4.15 Supplemental Indenture of Southern California Gas Company to Wells Fargo Bank, National Association dated as of September 15, 1981 (Registration Statement No. 333-70654, Exhibit 4.24).

EXHIBIT 10 -- MATERIAL CONTRACTS

Sempra Energy / San Diego Gas & Electric Company / Southern California Gas Company

- 10.1 Form of Continental Forge and California Class Action Price Reporting Settlement Agreement dated as of January 4, 2006 (Form 8-K filed on January 5, 2006, Exhibit 99.1).

10.2 Form of Nevada Antitrust Settlement Agreement dated as of January 4, 2006 (Form 8-K filed on January 5, 2006, Exhibit 99.2).

Sempra Energy

- 10.3 Indemnity Agreement, dated as of April 1, 2008, between Sempra Energy, Pacific Enterprises, Enova Corporation and The Royal Bank of Scotland plc (Sempra Energy March 31, 2008 Form 10-Q, Exhibit 10.2).
- 10.4 First Amendment to Indemnity Agreement, dated as of March 30, 2009, by and among Sempra Energy, Pacific Enterprises, Enova Corporation and The Royal Bank of Scotland plc (Sempra Energy March 31, 2009 Form 10-Q, Exhibit 10.3).
- 10.5 Second Amendment to Indemnity Agreement, dated as of June 30, 2009, by and among Sempra Energy, Pacific Enterprises, Enova Corporation and The Royal Bank of Scotland plc (Sempra Energy June 30, 2009 Form 10-Q, Exhibit 10.1).
- 10.6 Third Amendment to Indemnity Agreement, dated as of December 3, 2009, by and among Sempra Energy, Pacific Enterprises, Enova Corporation and The Royal Bank of Scotland plc (2009 Sempra Energy Form 10-K, Exhibit 10.06).
- 10.7 Fourth Amendment to Indemnity Agreement, dated as of April 15, 2011, by and among The Royal Bank of Scotland plc, Sempra Energy, Pacific Enterprises and Enova Corporation (Sempra Energy Form 8-K filed on April 21, 2011, Exhibit 10.2).
- 10.8 Letter Agreement, dated as of April 15, 2011, by and among The Royal Bank of Scotland plc, Sempra Energy, Sempra Commodities, Inc. and Sempra Energy Holdings VII B.V. (Sempra Energy Form 8-K/A filed on April 21, 2011, Exhibit 10.1).
- 10.9 Purchase and Sale Agreement, dated as of February 16, 2010, entered into by and among J.P. Morgan Ventures Energy Corporation, Sempra Energy Trading LLC, RBS Sempra Commodities LLP, Sempra Energy and The Royal Bank of Scotland plc (Sempra Energy Form 8-K filed on February 19, 2010, Exhibit 10.1).
- 10.10 First Amendment to Purchase and Sale Agreement, dated as of June 30, 2010, entered into by and among J.P. Morgan Ventures Energy Corporation, Sempra Energy Trading LLC, RBS Sempra Commodities LLP, Sempra Energy and The Royal Bank of Scotland plc (Sempra Energy June 30, 2010 Form 10-Q, Exhibit 10.1).
- 10.11 Letter Agreement, dated as of February 16, 2010, entered into by and between Sempra Energy and The Royal Bank of Scotland plc (Sempra Energy Form 8-K filed on February 19, 2010, Exhibit 10.2).
- 10.12 Limited Liability Partnership Agreement, dated as of April 1, 2008, between Sempra Energy, Sempra Commodities, Inc., Sempra Energy Holdings, VII B.V., RBS Sempra Commodities LLP and The Royal Bank of Scotland plc (Sempra Energy March 31, 2008 Form 10-Q, Exhibit 10.1).
- 10.13 First Amendment to Limited Liability Partnership Agreement, dated as of April 6, 2009 and effective as of November 14, 2008, by and among The Royal Bank of Scotland plc, Sempra Energy, Sempra Commodities, Inc., Sempra Energy Holdings VII B.V. and RBS Sempra Commodities LLP (Sempra Energy March 31, 2009 Form 10-Q, Exhibit 10.4).
- 10.14 Second Amendment to Limited Liability Partnership Agreement, dated December 23, 2009, by and among The Royal Bank of Scotland plc, Sempra Energy, Sempra Commodities, Inc., Sempra Energy Holdings VII B.V. and RBS Sempra Commodities LLP (2009 Sempra Energy Form 10-K, Exhibit 10.11).
- 10.15 Master Formation and Equity Interest Purchase Agreement, dated as of July 9, 2007, by and among Sempra Energy, Sempra Global, Sempra Energy Trading International, B.V. and The Royal Bank of Scotland plc (Sempra Energy Form 8-K filed on July 9, 2007, Exhibit 10.2).
- 10.16 First amendment to the Master Formation and Equity Interest Purchase Agreement, dated as of April 1, 2008, by and among Sempra Energy, Sempra Global, Sempra Energy Trading International, B.V. and The Royal Bank of Scotland plc (Sempra Energy March 31, 2008 Form 10-Q, Exhibit 10.3).

Sempra Energy / San Diego Gas & Electric Company

- 10.17 Amended and Restated Operating Order between San Diego Gas & Electric Company and the California Department of Water Resources effective March 10, 2011 (Sempra Energy March 31, 2011 Form 10-Q, Exhibit 10.4).
- 10.18 Amended and Restated Servicing Order between San Diego Gas & Electric Company and the California Department of Water Resources effective March 10, 2011 (Sempra Energy March 31, 2011 Form 10-Q, Exhibit 10.5).

Compensation

Sempra Energy / San Diego Gas & Electric Company / Southern California Gas Company

- 10.19 Form of Sempra Energy Shared Services Executive Incentive Compensation Plan.
- 10.20 Form of Sempra Energy 2013 Long-Term Incentive Plan 2013 Performance-Based Restricted Stock Unit Award (Sempra Energy September 30, 2013 Form 10-Q, Exhibit 10.1).
- 10.21 Sempra Energy 2013 Long-Term Incentive Plan (March 21, 2013 Sempra Energy Proxy Statement, Appendix D).
- 10.22 Third Amendment to the Sempra Energy Employee and Director Retirement Savings Plan (2012 Sempra Energy Form 10-K, Exhibit 10.21).
- 10.23 Sempra Energy Amended and Restated Executive Life Insurance Plan (2012 Sempra Energy Form 10-K, Exhibit 10.22).
- 10.24 Severance Pay Agreement between Sempra Energy and Dennis Arriola (September 30, 2012 Sempra Energy Form 10-Q, Exhibit 10.1).

- 10.25 Second Amendment to the Sempra Energy Employee and Director Retirement Savings Plan (June 30, 2012 Sempra Energy Form 10-Q, Exhibit 10.1).
- 10.26 General Release Agreement between Sempra Energy and Michael W. Allman (June 30, 2012 Sempra Energy Form 10-Q, Exhibit 10.2).
- 10.27 Severance Pay Agreement between Sempra Energy and Trevor Mihalik (June 30, 2012 Sempra Energy Form 10-Q, Exhibit 10.3).
- 10.28 Severance Pay Agreement between Sempra Energy and Anne S. Smith (June 30, 2012 Sempra Energy Form 10-Q, Exhibit 10.4).
- 10.29 Form of Sempra Energy 2008 Long Term Incentive Plan 2012 Performance-Based Restricted Stock Unit Award (March 31, 2012 Sempra Energy Form 10-Q, Exhibit 10.1).
- 10.30 First Amendment to the Sempra Energy Employee and Director Savings Plan (2011 Sempra Energy Form 10-K, Exhibit 10.22).
- 10.31 Severance Pay Agreement between Sempra Energy and M. Javade Chaudhri (2011 Sempra Energy Form 10-K, Exhibit 10.23).
- 10.32 Severance Pay Agreement between Sempra Energy and Jessie J. Knight, Jr. (2011 Sempra Energy Form 10-K, Exhibit 10.24).
- 10.33 Severance Pay Agreement between Sempra Energy and Michael W. Allman (2011 Sempra Energy Form 10-K, Exhibit 10.25).
- 10.34 Severance Pay Agreement between Sempra Energy and G. Joyce Rowland (2011 Sempra Energy Form 10-K, Exhibit 10.26).
- 10.35 Amended and Restated Sempra Energy Severance Pay Agreement between Sempra Energy and Debra L. Reed (Sempra Energy Form 8-K filed on July 1, 2011, Exhibit 10.1).
- 10.36 Amendment to Severance Pay Agreement between Sempra Energy and Mark A. Snell (Sempra Energy Form 8-K filed on September 15, 2011, Exhibit 10.1).
- 10.37 Severance Pay Agreement between Sempra Energy and Joseph A. Householder (Sempra Energy Form 8-K filed on September 15, 2011, Exhibit 10.2).
- 10.38 Amendment to the Amendment and Restatement of the Sempra Energy 2005 Deferred Compensation Plan (2010 Sempra Energy Form 10-K, Exhibit 10.20).
- 10.39 Form of Sempra Energy 2008 Long Term Incentive Plan, 2011 Performance-Based Restricted Stock Unit Award. (Sempra Energy March 31, 2011 Form 10-Q, Exhibit 10.2).
- 10.40 Form of Sempra Energy 2008 Long Term Incentive Plan, 2010 Performance-Based Restricted Stock Unit Award (Sempra Energy March 31, 2010 Form 10-Q, Exhibit 10.1).
- 10.41 Form of Sempra Energy 2008 Long Term Incentive Plan, 2009 Nonqualified Stock Option Agreement (March 31, 2009 Sempra Energy Form 10-Q, Exhibit 10.2).
- 10.42 Sempra Energy 2008 Long Term Incentive Plan (Appendix A to the 2008 Sempra Energy Definitive Proxy Statement, filed on April 15, 2008).
- 10.43 Form of Indemnification Agreement with Directors and Executive Officers (June 30, 2008 Sempra Energy Form 10-Q, Exhibit 10.2).
- 10.44 Form of Sempra Energy 2008 Long Term Incentive Plan, 2008 Nonqualified Stock Option Agreement (June 30, 2008 Sempra Energy Form 10-Q, Exhibit 10.4).
- 10.45 Amendment and Restatement of the Sempra Energy Cash Balance Restoration Plan (2008 Sempra Energy Form 10-K, Exhibit 10.16).
- 10.46 Amendment and Restatement of the Sempra Energy 2005 Deferred Compensation Plan (2008 Sempra Energy Form 10-K, Exhibit 10.18).
- 10.47 Amendment and Restatement of the Sempra Energy Supplemental Executive Retirement Plan (2008 Sempra Energy Form 10-K, Exhibit 10.19).
- 10.48 Sempra Energy Executive Personal Financial Planning Program Policy Document (September 30, 2004 Sempra Energy Form 10-Q, Exhibit 10.11).
- 10.49 2003 Sempra Energy Executive Incentive Plan B (2003 Sempra Energy Form 10-K, Exhibit 10.10).
- 10.50 Sempra Energy Executive Incentive Plan effective January 1, 2003 (2002 Sempra Energy Form 10-K, Exhibit 10.09).
- 10.51 Amended and Restated Sempra Energy Deferred Compensation and Excess Savings Plan (September 30, 2002 Sempra Energy Form 10-Q, Exhibit 10.3).
- 10.52 Sempra Energy Employee Stock Ownership Plan and Trust Agreement effective January 1, 2001 (September 30, 2008 Sempra Energy Form 10-Q, Exhibit 10.1).
- 10.53 Amendment to the Amended and Restated Sempra Energy Deferred Compensation and Excess Savings Plan (2008 Sempra Energy Form 10-K, Exhibit 10.25).
- 10.54 Sempra Energy Amended and Restated Executive Medical Plan (2008 Sempra Energy Form 10-K, Exhibit 10.26).
- 10.55 Form of Sempra Energy 1998 Long Term Incentive Plan, 2008 Non-Qualified Stock Option Agreement (2007 Sempra Energy Form 10-K, Exhibit 10.10).

10.56 Amended and Restated Sempra Energy 1998 Long-Term Incentive Plan (June 30, 2003 Sempra Energy Form 10-Q, Exhibit 10.2).

Sempra Energy

10.57 Severance Pay Agreement between Sempra Energy and Martha B. Wyrsh, dated September 3, 2013.

10.58 Form of Sempra Energy 2008 Long Term Incentive Plan, 2010 Restricted Stock Unit Award for Sempra Energy's Board of Directors (Sempra Energy June 30, 2010 Form 10-Q, Exhibit 10.2).

10.59 Sempra Energy 2008 Long Term Incentive Plan for EnergySouth, Inc. Employees and Other Eligible Individuals (Registration Statement on Form S-8 Sempra Energy Registration Statement No. 333-155191 dated November 7, 2008, Exhibit 10.1).

10.60 Form of Sempra Energy 2008 Non-Employee Directors' Stock Plan, Nonqualified Stock Option Agreement (June 30, 2008 Sempra Energy Form 10-Q, Exhibit 10.5).

10.61 Sempra Energy Amended and Restated Sempra Energy Retirement Plan for Directors (June 30, 2008 Sempra Energy Form 10-Q, Exhibit 10.7).

10.62 Form of Sempra Energy 1998 Non-Employee Directors' Stock Plan Non-Qualified Stock Option Agreement (2006 Sempra Energy Form 10-K, Exhibit 10.09).

10.63 Sempra Energy 1998 Non-Employee Directors' Stock Plan (Registration Statement on Form S-8 Sempra Energy Registration Statement No. 333-56161 dated June 5, 1998, Exhibit 4.2).

Sempra Energy / San Diego Gas & Electric Company

10.64 Form of Sempra Energy and San Diego Gas & Electric Company Executive Incentive Compensation Plan.

10.65 Severance Pay Agreement between Sempra Energy and Jeffrey W. Martin, dated April 3, 2010.

10.66 Severance Pay Agreement between Sempra Energy and Robert M. Schlax, dated January 17, 2014.

10.67 Severance Pay Agreement between Sempra Energy and Michael R. Niggli, dated February 18, 2013 (Sempra Energy March 31, 2013 Form 10-Q, Exhibit 10.1).

10.68 Severance Pay Agreement between Sempra Energy and James P. Avery, dated February 18, 2013 (Sempra Energy March 31, 2013 Form 10-Q, Exhibit 10.2).

10.69 Severance Pay Agreement between Sempra Energy and Lee Schavrien, dated February 18, 2013 (Sempra Energy March 31, 2013 Form 10-Q, Exhibit 10.3).

10.70 Severance Pay Agreement between Sempra Energy and Woodrow D. Smith, dated February 18, 2013 (Sempra Energy March 31, 2013 Form 10-Q, Exhibit 10.4).

Sempra Energy / Southern California Gas Company

10.71 Form of Sempra Energy and Southern California Gas Company Executive Incentive Compensation Plan.

10.72 Severance Pay Agreement between Sempra Energy and J. Bret Lane, dated August 4, 2012.

10.73 Severance Pay Agreement between Sempra Energy and Erbin Keith, dated February 18, 2013 (Sempra Energy March 31, 2013 Form 10-Q, Exhibit 10.5).

Nuclear

Sempra Energy / San Diego Gas & Electric Company

10.74 Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station, approved November 25, 1987 (1992 SDG&E Form 10-K, Exhibit 10.7).

10.75 Amendment No. 1 to the Qualified CPUC Decommissioning Master Trust Agreement dated September 22, 1994 (see Exhibit 10.74 above)(1994 SDG&E Form 10-K, Exhibit 10.56).

10.76 Second Amendment to the San Diego Gas & Electric Company Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station (see Exhibit 10.74 above)(1994 SDG&E Form 10-K, Exhibit 10.57).

10.77 Third Amendment to the San Diego Gas & Electric Company Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station (see Exhibit 10.74 above)(1996 SDG&E Form 10-K, Exhibit 10.59).

10.78 Fourth Amendment to the San Diego Gas & Electric Company Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station (see Exhibit 10.74 above)(1996 SDG&E Form 10-K, Exhibit 10.60).

10.79 Fifth Amendment to the San Diego Gas & Electric Company Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station (see Exhibit 10.74 above)(1999 SDG&E Form 10-K, Exhibit 10.26).

10.80 Sixth Amendment to the San Diego Gas & Electric Company Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station (see Exhibit 10.74 above)(1999 SDG&E Form 10-K, Exhibit 10.27).

10.81 Seventh Amendment to the San Diego Gas & Electric Company Nuclear Facilities Qualified CPUC Decommissioning Master Trust

Agreement for San Onofre Nuclear Generating Station dated December 24, 2003 (see Exhibit 10.74 above)(2003 Sempra Energy Form 10-K, Exhibit 10.42).

- 10.82 Eighth Amendment to the San Diego Gas & Electric Company Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station dated October 12, 2011 (see Exhibit 10.74 above)(2011 SDG&E Form 10-K, Exhibit 10.70).
- 10.83 Ninth Amendment to the San Diego Gas & Electric Company Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station dated January 9, 2014 (see Exhibit 10.74 above).
- 10.84 Nuclear Facilities Non-Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station, approved November 25, 1987 (1992 SDG&E Form 10-K, Exhibit 10.8).
- 10.85 First Amendment to the San Diego Gas & Electric Company Nuclear Facilities Non-Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station (see Exhibit 10.84 above)(1996 SDG&E Form 10-K, Exhibit 10.62).
- 10.86 Second Amendment to the San Diego Gas & Electric Company Nuclear Facilities Non-Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station (see Exhibit 10.84 above)(1996 SDG&E Form 10-K, Exhibit 10.63).
- 10.87 Third Amendment to the San Diego Gas & Electric Company Nuclear Facilities Non-Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station (see Exhibit 10.84 above)(1999 SDG&E Form 10-K, Exhibit 10.31).
- 10.88 Fourth Amendment to the San Diego Gas & Electric Company Nuclear Facilities Non-Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station (see Exhibit 10.84 above)(1999 SDG&E Form 10-K, Exhibit 10.32).
- 10.89 Fifth Amendment to the San Diego Gas & Electric Company Nuclear Facilities Non-Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station dated December 24, 2003 (see Exhibit 10.84 above)(2003 Sempra Energy Form 10-K, Exhibit 10.48).
- 10.90 Sixth Amendment to the San Diego Gas & Electric Company Nuclear Facilities Non-Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station dated October 12, 2011 (see Exhibit 10.84 above)(2011 SDG&E Form 10-K, Exhibit 10.77).
- 10.91 Seventh Amendment to the San Diego Gas & Electric Company Nuclear Facilities Non-Qualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station dated January 9, 2014 (see Exhibit 10.84 above).
- 10.92 Second Amended San Onofre Operating Agreement among Southern California Edison Company, SDG&E, the City of Anaheim and the City of Riverside, dated February 26, 1987 (1990 SDG&E Form 10-K, Exhibit 10.6).
- 10.93 U. S. Department of Energy contract for disposal of spent nuclear fuel and/or high-level radioactive waste, entered into between the DOE and Southern California Edison Company, as agent for SDG&E and others; Contract DE-CR01-83NE44418, dated June 10, 1983 (1988 SDG&E Form 10-K, Exhibit 10N).
- 10.94 San Onofre Unit No. 1 Decommissioning Agreement between Southern California Edison Company and San Diego Gas & Electric Company dated March 23, 2000 (2009 Sempra Energy Form 10-K, Exhibit 10.62).
- 10.95 First Amendment to the San Onofre Unit No. 1 Decommissioning Agreement between Southern California Edison Company and San Diego Gas & Electric Company dated January 22, 2010 (2009 Sempra Energy Form 10-K, Exhibit 10.63).

EXHIBIT 12 -- STATEMENTS RE: COMPUTATION OF RATIOS

Sempra Energy

- 12.1 Sempra Energy Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends for the years ended December 31, 2013, 2012, 2011, 2010 and 2009.

San Diego Gas & Electric Company

- 12.2 San Diego Gas & Electric Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends for the years ended December 31, 2013, 2012, 2011, 2010 and 2009.

Southern California Gas Company

- 12.3 Southern California Gas Company Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends for the years ended December 31, 2013, 2012, 2011, 2010 and 2009.

EXHIBIT 13 -- ANNUAL REPORT TO SECURITY HOLDERS

Sempra Energy / San Diego Gas & Electric Company / Southern California Gas Company

- 13.1 Sempra Energy 2013 Annual Report to Shareholders. (Such report, except for the portions thereof which are expressly incorporated by reference in this Annual Report, is furnished for the information of the Securities and Exchange Commission and is not to be deemed "filed" as part of this Annual Report).

EXHIBIT 14 -- CODE OF ETHICS

San Diego Gas & Electric Company / Southern California Gas Company

- 14.1 Sempra Energy Code of Business Conduct and Ethics for Board of Directors and Senior Officers (also applies to directors and officers of San Diego Gas & Electric Company and Southern California Gas Company) (2006 SDG&E and SoCalGas Forms 10-K, Exhibit 14.01).

EXHIBIT 21 -- SUBSIDIARIES

Sempra Energy

EXHIBIT 23 -- CONSENTS OF EXPERTS AND COUNSEL

23.1 Consents of Independent Registered Public Accounting Firm and Report on Schedule, pages 43 through 45.

EXHIBIT 31 -- SECTION 302 CERTIFICATIONS

Sempra Energy

31.1 Statement of Sempra Energy's Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

31.2 Statement of Sempra Energy's Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

San Diego Gas & Electric Company

31.3 Statement of San Diego Gas & Electric Company's Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

31.4 Statement of San Diego Gas & Electric Company's Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

Southern California Gas Company

31.5 Statement of Southern California Gas Company's Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

31.6 Statement of Southern California Gas Company's Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

EXHIBIT 32 -- SECTION 906 CERTIFICATIONS

Sempra Energy

32.1 Statement of Sempra Energy's Chief Executive Officer pursuant to 18 U.S.C. Sec. 1350.

32.2 Statement of Sempra Energy's Chief Financial Officer pursuant to 18 U.S.C. Sec. 1350.

San Diego Gas & Electric Company

32.3 Statement of San Diego Gas & Electric Company's Chief Executive Officer pursuant to 18 U.S.C. Sec. 1350.

32.4 Statement of San Diego Gas & Electric Company's Chief Financial Officer pursuant to 18 U.S.C. Sec. 1350.

Southern California Gas Company

32.5 Statement of Southern California Gas Company's Chief Executive Officer pursuant to 18 U.S.C. Sec. 1350.

32.6 Statement of Southern California Gas Company's Chief Financial Officer pursuant to 18 U.S.C. Sec. 1350.

EXHIBIT 101 -- INTERACTIVE DATA FILE

- 101.INSXBRL Instance Document
- 101.SCHXBRL Taxonomy Extension Schema Document
- 101.CALXBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEFBRL Taxonomy Extension Definition Linkbase Document
- 101.LABXBRL Taxonomy Extension Label Linkbase Document
- 101.PREXBRL Taxonomy Extension Presentation Linkbase Document

GLOSSARY

AB	Assembly Bill	kV	Kilovolt
Annual Report	2013 Annual Report to Shareholders	kW	Kilowatt
Bcf	Billion cubic feet (of natural gas)	LNG	Liquefied natural gas
BMV	La Bolsa Mexicana de Valores, S.A.B. de C.V. (the Mexican Stock Exchange)	Luz del Sur	Luz del Sur S.A.A. and its subsidiaries
California Utilities	San Diego Gas & Electric Company and Southern California Gas Company	Mobile Gas	Mobile Gas Service Corporation
CARB	California Air Resources Board	Mtpa	Million tonnes per annum
CCC	California Coastal Commission	MW	Megawatt
CDEC	Centros de Despacho Económico de Carga (Centers for Economic Load Dispatch) (Chile)	MWh	Megawatt hours
CDEC-SIC	Sistema Interconectado Central (Central Interconnected System) (Chile)	NRC	Nuclear Regulatory Commission
CDEC-SING	Sistema Interconectado del Norte Grande (Northern Interconnected System) (Chile)	NYK	Nippon Yusen Kabushiki Kaisha

CEC Chilquinta Energía	California Energy Commission Chilquinta Energía S.A. and its subsidiaries	OII OSINERGMIN	Order Instituting Investigation Organismo Supervisor de la Inversión en Energía y Minería (Energy and Mining Investment Supervisory Body) (Peru)
CNBV	Comisión Nacional Bancaria y de Valores (Mexican National Banking and Securities Commission)	PEMEX	Petróleos Mexicanos (Mexican state-owned oil company)
CNE	Comisión Nacional de Energía (National Energy Commission) (Chile)	PG&E	Pacific Gas and Electric Company
COES	Comité de Operación Económica del Sistema Interconectado Nacional (Committee of Economic Operation of the National Interconnected System) (Peru)	QF	Qualifying Facility
CPUC	California Public Utilities Commission	RBS Sempra Commodities	RBS Sempra Commodities LLP
CRE	Comisión Reguladora de Energía (Energy Regulatory Commission) (Mexico)	REX	Rockies Express Pipeline
DOE	U.S. Department of Energy	RNV	Registro Nacional de Valores (Mexican National Securities Registry)
DOT	U.S. Department of Transportation	Rockies Express	Rockies Express Pipeline LLC
Edison	Southern California Edison Company	RPS	Renewables Portfolio Standard
EPA	Environmental Protection Agency	SDG&E	San Diego Gas & Electric Company
ERR	Eligible Renewable Energy Resource	SEC	Securities and Exchange Commission
ERRA	Energy Resource Recovery Account	SEIN	Sistema Eléctrico Interconectado Nacional (Peruvian National Interconnected System) (Peru)
FERC	Federal Energy Regulatory Commission	SoCalGas	Southern California Gas Company
FTA	Free Trade Agreement	SONGS	San Onofre Nuclear Generating Station
GHG	Greenhouse Gas	The Board	Sempra Energy's Board of Directors
IEnova	Infraestructura Energética Nova, S.A.B. de C.V.	Willmut Gas	Willmut Gas Company
IOUs	Investor-owned utilities		

<YEAR> Executive Incentive Compensation Plan – Shared Services**ICP Plan Year: January 1, <YEAR> to December 31, <YEAR>****INTRODUCTION**

The San Diego Gas & Electric (SDG&E) and Southern California Gas Company (SoCalGas) Shared Services Incentive Compensation Plan (ICP) is designed to attract, retain, and engage executives whose efforts contribute to the success of the utilities and Sempra Energy (SE). The plan aligns with Sempra Energy's goal of sustained earnings growth and the utilities' regulatory framework with goals that encourage executives to drive towards our aspirations and to:

- * Maintain high safety standards,
- * Grow the business through enterprise thinking while maximizing revenues/profits,
- * Focus on the high-level goals for SDG&E and SoCalGas that encourages teamwork and achievement of operational excellence,
- * Focus on business efficiencies and investments that produce long-term efficiency benefits,
- * Increase reliability of delivery service,
- * Enhance customer focus to achieve optimal customer satisfaction, and
- * Achieve high level of employee commitment and contribution through sharing of business success and the establishment of key performance indicators.

PARTICIPATION

Executives who meet all of the following eligibility requirements will participate in this incentive plan for <YEAR>.

1. Employee is an eligible executive, as determined by the SDG&E and SoCalGas Boards of Directors, for at least three consecutive full months during <YEAR> and is an employee on December 31, <YEAR> or meets other eligibility requirements as listed under section: Employee Status Changes.
2. Participant has met minimum job expectations and performed satisfactorily, as determined by his/her supervisor in conjunction with Human Resources.
3. Participant is not in another formal incentive plan in <YEAR>.

Participation in one plan year does not constitute the right to participate in succeeding plan years. This plan does not constitute a contract of employment or guarantee of an incentive award payment and cannot be relied on as such.

BASIS FOR AWARD CALCULATION

Awards are calculated based on the employee's "Basis for Award Calculation" (**BAC**) while on the active payroll. BAC includes annual **base salary** on December 31, <YEAR> plus any eligible **lump sum payment** that may be granted during <YEAR>. Other awards (e.g. spot cash); incentives, premiums and payments are not included in the BAC.

<YEAR> PERFORMANCE GOALS AND MEASURES

SDG&E <YEAR> ICP Goals & Measures	WEIGHT	MULTIPLIER	MIN	TARGET	MAX
FINANCIAL GOALS (in Millions)					

OPERATIONAL GOALS

Operational Goals Total

TOTAL	100%
X SDG&E Weighting Factor	50%
TOTAL WEIGHT	50%

SoCalGas <YEAR> ICP Goals & Measures	WEIGHT	Leverage	MIN	TARGET	MAX
FINANCIAL GOALS (in Millions)					

OPERATIONAL GOALS

Operational Goals Total

TOTAL	100%
X SCG Weighting Factor	50%
TOTAL WEIGHT	50%

FINANCIAL MEASURES

Sempra Energy Earnings

Sempra Energy Earnings are revenue minus expense, less tax. Employees can influence earnings by either **increasing revenue** or **decreasing expenses**. Earnings are determined after accounting for the appropriate accrued level of incentive compensation expense.

Sempra Energy Earnings exclude:

- <DEFINE EXCLUSIONS>

San Diego Gas & Electric Earnings

<Define SDG&E Financial Measure>

Southern California Gas Company (SoCalGas) Earnings

<Define SCG Financial Measure>

OPERATIONAL GOALS – SAN DIEGO GAS & ELECTRIC

The payout for all Operational Goals range between 0%-200%.

<Define Operational Measures>

OPERATIONAL GOALS – SOUTHERN CALIFORNIA GAS COMPANY

The payout for all Operational Goals range between 0%-200%.

<Define Operational Measures>

CALCULATION, CERTIFICATION AND PAYMENT OF AWARDS

Award potentials will be linearly interpolated between the minimum and target, or target and maximum goals. There is no award payout for performance at or below the minimum goals. The payout for the financial component may, at the board's discretion, be reduced in consideration of individual performance. The Shared Services plan results will be calculated by taking the average of the SDG&E and SoCalGas plan results.

Adjustments to the budget target for ICP calculation purposes will require the written approval of the Chief Executive Officer of SDG&E and President and Chief Executive Officer of SoCalGas. The approved exceptions will be limited to costs or expenses related to future growth opportunities and the funding of process improvements above the planned budget.

The SDG&E and SoCalGas Board of Directors must approve awards. Approved awards will be paid by March 15, 2014 and will be subject to appropriate tax withholding. Such awards are considered pension-eligible earnings for the Cash Balance Plan and are included as eligible earnings for the 401(k) Plan. Employees with outstanding loan payments to the 401(k) plan and/or for medical premiums may, at the Company's option, have up to the full arrears deducted from their ICP check. Employees will be notified by mail with respect to any arrears payments for these deductions.

EMPLOYEE STATUS CHANGES

All eligible employees (including new hires) will have their award prorated for the period of participation in the plan while on the active payroll. For employees who change target percentages during a plan year, their award will be calculated based on the effective period for each target percentage.

Employees who transfer within the corporation or among incentive plans during the year will be eligible for an award under this plan provided that all eligibility requirements are met. The award will be based on the employee's December 31, <YEAR> BAC, prorated for the participation period in this plan.

An award will still be paid if a participant meets all other eligibility requirements during <YEAR> but is not a regular employee on December 31, <YEAR> due to the following reasons:

- * Participant's employment terminates for any reason after he/she has attained age 55 *and* at the time his/her employment terminated he/she had completed at least five years of service; or
- * Participant leaves his/her position under disability (as defined in the company disability benefit plan), or
- * Participant dies during an award year (award will be paid to the participant's estate).

In the above circumstances, the award will be calculated based on the participant's BAC prorated for the period of participation in the plan while on the active payroll. Awards will be paid the same time payment is made to other participants.

If a participant leaves the company for any other reason, eligibility for an award for the plan year will be forfeited unless an exception is made at the discretion of the Chairman and CEO and will be offset by any amount paid pursuant the "Severance Benefits upon Termination of Employment due to Death or Disability" section of the participant's Severance Pay Agreement.

PLAN ADMINISTRATION

The Company retains the discretion and authority to interpret, amend or modify the plan; to grant incentive awards; as well as to terminate, increase or decrease any incentive award opportunity during the performance period; and to reduce or eliminate any incentive awards that would otherwise be payable at the end of the performance period. The Company, in its sole discretion determines Sempra Energy Earnings, SDG&E Earnings, SoCalGas Earnings, operational measures, and award calculations.

The Company shall require the forfeiture, recovery or reimbursement of awards or compensation under this Plan as (i) required by applicable law, or (ii) required under any policy implemented or maintained by the Company pursuant to any applicable rules or requirements of a national securities exchange or national securities association on which any securities of the Company are listed. The Company reserves the right to recoup compensation paid if it determines that the results on which the compensation was paid were not actually achieved.

The SDG&E or SoCalGas Board may, in its sole discretion, require the recovery or reimbursement of short-term incentive compensation awards from any employee whose fraudulent or intentional misconduct materially affects the operations or financial results of the Company or its subsidiaries.

Questions concerning the plan should be directed to the Sr. Vice President – Human Resources, Diversity & Inclusion, Sempra Energy.

**SEMPRA ENERGY
SEVERANCE PAY AGREEMENT**

THIS AGREEMENT (this “Agreement”), dated as of September 3, 2013 (the “Effective Date”), is made by and between SEMPRA ENERGY, a California corporation (“Sempra Energy”), and MARTHA B. WYRSCH (the “Executive”).

WHEREAS, the Executive is currently employed by Sempra Energy or a direct or indirect subsidiary of Sempra Energy (Sempra Energy and its subsidiaries are hereinafter collectively referred to as the “Company”) as Executive Vice President and General Counsel; and

WHEREAS, Sempra Energy and the Executive desire to enter into this Agreement; and

WHEREAS, the Board of Directors of Sempra Energy (the “Board”) has authorized this Agreement.

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained, the Company and the Executive hereby agree as follows:

Section 1. Definitions. For purposes of this Agreement, the following capitalized terms have the meanings set forth below:

“Accounting Firm” has the meaning assigned thereto in Section 8(d) hereof.

“Accrued Obligations” means the sum of (A) the Executive’s Annual Base Salary through the Date of Termination to the extent not theretofore paid, (B) an amount equal to any annual Incentive Compensation Awards earned with respect to fiscal years ended prior to the year that includes the Date of Termination to the extent not theretofore paid, (C) any accrued and unpaid vacation, if any, and (D) reimbursement for unreimbursed business expenses, if any, properly incurred by the Executive in the performance of his duties in accordance with policies established from time to time by the Board, in each case to the extent not theretofore paid.

“Affiliate” has the meaning set forth in Rule 12b-2 promulgated under the Exchange Act.

“Annual Base Salary” means the Executive’s annual base salary from the Company.

“Asset Purchaser” has the meaning assigned thereto in Section 16(e).

“Asset Sale” has the meaning assigned thereto in Section 16(e).

“Average Annual Bonus” means the average of the annual bonuses from the Company earned by the Executive with respect to the three (3) fiscal years of the Company immediately preceding the Date of Termination (the “Bonus Fiscal Years”); *provided, however*, that, if the Executive was employed by the Company for less than three (3) Bonus Fiscal Years, “Average Annual Bonus” means the average of the annual bonuses (if any) from the Company earned by the Executive with respect to the Bonus Fiscal Years during which the Executive was employed by the Company; and, *provided, further*, that, if the Executive was not employed by the Company during any of the Bonus Fiscal Years, “Average Annual Bonus” means zero.

“Cause” means:

(a) Prior to a Change in Control, (i) the willful failure by the Executive to substantially perform the Executive’s duties with the Company (other than any such failure resulting from the Executive’s incapacity due to physical or mental illness, (ii) the grossly negligent performance of such obligations referenced in clause (i) of this definition, (iii) the Executive’s gross insubordination; and/or (iv) the Executive’s commission of one or more acts of moral turpitude that constitute a violation of applicable law (including but not limited to a felony) which have or result in an adverse effect on the Company, monetarily or otherwise, or one or more significant acts of dishonesty. For purposes of clause (i) of this subsection (a), no act, or failure to act, on the Executive’s part shall be deemed “willful” unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the Executive’s act, or failure to act, was in the best interests of the Company.

(b) From and after a Change in Control, (i) the willful and continued failure by the Executive to substantially perform the Executive’s duties with the Company (other than any such failure resulting from the Executive’s incapacity due to physical or mental illness or any such actual or anticipated failure after the issuance of a Notice of Termination for Good Reason by the Executive pursuant to Section 2 hereof) and/or (ii) the Executive’s commission of one or more acts of moral turpitude that constitute a violation of applicable law (including but not limited to a felony) which have or result in an adverse effect on the Company, monetarily or otherwise, or one or more significant acts of dishonesty. For purposes of clause (i) of this subsection (b), no act, or failure to act, on the Executive’s part shall be deemed “willful” unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the Executive’s act, or failure to act, was in the best interests of the Company. Notwithstanding the foregoing, the Executive shall not be deemed terminated for Cause pursuant to clause (i) of this subsection (b) unless and until the Executive shall have been provided with reasonable notice of and, if possible, a reasonable opportunity to cure the facts and circumstances claimed to provide a basis for termination of the Executive’s employment for Cause.

“Change in Control” shall be deemed to have occurred on the date that a change in the ownership of Sempra Energy, a change in the effective control of Sempra Energy, or a change in the ownership of a substantial portion of assets of Sempra Energy occurs (each, as defined in subsection (a) below), except as otherwise provided in subsections (b), (c) and (d) below:

(a) (i) a “change in the ownership of Sempra Energy” occurs on the date that any one person, or more than one person acting as a group, acquires ownership of stock of Sempra Energy that, together with stock held by such person or group, constitutes more than fifty percent (50%) of the total fair market value or total voting power of the stock of Sempra Energy,

(ii) a “change in the effective control of Sempra Energy” occurs only on either of the following dates:

(A) the date any one person, or more than one person acting as a group, acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of Sempra Energy possessing thirty percent (30%) or more of the total voting power of the stock of Sempra Energy, or

(B) the date a majority of the members of the Board is replaced during any twelve (12) month period by directors whose appointment or election is not endorsed by a majority of the members of the Board before the date of appointment or election, and

(iii) a “change in the ownership of a substantial portion of assets of Sempra Energy” occurs on the date any one person, or more than one person acting as a group, acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) assets from Sempra Energy that have a total gross fair market value equal to or more than eighty-five percent (85%) of the total gross fair market value of all of the assets of Sempra Energy immediately before such acquisition or acquisitions.

(b) A “change in the ownership of Sempra Energy” or “a change in the effective control of Sempra Energy” shall not occur under clause (a)(i) or (a)(ii) by reason of any of the following:

(i) an acquisition of ownership of stock of Sempra Energy directly from Sempra Energy or its Affiliates other than in connection with the acquisition by Sempra Energy or its Affiliates of a business,

(ii) a merger or consolidation which would result in the voting securities of Sempra Energy outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company, at least sixty percent (60%) of the combined voting power of the securities of Sempra Energy or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or

(iii) a merger or consolidation effected to implement a recapitalization of Sempra Energy (or similar transaction) in which no Person is or becomes the Beneficial Owner (within the meaning of Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of Sempra Energy (not including the securities beneficially owned by such Person any securities acquired directly from Sempra Energy or its Affiliates other than in connection with the acquisition by Sempra Energy or its Affiliates of a business) representing twenty percent (20%) or more of the combined voting power of Sempra Energy’s then outstanding securities.

(c) A “change in the ownership of a substantial portion of assets of Sempra Energy” shall not occur under clause (a)(iii) by reason of a sale or disposition by Sempra Energy of the assets of Sempra Energy to an entity, at least sixty percent (60%) of the combined voting power of the voting securities of which are owned by shareholders of Sempra Energy in substantially the same proportions as their ownership of Sempra Energy immediately prior to such sale.

(d) This definition of “Change in Control” shall be limited to the definition of a “change in control event” relating to Sempra Energy under Treasury Regulation Section 1.409A-3(i)(5). A “Change in Control” shall only occur if there is a “change in control event” relating to Sempra Energy under Treasury Regulation Section 1.409A-3(i)(5) with respect to the Executive.

“Change in Control Date” means the date on which a Change in Control occurs.

“Code” means the Internal Revenue Code of 1986, as amended.

“Compensation Committee” means the compensation committee of the Board.

“Consulting Payment” has the meaning assigned thereto in Section 14(d) hereof.

“Consulting Period” has the meaning assigned thereto in Section 14(e) hereof.

“Date of Termination” has the meaning assigned thereto in Section 2(b) hereof.

“Deferred Compensation Plan” has the meaning assigned thereto in Section 4(f) hereof.

“Disability” has the meaning set forth in the Company’s long-term disability plan or its successor; *provided*, however, that the Board may not terminate the Executive’s employment hereunder by reason of Disability unless (i) at the time of

such termination there is no reasonable expectation that the Executive will return to work within the next ninety (90) day period and (ii) such termination is permitted by all applicable disability laws.

“Exchange Act” means the Securities Exchange Act of 1934, as amended, and the applicable rulings and regulations thereunder.

“Excise Tax” has the meaning assigned thereto in Section 8(a) hereof.

“Good Reason” means:

(a) Prior to a Change in Control, the occurrence of any of the following without the prior written consent of the Executive, unless such act or failure to act is corrected by the Company prior to the Date of Termination specified in the Notice of Termination (as required under Section 2 hereof):

(i) the assignment to the Executive of any duties materially inconsistent with the range of duties and responsibilities appropriate to a senior Executive within the Company (such range determined by reference to past, current and reasonable practices within the Company);

(ii) a material reduction in the Executive’s overall standing and responsibilities within the Company, but not including (A) a mere change in title or (B) a transfer within the Company, which, in the case of both (A) and (B), does not adversely affect the Executive’s overall status within the Company;

(iii) a material reduction by the Company in the Executive’s aggregate annualized compensation and benefits opportunities, except for across-the-board reductions (or modifications of benefit plans) similarly affecting all similarly situated executives (both of the Company and of any Person then in control of the Company) of comparable rank with the Executive;

(iv) the failure by the Company to pay to the Executive any portion of the Executive’s current compensation and benefits or any portion of an installment of deferred compensation under any deferred compensation program of the Company within thirty (30) days of the date such compensation is due;

(v) any purported termination of the Executive’s employment that is not effected pursuant to a Notice of Termination satisfying the requirements of Section 2 hereof; for purposes of this Agreement, no such purported termination shall be effective;

(vi) the failure by Sempra Energy to perform its obligations under Section 16(c), (d) or (e) hereof;

(vii) the failure by the Company to provide the indemnification and D&O insurance protection Section 10 of this Agreement requires it to provide; or

(viii) the failure by Sempra Energy to comply with any material provision of this Agreement.

(b) From and after a Change in Control, the occurrence of any of the following without the prior written consent of the Executive, unless such act or failure to act is corrected by the Company prior to the Date of Termination specified in the Notice of Termination (as required under Section 2 hereof):

(i) an adverse change in the Executive’s title, authority, duties, responsibilities or reporting lines as in effect immediately prior to the Change in Control;

(ii) a reduction by the Company in the Executive’s aggregate annualized compensation opportunities, except for across-the-board reductions in base salaries, annual bonus opportunities or long-term incentive compensation opportunities of less than ten percent (10%) similarly affecting all similarly situated executives (both of the Company and of any Person then in control of the Company) of comparable rank with the Executive; or the failure by the Company to continue in effect any material benefit plan in which the Executive participates immediately prior to the Change in Control, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, or the failure by the Company to continue the Executive’s participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount of benefits provided and the level of the Executive’s participation relative to other participants, as existed at the time of the Change in Control;

(iii) the relocation of the Executive’s principal place of employment immediately prior to the Change in Control Date (the “Principal Location”) to a location which is both further away from the Executive’s residence and more than thirty (30) miles from such Principal Location, or the Company’s requiring the Executive to be based anywhere other than such Principal Location (or permitted relocation thereof), or a substantial increase in the Executive’s business travel obligations outside of the Southern California area as of the Effective Date other than any such increase that (A) arises in connection with extraordinary business activities of the Company of limited duration and (B) is understood not to be part of the Executive’s regular duties with the Company;

(iv) the failure by the Company to pay to the Executive any portion of the Executive’s current compensation and benefits or any portion of an installment of deferred compensation under any deferred compensation program of the Company within thirty (30) days of the date such compensation is due;

(v) any purported termination of the Executive's employment that is not effected pursuant to a Notice of Termination satisfying the requirements of Section 2 hereof; for purposes of this Agreement, no such purported termination shall be effective;

(vi) the failure by Sempra Energy to perform its obligations under Section 16(c), (d) or (e) hereof;

(vii) the failure by the Company to provide the indemnification and D&O insurance protection Section 10 of this Agreement requires it to provide; or

(viii) the failure by Sempra Energy to comply with any material provision of this Agreement.

Following a Change in Control, the Executive's determination that an act or failure to act constitutes Good Reason shall be presumed to be valid unless such determination is deemed to be unreasonable by an arbitrator pursuant to the procedure described in Section 13 hereof. The Executive's right to terminate the Executive's employment for Good Reason shall not be affected by the Executive's incapacity due to physical or mental illness. The Executive's continued employment shall not constitute consent to, or a waiver of rights with respect to, any act or failure to act constituting Good Reason hereunder.

"Incentive Compensation Awards" means awards granted under Incentive Compensation Plans providing the Executive with the opportunity to earn, on a year-by-year basis, annual and long-term incentive compensation.

"Incentive Compensation Plans" means annual incentive compensation plans and long-term incentive compensation plans of the Company, which long-term incentive compensation plans may include plans offering stock options, restricted stock and other long-term incentive compensation.

"Involuntary Termination" means (a) the Executive's Separation from Service by reason other than for Cause, death, or Disability, or Mandatory Retirement, or (b) the Executive's Separation from Service by reason of resignation of employment for Good Reason.

"JAMS Rules" has the meaning assigned thereto in Section 13 hereof.

"Mandatory Retirement" means termination of employment pursuant to the Company's mandatory retirement policy.

"Notice of Termination" has the meaning assigned thereto in Section 2(a) hereof.

"Payment" has the meaning assigned thereto in Section 8(a) hereof.

"Payment in Lieu of Notice" has the meaning assigned thereto in Section 2(b) hereof.

"Person" has the meaning set forth in section 3(a)(9) of the Exchange Act, as modified and used in sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Company or any of its Affiliates, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, (iv) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company, or (v) a person or group as used in Rule 13d-1(b) promulgated under the Exchange Act.

"Post-Change in Control Severance Payment" has the meaning assigned thereto in Section 5 hereof.

"Pre-Change in Control Severance Payment" has the meaning assigned thereto in Section 4 hereof.

"Principal Location" has the meaning assigned thereto in clause (b)(iii) of the definition of Good Reason, above.

"Proprietary Information" has the meaning assigned thereto in Section 14(a) hereof.

"Pro Rata Bonus" has the meaning assigned thereto in Section 5(b) hereof.

"Release" has the meaning assigned thereto in Section 4 hereof.

"Section 409A Payments" means any of the following: (a) the Payment in Lieu of Notice; (b) the Pre-Change in Control Severance Payment; (c) the Post-Change in Control Severance Payment; (d) the Pro Rata Bonus; (e) the Consulting Payment; (f) the payment under Section 5(c); (g) the financial planning services and the related payments provided under Sections 4(e) and 5(g); (h) the legal fees and expenses reimbursed under Section 15; and (i) any other payment that the Company determines in its sole discretion is subject to Section 409A of the Code as non-qualified deferred compensation.

"Sempra Energy Control Group" means Sempra Energy and all persons with whom Sempra Energy would be considered a single employer under Section 414(b) or 414(c) of the Code, as determined from time to time.

"Separation from Service" has the meaning set forth in Treasury Regulation Section 1.409A-1(h), with respect to the Service Recipient.

"SERP" has the meaning assigned thereto in Section 5(c) hereof.

“Specified Employee” shall be determined in accordance with Section 409A(a)(2)(B)(i) of the Code and Treasury Regulation 1.409A-1(i).

For purposes of this Agreement, references to any “Treasury Regulation” shall mean such Treasury Regulation as in effect on the date hereof.

Section 2. Notice and Date of Termination.

(a) Any termination of the Executive’s employment by the Company or by the Executive shall be communicated by a written notice of termination to the other party (the “Notice of Termination”). Where applicable, the Notice of Termination shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive’s employment under the provision so indicated. Unless the Board determines otherwise, a Notice of Termination by the Executive alleging a termination for Good Reason must be made within 180 days of the act or failure to act that the Executive alleges to constitute Good Reason.

(b) The date of the Executive’s termination of employment with the Company (the “Date of Termination”) shall be determined as follows: (i) if the Executive’s Separation from Service is at the volition of the Company, the Date of Termination shall be the date specified in the Notice of Termination (which, in the case of a termination by the Company other than for Cause, shall not be less than two (2) weeks from the date such Notice of Termination is given unless the Company elects to pay the Executive, in addition to any other amounts payable hereunder, an amount (the “Payment in Lieu of Notice”) equal to two (2) weeks of the Executive’s Annual Base Salary in effect on the Date of Termination), and (ii) if the Executive’s Separation from Service is by the Executive for Good Reason, the Date of Termination shall be determined by the Executive and specified in the Notice of Termination, but shall not in any event be less than fifteen (15) days nor more than sixty (60) days after the date such Notice of Termination is given. The Payment in Lieu of Notice shall be paid on such date as is required by law, but no later than thirty (30) days after the date of the Executive’s Separation from Service; *provided, however*, that if the Executive is a Specified Employee on the date of his or her Separation from Service, such Payment in Lieu of Notice shall be paid as provided in Section 9 hereof.

Section 3. Termination from the Board. Upon the termination of the Executive’s employment for any reason, the Executive’s membership on the Board, the board of directors of any of the Company’s Affiliates, any committees of the Board and any committees of the board of directors of any of the Company’s Affiliates, if applicable, shall be automatically terminated.

Section 4. Severance Benefits upon Involuntary Termination Prior to Change in Control. Except as provided in Section 5(h) and Section 19(i) hereof, in the event of the Involuntary Termination of the Executive prior to a Change in Control, the Company shall pay the Executive, in one lump sum cash payment, an amount (the “Pre-Change in Control Severance Payment”) equal to the greater of: (X) 165% of the Executive’s Annual Base Salary as in effect on the Date of Termination, and (Y) the Executive’s Annual Base Salary as in effect on the Date of Termination, plus the Executive’s Average Annual Bonus. In addition to the Pre-Change in Control Severance Payment, the Executive shall be entitled to the following additional benefits specified in subsections (a) through (e). The Company’s obligation to pay the Pre-Change in Control Severance Payment or provide the benefits set forth in subsections (c), (d) and (e) are subject to and conditioned upon the Executive executing a release (the “Release”) of all claims substantially in the form attached hereto as Exhibit A within fifty (50) days after the date of Involuntary Termination and Executive not revoking such Release in accordance with the terms thereof. Except as provided in Section 4(f), the Pre-Change in Control Severance Payment shall be paid on such date as is determined by the Company within sixty (60) days after the date of the Involuntary Termination; but not before the Release becomes effective and irrevocable. If the fifty (50) day period in which the Release could become effective spans more than one taxable year, then the Pre-Change in Control Severance Payment shall not be made until the later taxable year. Notwithstanding the foregoing, if the Executive is a Specified Employee on the date of the Executive’s Involuntary Termination, the Pre-Change in Control Severance Payment and the financial planning services and the related payments provided under Section 4(e) shall be paid as provided in Section 9 hereof.

(a) **Accrued Obligations.** The Company shall pay the Executive a lump sum amount in cash equal to the Accrued Obligations within the time required by law.

(b) **Equity Based Compensation.** The Executive shall retain all rights to any equity-based compensation awards to the extent set forth in the applicable plan and/or award agreement.

(c) **Welfare Benefits.** Subject to Section 12 below, for a period of twelve (12) months following the date of the Involuntary Termination (and an additional twelve (12) months if the Executive provides consulting services under Section 14(e) hereof), the Executive and his dependents shall be provided with health insurance benefits substantially similar to those provided to the Executive and his dependents immediately prior to the date of the Involuntary Termination; *provided, however*, that such benefits shall be provided on substantially the same terms and conditions and at the same cost to the Executive as in effect immediately prior to the date of the Involuntary Termination. Such benefits shall be provided through insurance maintained by the Company under the Company’s benefit plans. Such benefits shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(a)(5). Notwithstanding the foregoing, if the Company determines in its sole discretion that it cannot provide the foregoing benefit without potentially violating applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Company shall in lieu thereof provide to the Executive a taxable monthly payment in an amount equal to the monthly premium that the Executive would be required to pay to continue the Executive’s and his covered dependents’ group insurance coverages under COBRA as in effect on the Date of Termination (which amount shall be based on the premiums for the first month of COBRA coverage); *provided, however*, that, if the Executive is a Specified Employee on the Date of Termination, then such payments shall be paid as provided in Section 9 hereof.

(d) Outplacement Services. The Executive shall receive reasonable outplacement services, on an in-kind basis, suitable to his position and directly related to the Executive's Involuntary Termination, for a period of twenty-four (24) months following the date of the Involuntary Termination, in an aggregate amount of cost to the Company not to exceed \$50,000.

Notwithstanding the foregoing, the Executive shall cease to receive outplacement services on the date the Executive accepts employment with a subsequent employer. Such outplacement services shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(b)(9)(v)(A).

(e) Financial Planning Services. The Executive shall receive financial planning services, on an in-kind basis, for a period of twenty-four (24) months following the Date of Termination. Such financial planning services shall include expert financial and legal resources to assist the Executive with financial planning needs and shall be limited to (i) current investment portfolio management, (ii) tax planning, (iii) tax return preparation, and (iv) estate planning advice and document preparation (including wills and trusts); *provided, however*, that the Company shall provide such financial planning services during any taxable year of the Executive only to the extent the cost to the Company for such taxable year does not exceed \$25,000. The Company shall provide such financial planning services through a financial planner selected by the Company, and shall pay the fees for such financial planning services. The financial planning services provided during any taxable year of the Executive shall not affect the financial planning services provided in any other taxable year of the Executive. The Executive's right to financial planning services shall not be subject to liquidation or exchange for any other benefit. Such financial planning services shall be provided in a manner that complies with Treasury Regulation Section 1.409A-3(i)(1)(iv).

(f) Deferral of Payments. The Executive shall have the right to elect to defer the Pre-Change in Control Severance Payment to be received by the Executive pursuant to this Section 4 under the terms and conditions of the Sempra Energy 2005 Deferred Compensation Plan (the "Deferred Compensation Plan"). Any such deferral election shall be made in accordance with Section 18(b) hereof.

Section 5. Severance Benefits upon Involuntary Termination in Connection with and after Change in Control.

Notwithstanding the provisions of Section 4 above, and except as provided in Section 19(i) hereof, in the event of the Involuntary Termination of the Executive on or within two (2) years following a Change in Control, in lieu of the payments described in Section 4 above, the Company shall pay the Executive, in one lump sum cash payment, an amount (the "Post-Change in Control Severance Payment") equal to two times the greater of: (X) 165% of the Executive's Annual Base Salary as in effect immediately prior to the Change in Control or the Date of Termination, whichever is greater, and (Y) the Executive's Annual Base Salary as in effect immediately prior to the Change in Control or on the Date of Termination, whichever is greater, plus the Executive's Average Annual Bonus. In addition to the Post-Change in Control Severance Payment, the Executive shall be entitled to the following additional benefits specified in subsections (a) through (g). The Company's obligation to pay the Post-Change in Control Severance Payment or provide the benefits set forth in subsections (b),(c), (d), (e), (f) and (g) are subject to and conditioned upon the Executive executing the Release within fifty (50) days after the date of Involuntary Termination and Executive not revoking such Release in accordance with the terms thereof. Except as provided in Sections 5(h) and 5(i), the Post-Change in Control Severance Payment, the Pro Rata Bonus and the payments under Section 6(c) shall be paid on such date as is determined by the Company within sixty (60) days after the date of the Involuntary Termination. If the fifty (50) day period in which the Release could become effective spans more than one taxable year, then the Post-Change in Control Severance Payment, Pro Rata Bonus and payments under Section 5(c) shall not be made until the later taxable year. Notwithstanding the foregoing, if the Executive is a Specified Employee on the date of the Executive's Involuntary Termination, the Post-Change in Control Severance Payment, the Pro Rata Bonus, the payment under Section 5(c) and the financial planning services and the related payments provided under Section 5(g) shall be paid as provided in Section 9 hereof.

(a) Accrued Obligations. The Company shall pay the Executive a lump sum amount in cash equal to the Accrued Obligations within the time required by law.

(b) Pro Rata Bonus. The Company shall pay the Executive a lump sum amount in cash equal to: (i) the greater of: (X) 65% of the Executive's Annual Base Salary as in effect immediately prior to the Change in Control or on the Date of Termination, whichever is greater, or (Y) the Executive's Average Annual Bonus, multiplied by (ii) a fraction, the numerator of which shall be the number of days from the beginning of such fiscal year to and including the Date of Termination and the denominator of which shall be 365 equal to (the "Pro Rata Bonus").

(c) Pension Supplement. The Executive shall be entitled to receive a Supplemental Retirement Benefit under the Sempra Energy Supplemental Executive Retirement Plan, as in effect from time to time ("SERP"), determined in accordance with this Section 5(c), in the event that the Executive is a "Participant" (as defined in the SERP) as of the Date of Termination. Such Supplemental Retirement Benefit shall be determined by crediting the Executive with additional months of Service (if any) equal to the number of full calendar months from the Date of Termination to the date on which the Executive would have attained age 62. The Executive shall be entitled to receive such Supplemental Retirement Benefit without regard to whether the Executive has attained age 55 or completed five years of "Service" (as defined in the SERP) as of the Date of Termination. The Executive shall be treated as qualified for "Retirement" (as defined in the SERP) as of the Date of Termination, and the Executive's Vesting Factor with respect to the Supplemental Retirement Benefit shall be 100%. The Executive's Supplemental Retirement Benefit shall be calculated based on the Executive's actual age as of the date of commencement of payment of such Supplemental Retirement Benefit (the "SERP Distribution Date"), and by applying the applicable early retirement factors under the SERP, if the Executive has not attained age 62 but has attained age 55 as of the SERP Distribution Date. If the Executive has not attained age 55 as of the SERP Distribution Date, the Executive's Supplemental Retirement Benefit shall be calculated by applying the applicable early retirement factor under the SERP for age 55, and the Supplemental Retirement Benefit otherwise payable at age 55 shall be actuarially adjusted to the Executive's actual age as of the SERP Distribution Date using the following actuarial assumptions: (i) the applicable mortality table promulgated by the Internal Revenue Service under Section 417(e)(3) of the Code, as in effect on the

first day of the calendar year in which the SERP Distribution Date occurs, and (ii) the applicable interest rate promulgated by the Internal Revenue Service under Section 417(a)(3) of the Code for the November next preceding the first day of the calendar year in which the SERP Distribution Date occurs. The Executive's Supplemental Retirement Benefit shall be determined in accordance with this Section 5(c), notwithstanding any contrary provisions of the SERP and, to the extent subject to Section 409A of the Code, shall be paid in accordance with Treasury Regulation Section 1.409A-3(c)(1). The Supplemental Retirement Benefit paid to or on behalf of the Executive in accordance with this Section 5(c) shall be in full satisfaction of any and all of the benefits payable to or on behalf of the Executive under the SERP.

(d) Equity-Based Compensation. Notwithstanding the provisions of any applicable equity-compensation plan or award agreement to the contrary, all equity-based Incentive Compensation Awards (including, without limitation, stock options, stock appreciation rights, restricted stock awards, restricted stock units, performance share awards, awards covered under Section 162(m) of the Code, and dividend equivalents) held by the Executive shall immediately vest and become exercisable or payable, as the case may be, as of the Date of Termination, to be exercised or paid, as the case may be, in accordance with the terms of the applicable Incentive Compensation Plan and Incentive Compensation Award agreement, and any restrictions on any such Incentive Compensation Awards shall automatically lapse; *provided, however*, that any such stock option or stock appreciation rights awards granted on or after June 26, 1998 shall remain outstanding and exercisable until the earlier of (A) the later of eighteen (18) months following the Date of Termination or the period specified in the applicable Incentive Compensation Award agreements or (B) the expiration of the original term of such Incentive Compensation Award (or, if earlier, the tenth anniversary of the original date of grant) (it being understood that all Incentive Compensation Awards granted prior to or after June 26, 1998 shall remain outstanding and exercisable for a period that is no less than that provided for in the applicable agreement in effect as of the date of grant).

(e) Welfare Benefits. Subject to Section 12 below, for a period of twenty-four (24) months following the date of Involuntary Termination (and an additional twelve (12) months if the Executive provides consulting services under Section 14(e) hereof), the Executive and his dependents shall be provided with life, disability, accident and health insurance benefits substantially similar to those provided to the Executive and his dependents immediately prior to the date of Involuntary Termination or the Change in Control Date, whichever is more favorable to the Executive; *provided, however*, that such benefits shall be provided on substantially the same terms and conditions and at the same cost to the Executive as in effect immediately prior to the date of Involuntary Termination or the Change in Control Date, whichever is more favorable to the Executive. Such benefits shall be provided through insurance maintained by the Company under the Company benefit plans. Such benefits shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(a)(5). Notwithstanding the foregoing, if the Company determines in its sole discretion that it cannot provide the foregoing benefit without potentially violating applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Company shall in lieu thereof provide to the Executive a taxable monthly payment in an amount equal to the monthly premium that the Executive would be required to pay to continue the Executive's and his covered dependents' group insurance coverages under COBRA as in effect on the Date of Termination (which amount shall be based on the premiums for the first month of COBRA coverage); *provided, however*, that, if the Executive is a Specified Employee on the Date of Termination, then such payments shall be paid as provided in Section 9 hereof.

(f) Outplacement Services. The Executive shall receive reasonable outplacement services, on an in-kind basis, suitable to his position and directly related to the Executive's Involuntary Termination, for a period of thirty-six (36) months following the date of Involuntary Termination (but in no event beyond the last day of the Executive's second taxable year following the Executive's taxable year in which the Involuntary Termination occurs), in the aggregate amount of cost to the Company not to exceed \$50,000. Notwithstanding the foregoing, the Executive shall cease to receive outplacement services on the date the Executive accepts employment with a subsequent employer. Such outplacement services shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(b)(9)(v)(A).

(g) Financial Planning Services. The Executive shall receive financial planning services, on an in-kind basis, for a period of thirty-six (36) months following the date of Involuntary Termination. Such financial planning services shall include expert financial and legal resources to assist the Executive with financial planning needs and shall be limited to (i) current investment portfolio management, (ii) tax planning, (iii) tax return preparation, and (iv) estate planning advice and document preparation (including wills and trusts); *provided, however*, that the Company shall provide such financial services during any taxable year of the Executive only to the extent the cost to the Company for such taxable year does not exceed \$25,000. The Company shall provide such financial planning services through a financial planner selected by the Company, and shall pay the fees for such financial planning services. The financial planning services provided during any taxable year of the Executive shall not affect the financial planning services provided in any other taxable year of the Executive. The Executive's right to financial planning services shall not be subject to liquidation or exchange for any other benefit. Such financial planning services shall be provided in a manner that complies with Section 1.409A-3(i)(1)(iv).

(h) Involuntary Termination in Connection with a Change in Control. Notwithstanding anything contained herein, in the event of an Involuntary Termination prior to a Change in Control, if the Involuntary Termination (1) was at the request of a third party who has taken steps reasonably calculated to effect such Change in Control or (2) otherwise arose in connection with or in anticipation of such Change in Control, then the Executive shall, in lieu of the payments described in Section 4 hereof, be entitled to the Post-Change in Control Severance Payment and the additional benefits described in this Section 5 as if such Involuntary Termination had occurred within two (2) years following the Change in Control. The amounts specified in Section 5 that are to be paid under this Section 5(h) shall be reduced by any amount previously paid under Section 4. The amounts to be paid under this Section 5(h) shall be paid within sixty (60) days after the Change in Control Date of such Change in Control.

(i) Deferral of Payments. The Executive shall have the right to elect to defer the Post-Change in Control Severance Payment and the Pro Rata Bonus to be received by the Executive pursuant to this Section 5 under the terms and

conditions of the Deferred Compensation Plan. Any such deferral election shall be made in accordance with Section 18(b) hereof.

Section 6. Severance Benefits upon Termination by the Company for Cause or by the Executive Other than for Good Reason. If the Executive's employment shall be terminated for Cause, or if the Executive terminates employment other than for Good Reason, the Company shall have no further obligations to the Executive under this Agreement other than the Accrued Obligations and any amounts or benefits described in Section 10 hereof.

Section 7. Severance Benefits upon Termination due to Death or Disability. If the Executive has a Separation from Service by reason of death or Disability, the Company shall pay the Executive or his estate, as the case may be, the Accrued Obligations and the Pro Rata Bonus (without regard to whether a Change in Control has occurred) and any amounts or benefits described in Section 10 hereof. Such payments shall be in addition to those rights and benefits to which the Executive or his estate may be entitled under the relevant Company plans or programs. The Company's obligation to pay the Pro Rata Bonus is conditioned upon the Executive, the Executive's representative or the Executive's estate, as the case may be executing the Release within fifty (50) days after the date of Executive's Separation from Service and not revoking such Release in accordance with the terms thereof. The Accrued Obligations shall be paid within the time required by law and the Pro Rata Bonus shall be paid on such date as determined by the Company within sixty (60) days after the date of the Separation from Service but not before the Release becomes effective and irrevocable. If the fifty (50) day period in which the Release could become effective spans more than one taxable year, then the Pro Rata Bonus shall not be made until the later taxable year. Notwithstanding the foregoing, if the Executive is a Specified Employee on the date of the Executive's Separation from Service, the Pro Rata Bonus shall be paid as provided in Section 9 hereof.

Section 8. Limitations on Payments by the Company.

(a) Anything in this Agreement to the contrary notwithstanding and except as set forth in this Section 8 below, in the event it shall be determined that any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of the Executive, whether paid or payable pursuant to this Agreement or otherwise (the "Payment") would be subject (in whole or in part) to the excise tax imposed by Section 4999 of the Code, (the "Excise Tax"), then, subject to subsection (b), the Pre-Change in Control Severance Benefit or the Post-Change in Control Severance Payment (whichever is applicable) payable under this Agreement shall be reduced under this subsection (a) to the amount equal to the Reduced Payment. For such Payment payable under this Agreement, the "Reduced Payment" shall be the amount equal to the greatest portion of the Payment (which may be zero) that, if paid, would result in no portion of any Payment being subject to the Excise Tax.

(b) The Pre-Change in Control Severance Benefit or the Post-Change in Control Severance Payment (whichever is applicable) payable under this Agreement shall not be reduced under subsection (a) if:

- (i) such reduction in such Payment is not sufficient to cause no portion of any Payment to be subject to the Excise Tax, or
- (ii) the Net After-Tax Unreduced Payments (as defined below) would equal or exceed one hundred and five percent (105%) of the Net After-Tax Reduced Payments (as defined below).

For purposes of determining the amount of any Reduced Payment under subsection (a), and the Net-After Tax Reduced Payments and the Net After-Tax Unreduced Payments, the Executive shall be considered to pay federal, state and local income and employment taxes at the Executive's applicable marginal rates taking into consideration any reduction in federal income taxes which could be obtained from the deduction of state and local income taxes, and any reduction or disallowance of itemized deductions and personal exemptions under applicable tax law). The applicable federal, state and local income and employment taxes and the Excise Tax (to the extent applicable) are collectively referred to as the "Taxes".

(c) The following definitions shall apply for purposes of this Section 8:

- (i) "Net After-Tax Reduced Payments" shall mean the total amount of all Payments that the Executive would retain, on a Net After-Tax Basis, in the event that the Payments payable under this Agreement are reduced pursuant to subsection (a).
- (ii) "Net After-Tax Unreduced Payments" shall mean the total amount of all Payments that the Executive would retain, on a Net After-Tax Basis, in the event that the Payments payable under this Agreement are not reduced pursuant to subsection (a).
- (iii) "Net After-Tax Basis" shall mean, with respect to the Payments, either with or without reduction under subsection (a) (as applicable), the amount that would be retained by the Executive from such Payments after the payment of all Taxes.

(d) All determinations required to be made under this Section 8 and the assumptions to be utilized in arriving at such determinations, shall be made by a nationally recognized accounting firm as may be agreed by the Company and the Executive (the "Accounting Firm"); *provided*, that the Accounting Firm's determination shall be made based upon "substantial authority" within the meaning of Section 6662 of the Code. The Accounting Firm shall provide detailed supporting calculations to both the Company and the Executive within fifteen (15) business days of the receipt of notice from the Executive that there has been a Payment or such earlier time as is requested by the Company. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. For

purposes of determining whether and the extent to which the Payments will be subject to the Excise Tax, (i) no portion of the Payments the receipt or enjoyment of which the Executive shall have waived at such time and in such manner as not to constitute a “payment” within the meaning of Section 280G(b) of the Code shall be taken into account, (ii) no portion of the Payments shall be taken into account which, in the written opinion of the Accounting Firm, does not constitute a “parachute payment” within the meaning of Section 280G(b)(2) of the Code (including by reason of Section 280G(b)(4)(A) of the Code) and, in calculating the Excise Tax, no portion of such Payments shall be taken into account which, in the opinion of the Accounting Firm, constitutes reasonable compensation for services actually rendered, within the meaning of Section 280G(b)(4)(B) of the Code, in excess of the base amount (as defined in Section 280G(b)(3) of the Code) allocable to such reasonable compensation, and (iii) the value of any non-cash benefit or any deferred payment or benefit included in the Payments shall be determined by the Accounting Firm in accordance with the principles of Sections 280G(d)(3) and (4) of the Code.

Section 9. Delayed Distribution under Section 409A of the Code. If the Executive is a Specified Employee on the date of the Executive’s Involuntary Termination (or on the date of the Executive’s Separation from Service by reason of Disability), the Section 409A Payments, and any other payments or benefits under this Agreement subject to Section 409A of the Code, shall be delayed in order to avoid a prohibited distribution under Section 409A(a)(2)(B)(i) of the Code, and such payments or benefits shall be paid or distributed to the Executive during the thirty (30) day period commencing on the earlier of (a) the expiration of the six-month period measured from the date of the Executive’s Separation from Service or (b) the date of the Executive’s death. Upon the expiration of the applicable six-month period under Section 409A(a)(2)(B)(i) of the Code, all payments deferred pursuant to this Section 9 (excluding in-kind benefits) shall be paid in a lump sum payment to the Executive, plus interest thereon from the date of the Executive’s Involuntary Termination through the payment date at an annual rate equal to Moody’s Rate. The “Moody’s Rate” shall mean the average of the daily Moody’s Corporate Bond Yield Average – Monthly Average Corporates as published by Moody’s Investors Service, Inc. (or any successor) for the month next preceding the Date of Termination. Any remaining payments due under the Agreement shall be paid as otherwise provided herein.

Section 10. Nonexclusivity of Rights. Nothing in this Agreement shall prevent or limit the Executive’s continuing or future participation in any benefit, plan, program, policy or practice provided by the Company and for which the Executive may qualify (except with respect to any benefit to which the Executive has waived his rights in writing), including, without limitation, any and all indemnification arrangements in favor of the Executive (whether under agreements or under the Company’s charter documents or otherwise), and insurance policies covering the Executive, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any other contract or agreement entered into after the Effective Date with the Company. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any benefit, plan, policy, practice or program of, or any contract or agreement entered into with, the Company shall be payable in accordance with such benefit, plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement. At all times during the Executive’s employment with the Company and thereafter, the Company shall provide (to the extent permissible under applicable law) the Executive with indemnification and D&O insurance insuring the Executive against insurable events which occur or have occurred while the Executive was a director or the Executive officer of the Company, on terms and conditions that are at least as generous as that then provided to any other current or former director or the Executive officer of the Company or any Affiliate. Such indemnification and D&O insurance shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(b)(10).

Section 11. Clawbacks. Notwithstanding anything herein to the contrary, if the Company determines, in its good faith judgment, that if the Executive is required to forfeit or to make any repayment of any compensation or benefit(s) to the Company under the Sarbanes-Oxley Act of 2002 or pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act or any other law, such forfeiture or repayment shall not constitute Good Reason.

Section 12. Full Settlement; Mitigation. The Company’s obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others, provided that nothing herein shall preclude the Company from separately pursuing recovery from the Executive based on any such claim. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts (including amounts for damages for breach) payable to the Executive under any of the provisions of this Agreement, and such amounts shall not be reduced whether or not the Executive obtains other employment.

Section 13. Dispute Resolution.

(a) If any dispute arises between Executive and the Company, including, but not limited to, disputes relating to or arising out of this Agreement, any action relating to or arising out of my employment or its termination, and/or any disputes regarding the interpretation, enforceability, or validity of this Agreement (“Arbitrable Dispute”), Executive and the Company waive the right to resolve the dispute through litigation in a judicial forum and agree to resolve the Arbitrable Dispute through final and binding arbitration, except as prohibited by law. Arbitration shall be the exclusive remedy for any Arbitrable Dispute.

(b) As to any Arbitrable Dispute, the Company and Executive waive any right to a jury trial or a court bench trial. The Company and Executive also waive the right to bring, maintain, or participate in any class, collective, or representative proceeding, whether in arbitration or otherwise. Further, Arbitrable Disputes must be brought in the individual capacity of the party asserting the claim, and cannot be maintained on a class, collective, or representative basis.

(c) Arbitration shall take place at the office of the Judicial Arbitration and Mediation Service (“JAMS”) (or, if Executive is employed outside of California, the American Arbitration Association (“AAA”)) nearest to the location where Executive last worked for the Company. Except to the extent it conflicts with the rules and procedures set forth in this Arbitration

Agreement, arbitration shall be conducted in accordance with the JAMs Employment Arbitration Rules & Procedures (if Executive is employed outside of California, the AAA Employment Arbitration Rules & Mediation Procedures), copies of which are attached for my reference and available at www.jamsadr.com; tel: 800.352.5267 and www.adr.org; tel: 800.778.7879, before a single experienced, neutral employment arbitrator selected in accordance with those rules.

(d) The Company will be responsible for paying any filing fee and the fees and costs of the arbitrator. Each party shall pay its own attorneys' fees. However, if any party prevails on a statutory claim that authorizes an award of attorneys' fees to the prevailing party, or if there is a written agreement providing for attorneys' fees, the arbitrator may award reasonable attorneys' fees to the prevailing party, applying the same standards a court would apply under the law applicable to the claim.

(e) The arbitrator shall apply the Federal Rules of Evidence, shall have the authority to entertain a motion to dismiss or a motion for summary judgment by any party, and shall apply the standards governing such motions under the Federal Rules of Civil Procedure. The arbitrator does not have the authority to consider, certify, or hear an arbitration as a class action, collective action, or any other type of representative action. The Company and Executive recognize that this Agreement arises out of or concerns interstate commerce and that the Federal Arbitration Act shall govern the arbitration and shall govern the interpretation or enforcement of this Arbitration Agreement or any arbitration award.

(f) EXECUTIVE ACKNOWLEDGES THAT BY ENTERING INTO THIS AGREEMENT, EXECUTIVE IS WAIVING ANY RIGHT HE OR SHE MAY HAVE TO A TRIAL BY JURY.

Section 14. Executive's Covenants.

(a) **Confidentiality.** The Executive acknowledges that in the course of his employment with the Company, he has acquired non-public privileged or confidential information and trade secrets concerning the operations, future plans and methods of doing business ("**Proprietary Information**") of the Company and its Affiliates; and the Executive agrees that it would be extremely damaging to the Company and its Affiliates if such Proprietary Information were disclosed to a competitor of the Company and its Affiliates or to any other person or corporation. The Executive understands and agrees that all Proprietary Information has been divulged to the Executive in confidence and further understands and agrees to keep all Proprietary Information secret and confidential (except for such information which is or becomes publicly available other than as a result of a breach by the Executive of this provision or information the Executive is required by any governmental, administrative or court order to disclose) without limitation in time. In view of the nature of the Executive's employment and the Proprietary Information the Executive has acquired during the course of such employment, the Executive likewise agrees that the Company and its Affiliates would be irreparably harmed by any disclosure of Proprietary Information in violation of the terms of this paragraph and that the Company and its Affiliates shall therefore be entitled to preliminary and/or permanent injunctive relief prohibiting the Executive from engaging in any activity or threatened activity in violation of the terms of this paragraph and to any other relief available to them. Inquiries regarding whether specific information constitutes Proprietary Information shall be directed to the Company's Senior Vice President, Public Policy (or, if such position is vacant, the Company's then Chief Executive Officer); *provided*, that the Company shall not unreasonably classify information as Proprietary Information.

(b) **Non-Solicitation of Employees.** The Executive recognizes that he possesses and will possess confidential information about other employees of the Company and its Affiliates relating to their education, experience, skills, abilities, compensation and benefits, and inter-personal relationships with customers of the Company and its Affiliates. The Executive recognizes that the information he possesses and will possess about these other employees is not generally known, is of substantial value to the Company and its Affiliates in developing their business and in securing and retaining customers, and has been and will be acquired by him because of his business position with the Company and its Affiliates. The Executive agrees that at all times during the Executive's employment with the Company and for a period of one (1) year thereafter, he will not, directly or indirectly, solicit or recruit any employee of the Company or its Affiliates for the purpose of being employed by him or by any competitor of the Company or its Affiliates on whose behalf he is acting as an agent, representative or employee and that he will not convey any such confidential information or trade secrets about other employees of the Company and its Affiliates to any other person; *provided, however*, that it shall not constitute a solicitation or recruitment of employment in violation of this paragraph to discuss employment opportunities with any employee of the Company or its Affiliates who has either first contacted the Executive or regarding whose employment the Executive has discussed with and received the written approval of the Company's Vice President, Human Resources (or, if such position is vacant, the Company's then Chief Executive Officer), prior to making such solicitation or recruitment. In view of the nature of the Executive's employment with the Company, the Executive likewise agrees that the Company and its Affiliates would be irreparably harmed by any solicitation or recruitment in violation of the terms of this paragraph and that the Company and its Affiliates shall therefore be entitled to preliminary and/or permanent injunctive relief prohibiting the Executive from engaging in any activity or threatened activity in violation of the terms of this paragraph and to any other relief available to them.

(c) **Survival of Provisions.** The obligations contained in Section 14(a) and Section 14(b) above shall survive the termination of the Executive's employment within the Company and shall be fully enforceable thereafter. If it is determined by a court of competent jurisdiction in any state that any restriction in Section 14(a) or Section 14(b) above is excessive in duration or scope or is unreasonable or unenforceable under the laws of that state, it is the intention of the parties that such restriction may be modified or amended by the court to render it enforceable to the maximum extent permitted by the law of that state.

(d) **Release; Lump Sum Payment.** In the event of the Executive's Involuntary Termination, if the Executive (i) reconfirms and agrees to abide by the covenants described in Section 14(a) and Section 14(b) above, (ii) executes the Release within fifty (50) days after the date of Involuntary Termination and does not revoke such Release in accordance with the terms thereof, and (iii) agrees to provide the consulting services described in Section 14(e) below, then in consideration for such

covenants and consulting services, the Company shall pay the Executive, in one cash lump sum, an amount (the “Consulting Payment”) in cash equal to the greater of: (X) 165% of the Executive’s Annual Base Salary as in effect on the Date of Termination, and (Y) the Executive’s Annual Base Salary as in effect on the Date of Termination, plus the Executive’s Average Annual Bonus. Except as provided in this subsection, the Consulting Payment shall be paid on such date as is determined by the Company within the ten (10) day period commencing on the 60th day after the date of the Executive’s Involuntary Termination; *provided, however*, that if the Executive is a Specified Employee on the date of the Executive’s Involuntary Termination, the Consulting Payment shall be paid as provided in Section 9 hereof. The Executive shall have the right to elect to defer the Consulting Payment under the terms and conditions of the Company’s Deferred Compensation Plan. Any such deferral election shall be made in accordance with Section 18(b) hereof.

(e) Consulting. If the Executive agrees to the provisions of Section 14(d) above, then the Executive shall have the obligation to provide consulting services to the Company as an independent contractor, commencing on the Date of Termination and ending on the second anniversary of the Date of Termination (the “Consulting Period”). The Executive shall hold himself available at reasonable times and on reasonable notice to render such consulting services as may be so assigned to him by the Board or the Company’s then Chief Executive Officer; *provided, however*, that unless the parties otherwise agree, the consulting services rendered by the Executive during the Consulting Period shall not exceed twenty (20) hours each month; and, *provided, further*, that the consulting services rendered by the Executive during the Consulting Period shall in no event exceed twenty percent (20%) of the average level of services performed by the Executive for the Company over the thirty-six (36) month period immediately preceding the Executive’s Separation from Service (or the full period of services to the Company, if the Executive has been providing services to the Company for less than thirty-six (36) months). The Company agrees to use its best efforts during the Consulting Period to secure the benefit of the Executive’s consulting services so as to minimize the interference with the Executive’s other activities, including requiring the performance of consulting services at the Company’s offices only when such services may not be reasonably performed off-site by the Executive.

Section 15. Legal Fees.

(a) Reimbursement of Legal Fees. Subject to subsection (b), in the event of the Executive’s Separation from Service either (1) prior to a Change in Control, or (2) on or within two (2) years following a Change in Control, the Company shall reimburse the Executive for all legal fees and expenses (including but not limited to fees and expenses in connection with any arbitration) incurred by the Executive in disputing any issue arising under this Agreement relating to the Executive’s Separation from Service or in seeking to obtain or enforce any benefit or right provided by this Agreement.

(b) Requirements for Reimbursement. The Company shall reimburse the Executive’s legal fees and expenses pursuant to subsection (a) above only to the extent the arbitrator or court determines the following: (i) the Executive disputed such issue, or sought to obtain or enforce such benefit or right, in good faith, (ii) the Executive had a reasonable basis for such claim, and (iii) in the case of subsection (a)(1) above, the Executive is the prevailing party. In addition, the Company shall reimburse such legal fees and expenses, only if such legal fees and expenses are incurred during the twenty (20) year period beginning on the date of the Executive’s Separation from Service. The legal fees and expenses paid to the Executive for any taxable year of the Executive shall not affect the legal fees and expenses paid to the Executive for any other taxable year of the Executive. The legal fees and expenses shall be paid to the Executive on or before the last day of the Executive’s taxable year following the taxable year in which the fees or expenses are incurred. The Executive’s right to reimbursement of legal fees and expenses shall not be subject to liquidation or exchange for any other benefit. Such right to reimbursement of legal fees and expenses shall be provided in a manner that complies with Treasury Regulation Section 1.409A-3(i)(1)(iv). If the Executive is a Specified Employee on the date of the Executive’s Separation from Service, such right to reimbursement of legal fees and expenses shall be paid as provided in Section 10 hereof.

Section 16. Successors.

(a) Assignment by the Executive. This Agreement is personal to the Executive and without the prior written consent of Sempra Energy shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive’s legal representatives.

(b) Successors and Assigns of Sempra Energy. This Agreement shall inure to the benefit of and be binding upon Sempra Energy, its successors and assigns. Sempra Energy may not assign this Agreement to any person or entity (except for a successor described in Section 16(c), (d) or (e) below) without the Executive’s written consent.

(c) Assumption. Sempra Energy shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of Sempra Energy to assume expressly and agree to perform the obligations and satisfy and discharge the liabilities of this Agreement in the same manner and to the same extent that Sempra Energy would have been required to perform the obligations and satisfy and discharge the liabilities under this Agreement if no such succession had taken place, and Sempra Energy shall have no further obligations and liabilities under this Agreement. Upon such assumption, references to Sempra Energy in this Agreement shall be replaced with references to such successor.

(d) Sale of Subsidiary. In the event that (i) the Executive is employed by a direct or indirect subsidiary of Sempra Energy that is a member of the Sempra Energy Control Group, (ii) Sempra Energy, directly or indirectly through one or more intermediaries, sells or otherwise disposes of such subsidiary, and (iii) such subsidiary ceases to be a member of the Sempra Energy Control Group, then if, on the date such subsidiary ceases to be a member of the Sempra Energy Control Group, the Executive continues in employment with such subsidiary and the Executive does not have a Separation from Service, Sempra Energy shall require such subsidiary or any successor (whether direct or indirect, by purchase merger, consolidation or otherwise)

to such subsidiary, or the parent thereof, to assume expressly and agree to perform the obligations and satisfy and discharge the liabilities under this Agreement in the same manner and to the same extent that Sempra Energy would have been required to perform the obligations and satisfy and discharge the liabilities under this Agreement, if such subsidiary had not ceased to be part of the Sempra Energy Control Group, and, upon such assumption, Sempra Energy shall have no further obligations and liabilities under the Agreement. Upon such assumption, (i) references to Sempra Energy in this Agreement shall be replaced with references to such subsidiary, or such successor or parent thereof, assuming this Agreement, and (ii) subsection (b) of the definition of "Cause" and subsection (b) of the definition of "Good Reason" shall apply thereafter, as if a Change in Control had occurred on the date of such cessation.

(e) Sale of Assets of Subsidiary. In the event that (i) the Executive is employed by a direct or indirect subsidiary of Sempra Energy, and (ii) such subsidiary sells or otherwise disposes of substantial assets of such subsidiary to an unrelated service recipient, as determined under Treasury Regulation Section 1.409A-1(f)(2)(ii) (the "Asset Purchaser"), in a transaction described in Treasury Regulation Section 1.409A-1(h)(4) (an "Asset Sale"), then if, on the date of such Asset Sale, the Executive becomes employed by the Asset Purchaser, Sempra Energy and the Asset Purchaser shall specify, in accordance with Treasury Regulation Section 1.409A-1(h)(4), that the Executive shall not be treated as having a Separation from Service, and Sempra Energy shall require such Asset Purchaser, or the parent thereof, to assume expressly and agree to perform the obligations and satisfy and discharge the liabilities under this Agreement in the same manner and to the same extent that Sempra Energy would have been required to perform the obligations and satisfy and discharge the liabilities under this Agreement, if the Asset Sale had not taken place, and, upon such assumption, Sempra Energy shall have no further obligations and liabilities under the Agreement. Upon such assumption, (i) references to Sempra Energy in this Agreement shall be replaced with references to the Asset Purchaser or the parent thereof, as applicable, and (ii) subsection (b) of the definition of "Cause" and subsection (b) of the definition of "Good Reason" shall apply thereafter, as if a Change in Control had occurred on the date of the Asset Sale.

Section 17. Administration Prior to Change in Control. Prior to a Change in Control, the Compensation Committee shall have full and complete authority to construe and interpret the provisions of this Agreement, to determine an individual's entitlement to benefits under this Agreement, to make in its sole and absolute discretion all determinations contemplated under this Agreement, to investigate and make factual determinations necessary or advisable to administer or implement this Agreement, and to adopt such rules and procedures as it deems necessary or advisable for the administration or implementation of this Agreement. All determinations made under this Agreement by the Compensation Committee shall be final and binding on all interested persons. Prior to a Change in Control, the Compensation Committee may delegate responsibilities for the operation and administration of this Agreement to one or more officers or employees of the Company. The provisions of this Section 17 shall terminate and be of no further force and effect upon the occurrence of a Change in Control.

Section 18. Section 409A of the Code.

(a) Compliance with and Exemption from Section 409A of the Code. Certain payments and benefits payable under this Agreement (including, without limitation, the Section 409A Payments) are intended to comply with the requirements of Section 409A of the Code. Certain payments and benefits payable under this Agreement are intended to be exempt from the requirements of Section 409A of the Code. This Agreement shall be interpreted in accordance with the applicable requirements of, and exemptions from, Section 409A of the Code and the Treasury Regulations thereunder. To the extent the payments and benefits under this Agreement are subject to Section 409A of the Code, this Agreement shall be interpreted, construed and administered in a manner that satisfies the requirements of Sections 409A(a)(2), (3) and (4) of the Code and the Treasury Regulations thereunder (subject to the transitional relief under Internal Revenue Service Notice 2005-1, the Proposed Regulations under Section 409A of the Code, Internal Revenue Service Notice 2006-79, Internal Revenue Service Notice 2007-78, Internal Revenue Service Notice 2007-86 and other applicable authority issued by the Internal Revenue Service). As provided in Internal Revenue Notice 2007-86, notwithstanding any other provision of this Agreement, with respect to an election or amendment to change a time or form of payment under this Agreement made on or after January 1, 2008 and on or before December 31, 2008, the election or amendment shall apply only with respect to payments that would not otherwise be payable in 2008, and shall not cause payments to be made in 2008 that would not otherwise be payable in 2008. If the Company and the Executive determine that any compensation, benefits or other payments that are payable under this Agreement and intended to comply with Sections 409A(a)(2), (3) and (4) of the Code do not comply with Section 409A of the Code, the Treasury Regulations thereunder and other applicable authority issued by the Internal Revenue Service, to the extent permitted under Section 409A of the Code, the Treasury Regulations thereunder and any applicable authority issued by the Internal Revenue Service, the Company and the Executive agree to amend this Agreement, or take such other actions as the Company and the Executive deem reasonably necessary or appropriate, to cause such compensation, benefits and other payments to comply with the requirements of Section 409A of the Code, the Treasury Regulations thereunder and other applicable authority issued by the Internal Revenue Service, while providing compensation, benefits and other payments that are, in the aggregate, no less favorable than the compensation, benefits and other payments provided under this Agreement. In the case of any compensation, benefits or other payments that are payable under this Agreement and intended to comply with Sections 409A(a)(2), (3) and (4) of the Code, if any provision of the Agreement would cause such compensation, benefits or other payments to fail to so comply, such provision shall not be effective and shall be null and void with respect to such compensation, benefits or other payments to the extent such provision would cause a failure to comply, and such provision shall otherwise remain in full force and effect.

(b) Deferral Elections. As provided in Sections 4(f), 5(i) and 14(d), the Executive may elect to defer the Pre-Change in Control Severance Payment, the Post-Change in Control Severance Payment and the Consulting Payment as follows.

The Executive's deferral election shall satisfy the requirements of Treasury Regulation Section 1.409A-2(b) and the terms and conditions of the Deferred Compensation Plan. Such deferral election shall designate the whole percentage (up to a maximum of 100%) of the Pre-Change in Control Severance Payment, the Post-Change in Control Severance Payment and the Consulting

Payment to be deferred, shall be irrevocable when made, and shall not take effect until at least twelve (12) months after the date on which the election is made. Such deferral election shall provide that the amount deferred shall be deferred for a period of not less than five (5) years from the date the payment of the amount deferred would otherwise have been made, in accordance with Treasury Regulation Section 1.409A-2(b)(1)(ii).

Section 19. Miscellaneous.

(a) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, without reference to its principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended, modified, repealed, waived, extended or discharged except by an agreement in writing signed by the party against whom enforcement of such amendment, modification, repeal, waiver, extension or discharge is sought. No person, other than pursuant to a resolution of the Board or a committee thereof, shall have authority on behalf of the Company to agree to amend, modify, repeal, waive, extend or discharge any provision of this Agreement or anything in reference thereto.

(b) Notices. All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed, in either case, to the Company's headquarters or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notices and communications shall be effective when actually received by the addressee.

(c) Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) Taxes. The Company may withhold from any amounts payable under this Agreement such federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) No Waiver. The Executive's or the Company's failure to insist upon strict compliance with any provision hereof or any other provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason pursuant to Section 1 hereof, or the right of the Company to terminate the Executive's employment for Cause pursuant to Section 1 hereof shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(f) Entire Agreement; Exclusive Benefit; Supersession of Prior Agreement. This instrument contains the entire agreement of the Executive, the Company or any predecessor or subsidiary thereof with respect to any severance or termination pay. The Pre-Change in Control Severance Payment, the Post-Change in Control Severance Payment and all other benefits provided hereunder shall be in lieu of any other severance payments to which the Executive is entitled under any other severance plan or program or arrangement sponsored by the Company, as well as pursuant to any individual employment or severance agreement that was entered into by the Executive and the Company, and, upon the Effective Date of this Agreement, all such plans, programs, arrangements and agreements are hereby automatically superseded and terminated.

(g) No Right of Employment. Nothing in this Agreement shall be construed as giving the Executive any right to be retained in the employ of the Company or shall interfere in any way with the right of the Company to terminate the Executive's employment at any time, with or without Cause.

(h) Unfunded Obligation. The obligations under this Agreement shall be unfunded. Benefits payable under this Agreement shall be paid from the general assets of the Company. The Company shall have no obligation to establish any fund or to set aside any assets to provide benefits under this Agreement.

(i) Termination upon Sale of Assets of Subsidiary. Notwithstanding anything contained herein, this Agreement shall automatically terminate and be of no further force and effect and no benefits shall be payable hereunder in the event that (i) the Executive is employed by a direct or indirect subsidiary of Sempra Energy, and (ii) an Asset Sale (as defined in Section 16(e)) occurs (other than such a sale or disposition which is part of a transaction or series of transactions which would result in a Change in Control), and (iii) as a result of such Asset Sale, the Executive is offered employment by the Asset Purchaser in an executive position with reasonably comparable status, compensation, benefits and severance agreement (including the assumption of this Agreement in accordance with Section 16(e)) and which is consistent with the Executive's experience and education, but the Executive declines to accept such offer and the Executive fails to become employed by the Asset Purchaser on the date of the Asset Sale.

(j) Term. The term of this Agreement shall commence on the Effective Date and shall continue until the third (3rd) anniversary of the Effective Date; *provided, however*, that commencing on the second (2nd) anniversary of the Effective Date (and each anniversary of the Effective Date thereafter), the term of this Agreement shall automatically be extended for one (1) additional year, unless at least ninety (90) days prior to such date, the Company or the Executive shall give written notice to the other party that it or he, as the case may be, does not wish to so extend this Agreement. Notwithstanding the foregoing, if the Company gives such written notice to the Executive less than two (2) years after a Change in Control, the term of this Agreement shall be automatically extended until the later of (A) the date that is one (1) year after the anniversary of the Effective Date that follows such written notice or (B) the second (2nd) anniversary of the Change in Control Date.

(k) Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

[remainder of page intentionally left blank]

IN WITNESS WHEREOF, the Executive and, pursuant to due authorization from its Board of Directors, the Company have caused this Agreement to be executed as of the day and year first above written.

SEMPRA ENERGY

G. Joyce Rowland
Senior Vice President, Human Resources, Diversity and Inclusion

Date

EXECUTIVE

Martha B. Wyrsh
Executive Vice President and General Counsel

Date

GENERAL RELEASE

This GENERAL RELEASE (the "Agreement"), dated _____, is made by and between _____, a California corporation (the "Company") and _____ ("you" or "your").

WHEREAS, you and the Company have previously entered into that certain Severance Pay Agreement dated _____, 20____ (the "Severance Pay Agreement"); and

WHEREAS, your right to receive certain severance pay and benefits pursuant to the terms of Section 4 or Section 5 of the Severance Pay Agreement, as applicable, are subject to and conditioned upon your execution and non-revocation of a general release of claims by you against the Company and its subsidiaries and affiliates.

WHEREAS, your right to receive the Consulting Payment provided pursuant to Section 14(d) of the Severance Pay Agreement is subject to and conditioned upon your execution and non-revocation of a general release of claims by you against the Company and its subsidiaries and affiliates; and your adherence to the covenants described under Section 14 of the Severance Pay Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, you and the Company hereby agree as follows:

ONE: Your signing of this Agreement confirms that your employment with the Company shall terminate at the close of business on _____, or earlier upon our mutual agreement.

TWO: As a material inducement for the payment of the severance and benefit under the Severance Pay Agreement, and except as otherwise provided in this Agreement, you and the Company hereby irrevocably and unconditionally release, acquit and forever discharge the other from any and all Claims either may have against the other. For purposes of this Agreement and the preceding sentence, the words "Releasee" or "Releasees" and "Claim" or "Claims" shall have the meanings set forth below:

(a) The words "Releasee" or "Releasees" shall refer to you and to the Company and each of the Company's owners, stockholders, predecessors, successors, assigns, agents, directors, officers, employees, representatives, attorneys, advisors, parent companies, divisions, subsidiaries, affiliates (and agents, directors, officers, employees, representatives, attorneys and advisors of such parent companies, divisions, subsidiaries and affiliates) and all persons acting by, through, under or in concert with any of them.

(b) The words "Claim" or "Claims" shall refer to any charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses (including attorneys' fees and costs actually incurred) of any nature whatsoever, known or unknown, suspected or unsuspected, which you or the Company now, in the past or, in the future may have, own or hold against any of the Releasees; *provided, however*, that the word "Claim" or "Claims" shall not refer to any charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses (including attorneys' fees and costs actually incurred) arising under [*identify severance, employee benefits, stock option, indemnification and D&O and other agreements containing duties, rights obligations etc. of either party that are to remain operative*]. Claims released pursuant to this Agreement by you and the Company include, but are not limited to, rights arising out of alleged violations of any contracts, express or implied, any tort, claim, any claim that you failed to perform or negligently performed or breached your duties during employment at the Company, any legal restrictions on the Company's right to terminate employment relationships; and any federal, state or other governmental statute, regulation, or ordinance, governing the employment relationship including, without limitation, all state and federal laws and regulations prohibiting discrimination based on protected categories, and all state and federal laws and regulations prohibiting retaliation against employees for engaging in protected activity or legal off-duty conduct. This release does not extend to claims for workers' compensation or other claims which by law may not be waived or released by this Agreement.

THREE: You and the Company expressly waive and relinquish all rights and benefits afforded by any statute (including but not limited to Section 1542 of the Civil Code of the State of California and analogous laws of other states) which limits the effect of a release with respect to unknown claims. You and the Company do so understanding and acknowledging the significance of the release of unknown claims and the waiver of statutory protection against a release of unknown claims (including but not limited to Section 1542 and analogous laws of other states). Section 1542 of the Civil Code of the State of California states as follows:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR."

Thus, notwithstanding the provisions of Section 1542 or of any similar statute, and for the purpose of implementing a full and complete release and discharge of the Releasees, you and the Company expressly acknowledge that this Agreement is intended to include in its effect, without limitation, all Claims which are known and all Claims which you or the Company do not know or suspect to exist in your or the Company's favor at the time of execution of this Agreement and that this Agreement contemplates the extinguishment of all such Claims.

FOUR: The parties acknowledge that they might hereafter discover facts different from, or in addition to, those they now know or believe to be true with respect to a Claim or Claims released herein, and they expressly agree to assume the risk of possible discovery of additional or different facts, and agree that this Agreement shall be and remain effective, in all respects, regardless of such additional or different discovered facts.

FIVE: You hereby represent and acknowledge that you have not filed any Claim of any kind against the Company or others released in this Agreement. You further hereby expressly agree never to initiate against the Company or others released in this Agreement any administrative proceeding, lawsuit or any other legal or equitable proceeding of any kind asserting any Claims that are released in this Agreement. You agree that you will not be entitled to any monetary recovery that may result from any agency action against the Company related to the Claims released by this Agreement.

The Company hereby represents and acknowledges that it has not filed any Claim of any kind against you or others released in this Agreement. The Company further hereby expressly agrees never to initiate against you or others released in this Agreement any administrative proceeding, lawsuit or any other legal or equitable proceeding of any kind asserting any Claims that are released in this Agreement.

SIX: You hereby represent and agree that you have not assigned or transferred, or attempted to have assigned or transfer, to any person or entity, any of the Claims that you are releasing in this Agreement.

The Company hereby represents and agrees that it has not assigned or transferred, or attempted to have assigned or transfer, to any person or entity, any of the Claims that it is releasing in this Agreement.

SEVEN: As a further material inducement to the Company to enter into this Agreement, you hereby agree to indemnify and hold each of the Releasees harmless from all loss, costs, damages, or expenses, including without limitation, attorneys' fees incurred by the Releasees, arising out of any breach of this Agreement by you or the fact that any representation made in this Agreement by you was false when made.

As a further material inducement to you to enter into this Agreement, the Company hereby agrees to indemnify and hold each of the Releasees harmless from all loss, costs, damages, or expenses, including without limitation, attorneys' fees incurred by the Releasees, arising out of any breach of this Agreement by it or the fact that any representation made in this Agreement by it was knowingly false when made.

EIGHT: You and the Company represent and acknowledge that in executing this Agreement, neither is relying upon any representation or statement not set forth in this Agreement or the Severance Agreement.

NINE: (a) This Agreement shall not in any way be construed as an admission by the Company that it has acted wrongfully with respect to you or any other person, or that you have any rights whatsoever against the Company, and the Company specifically disclaims any liability to or wrongful acts against you or any other person, on the part of itself, its employees or its agents. This Agreement shall not in any way be construed as an admission by you that you have acted wrongfully with respect to the Company, or that you failed to perform your duties or negligently performed or breached your duties, or that the Company had good cause to terminate your employment.

(b) If you are a party or are threatened to be made a party to any proceeding by reason of the fact that you were an officer or director of the Company, the Company shall indemnify you against any expenses (including reasonable attorneys' fees; *provided*, that counsel has been approved by the Company prior to retention, which approval shall not be unreasonably withheld), judgments, fines, settlements and other amounts actually or reasonably incurred by you in connection with that proceeding; *provided*, that you acted in good faith and in a manner you reasonably believed to be in the best interest of the Company. The limitations of California Corporations Code Section 317 shall apply to this assurance of indemnification.

(c) You agree to cooperate with the Company and its designated attorneys, representatives and agents in connection with any actual or threatened judicial, administrative or other legal or equitable proceeding in which the Company is or may become involved. Upon reasonable notice, you agree to meet with and provide to the Company or its designated attorneys, representatives or agents all information and knowledge you have relating to the subject matter of any such proceeding. The Company agrees to reimburse you for any reasonable costs you incur in providing such cooperation.

TEN: This Agreement is entered into in California and shall be governed by substantive California law, except as provided in this section. If any dispute arises between you and the Company, including but not limited to, disputes relating to this Agreement, or if you prosecute a claim you purported to release by means of this Agreement ("Arbitrable Dispute"), you and the Company agree to resolve that Arbitrable Dispute through final and binding arbitration under this section. You also agree to arbitrate any Arbitrable Dispute which also involves any other released party who offers or agrees to arbitrate the dispute under this section. Your agreement to arbitrate applies, for example, to disputes about the validity, interpretation, or effect of this Agreement or alleged violations of it, claims of discrimination under federal or state law, or other statutory violation claims.

As to any Arbitrable Dispute, you and the Company waive any right to a jury trial or a court bench trial. You and the Company also waive the right to bring, maintain, or participate in any class, collective, or representative proceeding, whether in arbitration or otherwise. Further, Arbitrable Disputes must be brought in the individual capacity of the party asserting the claim, and cannot be maintained on a class, collective, or representative basis.

Arbitration shall take place in San Diego, California under the employment dispute resolution rules of the Judicial Arbitration and Mediation Service (“JAMS”), (or, if you are employed outside of California at the time of the termination of your employment, at the nearest location of the American Arbitration Association and in accordance with the AAA rules), before an experienced employment arbitrator selected in accordance with those rules. The arbitrator may not modify or change this Agreement in any way. The Company will be responsible for paying any filing fee and the fees and costs of the Arbitrator; provided, however, that if you are the party initiating the claim, you will contribute an amount equal to the filing fee to initiate a claim in the court of general jurisdiction in the state in which you are employed by the Company. Each party shall pay for its own costs and attorneys’ fees, if any. However if any party prevails on a statutory claim which affords the prevailing party attorneys’ fees and costs, or if there is a written agreement providing for attorneys’ fees and/or costs, the Arbitrator may award reasonable attorney’s fees and/or costs to the prevailing party, applying the same standards a court would apply under the law applicable to the claim. The Arbitrator shall apply the Federal Rules of Evidence and shall have the authority to entertain a motion to dismiss or a motion for summary judgment by any party and shall apply the standards governing such motions under the Federal Rules of Civil Procedure. The Federal Arbitration Act shall govern the arbitration and shall govern the interpretation or enforcement of this section or any arbitration award. The arbitrator will not have the authority to consider, certify, or hear an arbitration as a class action, collective action, or any other type of representative action.

To the extent that the Federal Arbitration Act is inapplicable, California law pertaining to arbitration agreements shall apply. Arbitration in this manner shall be the exclusive remedy for any Arbitrable Dispute. Except as prohibited by the ADEA, should you or the Company attempt to resolve an Arbitrable Dispute by any method other than arbitration pursuant to this section, the responding party will be entitled to recover from the initiating party all damages, expenses, and attorneys’ fees incurred as a result of this breach. This Section TEN supersedes any existing arbitration agreement between the Company and me as to any Arbitrable Dispute. Notwithstanding anything in this Section TEN to the contrary, a claim for benefits under an ERISA-covered plan shall not be an Arbitrable Dispute.

ELEVEN: Both you and the Company understand that this Agreement is final and binding eight (8) days after its execution and return. Should you nevertheless attempt to challenge the enforceability of this Agreement as provided in Paragraph TEN or, in violation of that Paragraph, through litigation, as a further limitation on any right to make such a challenge, you shall initially tender to the Company, by certified check delivered to the Company, all monies received pursuant to Sections 4 or 5 of the Severance Pay Agreement, as applicable, plus interest, and invite the Company to retain such monies and agree with you to cancel this Agreement and void the Company’s obligations under Section 14(d) of the Severance Pay Agreement. In the event the Company accepts this offer, the Company shall retain such monies and this Agreement shall be canceled and the Company shall have no obligation under the Severance Pay Agreement. In the event the Company does not accept such offer, the Company shall so notify you and shall place such monies in an interest-bearing escrow account pending resolution of the dispute between you and the Company as to whether or not this Agreement and the Company’s obligations under the Severance Pay Agreement shall be set aside and/or otherwise rendered voidable or unenforceable. Additionally, any consulting agreement then in effect between you and the Company shall be immediately rescinded with no requirement of notice.

TWELVE: Any notices required to be given under this Agreement shall be delivered either personally or by first class United States mail, postage prepaid, addressed to the respective parties as follows:

To Company: [TO COME]

Attn: [TO COME]

To You: _____

THIRTEEN: You understand and acknowledge that you have been given a period of forty-five (45) days to review and consider this Agreement (as well as statistical data on the persons eligible for similar benefits) before signing it and may use as much of this forty-five (45) day period as you wish prior to signing. You are encouraged, at your personal expense, to consult with an attorney before signing this Agreement. You understand and acknowledge that whether or not you do so is your decision. You may revoke this Agreement within seven (7) days of signing it. If you wish to revoke, the Company’s Vice President, Human Resources must receive written notice from you no later than the close of business on the seventh (7th) day after you have signed the Agreement. If revoked, this Agreement shall not be effective and enforceable, and you will not receive payments or benefits under Sections 4 or 5, and Section 14 of the Severance Pay Agreement, as applicable.

FOURTEEN: This Agreement constitutes the entire agreement of the parties hereto and supersedes any and all other agreements (except the Severance Pay Agreement) with respect to the subject matter of this Agreement, whether written or oral, between you and the Company. All modifications and amendments to this Agreement must be in writing and signed by the parties.

FIFTEEN: Each party agrees, without further consideration, to sign or cause to be signed, and to deliver to the other party, any other documents and to take any other action as may be necessary to fulfill the obligations under this Agreement.

SIXTEEN: If any provision of this Agreement or the application thereof is held invalid, the invalidity shall not affect other provisions or applications of the Agreement which can be given effect without the invalid provisions or application; and to this end the provisions of this Agreement are declared to be severable.

SEVENTEEN: This Agreement may be executed in counterparts.

I have read the foregoing General Release, and I accept and agree to the provisions it contains and hereby execute it voluntarily and with full understanding of its consequences. I am aware it includes a release of all known or unknown claims.

DATED: _____

DATED: _____

You acknowledge that you first received this Agreement on [date].

<YEAR> Executive Incentive Compensation Plan – San Diego Gas & Electric

ICP Plan Year: January 1, <YEAR> to December 31, <YEAR>

INTRODUCTION

The San Diego Gas & Electric (SDG&E) Incentive Compensation Plan (ICP) is designed to attract, retain, and engage executives whose efforts contribute to the success of SDG&E and Sempra Energy (SE). The plan aligns with Sempra Energy’s goal of sustained earnings growth and the utility’s regulatory framework with goals that encourage executives to drive towards our aspirations and to:

- * Maintain high safety standards,
- * Grow the business through enterprise thinking while maximizing revenues/profits,
- * Focus on a common set of high-level goals that encourages teamwork and achievement of operational excellence,
- * Focus on business efficiencies and investments that produce long-term efficiency benefits,
- * Increase reliability of delivery service,
- * Enhance customer focus to achieve optimal customer satisfaction, and
- * Achieve high level of employee commitment and contribution through sharing of business success and the establishment of key performance indicators.

PARTICIPATION

Executives who meet all of the following eligibility requirements will participate in this incentive plan for <YEAR>.

1. Employee is an eligible executive, as determined by the SDG&E Board of Directors, for at least three consecutive full months during <YEAR> and is an employee on December 31, <YEAR> or meets other eligibility requirements as listed under section: Employee Status Changes.
2. Participant has met minimum job expectations and performed satisfactorily, as determined by his/her supervisor in conjunction with Human Resources.
3. Participant is not in another formal incentive plan in <YEAR>.

Participation in one plan year does not constitute the right to participate in succeeding plan years. This plan does not constitute a contract of employment or guarantee of an incentive award payment and cannot be relied on as such.

BASIS FOR AWARD CALCULATION

Awards are calculated based on the employee’s “Basis for Award Calculation” (**BAC**) while on the active payroll. BAC includes annual **base salary** on December 31, <YEAR> plus any eligible **lump sum payment** that may be granted during <YEAR>. Other awards (e.g. spot cash); incentives, premiums and payments are not included in the BAC.

PERFORMANCE GOALS AND MEASURES

SDG&E ICP Goals & Measures	WEIGHT	MULTIPLIER	MIN	TARGET	MAX
FINANCIAL GOALS (in Millions)					
OPERATIONAL GOALS					
TOTAL	100.00%	Capped at 200%			

FINANCIAL MEASURES

Sempra Energy Earnings

Sempra Energy Earnings are revenue minus expense, less tax. Employees can influence earnings by either **increasing revenue** or **decreasing expenses**. Earnings are determined after accounting for the appropriate accrued level of incentive compensation expense.

Sempra Energy Earnings exclude:

- <DEFINE EXCLUSIONS>

San Diego Gas & Electric Financial Measure:

<Define SDG&E Financial Measure>

OPERATIONAL GOALS

The payout for all Operational Goals range between 0%-200%.

<Define Operational Measures>

CALCULATION, CERTIFICATION AND PAYMENT OF AWARDS

Award potentials will be linearly interpolated between the minimum and target, or target and maximum goals. There is no award payout for performance at or below the minimum goals. The payout for the financial component may, at the board's discretion, be reduced in consideration of individual performance.

Adjustments to the budget target for ICP calculation purposes will require the written approval of the Chief Executive Officer of SDG&E. The approved exceptions will be limited to costs or expenses related to future growth opportunities and the funding of process improvements above the planned budget.

The SDG&E Board of Directors must approve awards. Approved awards will be paid by March 15, <YEAR> and will be subject to appropriate tax withholding. Such awards are considered pension-eligible earnings for the Cash Balance Plan and are included as eligible earnings for the 401(k) Plan. Employees with outstanding loan payments to the 401(k) plan and/or for medical premiums may, at the Company's option, have up to the full arrears deducted from their ICP check. Employees will be notified by mail with respect to any arrears payments for these deductions.

EMPLOYEE STATUS CHANGES

All eligible employees (including new hires) will have their award prorated for the period of participation in the plan while on the active payroll. For employees who change target percentages during a plan year, their award will be calculated based on the effective period for each target percentage.

Employees who transfer within the corporation or among incentive plans during the year will be eligible for an award under this plan provided that all eligibility requirements are met. The award will be based on the employee's December 31, <YEAR> BAC, prorated for the participation period in this plan.

An award will still be paid if a participant meets all other eligibility requirements during <YEAR> but is not a regular employee on December 31, <YEAR> due to the following reasons:

- * Participant's employment terminates for any reason after he/she has attained age 55 *and* at the time his/her employment terminated he/she had completed at least five years of service; or
- * Participant leaves his/her position under disability (as defined in the company disability benefit plan); or
- * Participant dies during an award year (award will be paid to the participant's estate).

In the above circumstances, the award will be calculated based on the participant's BAC prorated for the period of participation in the plan while on the active payroll. Awards will be paid the same time payment is made to other participants and will be offset by any amount paid pursuant the "Severance Benefits upon Termination of Employment due to Death or Disability" section of the participant's Severance Pay Agreement.

If a participant leaves the company for any other reason, eligibility for an award for the plan year will be forfeited unless an exception is made at the discretion of the Chairman and CEO.

PLAN ADMINISTRATION

The Company retains the discretion and authority to interpret, amend or modify the plan; to grant incentive awards; as well as to terminate, increase or decrease any incentive award opportunity during the performance period; and to reduce or eliminate any incentive awards that would otherwise be payable at the end of the performance period. The Company, in its sole discretion determines Sempra Energy Earnings, SDG&E Earnings, aspirational measures and award calculations.

The Company shall require the forfeiture, recovery or reimbursement of awards or compensation under this Plan as (i) required by applicable law, or (ii) required under any policy implemented or maintained by the Company pursuant to any applicable rules or requirements of a national securities exchange or national securities association on which any securities of the Company are listed. The Company reserves the right to recoup compensation paid if it determines that the results on which the compensation was paid were not actually achieved.

The SDG&E Board may, in its sole discretion, require the recovery or reimbursement of short-term incentive compensation awards from any employee whose fraudulent or intentional misconduct materially affects the operations or financial results of the Company or its subsidiaries.

Questions concerning the plan should be directed to the Sr. Vice President – Human Resources, Diversity & Inclusion, Sempra Energy.

**SEMPRA ENERGY
SEVERANCE PAY AGREEMENT**

THIS AGREEMENT (this “Agreement”), dated as of April 3, 2010 (the “Effective Date”), is made by and between SEMpra ENERGY, a California corporation (“Sempra Energy”), and Jeffrey W. Martin (the “Executive”).

WHEREAS, the Executive is currently employed by Sempra Energy or a direct or indirect subsidiary of Sempra Energy (Sempra Energy and its subsidiaries are hereinafter collectively referred to as the “Company”) as President & CEO - Generation; and

WHEREAS, Sempra Energy and the Executive desire to enter into this Agreement; and

WHEREAS, the Board of Directors of Sempra Energy (the “Board”) has authorized this Agreement.

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained, the Company and the Executive hereby agree as follows:

Section 1. Definitions. For purposes of this Agreement, the following capitalized terms have the meanings set forth below:

“Accounting Firm” has the meaning assigned thereto in Section 9(b) hereof.

“Act” has the meaning assigned thereto in Section 2 hereof.

“Additional Post-Change in Control Severance Payment” has the meaning assigned thereto in Section 6(a) hereof.

“Affiliate” has the meaning set forth in Rule 12b-2 promulgated under the Exchange Act.

“Annual Base Salary” means the Executive’s annual base salary from the Company.

“Asset Purchaser” has the meaning assigned thereto in Section 16(e).

“Asset Sale” has the meaning assigned thereto in Section 16(e).

“Average Annual Bonus” means the average of the annual bonuses from the Company earned by the Executive with respect to the three (3) fiscal years of the Company immediately preceding the Date of Termination (the “Bonus Fiscal Years”); *provided, however*, that, if the Executive was employed by the Company during all or any portion of one or two of the Bonus Fiscal Years (but not three of the Bonus Fiscal Years), “Average Annual Bonus” means the average of the annual bonuses (if any) from the Company earned by the Executive with respect to the Bonus Fiscal Years during all or any portion of which the Executive was employed by the Company; and, *provided, further*, that, if the Executive was not employed by the Company during all or any portion of any of the Bonus Fiscal Years, “Average Annual Bonus” means zero.

“Beneficial Owner” has the meaning set forth in Rule 13d-3 promulgated under the Exchange Act.

“Cause” means:

(a) Prior to a Change in Control, (i) the willful failure by the Executive to substantially perform the Executive’s duties with the Company (other than any such failure resulting from the Executive’s incapacity due to physical or mental illness, (ii) the grossly negligent performance of such obligations referenced in clause (i) of this definition, (iii) the Executive’s gross insubordination; and/or (iv) the Executive’s commission of one or more acts of moral turpitude that constitute a violation of applicable law (including but not limited to a felony) which have or result in an adverse effect on the Company, monetarily or otherwise, or one or more significant acts of dishonesty. For purposes of clause (i) of this subsection (a), no act, or failure to act, on the Executive’s part shall be deemed “willful” unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the Executive’s act, or failure to act, was in the best interests of the Company.

(b) From and after a Change in Control, (i) the willful and continued failure by the Executive to substantially perform the Executive’s duties with the Company (other than any such failure resulting from the Executive’s incapacity due to physical or mental illness or any such actual or anticipated failure after the issuance of a Notice of Termination for Good Reason by the Executive pursuant to Section 3 hereof) and/or (ii) the Executive’s commission of one or more acts of moral turpitude that constitute a violation of applicable law (including but not limited to a felony) which have or result in an adverse effect on the Company, monetarily or otherwise, or one or more significant acts of dishonesty. For purposes of clause (i) of this subsection (b), no act, or failure to act, on the Executive’s part shall be deemed “willful” unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the Executive’s act, or failure to act, was in the best interests of the Company. Notwithstanding the foregoing, the Executive shall not be deemed terminated for Cause pursuant to clause (i) of this subsection (b) unless and until the Executive shall have been provided with reasonable notice of and, if possible, a reasonable opportunity to cure the facts and circumstances claimed to provide a basis for termination of the Executive’s employment for Cause.

“Change in Control” shall be deemed to have occurred on the date that a change in the ownership of Sempra Energy, a change in the effective control of Sempra Energy, or a change in the ownership of a substantial portion of assets of Sempra

Energy occurs (each, as defined in subsection (a) below), except as otherwise provided in subsections (b), (c) and (d) below:

(a) (i) a “change in the ownership of Sempra Energy” occurs on the date that any one person, or more than one person acting as a group, acquires ownership of stock of Sempra Energy that, together with stock held by such person or group, constitutes more than fifty percent (50%) of the total fair market value or total voting power of the stock of Sempra Energy,

(ii) a “change in the effective control of Sempra Energy” occurs only on either of the following dates:

(A) the date any one person, or more than one person acting as a group, acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of Sempra Energy possessing thirty percent (30%) or more of the total voting power of the stock of Sempra Energy, or

(B) the date a majority of the members of the Board is replaced during any twelve (12) month period by directors whose appointment or election is not endorsed by a majority of the members of the Board before the date of appointment or election, and

(iii) a “change in the ownership of a substantial portion of assets of Sempra Energy” occurs on the date any one person, or more than one person acting as a group, acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) assets from Sempra Energy that have a total gross fair market value equal to or more than eighty-five percent (85%) of the total gross fair market value of all of the assets of Sempra Energy immediately before such acquisition or acquisitions.

(b) A “change in the ownership of Sempra Energy” or “a change in the effective control of Sempra Energy” shall not occur under clause (a)(i) or (a)(ii) by reason of any of the following:

(i) an acquisition of ownership of stock of Sempra Energy directly from Sempra Energy or its Affiliates other than in connection with the acquisition by Sempra Energy or its Affiliates of a business,

(ii) a merger or consolidation which would result in the voting securities of Sempra Energy outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company, at least sixty percent (60%) of the combined voting power of the securities of Sempra Energy or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or

(iii) a merger or consolidation effected to implement a recapitalization of Sempra Energy (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of Sempra Energy (not including the securities beneficially owned by such Person any securities acquired directly from Sempra Energy or its Affiliates other than in connection with the acquisition by Sempra Energy or its Affiliates of a business) representing twenty percent (20%) or more of the combined voting power of Sempra Energy’s then outstanding securities.

(c) A “change in the ownership of a substantial portion of assets of Sempra Energy” shall not occur under clause (a)(iii) by reason of a sale or disposition by Sempra Energy of the assets of Sempra Energy to an entity, at least sixty percent (60%) of the combined voting power of the voting securities of which are owned by shareholders of Sempra Energy in substantially the same proportions as their ownership of Sempra Energy immediately prior to such sale.

(d) This definition of “Change in Control” shall be limited to the definition of a “change in control event” relating to Sempra Energy under Treasury Regulation Section 1.409A-3(i)(5). A “Change in Control” shall only occur if there is a “change in control event” relating to Sempra Energy under Treasury Regulation Section 1.409A-3(i)(5) with respect to the Executive.

“Change in Control Date” means the date on which a Change in Control occurs.

“Code” means the Internal Revenue Code of 1986, as amended.

“Compensation Committee” means the compensation committee of the Board.

“Consulting Period” has the meaning assigned thereto in Section 14(e) hereof.

“Date of Termination” has the meaning assigned thereto in Section 3(b) hereof.

“Deferred Compensation Plan” has the meaning assigned thereto in Section 5(f) hereof.

“Disability” has the meaning set forth in the Company’s long-term disability plan or its successor; *provided*, however, that the Board may not terminate the Executive’s employment hereunder by reason of Disability unless (i) at the time of such termination there is no reasonable expectation that the Executive will return to work within the next ninety (90) day period and (ii) such termination is permitted by all applicable disability laws.

“Exchange Act” means the Securities Exchange Act of 1934, as amended, and the applicable rulings and regulations thereunder.

“Excise Tax” has the meaning assigned thereto in Section 9(a) hereof.

“Good Reason” means:

(a) Prior to a Change in Control, the occurrence of any of the following without the prior written consent of the Executive, unless such act or failure to act is corrected by the Company prior to the Date of Termination specified in the Notice of Termination (as required under Section 3 hereof):

(i) the assignment to the Executive of any duties materially inconsistent with the range of duties and responsibilities appropriate to a senior Executive within the Company (such range determined by reference to past, current and reasonable practices within the Company);

(ii) a material reduction in the Executive’s overall standing and responsibilities within the Company, but not including (A) a mere change in title or (B) a transfer within the Company, which, in the case of both (A) and (B), does not adversely affect the Executive’s overall status within the Company;

(iii) a material reduction by the Company in the Executive’s aggregate annualized compensation and benefits opportunities, except for across-the-board reductions (or modifications of benefit plans) similarly affecting all similarly situated executives (both of the Company and of any Person then in control of the Company) of comparable rank with the Executive;

(iv) the failure by the Company to pay to the Executive any portion of the Executive’s current compensation and benefits or any portion of an installment of deferred compensation under any deferred compensation program of the Company within thirty (30) days of the date such compensation is due;

(v) any purported termination of the Executive’s employment that is not effected pursuant to a Notice of Termination satisfying the requirements of Section 3 hereof; for purposes of this Agreement, no such purported termination shall be effective;

(vi) the failure by Sempra Energy to perform its obligations under Section 16(c), (d) or (e) hereof;

(vii) the failure by the Company to provide the indemnification and D&O insurance protection Section 11 of this Agreement requires it to provide; or

(viii) the failure by Sempra Energy to comply with any material provision of this Agreement.

(b) From and after a Change in Control, the occurrence of any of the following without the prior written consent of the Executive, unless such act or failure to act is corrected by the Company prior to the Date of Termination specified in the Notice of Termination (as required under Section 3 hereof):

(i) an adverse change in the Executive’s title, authority, duties, responsibilities or reporting lines as in effect immediately prior to the Change in Control;

(ii) a reduction by the Company in the Executive’s aggregate annualized compensation opportunities, except for across-the-board reductions in base salaries, annual bonus opportunities or long-term incentive compensation opportunities of less than ten percent (10%) similarly affecting all similarly situated executives (both of the Company and of any Person then in control of the Company) of comparable rank with the Executive; or the failure by the Company to continue in effect any material benefit plan in which the Executive participates immediately prior to the Change in Control, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, or the failure by the Company to continue the Executive’s participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount of benefits provided and the level of the Executive’s participation relative to other participants, as existed at the time of the Change in Control;

(iii) the relocation of the Executive’s principal place of employment immediately prior to the Change in Control Date (the “Principal Location”) to a location which is both further away from the Executive’s residence and more than thirty (30) miles from such Principal Location, or the Company’s requiring the Executive to be based anywhere other than such Principal Location (or permitted relocation thereof), or a substantial increase in the Executive’s business travel obligations outside of the Southern California area as of the Effective Date other than any such increase that (A) arises in connection with extraordinary business activities of the Company of limited duration and (B) is understood not to be part of the Executive’s regular duties with the Company;

(iv) the failure by the Company to pay to the Executive any portion of the Executive’s current compensation and benefits or any portion of an installment of deferred compensation under any deferred compensation program of the Company within thirty (30) days of the date such compensation is due;

(v) any purported termination of the Executive’s employment that is not effected pursuant to a Notice of Termination satisfying the requirements of Section 3 hereof; for purposes of this Agreement, no such purported termination shall be effective;

(vi) the failure by Sempra Energy to perform its obligations under Section 16(c), (d) or (e) hereof;

(vii) the failure by the Company to provide the indemnification and D&O insurance protection Section 11 of this Agreement requires it to provide; or

(viii) the failure by Sempra Energy to comply with any material provision of this Agreement.

Following a Change in Control, the Executive's determination that an act or failure to act constitutes Good Reason shall be presumed to be valid unless such determination is deemed to be unreasonable by an arbitrator pursuant to the procedure described in Section 13 hereof. The Executive's right to terminate the Executive's employment for Good Reason shall not be affected by the Executive's incapacity due to physical or mental illness. The Executive's continued employment shall not constitute consent to, or a waiver of rights with respect to, any act or failure to act constituting Good Reason hereunder.

"Incentive Compensation Awards" means awards granted under Incentive Compensation Plans providing the Executive with the opportunity to earn, on a year-by-year basis, annual and long-term incentive compensation.

"Incentive Compensation Plans" means annual incentive compensation plans and long-term incentive compensation plans of the Company, which long-term incentive compensation plans may include plans offering stock options, restricted stock and other long-term incentive compensation.

"Involuntary Termination" means (a) the Executive's Separation from Service by reason of a termination of employment by the Company other than for Cause, death, or Disability, or (b) the Executive's Separation from Service by reason of resignation of employment with the Company for Good Reason.

"JAMS Rules" has the meaning assigned thereto in Section 13 hereof.

"Notice of Termination" has the meaning assigned thereto in Section 3(a) hereof.

"Payment" has the meaning assigned thereto in Section 9(a) hereof.

"Payment in Lieu of Notice" has the meaning assigned thereto in Section 3(b) hereof.

"Person" has the meaning set forth in section 3(a)(9) of the Exchange Act, as modified and used in sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Company or any of its Affiliates, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, (iv) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company, or (v) a person or group as used in Rule 13d-1(b) promulgated under the Exchange Act.

"Post-Change in Control Accrued Obligations" has the meaning assigned thereto in Section 6(a) hereof.

"Post-Change in Control Severance Payment" has the meaning assigned thereto in Section 6 hereof.

"Pre-Change in Control Accrued Obligations" has the meaning assigned thereto in Section 5(a) hereof.

"Pre-Change in Control Severance Payment" has the meaning assigned thereto in Section 5 hereof.

"Principal Location" has the meaning assigned thereto in clause (b)(iii) of the definition of Good Reason, above.

"Proprietary Information" has the meaning assigned thereto in Section 14(a) hereof.

"Release" has the meaning assigned thereto in Section 14(d) hereof.

"Section 409A Payments" means any of the following: (a) the Payment in Lieu of Notice; (b) the Pre-Change in Control Severance Payment; (c) the Post-Change in Control Severance Payment; (d) the Additional Post-Change in Control Severance Payment; (e) the Consulting Payment; (f) the payment under Section 6(b) (but only to the extent such payment or portion thereof is subject to Section 409A of the Code); (g) the financial planning services and the related payments provided under Sections 5(e) and 6(f); and (h) the legal fees and expenses reimbursed under Section 15.

"Sempra Energy Control Group" means Sempra Energy and all persons with whom Sempra Energy would be considered a single employer under Section 414(b) or 414(c) of the Code, as determined from time to time.

"Separation from Service", with respect to the Executive (or another Service Provider), means the Executive's (or such Service Provider's) (a) termination of employment or (b) other termination or reduction in services, provided that such termination or reduction in clause (a) or (b) constitutes a "separation from service," as defined in Treasury Regulation Section 1.409A-1(h), with respect to the Service Recipient.

"SERP" has the meaning assigned thereto in Section 6(b) hereof.

"Service Provider" means the Executive or any other "service provider," as defined in Treasury Regulation Section 1.409A-1(f).

“Service Recipient,” with respect to the Executive, means Sempra Energy (if the Executive is employed by Sempra Energy), or the subsidiary of Sempra Energy employing the Executive, whichever is applicable, and all persons considered part of the “service recipient,” as defined in Treasury Regulation Section 1.409A-1(g), as determined from time to time. As provided in Treasury Regulation Section 1.409A-1(g), the “Service Recipient” shall mean the person for whom the services are performed and with respect to whom the legally binding right to compensation arises, and all persons with whom such person would be considered a single employer under Section 414(b) or 414(c) of the Code.

“Specified Employee” means a Service Provider who, as of the date of the Service Provider’s Separation from Service is a “Key Employee” of the Service Recipient any stock of which is publicly traded on an established securities market or otherwise. For purposes of this definition, a Service Provider is a “Key Employee” if the Service Provider meets the requirements of Section 416(i)(1)(A)(i), (ii) or (iii) of the Code (applied in accordance with the Treasury Regulations thereunder and disregarding Section 416(i)(5) of the Code) at any time during the Testing Year. If a Service Provider is a “Key Employee” (as defined above) as of a Specified Employee Identification Date, the Service Provider shall be treated as “Key Employee” for the entire twelve (12) month period beginning on the Specified Employee Effective Date. For purposes of this definition, a Service Provider’s compensation for a Testing Year shall mean such Service Provider’s compensation, as determined under Treasury Regulation Section 1.415(c)-2(a) (and applied as if the Service Recipient were not using any safe harbor provided in Treasury Regulation Section 1.415(c)-2(d), were not using any of the elective special timing rules provided in Treasury Regulation Section 1.415(c)-2(e), and were not using any of the elective special rules provided in Treasury Regulation Section 1.415(c)-2(g)), from the Service Recipient for such Testing Year. The “Specified Employees” shall be determined in accordance with Section 409A(a)(2)(B)(i) of the Code and Treasury Regulation Section 1.409A-1(i).

“Specified Employee Effective Date” means the first day of the fourth month following the Specified Employee Identification Date. The Specified Employee Effective Date may be changed by Sempra Energy, in its discretion, in accordance with Treasury Regulation Section 1.409A-1(i)(4).

“Specified Employee Identification Date”, for purposes of Treasury Regulation Section 1.409A-1(i)(3), shall mean December 31. The “Specified Employee Identification Date” shall apply to all “nonqualified deferred compensation plans” (as defined in Treasury Regulation Section 1.409A-1(a)) of the Service Recipient and all affected Service Providers. The “Specified Employee Identification Date” may be changed by Sempra Energy, in its discretion, in accordance with Treasury Regulation Section 1.409A-1(i)(3).

“Testing Year” shall mean the twelve (12) month period ending on the Specified Employee Identification Date, as determined from time to time.

“Underpayment” has the meaning assigned thereto in Section 9(b) hereof.

For purposes of this Agreement, references to any “Treasury Regulation” shall mean such Treasury Regulation as in effect on the date hereof.

Section 2. Sarbanes-Oxley Act of 2002. Notwithstanding anything herein to the contrary, if the Company determines, in its good faith judgment, that any provision of this Agreement is likely to be interpreted as a personal loan prohibited by the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated thereunder (the “Act”), then such provision shall be modified as necessary or appropriate so as to not violate the Act; and if this cannot be accomplished, then the Company shall use its reasonable efforts to provide the Executive with similar, but lawful, substitute benefit(s) at a cost to the Company not to significantly exceed the amount the Company would have otherwise paid to provide such benefit(s) to the Executive. In addition, if the Executive is required to forfeit or to make any repayment of any compensation or benefit(s) to the Company under the Act or any other law, such forfeiture or repayment shall not constitute Good Reason.

Section 3. Notice and Date of Termination.

(a) Any termination of the Executive’s employment by the Company or by the Executive shall be communicated by a written notice of termination to the other party (the “Notice of Termination”). Where applicable, the Notice of Termination shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive’s employment under the provision so indicated. Unless the Board determines otherwise, a Notice of Termination by the Executive alleging a termination for Good Reason must be made within 180 days of the act or failure to act that the Executive alleges to constitute Good Reason.

(b) The date of the Executive’s termination of employment with the Company (the “Date of Termination”) shall be determined as follows: (i) if the Executive has a Separation from Service by reason of the Company terminating his or her employment, either with or without Cause, the Date of Termination shall be the date specified in the Notice of Termination (which, in the case of a termination by the Company other than for Cause, shall not be less than two (2) weeks from the date such Notice of Termination is given unless the Company elects to pay the Executive, in addition to any other amounts payable hereunder, an amount (the “Payment in Lieu of Notice”) equal to two (2) weeks of the Executive’s Annual Base Salary in effect on the Date of Termination), and (ii) if the basis for the Executive’s Involuntary Termination is his resignation for Good Reason, the Date of Termination shall be determined by the Executive and specified in the Notice of Termination, but shall not in any event be less than fifteen (15) days nor more than sixty (60) days after the date such Notice of Termination is given. The Payment in Lieu of Notice shall be paid on such date as is determined by the Company within thirty (30) days after the date of the Executive’s Separation from Service; *provided, however*, that if the Executive is a Specified Employee on the date of his or her Separation from Service, such Payment in Lieu of Notice shall be paid as provided in Section 10 hereof.

Section 4. Termination from the Board. Upon the termination of the Executive's employment for any reason, the Executive's membership on the Board, the board of directors of any of the Company's Affiliates, any committees of the Board and any committees of the board of directors of any of the Company's Affiliates, if applicable, shall be automatically terminated.

Section 5. Severance Benefits upon Involuntary Termination Prior to Change in Control. Except as provided in Section 6 and Section 19(i) hereof, in the event of the Involuntary Termination of the Executive prior to a Change in Control, the Company shall pay the Executive, in one lump sum cash payment, an amount (the "Pre-Change in Control Severance Payment") equal to one-half (0.5) times the greater of: (X) 160% of the Executive's Annual Base Salary as in effect on the Date of Termination, and (Y) the Executive's Annual Base Salary as in effect on the Date of Termination, plus the Executive's Average Annual Bonus. In addition to the Pre-Change in Control Severance Payment, the Executive shall be entitled to the following additional benefits specified in subsections (a) through (e). Except as provided in Section 5(f), the Pre-Change in Control Severance Payment and the payment under Section 5(a) shall be paid on such date as is determined by the Company within thirty (30) days after the date of the Involuntary Termination; *provided, however*, that, if the Executive is a Specified Employee on the date of the Executive's Involuntary Termination, the Pre-Change in Control Severance Payment and the financial planning services and the related payments provided under Section 5(e) shall be paid as provided in Section 10 hereof.

(a) **Accrued Obligations.** The Company shall pay the Executive a lump sum amount in cash equal to the sum of (A) the Executive's Annual Base Salary through the Date of Termination to the extent not theretofore paid, (B) an amount equal to any annual Incentive Compensation Awards earned with respect to fiscal years ended prior to the year that includes the Date of Termination to the extent not theretofore paid, (C) any accrued and unpaid vacation, if any, and (D) reimbursement for unreimbursed business expenses, if any, properly incurred by the Executive in the performance of his duties in accordance with policies established from time to time by the Board, in each case to the extent not theretofore paid. (The amounts specified in clauses (A), (B), (C) and (D) shall be hereinafter referred to as the "Pre-Change in Control Accrued Obligations").

(b) **Equity Based Compensation.** The Executive shall retain all rights to any equity-based compensation awards to the extent set forth in the applicable plan and/or award agreement.

(c) **Welfare Benefits.** Subject to Section 12 below, for a period of six (6) months following the date of the Involuntary Termination (and an additional twelve (12) months if the Executive provides consulting services under Section 14(e) hereof), the Executive and his dependents shall be provided with health insurance benefits substantially similar to those provided to the Executive and his dependents immediately prior to the date of the Involuntary Termination; *provided, however*, that such benefits shall be provided on substantially the same terms and conditions and at the same cost to the Executive as in effect immediately prior to the date of the Involuntary Termination. Such benefits shall be provided through insurance maintained by the Company under the Company's benefit plans. Such benefits shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(a)(5).

(d) **Outplacement Services.** The Executive shall receive reasonable outplacement services, on an in-kind basis, suitable to his position and directly related to the Executive's Involuntary Termination, for a period of eighteen (18) months following the date of the Involuntary Termination, in an aggregate amount of cost to the Company not to exceed \$50,000. Notwithstanding the foregoing, the Executive shall cease to receive outplacement services on the date the Executive accepts employment with a subsequent employer. Such outplacement services shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(b)(9)(v)(A).

(e) **Financial Planning Services.** The Executive shall receive financial planning services, on an in-kind basis, for a period of eighteen (18) months following the Date of Termination. Such financial planning services shall include expert financial and legal resources to assist the Executive with financial planning needs and shall be limited to (i) current investment portfolio management, (ii) tax planning, (iii) tax return preparation, and (iv) estate planning advice and document preparation (including wills and trusts); *provided, however*, that the Company shall provide such financial planning services during any taxable year of the Executive only to the extent the cost to the Company for such taxable year does not exceed \$25,000. The Company shall provide such financial planning services through a financial planner selected by the Company, and shall pay the fees for such financial planning services. The financial planning services provided during any taxable year of the Executive shall not affect the financial planning services provided in any other taxable year of the Executive. The Executive's right to financial planning services shall not be subject to liquidation or exchange for any other benefit. Such financial planning services shall be provided in a manner that complies with Treasury Regulation Section 1.409A-3(i)(1)(iv).

(f) **Deferral of Payments.** The Executive shall have the right to elect to defer the Pre-Change in Control Severance Payment to be received by the Executive pursuant to this Section 5 under the terms and conditions of the Sempra Energy 2005 Deferred Compensation Plan (the "Deferred Compensation Plan"). Any such deferral election shall be made in accordance with Section 18(b) hereof.

Section 6. Severance Benefits upon Involuntary Termination in Connection with and after Change in Control. Notwithstanding the provisions of Section 5 above, and except as provided in Section 19(i) hereof, in the event of the Involuntary Termination of the Executive on or within two (2) years following a Change in Control, in lieu of the payments described in Section 5 above, the Company shall pay the Executive, in one lump sum cash payment, an amount (the "Post-Change in Control Severance Payment") equal to the greater of: (X) 160% of the Executive's Annual Base Salary as in effect immediately prior to the Change in Control or the Date of Termination, whichever is greater, and (Y) the Executive's Annual Base Salary as in effect immediately prior to the Change in Control or on the Date of Termination, whichever is greater, plus the Executive's Average Annual Bonus; *provided, however*, that, in the event that the Involuntary Termination occurs prior to the fifth anniversary of the Effective Date, the Post-Change in Control Severance Payment shall be increased by twenty-five percent (25%). In addition to the

Post-Change in Control Severance Payment, the Executive shall be entitled to the following additional benefits specified in subsections (a) through (f). Except as provided in Sections 6(g) and 6(h), the Post-Change in Control Severance Payment and the payments under Sections 6(a) and (b) shall be paid on such date as is determined by the Company within thirty (30) days after the date of the Involuntary Termination; *provided, however*, that, if the Executive is a Specified Employee on the date of the Executive's Involuntary Termination, the Post-Change in Control Severance Payment, the Additional Post-Change in Control Severance Payment under Section 6(a)(E), the payment under Section 6(b) (but only to the extent such payment or portion thereof is subject to Section 409A of the Code), and the financial planning services and the related payments provided under Section 6(f) shall be paid as provided in Section 10 hereof.

(a) Accrued Obligations. The Company shall pay the Executive a lump sum amount in cash equal to the sum of (A) the Executive's Annual Base Salary through the Date of Termination to the extent not theretofore paid, (B) an amount equal to any annual Incentive Compensation Awards earned with respect to fiscal years ended prior to the year that includes the Date of Termination to the extent not theretofore paid, (C) any accrued and unpaid vacation, if any, (D) reimbursement for unreimbursed business expenses, if any, properly incurred by the Executive in the performance of his duties in accordance with policies established from time to time by the Board, and (E) an amount (the "Additional Post-Change in Control Severance Payment") equal to: (i) the greater of: (X) 60% of the Executive's Annual Base Salary as in effect immediately prior to the Change in Control or on the Date of Termination, whichever is greater, or (Y) the Executive's Average Annual Bonus, multiplied by (ii) a fraction, the numerator of which shall be the number of days from the beginning of such fiscal year to and including the Date of Termination and the denominator of which shall be 365, in the case of each amount described in clause (A), (B), (C) or (D) to the extent not theretofore paid. (The amounts specified in clauses (A), (B), (C), (D) and (E) shall be hereinafter referred to as the "Post-Change in Control Accrued Obligations").

(b) Pension Supplement. The Executive shall be entitled to receive a Supplemental Retirement Benefit under the Sempra Energy Supplemental Executive Retirement Plan, as in effect from time to time ("SERP"), determined in accordance with this Section 6(b), in the event that the Executive is a "Participant" (as defined in the SERP) as of the Date of Termination. Such Supplemental Retirement Benefit shall be determined by crediting the Executive with additional months of Service (if any) equal to the number of full calendar months from the Date of Termination to the date on which the Executive would have attained age 62. The Executive shall be entitled to receive such Supplemental Retirement Benefit without regard to whether the Executive has attained age 55 or completed five years of "Service" (as defined in the SERP) as of the Date of Termination. The Executive shall be treated as qualified for "Retirement" (as defined in the SERP) as of the Date of Termination, and the Executive's Vesting Factor with respect to the Supplemental Retirement Benefit shall be 100%. The Executive's Supplemental Retirement Benefit shall be calculated based on the Executive's actual age as of the date of commencement of payment of such Supplemental Retirement Benefit (the "SERP Distribution Date"), and by applying the applicable early retirement factors under the SERP, if the Executive has not attained age 62 but has attained age 55 as of the SERP Distribution Date. If the Executive has not attained age 55 as of the SERP Distribution Date, the Executive's Supplemental Retirement Benefit shall be calculated by applying the applicable early retirement factor under the SERP for age 55, and the Supplemental Retirement Benefit otherwise payable at age 55 shall be actuarially adjusted to the Executive's actual age as of the SERP Distribution Date using the following actuarial assumptions: (i) the applicable mortality table promulgated by the Internal Revenue Service under Section 417(e)(3) of the Code, as in effect on the first day of the calendar year in which the SERP Distribution Date occurs, and (ii) the applicable interest rate promulgated by the Internal Revenue Service under Section 417(a)(3) of the Code for the November next preceding the first day of the calendar year in which the SERP Distribution Date occurs. The Executive's Supplemental Retirement Benefit shall be determined in accordance with this Section 6(b), notwithstanding any contrary provisions of the SERP and, to the extent subject to Section 409A of the Code, shall be paid in accordance with Treasury Regulation Section 1.409A-3(c)(1). The Supplemental Retirement Benefit paid to or on behalf of the Executive in accordance with this Section 6(b) shall be in full satisfaction of any and all of the benefits payable to or on behalf of the Executive under the SERP.

(c) Equity-Based Compensation. Notwithstanding the provisions of any applicable equity-compensation plan or award agreement to the contrary, all equity-based Incentive Compensation Awards (including, without limitation, stock options, stock appreciation rights, restricted stock awards, restricted stock units, performance share awards, awards covered under Section 162(m) of the Code, and dividend equivalents) held by the Executive shall immediately vest and become exercisable or payable, as the case may be, as of the Date of Termination, to be exercised or paid, as the case may be, in accordance with the terms of the applicable Incentive Compensation Plan and Incentive Compensation Award agreement, and any restrictions on any such Incentive Compensation Awards shall automatically lapse; *provided, however*, that any such stock option or stock appreciation rights awards granted on or after June 26, 1998 shall remain outstanding and exercisable until the earlier of (A) the later of eighteen (18) months following the Date of Termination or the period specified in the applicable Incentive Compensation Award agreements or (B) the expiration of the original term of such Incentive Compensation Award (or, if earlier, the tenth anniversary of the original date of grant) (it being understood that all Incentive Compensation Awards granted prior to or after June 26, 1998 shall remain outstanding and exercisable for a period that is no less than that provided for in the applicable agreement in effect as of the date of grant).

(d) Welfare Benefits. Subject to Section 12 below, for a period of twelve (12) months following the date of Involuntary Termination (and an additional twelve (12) months if the Executive provides consulting services under Section 14(e) hereof), the Executive and his dependents shall be provided with life, disability, accident and health insurance benefits substantially similar to those provided to the Executive and his dependents immediately prior to the date of Involuntary Termination or the Change in Control Date, whichever is more favorable to the Executive; *provided, however*, that such benefits shall be provided on substantially the same terms and conditions and at the same cost to the Executive as in effect immediately prior to the date of Involuntary Termination or the Change in Control Date, whichever is more favorable to the Executive. Such benefits shall be provided through insurance maintained by the Company under the Company benefit plans. Such benefits shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(a)(5).

(e) Outplacement Services. The Executive shall receive reasonable outplacement services, on an in-kind basis, suitable to his position and directly related to the Executive's Involuntary Termination, for a period of twenty-four (24) months following the date of Involuntary Termination (but in no event beyond the last day of the Executive's second taxable year following the Executive's taxable year in which the Involuntary Termination occurs), in the aggregate amount of cost to the Company not to exceed \$50,000. Notwithstanding the foregoing, the Executive shall cease to receive outplacement services on the date the Executive accepts employment with a subsequent employer. Such outplacement services shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(b)(9)(v)(A).

(f) Financial Planning Services. The Executive shall receive financial planning services, on an in-kind basis, for a period of twenty-four (24) months following the date of Involuntary Termination. Such financial planning services shall include expert financial and legal resources to assist the Executive with financial planning needs and shall be limited to (i) current investment portfolio management, (ii) tax planning, (iii) tax return preparation, and (iv) estate planning advice and document preparation (including wills and trusts); *provided, however*, that the Company shall provide such financial services during any taxable year of the Executive only to the extent the cost to the Company for such taxable year does not exceed \$25,000. The Company shall provide such financial planning services through a financial planner selected by the Company, and shall pay the fees for such financial planning services. The financial planning services provided during any taxable year of the Executive shall not affect the financial planning services provided in any other taxable year of the Executive. The Executive's right to financial planning services shall not be subject to liquidation or exchange for any other benefit. Such financial planning services shall be provided in a manner that complies with Section 1.409A-3(i)(1)(iv).

(g) Involuntary Termination in Connection with a Change in Control. Notwithstanding anything contained herein, in the event of an Involuntary Termination prior to a Change in Control, if the Involuntary Termination (1) was at the request of a third party who has taken steps reasonably calculated to effect such Change in Control or (2) otherwise arose in connection with or in anticipation of such Change in Control, then the Executive shall, in lieu of the payments described in Section 5 hereof, be entitled to the Post-Change in Control Severance Payment and the additional benefits described in this Section 6 as if such Involuntary Termination had occurred within two (2) years following the Change in Control. The amounts specified in Section 6 that are to be paid under this Section 6(g) shall be reduced by any amount previously paid under Section 5. The amounts to be paid under this Section 6(g) shall be paid within thirty (30) days after the Change in Control Date of such Change in Control.

(h) Deferral of Payments. The Executive shall have the right to elect to defer the Post-Change in Control Severance Payment to be received by the Executive pursuant to this Section 6 under the terms and conditions of the Deferred Compensation Plan. Any such deferral election shall be made in accordance with Section 18(b) hereof.

Section 7. Severance Benefits upon Termination by the Company for Cause or by the Executive Other than for Good Reason. If the Executive's employment shall be terminated for Cause, or if the Executive terminates employment other than for Good Reason, the Company shall have no further obligations to the Executive under this Agreement other than the Pre-Change in Control Accrued Obligations and any amounts or benefits described in Section 11 hereof.

Section 8. Severance Benefits upon Termination due to Death or Disability. If the Executive has a Separation from Service by reason of death or Disability, the Company shall pay the Executive or his estate, as the case may be, the Post-Change in Control Accrued Obligations (without regard to whether a Change in Control has occurred) and any amounts or benefits described in Section 11 hereof. Such payments shall be in addition to those rights and benefits to which the Executive or his estate may be entitled under the relevant Company plans or programs. Such payments shall be paid on such date as determined by the Company within thirty (30) days after the date of the Separation from Service; *provided, however*, that if the Executive is a Specified Employee on the date of the Executive's Separation from Service by reason of Disability, the Additional Post-Change in Control Severance Payment under Section 6(a)(E) shall be paid as provided in Section 10 hereof.

Section 9. Limitations on Payments by the Company.

(a) Anything in this Agreement to the contrary notwithstanding and except as set forth in this Section 9 below, in the event it shall be determined that any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of the Executive, whether paid or payable pursuant to this Agreement or otherwise (the "Payment") would be subject (in whole or in part) to the excise tax imposed by Section 4999 of the Code, (the "Excise Tax"), then, subject to subsection (b), the Pre-Change in Control Severance Benefit or the Post-Change in Control Severance Payment (whichever is applicable) payable under this Agreement shall be reduced under this subsection (a) to the amount equal to the Reduced Payment. For such Payment payable under this Agreement, the "Reduced Payment" shall be the amount equal to the greatest portion of the Payment (which may be zero) that, if paid, would result in no portion of any Payment being subject to the Excise Tax.

(b) The Pre-Change in Control Severance Benefit or the Post-Change in Control Severance Payment (whichever is applicable) payable under this Agreement shall not be reduced under subsection (a) if:

(i) such reduction in such Payment is not sufficient to cause no portion of any Payment to be subject to the Excise Tax, or

(ii) the Net After-Tax Unreduced Payments (as defined below) would equal or exceed one hundred and five percent (105%) of the Net After-Tax Reduced Payments (as defined below).

For purposes of determining the amount of any Reduced Payment under subsection (a), and the Net-After Tax Reduced Payments and the Net After-Tax Unreduced Payments, the Executive shall be considered to pay federal, state and local income and employment taxes at the Executive's applicable marginal rates taking into consideration any reduction in federal income taxes which could be obtained from the deduction of state and local income taxes, and any reduction or disallowance of itemized deductions and personal exemptions under applicable tax law). The applicable federal, state and local income and employment taxes and the Excise Tax (to the extent applicable) are collectively referred to as the "Taxes".

(c) The following definitions shall apply for purposes of this Section 9:

(i) "Net After-Tax Reduced Payments" shall mean the total amount of all Payments that the Executive would retain, on a Net After-Tax Basis, in the event that the Payments payable under this Agreement are reduced pursuant to subsection (a).

(ii) "Net After-Tax Unreduced Payments" shall mean the total amount of all Payments that the Executive would retain, on a Net After-Tax Basis, in the event that the Payments payable under this Agreement are not reduced pursuant to subsection (a).

(iii) "Net After-Tax Basis" shall mean, with respect to the Payments, either with or without reduction under subsection (a) (as applicable), the amount that would be retained by the Executive from such Payments after the payment of all Taxes.

(d) All determinations required to be made under this Section 9 and the assumptions to be utilized in arriving at such determinations, shall be made by a nationally recognized accounting firm as may be agreed by the Company and the Executive (the "Accounting Firm"); *provided*, that the Accounting Firm's determination shall be made based upon "substantial authority" within the meaning of Section 6662 of the Code. The Accounting Firm shall provide detailed supporting calculations to both the Company and the Executive within fifteen (15) business days of the receipt of notice from the Executive that there has been a Payment or such earlier time as is requested by the Company. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. For purposes of determining whether and the extent to which the Payments will be subject to the Excise Tax, (i) no portion of the Payments the receipt or enjoyment of which the Executive shall have waived at such time and in such manner as not to constitute a "payment" within the meaning of Section 280G(b) of the Code shall be taken into account, (ii) no portion of the Payments shall be taken into account which, in the written opinion of the Accounting Firm, does not constitute a "parachute payment" within the meaning of Section 280G(b)(2) of the Code (including by reason of Section 280G(b)(4)(A) of the Code) and, in calculating the Excise Tax, no portion of such Payments shall be taken into account which, in the opinion of the Accounting Firm, constitutes reasonable compensation for services actually rendered, within the meaning of Section 280G(b)(4)(B) of the Code, in excess of the base amount (as defined in Section 280G(b)(3) of the Code) allocable to such reasonable compensation, and (iii) the value of any non-cash benefit or any deferred payment or benefit included in the Payments shall be determined by the Accounting Firm in accordance with the principles of Sections 280G(d)(3) and (4) of the Code.

Section 10. Delayed Distribution under Section 409A of the Code. If the Executive is a Specified Employee on the date of the Executive's Involuntary Termination (or on the date of the Executive's Separation from Service by reason of Disability), the Section 409A Payments, and any other payments or benefits under this Agreement subject to Section 409A of the Code, shall be delayed in order to avoid a prohibited distribution under Section 409A(a)(2)(B)(i) of the Code, and such payments or benefits shall be paid or distributed to the Executive during the thirty (30) day period commencing on the earlier of (a) the expiration of the six-month period measured from the date of the Executive's Separation from Service or (b) the date of the Executive's death. Upon the expiration of the applicable six-month period under Section 409A(a)(2)(B)(i) of the Code, all payments deferred pursuant to this Section 10 (excluding in-kind benefits) shall be paid in a lump sum payment to the Executive, plus interest thereon from the date of the Executive's Involuntary Termination through the payment date at an annual rate equal to Moody's Rate. The "Moody's Rate" shall mean the average of the daily Moody's Corporate Bond Yield Average – Monthly Average Corporates as published by Moody's Investors Service, Inc. (or any successor) for the month next preceding the Date of Termination. Any remaining payments due under the Agreement shall be paid as otherwise provided herein.

Section 11. Nonexclusivity of Rights. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any benefit, plan, program, policy or practice provided by the Company and for which the Executive may qualify (except with respect to any benefit to which the Executive has waived his rights in writing), including, without limitation, any and all indemnification arrangements in favor of the Executive (whether under agreements or under the Company's charter documents or otherwise), and insurance policies covering the Executive, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any other contract or agreement entered into after the Effective Date with the Company. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any benefit, plan, policy, practice or program of, or any contract or agreement entered into with, the Company shall be payable in accordance with such benefit, plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement. At all times during the Executive's employment with the Company and thereafter, the Company shall provide (to the extent permissible under applicable law) the Executive with indemnification and D&O insurance insuring the Executive against insurable events which occur or have occurred while the Executive was a director or the Executive officer of the Company, on terms and conditions that are at least as generous as that then provided to any other current or former director or the Executive officer of the Company or any Affiliate. Such indemnification and D&O insurance shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(b)(10).

Section 12.

Full Settlement; Mitigation. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others, provided that nothing herein shall preclude the Company from separately pursuing recovery from the Executive based on any such claim. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts (including amounts for damages for breach) payable to the Executive under any of the provisions of this Agreement, and such amounts shall not be reduced whether or not the Executive obtains other employment.

Section 13. Dispute Resolution.

Any disagreement, dispute, controversy or claim arising out of or relating to this Agreement or the interpretation of this Agreement or any arrangements relating to this Agreement or contemplated in this Agreement or the breach, termination or invalidity thereof shall be settled by final and binding arbitration administered by JAMS in San Diego, California in accordance with the then existing JAMS arbitration rules applicable to employment disputes (the "JAMS Rules"); *provided that*, notwithstanding any provision in such rules to the contrary, in all cases the parties shall be entitled to reasonable discovery. In the event of such an arbitration proceeding, the Executive and the Company shall select a mutually acceptable neutral arbitrator from among the JAMS panel of arbitrators. In the event the Executive and the Company cannot agree on an arbitrator, the arbitrator shall be selected in accordance with the then existing JAMS Rules. Neither the Executive nor the Company nor the arbitrator shall disclose the existence, content or results of any arbitration hereunder without the prior written consent of all parties, except to the extent necessary to enforce any arbitration award in a court of competent jurisdiction. Except as provided herein, the Federal Arbitration Act shall govern the interpretation of, enforcement of and all proceedings under this agreement to arbitrate. The arbitrator shall apply the substantive law (and the law of remedies, if applicable) of the state of California, or federal law, or both, as applicable, and the arbitrator is without jurisdiction to apply any different substantive law. The arbitrator shall have the authority to entertain a motion to dismiss and/or a motion for summary judgment by any party and shall apply the standards governing such motions under the Federal Rules of Civil Procedure. The arbitrator shall render an award and a written, reasoned opinion in support thereof. Judgment upon the award may be entered in any court having jurisdiction thereof. The Executive shall not be required to pay any arbitration fee or cost that is unique to arbitration or greater than any amount he would be required to pay to pursue his claims in a court of competent jurisdiction.

Section 14. Executive's Covenants.

(a) **Confidentiality.** The Executive acknowledges that in the course of his employment with the Company, he has acquired non-public privileged or confidential information and trade secrets concerning the operations, future plans and methods of doing business ("Proprietary Information") of the Company and its Affiliates; and the Executive agrees that it would be extremely damaging to the Company and its Affiliates if such Proprietary Information were disclosed to a competitor of the Company and its Affiliates or to any other person or corporation. The Executive understands and agrees that all Proprietary Information has been divulged to the Executive in confidence and further understands and agrees to keep all Proprietary Information secret and confidential (except for such information which is or becomes publicly available other than as a result of a breach by the Executive of this provision or information the Executive is required by any governmental, administrative or court order to disclose) without limitation in time. In view of the nature of the Executive's employment and the Proprietary Information the Executive has acquired during the course of such employment, the Executive likewise agrees that the Company and its Affiliates would be irreparably harmed by any disclosure of Proprietary Information in violation of the terms of this paragraph and that the Company and its Affiliates shall therefore be entitled to preliminary and/or permanent injunctive relief prohibiting the Executive from engaging in any activity or threatened activity in violation of the terms of this paragraph and to any other relief available to them. Inquiries regarding whether specific information constitutes Proprietary Information shall be directed to the Company's Senior Vice President, Public Policy (or, if such position is vacant, the Company's then Chief Executive Officer); *provided*, that the Company shall not unreasonably classify information as Proprietary Information.

(b) **Non-Solicitation of Employees.** The Executive recognizes that he possesses and will possess confidential information about other employees of the Company and its Affiliates relating to their education, experience, skills, abilities, compensation and benefits, and inter-personal relationships with customers of the Company and its Affiliates. The Executive recognizes that the information he possesses and will possess about these other employees is not generally known, is of substantial value to the Company and its Affiliates in developing their business and in securing and retaining customers, and has been and will be acquired by him because of his business position with the Company and its Affiliates. The Executive agrees that at all times during the Executive's employment with the Company and for a period of one (1) year thereafter, he will not, directly or indirectly, solicit or recruit any employee of the Company or its Affiliates for the purpose of being employed by him or by any competitor of the Company or its Affiliates on whose behalf he is acting as an agent, representative or employee and that he will not convey any such confidential information or trade secrets about other employees of the Company and its Affiliates to any other person; *provided, however*, that it shall not constitute a solicitation or recruitment of employment in violation of this paragraph to discuss employment opportunities with any employee of the Company or its Affiliates who has either first contacted the Executive or regarding whose employment the Executive has discussed with and received the written approval of the Company's Vice President, Human Resources (or, if such position is vacant, the Company's then Chief Executive Officer), prior to making such solicitation or recruitment. In view of the nature of the Executive's employment with the Company, the Executive likewise agrees that the Company and its Affiliates would be irreparably harmed by any solicitation or recruitment in violation of the terms of this paragraph and that the Company and its Affiliates shall therefore be entitled to preliminary and/or permanent injunctive relief prohibiting the Executive from engaging in any activity or threatened activity in violation of the terms of this paragraph and to any other relief available to them.

(c) Survival of Provisions. The obligations contained in Section 14(a) and Section 14(b) above shall survive the termination of the Executive's employment within the Company and shall be fully enforceable thereafter. If it is determined by a court of competent jurisdiction in any state that any restriction in Section 14(a) or Section 14(b) above is excessive in duration or scope or is unreasonable or unenforceable under the laws of that state, it is the intention of the parties that such restriction may be modified or amended by the court to render it enforceable to the maximum extent permitted by the law of that state.

(d) Release; Lump Sum Payment. In the event of the Executive's Involuntary Termination, if the Executive (i) agrees to the covenants described in Section 14(a) and Section 14(b) above, (ii) executes a release (the "Release") of all claims substantially in the form attached hereto as Exhibit A within fifty (50) days after the date of Involuntary Termination and does not revoke such Release in accordance with the terms thereof, and (iii) agrees to provide the consulting services described in Section 14(e) below, then in consideration for such covenants, the Company shall pay the Executive, in one cash lump sum, an amount (the "Consulting Payment") in cash equal to the greater of: (X) 160% of the Executive's Annual Base Salary as in effect on the Date of Termination, and (Y) the Executive's Annual Base Salary as in effect on the Date of Termination, plus the Executive's Average Annual Bonus. Except as provided in this subsection, the Consulting Payment shall be paid on such date as is determined by the Company within the ten (10) day period commencing on the 60th day after the date of the Executive's Involuntary Termination; *provided, however*, that if the Executive is a Specified Employee on the date of the Executive's Involuntary Termination, the Consulting Payment shall be paid as provided in Section 10 hereof. The Executive shall have the right to elect to defer the Consulting Payment under the terms and conditions of the Company's Deferred Compensation Plan. Any such deferral election shall be made in accordance with Section 18(b) hereof.

(e) Consulting. If the Executive agrees to the covenants described in Section 14(d) above, then the Executive shall have the obligation to provide consulting services to the Company as an independent contractor, commencing on the Date of Termination and ending on the second anniversary of the Date of Termination (the "Consulting Period"). The Executive shall hold himself available at reasonable times and on reasonable notice to render such consulting services as may be so assigned to him by the Board or the Company's then Chief Executive Officer; *provided, however*, that unless the parties otherwise agree, the consulting services rendered by the Executive during the Consulting Period shall not exceed twenty (20) hours each month; and, *provided, further*, that the consulting services rendered by the Executive during the Consulting Period shall in no event exceed twenty percent (20%) of the average level of services performed by the Executive for the Company over the thirty-six (36) month period immediately preceding the Executive's Separation from Service (or the full period of services to the Company, if the Executive has been providing services to the Company for less than thirty-six (36) months). The Company agrees to use its best efforts during the Consulting Period to secure the benefit of the Executive's consulting services so as to minimize the interference with the Executive's other activities, including requiring the performance of consulting services at the Company's offices only when such services may not be reasonably performed off-site by the Executive.

Section 15. Legal Fees.

(a) Reimbursement of Legal Fees. Subject to subsection (b), in the event of the Executive's Separation from Service either (1) prior to a Change in Control, or (2) on or within two (2) years following a Change in Control, the Company shall reimburse the Executive for all legal fees and expenses (including but not limited to fees and expenses in connection with any arbitration) incurred by the Executive in disputing any issue arising under this Agreement relating to the Executive's Separation from Service or in seeking to obtain or enforce any benefit or right provided by this Agreement.

(b) Requirements for Reimbursement. The Company shall reimburse the Executive's legal fees and expenses pursuant to subsection (a) above only to the extent the arbitrator or court determines the following: (i) the Executive disputed such issue, or sought to obtain or enforce such benefit or right, in good faith, (ii) the Executive had a reasonable basis for such claim, and (iii) in the case of subsection (a)(1) above, the Executive is the prevailing party. In addition, the Company shall reimburse such legal fees and expenses, only if such legal fees and expenses are incurred during the twenty (20) year period beginning on the date of the Executive's Separation from Service. The legal fees and expenses paid to the Executive for any taxable year of the Executive shall not affect the legal fees and expenses paid to the Executive for any other taxable year of the Executive. The legal fees and expenses shall be paid to the Executive on or before the last day of the Executive's taxable year following the taxable year in which the fees or expenses are incurred. The Executive's right to reimbursement of legal fees and expenses shall not be subject to liquidation or exchange for any other benefit. Such right to reimbursement of legal fees and expenses shall be provided in a manner that complies with Treasury Regulation Section 1.409A-3(i)(1)(iv). If the Executive is a Specified Employee on the date of the Executive's Separation from Service, such right to reimbursement of legal fees and expenses shall be paid as provided in Section 10 hereof.

Section 16. Successors.

(a) Assignment by the Executive. This Agreement is personal to the Executive and without the prior written consent of Sempra Energy shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) Successors and Assigns of Sempra Energy. This Agreement shall inure to the benefit of and be binding upon Sempra Energy, its successors and assigns. Sempra Energy may not assign this Agreement to any person or entity (except for a successor described in Section 16(c), (d) or (e) below) without the Executive's written consent.

(c) Assumption. Sempra Energy shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of Sempra Energy to assume expressly and agree to perform the obligations and satisfy and discharge the liabilities of this Agreement in the same manner and to the same extent that

Sempra Energy would have been required to perform the obligations and satisfy and discharge the liabilities under this Agreement if no such succession had taken place, and Sempra Energy shall have no further obligations and liabilities under this Agreement. Upon such assumption, references to Sempra Energy in this Agreement shall be replaced with references to such successor.

(d) Sale of Subsidiary. In the event that (i) the Executive is employed by a direct or indirect subsidiary of Sempra Energy that is a member of the Sempra Energy Control Group, (ii) Sempra Energy, directly or indirectly through one or more intermediaries, sells or otherwise disposes of such subsidiary, and (iii) such subsidiary ceases to be a member of the Sempra Energy Control Group, then if, on the date such subsidiary ceases to be a member of the Sempra Energy Control Group, the Executive continues in employment with such subsidiary and the Executive does not have a Separation from Service, Sempra Energy shall require such subsidiary or any successor (whether direct or indirect, by purchase merger, consolidation or otherwise) to such subsidiary, or the parent thereof, to assume expressly and agree to perform the obligations and satisfy and discharge the liabilities under this Agreement in the same manner and to the same extent that Sempra Energy would have been required to perform the obligations and satisfy and discharge the liabilities under this Agreement, if such subsidiary had not ceased to be part of the Sempra Energy Control Group, and, upon such assumption, Sempra Energy shall have no further obligations and liabilities under the Agreement. Upon such assumption, (i) references to Sempra Energy in this Agreement shall be replaced with references to such subsidiary, or such successor or parent thereof, assuming this Agreement, and (ii) subsection (b) of the definition of "Cause" and subsection (b) of the definition of "Good Reason" shall apply thereafter, as if a Change in Control had occurred on the date of such cessation.

(e) Sale of Assets of Subsidiary. In the event that (i) the Executive is employed by a direct or indirect subsidiary of Sempra Energy, and (ii) such subsidiary sells or otherwise disposes of substantial assets of such subsidiary to an unrelated service recipient, as determined under Treasury Regulation Section 1.409A-1(f)(2)(ii) (the "Asset Purchaser"), in a transaction described in Treasury Regulation Section 1.409A-1(h)(4) (an "Asset Sale"), then if, on the date of such Asset Sale, the Executive becomes employed by the Asset Purchaser, Sempra Energy and the Asset Purchaser shall specify, in accordance with Treasury Regulation Section 1.409A-1(h)(4), that the Executive shall not be treated as having a Separation from Service, and Sempra Energy shall require such Asset Purchaser, or the parent thereof, to assume expressly and agree to perform the obligations and satisfy and discharge the liabilities under this Agreement in the same manner and to the same extent that Sempra Energy would have been required to perform the obligations and satisfy and discharge the liabilities under this Agreement, if the Asset Sale had not taken place, and, upon such assumption, Sempra Energy shall have no further obligations and liabilities under the Agreement. Upon such assumption, (i) references to Sempra Energy in this Agreement shall be replaced with references to the Asset Purchaser or the parent thereof, as applicable, and (ii) subsection (b) of the definition of "Cause" and subsection (b) of the definition of "Good Reason" shall apply thereafter, as if a Change in Control had occurred on the date of the Asset Sale.

Section 17. Administration Prior to Change in Control. Prior to a Change in Control, the Compensation Committee shall have full and complete authority to construe and interpret the provisions of this Agreement, to determine an individual's entitlement to benefits under this Agreement, to make in its sole and absolute discretion all determinations contemplated under this Agreement, to investigate and make factual determinations necessary or advisable to administer or implement this Agreement, and to adopt such rules and procedures as it deems necessary or advisable for the administration or implementation of this Agreement. All determinations made under this Agreement by the Compensation Committee shall be final and binding on all interested persons. Prior to a Change in Control, the Compensation Committee may delegate responsibilities for the operation and administration of this Agreement to one or more officers or employees of the Company. The provisions of this Section 17 shall terminate and be of no further force and effect upon the occurrence of a Change in Control.

Section 18. Section 409A of the Code.

(a) Compliance with and Exemption from Section 409A of the Code. Certain payments and benefits payable under this Agreement (including, without limitation, the Section 409A Payments) are intended to comply with the requirements of Section 409A of the Code. Certain payments and benefits payable under this Agreement are intended to be exempt from the requirements of Section 409A of the Code. This Agreement shall be interpreted in accordance with the applicable requirements of, and exemptions from, Section 409A of the Code and the Treasury Regulations thereunder. To the extent the payments and benefits under this Agreement are subject to Section 409A of the Code, this Agreement shall be interpreted, construed and administered in a manner that satisfies the requirements of Sections 409A(a)(2), (3) and (4) of the Code and the Treasury Regulations thereunder (subject to the transitional relief under Internal Revenue Service Notice 2005-1, the Proposed Regulations under Section 409A of the Code, Internal Revenue Service Notice 2006-79, Internal Revenue Service Notice 2007-78, Internal Revenue Service Notice 2007-86 and other applicable authority issued by the Internal Revenue Service). As provided in Internal Revenue Notice 2007-86, notwithstanding any other provision of this Agreement, with respect to an election or amendment to change a time or form of payment under this Agreement made on or after January 1, 2008 and on or before December 31, 2008, the election or amendment shall apply only with respect to payments that would not otherwise be payable in 2008, and shall not cause payments to be made in 2008 that would not otherwise be payable in 2008. If the Company and the Executive determine that any compensation, benefits or other payments that are payable under this Agreement and intended to comply with Sections 409A(a)(2), (3) and (4) of the Code do not comply with Section 409A of the Code, the Treasury Regulations thereunder and other applicable authority issued by the Internal Revenue Service, to the extent permitted under Section 409A of the Code, the Treasury Regulations thereunder and any applicable authority issued by the Internal Revenue Service, the Company and the Executive agree to amend this Agreement, or take such other actions as the Company and the Executive deem reasonably necessary or appropriate, to cause such compensation, benefits and other payments to comply with the requirements of Section 409A of the Code, the Treasury Regulations thereunder and other applicable authority issued by the Internal Revenue Service, while providing compensation, benefits and other payments that are, in the aggregate, no less favorable than the compensation, benefits and other payments provided under this Agreement. In the case of any compensation, benefits or other payments that are payable under this Agreement and intended to comply with

Sections 409A(a)(2), (3) and (4) of the Code, if any provision of the Agreement would cause such compensation, benefits or other payments to fail to so comply, such provision shall not be effective and shall be null and void with respect to such compensation, benefits or other payments to the extent such provision would cause a failure to comply, and such provision shall otherwise remain in full force and effect.

(b) Deferral Elections. As provided in Sections 5(f), 6(h) and 14(d), the Executive may elect to defer the Pre-Change in Control Severance Payment, the Post-Change in Control Severance Payment and the Consulting Payment as follows.

The Executive's deferral election shall satisfy the requirements of Treasury Regulation Section 1.409A-2(b) and the terms and conditions of the Deferred Compensation Plan. Such deferral election shall designate the whole percentage (up to a maximum of 100%) of the Pre-Change in Control Severance Payment, the Post-Change in Control Severance Payment and the Consulting Payment to be deferred, shall be irrevocable when made, and shall not take effect until at least twelve (12) months after the date on which the election is made. Such deferral election shall provide that the amount deferred shall be deferred for a period of not less than five (5) years from the date the payment of the amount deferred would otherwise have been made, in accordance with Treasury Regulation Section 1.409A-2(b)(1)(ii).

Section 19. Miscellaneous.

(a) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, without reference to its principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended, modified, repealed, waived, extended or discharged except by an agreement in writing signed by the party against whom enforcement of such amendment, modification, repeal, waiver, extension or discharge is sought. No person, other than pursuant to a resolution of the Board or a committee thereof, shall have authority on behalf of the Company to agree to amend, modify, repeal, waive, extend or discharge any provision of this Agreement or anything in reference thereto.

(b) Notices. All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed, in either case, to the Company's headquarters or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notices and communications shall be effective when actually received by the addressee.

(c) Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) Taxes. The Company may withhold from any amounts payable under this Agreement such federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) No Waiver. The Executive's or the Company's failure to insist upon strict compliance with any provision hereof or any other provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason pursuant to Section 1 hereof, or the right of the Company to terminate the Executive's employment for Cause pursuant to Section 1 hereof shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(f) Entire Agreement; Exclusive Benefit; Supersession of Prior Agreement. This instrument contains the entire agreement of the Executive, the Company or any predecessor or subsidiary thereof with respect to any severance or termination pay. The Pre-Change in Control Severance Payment, the Post-Change in Control Severance Payment and all other benefits provided hereunder shall be in lieu of any other severance payments to which the Executive is entitled under any other severance plan or program or arrangement sponsored by the Company, as well as pursuant to any individual employment or severance agreement that was entered into by the Executive and the Company, and, upon the Effective Date of this Agreement, all such plans, programs, arrangements and agreements are hereby automatically superseded and terminated.

(g) No Right of Employment. Nothing in this Agreement shall be construed as giving the Executive any right to be retained in the employ of the Company or shall interfere in any way with the right of the Company to terminate the Executive's employment at any time, with or without Cause.

(h) Unfunded Obligation. The obligations under this Agreement shall be unfunded. Benefits payable under this Agreement shall be paid from the general assets of the Company. The Company shall have no obligation to establish any fund or to set aside any assets to provide benefits under this Agreement.

(i) Termination upon Sale of Assets of Subsidiary. Notwithstanding anything contained herein, this Agreement shall automatically terminate and be of no further force and effect and no benefits shall be payable hereunder in the event that (i) the Executive is employed by a direct or indirect subsidiary of Sempra Energy, and (ii) an Asset Sale (as defined in Section 16(e)) occurs (other than such a sale or disposition which is part of a transaction or series of transactions which would result in a Change in Control), and (iii) as a result of such Asset Sale, the Executive is offered employment by the Asset Purchaser in an executive position with reasonably comparable status, compensation, benefits and severance agreement (including the assumption of this Agreement in accordance with Section 16(e)) and which is consistent with the Executive's experience and education, but the Executive declines to accept such offer and the Executive fails to become employed by the Asset Purchaser on the date of the Asset Sale.

(j)

Term. The term of this Agreement shall commence on the Effective Date and shall continue until the third (3rd) anniversary of the Effective Date; *provided, however*, that commencing on the second (2nd) anniversary of the Effective Date (and each anniversary of the Effective Date thereafter), the term of this Agreement shall automatically be extended for one (1) additional year, unless at least ninety (90) days prior to such date, the Company or the Executive shall give written notice to the other party that it or he, as the case may be, does not wish to so extend this Agreement. Notwithstanding the foregoing, if the Company gives such written notice to the Executive less than two (2) years after a Change in Control, the term of this Agreement shall be automatically extended until the later of (A) the date that is one (1) year after the anniversary of the Effective Date that follows such written notice or (B) the second (2nd) anniversary of the Change in Control Date.

(k) Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

[remainder of page intentionally left blank]

IN WITNESS WHEREOF, the Executive and, pursuant to due authorization from its Board of Directors, the Company have caused this Agreement to be executed as of the day and year first above written.

SEMPRA ENERGY

G. Joyce Rowland
Senior Vice President, Human Resources

Date

EXECUTIVE

Jeffrey W. Martin
President & CEO, Generation

Date

GENERAL RELEASE

This GENERAL RELEASE (the "Agreement"), dated _____, is made by and between _____, a California corporation (the "Company") and _____ ("you" or "your").

WHEREAS, you and the Company have previously entered into that certain Severance Pay Agreement dated _____, 20____ (the "Severance Pay Agreement"); and

WHEREAS, Section 14(d) of the Severance Pay Agreement provides for the payment of a benefit to you by the Company in consideration for certain covenants, including your execution and non-revocation of a general release of claims by you against the Company and its subsidiaries and affiliates.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, you and the Company hereby agree as follows:

ONE: Your signing of this Agreement confirms that your employment with the Company shall terminate at the close of business on _____, or earlier upon our mutual agreement.

TWO: As a material inducement for the payment of the benefit under Section 14(d) of the Severance Pay Agreement, and except as otherwise provided in this Agreement, you and the Company hereby irrevocably and unconditionally release, acquit and forever discharge the other from any and all Claims either may have against the other. For purposes of this Agreement and the preceding sentence, the words "Releasee" or "Releasees" and "Claim" or "Claims" shall have the meanings set forth below:

(a) The words "Releasee" or "Releasees" shall refer to you and to the Company and each of the Company's owners, stockholders, predecessors, successors, assigns, agents, directors, officers, employees, representatives, attorneys, advisors, parent companies, divisions, subsidiaries, affiliates (and agents, directors, officers, employees, representatives, attorneys and advisors of such parent companies, divisions, subsidiaries and affiliates) and all persons acting by, through, under or in concert with any of them.

(b) The words "Claim" or "Claims" shall refer to any charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses (including attorneys' fees and costs actually incurred) of any nature whatsoever, known or unknown, suspected or unsuspected, which you or the Company now, in the past or, except as limited by law or regulation such as the Age Discrimination in Employment Act (ADEA), in the future may have, own or hold against any of the Releasees; *provided, however*, that the word "Claim" or "Claims" shall not refer to any charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses (including attorneys' fees and costs actually incurred) arising under [*identify severance, employee benefits, stock option, indemnification and D&O and other agreements containing duties, rights obligations etc. of either party that are to remain operative*]. Claims released pursuant to this Agreement by you and the Company include, but are not limited to, rights arising out of alleged violations of any contracts, express or implied, any tort, any claim that you failed to perform or negligently performed or breached your duties during employment at the Company, any legal restrictions on the Company's right to terminate employees or any federal, state or other governmental statute, regulation, or ordinance, including, without limitation: (1) Title VII of the Civil Rights Act of 1964 (race, color, religion, sex and national origin discrimination); (2) 42 U.S.C. § 1981 (discrimination); (3) 29 U.S.C. §§ 621–634 (age discrimination); (4) 29 U.S.C. § 206(d)(1) (equal pay); (5) 42 U.S.C. §§ 12101, et seq. (disability); (6) the California Constitution, Article I, Section 8 (discrimination); (7) the California Fair Employment and Housing Act (discrimination, including race, color, national origin, ancestry, physical handicap, medical condition, marital status, religion, sex or age); (8) California Labor Code Section 1102.1 (sexual orientation discrimination); (9) the Executive Order 11246 (race, color, religion, sex and national origin discrimination); (10) the Executive Order 11141 (age discrimination); (11) §§ 503 and 504 of the Rehabilitation Act of 1973 (handicap discrimination); (12) The Worker Adjustment and Retraining Act (WARN Act); (13) the California Labor Code (wages, hours, working conditions, benefits and other matters); (14) the Fair Labor Standards Act (wages, hours, working conditions and other matters); the Federal Employee Polygraph Protection Act (prohibits employer from requiring employee to take polygraph test as condition of employment); and (15) any federal, state or other governmental statute, regulation or ordinance which is similar to any of the statutes described in clauses (1) through (14).

THREE: You and the Company expressly waive and relinquish all rights and benefits afforded by any statute (including but not limited to Section 1542 of the Civil Code of the State of California) which limits the effect of a release with respect to unknown claims. You and the Company do so understanding and acknowledging the significance of the release of unknown claims and the waiver of statutory protection against a release of unknown claims (including but not limited to Section 1542). Section 1542 of the Civil Code of the State of California states as follows:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE

RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.”

Thus, notwithstanding the provisions of Section 1542 or of any similar statute, and for the purpose of implementing a full and complete release and discharge of the Releasees, you and the Company expressly acknowledge that this Agreement is intended to include in its effect, without limitation, all Claims which are known and all Claims which you or the Company do not know or suspect to exist in your or the Company's favor at the time of execution of this Agreement and that this Agreement contemplates the extinguishment of all such Claims.

FOUR: The parties acknowledge that they might hereafter discover facts different from, or in addition to, those they now know or believe to be true with respect to a Claim or Claims released herein, and they expressly agree to assume the risk of possible discovery of additional or different facts, and agree that this Agreement shall be and remain effective, in all respects, regardless of such additional or different discovered facts.

FIVE: You hereby represent and acknowledge that you have not filed any Claim of any kind against the Company or others released in this Agreement. You further hereby expressly agree never to initiate against the Company or others released in this Agreement any administrative proceeding, lawsuit or any other legal or equitable proceeding of any kind asserting any Claims that are released in this Agreement.

The Company hereby represents and acknowledges that it has not filed any Claim of any kind against you or others released in this Agreement. The Company further hereby expressly agrees never to initiate against you or others released in this Agreement any administrative proceeding, lawsuit or any other legal or equitable proceeding of any kind asserting any Claims that are released in this Agreement.

SIX: You hereby represent and agree that you have not assigned or transferred, or attempted to have assigned or transfer, to any person or entity, any of the Claims that you are releasing in this Agreement.

The Company hereby represents and agrees that it has not assigned or transferred, or attempted to have assigned or transfer, to any person or entity, any of the Claims that it is releasing in this Agreement.

SEVEN: As a further material inducement to the Company to enter into this Agreement, you hereby agree to indemnify and hold each of the Releasees harmless from all loss, costs, damages, or expenses, including without limitation, attorneys' fees incurred by the Releasees, arising out of any breach of this Agreement by you or the fact that any representation made in this Agreement by you was false when made.

As a further material inducement to you to enter into this Agreement, the Company hereby agrees to indemnify and hold each of the Releasees harmless from all loss, costs, damages, or expenses, including without limitation, attorneys' fees incurred by the Releasees, arising out of any breach of this Agreement by it or the fact that any representation made in this Agreement by it was knowingly false when made.

EIGHT: You and the Company represent and acknowledge that in executing this Agreement, neither is relying upon any representation or statement not set forth in this Agreement or the Severance Agreement.

NINE:

(a) This Agreement shall not in any way be construed as an admission by the Company that it has acted wrongfully with respect to you or any other person, or that you have any rights whatsoever against the Company, and the Company specifically disclaims any liability to or wrongful acts against you or any other person, on the part of itself, its employees or its agents. This Agreement shall not in any way be construed as an admission by you that you have acted wrongfully with respect to the Company, or that you failed to perform your duties or negligently performed or breached your duties, or that the Company had good cause to terminate your employment.

(b) If you are a party or are threatened to be made a party to any proceeding by reason of the fact that you were an officer or director of the Company, the Company shall indemnify you against any expenses (including reasonable attorneys' fees; *provided*, that counsel has been approved by the Company prior to retention, which approval shall not be unreasonably withheld), judgments, fines, settlements and other amounts actually or reasonably incurred by you in connection with that proceeding; *provided*, that you acted in good faith and in a manner you reasonably believed to be in the best interest of the Company. The limitations of California Corporations Code Section 317 shall apply to this assurance of indemnification.

(c) You agree to cooperate with the Company and its designated attorneys, representatives and agents in connection with any actual or threatened judicial, administrative or other legal or equitable proceeding in which the Company is or may become involved. Upon reasonable notice, you agree to meet with and provide to the Company or its designated attorneys, representatives or agents all information and knowledge you have relating to the subject matter of any such proceeding. The Company agrees to reimburse you for any reasonable costs you incur in providing such cooperation.

TEN: This Agreement is made and entered into in California. This Agreement shall in all respects be interpreted, enforced and governed by and under the laws of the State of California and applicable Federal law. Any dispute about the validity, interpretation, effect or alleged violation of this Agreement (an “arbitrable dispute”) must be submitted to arbitration in San Diego, California. Arbitration shall take place before an experienced employment arbitrator licensed to practice law in such state and

selected in accordance with the then existing JAMS arbitration rules applicable to employment disputes; *provided, however*, that in any event, the arbitrator shall allow reasonable discovery. Arbitration shall be the exclusive remedy for any arbitrable dispute. The arbitrator in any arbitrable dispute shall not have authority to modify or change the Agreement in any respect. You and the Company shall each be responsible for payment of one-half (1/2) the amount of the arbitrator's fee(s); *provided, however*, that in no event shall you be required to pay any fee or cost of arbitration that is unique to arbitration or exceeds the costs you would have incurred had any arbitrable dispute been pursued in a court of competent jurisdiction. The Company shall make up any shortfall. Should any party to this Agreement institute any legal action or administrative proceeding against the other with respect to any Claim waived by this Agreement or pursue any arbitrable dispute by any method other than arbitration, the prevailing party shall be entitled to recover from the non-prevailing party all damages, costs, expenses and attorneys' fees incurred as a result of that action. The arbitrator's decision and/or award shall be rendered in writing and will be fully enforceable and subject to an entry of judgment by the Superior Court of the State of California for the County of San Diego, or any other court of competent jurisdiction.

ELEVEN: Both you and the Company understand that this Agreement is final and binding eight (8) days after its execution and return. Should you nevertheless attempt to challenge the enforceability of this Agreement as provided in Paragraph TEN or, in violation of that Paragraph, through litigation, as a further limitation on any right to make such a challenge, you shall initially tender to the Company, by certified check delivered to the Company, all monies received pursuant to Section 14(d) of the Severance Pay Agreement, plus interest, and invite the Company to retain such monies and agree with you to cancel this Agreement and void the Company's obligations under Section 14(d) of the Severance Pay Agreement. In the event the Company accepts this offer, the Company shall retain such monies and this Agreement shall be canceled and the Company shall have no obligation under Section 14(d) of the Severance Pay Agreement. In the event the Company does not accept such offer, the Company shall so notify you and shall place such monies in an interest-bearing escrow account pending resolution of the dispute between you and the Company as to whether or not this Agreement and the Company's obligations under Section 14(d) of the Severance Pay Agreement shall be set aside and/or otherwise rendered voidable or unenforceable. Additionally, any consulting agreement then in effect between you and the Company shall be immediately rescinded with no requirement of notice.

TWELVE: Any notices required to be given under this Agreement shall be delivered either personally or by first class United States mail, postage prepaid, addressed to the respective parties as follows:

To Company: [TO COME]

Attn: [TO COME]

To You: _____

THIRTEEN: You understand and acknowledge that you have been given a period of forty-five (45) days to review and consider this Agreement (as well as statistical data on the persons eligible for similar benefits) before signing it and may use as much of this forty-five (45) day period as you wish prior to signing. You are encouraged, at your personal expense, to consult with an attorney before signing this Agreement. You understand and acknowledge that whether or not you do so is your decision. You may revoke this Agreement within seven (7) days of signing it. If you wish to revoke, the Company's Vice President, Human Resources must receive written notice from you no later than the close of business on the seventh (7th) day after you have signed the Agreement. If revoked, this Agreement shall not be effective and enforceable, and you will not receive payments or benefits under Section 14(d) of the Severance Pay Agreement.

FOURTEEN: This Agreement constitutes the entire agreement of the parties hereto and supersedes any and all other agreements (except the Severance Pay Agreement) with respect to the subject matter of this Agreement, whether written or oral, between you and the Company. All modifications and amendments to this Agreement must be in writing and signed by the parties.

FIFTEEN: Each party agrees, without further consideration, to sign or cause to be signed, and to deliver to the other party, any other documents and to take any other action as may be necessary to fulfill the obligations under this Agreement.

SIXTEEN: If any provision of this Agreement or the application thereof is held invalid, the invalidity shall not affect other provisions or applications of the Agreement which can be given effect without the invalid provisions or application; and to this end the provisions of this Agreement are declared to be severable.

SEVENTEEN: This Agreement may be executed in counterparts.

I have read the foregoing General Release, and I accept and agree to the provisions it contains and hereby execute it voluntarily and with full understanding of its consequences. I am aware it includes a release of all known or unknown claims.

DATED: _____

DATED: _____

You acknowledge that you first received this Agreement on [date].

**SEMPRA ENERGY
SEVERANCE PAY AGREEMENT**

THIS AGREEMENT (this “Agreement”), dated as of January 17, 2014, (the “Effective Date”) is made by and between SEMPRA ENERGY, a California corporation (“Sempra Energy”), and Robert M. Schlax (the “Executive”).

WHEREAS, the Executive is currently employed by Sempra Energy or a direct or indirect subsidiary of Sempra Energy (Sempra Energy and its subsidiaries are hereinafter collectively referred to as the “Company”) as Vice President, Controller and Chief Financial Officer; and

WHEREAS, Sempra Energy and the Executive desire to enter into this Agreement; and

WHEREAS, the Board of Directors of Sempra Energy (the “Board”) has authorized this Agreement.

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained, the Company and the Executive hereby agree as follows:

Section 1. Definitions. For purposes of this Agreement, the following capitalized terms have the meanings set forth below:

“Accounting Firm” has the meaning assigned thereto in Section 8(d) hereof.

“Accrued Obligations” means the sum of (A) the Executive’s Annual Base Salary through the Date of Termination to the extent not theretofore paid, (B) an amount equal to any annual Incentive Compensation Awards earned with respect to fiscal years ended prior to the year that includes the Date of Termination to the extent not theretofore paid, (C) any accrued and unpaid vacation, if any, and (D) reimbursement for unreimbursed business expenses, if any, properly incurred by the Executive in the performance of his duties in accordance with policies established from time to time by the Board, in each case to the extent not theretofore paid.

“Affiliate” has the meaning set forth in Rule 12b-2 promulgated under the Exchange Act.

“Annual Base Salary” means the Executive’s annual base salary from the Company.

“Asset Purchaser” has the meaning assigned thereto in Section 16(e).

“Asset Sale” has the meaning assigned thereto in Section 16(e).

“Average Annual Bonus” means the average of the annual bonuses from the Company earned by the Executive with respect to the three (3) fiscal years of the Company immediately preceding the Date of Termination (the “Bonus Fiscal Years”); *provided, however*, that, if the Executive was employed by the Company for less than three (3) years of the Bonus Fiscal Years, “Average Annual Bonus” means the average of the annual bonuses (if any) from the Company earned by the Executive with respect to the Bonus Fiscal Years during which the Executive was employed by the Company; and, *provided, further*, that, if the Executive was not employed by the Company during any portion of any of the Bonus Fiscal Years, “Average Annual Bonus” means zero.

“Cause” means:

(a) Prior to a Change in Control, (i) the willful failure by the Executive to substantially perform the Executive’s duties with the Company (other than any such failure resulting from the Executive’s incapacity due to physical or mental illness, (ii) the grossly negligent performance of such obligations referenced in clause (i) of this definition, (iii) the Executive’s gross insubordination; and/or (iv) the Executive’s commission of one or more acts of moral turpitude that constitute a violation of applicable law (including but not limited to a felony) which have or result in an adverse effect on the Company, monetarily or otherwise, or one or more significant acts of dishonesty. For purposes of clause (i) of this subsection (a), no act, or failure to act, on the Executive’s part shall be deemed “willful” unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the Executive’s act, or failure to act, was in the best interests of the Company.

(b) From and after a Change in Control, (i) the willful and continued failure by the Executive to substantially perform the Executive’s duties with the Company (other than any such failure resulting from the Executive’s incapacity due to physical or mental illness or any such actual or anticipated failure after the issuance of a Notice of Termination for Good Reason by the Executive pursuant to Section 2 hereof) and/or (ii) the Executive’s commission of one or more acts of moral turpitude that constitute a violation of applicable law (including but not limited to a felony) which have or result in an adverse effect on the Company, monetarily or otherwise, or one or more significant acts of dishonesty. For purposes of clause (i) of this subsection (b), no act, or failure to act, on the Executive’s part shall be deemed “willful” unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the Executive’s act, or failure to act, was in the best interests of the Company.

Notwithstanding the foregoing, the Executive shall not be deemed terminated for Cause pursuant to clause (i) of this subsection (b) unless and until the Executive shall have been provided with reasonable notice of and, if possible, a reasonable opportunity to cure the facts and circumstances claimed to provide a basis for termination of the Executive’s employment for Cause.

“Change in Control” shall be deemed to have occurred on the date that a change in the ownership of Sempra Energy, a change in the effective control of Sempra Energy, or a change in the ownership of a substantial portion of assets of Sempra Energy occurs (each, as defined in subsection (a) below), except as otherwise provided in subsections (b), (c) and (d) below:

(a) (i) a “change in the ownership of Sempra Energy” occurs on the date that any one person, or more than one person acting as a group, acquires ownership of stock of Sempra Energy that, together with stock held by such person or group, constitutes more than fifty percent (50%) of the total fair market value or total voting power of the stock of Sempra Energy,

(ii) a “change in the effective control of Sempra Energy” occurs only on either of the following dates:

(A) the date any one person, or more than one person acting as a group, acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of Sempra Energy possessing thirty percent (30%) or more of the total voting power of the stock of Sempra Energy, or

(B) the date a majority of the members of the Board is replaced during any twelve (12) month period by directors whose appointment or election is not endorsed by a majority of the members of the Board before the date of appointment or election, and

(iii) a “change in the ownership of a substantial portion of assets of Sempra Energy” occurs on the date any one person, or more than one person acting as a group, acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) assets from Sempra Energy that have a total gross fair market value equal to or more than eighty-five percent (85%) of the total gross fair market value of all of the assets of Sempra Energy immediately before such acquisition or acquisitions.

(b) A “change in the ownership of Sempra Energy” or “a change in the effective control of Sempra Energy” shall not occur under clause (a)(i) or (a)(ii) by reason of any of the following:

(i) an acquisition of ownership of stock of Sempra Energy directly from Sempra Energy or its Affiliates other than in connection with the acquisition by Sempra Energy or its Affiliates of a business,

(ii) a merger or consolidation which would result in the voting securities of Sempra Energy outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company, at least sixty percent (60%) of the combined voting power of the securities of Sempra Energy or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or

(iii) a merger or consolidation effected to implement a recapitalization of Sempra Energy (or similar transaction) in which no Person is or becomes the Beneficial Owner (within the meaning of Rule 13d-3 promulgated under the Exchange Act, directly or indirectly, of securities of Sempra Energy (not including the securities beneficially owned by such Person any securities acquired directly from Sempra Energy or its Affiliates other than in connection with the acquisition by Sempra Energy or its Affiliates of a business) representing twenty percent (20%) or more of the combined voting power of Sempra Energy’s then outstanding securities.

(c) A “change in the ownership of a substantial portion of assets of Sempra Energy” shall not occur under clause (a)(iii) by reason of a sale or disposition by Sempra Energy of the assets of Sempra Energy to an entity, at least sixty percent (60%) of the combined voting power of the voting securities of which are owned by shareholders of Sempra Energy in substantially the same proportions as their ownership of Sempra Energy immediately prior to such sale.

(d) This definition of “Change in Control” shall be limited to the definition of a “change in control event” relating to Sempra Energy under Treasury Regulation Section 1.409A-3(i)(5). A “Change in Control” shall only occur if there is a “change in control event” relating to Sempra Energy under Treasury Regulation Section 1.409A-3(i)(5) with respect to the Executive.

“Change in Control Date” means the date on which a Change in Control occurs.

“Code” means the Internal Revenue Code of 1986, as amended.

“Compensation Committee” means the compensation committee of the Board.

“Consulting Payment” has the meaning assigned thereto in Section 14(d) hereof.

“Consulting Period” has the meaning assigned thereto in Section 14(e) hereof.

“Date of Termination” has the meaning assigned thereto in Section 2(b) hereof.

“Deferred Compensation Plan” has the meaning assigned thereto in Section 4(f) hereof.

“Disability” has the meaning set forth in the Company’s long-term disability plan or its successor; *provided*, however, that the Board may not terminate the Executive’s employment hereunder by reason of Disability unless (i) at the time of

such termination there is no reasonable expectation that the Executive will return to work within the next ninety (90) day period and (ii) such termination is permitted by all applicable disability laws.

“Exchange Act” means the Securities Exchange Act of 1934, as amended, and the applicable rulings and regulations thereunder.

“Excise Tax” has the meaning assigned thereto in Section 8(a) hereof.

“Good Reason” means:

(a) Prior to a Change in Control, the occurrence of any of the following without the prior written consent of the Executive, unless such act or failure to act is corrected by the Company prior to the Date of Termination specified in the Notice of Termination (as required under Section 2 hereof):

(i) the assignment to the Executive of any duties materially inconsistent with the range of duties and responsibilities appropriate to a senior Executive within the Company (such range determined by reference to past, current and reasonable practices within the Company);

(ii) a material reduction in the Executive’s overall standing and responsibilities within the Company, but not including (A) a mere change in title or (B) a transfer within the Company, which, in the case of both (A) and (B), does not adversely affect the Executive’s overall status within the Company;

(iii) a material reduction by the Company in the Executive’s aggregate annualized compensation and benefits opportunities, except for across-the-board reductions (or modifications of benefit plans) similarly affecting all similarly situated executives (both of the Company and of any Person then in control of the Company) of comparable rank with the Executive;

(iv) the failure by the Company to pay to the Executive any portion of the Executive’s current compensation and benefits or any portion of an installment of deferred compensation under any deferred compensation program of the Company within thirty (30) days of the date such compensation is due;

(v) any purported termination of the Executive’s employment that is not effected pursuant to a Notice of Termination satisfying the requirements of Section 3 hereof; for purposes of this Agreement, no such purported termination shall be effective;

(vi) the failure by Sempra Energy to perform its obligations under Section 16(c), (d) or (e) hereof;

(vii) the failure by the Company to provide the indemnification and D&O insurance protection Section 10 of this Agreement requires it to provide; or

(viii) the failure by Sempra Energy to comply with any material provision of this Agreement.

(b) From and after a Change in Control, the occurrence of any of the following without the prior written consent of the Executive, unless such act or failure to act is corrected by the Company prior to the Date of Termination specified in the Notice of Termination (as required under Section 2 hereof):

(i) an adverse change in the Executive’s title, authority, duties, responsibilities or reporting lines as in effect immediately prior to the Change in Control;

(ii) a reduction by the Company in the Executive’s aggregate annualized compensation opportunities, except for across-the-board reductions in base salaries, annual bonus opportunities or long-term incentive compensation opportunities of less than ten percent (10%) similarly affecting all similarly situated executives (both of the Company and of any Person then in control of the Company) of comparable rank with the Executive; or the failure by the Company to continue in effect any material benefit plan in which the Executive participates immediately prior to the Change in Control, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, or the failure by the Company to continue the Executive’s participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount of benefits provided and the level of the Executive’s participation relative to other participants, as existed at the time of the Change in Control;

(iii) the relocation of the Executive’s principal place of employment immediately prior to the Change in Control Date (the “Principal Location”) to a location which is both further away from the Executive’s residence and more than thirty (30) miles from such Principal Location, or the Company’s requiring the Executive to be based anywhere other than such Principal Location (or permitted relocation thereof), or a substantial increase in the Executive’s business travel obligations outside of the Southern California area as of the Effective Date other than any such increase that (A) arises in connection with extraordinary business activities of the Company of limited duration and (B) is understood not to be part of the Executive’s regular duties with the Company;

(iv) the failure by the Company to pay to the Executive any portion of the Executive’s current compensation and benefits or any portion of an installment of deferred compensation under any deferred compensation program of the Company within thirty (30) days of the date such compensation is due;

(v) any purported termination of the Executive's employment that is not effected pursuant to a Notice of Termination satisfying the requirements of Section 3 hereof; for purposes of this Agreement, no such purported termination shall be effective;

(vi) the failure by Sempra Energy to perform its obligations under Section 16(c), (d) or (e) hereof;

(vii) the failure by the Company to provide the indemnification and D&O insurance protection Section 10 of this Agreement requires it to provide; or

(viii) the failure by Sempra Energy to comply with any material provision of this Agreement.

Following a Change in Control, the Executive's determination that an act or failure to act constitutes Good Reason shall be presumed to be valid unless such determination is deemed to be unreasonable by an arbitrator pursuant to the procedure described in Section 13 hereof. The Executive's right to terminate the Executive's employment for Good Reason shall not be affected by the Executive's incapacity due to physical or mental illness. The Executive's continued employment shall not constitute consent to, or a waiver of rights with respect to, any act or failure to act constituting Good Reason hereunder.

"Incentive Compensation Awards" means awards granted under Incentive Compensation Plans providing the Executive with the opportunity to earn, on a year-by-year basis, annual and long-term incentive compensation.

"Incentive Compensation Plans" means annual incentive compensation plans and long-term incentive compensation plans of the Company, which long-term incentive compensation plans may include plans offering stock options, restricted stock and other long-term incentive compensation.

"Involuntary Termination" means (a) the Executive's Separation from Service by reason other than for Cause, death, Disability or Mandatory Retirement, or (b) the Executive's Separation from Service by reason of resignation of employment for Good Reason.

"JAMS Rules" has the meaning assigned thereto in Section 13 hereof.

"Mandatory Retirement" means termination of employment pursuant to the Company's mandatory retirement policy.

"Notice of Termination" has the meaning assigned thereto in Section 2(a) hereof.

"Payment" has the meaning assigned thereto in Section 8(a) hereof.

"Payment in Lieu of Notice" has the meaning assigned thereto in Section 2(b) hereof.

"Person" has the meaning set forth in section 3(a)(9) of the Exchange Act, as modified and used in sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Company or any of its Affiliates, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, (iv) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company, or (v) a person or group as used in Rule 13d-1(b) promulgated under the Exchange Act.

"Post-Change in Control Severance Payment" has the meaning assigned thereto in Section 5 hereof.

"Pre-Change in Control Severance Payment" has the meaning assigned thereto in Section 4 hereof.

"Principal Location" has the meaning assigned thereto in clause (b)(iii) of the definition of Good Reason, above.

"Proprietary Information" has the meaning assigned thereto in Section 14(a) hereof.

"Pro Rata Bonus" has the meaning assigned thereto in Section 5(b).

"Release" has the meaning assigned thereto in Section 4 hereof.

"Section 409A Payments" means any of the following: (a) the Payment in Lieu of Notice; (b) the Pre-Change in Control Severance Payment; (c) the Post-Change in Control Severance Payment; (d) the Pro Rata Bonus; (e) the Consulting Payment; (f) the financial planning services and the related payments provided under Sections 4(e) and 5(f); (g) the legal fees and expenses reimbursed under Section 15; and (h) any other payment that the Company determines in its sole discretion is subject to Section 409A of the Code as non-qualified deferred compensation.

"Sempra Energy Control Group" means Sempra Energy and all persons with whom Sempra Energy would be considered a single employer under Section 414(b) or 414(c) of the Code, as determined from time to time.

"Separation from Service" has the meaning set forth in Treasury Regulation Section 1.409A-1(h).

"Specified Employee" shall be determined in accordance with Section 409A(a)(2)(B)(i) of the Code and Treasury Regulation Section 1.409A-1(i).

For purposes of this Agreement, references to any “Treasury Regulation” shall mean such Treasury Regulation as in effect on the date hereof.

Section 2. Notice and Date of Termination.

(a) Any termination of the Executive’s employment by the Company or by the Executive shall be communicated by a written notice of termination to the other party (the “Notice of Termination”). Where applicable, the Notice of Termination shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive’s employment under the provision so indicated. Unless the Board determines otherwise, a Notice of Termination by the Executive alleging a termination for Good Reason must be made within 180 days of the act or failure to act that the Executive alleges to constitute Good Reason.

(b) The date of the Executive’s termination of employment with the Company (the “Date of Termination”) shall be determined as follows: (i) if the Executive’s Separation from Service is at the volition of the Company, then the Date of Termination shall be the date specified in the Notice of Termination (which, in the case of a termination by the Company other than for Cause, shall not be less than two (2) weeks from the date such Notice of Termination is given unless the Company elects to pay the Executive, in addition to any other amounts payable hereunder, an amount (the “Payment in Lieu of Notice”) equal to two (2) weeks of the Executive’s Annual Base Salary in effect on the Date of Termination), and (ii) if the Executive’s Separation from Service is by the Executive for Good Reason, the Date of Termination shall be determined by the Executive and specified in the Notice of Termination, but in no event less than fifteen (15) days nor more than sixty (60) days after the date such Notice of Termination is given. The Payment in Lieu of Notice shall be paid on such date as is required by law, but no later than thirty (30) days after the date of the Executive’s Separation from Service; *provided, however*, that if the Executive is a Specified Employee on the date of his or her Separation from Service, such Payment in Lieu of Notice shall be paid as provided in Section 9 hereof.

Section 3. Termination from the Board. Upon the termination of the Executive’s employment for any reason, the Executive’s membership on the Board, the board of directors of any of the Company’s Affiliates, any committees of the Board and any committees of the board of directors of any of the Company’s Affiliates, if applicable, shall be automatically terminated.

Section 4. Severance Benefits upon Involuntary Termination Prior to Change in Control. Except as provided in Section 5(g) and Section 19(i) hereof, in the event of the Involuntary Termination of the Executive prior to a Change in Control, the Company shall pay the Executive, in one lump sum cash payment, an amount (the “Pre-Change in Control Severance Payment”) equal to one-half (0.5) times the greater of: (X) 145% of the Executive’s Annual Base Salary as in effect on the Date of Termination, and (Y) the Executive’s Annual Base Salary as in effect on the Date of Termination, plus the Executive’s Average Annual Bonus. In addition to the Pre-Change in Control Severance Payment, the Executive shall be entitled to the following additional benefits specified in subsections (a) through (e). The Company’s obligation to pay the Pre-Change in Control Severance Payment or provide the benefits set forth in subsections (c), (d) and (e) are subject to and conditioned upon the Executive executing a release (the “Release”) of all claims substantially in the form attached hereto as Exhibit A within fifty (50) days after the date of Involuntary Termination and Executive not revoking such Release in accordance with the terms thereof. Except as provided in Section 4(f), the Pre-Change in Control Severance Payment shall be paid on such date as is determined by the Company within sixty (60) days after the date of the Involuntary Termination; but not before the Release becomes effective and irrevocable. If the fifty (50) day period in which the Release could become effective spans more than one taxable year, then the Pre-Change in Control Severance Payment shall not be made until the later taxable year. Notwithstanding the foregoing, if the Executive is a Specified Employee on the date of the Executive’s Involuntary Termination, the Pre-Change in Control Severance Payment and the financial planning services and the related payments provided under Section 4(e) shall be paid as provided in Section 9 hereof.

(a) **Accrued Obligations.** The Company shall pay the Executive a lump sum amount in cash equal to the Accrued Obligations within the time required by law.

(b) **Equity Based Compensation.** The Executive shall retain all rights to any equity-based compensation awards to the extent set forth in the applicable plan and/or award agreement.

(c) **Welfare Benefits.** Subject to Section 12 below, for a period of six (6) months following the date of the Involuntary Termination (and an additional six (6) months if the Executive provides consulting services under Section 14(e) hereof), the Executive and his dependents shall be provided with health insurance benefits substantially similar to those provided to the Executive and his dependents immediately prior to the date of the Involuntary Termination; *provided, however*, that such benefits shall be provided on substantially the same terms and conditions and at the same cost to the Executive as in effect immediately prior to the date of the Involuntary Termination. Such benefits shall be provided through insurance maintained by the Company under the Company’s benefit plans. Such benefits shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(a)(5). Notwithstanding the foregoing, if the Company determines in its sole discretion that it cannot provide the foregoing benefit without potentially violating applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Company shall in lieu thereof provide to the Executive a taxable monthly payment in an amount equal to the monthly premium that the Executive would be required to pay to continue the Executive’s and his covered dependents’ group insurance coverages under COBRA as in effect on the Date of Termination (which amount shall be based on the premiums for the first month of COBRA coverage); *provided, however*, that, if the Executive is a Specified Employee on the Date of Termination, then such payments shall be paid as provided in Section 9 hereof.

(d) **Outplacement Services.** The Executive shall receive reasonable outplacement services, on an in-kind basis, suitable to his position and directly related to the Executive’s Involuntary Termination, for a period of twelve (12) months following the date of the Involuntary Termination, in an aggregate amount of cost to the Company not to exceed \$50,000.

Notwithstanding the foregoing, the Executive shall cease to receive outplacement services on the date the Executive accepts employment with a subsequent employer. Such outplacement services shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(b)(9)(v)(A).

(e) Financial Planning Services. The Executive shall receive financial planning services, on an in-kind basis, for a period of twelve (12) months following the Date of Termination. Such financial planning services shall include expert financial and legal resources to assist the Executive with financial planning needs and shall be limited to (i) current investment portfolio management, (ii) tax planning, (iii) tax return preparation, and (iv) estate planning advice and document preparation (including wills and trusts); *provided, however*, that the Company shall provide such financial planning services during any taxable year of the Executive only to the extent the cost to the Company for such taxable year does not exceed \$25,000. The Company shall provide such financial planning services through a financial planner selected by the Company, and shall pay the fees for such financial planning services. The financial planning services provided during any taxable year of the Executive shall not affect the financial planning services provided in any other taxable year of the Executive. The Executive's right to financial planning services shall not be subject to liquidation or exchange for any other benefit. Such financial planning services shall be provided in a manner that complies with Treasury Regulation Section 1.409A-3(i)(1)(iv).

(f) Deferral of Payments. The Executive shall have the right to elect to defer the Pre-Change in Control Severance Payment to be received by the Executive pursuant to this Section 4 under the terms and conditions of the Sempra Energy 2005 Deferred Compensation Plan (the "Deferred Compensation Plan"). Any such deferral election shall be made in accordance with Section 18(b) hereof.

Section 5. Severance Benefits upon Involuntary Termination in Connection with and after Change in Control.

Notwithstanding the provisions of Section 4 above, and except as provided in Section 19(i) hereof, in the event of the Involuntary Termination of the Executive on or within two (2) years following a Change in Control, in lieu of the payments described in Section 4 above, the Company shall pay the Executive, in one lump sum cash payment, an amount (the "Post-Change in Control Severance Payment") equal to the greater of: (X) 145% of the Executive's Annual Base Salary as in effect immediately prior to the Change in Control or the Date of Termination, whichever is greater, and (Y) the Executive's Annual Base Salary as in effect immediately prior to the Change in Control or on the Date of Termination, whichever is greater, plus the Executive's Average Annual Bonus. In addition to the Post-Change in Control Severance Payment, the Executive shall be entitled to the benefits specified in subsections (a) through (f). The Company's obligation to pay the Post-Change in Control Severance Payment or provide the benefits set forth in subsections (b), (c), (d), (e) and (f) are subject to and conditioned upon the Executive executing the Release within fifty (50) days after the date of Involuntary Termination and Executive not revoking such Release in accordance with the terms thereof. Except as provided in Sections 5(g) and 5(h), the Post-Change in Control Severance Payment, and the Pro Rata Bonus shall be paid on such date as is determined by the Company within sixty (60) days after the date of the Involuntary Termination. If the fifty (50) day period in which the Release could become effective spans more than one taxable year, then the Post-Change in Control Severance Payment and Pro Rata Bonus shall not be made until the later taxable year. Notwithstanding the foregoing, if the Executive is a Specified Employee on the date of the Executive's Involuntary Termination, the Post-Change in Control Severance Payment, the Pro Rata Bonus and the financial planning services and the related payments provided under Section 5(f) shall be paid as provided in Section 9 hereof.

(a) Accrued Obligations. The Company shall pay the Executive a lump sum amount in cash equal to the Executive's Accrued Obligations within the time required by law.

(b) Pro Rata Bonus. The Company shall pay the Executive a lump sum amount in cash equal to: (i) the greater of: (X) 45% of the Executive's Annual Base Salary as in effect immediately prior to the Change in Control or on the Date of Termination, whichever is greater, or (Y) the Executive's Average Annual Bonus, multiplied by (ii) a fraction, the numerator of which shall be the number of days from the beginning of such fiscal year to and including the Date of Termination and the denominator of which shall be 365 equal to the ("Pro Rata Bonus").

(c) Equity-Based Compensation. Notwithstanding the provisions of any applicable equity-compensation plan or award agreement to the contrary, all equity-based Incentive Compensation Awards (including, without limitation, stock options, stock appreciation rights, restricted stock awards, restricted stock units, performance share awards, awards covered under Section 162(m) of the Code, and dividend equivalents) held by the Executive shall immediately vest and become exercisable or payable, as the case may be, as of the Date of Termination, to be exercised or paid, as the case may be, in accordance with the terms of the applicable Incentive Compensation Plan and Incentive Compensation Award agreement, and any restrictions on any such Incentive Compensation Awards shall automatically lapse; *provided, however*, that any such stock option or stock appreciation rights awards granted on or after June 26, 1998 shall remain outstanding and exercisable until the earlier of (A) the later of eighteen (18) months following the Date of Termination or the period specified in the applicable Incentive Compensation Award agreements or (B) the expiration of the original term of such Incentive Compensation Award (or, if earlier, the tenth anniversary of the original date of grant) (it being understood that all Incentive Compensation Awards granted prior to or after June 26, 1998 shall remain outstanding and exercisable for a period that is no less than that provided for in the applicable agreement in effect as of the date of grant).

(d) Welfare Benefits. Subject to Section 12 below, for a period of six (6) months following the date of Involuntary Termination (and an additional twelve (12) months if the Executive provides consulting services under Section 14(e) hereof), the Executive and his dependents shall be provided with life, disability, accident and health insurance benefits substantially similar to those provided to the Executive and his dependents immediately prior to the date of Involuntary Termination or the Change in Control Date, whichever is more favorable to the Executive; *provided, however*, that such benefits shall be provided on substantially the same terms and conditions and at the same cost to the Executive as in effect immediately prior to the date of Involuntary Termination or the Change in Control Date, whichever is more favorable to the Executive. Such benefits shall be

provided through insurance maintained by the Company under the Company benefit plans. Such benefits shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(a)(5). Notwithstanding the foregoing, if the Company determines in its sole discretion that it cannot provide the foregoing benefit without potentially violating applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Company shall in lieu thereof provide to the Executive a taxable monthly payment in an amount equal to the monthly premium that the Executive would be required to pay to continue the Executive's and his covered dependents' group insurance coverages under COBRA as in effect on the Date of Termination (which amount shall be based on the premiums for the first month of COBRA coverage); *provided, however*, that, if the Executive is a Specified Employee on the Date of Termination, then such payments shall be paid as provided in Section 9 hereof.

(e) Outplacement Services. The Executive shall receive reasonable outplacement services, on an in-kind basis, suitable to his position and directly related to the Executive's Involuntary Termination, for a period of eighteen (18) months following the date of Involuntary Termination (but in no event beyond the last day of the Executive's second taxable year following the Executive's taxable year in which the Involuntary Termination occurs), in the aggregate amount of cost to the Company not to exceed \$50,000. Notwithstanding the foregoing, the Executive shall cease to receive outplacement services on the date the Executive accepts employment with a subsequent employer. Such outplacement services shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(b)(9)(v)(A).

(f) Financial Planning Services. The Executive shall receive financial planning services, on an in-kind basis, for a period of eighteen (18) months following the date of Involuntary Termination. Such financial planning services shall include expert financial and legal resources to assist the Executive with financial planning needs and shall be limited to (i) current investment portfolio management, (ii) tax planning, (iii) tax return preparation, and (iv) estate planning advice and document preparation (including wills and trusts); *provided, however*, that the Company shall provide such financial services during any taxable year of the Executive only to the extent the cost to the Company for such taxable year does not exceed \$25,000. The Company shall provide such financial planning services through a financial planner selected by the Company, and shall pay the fees for such financial planning services. The financial planning services provided during any taxable year of the Executive shall not affect the financial planning services provided in any other taxable year of the Executive. The Executive's right to financial planning services shall not be subject to liquidation or exchange for any other benefit. Such financial planning services shall be provided in a manner that complies with Section 1.409A-3(i)(1)(iv).

(g) Involuntary Termination in Connection with a Change in Control. Notwithstanding anything contained herein, in the event of an Involuntary Termination prior to a Change in Control, if the Involuntary Termination (1) was at the request of a third party who has taken steps reasonably calculated to effect such Change in Control or (2) otherwise arose in connection with or in anticipation of such Change in Control, then the Executive shall, in lieu of the payments described in Section 4 hereof, be entitled to the Post-Change in Control Severance Payment and the additional benefits described in this Section 5 as if such Involuntary Termination had occurred within two (2) years following the Change in Control. The amounts specified in Section 5 that are to be paid under this Section 5(g) shall be reduced by any amount previously paid under Section 4. The amounts to be paid under this Section 5(g) shall be paid within sixty (60) days after the Change in Control Date of such Change in Control.

(h) Deferral of Payments. The Executive shall have the right to elect to defer the Post-Change in Control Severance Payment and the Pro Rata Bonus to be received by the Executive pursuant to this Section 5 under the terms and conditions of the Deferred Compensation Plan. Any such deferral election shall be made in accordance with Section 18(b) hereof.

Section 6. Severance Benefits upon Termination by the Company for Cause or by the Executive Other than for Good Reason. If the Executive's employment shall be terminated for Cause, or if the Executive terminates employment other than for Good Reason, the Company shall have no further obligations to the Executive under this Agreement other than the Accrued Obligations and any amounts or benefits described in Section 10 hereof.

Section 7. Severance Benefits upon Termination due to Death or Disability. If the Executive has a Separation from Service by reason of death or Disability, the Company shall pay the Executive or his estate, as the case may be, the Accrued Obligations and the Pro Rata Bonus (without regard to whether a Change in Control has occurred) and any amounts or benefits described in Section 10 hereof. Such payments shall be in addition to those rights and benefits to which the Executive or his estate may be entitled under the relevant Company plans or programs. The Company's obligation to pay the Pro Rata Bonus is conditioned upon the Executive, the Executive's representative or the Executive's estate, as the case may be executing the Release within fifty (50) days after the date of Executive's Separation from Service and not revoking such Release in accordance with the terms thereof. The Accrued Obligations shall be paid within the time required by law and the Pro Rata Bonus shall be paid on such date as determined by the Company within sixty (60) days after the date of the Separation from Service but not before the Release becomes effective and irrevocable. If the fifty (50) day period in which the Release could become effective spans more than one taxable year, then the Pro Rata Bonus shall not be made until the later taxable year. Notwithstanding the foregoing, if the Executive is a Specified Employee on the date of the Executive's Separation from Service, the Pro Rata Bonus shall be paid as provided in Section 9 hereof.

Section 8. Limitation on Payments by the Company.

(a) Anything in this Agreement to the contrary notwithstanding and except as set forth in this Section 8 below, in the event it shall be determined that any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of the Executive, whether paid or payable pursuant to this Agreement or otherwise (the "Payment") would be subject (in whole or in part) to the excise tax imposed by Section 4999 of the Code, (the "Excise Tax"), then, subject to subsection (b), the Pre-Change in Control Severance Benefit or the Post-Change in Control Severance Payment (whichever is applicable) payable under this Agreement shall be reduced under this subsection (a) to the amount equal to the

Reduced Payment. For such Payment payable under this Agreement, the “Reduced Payment” shall be the amount equal to the greatest portion of the Payment (which may be zero) that, if paid, would result in no portion of any Payment being subject to the Excise Tax.

(b) The Pre-Change in Control Severance Benefit or the Post-Change in Control Severance Payment (whichever is applicable) payable under this Agreement shall not be reduced under subsection (a) if:

(i) such reduction in such Payment is not sufficient to cause no portion of any Payment to be subject to the Excise Tax, or

(ii) the Net After-Tax Unreduced Payments (as defined below) would equal or exceed one hundred and five percent (105%) of the Net After-Tax Reduced Payments (as defined below).

For purposes of determining the amount of any Reduced Payment under subsection (a), and the Net-After Tax Reduced Payments and the Net After-Tax Unreduced Payments, the Executive shall be considered to pay federal, state and local income and employment taxes at the Executive’s applicable marginal rates taking into consideration any reduction in federal income taxes which could be obtained from the deduction of state and local income taxes, and any reduction or disallowance of itemized deductions and personal exemptions under applicable tax law). The applicable federal, state and local income and employment taxes and the Excise Tax (to the extent applicable) are collectively referred to as the “Taxes”.

(c) The following definitions shall apply for purposes of this Section 8:

(i) “Net After-Tax Reduced Payments” shall mean the total amount of all Payments that the Executive would retain, on a Net After-Tax Basis, in the event that the Payments payable under this Agreement are reduced pursuant to subsection (a).

(ii) “Net After-Tax Unreduced Payments” shall mean the total amount of all Payments that the Executive would retain, on a Net After-Tax Basis, in the event that the Payments payable under this Agreement are not reduced pursuant to subsection (a).

(iii) “Net After-Tax Basis” shall mean, with respect to the Payments, either with or without reduction under subsection (a) (as applicable), the amount that would be retained by the Executive from such Payments after the payment of all Taxes.

(d) All determinations required to be made under this Section 8 and the assumptions to be utilized in arriving at such determinations, shall be made by a nationally recognized accounting firm as may be agreed by the Company and the Executive (the “Accounting Firm”); *provided*, that the Accounting Firm’s determination shall be made based upon “substantial authority” within the meaning of Section 6662 of the Code. The Accounting Firm shall provide detailed supporting calculations to both the Company and the Executive within fifteen (15) business days of the receipt of notice from the Executive that there has been a Payment or such earlier time as is requested by the Company. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. For purposes of determining whether and the extent to which the Payments will be subject to the Excise Tax, (i) no portion of the Payments the receipt or enjoyment of which the Executive shall have waived at such time and in such manner as not to constitute a “payment” within the meaning of Section 280G(b) of the Code shall be taken into account, (ii) no portion of the Payments shall be taken into account which, in the written opinion of the Accounting Firm, does not constitute a “parachute payment” within the meaning of Section 280G(b)(2) of the Code (including by reason of Section 280G(b)(4)(A) of the Code) and, in calculating the Excise Tax, no portion of such Payments shall be taken into account which, in the opinion of the Accounting Firm, constitutes reasonable compensation for services actually rendered, within the meaning of Section 280G(b)(4)(B) of the Code, in excess of the base amount (as defined in Section 280G(b)(3) of the Code) allocable to such reasonable compensation, and (iii) the value of any non-cash benefit or any deferred payment or benefit included in the Payments shall be determined by the Accounting Firm in accordance with the principles of Sections 280G(d)(3) and (4) of the Code.

Section 9. Delayed Distribution under Section 409A of the Code. If the Executive is a Specified Employee on the date of the Executive’s Involuntary Termination (or on the date of the Executive’s Separation from Service by reason of Disability), the Section 409A Payments, and any other payments or benefits under this Agreement subject to Section 409A of the Code, shall be delayed in order to avoid a prohibited distribution under Section 409A(a)(2)(B)(i) of the Code, and such payments or benefits shall be paid or distributed to the Executive during the thirty (30) day period commencing on the earlier of (a) the expiration of the six-month period measured from the date of the Executive’s Separation from Service or (b) the date of the Executive’s death. Upon the expiration of the applicable six-month period under Section 409A(a)(2)(B)(i) of the Code, all payments deferred pursuant to this Section 9 (excluding in-kind benefits) shall be paid in a lump sum payment to the Executive, plus interest thereon from the date of the Executive’s Involuntary Termination through the payment date at an annual rate equal to Moody’s Rate. The “Moody’s Rate” shall mean the average of the daily Moody’s Corporate Bond Yield Average – Monthly Average Corporates as published by Moody’s Investors Service, Inc. (or any successor) for the month next preceding the Date of Termination. Any remaining payments due under the Agreement shall be paid as otherwise provided herein.

Section 10. Nonexclusivity of Rights. Nothing in this Agreement shall prevent or limit the Executive’s continuing or future participation in any benefit, plan, program, policy or practice provided by the Company and for which the Executive may qualify (except with respect to any benefit to which the Executive has waived his rights in writing), including, without limitation, any and all indemnification arrangements in favor of the Executive (whether under agreements or under the

Company's charter documents or otherwise), and insurance policies covering the Executive, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any other contract or agreement entered into after the Effective Date with the Company. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any benefit, plan, policy, practice or program of, or any contract or agreement entered into with, the Company shall be payable in accordance with such benefit, plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement. At all times during the Executive's employment with the Company and thereafter, the Company shall provide (to the extent permissible under applicable law) the Executive with indemnification and D&O insurance insuring the Executive against insurable events which occur or have occurred while the Executive was a director or the Executive officer of the Company, on terms and conditions that are at least as generous as that then provided to any other current or former director or the Executive officer of the Company or any Affiliate. Such indemnification and D&O insurance shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(b)(10).

Section 11. Clawbacks. Notwithstanding anything herein to the contrary, if the Company determines, in its good faith judgment, that if the Executive is required to forfeit or to make any repayment of any compensation or benefit(s) to the Company under the Sarbanes-Oxley Act of 2002 or pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act or any other law, such forfeiture or repayment shall not constitute Good Reason.

Section 12. Full Settlement; Mitigation. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others, provided that nothing herein shall preclude the Company from separately pursuing recovery from the Executive based on any such claim. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts (including amounts for damages for breach) payable to the Executive under any of the provisions of this Agreement, and such amounts shall not be reduced whether or not the Executive obtains other employment.

Section 13. Dispute Resolution.

(a) If any dispute arises between Executive and the Company, including, but not limited to, disputes relating to or arising out of this Agreement, any action relating to or arising out of my employment or its termination, and/or any disputes regarding the interpretation, enforceability, or validity of this Agreement ("Arbitrable Dispute"), Executive and the Company waive the right to resolve the dispute through litigation in a judicial forum and agree to resolve the Arbitrable Dispute through final and binding arbitration, except as prohibited by law. Arbitration shall be the exclusive remedy for any Arbitrable Dispute.

(b) As to any Arbitrable Dispute, the Company and Executive waive any right to a jury trial or a court bench trial. The Company and Executive also waive the right to bring, maintain, or participate in any class, collective, or representative proceeding, whether in arbitration or otherwise. Further, Arbitrable Disputes must be brought in the individual capacity of the party asserting the claim, and cannot be maintained on a class, collective, or representative basis.

(c) Arbitration shall take place at the office of the Judicial Arbitration and Mediation Service ("JAMS") (or, if Executive is employed outside of California, the American Arbitration Association ("AAA")) nearest to the location where Executive last worked for the Company. Except to the extent it conflicts with the rules and procedures set forth in this Arbitration Agreement, arbitration shall be conducted in accordance with the JAMs Employment Arbitration Rules & Procedures (if Executive is employed outside of California, the AAA Employment Arbitration Rules & Mediation Procedures), copies of which are attached for my reference and available at www.jamsadr.com; tel: 800.352.5267 and www.adr.org; tel: 800.778.7879, before a single experienced, neutral employment arbitrator selected in accordance with those rules.

(d) The Company will be responsible for paying any filing fee and the fees and costs of the arbitrator. Each party shall pay its own attorneys' fees. However, if any party prevails on a statutory claim that authorizes an award of attorneys' fees to the prevailing party, or if there is a written agreement providing for attorneys' fees, the arbitrator may award reasonable attorneys' fees to the prevailing party, applying the same standards a court would apply under the law applicable to the claim.

(e) The arbitrator shall apply the Federal Rules of Evidence, shall have the authority to entertain a motion to dismiss or a motion for summary judgment by any party, and shall apply the standards governing such motions under the Federal Rules of Civil Procedure. The arbitrator does not have the authority to consider, certify, or hear an arbitration as a class action, collective action, or any other type of representative action. The Company and Executive recognize that this Agreement arises out of or concerns interstate commerce and that the Federal Arbitration Act shall govern the arbitration and shall govern the interpretation or enforcement of this Arbitration Agreement or any arbitration award.

(f) EXECUTIVE ACKNOWLEDGES THAT BY ENTERING INTO THIS AGREEMENT, EXECUTIVE IS WAIVING ANY RIGHT HE OR SHE MAY HAVE TO A TRIAL BY JURY.

Section 14. Executive's Covenants.

(a) **Confidentiality.** The Executive acknowledges that in the course of his employment with the Company, he has acquired non-public privileged or confidential information and trade secrets concerning the operations, future plans and methods of doing business ("Proprietary Information") of the Company and its Affiliates; and the Executive agrees that it would be extremely damaging to the Company and its Affiliates if such Proprietary Information were disclosed to a competitor of the Company and its Affiliates or to any other person or corporation. The Executive understands and agrees that all Proprietary Information has been divulged to the Executive in confidence and further understands and agrees to keep all Proprietary

Information secret and confidential (except for such information which is or becomes publicly available other than as a result of a breach by the Executive of this provision or information the Executive is required by any governmental, administrative or court order to disclose) without limitation in time. In view of the nature of the Executive's employment and the Proprietary Information the Executive has acquired during the course of such employment, the Executive likewise agrees that the Company and its Affiliates would be irreparably harmed by any disclosure of Proprietary Information in violation of the terms of this paragraph and that the Company and its Affiliates shall therefore be entitled to preliminary and/or permanent injunctive relief prohibiting the Executive from engaging in any activity or threatened activity in violation of the terms of this paragraph and to any other relief available to them. Inquiries regarding whether specific information constitutes Proprietary Information shall be directed to the Company's Senior Vice President, Public Policy (or, if such position is vacant, the Company's then Chief Executive Officer); *provided*, that the Company shall not unreasonably classify information as Proprietary Information.

(b) Non-Solicitation of Employees. The Executive recognizes that he possesses and will possess confidential information about other employees of the Company and its Affiliates relating to their education, experience, skills, abilities, compensation and benefits, and inter-personal relationships with customers of the Company and its Affiliates. The Executive recognizes that the information he possesses and will possess about these other employees is not generally known, is of substantial value to the Company and its Affiliates in developing their business and in securing and retaining customers, and has been and will be acquired by him because of his business position with the Company and its Affiliates. The Executive agrees that at all times during the Executive's employment with the Company and for a period of one (1) year thereafter, he will not, directly or indirectly, solicit or recruit any employee of the Company or its Affiliates for the purpose of being employed by him or by any competitor of the Company or its Affiliates on whose behalf he is acting as an agent, representative or employee and that he will not convey any such confidential information or trade secrets about other employees of the Company and its Affiliates to any other person; *provided, however*, that it shall not constitute a solicitation or recruitment of employment in violation of this paragraph to discuss employment opportunities with any employee of the Company or its Affiliates who has either first contacted the Executive or regarding whose employment the Executive has discussed with and received the written approval of the Company's Vice President, Human Resources (or, if such position is vacant, the Company's then Chief Executive Officer), prior to making such solicitation or recruitment. In view of the nature of the Executive's employment with the Company, the Executive likewise agrees that the Company and its Affiliates would be irreparably harmed by any solicitation or recruitment in violation of the terms of this paragraph and that the Company and its Affiliates shall therefore be entitled to preliminary and/or permanent injunctive relief prohibiting the Executive from engaging in any activity or threatened activity in violation of the terms of this paragraph and to any other relief available to them.

(c) Survival of Provisions. The obligations contained in Section 14(a) and Section 14(b) above shall survive the termination of the Executive's employment within the Company and shall be fully enforceable thereafter. If it is determined by a court of competent jurisdiction in any state that any restriction in Section 14(a) or Section 14(b) above is excessive in duration or scope or is unreasonable or unenforceable under the laws of that state, it is the intention of the parties that such restriction may be modified or amended by the court to render it enforceable to the maximum extent permitted by the law of that state.

(d) Release; Lump Sum Payment. In the event of the Executive's Involuntary Termination, if the Executive (i) reconfirms and agrees to abide by the covenants described in Section 14(a) and Section 14(b) above, (ii) executes the Release within fifty (50) days after the date of Involuntary Termination and does not revoke such Release in accordance with the terms thereof, and (iii) agrees to provide the consulting services described in Section 14(e) below, then in consideration for such covenants and consulting services, the Company shall pay the Executive, in one cash lump sum, an amount (the "Consulting Payment") in cash equal to one-half (0.5) times the greater of: (X) 145% of the Executive's Annual Base Salary as in effect on the Date of Termination, and (Y) the Executive's Annual Base Salary as in effect on the Date of Termination, plus the Executive's Average Annual Bonus. Except as provided in this subsection, the Consulting Payment shall be paid on such date as is determined by the Company within the ten (10) day period commencing on the 60th day after the date of the Executive's Involuntary Termination; *provided, however*, that if the Executive is a Specified Employee on the date of the Executive's Involuntary Termination, the Consulting Payment shall be paid as provided in Section 9 hereof. The Executive shall have the right to elect to defer the Consulting Payment under the terms and conditions of the Company's Deferred Compensation Plan. Any such deferral election shall be made in accordance with Section 18(b) hereof.

(e) Consulting. If the Executive agrees to the provisions of in Section 14(d) above, then the Executive shall have the obligation to provide consulting services to the Company as an independent contractor, commencing on the Date of Termination and ending on the first anniversary of the Date of Termination (the "Consulting Period"). The Executive shall hold himself available at reasonable times and on reasonable notice to render such consulting services as may be so assigned to him by the Board or the Company's then Chief Executive Officer; *provided, however*, that unless the parties otherwise agree, the consulting services rendered by the Executive during the Consulting Period shall not exceed twenty (20) hours each month; and, *provided, further*, that the consulting services rendered by the Executive during the Consulting Period shall in no event exceed twenty percent (20%) of the average level of services performed by the Executive for the Company over the thirty-six (36) month period immediately preceding the Executive's Separation from Service (or the full period of services to the Company, if the Executive has been providing services to the Company for less than thirty-six (36) months). The Company agrees to use its best efforts during the Consulting Period to secure the benefit of the Executive's consulting services so as to minimize the interference with the Executive's other activities, including requiring the performance of consulting services at the Company's offices only when such services may not be reasonably performed off-site by the Executive.

Section 15. Legal Fees

(a)

Reimbursement of Legal Fees. Subject to subsection (b), in the event of the Executive's Separation from Service either (1) prior to a Change in Control, or (2) on or within two (2) years following a Change in Control, the Company shall reimburse the Executive for all legal fees and expenses (including but not limited to fees and expenses in connection with any arbitration) incurred by the Executive in disputing any issue arising under this Agreement relating to the Executive's Separation from Service or in seeking to obtain or enforce any benefit or right provided by this Agreement.

(b) **Requirements for Reimbursement.** The Company shall reimburse the Executive's legal fees and expenses pursuant to subsection (a) above only to the extent the arbitrator or court determines the following: (i) the Executive disputed such issue, or sought to obtain or enforce such benefit or right, in good faith, (ii) the Executive had a reasonable basis for such claim, and (iii) in the case of subsection (a)(1) above, the Executive is the prevailing party. In addition, the Company shall reimburse such legal fees and expenses, only if such legal fees and expenses are incurred during the twenty (20) year period beginning on the date of the Executive's Separation from Service. The legal fees and expenses paid to the Executive for any taxable year of the Executive shall not affect the legal fees and expenses paid to the Executive for any other taxable year of the Executive. The legal fees and expenses shall be paid to the Executive on or before the last day of the Executive's taxable year following the taxable year in which the fees or expenses are incurred. The Executive's right to reimbursement of legal fees and expenses shall not be subject to liquidation or exchange for any other benefit. Such right to reimbursement of legal fees and expenses shall be provided in a manner that complies with Treasury Regulation Section 1.409A-3(i)(1)(iv). If the Executive is a Specified Employee on the date of the Executive's Separation from Service, such right to reimbursement of legal fees and expenses shall be paid as provided in Section 9 hereof.

Section 16. Successors.

(a) **Assignment by the Executive.** This Agreement is personal to the Executive and without the prior written consent of Sempra Energy shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) **Successors and Assigns of Sempra Energy.** This Agreement shall inure to the benefit of and be binding upon Sempra Energy, its successors and assigns. Sempra Energy may not assign this Agreement to any person or entity (except for a successor described in Section 16(c), (d) or (e) below) without the Executive's written consent.

(c) **Assumption.** Sempra Energy shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of Sempra Energy to assume expressly and agree to perform the obligations and satisfy and discharge the liabilities of this Agreement in the same manner and to the same extent that Sempra Energy would have been required to perform the obligations and satisfy and discharge the liabilities under this Agreement if no such succession had taken place, and Sempra Energy shall have no further obligations and liabilities under this Agreement. Upon such assumption, references to Sempra Energy in this Agreement shall be replaced with references to such successor.

(d) **Sale of Subsidiary.** In the event that (i) the Executive is employed by a direct or indirect subsidiary of Sempra Energy that is a member of the Sempra Energy Control Group, (ii) Sempra Energy, directly or indirectly through one or more intermediaries, sells or otherwise disposes of such subsidiary, and (iii) such subsidiary ceases to be a member of the Sempra Energy Control Group, then if, on the date such subsidiary ceases to be a member of the Sempra Energy Control Group, the Executive continues in employment with such subsidiary and the Executive does not have a Separation from Service, Sempra Energy shall require such subsidiary or any successor (whether direct or indirect, by purchase merger, consolidation or otherwise) to such subsidiary, or the parent thereof, to assume expressly and agree to perform the obligations and satisfy and discharge the liabilities under this Agreement in the same manner and to the same extent that Sempra Energy would have been required to perform the obligations and satisfy and discharge the liabilities under this Agreement, if such subsidiary had not ceased to be part of the Sempra Energy Control Group, and, upon such assumption, Sempra Energy shall have no further obligations and liabilities under the Agreement. Upon such assumption, (i) references to Sempra Energy in this Agreement shall be replaced with references to such subsidiary, or such successor or parent thereof, assuming this Agreement, and (ii) subsection (b) of the definition of "Cause" and subsection (b) of the definition of "Good Reason" shall apply thereafter, as if a Change in Control had occurred on the date of such cessation.

(e) **Sale of Assets of Subsidiary.** In the event that (i) the Executive is employed by a direct or indirect subsidiary of Sempra Energy, and (ii) such subsidiary sells or otherwise disposes of substantial assets of such subsidiary to an unrelated service recipient, as determined under Treasury Regulation Section 1.409A-1(f)(2)(ii) (the "**Asset Purchaser**"), in a transaction described in Treasury Regulation Section 1.409A-1(h)(4) (an "**Asset Sale**"), then if, on the date of such Asset Sale, the Executive becomes employed by the Asset Purchaser, Sempra Energy and the Asset Purchaser shall specify, in accordance with Treasury Regulation Section 1.409A-1(h)(4), that the Executive shall not be treated as having a Separation from Service, and Sempra Energy shall require such Asset Purchaser, or the parent thereof, to assume expressly and agree to perform the obligations and satisfy and discharge the liabilities under this Agreement in the same manner and to the same extent that Sempra Energy would have been required to perform the obligations and satisfy and discharge the liabilities under this Agreement, if the Asset Sale had not taken place, and, upon such assumption, Sempra Energy shall have no further obligations and liabilities under the Agreement. Upon such assumption, (i) references to Sempra Energy in this Agreement shall be replaced with references to the Asset Purchaser or the parent thereof, as applicable, and (ii) subsection (b) of the definition of "Cause" and subsection (b) of the definition of "Good Reason" shall apply thereafter, as if a Change in Control had occurred on the date of the Asset Sale.

Section 17. Administration Prior to Change in Control. Prior to a Change in Control, the Compensation Committee shall have full and complete authority to construe and interpret the provisions of this Agreement, to determine an individual's entitlement to benefits under this Agreement, to make in its sole and absolute discretion all determinations

contemplated under this Agreement, to investigate and make factual determinations necessary or advisable to administer or implement this Agreement, and to adopt such rules and procedures as it deems necessary or advisable for the administration or implementation of this Agreement. All determinations made under this Agreement by the Compensation Committee shall be final and binding on all interested persons. Prior to a Change in Control, the Compensation Committee may delegate responsibilities for the operation and administration of this Agreement to one or more officers or employees of the Company. The provisions of this Section 17 shall terminate and be of no further force and effect upon the occurrence of a Change in Control.

Section 18. Section 409A of the Code.

(a) Compliance with and Exemption from Section 409A of the Code. Certain payments and benefits payable under this Agreement (including, without limitation, the Section 409A Payments) are intended to comply with the requirements of Section 409A of the Code. Certain payments and benefits payable under this Agreement are intended to be exempt from the requirements of Section 409A of the Code. This Agreement shall be interpreted in accordance with the applicable requirements of, and exemptions from, Section 409A of the Code and the Treasury Regulations thereunder. To the extent the payments and benefits under this Agreement are subject to Section 409A of the Code, this Agreement shall be interpreted, construed and administered in a manner that satisfies the requirements of Sections 409A(a)(2), (3) and (4) of the Code and the Treasury Regulations thereunder (subject to the transitional relief under Internal Revenue Service Notice 2005-1, the Proposed Regulations under Section 409A of the Code, Internal Revenue Service Notice 2006-79, Internal Revenue Service Notice 2007-78, Internal Revenue Service Notice 2007-86 and other applicable authority issued by the Internal Revenue Service). As provided in Internal Revenue Notice 2007-86, notwithstanding any other provision of this Agreement, with respect to an election or amendment to change a time or form of payment under this Agreement made on or after January 1, 2008 and on or before December 31, 2008, the election or amendment shall apply only with respect to payments that would not otherwise be payable in 2008, and shall not cause payments to be made in 2008 that would not otherwise be payable in 2008. If the Company and the Executive determine that any compensation, benefits or other payments that are payable under this Agreement and intended to comply with Sections 409A(a)(2), (3) and (4) of the Code do not comply with Section 409A of the Code, the Treasury Regulations thereunder and other applicable authority issued by the Internal Revenue Service, to the extent permitted under Section 409A of the Code, the Treasury Regulations thereunder and any applicable authority issued by the Internal Revenue Service, the Company and the Executive agree to amend this Agreement, or take such other actions as the Company and the Executive deem reasonably necessary or appropriate, to cause such compensation, benefits and other payments to comply with the requirements of Section 409A of the Code, the Treasury Regulations thereunder and other applicable authority issued by the Internal Revenue Service, while providing compensation, benefits and other payments that are, in the aggregate, no less favorable than the compensation, benefits and other payments provided under this Agreement. In the case of any compensation, benefits or other payments that are payable under this Agreement and intended to comply with Sections 409A(a)(2), (3) and (4) of the Code, if any provision of the Agreement would cause such compensation, benefits or other payments to fail to so comply, such provision shall not be effective and shall be null and void with respect to such compensation, benefits or other payments to the extent such provision would cause a failure to comply, and such provision shall otherwise remain in full force and effect.

(b) Deferral Elections. As provided in Sections 4(f), 5(h) and 14(d), the Executive may elect to defer the Pre-Change in Control Severance Payment, the Post-Change in Control Severance Payment and the Consulting Payment as follows. The Executive's deferral election shall satisfy the requirements of Treasury Regulation Section 1.409A-2(b) and the terms and conditions of the Deferred Compensation Plan. Such deferral election shall designate the whole percentage (up to a maximum of 100%) of the Pre-Change in Control Severance Payment, the Post-Change in Control Severance Payment and the Consulting Payment to be deferred, shall be irrevocable when made, and shall not take effect until at least twelve (12) months after the date on which the election is made. Such deferral election shall provide that the amount deferred shall be deferred for a period of not less than five (5) years from the date the payment of the amount deferred would otherwise have been made, in accordance with Treasury Regulation Section 1.409A-2(b)(1)(ii).

Section 19. Miscellaneous.

(a) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, without reference to its principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended, modified, repealed, waived, extended or discharged except by an agreement in writing signed by the party against whom enforcement of such amendment, modification, repeal, waiver, extension or discharge is sought. No person, other than pursuant to a resolution of the Board or a committee thereof, shall have authority on behalf of the Company to agree to amend, modify, repeal, waive, extend or discharge any provision of this Agreement or anything in reference thereto.

(b) Notices. All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed, in either case, to the Company's headquarters or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notices and communications shall be effective when actually received by the addressee.

(c) Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) Taxes. The Company may withhold from any amounts payable under this Agreement such federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e)

No Waiver. The Executive's or the Company's failure to insist upon strict compliance with any provision hereof or any other provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason pursuant to Section 1 hereof, or the right of the Company to terminate the Executive's employment for Cause pursuant to Section 1 hereof shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(f) **Entire Agreement; Exclusive Benefit; Supersession of Prior Agreement.** This instrument contains the entire agreement of the Executive, the Company or any predecessor or subsidiary thereof with respect to any severance or termination pay. The Pre-Change in Control Severance Payment, the Post-Change in Control Severance Payment and all other benefits provided hereunder shall be in lieu of any other severance payments to which the Executive is entitled under any other severance plan or program or arrangement sponsored by the Company, as well as pursuant to any individual employment or severance agreement that was entered into by the Executive and the Company, and, upon the Effective Date of this Agreement, all such plans, programs, arrangements and agreements are hereby automatically superseded and terminated.

(g) **No Right of Employment.** Nothing in this Agreement shall be construed as giving the Executive any right to be retained in the employ of the Company or shall interfere in any way with the right of the Company to terminate the Executive's employment at any time, with or without Cause.

(h) **Unfunded Obligation.** The obligations under this Agreement shall be unfunded. Benefits payable under this Agreement shall be paid from the general assets of the Company. The Company shall have no obligation to establish any fund or to set aside any assets to provide benefits under this Agreement.

(i) **Termination upon Sale of Assets of Subsidiary.** Notwithstanding anything contained herein, this Agreement shall automatically terminate and be of no further force and effect and no benefits shall be payable hereunder in the event that (i) the Executive is employed by a direct or indirect subsidiary of Sempra Energy, and (ii) an Asset Sale (as defined in Section 16(e)) occurs (other than such a sale or disposition which is part of a transaction or series of transactions which would result in a Change in Control), and (iii) as a result of such Asset Sale, the Executive is offered employment by the Asset Purchaser in an executive position with reasonably comparable status, compensation, benefits and severance agreement (including the assumption of this Agreement in accordance with Section 16(e)) and which is consistent with the Executive's experience and education, but the Executive declines to accept such offer and the Executive fails to become employed by the Asset Purchaser on the date of the Asset Sale.

(j) **Term.** The term of this Agreement shall commence on the Effective Date and shall continue until the third (3rd) anniversary of the Effective Date; *provided, however*, that commencing on the second (2nd) anniversary of the Effective Date (and each anniversary of the Effective Date thereafter), the term of this Agreement shall automatically be extended for one (1) additional year, unless at least ninety (90) days prior to such date, the Company or the Executive shall give written notice to the other party that it or he, as the case may be, does not wish to so extend this Agreement. Notwithstanding the foregoing, if the Company gives such written notice to the Executive less than two (2) years after a Change in Control, the term of this Agreement shall be automatically extended until the later of (A) the date that is one (1) year after the anniversary of the Effective Date that follows such written notice or (B) the second (2nd) anniversary of the Change in Control Date.

(k) **Counterparts.** This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Executive and, pursuant to due authorization from its Board of Directors, the Company have caused this Agreement to be executed as of the day and year first above written.

SEMPRA ENERGY

G. Joyce Rowland
Senior Vice President, Human Resources, Diversity and Inclusion

Date

EXECUTIVE

Robert M. Schlax
Vice President, Controller, and Chief Financial Officer

Date

GENERAL RELEASE

This GENERAL RELEASE (the "Agreement"), dated _____, is made by and between _____, a California corporation (the "Company") and _____ ("you" or "your").

WHEREAS, you and the Company have previously entered into that certain Severance Pay Agreement dated _____, 20__ (the "Severance Pay Agreement"); and

WHEREAS, your right to receive certain severance pay and benefits pursuant to the terms of Section 4 or Section 5 of the Severance Pay Agreement, as applicable, are subject to and conditioned upon your execution and non-revocation of a general release of claims by you against the Company and its subsidiaries and affiliates.

WHEREAS, your right to receive the Consulting Payment provided pursuant to Section 14(d) of the Severance Pay Agreement is subject to and conditioned upon your execution and non-revocation of a general release of claims by you against the Company and its subsidiaries and affiliates; and your adherence to the covenants described under Section 14 of the Severance Pay Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, you and the Company hereby agree as follows:

ONE: Your signing of this Agreement confirms that your employment with the Company shall terminate at the close of business on _____, or earlier upon our mutual agreement.

TWO: As a material inducement for the payment of the severance and benefits under the Severance Pay Agreement, and except as otherwise provided in this Agreement, you and the Company hereby irrevocably and unconditionally release, acquit and forever discharge the other from any and all Claims either may have against the other. For purposes of this Agreement and the preceding sentence, the words "Releasee" or "Releasees" and "Claim" or "Claims" shall have the meanings set forth below:

(a) The words "Releasee" or "Releasees" shall refer to you and to the Company and each of the Company's owners, stockholders, predecessors, successors, assigns, agents, directors, officers, employees, representatives, attorneys, advisors, parent companies, divisions, subsidiaries, affiliates (and agents, directors, officers, employees, representatives, attorneys and advisors of such parent companies, divisions, subsidiaries and affiliates) and all persons acting by, through, under or in concert with any of them.

(b) The words "Claim" or "Claims" shall refer to any charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses (including attorneys' fees and costs actually incurred) of any nature whatsoever, known or unknown, suspected or unsuspected, which you or the Company now, in the past or, in the future may have, own or hold against any of the Releasees; *provided, however*, that the word "Claim" or "Claims" shall not refer to any charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses (including attorneys' fees and costs actually incurred) arising under [*identify severance, employee benefits, stock option, indemnification and D&O and other agreements containing duties, rights obligations etc. of either party that are to remain operative*]. Claims released pursuant to this Agreement by you and the Company include, but are not limited to, rights arising out of alleged violations of any contracts, express or implied, any tort, claim, any claim that you failed to perform or negligently performed or breached your duties during employment at the Company; any legal restrictions on the Company's right to terminate employment relationships or any federal, state or other governmental statute, regulation, or ordinance, governing the employment relationship including, without limitation: all state and federal laws and regulations prohibiting discrimination based on protected categories, and all state and federal laws and regulations prohibiting retaliation against employees for engaging in protected activity or legal off-duty conduct. This release does not extend to claims for workers' compensation or other claims which by law may not be waived or released by this Agreement.

THREE: You and the Company expressly waive and relinquish all rights and benefits afforded by any statute (including but not limited to Section 1542 of the Civil Code of the State of California and analogous laws of other states) which limits the effect of a release with respect to unknown claims. You and the Company do so understanding and acknowledging the significance of the release of unknown claims and the waiver of statutory protection against a release of unknown claims (including but not limited to Section 1542 and analogous laws of other states). Section 1542 of the Civil Code of the State of California states as follows:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR."

Thus, notwithstanding the provisions of Section 1542 or of any similar statute, and for the purpose of implementing a full and complete release and discharge of the Releasees, you and the Company expressly acknowledge that this Agreement is intended to include in its effect, without limitation, all Claims which are known and all Claims which you or the Company do not know or suspect to exist in your or the Company's favor at the time of execution of this Agreement and that this Agreement contemplates the extinguishment of all such Claims.

FOUR: The parties acknowledge that they might hereafter discover facts different from, or in addition to, those they now know or believe to be true with respect to a Claim or Claims released herein, and they expressly agree to assume the risk of possible discovery of additional or different facts, and agree that this Agreement shall be and remain effective, in all respects, regardless of such additional or different discovered facts.

FIVE: You hereby represent and acknowledge that you have not filed any Claim of any kind against the Company or others released in this Agreement. You further hereby expressly agree never to initiate against the Company or others released in this Agreement any administrative proceeding, lawsuit or any other legal or equitable proceeding of any kind asserting any Claims that are released in this Agreement. You agree that you will not be entitled to any monetary recovery that may result from any agency action against the Company related to the Claims released by this Agreement.

The Company hereby represents and acknowledges that it has not filed any Claim of any kind against you or others released in this Agreement. The Company further hereby expressly agrees never to initiate against you or others released in this Agreement any administrative proceeding, lawsuit or any other legal or equitable proceeding of any kind asserting any Claims that are released in this Agreement.

SIX: You hereby represent and agree that you have not assigned or transferred, or attempted to have assigned or transfer, to any person or entity, any of the Claims that you are releasing in this Agreement.

The Company hereby represents and agrees that it has not assigned or transferred, or attempted to have assigned or transfer, to any person or entity, any of the Claims that it is releasing in this Agreement.

SEVEN: As a further material inducement to the Company to enter into this Agreement, you hereby agree to indemnify and hold each of the Releasees harmless from all loss, costs, damages, or expenses, including without limitation, attorneys' fees incurred by the Releasees, arising out of any breach of this Agreement by you or the fact that any representation made in this Agreement by you was false when made.

As a further material inducement to you to enter into this Agreement, the Company hereby agrees to indemnify and hold each of the Releasees harmless from all loss, costs, damages, or expenses, including without limitation, attorneys' fees incurred by the Releasees, arising out of any breach of this Agreement by it or the fact that any representation made in this Agreement by it was knowingly false when made.

EIGHT: You and the Company represent and acknowledge that in executing this Agreement, neither is relying upon any representation or statement not set forth in this Agreement or the Severance Agreement.

NINE: (a) This Agreement shall not in any way be construed as an admission by the Company that it has acted wrongfully with respect to you or any other person, or that you have any rights whatsoever against the Company, and the Company specifically disclaims any liability to or wrongful acts against you or any other person, on the part of itself, its employees or its agents. This Agreement shall not in any way be construed as an admission by you that you have acted wrongfully with respect to the Company, or that you failed to perform your duties or negligently performed or breached your duties, or that the Company had good cause to terminate your employment.

(b) If you are a party or are threatened to be made a party to any proceeding by reason of the fact that you were an officer or director of the Company, the Company shall indemnify you against any expenses (including reasonable attorneys' fees; *provided*, that counsel has been approved by the Company prior to retention, which approval shall not be unreasonably withheld), judgments, fines, settlements and other amounts actually or reasonably incurred by you in connection with that proceeding; *provided*, that you acted in good faith and in a manner you reasonably believed to be in the best interest of the Company. The limitations of California Corporations Code Section 317 shall apply to this assurance of indemnification.

(c) You agree to cooperate with the Company and its designated attorneys, representatives and agents in connection with any actual or threatened judicial, administrative or other legal or equitable proceeding in which the Company is or may become involved. Upon reasonable notice, you agree to meet with and provide to the Company or its designated attorneys, representatives or agents all information and knowledge you have relating to the subject matter of any such proceeding. The Company agrees to reimburse you for any reasonable costs you incur in providing such cooperation.

TEN: This Agreement is entered into in California and shall be governed by substantive California law, except as provided in this section. If any dispute arises between you and the Company, including but not limited to, disputes relating to this Agreement, or if you prosecute a claim you purported to release by means of this Agreement ("Arbitrable Dispute"), you and the Company agree to resolve that Arbitrable Dispute through final and binding arbitration under this section. You also agree to arbitrate any Arbitrable Dispute which also involves any other released party who offers or agrees to arbitrate the dispute under this section. Your agreement to arbitrate applies, for example, to disputes about the validity, interpretation, or effect of this Agreement or alleged violations of it, claims of discrimination under federal or state law, or other statutory violation claims.

As to any Arbitrable Dispute, you and the Company waive any right to a jury trial or a court bench trial. You and the Company also waive the right to bring, maintain, or participate in any class, collective, or representative proceeding, whether in arbitration or otherwise. Further, Arbitrable Disputes must be brought in the individual capacity of the party asserting the claim, and cannot be maintained on a class, collective, or representative basis.

Arbitration shall take place in San Diego, California under the employment dispute resolution rules of the Judicial Arbitration and Mediation Service ("JAMS"), (or, if you are employed outside of California at the time of the termination of your employment, at the nearest location of the American Arbitration Association and in accordance with the AAA rules), before an experienced employment arbitrator selected in accordance with those rules. The arbitrator may not modify or change this Agreement in any way. The Company will be responsible for paying any filing fee and the fees and costs of the Arbitrator; provided, however, that if you are the party initiating the claim, you will contribute an amount equal to the filing fee to initiate a claim in the court of general jurisdiction in the state in which you are employed by the Company. Each party shall pay for its own costs and attorneys' fees, if any. However if any party prevails on a statutory claim which affords the prevailing party attorneys' fees and costs, or if there is a written agreement providing for attorneys' fees and/or costs, the Arbitrator may award reasonable attorney's fees and/or costs to the prevailing party, applying the same standards a court would apply under the law applicable to the claim. The Arbitrator shall apply the Federal Rules of Evidence and shall have the authority to entertain a motion to dismiss or a motion for summary judgment by any party and shall apply the standards governing such motions under the Federal Rules of Civil Procedure. The Federal Arbitration Act shall govern the arbitration and shall govern the interpretation or enforcement of this section or any arbitration award. The arbitrator will not have the authority to consider, certify, or hear an arbitration as a class action, collective action, or any other type of representative action.

To the extent that the Federal Arbitration Act is inapplicable, California law pertaining to arbitration agreements shall apply. Arbitration in this manner shall be the exclusive remedy for any Arbitrable Dispute. Except as prohibited by the ADEA, should you or the Company attempt to resolve an Arbitrable Dispute by any method other than arbitration pursuant to this section, the responding party will be entitled to recover from the initiating party all damages, expenses, and attorneys' fees incurred as a result of this breach. This section TEN supersedes any existing arbitration agreement between the Company and me as to any Arbitrable Dispute. Notwithstanding anything in this section TEN to the contrary, a claim for benefits under an ERISA-covered plan shall not be an Arbitrable Dispute.

ELEVEN: Both you and the Company understand that this Agreement is final and binding eight (8) days after its execution and return. Should you nevertheless attempt to challenge the enforceability of this Agreement as provided in Paragraph TEN or, in violation of that Paragraph, through litigation, as a further limitation on any right to make such a challenge, you shall initially tender to the Company, by certified check delivered to the Company, all monies received pursuant to Sections 4 or 5 of the Severance Pay Agreement, as applicable, plus interest, and invite the Company to retain such monies and agree with you to cancel this Agreement and void the Company's obligations under of the Severance Pay Agreement. In the event the Company accepts this offer, the Company shall retain such monies and this Agreement shall be canceled and the Company shall have no obligation under of the Severance Pay Agreement. In the event the Company does not accept such offer, the Company shall so notify you and shall place such monies in an interest-bearing escrow account pending resolution of the dispute between you and the Company as to whether or not this Agreement and the Company's obligations under of the Severance Pay Agreement shall be set aside and/or otherwise rendered voidable or unenforceable. Additionally, any consulting agreement then in effect between you and the Company shall be immediately rescinded with no requirement of notice.

TWELVE: Any notices required to be given under this Agreement shall be delivered either personally or by first class United States mail, postage prepaid, addressed to the respective parties as follows:

To Company: [TO COME]

Attn: [TO COME]

To You: _____

THIRTEEN: You understand and acknowledge that you have been given a period of forty-five (45) days to review and consider this Agreement (as well as statistical data on the persons eligible for similar benefits) before signing it and may use as much of this forty-five (45) day period as you wish prior to signing. You are encouraged, at your personal expense, to consult with an attorney before signing this Agreement. You understand and acknowledge that whether or not you do so is your decision. You may revoke this Agreement within seven (7) days of signing it. If you wish to revoke, the Company's Vice President, Human Resources must receive written notice from you no later than the close of business on the seventh (7th) day after you have signed the Agreement. If revoked, this Agreement shall not be effective and enforceable, and you will not receive payments or benefits under Sections 4 or 5 of the Severance Pay Agreement, as applicable.

FOURTEEN: This Agreement constitutes the entire agreement of the parties hereto and supersedes any and all other agreements (except the Severance Pay Agreement) with respect to the subject matter of this Agreement, whether written or oral, between you and the Company. All modifications and amendments to this Agreement must be in writing and signed by the parties.

FIFTEEN: Each party agrees, without further consideration, to sign or cause to be signed, and to deliver to the other party, any other documents and to take any other action as may be necessary to fulfill the obligations under this Agreement.

SIXTEEN: If any provision of this Agreement or the application thereof is held invalid, the invalidity shall not affect other provisions or applications of the Agreement which can be given effect without the invalid provisions or application; and to this end the provisions of this Agreement are declared to be severable.

SEVENTEEN: This Agreement may be executed in counterparts.

I have read the foregoing General Release, and I accept and agree to the provisions it contains and hereby execute it voluntarily and with full understanding of its consequences. I am aware it includes a release of all known or unknown claims.

DATED: _____

DATED: _____

You acknowledge that you first received this Agreement on [date].

<YEAR> Executive Incentive Compensation Plan – Southern California Gas Company

ICP Plan Year: January 1, <YEAR> to December 31, <YEAR>

INTRODUCTION

The Southern California Gas Company (SoCalGas) Incentive Compensation Plan (ICP) is designed to attract, retain, and engage executives whose efforts contribute to the success of SoCalGas and Sempra Energy (SE). The plan aligns with Sempra Energy’s goal of sustained earnings growth and the utility’s regulatory framework with goals that encourage executives to drive towards our aspirations and to:

- * Maintain high safety standards,
- * Grow the business through enterprise thinking while maximizing revenues/profits,
- * Focus on a common set of high-level goals that encourages teamwork and achievement of operational excellence,
- * Focus on business efficiencies and investments that produce long-term efficiency benefits,
- * Increase reliability of delivery service,
- * Enhance customer focus to achieve optimal customer satisfaction, and
- * Achieve high level of employee commitment and contribution through sharing of business success and the establishment of key performance indicators.

PARTICIPATION

Executives who meet all of the following eligibility requirements will participate in this incentive plan for <YEAR>.

1. Employee is an eligible executive, as determined by the SoCalGas Board of Directors, for at least three consecutive full months during <YEAR> and is an employee on December 31, <YEAR> or meets other eligibility requirements as listed under section: Employee Status Changes.
2. Participant has met minimum job expectations and performed satisfactorily, as determined by his/her supervisor in conjunction with Human Resources.
3. Participant is not in another formal incentive plan in <YEAR>.

Participation in one plan year does not constitute the right to participate in succeeding plan years. This plan does not constitute a contract of employment or guarantee of an incentive award payment and cannot be relied on as such.

BASIS FOR AWARD CALCULATION

Awards are calculated based on the employee’s “Basis for Award Calculation” (**BAC**) while on the active payroll. BAC includes annual **base salary** on December 31, <YEAR> plus any eligible **lump sum payment** that may be granted during <YEAR>. Other awards (e.g. spot cash); incentives, premiums and payments are not included in the BAC.

<YEAR> PERFORMANCE GOALS AND MEASURES

<YEAR> Performance Goals & Measures	Weight	Multiplier	Min	Target	Max
FINANCIAL GOALS (in millions)					
OPERATIONAL GOALS					
TOTAL		100%			

FINANCIAL MEASURES

Sempra Energy Earnings

Sempra Energy Earnings are revenue minus expense, less tax. Employees can influence earnings by either **increasing revenue** or **decreasing expenses**. Earnings are determined after accounting for the appropriate accrued level of incentive compensation expense.

Sempra Energy Earnings exclude:

<DEFINE EXCLUSIONS>

Southern California Gas Company (SoCalGas) Earnings

<Define SCG Financial Measure>

OPERATIONAL GOALS

The payout for all Operational Goals range between 0%-200%.

<Define Operational Measures>

CALCULATION, CERTIFICATION AND PAYMENT OF AWARDS

Award potentials will be linearly interpolated between the minimum and target, or target and maximum goals. There is no award payout for performance at or below the minimum goals. The payout for the financial component may, at management's discretion, be reduced in consideration of individual performance.

Adjustments to the budget target for ICP calculation purposes will require the written approval of the Chief Executive Officer of SoCalGas. The approved exceptions will be limited to costs or expenses related to future growth opportunities and the funding of process improvements above the planned budget.

The SoCalGas Board of Directors must approve awards. Approved awards will be paid by March 15, 2014 and will be subject to appropriate tax withholding. Such awards are considered pension-eligible earnings for the Cash Balance Plan and are included as eligible earnings for the 401(k) Plan. Employees with outstanding loan payments to the 401(k) plan and/or for medical premiums may, at the Company's option, have up to the full arrears deducted from their ICP check. Employees will be notified by mail with respect to any arrears payments for these deductions.

EMPLOYEE STATUS CHANGES

All eligible employees (including new hires) will have their award prorated for the period of participation in the plan while on the active payroll. For employees who change target percentages during a plan year, their award will be calculated based on the effective period for each target percentage.

Employees who transfer within the corporation or among incentive plans during the year will be eligible for an award under this plan provided that all eligibility requirements are met. The award will be based on the employee's BAC for the participation period in this plan.

An award will still be paid if a participant meets all other eligibility requirements during <YEAR> but is not a regular employee on December 31, <YEAR> due to the following reasons:

- * Participant's employment terminates for any reason after he/she has attained age 55 *and* at the time his/her employment terminated he/she had completed at least five years of service; or
- * Participant leaves his/her position under disability (as defined in the company disability benefit plan), or
- * Participant dies during an award year (award will be paid to the participant's estate).

In the above circumstances, the award will be calculated based on the participant's BAC prorated for the period of participation in the plan while on the active payroll. Awards will be paid the same time payment is made to other participants and will be offset by any amount paid pursuant the "Severance Benefits upon Termination of Employment due to Death or Disability" section of the participant's Severance Pay Agreement.

If a participant leaves the company for any other reason, eligibility for an award for the plan year will be forfeited unless an exception is made at the discretion of the CEO.

PLAN ADMINISTRATION

The Company retains the discretion and authority to interpret, amend or modify the plan; to grant incentive awards; as well as to terminate, increase or decrease any incentive award opportunity during the performance period; and to reduce or eliminate any incentive awards that would otherwise be payable at the end of the performance period. The Company, in its sole discretion determines Sempra Energy Earnings, SoCalGas Earnings, operational measures and award calculations.

The Company shall require the forfeiture, recovery or reimbursement of awards or compensation under this Plan as (i) required by applicable law, or (ii) required under any policy implemented or maintained by the Company pursuant to

any applicable rules or requirements of a national securities exchange or national securities association on which any securities of the Company are listed. The Company reserves the right to recoup compensation paid if it determines that the results on which the compensation was paid were not actually achieved.

The SoCalGas Board may, in its sole discretion, require the recovery or reimbursement of short-term incentive compensation awards from any employee whose fraudulent or intentional misconduct materially affects the operations or financial results of the Company or its subsidiaries.

Questions concerning the plan should be directed to the Sr. Vice President – Human Resources, Diversity & Inclusion, Sempra Energy.

**SEMPRA ENERGY
SEVERANCE PAY AGREEMENT**

THIS AGREEMENT (this “Agreement”), dated as of August 4, 2012 (the “Effective Date”), is made by and between SEMPRA ENERGY, a California corporation (“Sempra Energy”), and J. Bret Lane (the “Executive”).

WHEREAS, the Executive is currently employed by Sempra Energy or a direct or indirect subsidiary of Sempra Energy (Sempra Energy and its subsidiaries are hereinafter collectively referred to as the “Company”) as Senior Vice President – Gas Operations & System Integrity; and

WHEREAS, Sempra Energy and the Executive desire to enter into this Agreement; and

WHEREAS, the Board of Directors of Sempra Energy (the “Board”) has authorized this Agreement.

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained, the Company and the Executive hereby agree as follows:

Section 1. Definitions. For purposes of this Agreement, the following capitalized terms have the meanings set forth below:

“Accounting Firm” has the meaning assigned thereto in Section 9(b) hereof.

“Act” has the meaning assigned thereto in Section 2 hereof.

“Additional Post-Change in Control Severance Payment” has the meaning assigned thereto in Section 6(a) hereof.

“Affiliate” has the meaning set forth in Rule 12b-2 promulgated under the Exchange Act.

“Annual Base Salary” means the Executive’s annual base salary from the Company.

“Asset Purchaser” has the meaning assigned thereto in Section 16(e).

“Asset Sale” has the meaning assigned thereto in Section 16(e).

“Average Annual Bonus” means the average of the annual bonuses from the Company earned by the Executive with respect to the three (3) fiscal years of the Company immediately preceding the Date of Termination (the “Bonus Fiscal Years”); *provided, however*, that, if the Executive was employed by the Company during all or any portion of one or two of the Bonus Fiscal Years (but not three of the Bonus Fiscal Years), “Average Annual Bonus” means the average of the annual bonuses (if any) from the Company earned by the Executive with respect to the Bonus Fiscal Years during all or any portion of which the Executive was employed by the Company; and, *provided, further*, that, if the Executive was not employed by the Company during all or any portion of any of the Bonus Fiscal Years, “Average Annual Bonus” means zero.

“Beneficial Owner” has the meaning set forth in Rule 13d-3 promulgated under the Exchange Act.

“Cause” means:

(a) Prior to a Change in Control, (i) the willful failure by the Executive to substantially perform the Executive’s duties with the Company (other than any such failure resulting from the Executive’s incapacity due to physical or mental illness, (ii) the grossly negligent performance of such obligations referenced in clause (i) of this definition, (iii) the Executive’s gross insubordination; and/or (iv) the Executive’s commission of one or more acts of moral turpitude that constitute a violation of applicable law (including but not limited to a felony) which have or result in an adverse effect on the Company, monetarily or otherwise, or one or more significant acts of dishonesty. For purposes of clause (i) of this subsection (a), no act, or failure to act, on the Executive’s part shall be deemed “willful” unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the Executive’s act, or failure to act, was in the best interests of the Company.

(b) From and after a Change in Control, (i) the willful and continued failure by the Executive to substantially perform the Executive’s duties with the Company (other than any such failure resulting from the Executive’s incapacity due to physical or mental illness or any such actual or anticipated failure after the issuance of a Notice of Termination for Good Reason by the Executive pursuant to Section 3 hereof) and/or (ii) the Executive’s commission of one or more acts of moral turpitude that constitute a violation of applicable law (including but not limited to a felony) which have or result in an adverse effect on the Company, monetarily or otherwise, or one or more significant acts of dishonesty. For purposes of clause (i) of this subsection (b), no act, or failure to act, on the Executive’s part shall be deemed “willful” unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the Executive’s act, or failure to act, was in the best interests of the Company. Notwithstanding the foregoing, the Executive shall not be deemed terminated for Cause pursuant to clause (i) of this subsection (b) unless and until the Executive shall have been provided with reasonable notice of and, if possible, a reasonable opportunity to cure the facts and circumstances claimed to provide a basis for termination of the Executive’s employment for Cause.

“Change in Control” shall be deemed to have occurred on the date that a change in the ownership of Sempra Energy, a change in the effective control of Sempra Energy, or a change in the ownership of a substantial portion of assets of Sempra

Energy occurs (each, as defined in subsection (a) below), except as otherwise provided in subsections (b), (c) and (d) below:

(a) (i) a “change in the ownership of Sempra Energy” occurs on the date that any one person, or more than one person acting as a group, acquires ownership of stock of Sempra Energy that, together with stock held by such person or group, constitutes more than fifty percent (50%) of the total fair market value or total voting power of the stock of Sempra Energy,

(ii) a “change in the effective control of Sempra Energy” occurs only on either of the following dates:

(A) the date any one person, or more than one person acting as a group, acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of Sempra Energy possessing thirty percent (30%) or more of the total voting power of the stock of Sempra Energy, or

(B) the date a majority of the members of the Board is replaced during any twelve (12) month period by directors whose appointment or election is not endorsed by a majority of the members of the Board before the date of appointment or election, and

(iii) a “change in the ownership of a substantial portion of assets of Sempra Energy” occurs on the date any one person, or more than one person acting as a group, acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) assets from Sempra Energy that have a total gross fair market value equal to or more than eighty-five percent (85%) of the total gross fair market value of all of the assets of Sempra Energy immediately before such acquisition or acquisitions.

(b) A “change in the ownership of Sempra Energy” or “a change in the effective control of Sempra Energy” shall not occur under clause (a)(i) or (a)(ii) by reason of any of the following:

(i) an acquisition of ownership of stock of Sempra Energy directly from Sempra Energy or its Affiliates other than in connection with the acquisition by Sempra Energy or its Affiliates of a business,

(ii) a merger or consolidation which would result in the voting securities of Sempra Energy outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company, at least sixty percent (60%) of the combined voting power of the securities of Sempra Energy or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or

(iii) a merger or consolidation effected to implement a recapitalization of Sempra Energy (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of Sempra Energy (not including the securities beneficially owned by such Person any securities acquired directly from Sempra Energy or its Affiliates other than in connection with the acquisition by Sempra Energy or its Affiliates of a business) representing twenty percent (20%) or more of the combined voting power of Sempra Energy’s then outstanding securities.

(c) A “change in the ownership of a substantial portion of assets of Sempra Energy” shall not occur under clause (a)(iii) by reason of a sale or disposition by Sempra Energy of the assets of Sempra Energy to an entity, at least sixty percent (60%) of the combined voting power of the voting securities of which are owned by shareholders of Sempra Energy in substantially the same proportions as their ownership of Sempra Energy immediately prior to such sale.

(d) This definition of “Change in Control” shall be limited to the definition of a “change in control event” relating to Sempra Energy under Treasury Regulation Section 1.409A-3(i)(5). A “Change in Control” shall only occur if there is a “change in control event” relating to Sempra Energy under Treasury Regulation Section 1.409A-3(i)(5) with respect to the Executive.

“Change in Control Date” means the date on which a Change in Control occurs.

“Code” means the Internal Revenue Code of 1986, as amended.

“Compensation Committee” means the compensation committee of the Board.

“Consulting Period” has the meaning assigned thereto in Section 14(e) hereof.

“Date of Termination” has the meaning assigned thereto in Section 3(b) hereof.

“Deferred Compensation Plan” has the meaning assigned thereto in Section 5(f) hereof.

“Disability” has the meaning set forth in the Company’s long-term disability plan or its successor; *provided*, however, that the Board may not terminate the Executive’s employment hereunder by reason of Disability unless (i) at the time of such termination there is no reasonable expectation that the Executive will return to work within the next ninety (90) day period and (ii) such termination is permitted by all applicable disability laws.

“Exchange Act” means the Securities Exchange Act of 1934, as amended, and the applicable rulings and regulations thereunder.

“Excise Tax” has the meaning assigned thereto in Section 9(a) hereof.

“Good Reason” means:

(a) Prior to a Change in Control, the occurrence of any of the following without the prior written consent of the Executive, unless such act or failure to act is corrected by the Company prior to the Date of Termination specified in the Notice of Termination (as required under Section 3 hereof):

(i) the assignment to the Executive of any duties materially inconsistent with the range of duties and responsibilities appropriate to a senior Executive within the Company (such range determined by reference to past, current and reasonable practices within the Company);

(ii) a material reduction in the Executive’s overall standing and responsibilities within the Company, but not including (A) a mere change in title or (B) a transfer within the Company, which, in the case of both (A) and (B), does not adversely affect the Executive’s overall status within the Company;

(iii) a material reduction by the Company in the Executive’s aggregate annualized compensation and benefits opportunities, except for across-the-board reductions (or modifications of benefit plans) similarly affecting all similarly situated executives (both of the Company and of any Person then in control of the Company) of comparable rank with the Executive;

(iv) the failure by the Company to pay to the Executive any portion of the Executive’s current compensation and benefits or any portion of an installment of deferred compensation under any deferred compensation program of the Company within thirty (30) days of the date such compensation is due;

(v) any purported termination of the Executive’s employment that is not effected pursuant to a Notice of Termination satisfying the requirements of Section 3 hereof; for purposes of this Agreement, no such purported termination shall be effective;

(vi) the failure by Sempra Energy to perform its obligations under Section 16(c), (d) or (e) hereof;

(vii) the failure by the Company to provide the indemnification and D&O insurance protection Section 11 of this Agreement requires it to provide; or

(viii) the failure by Sempra Energy to comply with any material provision of this Agreement.

(b) From and after a Change in Control, the occurrence of any of the following without the prior written consent of the Executive, unless such act or failure to act is corrected by the Company prior to the Date of Termination specified in the Notice of Termination (as required under Section 3 hereof):

(i) an adverse change in the Executive’s title, authority, duties, responsibilities or reporting lines as in effect immediately prior to the Change in Control;

(ii) a reduction by the Company in the Executive’s aggregate annualized compensation opportunities, except for across-the-board reductions in base salaries, annual bonus opportunities or long-term incentive compensation opportunities of less than ten percent (10%) similarly affecting all similarly situated executives (both of the Company and of any Person then in control of the Company) of comparable rank with the Executive; or the failure by the Company to continue in effect any material benefit plan in which the Executive participates immediately prior to the Change in Control, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, or the failure by the Company to continue the Executive’s participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount of benefits provided and the level of the Executive’s participation relative to other participants, as existed at the time of the Change in Control;

(iii) the relocation of the Executive’s principal place of employment immediately prior to the Change in Control Date (the “Principal Location”) to a location which is both further away from the Executive’s residence and more than thirty (30) miles from such Principal Location, or the Company’s requiring the Executive to be based anywhere other than such Principal Location (or permitted relocation thereof), or a substantial increase in the Executive’s business travel obligations outside of the Southern California area as of the Effective Date other than any such increase that (A) arises in connection with extraordinary business activities of the Company of limited duration and (B) is understood not to be part of the Executive’s regular duties with the Company;

(iv) the failure by the Company to pay to the Executive any portion of the Executive’s current compensation and benefits or any portion of an installment of deferred compensation under any deferred compensation program of the Company within thirty (30) days of the date such compensation is due;

(v) any purported termination of the Executive’s employment that is not effected pursuant to a Notice of Termination satisfying the requirements of Section 3 hereof; for purposes of this Agreement, no such purported termination shall be effective;

(vi) the failure by Sempra Energy to perform its obligations under Section 16(c), (d) or (e) hereof;

(vii) the failure by the Company to provide the indemnification and D&O insurance protection Section 11 of this Agreement requires it to provide; or

(viii) the failure by Sempra Energy to comply with any material provision of this Agreement.

Following a Change in Control, the Executive's determination that an act or failure to act constitutes Good Reason shall be presumed to be valid unless such determination is deemed to be unreasonable by an arbitrator pursuant to the procedure described in Section 13 hereof. The Executive's right to terminate the Executive's employment for Good Reason shall not be affected by the Executive's incapacity due to physical or mental illness. The Executive's continued employment shall not constitute consent to, or a waiver of rights with respect to, any act or failure to act constituting Good Reason hereunder.

"Incentive Compensation Awards" means awards granted under Incentive Compensation Plans providing the Executive with the opportunity to earn, on a year-by-year basis, annual and long-term incentive compensation.

"Incentive Compensation Plans" means annual incentive compensation plans and long-term incentive compensation plans of the Company, which long-term incentive compensation plans may include plans offering stock options, restricted stock and other long-term incentive compensation.

"Involuntary Termination" means (a) the Executive's Separation from Service by reason of a termination of employment by the Company other than for Cause, death, or Disability, or (b) the Executive's Separation from Service by reason of resignation of employment with the Company for Good Reason.

"JAMS Rules" has the meaning assigned thereto in Section 13 hereof.

"Notice of Termination" has the meaning assigned thereto in Section 3(a) hereof.

"Payment" has the meaning assigned thereto in Section 9(a) hereof.

"Payment in Lieu of Notice" has the meaning assigned thereto in Section 3(b) hereof.

"Person" has the meaning set forth in section 3(a)(9) of the Exchange Act, as modified and used in sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Company or any of its Affiliates, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, (iv) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company, or (v) a person or group as used in Rule 13d-1(b) promulgated under the Exchange Act.

"Post-Change in Control Accrued Obligations" has the meaning assigned thereto in Section 6(a) hereof.

"Post-Change in Control Severance Payment" has the meaning assigned thereto in Section 6 hereof.

"Pre-Change in Control Accrued Obligations" has the meaning assigned thereto in Section 5(a) hereof.

"Pre-Change in Control Severance Payment" has the meaning assigned thereto in Section 5 hereof.

"Principal Location" has the meaning assigned thereto in clause (b)(iii) of the definition of Good Reason, above.

"Proprietary Information" has the meaning assigned thereto in Section 14(a) hereof.

"Release" has the meaning assigned thereto in Section 14(d) hereof.

"Section 409A Payments" means any of the following: (a) the Payment in Lieu of Notice; (b) the Pre-Change in Control Severance Payment; (c) the Post-Change in Control Severance Payment; (d) the Additional Post-Change in Control Severance Payment; (e) the Consulting Payment; (f) the financial planning services and the related payments provided under Sections 5(e) and 6(e); and (g) the legal fees and expenses reimbursed under Section 15.

"Sempra Energy Control Group" means Sempra Energy and all persons with whom Sempra Energy would be considered a single employer under Section 414(b) or 414(c) of the Code, as determined from time to time.

"Separation from Service", with respect to the Executive (or another Service Provider), means the Executive's (or such Service Provider's) (a) termination of employment or (b) other termination or reduction in services, provided that such termination or reduction in clause (a) or (b) constitutes a "separation from service," as defined in Treasury Regulation Section 1.409A-1(h), with respect to the Service Recipient.

"Service Provider" means the Executive or any other "service provider," as defined in Treasury Regulation Section 1.409A-1(f).

"Service Recipient," with respect to the Executive, means Sempra Energy (if the Executive is employed by Sempra Energy), or the subsidiary of Sempra Energy employing the Executive, whichever is applicable, and all persons considered part of the "service recipient," as defined in Treasury Regulation Section 1.409A-1(g), as determined from time to time. As provided in

Treasury Regulation Section 1.409A-1(g), the “Service Recipient” shall mean the person for whom the services are performed and with respect to whom the legally binding right to compensation arises, and all persons with whom such person would be considered a single employer under Section 414(b) or 414(c) of the Code.

“Specified Employee” means a Service Provider who, as of the date of the Service Provider’s Separation from Service is a “Key Employee” of the Service Recipient any stock of which is publicly traded on an established securities market or otherwise. For purposes of this definition, a Service Provider is a “Key Employee” if the Service Provider meets the requirements of Section 416(i)(1)(A)(i), (ii) or (iii) of the Code (applied in accordance with the Treasury Regulations thereunder and disregarding Section 416(i)(5) of the Code) at any time during the Testing Year. If a Service Provider is a “Key Employee” (as defined above) as of a Specified Employee Identification Date, the Service Provider shall be treated as “Key Employee” for the entire twelve (12) month period beginning on the Specified Employee Effective Date. For purposes of this definition, a Service Provider’s compensation for a Testing Year shall mean such Service Provider’s compensation, as determined under Treasury Regulation Section 1.415(c)-2(a) (and applied as if the Service Recipient were not using any safe harbor provided in Treasury Regulation Section 1.415(c)-2(d), were not using any of the elective special timing rules provided in Treasury Regulation Section 1.415(c)-2(e), and were not using any of the elective special rules provided in Treasury Regulation Section 1.415(c)-2(g)), from the Service Recipient for such Testing Year. The “Specified Employees” shall be determined in accordance with Section 409A(a)(2)(B)(i) of the Code and Treasury Regulation Section 1.409A-1(i).

“Specified Employee Effective Date” means the first day of the fourth month following the Specified Employee Identification Date. The Specified Employee Effective Date may be changed by Sempra Energy, in its discretion, in accordance with Treasury Regulation Section 1.409A-1(i)(4).

“Specified Employee Identification Date”, for purposes of Treasury Regulation Section 1.409A-1(i)(3), shall mean December 31. The “Specified Employee Identification Date” shall apply to all “nonqualified deferred compensation plans” (as defined in Treasury Regulation Section 1.409A-1(a)) of the Service Recipient and all affected Service Providers. The “Specified Employee Identification Date” may be changed by Sempra Energy, in its discretion, in accordance with Treasury Regulation Section 1.409A-1(i)(3).

“Testing Year” shall mean the twelve (12) month period ending on the Specified Employee Identification Date, as determined from time to time.

“Underpayment” has the meaning assigned thereto in Section 9(b) hereof.

For purposes of this Agreement, references to any “Treasury Regulation” shall mean such Treasury Regulation as in effect on the date hereof.

Section 2. Sarbanes-Oxley Act of 2002. Notwithstanding anything herein to the contrary, if the Company determines, in its good faith judgment, that any provision of this Agreement is likely to be interpreted as a personal loan prohibited by the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated thereunder (the “Act”), then such provision shall be modified as necessary or appropriate so as to not violate the Act; and if this cannot be accomplished, then the Company shall use its reasonable efforts to provide the Executive with similar, but lawful, substitute benefit(s) at a cost to the Company not to significantly exceed the amount the Company would have otherwise paid to provide such benefit(s) to the Executive. In addition, if the Executive is required to forfeit or to make any repayment of any compensation or benefit(s) to the Company under the Act or any other law, such forfeiture or repayment shall not constitute Good Reason.

Section 3. Notice and Date of Termination.

(a) Any termination of the Executive’s employment by the Company or by the Executive shall be communicated by a written notice of termination to the other party (the “Notice of Termination”). Where applicable, the Notice of Termination shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive’s employment under the provision so indicated. Unless the Board determines otherwise, a Notice of Termination by the Executive alleging a termination for Good Reason must be made within 180 days of the act or failure to act that the Executive alleges to constitute Good Reason.

(b) The date of the Executive’s termination of employment with the Company (the “Date of Termination”) shall be determined as follows: (i) if the Executive has a Separation from Service by reason of the Company terminating his or her employment, either with or without Cause, the Date of Termination shall be the date specified in the Notice of Termination (which, in the case of a termination by the Company other than for Cause, shall not be less than two (2) weeks from the date such Notice of Termination is given unless the Company elects to pay the Executive, in addition to any other amounts payable hereunder, an amount (the “Payment in Lieu of Notice”) equal to two (2) weeks of the Executive’s Annual Base Salary in effect on the Date of Termination), and (ii) if the basis for the Executive’s Involuntary Termination is his resignation for Good Reason, the Date of Termination shall be determined by the Executive and specified in the Notice of Termination, but shall not in any event be less than fifteen (15) days nor more than sixty (60) days after the date such Notice of Termination is given. The Payment in Lieu of Notice shall be paid on such date as is determined by the Company within thirty (30) days after the date of the Executive’s Separation from Service; *provided, however*, that if the Executive is a Specified Employee on the date of his or her Separation from Service, such Payment in Lieu of Notice shall be paid as provided in Section 10 hereof.

Section 4. Termination from the Board. Upon the termination of the Executive’s employment for any reason, the Executive’s membership on the Board, the board of directors of any of the Company’s Affiliates, any committees of the Board

and any committees of the board of directors of any of the Company's Affiliates, if applicable, shall be automatically terminated.

Section 5. Severance Benefits upon Involuntary Termination Prior to Change in Control. Except as provided in Section 6 and Section 19(i) hereof, in the event of the Involuntary Termination of the Executive prior to a Change in Control, the Company shall pay the Executive, in one lump sum cash payment, an amount (the "Pre-Change in Control Severance Payment") equal to one-half (0.5) times the greater of: (X) 150% of the Executive's Annual Base Salary as in effect on the Date of Termination, and (Y) the Executive's Annual Base Salary as in effect on the Date of Termination, plus the Executive's Average Annual Bonus. In addition to the Pre-Change in Control Severance Payment, the Executive shall be entitled to the following additional benefits specified in subsections (a) through (e). Except as provided in Section 5(f), the Pre-Change in Control Severance Payment and the payment under Section 5(a) shall be paid on such date as is determined by the Company within thirty (30) days after the date of the Involuntary Termination; *provided, however*, that, if the Executive is a Specified Employee on the date of the Executive's Involuntary Termination, the Pre-Change in Control Severance Payment and the financial planning services and the related payments provided under Section 5(e) shall be paid as provided in Section 10 hereof.

(a) **Accrued Obligations.** The Company shall pay the Executive a lump sum amount in cash equal to the sum of (A) the Executive's Annual Base Salary through the Date of Termination to the extent not theretofore paid, (B) an amount equal to any annual Incentive Compensation Awards earned with respect to fiscal years ended prior to the year that includes the Date of Termination to the extent not theretofore paid, (C) any accrued and unpaid vacation, if any, and (D) reimbursement for unreimbursed business expenses, if any, properly incurred by the Executive in the performance of his duties in accordance with policies established from time to time by the Board, in each case to the extent not theretofore paid. (The amounts specified in clauses (A), (B), (C) and (D) shall be hereinafter referred to as the "Pre-Change in Control Accrued Obligations").

(b) **Equity Based Compensation.** The Executive shall retain all rights to any equity-based compensation awards to the extent set forth in the applicable plan and/or award agreement.

(c) **Welfare Benefits.** Subject to Section 12 below, for a period of six (6) months following the date of the Involuntary Termination (and an additional twelve (12) months if the Executive provides consulting services under Section 14(e) hereof), the Executive and his dependents shall be provided with health insurance benefits substantially similar to those provided to the Executive and his dependents immediately prior to the date of the Involuntary Termination; *provided, however*, that such benefits shall be provided on substantially the same terms and conditions and at the same cost to the Executive as in effect immediately prior to the date of the Involuntary Termination. Such benefits shall be provided through insurance maintained by the Company under the Company's benefit plans. Such benefits shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(a)(5).

(d) **Outplacement Services.** The Executive shall receive reasonable outplacement services, on an in-kind basis, suitable to his position and directly related to the Executive's Involuntary Termination, for a period of eighteen (18) months following the date of the Involuntary Termination, in an aggregate amount of cost to the Company not to exceed \$50,000. Notwithstanding the foregoing, the Executive shall cease to receive outplacement services on the date the Executive accepts employment with a subsequent employer. Such outplacement services shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(b)(9)(v)(A).

(e) **Financial Planning Services.** The Executive shall receive financial planning services, on an in-kind basis, for a period of eighteen (18) months following the Date of Termination. Such financial planning services shall include expert financial and legal resources to assist the Executive with financial planning needs and shall be limited to (i) current investment portfolio management, (ii) tax planning, (iii) tax return preparation, and (iv) estate planning advice and document preparation (including wills and trusts); *provided, however*, that the Company shall provide such financial planning services during any taxable year of the Executive only to the extent the cost to the Company for such taxable year does not exceed \$25,000. The Company shall provide such financial planning services through a financial planner selected by the Company, and shall pay the fees for such financial planning services. The financial planning services provided during any taxable year of the Executive shall not affect the financial planning services provided in any other taxable year of the Executive. The Executive's right to financial planning services shall not be subject to liquidation or exchange for any other benefit. Such financial planning services shall be provided in a manner that complies with Treasury Regulation Section 1.409A-3(i)(1)(iv).

(f) **Deferral of Payments.** The Executive shall have the right to elect to defer the Pre-Change in Control Severance Payment to be received by the Executive pursuant to this Section 5 under the terms and conditions of the Sempra Energy 2005 Deferred Compensation Plan (the "Deferred Compensation Plan"). Any such deferral election shall be made in accordance with Section 18(b) hereof.

Section 6. Severance Benefits upon Involuntary Termination in Connection with and after Change in Control. Notwithstanding the provisions of Section 5 above, and except as provided in Section 19(i) hereof, in the event of the Involuntary Termination of the Executive on or within two (2) years following a Change in Control, in lieu of the payments described in Section 5 above, the Company shall pay the Executive, in one lump sum cash payment, an amount (the "Post-Change in Control Severance Payment") equal to the greater of: (X) 150% of the Executive's Annual Base Salary as in effect immediately prior to the Change in Control or the Date of Termination, whichever is greater, and (Y) the Executive's Annual Base Salary as in effect immediately prior to the Change in Control or on the Date of Termination, whichever is greater, plus the Executive's Average Annual Bonus. In addition to the Post-Change in Control Severance Payment, the Executive shall be entitled to the following additional benefits specified in subsections (a) through (e). Except as provided in Sections 6(f) and 6(g), the Post-Change in Control Severance Payment and the payments under Section 6(a) shall be paid on such date as is determined by the Company within thirty (30) days after the date of the Involuntary Termination; *provided, however*, that, if the Executive is a Specified

Employee on the date of the Executive's Involuntary Termination, the Post-Change in Control Severance Payment, the Additional Post-Change in Control Severance Payment under Section 6(a)(E), and the financial planning services and the related payments provided under Section 6(e) shall be paid as provided in Section 10 hereof.

(a) Accrued Obligations. The Company shall pay the Executive a lump sum amount in cash equal to the sum of (A) the Executive's Annual Base Salary through the Date of Termination to the extent not theretofore paid, (B) an amount equal to any annual Incentive Compensation Awards earned with respect to fiscal years ended prior to the year that includes the Date of Termination to the extent not theretofore paid, (C) any accrued and unpaid vacation, if any, (D) reimbursement for unreimbursed business expenses, if any, properly incurred by the Executive in the performance of his duties in accordance with policies established from time to time by the Board, and (E) an amount (the "Additional Post-Change in Control Severance Payment") equal to: (i) the greater of: (X) 50% of the Executive's Annual Base Salary as in effect immediately prior to the Change in Control or on the Date of Termination, whichever is greater, or (Y) the Executive's Average Annual Bonus, multiplied by (ii) a fraction, the numerator of which shall be the number of days from the beginning of such fiscal year to and including the Date of Termination and the denominator of which shall be 365, in the case of each amount described in clause (A), (B), (C) or (D) to the extent not theretofore paid. (The amounts specified in clauses (A), (B), (C), (D) and (E) shall be hereinafter referred to as the "Post-Change in Control Accrued Obligations").

(b) Equity-Based Compensation. Notwithstanding the provisions of any applicable equity-compensation plan or award agreement to the contrary, all equity-based Incentive Compensation Awards (including, without limitation, stock options, stock appreciation rights, restricted stock awards, restricted stock units, performance share awards, awards covered under Section 162(m) of the Code, and dividend equivalents) held by the Executive shall immediately vest and become exercisable or payable, as the case may be, as of the Date of Termination, to be exercised or paid, as the case may be, in accordance with the terms of the applicable Incentive Compensation Plan and Incentive Compensation Award agreement, and any restrictions on any such Incentive Compensation Awards shall automatically lapse; *provided, however*, that any such stock option or stock appreciation rights awards granted on or after June 26, 1998 shall remain outstanding and exercisable until the earlier of (A) the later of eighteen (18) months following the Date of Termination or the period specified in the applicable Incentive Compensation Award agreements or (B) the expiration of the original term of such Incentive Compensation Award (or, if earlier, the tenth anniversary of the original date of grant) (it being understood that all Incentive Compensation Awards granted prior to or after June 26, 1998 shall remain outstanding and exercisable for a period that is no less than that provided for in the applicable agreement in effect as of the date of grant).

(c) Welfare Benefits. Subject to Section 12 below, for a period of twelve (12) months following the date of Involuntary Termination (and an additional twelve (12) months if the Executive provides consulting services under Section 14(e) hereof), the Executive and his dependents shall be provided with life, disability, accident and health insurance benefits substantially similar to those provided to the Executive and his dependents immediately prior to the date of Involuntary Termination or the Change in Control Date, whichever is more favorable to the Executive; *provided, however*, that such benefits shall be provided on substantially the same terms and conditions and at the same cost to the Executive as in effect immediately prior to the date of Involuntary Termination or the Change in Control Date, whichever is more favorable to the Executive. Such benefits shall be provided through insurance maintained by the Company under the Company benefit plans. Such benefits shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(a)(5).

(d) Outplacement Services. The Executive shall receive reasonable outplacement services, on an in-kind basis, suitable to his position and directly related to the Executive's Involuntary Termination, for a period of twenty-four (24) months following the date of Involuntary Termination (but in no event beyond the last day of the Executive's second taxable year following the Executive's taxable year in which the Involuntary Termination occurs), in the aggregate amount of cost to the Company not to exceed \$50,000. Notwithstanding the foregoing, the Executive shall cease to receive outplacement services on the date the Executive accepts employment with a subsequent employer. Such outplacement services shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(b)(9)(v)(A).

(e) Financial Planning Services. The Executive shall receive financial planning services, on an in-kind basis, for a period of twenty-four (24) months following the date of Involuntary Termination. Such financial planning services shall include expert financial and legal resources to assist the Executive with financial planning needs and shall be limited to (i) current investment portfolio management, (ii) tax planning, (iii) tax return preparation, and (iv) estate planning advice and document preparation (including wills and trusts); *provided, however*, that the Company shall provide such financial services during any taxable year of the Executive only to the extent the cost to the Company for such taxable year does not exceed \$25,000. The Company shall provide such financial planning services through a financial planner selected by the Company, and shall pay the fees for such financial planning services. The financial planning services provided during any taxable year of the Executive shall not affect the financial planning services provided in any other taxable year of the Executive. The Executive's right to financial planning services shall not be subject to liquidation or exchange for any other benefit. Such financial planning services shall be provided in a manner that complies with Section 1.409A-3(i)(1)(iv).

(f) Involuntary Termination in Connection with a Change in Control. Notwithstanding anything contained herein, in the event of an Involuntary Termination prior to a Change in Control, if the Involuntary Termination (1) was at the request of a third party who has taken steps reasonably calculated to effect such Change in Control or (2) otherwise arose in connection with or in anticipation of such Change in Control, then the Executive shall, in lieu of the payments described in Section 5 hereof, be entitled to the Post-Change in Control Severance Payment and the additional benefits described in this Section 6 as if such Involuntary Termination had occurred within two (2) years following the Change in Control. The amounts specified in Section 6 that are to be paid under this Section 6(f) shall be reduced by any amount previously paid under Section 5. The amounts to be paid under this Section 6(f) shall be paid within thirty (30) days after the Change in Control Date of such Change in Control.

(g) Deferral of Payments. The Executive shall have the right to elect to defer the Post-Change in Control Severance Payment to be received by the Executive pursuant to this Section 6 under the terms and conditions of the Deferred Compensation Plan. Any such deferral election shall be made in accordance with Section 18(b) hereof.

Section 7. Severance Benefits upon Termination by the Company for Cause or by the Executive Other than for Good Reason. If the Executive's employment shall be terminated for Cause, or if the Executive terminates employment other than for Good Reason, the Company shall have no further obligations to the Executive under this Agreement other than the Pre-Change in Control Accrued Obligations and any amounts or benefits described in Section 11 hereof.

Section 8. Severance Benefits upon Termination due to Death or Disability. If the Executive has a Separation from Service by reason of death or Disability, the Company shall pay the Executive or his estate, as the case may be, the Post-Change in Control Accrued Obligations (without regard to whether a Change in Control has occurred) and any amounts or benefits described in Section 11 hereof. Such payments shall be in addition to those rights and benefits to which the Executive or his estate may be entitled under the relevant Company plans or programs. Such payments shall be paid on such date as determined by the Company within thirty (30) days after the date of the Separation from Service; *provided, however*, that if the Executive is a Specified Employee on the date of the Executive's Separation from Service by reason of Disability, the Additional Post-Change in Control Severance Payment under Section 6(a)(E) shall be paid as provided in Section 10 hereof.

Section 9. Limitation on Payments by the Company.

(a) Anything in this Agreement to the contrary notwithstanding and except as set forth in this Section below, in the event it shall be determined that any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of the Executive, whether paid or payable pursuant to this Agreement or otherwise (the "Payment") would be subject (in whole or in part) to the excise tax imposed by Section 4999 of the Code, (the "Excise Tax"), then, subject to subsection (b), the Pre-Change in Control Severance Benefit or the Post-Change in Control Severance Payment (whichever is applicable) payable under this Agreement shall be reduced under this subsection (a) to the amount equal to the Reduced Payment. For such Payment payable under this Agreement, the "Reduced Payment" shall be the amount equal to the greatest portion of the Payment (which may be zero) that, if paid, would result in no portion of any Payment being subject to the Excise Tax.

(b) The Pre-Change in Control Severance Benefit or the Post-Change in Control Severance Payment (whichever is applicable) payable under this Agreement shall not be reduced under subsection (a) if:

(i) such reduction in such Payment is not sufficient to cause no portion of any Payment to be subject to the Excise Tax, or

(ii) the Net After-Tax Unreduced Payments (as defined below) would equal or exceed one hundred and five percent (105%) of the Net After-Tax Reduced Payments (as defined below).

For purposes of determining the amount of any Reduced Payment under subsection (a), and the Net-After Tax Reduced Payments and the Net After-Tax Unreduced Payments, the Executive shall be considered to pay federal, state and local income and employment taxes at the Executive's applicable marginal rates taking into consideration any reduction in federal income taxes which could be obtained from the deduction of state and local income taxes, and any reduction or disallowance of itemized deductions and personal exemptions under applicable tax law). The applicable federal, state and local income and employment taxes and the Excise Tax (to the extent applicable) are collectively referred to as the "Taxes".

(c) The following definitions shall apply for purposes of this Section 9:

(i) "Net After-Tax Reduced Payments" shall mean the total amount of all Payments that the Executive would retain, on a Net After-Tax Basis, in the event that the Payments payable under this Agreement are reduced pursuant to subsection (a).

(ii) "Net After-Tax Unreduced Payments" shall mean the total amount of all Payments that the Executive would retain, on a Net After-Tax Basis, in the event that the Payments payable under this Agreement are not reduced pursuant to subsection (a).

(iii) "Net After-Tax Basis" shall mean, with respect to the Payments, either with or without reduction under subsection (a) (as applicable), the amount that would be retained by the Executive from such Payments after the payment of all Taxes.

(d) All determinations required to be made under this Section 9 and the assumptions to be utilized in arriving at such determinations, shall be made by a nationally recognized accounting firm as may be agreed by the Company and the Executive (the "Accounting Firm"); *provided*, that the Accounting Firm's determination shall be made based upon "substantial authority" within the meaning of Section 6662 of the Code. The Accounting Firm shall provide detailed supporting calculations to both the Company and the Executive within fifteen (15) business days of the receipt of notice from the Executive that there has been a Payment or such earlier time as is requested by the Company. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. For purposes of determining whether and the extent to which the Payments will be subject to the Excise Tax, (i) no portion of the Payments the receipt or enjoyment of which the Executive shall have waived at such time and in such manner as not to constitute a "payment" within the meaning of Section 280G(b) of the Code shall be taken into account, (ii) no portion of the Payments shall be

taken into account which, in the written opinion of the Accounting Firm, does not constitute a “parachute payment” within the meaning of Section 280G(b)(2) of the Code (including by reason of Section 280G(b)(4)(A) of the Code) and, in calculating the Excise Tax, no portion of such Payments shall be taken into account which, in the opinion of the Accounting Firm, constitutes reasonable compensation for services actually rendered, within the meaning of Section 280G(b)(4)(B) of the Code, in excess of the base amount (as defined in Section 280G(b)(3) of the Code) allocable to such reasonable compensation, and (iii) the value of any non-cash benefit or any deferred payment or benefit included in the Payments shall be determined by the Accounting Firm in accordance with the principles of Sections 280G(d)(3) and (4) of the Code.

Section 10. Delayed Distribution under Section 409A of the Code. If the Executive is a Specified Employee on the date of the Executive’s Involuntary Termination (or on the date of the Executive’s Separation from Service by reason of Disability), the Section 409A Payments, and any other payments or benefits under this Agreement subject to Section 409A of the Code, shall be delayed in order to avoid a prohibited distribution under Section 409A(a)(2)(B)(i) of the Code, and such payments or benefits shall be paid or distributed to the Executive during the thirty (30) day period commencing on the earlier of (a) the expiration of the six-month period measured from the date of the Executive’s Separation from Service or (b) the date of the Executive’s death. Upon the expiration of the applicable six-month period under Section 409A(a)(2)(B)(i) of the Code, all payments deferred pursuant to this Section 10 (excluding in-kind benefits) shall be paid in a lump sum payment to the Executive, plus interest thereon from the date of the Executive’s Involuntary Termination through the payment date at an annual rate equal to Moody’s Rate. The “Moody’s Rate” shall mean the average of the daily Moody’s Corporate Bond Yield Average – Monthly Average Corporates as published by Moody’s Investors Service, Inc. (or any successor) for the month next preceding the Date of Termination. Any remaining payments due under the Agreement shall be paid as otherwise provided herein.

Section 11. Nonexclusivity of Rights. Nothing in this Agreement shall prevent or limit the Executive’s continuing or future participation in any benefit, plan, program, policy or practice provided by the Company and for which the Executive may qualify (except with respect to any benefit to which the Executive has waived his rights in writing), including, without limitation, any and all indemnification arrangements in favor of the Executive (whether under agreements or under the Company’s charter documents or otherwise), and insurance policies covering the Executive, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any other contract or agreement entered into after the Effective Date with the Company. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any benefit, plan, policy, practice or program of, or any contract or agreement entered into with, the Company shall be payable in accordance with such benefit, plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement. At all times during the Executive’s employment with the Company and thereafter, the Company shall provide (to the extent permissible under applicable law) the Executive with indemnification and D&O insurance insuring the Executive against insurable events which occur or have occurred while the Executive was a director or the Executive officer of the Company, on terms and conditions that are at least as generous as that then provided to any other current or former director or the Executive officer of the Company or any Affiliate. Such indemnification and D&O insurance shall be provided in a manner that complies with Treasury Regulation Section 1.409A-1(b)(10).

Section 12. Full Settlement; Mitigation. The Company’s obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others, provided that nothing herein shall preclude the Company from separately pursuing recovery from the Executive based on any such claim. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts (including amounts for damages for breach) payable to the Executive under any of the provisions of this Agreement, and such amounts shall not be reduced whether or not the Executive obtains other employment.

Section 13. Dispute Resolution.

Any disagreement, dispute, controversy or claim arising out of or relating to this Agreement or the interpretation of this Agreement or any arrangements relating to this Agreement or contemplated in this Agreement or the breach, termination or invalidity thereof shall be settled by final and binding arbitration administered by JAMS in San Diego, California in accordance with the then existing JAMS arbitration rules applicable to employment disputes (the “JAMS Rules”); *provided that*, notwithstanding any provision in such rules to the contrary, in all cases the parties shall be entitled to reasonable discovery. In the event of such an arbitration proceeding, the Executive and the Company shall select a mutually acceptable neutral arbitrator from among the JAMS panel of arbitrators. In the event the Executive and the Company cannot agree on an arbitrator, the arbitrator shall be selected in accordance with the then existing JAMS Rules. Neither the Executive nor the Company nor the arbitrator shall disclose the existence, content or results of any arbitration hereunder without the prior written consent of all parties, except to the extent necessary to enforce any arbitration award in a court of competent jurisdiction. Except as provided herein, the Federal Arbitration Act shall govern the interpretation of, enforcement of and all proceedings under this agreement to arbitrate. The arbitrator shall apply the substantive law (and the law of remedies, if applicable) of the state of California, or federal law, or both, as applicable, and the arbitrator is without jurisdiction to apply any different substantive law. The arbitrator shall have the authority to entertain a motion to dismiss and/or a motion for summary judgment by any party and shall apply the standards governing such motions under the Federal Rules of Civil Procedure. The arbitrator shall render an award and a written, reasoned opinion in support thereof. Judgment upon the award may be entered in any court having jurisdiction thereof. The Executive shall not be required to pay any arbitration fee or cost that is unique to arbitration or greater than any amount he would be required to pay to pursue his claims in a court of competent jurisdiction.

Section 14. Executive’s Covenants.

(a)

Confidentiality. The Executive acknowledges that in the course of his employment with the Company, he has acquired non-public privileged or confidential information and trade secrets concerning the operations, future plans and methods of doing business (“**Proprietary Information**”) of the Company and its Affiliates; and the Executive agrees that it would be extremely damaging to the Company and its Affiliates if such Proprietary Information were disclosed to a competitor of the Company and its Affiliates or to any other person or corporation. The Executive understands and agrees that all Proprietary Information has been divulged to the Executive in confidence and further understands and agrees to keep all Proprietary Information secret and confidential (except for such information which is or becomes publicly available other than as a result of a breach by the Executive of this provision or information the Executive is required by any governmental, administrative or court order to disclose) without limitation in time. In view of the nature of the Executive’s employment and the Proprietary Information the Executive has acquired during the course of such employment, the Executive likewise agrees that the Company and its Affiliates would be irreparably harmed by any disclosure of Proprietary Information in violation of the terms of this paragraph and that the Company and its Affiliates shall therefore be entitled to preliminary and/or permanent injunctive relief prohibiting the Executive from engaging in any activity or threatened activity in violation of the terms of this paragraph and to any other relief available to them. Inquiries regarding whether specific information constitutes Proprietary Information shall be directed to the Company’s Senior Vice President, Public Policy (or, if such position is vacant, the Company’s then Chief Executive Officer); *provided*, that the Company shall not unreasonably classify information as Proprietary Information.

(b) **Non-Solicitation of Employees.** The Executive recognizes that he possesses and will possess confidential information about other employees of the Company and its Affiliates relating to their education, experience, skills, abilities, compensation and benefits, and inter-personal relationships with customers of the Company and its Affiliates. The Executive recognizes that the information he possesses and will possess about these other employees is not generally known, is of substantial value to the Company and its Affiliates in developing their business and in securing and retaining customers, and has been and will be acquired by him because of his business position with the Company and its Affiliates. The Executive agrees that at all times during the Executive’s employment with the Company and for a period of one (1) year thereafter, he will not, directly or indirectly, solicit or recruit any employee of the Company or its Affiliates for the purpose of being employed by him or by any competitor of the Company or its Affiliates on whose behalf he is acting as an agent, representative or employee and that he will not convey any such confidential information or trade secrets about other employees of the Company and its Affiliates to any other person; *provided, however*, that it shall not constitute a solicitation or recruitment of employment in violation of this paragraph to discuss employment opportunities with any employee of the Company or its Affiliates who has either first contacted the Executive or regarding whose employment the Executive has discussed with and received the written approval of the Company’s Vice President, Human Resources (or, if such position is vacant, the Company’s then Chief Executive Officer), prior to making such solicitation or recruitment. In view of the nature of the Executive’s employment with the Company, the Executive likewise agrees that the Company and its Affiliates would be irreparably harmed by any solicitation or recruitment in violation of the terms of this paragraph and that the Company and its Affiliates shall therefore be entitled to preliminary and/or permanent injunctive relief prohibiting the Executive from engaging in any activity or threatened activity in violation of the terms of this paragraph and to any other relief available to them.

(c) **Survival of Provisions.** The obligations contained in Section 14(a) and Section 14(b) above shall survive the termination of the Executive’s employment within the Company and shall be fully enforceable thereafter. If it is determined by a court of competent jurisdiction in any state that any restriction in Section 14(a) or Section 14(b) above is excessive in duration or scope or is unreasonable or unenforceable under the laws of that state, it is the intention of the parties that such restriction may be modified or amended by the court to render it enforceable to the maximum extent permitted by the law of that state.

(d) **Release; Lump Sum Payment.** In the event of the Executive’s Involuntary Termination, if the Executive (i) agrees to the covenants described in Section 14(a) and Section 14(b) above, (ii) executes a release (the “**Release**”) of all claims substantially in the form attached hereto as **Exhibit A** within fifty (50) days after the date of Involuntary Termination and does not revoke such Release in accordance with the terms thereof, and (iii) agrees to provide the consulting services described in Section 14(e) below, then in consideration for such covenants, the Company shall pay the Executive, in one cash lump sum, an amount (the “**Consulting Payment**”) in cash equal to the greater of: (X) 150% of the Executive’s Annual Base Salary as in effect on the Date of Termination, and (Y) the Executive’s Annual Base Salary as in effect on the Date of Termination, plus the Executive’s Average Annual Bonus. Except as provided in this subsection, the Consulting Payment shall be paid on such date as is determined by the Company within the ten (10) day period commencing on the 60th day after the date of the Executive’s Involuntary Termination; *provided, however*, that if the Executive is a Specified Employee on the date of the Executive’s Involuntary Termination, the Consulting Payment shall be paid as provided in Section 10 hereof. The Executive shall have the right to elect to defer the Consulting Payment under the terms and conditions of the Company’s Deferred Compensation Plan. Any such deferral election shall be made in accordance with Section 18(b) hereof.

(e) **Consulting.** If the Executive agrees to the covenants described in Section 14(d) above, then the Executive shall have the obligation to provide consulting services to the Company as an independent contractor, commencing on the Date of Termination and ending on the second anniversary of the Date of Termination (the “**Consulting Period**”). The Executive shall hold himself available at reasonable times and on reasonable notice to render such consulting services as may be so assigned to him by the Board or the Company’s then Chief Executive Officer; *provided, however*, that unless the parties otherwise agree, the consulting services rendered by the Executive during the Consulting Period shall not exceed twenty (20) hours each month; and, *provided, further*, that the consulting services rendered by the Executive during the Consulting Period shall in no event exceed twenty percent (20%) of the average level of services performed by the Executive for the Company over the thirty-six (36) month period immediately preceding the Executive’s Separation from Service (or the full period of services to the Company, if the Executive has been providing services to the Company for less than thirty-six (36) months). The Company agrees to use its best efforts during the Consulting Period to secure the benefit of the Executive’s consulting services so as to minimize the interference

with the Executive's other activities, including requiring the performance of consulting services at the Company's offices only when such services may not be reasonably performed off-site by the Executive.

Section 15. Legal Fees.

(a) Reimbursement of Legal Fees. Subject to subsection (b), in the event of the Executive's Separation from Service either (1) prior to a Change in Control, or (2) on or within two (2) years following a Change in Control, the Company shall reimburse the Executive for all legal fees and expenses (including but not limited to fees and expenses in connection with any arbitration) incurred by the Executive in disputing any issue arising under this Agreement relating to the Executive's Separation from Service or in seeking to obtain or enforce any benefit or right provided by this Agreement.

(b) Requirements for Reimbursement. The Company shall reimburse the Executive's legal fees and expenses pursuant to subsection (a) above only to the extent the arbitrator or court determines the following: (i) the Executive disputed such issue, or sought to obtain or enforce such benefit or right, in good faith, (ii) the Executive had a reasonable basis for such claim, and (iii) in the case of subsection (a)(1) above, the Executive is the prevailing party. In addition, the Company shall reimburse such legal fees and expenses, only if such legal fees and expenses are incurred during the twenty (20) year period beginning on the date of the Executive's Separation from Service. The legal fees and expenses paid to the Executive for any taxable year of the Executive shall not affect the legal fees and expenses paid to the Executive for any other taxable year of the Executive. The legal fees and expenses shall be paid to the Executive on or before the last day of the Executive's taxable year following the taxable year in which the fees or expenses are incurred. The Executive's right to reimbursement of legal fees and expenses shall not be subject to liquidation or exchange for any other benefit. Such right to reimbursement of legal fees and expenses shall be provided in a manner that complies with Treasury Regulation Section 1.409A-3(i)(1)(iv). If the Executive is a Specified Employee on the date of the Executive's Separation from Service, such right to reimbursement of legal fees and expenses shall be paid as provided in Section 10 hereof.

Section 16. Successors.

(a) Assignment by the Executive. This Agreement is personal to the Executive and without the prior written consent of Sempra Energy shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) Successors and Assigns of Sempra Energy. This Agreement shall inure to the benefit of and be binding upon Sempra Energy, its successors and assigns. Sempra Energy may not assign this Agreement to any person or entity (except for a successor described in Section 16(c), (d) or (e) below) without the Executive's written consent.

(c) Assumption. Sempra Energy shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of Sempra Energy to assume expressly and agree to perform the obligations and satisfy and discharge the liabilities of this Agreement in the same manner and to the same extent that Sempra Energy would have been required to perform the obligations and satisfy and discharge the liabilities under this Agreement if no such succession had taken place, and Sempra Energy shall have no further obligations and liabilities under this Agreement. Upon such assumption, references to Sempra Energy in this Agreement shall be replaced with references to such successor.

(d) Sale of Subsidiary. In the event that (i) the Executive is employed by a direct or indirect subsidiary of Sempra Energy that is a member of the Sempra Energy Control Group, (ii) Sempra Energy, directly or indirectly through one or more intermediaries, sells or otherwise disposes of such subsidiary, and (iii) such subsidiary ceases to be a member of the Sempra Energy Control Group, then if, on the date such subsidiary ceases to be a member of the Sempra Energy Control Group, the Executive continues in employment with such subsidiary and the Executive does not have a Separation from Service, Sempra Energy shall require such subsidiary or any successor (whether direct or indirect, by purchase merger, consolidation or otherwise) to such subsidiary, or the parent thereof, to assume expressly and agree to perform the obligations and satisfy and discharge the liabilities under this Agreement in the same manner and to the same extent that Sempra Energy would have been required to perform the obligations and satisfy and discharge the liabilities under this Agreement, if such subsidiary had not ceased to be part of the Sempra Energy Control Group, and, upon such assumption, Sempra Energy shall have no further obligations and liabilities under the Agreement. Upon such assumption, (i) references to Sempra Energy in this Agreement shall be replaced with references to such subsidiary, or such successor or parent thereof, assuming this Agreement, and (ii) subsection (b) of the definition of "Cause" and subsection (b) of the definition of "Good Reason" shall apply thereafter, as if a Change in Control had occurred on the date of such cessation.

(e) Sale of Assets of Subsidiary. In the event that (i) the Executive is employed by a direct or indirect subsidiary of Sempra Energy, and (ii) such subsidiary sells or otherwise disposes of substantial assets of such subsidiary to an unrelated service recipient, as determined under Treasury Regulation Section 1.409A-1(f)(2)(ii) (the "Asset Purchaser"), in a transaction described in Treasury Regulation Section 1.409A-1(h)(4) (an "Asset Sale"), then if, on the date of such Asset Sale, the Executive becomes employed by the Asset Purchaser, Sempra Energy and the Asset Purchaser shall specify, in accordance with Treasury Regulation Section 1.409A-1(h)(4), that the Executive shall not be treated as having a Separation from Service, and Sempra Energy shall require such Asset Purchaser, or the parent thereof, to assume expressly and agree to perform the obligations and satisfy and discharge the liabilities under this Agreement in the same manner and to the same extent that Sempra Energy would have been required to perform the obligations and satisfy and discharge the liabilities under this Agreement, if the Asset Sale had not taken place, and, upon such assumption, Sempra Energy shall have no further obligations and liabilities under the Agreement. Upon such assumption, (i) references to Sempra Energy in this Agreement shall be replaced with references to the Asset Purchaser or the

parent thereof, as applicable, and (ii) subsection (b) of the definition of "Cause" and subsection (b) of the definition of "Good Reason" shall apply thereafter, as if a Change in Control had occurred on the date of the Asset Sale.

Section 17. Administration Prior to Change in Control. Prior to a Change in Control, the Compensation Committee shall have full and complete authority to construe and interpret the provisions of this Agreement, to determine an individual's entitlement to benefits under this Agreement, to make in its sole and absolute discretion all determinations contemplated under this Agreement, to investigate and make factual determinations necessary or advisable to administer or implement this Agreement, and to adopt such rules and procedures as it deems necessary or advisable for the administration or implementation of this Agreement. All determinations made under this Agreement by the Compensation Committee shall be final and binding on all interested persons. Prior to a Change in Control, the Compensation Committee may delegate responsibilities for the operation and administration of this Agreement to one or more officers or employees of the Company. The provisions of this Section 17 shall terminate and be of no further force and effect upon the occurrence of a Change in Control.

Section 18. Section 409A of the Code.

(a) **Compliance with and Exemption from Section 409A of the Code.** Certain payments and benefits payable under this Agreement (including, without limitation, the Section 409A Payments) are intended to comply with the requirements of Section 409A of the Code. Certain payments and benefits payable under this Agreement are intended to be exempt from the requirements of Section 409A of the Code. This Agreement shall be interpreted in accordance with the applicable requirements of, and exemptions from, Section 409A of the Code and the Treasury Regulations thereunder. To the extent the payments and benefits under this Agreement are subject to Section 409A of the Code, this Agreement shall be interpreted, construed and administered in a manner that satisfies the requirements of Sections 409A(a)(2), (3) and (4) of the Code and the Treasury Regulations thereunder (subject to the transitional relief under Internal Revenue Service Notice 2005-1, the Proposed Regulations under Section 409A of the Code, Internal Revenue Service Notice 2006-79, Internal Revenue Service Notice 2007-78, Internal Revenue Service Notice 2007-86 and other applicable authority issued by the Internal Revenue Service). As provided in Internal Revenue Notice 2007-86, notwithstanding any other provision of this Agreement, with respect to an election or amendment to change a time or form of payment under this Agreement made on or after January 1, 2008 and on or before December 31, 2008, the election or amendment shall apply only with respect to payments that would not otherwise be payable in 2008, and shall not cause payments to be made in 2008 that would not otherwise be payable in 2008. If the Company and the Executive determine that any compensation, benefits or other payments that are payable under this Agreement and intended to comply with Sections 409A(a)(2), (3) and (4) of the Code do not comply with Section 409A of the Code, the Treasury Regulations thereunder and other applicable authority issued by the Internal Revenue Service, to the extent permitted under Section 409A of the Code, the Treasury Regulations thereunder and any applicable authority issued by the Internal Revenue Service, the Company and the Executive agree to amend this Agreement, or take such other actions as the Company and the Executive deem reasonably necessary or appropriate, to cause such compensation, benefits and other payments to comply with the requirements of Section 409A of the Code, the Treasury Regulations thereunder and other applicable authority issued by the Internal Revenue Service, while providing compensation, benefits and other payments that are, in the aggregate, no less favorable than the compensation, benefits and other payments provided under this Agreement. In the case of any compensation, benefits or other payments that are payable under this Agreement and intended to comply with Sections 409A(a)(2), (3) and (4) of the Code, if any provision of the Agreement would cause such compensation, benefits or other payments to fail to so comply, such provision shall not be effective and shall be null and void with respect to such compensation, benefits or other payments to the extent such provision would cause a failure to comply, and such provision shall otherwise remain in full force and effect.

(b) **Deferral Elections.** As provided in Sections 5(f), 6(g) and 14(d), the Executive may elect to defer the Pre-Change in Control Severance Payment, the Post-Change in Control Severance Payment and the Consulting Payment as follows.

The Executive's deferral election shall satisfy the requirements of Treasury Regulation Section 1.409A-2(b) and the terms and conditions of the Deferred Compensation Plan. Such deferral election shall designate the whole percentage (up to a maximum of 100%) of the Pre-Change in Control Severance Payment, the Post-Change in Control Severance Payment and the Consulting Payment to be deferred, shall be irrevocable when made, and shall not take effect until at least twelve (12) months after the date on which the election is made. Such deferral election shall provide that the amount deferred shall be deferred for a period of not less than five (5) years from the date the payment of the amount deferred would otherwise have been made, in accordance with Treasury Regulation Section 1.409A-2(b)(1)(ii).

Section 19. Miscellaneous.

(a) **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of California, without reference to its principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended, modified, repealed, waived, extended or discharged except by an agreement in writing signed by the party against whom enforcement of such amendment, modification, repeal, waiver, extension or discharge is sought. No person, other than pursuant to a resolution of the Board or a committee thereof, shall have authority on behalf of the Company to agree to amend, modify, repeal, waive, extend or discharge any provision of this Agreement or anything in reference thereto.

(b) **Notices.** All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed, in either case, to the Company's headquarters or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notices and communications shall be effective when actually received by the addressee.

(c)

Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) Taxes. The Company may withhold from any amounts payable under this Agreement such federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) No Waiver. The Executive's or the Company's failure to insist upon strict compliance with any provision hereof or any other provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason pursuant to Section 1 hereof, or the right of the Company to terminate the Executive's employment for Cause pursuant to Section 1 hereof shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(f) Entire Agreement; Exclusive Benefit; Supersession of Prior Agreement. This instrument contains the entire agreement of the Executive, the Company or any predecessor or subsidiary thereof with respect to any severance or termination pay. The Pre-Change in Control Severance Payment, the Post-Change in Control Severance Payment and all other benefits provided hereunder shall be in lieu of any other severance payments to which the Executive is entitled under any other severance plan or program or arrangement sponsored by the Company, as well as pursuant to any individual employment or severance agreement that was entered into by the Executive and the Company, and, upon the Effective Date of this Agreement, all such plans, programs, arrangements and agreements are hereby automatically superseded and terminated.

(g) No Right of Employment. Nothing in this Agreement shall be construed as giving the Executive any right to be retained in the employ of the Company or shall interfere in any way with the right of the Company to terminate the Executive's employment at any time, with or without Cause.

(h) Unfunded Obligation. The obligations under this Agreement shall be unfunded. Benefits payable under this Agreement shall be paid from the general assets of the Company. The Company shall have no obligation to establish any fund or to set aside any assets to provide benefits under this Agreement.

(i) Termination upon Sale of Assets of Subsidiary. Notwithstanding anything contained herein, this Agreement shall automatically terminate and be of no further force and effect and no benefits shall be payable hereunder in the event that (i) the Executive is employed by a direct or indirect subsidiary of Sempra Energy, and (ii) an Asset Sale (as defined in Section 16(e)) occurs (other than such a sale or disposition which is part of a transaction or series of transactions which would result in a Change in Control), and (iii) as a result of such Asset Sale, the Executive is offered employment by the Asset Purchaser in an executive position with reasonably comparable status, compensation, benefits and severance agreement (including the assumption of this Agreement in accordance with Section 16(e)) and which is consistent with the Executive's experience and education, but the Executive declines to accept such offer and the Executive fails to become employed by the Asset Purchaser on the date of the Asset Sale.

(j) Term. The term of this Agreement shall commence on the Effective Date and shall continue until the third (3rd) anniversary of the Effective Date; *provided, however*, that commencing on the second (2nd) anniversary of the Effective Date (and each anniversary of the Effective Date thereafter), the term of this Agreement shall automatically be extended for one (1) additional year, unless at least ninety (90) days prior to such date, the Company or the Executive shall give written notice to the other party that it or he, as the case may be, does not wish to so extend this Agreement. Notwithstanding the foregoing, if the Company gives such written notice to the Executive less than two (2) years after a Change in Control, the term of this Agreement shall be automatically extended until the later of (A) the date that is one (1) year after the anniversary of the Effective Date that follows such written notice or (B) the second (2nd) anniversary of the Change in Control Date.

(k) Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Executive and, pursuant to due authorization from its Board of Directors, the Company have caused this Agreement to be executed as of the day and year first above written.

SEMPRA ENERGY

G. Joyce Rowland
Senior Vice President, HR, Diversity & Inclusion

Date

EXECUTIVE

J. Bret Lane
Senior Vice President, Gas Operations & System Integrity

Date

GENERAL RELEASE

This GENERAL RELEASE (the "Agreement"), dated _____, is made by and between _____, a California corporation (the "Company") and _____ ("you" or "your").

WHEREAS, you and the Company have previously entered into that certain Severance Pay Agreement dated _____, 20____ (the "Severance Pay Agreement"); and

WHEREAS, Section 14(d) of the Severance Pay Agreement provides for the payment of a benefit to you by the Company in consideration for certain covenants, including your execution and non-revocation of a general release of claims by you against the Company and its subsidiaries and affiliates.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, you and the Company hereby agree as follows:

ONE: Your signing of this Agreement confirms that your employment with the Company shall terminate at the close of business on _____, or earlier upon our mutual agreement.

TWO: As a material inducement for the payment of the benefit under Section 14(d) of the Severance Pay Agreement, and except as otherwise provided in this Agreement, you and the Company hereby irrevocably and unconditionally release, acquit and forever discharge the other from any and all Claims either may have against the other. For purposes of this Agreement and the preceding sentence, the words "Releasee" or "Releasees" and "Claim" or "Claims" shall have the meanings set forth below:

(a) The words "Releasee" or "Releasees" shall refer to you and to the Company and each of the Company's owners, stockholders, predecessors, successors, assigns, agents, directors, officers, employees, representatives, attorneys, advisors, parent companies, divisions, subsidiaries, affiliates (and agents, directors, officers, employees, representatives, attorneys and advisors of such parent companies, divisions, subsidiaries and affiliates) and all persons acting by, through, under or in concert with any of them.

(b) The words "Claim" or "Claims" shall refer to any charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses (including attorneys' fees and costs actually incurred) of any nature whatsoever, known or unknown, suspected or unsuspected, which you or the Company now, in the past or, except as limited by law or regulation such as the Age Discrimination in Employment Act (ADEA), in the future may have, own or hold against any of the Releasees; *provided, however*, that the word "Claim" or "Claims" shall not refer to any charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses (including attorneys' fees and costs actually incurred) arising under [*identify severance, employee benefits, stock option, indemnification and D&O and other agreements containing duties, rights obligations etc. of either party that are to remain operative*]. Claims released pursuant to this Agreement by you and the Company include, but are not limited to, rights arising out of alleged violations of any contracts, express or implied, any tort, any claim that you failed to perform or negligently performed or breached your duties during employment at the Company, any legal restrictions on the Company's right to terminate employees or any federal, state or other governmental statute, regulation, or ordinance, including, without limitation: (1) Title VII of the Civil Rights Act of 1964 (race, color, religion, sex and national origin discrimination); (2) 42 U.S.C. § 1981 (discrimination); (3) 29 U.S.C. §§ 621–634 (age discrimination); (4) 29 U.S.C. § 206(d)(1) (equal pay); (5) 42 U.S.C. §§ 12101, et seq. (disability); (6) the California Constitution, Article I, Section 8 (discrimination); (7) the California Fair Employment and Housing Act (discrimination, including race, color, national origin, ancestry, physical handicap, medical condition, marital status, religion, sex or age); (8) California Labor Code Section 1102.1 (sexual orientation discrimination); (9) the Executive Order 11246 (race, color, religion, sex and national origin discrimination); (10) the Executive Order 11141 (age discrimination); (11) §§ 503 and 504 of the Rehabilitation Act of 1973 (handicap discrimination); (12) The Worker Adjustment and Retraining Act (WARN Act); (13) the California Labor Code (wages, hours, working conditions, benefits and other matters); (14) the Fair Labor Standards Act (wages, hours, working conditions and other matters); the Federal Employee Polygraph Protection Act (prohibits employer from requiring employee to take polygraph test as condition of employment); and (15) any federal, state or other governmental statute, regulation or ordinance which is similar to any of the statutes described in clauses (1) through (14).

THREE: You and the Company expressly waive and relinquish all rights and benefits afforded by any statute (including but not limited to Section 1542 of the Civil Code of the State of California) which limits the effect of a release with respect to unknown claims. You and the Company do so understanding and acknowledging the significance of the release of unknown claims and the waiver of statutory protection against a release of unknown claims (including but not limited to Section 1542). Section 1542 of the Civil Code of the State of California states as follows:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE

RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.”

Thus, notwithstanding the provisions of Section 1542 or of any similar statute, and for the purpose of implementing a full and complete release and discharge of the Releasees, you and the Company expressly acknowledge that this Agreement is intended to include in its effect, without limitation, all Claims which are known and all Claims which you or the Company do not know or suspect to exist in your or the Company’s favor at the time of execution of this Agreement and that this Agreement contemplates the extinguishment of all such Claims.

FOUR: The parties acknowledge that they might hereafter discover facts different from, or in addition to, those they now know or believe to be true with respect to a Claim or Claims released herein, and they expressly agree to assume the risk of possible discovery of additional or different facts, and agree that this Agreement shall be and remain effective, in all respects, regardless of such additional or different discovered facts.

FIVE: You hereby represent and acknowledge that you have not filed any Claim of any kind against the Company or others released in this Agreement. You further hereby expressly agree never to initiate against the Company or others released in this Agreement any administrative proceeding, lawsuit or any other legal or equitable proceeding of any kind asserting any Claims that are released in this Agreement.

The Company hereby represents and acknowledges that it has not filed any Claim of any kind against you or others released in this Agreement. The Company further hereby expressly agrees never to initiate against you or others released in this Agreement any administrative proceeding, lawsuit or any other legal or equitable proceeding of any kind asserting any Claims that are released in this Agreement.

SIX: You hereby represent and agree that you have not assigned or transferred, or attempted to have assigned or transfer, to any person or entity, any of the Claims that you are releasing in this Agreement.

The Company hereby represents and agrees that it has not assigned or transferred, or attempted to have assigned or transfer, to any person or entity, any of the Claims that it is releasing in this Agreement.

SEVEN: As a further material inducement to the Company to enter into this Agreement, you hereby agree to indemnify and hold each of the Releasees harmless from all loss, costs, damages, or expenses, including without limitation, attorneys’ fees incurred by the Releasees, arising out of any breach of this Agreement by you or the fact that any representation made in this Agreement by you was false when made.

As a further material inducement to you to enter into this Agreement, the Company hereby agrees to indemnify and hold each of the Releasees harmless from all loss, costs, damages, or expenses, including without limitation, attorneys’ fees incurred by the Releasees, arising out of any breach of this Agreement by it or the fact that any representation made in this Agreement by it was knowingly false when made.

EIGHT: You and the Company represent and acknowledge that in executing this Agreement, neither is relying upon any representation or statement not set forth in this Agreement or the Severance Agreement.

NINE:

(a) This Agreement shall not in any way be construed as an admission by the Company that it has acted wrongfully with respect to you or any other person, or that you have any rights whatsoever against the Company, and the Company specifically disclaims any liability to or wrongful acts against you or any other person, on the part of itself, its employees or its agents. This Agreement shall not in any way be construed as an admission by you that you have acted wrongfully with respect to the Company, or that you failed to perform your duties or negligently performed or breached your duties, or that the Company had good cause to terminate your employment.

(b) If you are a party or are threatened to be made a party to any proceeding by reason of the fact that you were an officer or director of the Company, the Company shall indemnify you against any expenses (including reasonable attorneys’ fees; *provided*, that counsel has been approved by the Company prior to retention, which approval shall not be unreasonably withheld), judgments, fines, settlements and other amounts actually or reasonably incurred by you in connection with that proceeding; *provided*, that you acted in good faith and in a manner you reasonably believed to be in the best interest of the Company. The limitations of California Corporations Code Section 317 shall apply to this assurance of indemnification.

(c) You agree to cooperate with the Company and its designated attorneys, representatives and agents in connection with any actual or threatened judicial, administrative or other legal or equitable proceeding in which the Company is or may become involved. Upon reasonable notice, you agree to meet with and provide to the Company or its designated attorneys, representatives or agents all information and knowledge you have relating to the subject matter of any such proceeding. The Company agrees to reimburse you for any reasonable costs you incur in providing such cooperation.

TEN: This Agreement is made and entered into in California. This Agreement shall in all respects be interpreted, enforced and governed by and under the laws of the State of California and applicable Federal law. Any dispute about the validity, interpretation, effect or alleged violation of this Agreement (an “arbitrable dispute”) must be submitted to arbitration in San Diego, California. Arbitration shall take place before an experienced employment arbitrator licensed to practice law in such state and

selected in accordance with the then existing JAMS arbitration rules applicable to employment disputes; *provided, however*, that in any event, the arbitrator shall allow reasonable discovery. Arbitration shall be the exclusive remedy for any arbitrable dispute. The arbitrator in any arbitrable dispute shall not have authority to modify or change the Agreement in any respect. You and the Company shall each be responsible for payment of one-half (1/2) the amount of the arbitrator's fee(s); *provided, however*, that in no event shall you be required to pay any fee or cost of arbitration that is unique to arbitration or exceeds the costs you would have incurred had any arbitrable dispute been pursued in a court of competent jurisdiction. The Company shall make up any shortfall. Should any party to this Agreement institute any legal action or administrative proceeding against the other with respect to any Claim waived by this Agreement or pursue any arbitrable dispute by any method other than arbitration, the prevailing party shall be entitled to recover from the non-prevailing party all damages, costs, expenses and attorneys' fees incurred as a result of that action. The arbitrator's decision and/or award shall be rendered in writing and will be fully enforceable and subject to an entry of judgment by the Superior Court of the State of California for the County of San Diego, or any other court of competent jurisdiction.

ELEVEN: Both you and the Company understand that this Agreement is final and binding eight (8) days after its execution and return. Should you nevertheless attempt to challenge the enforceability of this Agreement as provided in Paragraph TEN or, in violation of that Paragraph, through litigation, as a further limitation on any right to make such a challenge, you shall initially tender to the Company, by certified check delivered to the Company, all monies received pursuant to Section 14(d) of the Severance Pay Agreement, plus interest, and invite the Company to retain such monies and agree with you to cancel this Agreement and void the Company's obligations under Section 14(d) of the Severance Pay Agreement. In the event the Company accepts this offer, the Company shall retain such monies and this Agreement shall be canceled and the Company shall have no obligation under Section 14(d) of the Severance Pay Agreement. In the event the Company does not accept such offer, the Company shall so notify you and shall place such monies in an interest-bearing escrow account pending resolution of the dispute between you and the Company as to whether or not this Agreement and the Company's obligations under Section 14(d) of the Severance Pay Agreement shall be set aside and/or otherwise rendered voidable or unenforceable. Additionally, any consulting agreement then in effect between you and the Company shall be immediately rescinded with no requirement of notice.

TWELVE: Any notices required to be given under this Agreement shall be delivered either personally or by first class United States mail, postage prepaid, addressed to the respective parties as follows:

To Company: [TO COME]

Attn: [TO COME]

To You: _____

THIRTEEN: You understand and acknowledge that you have been given a period of forty-five (45) days to review and consider this Agreement (as well as statistical data on the persons eligible for similar benefits) before signing it and may use as much of this forty-five (45) day period as you wish prior to signing. You are encouraged, at your personal expense, to consult with an attorney before signing this Agreement. You understand and acknowledge that whether or not you do so is your decision. You may revoke this Agreement within seven (7) days of signing it. If you wish to revoke, the Company's Vice President, Human Resources must receive written notice from you no later than the close of business on the seventh (7th) day after you have signed the Agreement. If revoked, this Agreement shall not be effective and enforceable, and you will not receive payments or benefits under Section 14(d) of the Severance Pay Agreement.

FOURTEEN: This Agreement constitutes the entire agreement of the parties hereto and supersedes any and all other agreements (except the Severance Pay Agreement) with respect to the subject matter of this Agreement, whether written or oral, between you and the Company. All modifications and amendments to this Agreement must be in writing and signed by the parties.

FIFTEEN: Each party agrees, without further consideration, to sign or cause to be signed, and to deliver to the other party, any other documents and to take any other action as may be necessary to fulfill the obligations under this Agreement.

SIXTEEN: If any provision of this Agreement or the application thereof is held invalid, the invalidity shall not affect other provisions or applications of the Agreement which can be given effect without the invalid provisions or application; and to this end the provisions of this Agreement are declared to be severable.

SEVENTEEN: This Agreement may be executed in counterparts.

I have read the foregoing General Release, and I accept and agree to the provisions it contains and hereby execute it voluntarily and with full understanding of its consequences. I am aware it includes a release of all known or unknown claims.

DATED: _____

DATED: _____

You acknowledge that you first received this Agreement on [date].

AMENDMENT NO. 9
TO THE
SAN DIEGO GAS & ELECTRIC COMPANY
NUCLEAR FACILITIES QUALIFIED CPUC DECOMMISSIONING
MASTER TRUST AGREEMENT
FOR
SAN ONOFRE NUCLEAR GENERATING STATIONS

This Amendment No. 9 made this _____ day of _____, 2013, by and between San Diego Gas & Electric Company (“Company”) and The Bank of New York Mellon, a New York state bank, successor by operation of law to Mellon Bank, N.A (“Trustee”).

WHEREAS, pursuant to Section 2.12 of the Nuclear Facilities Qualified Decommissioning Master Trust for San Onofre Nuclear Generating Stations dated as of June 29, 1992, as amended (“Agreement”) between the Company and the Trustee, the parties specifically reserve the right to amend the Agreement;

NOW, THEREFORE, the Company and the Trustee agree as follows:

1. The Fee Schedule attached as Exhibit C to the Agreement is hereby replaced with the revised Fee Schedule attached hereto.
2. Each Party hereby represents and warrants to the others that it has full authority to enter into this Amendment No. 9 upon the terms and conditions hereof and that the individual executing this Amendment No. 9 on its behalf has the requisite authority to bind that Party.

IN WITNESS WHEREOF, the Company, the Trustee, and the California Public Utilities Commission have set their hands and seals in agreement to these amendments effective as provided above.

SAN DIEGO GAS & ELECTRIC COMPANY

By: _____

Date: _____

Attest: _____

THE BANK OF NEW YORK MELLON

By: _____

Date: _____

Attest: _____

CALIFORNIA PUBLIC UTILITIES COMMISSION

By: _____

Date: _____

Attest: _____

AMENDMENT NO. 7
TO THE
SAN DIEGO GAS & ELECTRIC COMPANY
NUCLEAR FACILITIES NON-QUALIFIED CPUC DECOMMISSIONING
MASTER TRUST AGREEMENT
FOR
SAN ONOFRE NUCLEAR GENERATING STATIONS

This Amendment No. 7 made this _____ day of _____, 2013, by and between San Diego Gas & Electric Company (“Company”) and The Bank of New York Mellon, a New York state bank, successor by operation of law to Mellon Bank, N.A (“Trustee”).

WHEREAS, pursuant to Section 2.10 of the Nuclear Facilities Non-Qualified Decommissioning Master Trust for San Onofre Nuclear Generating Stations dated as of June 29, 1992, as amended (“Agreement”) between the Company and the Trustee, the parties specifically reserve the right to amend the Agreement;

NOW, THEREFORE, the Company and the Trustee agree as follows:

1. The Fee Schedule attached as Exhibit C to the Agreement is hereby replaced with the revised Fee Schedule attached hereto.
2. Each Party hereby represents and warrants to the others that it has full authority to enter into this Amendment No. 7 upon the terms and conditions hereof and that the individual executing this Amendment No. 7 on its behalf has the requisite authority to bind that Party.

IN WITNESS WHEREOF, the Company, the Trustee, and the California Public Utilities Commission have set their hands and seals in agreement to these amendments effective as provided above.

SAN DIEGO GAS & ELECTRIC COMPANY

By: _____

Date: _____

Attest: _____

THE BANK OF NEW YORK MELLON

By: _____

Date: _____

Attest: _____

CALIFORNIA PUBLIC UTILITIES COMMISSION

By: _____

Date: _____

Attest: _____

EXHIBIT 12.1
SEMPRA ENERGY
COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES
AND PREFERRED STOCK DIVIDENDS
(Dollars in millions)

	2009	2010	2011	2012	2013
Fixed charges and preferred stock dividends:					
Interest	\$ 455	\$ 492	\$ 549	\$ 601	\$ 620
Interest portion of annual rentals	2	3	2	2	2
Preferred dividends of subsidiaries (1)	13	11	10	6	6
Total fixed charges	<u>470</u>	<u>506</u>	<u>561</u>	<u>609</u>	<u>628</u>
Preferred dividends for purpose of ratio	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fixed charges and preferred dividends for purpose of ratio	<u>\$ 470</u>	<u>\$ 506</u>	<u>\$ 561</u>	<u>\$ 609</u>	<u>\$ 628</u>
Earnings:					
Pretax income from continuing operations before adjustment for income or loss from equity investees	\$ 977	\$ 1,078	\$ 1,747	\$ 1,255	\$ 1,399
Add:					
Total fixed charges (from above)	470	506	561	609	628
Distributed income of equity investees	493	260	96	50	51
Less:					
Interest capitalized	73	74	27	53	23
Preferred dividends of subsidiaries (1)	13	11	10	6	6
Total earnings for purpose of ratio	<u>\$ 1,854</u>	<u>\$ 1,759</u>	<u>\$ 2,367</u>	<u>\$ 1,855</u>	<u>\$ 2,049</u>
Ratio of earnings to combined fixed charges and preferred stock dividends	<u>3.94</u>	<u>3.48</u>	<u>4.22</u>	<u>3.05</u>	<u>3.26</u>
Ratio of earnings to fixed charges	<u>3.94</u>	<u>3.48</u>	<u>4.22</u>	<u>3.05</u>	<u>3.26</u>

(1) In computing this ratio, "Preferred dividends of subsidiaries" represents the before-tax earnings necessary to pay such dividends, computed at the effective tax rates for the applicable periods.

EXHIBIT 12.2
SAN DIEGO GAS & ELECTRIC COMPANY
COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES
AND PREFERRED STOCK DIVIDENDS
(Dollars in millions)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Fixed Charges and Preferred Stock Dividends:					
Interest	\$ 118	\$ 153	\$ 193	\$ 220	\$ 231
Interest portion of annual rentals	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
Total fixed charges	119	154	194	221	232
Preferred stock dividends (1)	<u>7</u>	<u>7</u>	<u>7</u>	<u>7</u>	<u>5</u>
Combined fixed charges and preferred stock dividends for purpose of ratio	<u>\$ 126</u>	<u>\$ 161</u>	<u>\$ 201</u>	<u>\$ 228</u>	<u>\$ 237</u>
Earnings:					
Pretax income from continuing operations	\$ 550	\$ 531	\$ 692	\$ 705	\$ 626
Total fixed charges (from above)	119	154	194	221	232
Less: Interest capitalized	<u>4</u>	<u>1</u>	<u>1</u>	<u>-</u>	<u>-</u>
Total earnings for purpose of ratio	<u>\$ 665</u>	<u>\$ 684</u>	<u>\$ 885</u>	<u>\$ 926</u>	<u>\$ 858</u>
Ratio of earnings to combined fixed charges and preferred stock dividends	<u>5.28</u>	<u>4.25</u>	<u>4.40</u>	<u>4.06</u>	<u>3.62</u>
Ratio of earnings to fixed charges	<u>5.59</u>	<u>4.44</u>	<u>4.56</u>	<u>4.19</u>	<u>3.70</u>

(1) In computing this ratio, "Preferred stock dividends" represents the before-tax earnings necessary to pay such dividends, computed at the effective tax rates for the applicable periods.

EXHIBIT 12.3
SOUTHERN CALIFORNIA GAS COMPANY
COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES
AND PREFERRED STOCK DIVIDENDS
(Dollars in millions)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Fixed Charges:					
Interest	\$ 74	\$ 72	\$ 77	\$ 77	\$ 76
Interest portion of annual rentals	<u>1</u>	<u>2</u>	<u>1</u>	<u>1</u>	<u>1</u>
Total fixed charges	75	74	78	78	77
Preferred stock dividends (1)	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
Combined fixed charges and preferred stock dividends for purpose of ratio	<u>\$ 77</u>	<u>\$ 76</u>	<u>\$ 80</u>	<u>\$ 80</u>	<u>\$ 79</u>
Earnings:					
Pretax income from continuing operations	\$ 418	\$ 463	\$ 431	\$ 369	\$ 481
Add: Total fixed charges (from above)	75	74	78	78	77
Less: Interest capitalized	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
Total earnings for purpose of ratio	<u>\$ 492</u>	<u>\$ 536</u>	<u>\$ 508</u>	<u>\$ 446</u>	<u>\$ 557</u>
Ratio of earnings to combined fixed charges and preferred stock dividends	<u>6.39</u>	<u>7.05</u>	<u>6.35</u>	<u>5.58</u>	<u>7.05</u>
Ratio of earnings to fixed charges	<u>6.56</u>	<u>7.24</u>	<u>6.51</u>	<u>5.72</u>	<u>7.23</u>

(1) In computing this ratio, "Preferred stock dividends" represents the before-tax earnings necessary to pay such dividends, computed at the effective tax rates for the applicable periods.

SEMPRA ENERGY FINANCIAL REPORT

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This Financial Report is a combined report for the following separate companies (each a separate Securities and Exchange Commission registrant):

Sempra Energy

San Diego Gas & Electric Company

Southern California Gas Company

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We provide below:

- § A description of our business
- § An executive summary
- § A discussion and analysis of our operating results for 2011 through 2013
- § Information about our capital resources and liquidity
- § Major factors expected to influence our future operating results
- § A discussion of market risk affecting our businesses
- § A table of accounting policies that we consider critical to our financial condition and results of operations

You should read Management's Discussion and Analysis of Financial Condition and Results of Operations in conjunction with the Consolidated Financial Statements and the Notes to Consolidated Financial Statements included in this Annual Report, and in "Risk Factors" contained in our 2013 Annual Report on Form 10-K.

Sempra Energy is a Fortune 500 energy-services holding company whose operating units develop energy infrastructure, operate utilities and provide related services to their customers. Our operations are divided principally between our California Utilities, which are San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas), and Sempra International and Sempra U.S. Gas & Power. SDG&E and SoCalGas are separate, reportable segments. Sempra International includes two reportable segments – Sempra South American Utilities and Sempra Mexico. Sempra U.S. Gas & Power also includes two reportable segments – Sempra Renewables and Sempra Natural Gas. (See Figure 1.)

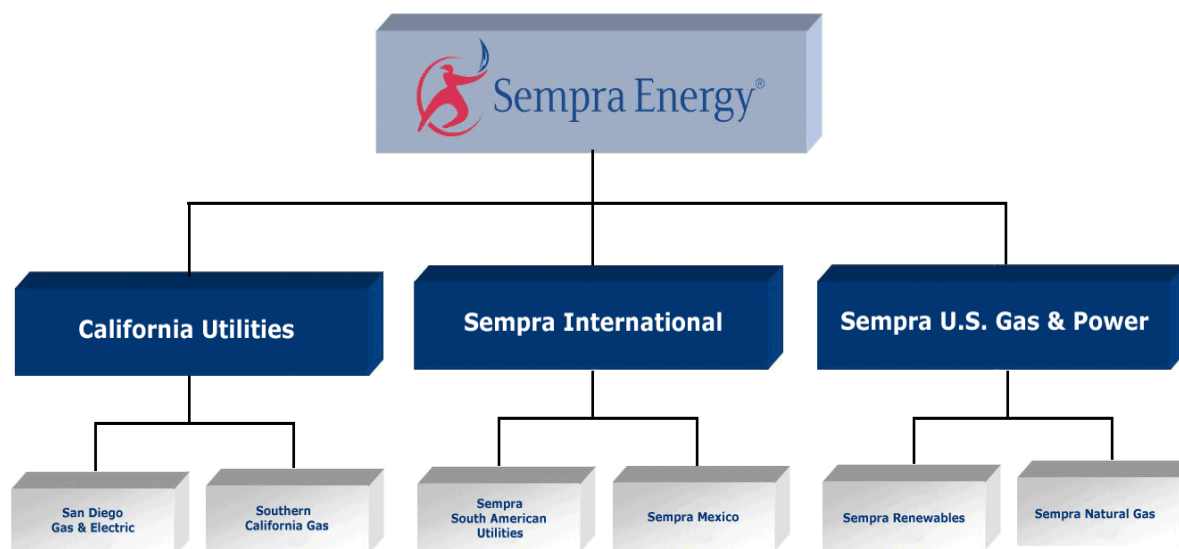


Figure 1: Sempra Energy's Operating Units and Reportable Segments

This report includes information for the following separate registrants:

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

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

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 concurrent public offering in Mexico of common stock. 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 International Financial Reporting Standards (IFRS), as required by the Mexican Stock Exchange (La Bolsa Mexicana de Valores, S.A.B. de C.V., BMV) where the shares are traded under the symbol IENOVA. We discuss the offerings and IEnova further in Note 1 of the Notes to Consolidated Financial Statements.

RBS Sempra Commodities LLP (RBS Sempra Commodities) is a joint venture partnership that held commodities-marketing businesses previously owned by us. We and The Royal Bank of Scotland plc (RBS), our partner in the joint venture, sold substantially all of the partnership’s businesses and assets in four separate transactions completed in 2010 and early 2011. We discuss these transactions and other matters concerning the partnership in Notes 4, 5 and 15 of the Notes to Consolidated Financial Statements. We account for our remaining investment in RBS Sempra Commodities under the equity method and report our share of partnership earnings and other associated costs in Parent and Other.

RBS Sempra Commodities had various agreements with our Sempra Mexico and Sempra Natural Gas segments. These agreements were substantially assigned to certain buyers of the RBS Sempra Commodities businesses by May 1, 2011.

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

SEMPRA ENERGY OPERATING UNITS AND REPORTABLE SEGMENTS

CALIFORNIA UTILITIES	MARKET	SERVICE TERRITORY
SAN DIEGO GAS & ELECTRIC COMPANY (SDG&E) A regulated public utility; infrastructure supports electric generation, transmission and distribution, and natural gas distribution	§ Provides electricity to 3.4 million consumers (1.4 million meters) § Provides natural gas to 3.2 million consumers (0.9 million meters)	Serves the county of San Diego, California and an adjacent portion of southern Orange County covering 4,100 square miles

SOUTHERN CALIFORNIA GAS COMPANY (SOCALGAS)

A regulated public utility; infrastructure supports natural gas distribution, transmission and storage

§ Residential, commercial, industrial, utility electric generation and wholesale customers

§ Covers a population of 21.3 million (5.8 million meters)

Southern California and portions of central California (excluding San Diego County, the city of Long Beach and the desert area of San Bernardino County) covering 20,000 square miles

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

SDG&E

SDG&E provides electricity to 3.4 million consumers and natural gas to 3.2 million consumers. It delivers the electricity through 1.4 million meters in San Diego County and an adjacent portion of southern Orange County, California. SDG&E's electric energy is purchased from others or generated from its own electric generation facilities and, prior to the second quarter of 2012, its 20-percent interest in the San Onofre Nuclear Generating Station (SONGS). Due to operating issues, SONGS was taken offline in the first quarter of 2012, and in June 2013, Southern California Edison Company (Edison), the majority owner and operator of SONGS, made the decision to permanently retire the facility. We discuss the SONGS retirement and related issues in "Factors Influencing Future Performance" below and in Note 13 of the Notes to Consolidated Financial Statements. SDG&E's electric generation facilities include Palomar Energy Center, Miramar Energy Center, Desert Star Energy Center (purchased from Sempra Natural Gas in October 2011) and Cuyamaca Peak Energy Plant (purchased in January 2012). SDG&E also delivers natural gas through 0.9 million meters in San Diego County and transports electricity and natural gas for others. SDG&E's service territory encompasses 4,100 square miles.

Sempra Energy indirectly owns all of the common stock of SDG&E. SDG&E had publicly held preferred stock that was redeemed in October 2013. We discuss the redemption in Note 11 of the Notes to Consolidated Financial Statements.

SDG&E's financial statements include a variable interest entity (VIE), Otay Mesa Energy Center LLC (Otay Mesa VIE), of which SDG&E is the primary beneficiary. As we discuss in Note 1 of the Notes to Consolidated Financial Statements under "Variable Interest Entities," SDG&E has a long-term power purchase agreement with Otay Mesa VIE.

SoCalGas

SoCalGas is the nation's largest natural gas distribution utility. It owns and operates a natural gas distribution, transmission and storage system that supplies natural gas throughout its approximately 20,000 square miles of service territory. Its service territory extends from San Luis Obispo, California in the north to the Mexican border in the south, excluding San Diego County, the city of Long Beach and the desert area of San Bernardino County. SoCalGas provides natural gas service to residential, commercial, industrial, utility electric generation and wholesale customers through 5.8 million meters, covering a population of 21.3 million.

Sempra Energy indirectly owns all of the common stock of SoCalGas. SoCalGas has publicly held preferred stock. The preferred stock has liquidation preferences totaling \$22 million and represents less than 1% of the ordinary voting power of SoCalGas shares.

We provide here descriptions of our Sempra International and Sempra U.S. Gas & Power businesses, primarily operations relating to 2013, 2012 and 2011 earnings. We provide additional information regarding development projects at each of their segments in "Factors Influencing Future Performance" below.

SEMPRA INTERNATIONAL	MARKET	GEOGRAPHIC REGION
SEMPRA SOUTH AMERICAN UTILITIES Infrastructure supports electric transmission and distribution	§ Provides electricity to approximately 640,000 customers in Chile and 996,000 customers in Peru	§ Chile § Peru
SEMPRA MEXICO Develops, owns and operates, or holds interests in: § natural gas transmission pipelines and propane and ethane systems § a natural gas distribution utility § electric generation facilities, including wind § a terminal for the import of liquefied natural gas (LNG) § marketing operations for the purchase of LNG and the purchase and sale of natural gas	§ Natural gas § Wholesale electricity § Liquefied natural gas	§ Mexico

Sempra South American Utilities

Sempra South American Utilities operates electric transmission and distribution utilities in Chile and Peru, and until June 2013, owned interests in utilities in Argentina. We discuss the sale of the two Argentine natural gas utility holding companies in Note 4 of the Notes to Consolidated Financial Statements.

On April 6, 2011, Sempra South American Utilities completed the acquisition of AEI's interests in Chilquinta Energía S.A. (Chilquinta Energía) in Chile and Luz del Sur S.A.A. (Luz del Sur) in Peru. Upon completion of the transaction, Sempra South American Utilities owned 100 percent of Chilquinta Energía and approximately 76 percent of Luz del Sur, and consolidated the companies. Pursuant to a tender offer that was completed in September 2011, Sempra South American Utilities now owns 79.82 percent of Luz del Sur, as we discuss in Note 3 of the Notes to Consolidated Financial Statements. The remaining shares of Luz del Sur are held by institutional investors and the general public. Prior to the acquisition in 2011, we accounted for our 50-percent interest in Chilquinta Energía and approximately 38-percent interest in Luz del Sur as equity method investments.

Chilquinta Energía is an electric distribution utility serving approximately 640,000 customers in the cities of Valparaiso and Viña del Mar in central Chile. Luz del Sur is an electric distribution utility that serves approximately 996,000 customers in the southern zone of metropolitan Lima, Peru, and delivers approximately one-third of all power used in the country. As part of the transaction, Sempra South American Utilities also acquired AEI's interests in two energy-services companies, Tecnoled S.A. (Tecnoled) and Tecsur S.A. (Tecsur).

Sempra Mexico

Gas Business

Pipelines. Sempra Mexico develops, owns and operates natural gas transmission pipelines and propane and ethane systems in Mexico. These facilities are contracted under long-term, U.S. dollar-based agreements with Petróleos Mexicanos (or PEMEX, the Mexican state-owned oil company), the Federal Electricity Commission (Comisión Federal de Electricidad, or CFE), Shell México Gas Natural (Shell), Gazprom Marketing & Trading Mexico (Gazprom) and other similar counterparties. Its natural gas pipeline systems had a contracted capacity for up to 4,540 million cubic feet (MMcf) per day in 2013.

Sempra Mexico also owns a 50-percent interest in Gasoductos de Chihuahua, a joint venture with PEMEX that operates several natural gas pipelines and propane systems in Mexico.

Pipeline projects currently under construction by Sempra Mexico that are both regulated by the Comisión Reguladora de Energía (or CRE, the Energy Regulatory Commission) and meet the regulatory accounting requirements of accounting principles generally accepted in the United States (U.S. GAAP) record the impact of allowance for funds used during construction (AFUDC) related to equity. Beginning in the fourth quarter of 2013, Sempra Mexico began recording AFUDC equity for its Sonora Pipeline project. Sempra Mexico's joint venture with PEMEX also began recording AFUDC equity for its Los Ramones I Pipeline project in the fourth quarter of 2013.

LNG. Sempra Mexico's Energía Costa Azul LNG terminal in Baja California, Mexico is capable of processing 1 billion cubic feet (Bcf) of natural gas per day. The Energía Costa Azul facility generates revenue under capacity services agreements with Shell and Gazprom, expiring in 2028, that permit them, together, to use one-half of the terminal's capacity.

In connection with Sempra Natural Gas' LNG purchase agreement with Tangguh PSC Contractors (Tangguh PSC), which we discuss below, Sempra Mexico purchases from Sempra Natural Gas the LNG delivered to Energía Costa Azul by Tangguh PSC. Sempra Mexico uses the natural gas produced from this LNG to supply a contract through 2022 for the sale of an average of approximately 150 MMcf per day of natural gas to Mexico's national electric company, the CFE, at prices that are based on the Southern California border index. If LNG volumes received from Tangguh PSC are not sufficient to satisfy the commitment to the CFE, Sempra Mexico may purchase natural gas from Sempra Natural Gas' natural gas marketing operations.

Natural Gas Distribution. Sempra Mexico's natural gas distribution utility, Ecogas Mexico, S de RL de CV (Ecogas), operates in three separate areas in Mexico, and had approximately 99,000 customers and sales volume of 65 MMcf per day in 2013.

Power Business

Natural Gas-Fired Generation. Sempra Mexico's Termoeléctrica de Mexicali, a 625-megawatt (MW) natural gas-fired power plant, is located in Mexicali, Baja California, Mexico. In January 2013, Sempra Mexico's Termoeléctrica de Mexicali entered into an Energy Management Agreement (EMA), effective January 1, 2012, with our Sempra Natural Gas segment for energy marketing, scheduling and other related services to support its sales of generated power into the California electricity market. Under the EMA, Termoeléctrica de Mexicali pays fees to Sempra Natural Gas for these revenue-generating services. Termoeléctrica de Mexicali also purchases fuel from Sempra Natural Gas. J.P. Morgan Ventures Energy Corporation (J.P. Morgan Ventures) and J.P. Morgan Mexico facilitate the natural gas transactions between the segments. Sempra Mexico records revenue for the sale of power generated by Termoeléctrica de Mexicali, and records cost of sales for the purchases of natural gas and energy management services provided by Sempra Natural Gas.

The EMA replaced a similar agreement that was in effect in prior years, under which Sempra Mexico recorded revenue for the sale of power generated by Termoeléctrica de Mexicali to Sempra Natural Gas, and recorded cost of sales for the purchases from Sempra Natural Gas of natural gas to fuel the facility. J.P. Morgan Ventures and J.P. Morgan Mexico facilitated the natural gas transactions between the segments.

Wind Power Generation. Sempra Mexico is developing a wind power generation project, Energía Sierra Juárez, in Baja California, Mexico, which is designed to provide up to 1,200 MW of capacity if fully developed. In April 2011, SDG&E entered into a 20-year contract for up to 156 MW of renewable power supplied from the first phase of the project, which we expect to be fully operational in the first quarter of 2015. Sempra Mexico intends to finance and develop the project within the framework of a joint venture.

SEMPRA U.S. GAS & POWER	MARKET	GEOGRAPHIC REGION
SEMPRA RENEWABLES Develops, owns, operates, or holds interests in renewable energy generation projects	§ Wholesale electricity	§ U.S.A.
SEMPRA NATURAL GAS Develops, owns and operates, or holds interests in:	§ Wholesale electricity	§ U.S.A.

§ a natural gas-fired electric generation asset

§ natural gas pipelines and storage facilities

§ natural gas distribution utilities

§ a terminal in the U.S. for the import and export of LNG and sale of natural gas

§ marketing operations

§ Natural gas

§ Liquefied natural gas

Sempra U.S. Gas & Power

Sempra Renewables

The following table provides information about the Sempra Renewables solar and wind energy generation facilities that were operational as of December 31, 2013. The generating capacity of these facilities is fully contracted under long-term power purchase agreements (PPA) for the periods indicated in the table.

The majority of Sempra Renewables' wind farm assets also earn production tax credits (PTC) based on the number of megawatt hours of electricity they generate. A PTC is a federal subsidy that effectively pays wind producers a flat rate for making clean energy and enables wind producers like Sempra Renewables to pass on the benefit to its customers. Because PTCs last for ten years after project completion, any wind turbine that was under construction before the end of 2013 will still earn a full decade of PTCs. For each of the years ended December 31, 2013, 2012 and 2011, PTCs represented a large portion of our wind farm earnings, often exceeding earnings from operations.

SEMPRA RENEWABLES OPERATING FACILITIES

Capacity in Megawatts (MW) at December 31, 2013

Name	Generating Capacity	PPA Term in Years	First In Service	Location
<i>Wholly owned facility:</i>				
Copper Mountain Solar 1	10/48	20	2008/2010	Boulder City, Nevada
<i>Jointly owned facilities(1):</i>				
Auwahi Wind Farm	11	20	2012	Maui, Hawaii
Cedar Creek 2 Wind Farm	125	25	2011	New Raymer, Colorado
Copper Mountain Solar 2	46	25	2012	Boulder City, Nevada
Flat Ridge 2 Wind Farm	235	20 and 25	2012	Wichita, Kansas
Fowler Ridge 2 Wind Farm	100	20	2009	Benton County, Indiana
Mehoopany Wind Farm	71	20	2012	Wyoming County, Pennsylvania
Mesquite Solar 1	21/54 (2)	20	2011/2012	Arlington, Arizona
Total MW in operation	721			

(1) Sempra Renewables has a 50-percent interest in each of these facilities and accounts for them as equity method investments. The generating capacity represents Sempra Renewables' share only.

(2) Total generating capacity of 42 MW/108 MW was placed in service in 2011 and 2012, respectively. The capacity noted in the above table represents Sempra Renewables' share only.

The first phase of Copper Mountain Solar 2 (CMS 2) of 92 MW was placed in service in November 2012. Mesquite Solar 1's (MS 1) 150-MW photovoltaic solar installation went fully into service in December 2012. In the third quarter of 2013, Sempra Renewables sold 50-percent equity interests in these facilities to Consolidated Edison Development (ConEdison Development). We discuss these sales further in Notes 3 and 5 of the Notes to Consolidated Financial Statements.

Sempra Natural Gas

Generation. Sempra Natural Gas sells electricity under short-term and long-term contracts and into the spot market and other competitive markets. While it may also purchase electricity in the open market to satisfy its contractual obligations, Sempra Natural Gas generally purchases natural gas to fuel its Mesquite Power natural gas-fired power plant, described below, and Sempra Mexico's Termoeléctrica de Mexicali power plant, described above. The Mesquite Power plant is a 1,250-MW facility located in Arlington, Arizona. In February 2013, Sempra Natural Gas sold one 625-MW block of Mesquite Power to the Salt River Project Agricultural Improvement and Power District for \$371 million. In January 2014, management approved a plan to market and sell the remaining 625-MW block of the plant. We expect to complete the sale in 2014.

In June 2011, Sempra Natural Gas entered into a 25-year contract with various members of Southwest Public Power Resources Group (SPPR Group), an association of 40 not-for-profit utilities in Arizona and southern Nevada, for 240 MW of electricity from the Mesquite Power plant. This contract was amended in early 2013 to increase the capacity to 271 MW. Under the terms of the agreement, Sempra Natural Gas will provide 21 participating SPPR Group members with firm, day-ahead dispatchable power delivered to the Palo Verde hub beginning in January 2015. This contract may be assigned to the buyer of the remaining 625-MW block of Mesquite Power.

Sempra Natural Gas also has various power sale transactions intended to hedge its generation capacity. Through 2013, Sempra Natural Gas sold its power to various counterparties, including J.P. Morgan Ventures. Contracts with J.P. Morgan Ventures were initially with RBS Sempra Commodities. In connection with the 2010 sale of businesses within RBS Sempra Commodities, substantially all of these transactions with RBS Sempra Commodities were assigned to J.P. Morgan Ventures by May 1, 2011. In addition, Sempra Natural Gas has power sale transactions for various quantities of power for delivery in 2013 and 2014. Finally, Sempra Natural Gas has sold certain quantities of expected future generation output under long-term contracts. The remaining output of our natural gas-fired generation facilities, including that of Sempra Mexico's Termoeléctrica de Mexicali power plant, is available to be sold into energy markets on a day-to-day basis.

In January 2013, Sempra Natural Gas entered into an EMA, effective January 1, 2012, with Sempra Mexico to provide energy marketing, scheduling and other related services to Sempra Mexico's Termoeléctrica de Mexicali to support its sales of generated power into the California electricity market. We discuss the EMA in "Sempra Mexico – Power Business" above.

Sempra Natural Gas sold its El Dorado (renamed Desert Star) natural gas-fired generation plant (excluding the solar facility) to SDG&E on October 1, 2011. This sale, pursuant to an option to acquire the plant that was exercised by SDG&E in 2007, coincided with the end of a contract with the California Department of Water Resources (DWR). Prior to September 30, 2011, the Mesquite Power plant and the El Dorado generation plant, along with Sempra Mexico's Termoeléctrica de Mexicali power plant, sold the majority of their output under this long-term purchased-power contract with the DWR which provided for 1,200 MW to be supplied during all hours and an additional 400 MW during on-peak hours, and which ended on September 30, 2011.

Transportation and Storage. Sempra Natural Gas owns and operates, or holds interests in, natural gas underground storage and related pipeline facilities in Alabama, Louisiana and Mississippi. Sempra Natural Gas provides natural gas marketing, trading and risk management services through the utilization and optimization of contracted natural gas supply, transportation and storage capacity, as well as optimizing its assets in the short-term services market.

Sempra Natural Gas, Tallgrass Energy Partners, L.P. (Tallgrass) and Phillips 66 jointly own, through Rockies Express Pipeline LLC (Rockies Express), the Rockies Express Pipeline (REX) that links the Rocky Mountain region to the upper Midwest and the eastern United States. Our ownership interest in the pipeline is 25 percent. Tallgrass purchased its 50-percent equity interest in Rockies Express from Kinder Morgan Energy Partners, L.P. (Kinder Morgan or KMP) in November 2012, as we discuss in Notes 4 and 10 of the Notes to Consolidated Financial Statements. Sempra Rockies Marketing has an agreement through November 2019 with Rockies Express for 200 MMcf per day of capacity on REX, which has a total capacity of 1.8 Bcf per day. Sempra Rockies Marketing released a portion of its capacity to RBS Sempra Commodities, which capacity was assigned to J.P. Morgan Ventures effective January 1, 2011 in connection with the sale of businesses within RBS Sempra Commodities. This contract expired on December 31, 2013. Sempra Rockies Marketing has entered into new capacity release arrangements, but these new agreements and any additional capacity release agreements that we may enter into may not be sufficient to offset all of our capacity payments to Rockies Express.

In 2012, we recorded a noncash impairment charge of \$239 million after-tax to write down our investment in the partnership that operates REX. We discuss our investment in Rockies Express and the impairments in Notes 4 and 10 of the Notes to Consolidated Financial Statements.

Distribution. Sempra Natural Gas owns and operates Mobile Gas Service Corporation (Mobile Gas) and Willmut Gas Company (Willmut Gas), regulated natural gas distribution utilities in southwest Alabama and in Mississippi, respectively. Mobile Gas and Willmut Gas serve approximately 87,000 customers and 19,000 customers, respectively. Sempra Natural Gas acquired Willmut Gas in May 2012, as we discuss in Note 3 of the Notes to Consolidated Financial Statements.

LNG. Sempra Natural Gas' Cameron LNG regasification terminal in Hackberry, Louisiana is capable of processing 1.5 Bcf of natural gas per day. Cameron LNG generates revenue under a terminal services agreement for approximately 3.75 Bcf of natural gas storage and associated send-out rights of approximately 600 MMcf of natural gas per day through 2029. The agreement allows the customer to pay Sempra Natural Gas capacity reservation and usage fees to use its facilities to receive, store and regasify the customer's LNG. Sempra Natural Gas also may enter into short-term and/or long-term supply agreements to purchase LNG to be received, stored and regasified at its terminal for sale to other parties. Sempra Natural Gas is currently progressing with the development of a natural gas liquefaction and LNG export facility at the Cameron LNG terminal. We discuss these activities below in "Factors Influencing Future Performance."

Sempra Natural Gas has an LNG purchase agreement with Tangguh PSC for the supply of the equivalent of 500 MMcf of natural gas per day from Tangguh PSC's Indonesian liquefaction facility with delivery to Sempra Mexico's Energía Costa Azul receipt terminal at a price based on the Southern California border index for natural gas. Sempra Natural Gas may also record revenues from non-delivery of cargoes under the provisions of the contract with Tangguh PSC that allow for deliveries to be diverted to other global markets in exchange for cash differential payments.

REGULATION OF OUR UTILITIES

SDG&E and SoCalGas are regulated by federal, state and local governmental agencies. The primary regulatory agency is the California Public Utilities Commission (CPUC). The CPUC regulates the California Utilities' rates and operations in California, except for SDG&E's electric transmission operations. The Federal Energy Regulatory Commission (FERC) regulates SDG&E's electric transmission operations. The FERC also regulates interstate transportation of natural gas and various related matters.

The Nuclear Regulatory Commission (NRC) regulates SONGS, in which SDG&E owns a 20-percent interest. Municipalities and other local authorities may influence decisions affecting the location of utility assets, including natural gas pipelines and electric lines. Some of Sempra Energy's other operating units are also regulated by the FERC, various state commissions and local governmental entities, and similar authorities in countries other than the United States.

Our South American utilities are regulated by federal and local governmental agencies. The National Energy Commission (Comisión Nacional de Energía, or CNE) regulates Chilquinta Energía in Chile. The Energy and Mining Investment Supervisory Body (Organismo Supervisor de la Inversión en Energía y Minería, or OSINERGMIN) of the National Electricity Office under the Ministry of Energy and Mines regulates Luz del Sur in Peru.

Ecogas, our natural gas distribution utility in northern Mexico, is subject to regulation by the CRE and by the labor and environmental agencies of city, state and federal governments in Mexico.

Mobile Gas, our natural gas distribution utility serving southwest Alabama, is regulated by the Alabama Public Service Commission. Willmut Gas, our natural gas distribution utility serving customers in Hattiesburg, Mississippi, is regulated by the Mississippi Public Service Commission.

EXECUTIVE SUMMARY

BUSINESS STRATEGY

Our focus is to increase shareholder value and meet customer needs by sustaining the financial strength, operational flexibility and skilled workforce needed to operate a safe, stable and successful portfolio of integrated energy businesses.

The key components of our strategy include the following three disciplined growth platforms:

- § U.S. utilities
- § South American utilities and Mexican midstream
- § U.S. natural gas midstream and renewables

Our organization is aligned based on these platforms to obtain the greatest long-term value through tangible growth primarily focused on regulated and contracted assets.

KEY EVENTS AND ISSUES IN 2013

Below are key events and issues that affected our business in 2013; some of these may continue to affect our future results. Each event/issue includes the page number you may reference for additional details.

- § In February 2013, IEnova publicly offered and sold in Mexico notes totaling \$408 million (U.S. equivalent). Then, in March 2013, IEnova sold 18.9 percent of its common shares in a private offering in the U.S. and outside of Mexico and in a concurrent initial public offering in Mexico for net proceeds of \$574 million (U.S. equivalent) (133).
- § In February 2013, Sempra Natural Gas completed the sale of one 625-MW block of its Mesquite Power plant to the Salt River Project Agricultural Improvement and Power District for \$371 million in cash (144).
- § In May 2013, the CPUC approved a final decision in the California Utilities' 2012 General Rate Case (2012 GRC). In the second quarter of 2013, SDG&E and SoCalGas recorded earnings of \$52 million and \$25 million, respectively, from the retroactive impact for full-year 2012 as a result of the final decision (213).
- § In June 2013, Southern California Edison announced that it would permanently retire SONGS, which has been offline since early 2012 due to operating issues. Consequently, we recorded a \$200 million pretax loss from plant closure representing the portion of SDG&E's net investment in the facility and SDG&E's associated costs incurred through the closure date, including replacement power costs, that management estimates may not be recovered in rates (208).
- § In June 2013, Eletrans II S.A., a joint venture between Sempra South American Utilities' Chilquinta Energía and Sociedad Austral de Electricidad Sociedad Anónima (SAESA), was awarded the construction of two 220-kilovolt (kV) transmission lines in Chile (64).
- § In October 2013, SDG&E redeemed all six series of its outstanding shares of contingently redeemable preferred stock for \$83 million (including call premium and accrued dividends) (205).
- § SDG&E continued to settle claims related to the 2007 California wildfire litigation; there are approximately 40 cases left to be resolved (220).

§ *Updates for projects at Sempra Mexico's IEnova subsidiary:*

- In January 2013, PEMEX announced that the first phase of the Los Ramones Pipeline project, or Los Ramones I, was assigned to and will be developed by our joint venture with PEMEX; construction began in January 2014. Los Ramones I will be a 70-mile natural gas pipeline from the northern portion of the state of Tamaulipas bordering the United States to Los Ramones in the Mexican state of Nuevo León (65).
- In the third quarter of 2013, IEnova began construction on the first phase, or approximately 300 miles, of the Sonora Pipeline, a 500-mile natural gas pipeline network in northern Mexico (65).
- In the third quarter of 2013, through its joint venture with PEMEX, IEnova began construction on the Ethane Pipeline, a 140-mile pipeline to transport ethane from Tabasco, Mexico to Veracruz, Mexico (65).
- In the fourth quarter of 2013, IEnova began construction on the Energía Sierra Juárez wind project (65).

§ *Updates for projects at Sempra Renewables:*

- In March 2013, we started construction on Copper Mountain Solar 3 (CMS 3), which will have 250 MW of generating capacity when completed (66).
- In the third quarter of 2013, Sempra Renewables sold 50-percent equity interests in Copper Mountain Solar 2 and Mesquite Solar 1 to ConEdison Development (144).
- In September 2013, Sempra Renewables acquired the rights to develop the 75-MW Broken Bow 2 Wind project in Custer County, Nebraska (66).

§ *Updates for Sempra Natural Gas' Cameron liquefaction project:*

- In May 2013, Sempra Natural Gas signed a joint venture agreement (subject to a final investment decision, finalization of permit authorizations, securing financing commitments and other conditions) with affiliates of GDF SUEZ S.A., Mitsubishi Corporation (through a related company jointly established with Nippon Yusen Kabushiki Kaisha (NYK)), and Mitsui & Co., Ltd. each to acquire 16.6 percent equity in the existing facilities and the Cameron liquefaction project. We will have a 50.2-percent interest in the joint venture (67).
- In May 2013, Sempra Natural Gas signed 20-year liquefaction and regasification tolling capacity agreements (subject to a final investment decision,

finalization of permit authorizations, securing financing commitments and other conditions) with GDF SUEZ S.A. and affiliates of Mitsubishi Corporation and Mitsui & Co., Ltd. to subscribe the full nameplate capacity of the facility (68).

- In June and November 2013, Sempra Natural Gas signed agreements totaling 1.45 Bcf per day of firm natural gas transportation service to Cameron LNG on the Cameron Interstate Pipeline (subject to effectiveness of the liquefaction and regasification tolling capacity agreements) with GDF SUEZ S.A. and affiliates of Mitsubishi Corporation and Mitsui & Co., Ltd. The terms of these agreements are concurrent with the liquefaction and regasification tolling capacity agreements (68).

RESULTS OF OPERATIONS

We discuss the following in Results of Operations:

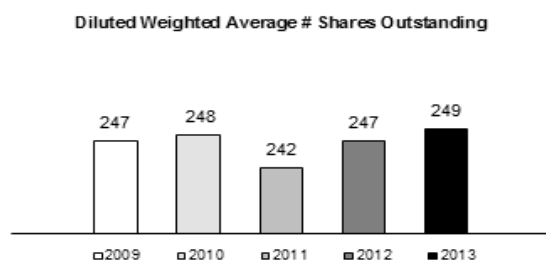
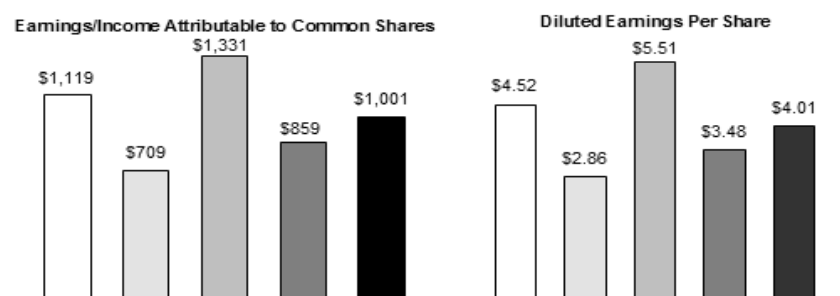
- § Overall results of our operations and factors affecting those results
- § Our segment results
- § Significant changes in revenues, costs and earnings between periods

OVERALL RESULTS OF OPERATIONS OF SEMPRA ENERGY AND FACTORS AFFECTING THE RESULTS

The graphs below show our overall operations from 2009 to 2013.

OVERALL OPERATIONS OF SEMPRA ENERGY FROM 2009 TO 2013

(Dollars and shares in millions, except per share amounts)



In 2013, our earnings increased by \$142 million (17%) to \$1.0 billion and our diluted earnings per share increased by \$0.53 per share (15%) to \$4.01 per share. The net increases in our earnings and diluted earnings per share were primarily impacted by the following increases (decreases), by segment:

SDG&E

- § \$61 million higher earnings from CPUC base operations and electric transmission, including Sunrise Powerlink
- § \$52 million (\$0.21 per share) favorable impact on 2013 earnings from the retroactive impact for 2012 of the 2012 GRC, for which a final decision by the CPUC was issued in the second quarter of 2013
- § \$(119) million (\$0.48 per share) charge for loss from plant closure associated with SDG&E's investment in the SONGS nuclear facility
- § \$(54) million from an income tax benefit recorded in 2012 related to a change in the income tax treatment of certain repairs expenditures, the lower rate of return authorized in our CPUC cost of capital proceeding and higher interest expense

SoCalGas

§ \$51 million higher operating margin and newly recovered costs as a result of the 2012 GRC

§ \$25 million (\$0.10 per share) favorable impact on 2013 earnings from the retroactive impact for 2012 of the 2012 GRC

Sempra Mexico

§ \$(26) million decrease in Sempra Mexico's earnings for earnings attributable to noncontrolling interests at IEnova following its March 2013 offerings of 18.9 percent of its common stock

Sempra Renewables

§ \$24 million (\$0.10 per share) gains from the sale of 50-percent equity interests in MS 1 and CMS 2 in 2013

§ \$(50) million lower deferred income tax benefits, including \$5 million decrease from U.S. Treasury grant sequestration in 2013, as a result of solar and wind generating assets placed in service in 2012

Sempra Natural Gas

§ \$239 million (\$0.97 per share) in noncash impairment charges in 2012 to write down our investment in Rockies Express, partially offset by a \$25 million income tax make-whole payment received in 2012 from Kinder Morgan (\$0.10 per share)

§ \$44 million (\$0.18 per share) gain on the sale of one 625-MW block of Sempra Natural Gas' 1,250-MW Mesquite Power natural gas-fired power plant in the first quarter of 2013

§ \$41 million higher earnings from LNG operations, primarily due to lower of cost or market adjustments in 2012 associated with the timing of cargoes, the impact of higher natural gas prices on marketing operations and lower costs resulting from commercial arrangements entered into with affiliates

Parent and Other

§ \$(63) million (\$0.25 per share) income tax expense in the first quarter of 2013 resulting from a corporate reorganization in connection with the IEnova stock offerings

§ \$(54) million (\$0.22 per share) income tax benefit in 2012 primarily associated with our decision to hold life insurance contracts kept in support of certain benefit plans to term

Diluted earnings per share for 2013 compared to 2012 were also impacted by an increase in the number of shares outstanding (decrease of \$0.05 per share).

Our earnings in 2012 decreased by \$472 million (35%) to \$859 million compared to 2011. Diluted earnings per share for 2012 decreased by \$2.03 per share to \$3.48 per share. The decreases were primarily due to:

§ a \$277 million (\$1.15 per share) gain resulting from the remeasurement of our equity method investments at our South American Utilities segment related to its acquisition of additional interests in Chilquinta Energía and Luz del Sur in April 2011;

§ \$239 million (\$0.97 per share) in noncash impairment charges in 2012 to write down our investment in Rockies Express, partially offset by a \$25 million income tax make-whole payment received from Kinder Morgan (\$0.10 per share); and

§ lower earnings at Sempra Natural Gas and Sempra Mexico in 2012 compared to 2011 primarily due to the end of the DWR contract in September 2011; **offset by**

§ improved results at the California Utilities, Sempra Renewables and Parent and Other.

Diluted earnings per share for 2012 compared to 2011 were also impacted by an increase in the number of shares outstanding (decrease of \$0.08 per share).

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

SEMPRA ENERGY EARNINGS (LOSSES) BY SEGMENT 2011-2013

(Dollars in millions)

	Years ended December 31,								
	2013		2012		2011				
California Utilities:									
SDG&E(1)	\$	404	41 %	\$	484	56 %	\$	431	32 %
SoCalGas(2)		364	37		289	34		287	22
Sempra International:									
Sempra South American Utilities		153	15		164	19		425	32
Sempra Mexico		122	12		157	18		192	14
Sempra U.S. Gas & Power:									
Sempra Renewables		62	6		61	7		7	1
Sempra Natural Gas		64	6		(241)	(28)		115	9
Parent and other(3)		(168)	(17)		(55)	(6)		(126)	(10)
Earnings	\$	1,001	100 %	\$	859	100 %	\$	1,331	100 %

(1) After preferred dividends and 2013 call premium on preferred stock.

(2) After preferred dividends.

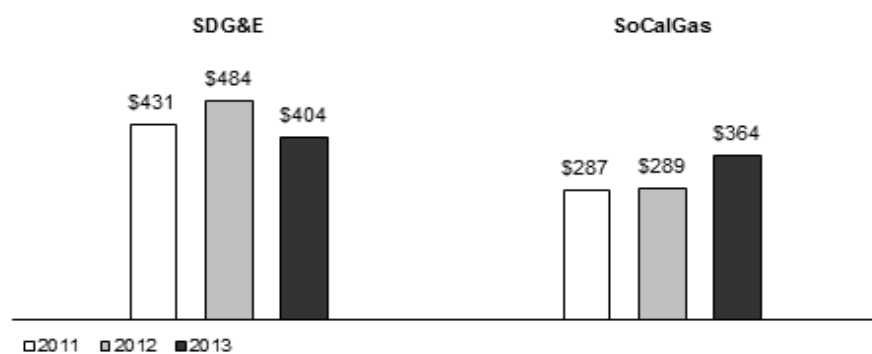
(3) Includes after-tax interest expense (\$144 million in 2013, \$150 million in 2012 and \$138 million in 2011), intercompany eliminations recorded in consolidation and certain corporate costs.

SEGMENT RESULTS

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

EARNINGS BY SEGMENT – CALIFORNIA UTILITIES

(Dollars in millions)



SDG&E

Our SDG&E segment recorded earnings of:

- § \$404 million in 2013 (\$411 million before preferred dividends and call premium)
- § \$484 million in 2012 (\$489 million before preferred dividends)
- § \$431 million in 2011 (\$436 million before preferred dividends)

The decrease of \$80 million (17%) in 2013 was primarily due to:

- § \$119 million charge for loss from plant closure associated with SDG&E's investment in SONGS;
- § \$22 million income tax benefit recorded in the third quarter of 2012 for full-year 2011 from the change in the income tax treatment of certain repairs expenditures, as we discuss below in "Income Taxes;"
- § \$20 million lower CPUC-authorized rate of return established in the CPUC cost of capital proceeding effective as of January 1, 2013;
- § \$12 million higher interest expense;
- § \$11 million loss of revenue from SONGS due to the early closure of the plant; and
- § \$6 million for the recovery from the U.S. Department of Energy (DOE) in 2012 of incremental costs incurred in prior years for the long-term storage of spent nuclear fuel; **offset by**
- § \$52 million favorable impact on 2013 earnings from the retroactive application for 2012 of the final decision in the 2012 GRC;
- § \$38 million higher CPUC base operating margin as a result of the final 2012 GRC decision, net of operating costs; and
- § \$23 million higher electric transmission margin (including Sunrise Powerlink).

The increase in earnings of \$53 million (12%) in 2012 compared to 2011 was primarily due to:

- § \$52 million reduction in 2012 income tax expense primarily due to a change in the income tax treatment of certain repairs expenditures, as we discuss below in "Income Taxes;"
- § \$33 million higher earnings related to Sunrise Powerlink;
- § \$13 million higher earnings for Desert Star in 2012, which was acquired in October 2011;
- § \$11 million higher electric transmission margin (excluding Sunrise Powerlink);
- § \$8 million increase in AFUDC related to equity (excluding Sunrise Powerlink);
- § \$7 million lower expense associated with the settlement of 2007 wildfire claims; and

- § \$6 million for the recovery from the DOE in 2012 of incremental costs incurred in prior years for the long-term storage of spent nuclear fuel; **offset by**
- § \$28 million higher depreciation and operation and maintenance expenses related to CPUC-regulated operations (excluding insurance premiums for wildfire coverage, litigation and Desert Star) with no corresponding increase in the CPUC-authorized margin in 2012 due to the delay in the 2012 GRC decision;
- § \$18 million unfavorable earnings impact due to higher revenues in 2011 associated with incremental wildfire insurance premiums (revenues in 2011 were for an 18-month period compared to a 12-month period in 2012);
- § \$18 million higher interest expense;
- § \$6 million lower regulatory incentive awards; and
- § \$5 million higher litigation expense.

SoCalGas

Our SoCalGas segment recorded earnings of:

- § \$364 million in 2013 (\$365 million before preferred dividends)
- § \$289 million in 2012 (\$290 million before preferred dividends)
- § \$287 million in 2011 (\$288 million before preferred dividends)

The increase of \$75 million (26%) in 2013 was primarily due to:

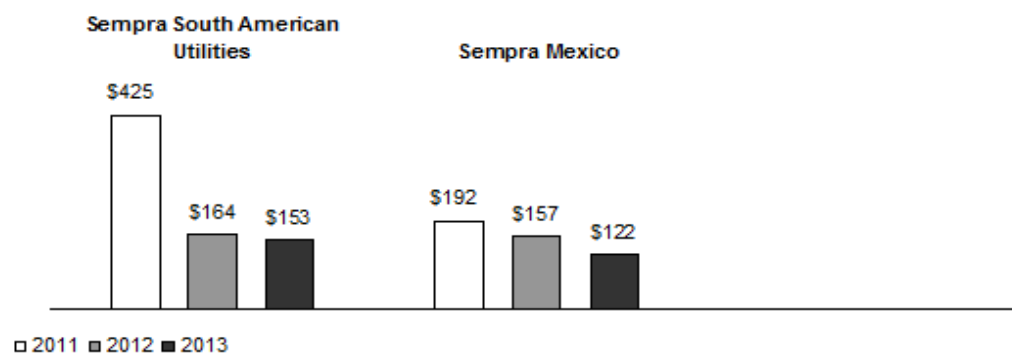
- § \$36 million higher CPUC base operating margin as a result of the final 2012 GRC decision and lower non-refundable operating costs;
- § \$25 million favorable impact on 2013 earnings from the retroactive application for 2012 of the final decision in the 2012 GRC;
- § \$20 million higher favorable resolution of prior years' income tax issues in 2013; and
- § \$15 million due to costs associated with the Transmission Integrity Management Program (TIMP) being expensed in 2012 now being fully recovered (balanced) in revenues pursuant to the 2012 GRC; **offset by**
- § \$14 million lower CPUC-authorized rate of return established in the CPUC cost of capital proceeding effective as of January 1, 2013.

The increase of \$2 million (1%) in 2012 compared to 2011 was primarily due to:

- § \$37 million from a lower effective tax rate, primarily due to a change in the income tax treatment of certain repairs expenditures, as we discuss below in "Income Taxes;" and
- § \$6 million from an increase in AFUDC related to equity; **offset by**
- § \$37 million increase in non-refundable operating expenses, primarily due to depreciation and expenses related to the TIMP, with no corresponding increase in CPUC-authorized margin in 2012 due to the delay in the 2012 GRC decision; and
- § \$2 million higher bad debt accruals.

EARNINGS BY SEGMENT – SEMPRA INTERNATIONAL

(Dollars in millions)



Sempra South American Utilities

Our Sempra South American Utilities segment recorded earnings of:

§ \$153 million in 2013

§ \$164 million in 2012

§ \$425 million in 2011

The decrease in earnings of \$11 million (7%) in 2013 was primarily due to:

§ \$11 million equity losses related to our investments in two Argentine natural gas utility holding companies, including \$7 million noncash impairment charge in the first quarter of 2013 and \$4 million loss from the sale of the investments in the second quarter of 2013; and

§ \$4 million equity losses from our joint venture in Chile in 2013 resulting from a forward exchange contract to manage foreign currency exchange rate risk; **offset by**

§ \$4 million lower income tax expense from an unfavorable resolution of prior years' tax matters in 2012.

The decrease in earnings of \$261 million in 2012 compared to 2011 was primarily due to:

§ a \$277 million gain related to the remeasurement of the Chilquinta Energía and Luz del Sur equity method investments in April 2011; and

§ \$12 million earnings in 2011 from foreign currency rate effect mainly for a previously held U.S. dollar monetary position in Chile; **offset by**

§ \$21 million higher earnings in 2012 due to the acquisition of additional interests in Chilquinta Energía and Luz del Sur in April 2011; and

§ \$7 million higher earnings from operations in 2012 primarily attributable to an increase in customer base and higher consumption.

Sempra Mexico

Sempra Mexico recorded earnings of:

§ \$122 million in 2013

§ \$157 million in 2012

§ \$192 million in 2011

The decrease of \$35 million (22%) in 2013 was primarily due to:

§ \$26 million decrease in Sempra Mexico's earnings for earnings attributable to noncontrolling interests at IEnova following its stock offerings in March 2013;

§ \$13 million increase in deferred income tax liability due to Mexico income tax law enacted in the fourth quarter of 2013 and effective January 1, 2014, as we discuss below in "Income Taxes;"

§ \$10 million lower earnings mainly due to administrative expenses related to the new IEnova public company structure, scheduled plant maintenance at our Mexicali power plant in 2013, and the net impact of changes in affiliate agreements;

§ \$7 million negative translation effect primarily on Peso-denominated tax receivables; and

§ \$6 million higher interest expense, including interest associated with the IEnova debt offering in February 2013; **offset by**

§ \$19 million AFUDC related to equity associated with construction of the natural gas pipeline in Sonora; and

§ \$7 million lower income tax expense, including the favorable impact of Mexican currency inflation and translation adjustments in 2013 compared to 2012.

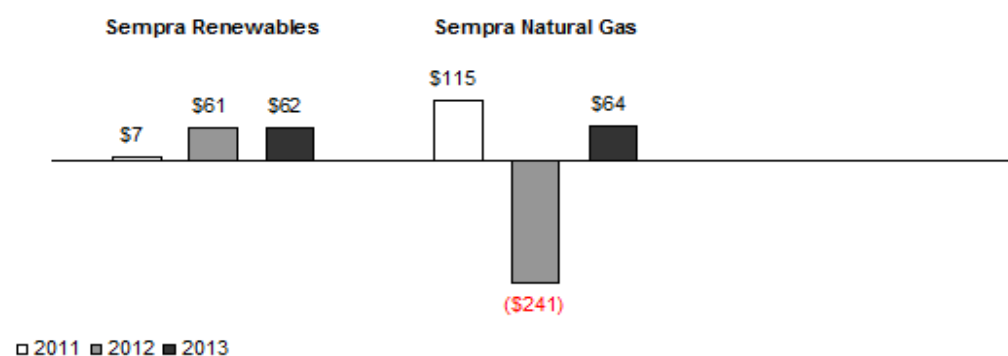
The decrease in earnings of \$35 million (18%) in 2012 compared to 2011 was primarily due to:

§ \$43 million lower earnings at our Mexicali power plant in 2012 compared to 2011 primarily due to the expiration of the DWR contract in September 2011, which resulted in a change in the intercompany agreement with Sempra Natural Gas effective January 1, 2012. This decrease was partially offset by an increase in earnings from a prior year outage at the plant; and

§ \$8 million income tax expense in 2012 compared to \$12 million income tax benefit in 2011, primarily related to Mexican currency translation and inflation adjustments and to changes in tax valuation allowances, net of the effects of a Mexican peso income tax hedge; **offset by**

§ \$22 million in improved operations primarily due to increased earnings from Sempra Mexico's joint venture with PEMEX and from Sempra Mexico's LNG operations; and

§ \$4 million positive translation effect on Peso-denominated receivables.

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

Sempra Renewables recorded earnings of:

- § \$62 million in 2013
- § \$61 million in 2012
- § \$7 million in 2011

The increase in earnings of \$1 million (2%) in 2013 was primarily due to:

- § \$24 million gains from the sale of 50-percent equity interests in Mesquite Solar 1 and Copper Mountain Solar 2;
- § \$16 million higher earnings attributable to our wind assets; and
- § \$13 million higher earnings from our solar assets, including \$6 million from interest rate hedges; **offset by**
- § \$50 million lower deferred income tax benefits, including \$5 million decrease from U.S. Treasury grant sequestration in 2013, as a result of solar and wind generating assets placed in service in 2012.

The increase in earnings of \$54 million in 2012 compared to 2011 was primarily due to:

- § \$35 million higher deferred income tax benefits as a result of increased investments in solar and wind generating assets in 2012;
- § \$7 million higher production tax credits from our wind assets;
- § \$6 million higher earnings attributable to our solar assets; and
- § \$3 million higher interest income.

Sempra Natural Gas

Sempra Natural Gas recorded earnings (losses) of:

- § \$64 million in 2013
- § \$(241) million in 2012
- § \$115 million in 2011

The change in 2013 was primarily due to:

- § \$239 million write-down of our investment in Rockies Express in 2012;
- § \$44 million gain in 2013 on the sale of a 625-MW block of the Mesquite Power plant, net of related expenses;
- § \$41 million higher earnings from LNG operations, primarily due to lower of cost or market adjustments in 2012 associated with the timing of cargoes, the impact of higher natural gas prices on marketing operations and lower costs resulting from commercial arrangements entered into with affiliates;
- § \$11 million lower interest expense and operating costs at the Mesquite Power plant due to the sale of one block of the plant in the first quarter of 2013; and

- § \$10 million improved results at our marketing and storage operations primarily driven by sales of natural gas in 2013; **offset by**
- § a \$25 million payment received from Kinder Morgan in 2012 due to tax impacts related to the sale of their interest in Rockies Express; and
- § \$12 million lower earnings at Sempra Rockies Marketing due to expiring capacity release contracts.

The change in 2012 compared to 2011 was primarily due to:

- § \$239 million write-down of our investment in Rockies Express in 2012;
- § \$121 million lower earnings from natural gas power plant operations in 2012 compared to 2011 primarily from lower natural gas and power prices, including the impact from the end of the DWR contract as of September 30, 2011; and
- § \$44 million lower earnings from LNG primarily due to lower natural gas prices, timing of cargo marketing operations, and costs in 2012 related to the development of the Cameron liquefaction project; **offset by**
- § a \$25 million payment received from Kinder Morgan due to tax impacts related to the sale of their interest in Rockies Express; and
- § \$23 million operating losses in 2011 from the El Dorado power plant sold to SDG&E as of October 1, 2011.

Parent and Other

Losses for Parent and Other were

- § \$168 million in 2013
- § \$55 million in 2012
- § \$126 million in 2011

The increase in losses of \$113 million in 2013 was primarily due to:

- § \$63 million income tax expense resulting from a corporate reorganization in connection with the IEnova stock offerings;
- § \$54 million income tax benefit in 2012 primarily associated with our decision to hold life insurance contracts kept in support of certain benefit plans to term, as we discuss below in “Income Taxes;” and
- § \$42 million higher net interest expense primarily due to lower intercompany interest income from a debt restructuring at Sempra Natural Gas and increased borrowings from Sempra Renewables; **offset by**
- § \$42 million higher income tax benefits, excluding income tax items discussed above, primarily due to higher favorable resolution of prior years’ income tax issues and the timing of a change in tax law. We discuss this new law, the American Taxpayer Relief Act of 2012, in “Income Taxes” below.

The decrease in losses of \$71 million (56%) in 2012 compared to 2011 was primarily due to:

- § \$54 million income tax benefit primarily associated with the decision to hold life insurance contracts to term, as we discuss below in “Income Taxes;”
- § \$20 million higher investment gains on dedicated assets in support of our executive retirement and deferred compensation plans, net of the increase in deferred compensation liability associated with the investments;
- § \$15 million equity losses in 2011 from the RBS Sempra Commodities joint venture, including a \$10 million write-down of the investment; and
- § higher earnings from foreign currency exchange effects mainly related to a Chilean holding company, and hedging transactions; **offset by**
- § \$27 million lower income tax benefits, excluding the \$54 million income tax benefit discussed above.

CHANGES IN REVENUES, COSTS AND EARNINGS

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

Utilities Revenues

Our utilities revenues include

Natural gas revenues at:

- § SDG&E

§ SoCalGas

§ Sempra Mexico's Ecogas

§ Sempra Natural Gas' Mobile Gas and Willmut Gas

Electric revenues at:

§ SDG&E

§ Sempra South American Utilities' Chilquinta Energía and Luz del Sur

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

The California Utilities

The current regulatory framework for SoCalGas and SDG&E permits the cost of natural gas purchased for core customers (primarily residential and small commercial and industrial customers) to be passed through to customers in rates substantially as incurred. However, SoCalGas' Gas Cost Incentive Mechanism provides SoCalGas the opportunity to share in the savings and/or costs from buying natural gas for its core customers at prices below or above monthly market-based benchmarks. This mechanism permits full recovery of costs incurred when average purchase costs are within a price range around the benchmark price. Any higher costs incurred or savings realized outside this range are shared between the core customers and SoCalGas. We provide further discussion in Notes 1 and 14 of the Notes to Consolidated Financial Statements.

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

The table below summarizes Utilities Revenues and Cost of Sales for Sempra Energy, net of intercompany activity.

UTILITIES REVENUES AND COST OF SALES 2011-2013

(Dollars in millions)

	Years ended December 31,		
	2013	2012	2011
Electric revenues:			
SDG&E	\$ 3,537	\$ 3,226	\$ 2,830
Sempra South American Utilities	1,383	1,349	1,009
Eliminations and adjustments	(9)	(7)	(6)
Total	4,911	4,568	3,833
Natural gas revenues:			
SoCalGas	3,736	3,282	3,816
SDG&E	529	468	543
Sempra Mexico	97	75	91
Sempra Natural Gas	109	96	93
Eliminations and adjustments	(73)	(48)	(54)
Total	4,398	3,873	4,489
Total utilities revenues	\$ 9,309	\$ 8,441	\$ 8,322
Cost of electric fuel and purchased power:			
SDG&E	\$ 1,019	\$ 892	\$ 715
Sempra South American Utilities	913	868	682
Total	\$ 1,932	\$ 1,760	\$ 1,397
Cost of natural gas:			
SoCalGas	\$ 1,362	\$ 1,074	\$ 1,568
SDG&E	204	151	226
Sempra Mexico	63	45	63
Sempra Natural Gas	35	25	27
Eliminations and adjustments	(18)	(5)	(18)
Total	\$ 1,646	\$ 1,290	\$ 1,866

Sempra Energy Consolidated

Electric Revenues

Our electric revenues increased by \$343 million (8%) to \$4.9 billion in 2013 primarily due to:

§ \$311 million increase at SDG&E, including:

□ \$140 million higher authorized revenues from electric transmission,

□ \$127 million increase in cost of electric fuel and purchased power,

□ \$94 million higher authorized revenue from implementation of the 2012 GRC decision and 2013 attrition. Due to the delay in the issuance of the 2012 GRC decision by the CPUC, 2012 authorized revenue was essentially unchanged from the 2011 authorized revenue, and

□ \$61 million increase due to the retroactive application in 2013 of the 2012 GRC decision for the period from January 2012 through December 2012, offset by

- \$40 million lower recovery of costs associated with CPUC-authorized refundable programs, which revenues are fully offset in operation and maintenance expenses,
 - \$33 million loss of revenue from SONGS due to the early closure of the plant, and
 - \$30 million lower CPUC-authorized rate of return established in the CPUC cost of capital proceeding effective as of January 1, 2013; and
- § \$34 million increase at our South American utilities primarily due to higher volumes, net of foreign currency exchange rate effects.

In 2012 compared to 2011, our electric revenues increased by \$735 million (19%) to \$4.6 billion primarily due to:

- § \$396 million increase at SDG&E, which we discuss below; and
- § \$340 million increase at our South American utilities, primarily from the consolidation of Chilquinta Energía and Luz del Sur acquired in April 2011. In addition, electric revenues increased due to higher commodity prices and volume at Luz del Sur, offset by lower commodity prices at Chilquinta Energía.

Our utilities' cost of electric fuel and purchased power increased by \$172 million (10%) to \$1.9 billion in 2013 primarily due to:

- § \$127 million increase in SDG&E's cost of electric fuel and purchased power primarily due to the incremental cost and purchases of renewable energy, and increased cost of other purchased power primarily due to higher power prices, slightly offset by lower demand driven by an overall cooler summer in 2013 compared to 2012; and
- § \$45 million increase at our South American utilities driven primarily by higher volumes and higher costs of purchased power, net of foreign currency exchange rate effects.

Our utilities' cost of electric fuel and purchased power increased by \$363 million (26%) to \$1.8 billion in 2012 compared to 2011 primarily due to:

- § \$186 million increase at Chilquinta Energía and Luz del Sur associated with the higher revenues; and
- § \$177 million increase at SDG&E, which we discuss below.

Natural Gas Revenues

In 2013, Sempra Energy's natural gas revenues increased by \$525 million (14%) to \$4.4 billion, and the cost of natural gas increased by \$356 million (28%) to \$1.6 billion. The increase in natural gas revenues included

- § an increase in cost of natural gas sold at both SoCalGas and SDG&E, as we discuss below;
- § increases of \$64 million and \$20 million at SoCalGas and SDG&E, respectively, primarily due to higher authorized revenues from implementation of the 2012 GRC decision and 2013 attrition. Due to the delay in the issuance of the 2012 GRC decision by the CPUC, 2012 authorized revenue was essentially unchanged from the 2011 authorized revenue;
- § higher recovery of costs at SoCalGas associated with CPUC-authorized refundable programs, which revenues are fully offset in operation and maintenance expenses; and
- § \$30 million increase due to the retroactive application in 2013 of the 2012 GRC decision for the period from January 2012 through December 2012.

In 2012 compared to 2011, Sempra Energy's natural gas revenues decreased by \$616 million (14%) to \$3.9 billion, and the cost of natural gas decreased by \$576 million (31%) to \$1.3 billion. The decrease in natural gas revenues included

- § \$494 million and \$75 million decreases in cost of natural gas sold at SoCalGas and SDG&E, respectively, from lower natural gas prices and volumes sold; and
- § \$64 million lower recovery of the California Utilities' costs associated with CPUC-authorized refundable programs, which revenues are fully offset in operation and maintenance expenses.

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

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

The table below shows electric revenues for SDG&E. Because the cost of electricity is substantially recovered in rates, changes in the cost are reflected in the changes in revenues. In addition to the change in cost, electric revenues recorded during a period are impacted by customer billing cycles causing a difference between customer billings and recorded or authorized costs. These differences are required to be balanced over time, resulting in over- and undercollected regulatory balancing accounts. We discuss balancing accounts and their effects further in Note 1 of the Notes to Consolidated Financial Statements.

SDG&E ELECTRIC DISTRIBUTION AND TRANSMISSION 2011-2013

(Volumes in millions of kilowatt-hours, dollars in millions)

Customer class	Years ended December 31,					
	2013		2012		2011	
	Volumes	Revenue	Volumes	Revenue	Volumes	Revenue

Residential	7,392 \$	1,283	7,587 \$	1,242	7,374 \$	1,215
Commercial	6,722	1,080	6,902	1,017	6,736	1,000
Industrial	1,962	257	2,042	249	2,037	247
Direct access(1)	3,593	151	3,399	148	3,265	148
Street and highway lighting	87	12	95	13	100	14
	19,756	2,783	20,025	2,669	19,512	2,624
CAISO shared transmission revenue - net(2)		268		64		11
Other revenues		172		134		106
Balancing accounts		314		359		89
Total(3)	\$	3,537	\$	3,226	\$	2,830

- (1) The Direct Access (DA) program, which offered all customers the option to purchase their electric commodity services from a third-party Energy Service Provider (ESP) instead of continuing to receive these services from SDG&E, was implemented in 1998 and suspended in 2001. In 2009, Senate Bill 695 required the CPUC to develop a process and rules for a limited re-opening of DA to be phased in over a period of time. In 2010, the CPUC adopted the process and rules for the limited re-opening of DA for non-residential customers under a 4-year phase-in schedule. The 2013 tranche of non-residential customers switching to DA resulted in higher volumes in 2013. The increase in revenues from the higher volumes was offset by lower tariffs in 2013 compared to 2012.
- (2) California Independent System Operator (CAISO) shared transmission revenue increased in both 2013 and 2012 compared to the prior year due to the Sunrise Powerlink transmission line being placed in service in June 2012.
- (3) Includes sales to affiliates of \$9 million in 2013, \$7 million in 2012 and \$6 million in 2011.

SDG&E's electric revenues increased by \$311 million (10%) to \$3.5 billion in 2013 primarily due to:

§ \$140 million higher authorized revenues from electric transmission including:

- \$80 million from placing the Sunrise Powerlink transmission line in service in June 2012, and
- \$60 million from increased investment in other transmission assets;

§ \$127 million increase in cost of electric fuel and purchased power primarily due to the incremental cost and purchases of renewable energy, and increased cost of other purchased power primarily due to higher power prices, slightly offset by lower demand driven by an overall cooler summer in 2013 compared to 2012;

§ \$94 million higher authorized revenue from implementation of the 2012 GRC decision and 2013 attrition. Due to the delay in the issuance of the 2012 GRC decision by the CPUC, SDG&E's 2012 authorized revenue was essentially unchanged from the 2011 authorized revenue; and

§ \$61 million increase due to the retroactive application in 2013 of the 2012 GRC decision for the period from January 2012 through December 2012; **offset by**

§ \$40 million lower recovery of costs associated with CPUC-authorized refundable programs, which revenues are fully offset in operation and maintenance expenses;

§ \$33 million loss of revenue from SONGS due to the early closure of the plant; and

§ \$30 million lower CPUC-authorized rate of return established in the CPUC cost of capital proceeding effective as of January 1, 2013.

In 2012 compared to 2011, electric revenues increased by \$396 million (14%) to \$3.2 billion at SDG&E, primarily due to:

§ \$177 million increase in cost of electric fuel and purchased power in 2012 including:

- \$100 million due to the incremental cost of renewable energy and other purchased power, and
- \$77 million due to the cost of power purchased to replace power scheduled to be generated and delivered to SDG&E from SONGS;

§ \$130 million higher authorized revenues from electric transmission including:

- \$83 million from placing the Sunrise Powerlink transmission line in service in June 2012, and
- \$47 million from increased investment in other transmission assets;

§ \$45 million higher authorized revenues from electric generation, primarily due to the acquisition of the Desert Star generation facility in October 2011;

§ \$42 million higher recoverable expenses that are fully offset in operation and maintenance expenses; and

§ \$21 million from advanced meter program costs; **offset by**

§ \$22 million lower revenues associated with incremental wildfire insurance premiums; and

§ \$10 million lower regulatory awards.

We do not include in the Consolidated Statements of Operations the commodity costs (and the revenues to recover those costs) associated with long-term contracts that are allocated to SDG&E by the California DWR. However, we do include the associated volumes and distribution revenues in the table above. We provide further discussion of these contracts in Notes 1 and 14 of the Notes to Consolidated Financial Statements.

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

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

SDG&E
NATURAL GAS SALES AND TRANSPORTATION 2011-2013
(Volumes in billion cubic feet, dollars in millions)

Customer class	Natural Gas Sales		Transportation		Total	
	Volumes	Revenue	Volumes	Revenue	Volumes	Revenue
2013:						
Residential	31 \$	323	— \$	1	31 \$	324
Commercial and industrial	15	98	9	13	24	111
Electric generation plants	—	—	25	15	25	15
	46 \$	421	34 \$	29	80	450
Other revenues						42
Balancing accounts						37
Total(1)						\$ 529
2012:						
Residential	30 \$	266	— \$	1	30 \$	267
Commercial and industrial	15	76	8	11	23	87
Electric generation plants	—	—	37	15	37	15
	45 \$	342	45 \$	27	90	369
Other revenues						40
Balancing accounts						59
Total(1)						\$ 468
2011:						
Residential	32 \$	341	— \$	1	32 \$	342
Commercial and industrial	15	103	8	10	23	113
Electric generation plants	—	—	25	8	25	8
	47 \$	444	33 \$	19	80	463
Other revenues						36
Balancing accounts						44
Total(1)						\$ 543

(1) Includes sales to affiliates of \$3 million in 2013, \$2 million in 2012 and \$1 million in 2011.

In 2013, SDG&E's natural gas revenues increased by \$61 million (13%) to \$529 million, and the cost of natural gas increased by \$53 million (35%) to \$204 million. The increase in revenues was primarily due to:

- § higher cost of natural gas sold, as we discuss below;
- § \$20 million higher authorized revenue from implementation of the 2012 GRC decision and 2013 attrition. Due to the delay in the issuance of the 2012 GRC decision by the CPUC, SDG&E's 2012 authorized revenue was essentially unchanged from the 2011 authorized revenue; and
- § \$5 million increase from the retroactive application in 2013 of the 2012 GRC decision for the period from January 2012 through December 2012; **offset by**
- § \$5 million lower recovery of costs associated with CPUC-authorized refundable programs, which revenues are fully offset in operation and maintenance expenses.

In 2012 compared to 2011, SDG&E's natural gas revenues decreased by \$75 million (14%) to \$468 million, and the cost of natural gas decreased by \$75 million (33%) to \$151 million. The decrease in revenues was primarily due to:

- § the decrease in cost of natural gas sold from lower natural gas prices and volumes sold, as we discuss below; and
- § \$13 million lower recovery of costs associated with CPUC-authorized refundable programs, which revenues are fully offset in operation and maintenance expenses; **offset by**
- § \$10 million increase associated with the advanced meter program.

SDG&E's average cost of natural gas was \$4.49 per thousand cubic feet (Mcf) for 2013, \$3.62 per Mcf for 2012 and \$4.83 per Mcf for 2011. In 2013, the 24-percent increase of \$0.87 per Mcf resulted in higher revenues and cost of \$40 million compared to 2012.

In 2012, the 25-percent decrease of \$1.21 per Mcf resulted in lower revenues and cost of \$54 million compared to 2011. The decrease in the cost of natural gas sold was also attributable to lower volumes, which resulted in lower revenues and cost of \$9 million.

SOCALGAS
NATURAL GAS SALES AND TRANSPORTATION 2011-2013
(Volumes in billion cubic feet, dollars in millions)

Customer class	Natural Gas Sales		Transportation		Total	
	Volumes	Revenue	Volumes	Revenue	Volumes	Revenue
2013:						
Residential	234 \$	2,204	2 \$	8	236 \$	2,212
Commercial and industrial	100	691	293	242	393	933

Electric generation plants	—	—	200	44	200	44
Wholesale	—	—	170	27	170	27
	334 \$	2,895	665 \$	321	999	3,216
Other revenues						101
Balancing accounts						419
Total(1)					\$	3,736
2012:						
Residential	234 \$	1,963	2 \$	8	236 \$	1,971
Commercial and industrial	101	608	283	240	384	848
Electric generation plants	—	—	231	39	231	39
Wholesale	—	—	175	24	175	24
	335 \$	2,571	691 \$	311	1,026	2,882
Other revenues						91
Balancing accounts						309
Total(1)					\$	3,282
2011:						
Residential	253 \$	2,358	1 \$	4	254 \$	2,362
Commercial and industrial	103	759	272	219	375	978
Electric generation plants	—	—	166	42	166	42
Wholesale	—	—	148	19	148	19
	356 \$	3,117	587 \$	284	943	3,401
Other revenues						99
Balancing accounts						316
Total(1)					\$	3,816

(1) Includes sales to affiliates of \$70 million in 2013, \$46 million in 2012 and \$53 million in 2011.

In 2013, SoCalGas' natural gas revenues increased by \$454 million (14%) to \$3.7 billion, and the cost of natural gas increased by \$288 million (27%) to \$1.4 billion. The revenue increase included

- § an increase in cost of natural gas sold from higher natural gas prices (as we discuss below);
- § \$76 million higher recovery of costs associated with CPUC-authorized refundable programs, which revenues are fully offset in operation and maintenance expenses;
- § \$64 million increase primarily due to higher authorized revenue from implementation of the 2012 GRC decision and 2013 attrition. Due to the delay in the issuance of the 2012 GRC decision by the CPUC, SoCalGas' 2012 authorized revenue was essentially unchanged from the 2011 authorized revenue; and
- § \$25 million increase due to the retroactive application in 2013 of the 2012 GRC decision for the period from January 2012 through December 2012.

In 2012 compared to 2011, SoCalGas' natural gas revenues decreased by \$534 million (14%) to \$3.3 billion, and the cost of natural gas sold decreased by \$494 million (32%) to \$1.1 billion. The decrease in revenues was primarily due to:

- § the decrease in cost of natural gas sold from lower natural gas prices and volumes sold (as we discuss below); and
- § \$51 million lower recovery of costs associated with CPUC-authorized refundable programs, which revenues are fully offset in operation and maintenance expenses.

The average cost of natural gas was \$4.08 per Mcf for 2013, \$3.21 per Mcf for 2012 and \$4.41 per Mcf for 2011. In 2013, the 27-percent increase of \$0.87 per Mcf resulted in higher revenues and cost of \$291 million compared to 2012.

In 2012, the 27-percent decrease of \$1.20 per Mcf resulted in lower revenues and cost of \$402 million compared to 2011. The decrease in the cost of natural gas sold was also attributable to lower demand for natural gas from a warmer winter in 2012.

Other Utilities: Revenues and Cost of Sales

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

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

The table below summarizes natural gas and electric revenue for our utilities outside of California:

OTHER UTILITIES NATURAL GAS AND ELECTRIC REVENUES 2011-2013 (Dollars in millions)	Years ended December 31,					
	2013		2012		2011	
	Volumes	Revenue	Volumes	Revenue	Volumes	Revenue
Natural Gas Sales (billion cubic feet):						
Sempra Mexico - Ecogas	24 \$	97	23 \$	75	22 \$	91
Sempra Natural Gas:						
Mobile Gas	40	88	43	86	40	93

Willmut Gas(1)	3	21	1	10	—	—
Total	67 \$	206	67 \$	171	62 \$	184

Electric Sales (million kilowatt hours)(2):

Sempra South American Utilities:

Luz del Sur	6,984 \$	785	6,668 \$	759	4,715 \$	487
Chilquinta Energia	2,856	537	2,698	533	1,859	481
	9,840	1,322	9,366	1,292	6,574	968
Other service revenues		61		57		41
Total	\$	1,383	\$	1,349	\$	1,009

(1) We acquired Willmut Gas in May 2012.

(2) We accounted for Luz del Sur and Chilquinta Energia under the equity method until April 6, 2011, when they became consolidated entities upon our acquisition of additional ownership interests.

Energy-Related Businesses: Revenues and Cost of Sales

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

ENERGY-RELATED BUSINESSES: REVENUES AND COST OF SALES 2011-2013

(Dollars in millions)

	Years ended December 31,								
	2013		2012		2011				
REVENUES									
Sempra South American Utilities	\$	112	9 %	\$	92	8 %	\$	71	4 %
Sempra Mexico		578	46		530	44		645	38
Sempra Renewables		82	7		68	6		22	1
Sempra Natural Gas		799	64		835	69		1,539	90
Intersegment revenues, adjustments and eliminations(1)		(323)	(26)		(319)	(27)		(563)	(33)
Total revenues	\$	1,248	100 %	\$	1,206	100 %	\$	1,714	100 %
COST OF SALES(2)									
Sempra Mexico	\$	253	58 %	\$	197	41 %	\$	276	37 %
Sempra Renewables		3	1		3	—		—	—
Sempra Natural Gas		497	114		581	121		1,034	139
Adjustments and eliminations(1)		(318)	(73)		(300)	(62)		(564)	(76)
Total cost of natural gas, electric fuel and purchased power	\$	435	100 %	\$	481	100 %	\$	746	100 %
Sempra South American Utilities	\$	84	47 %	\$	66	41 %	\$	45	33 %
Sempra Mexico		10	6		21	13		4	3
Sempra Natural Gas		91	51		90	57		89	65
Adjustments and eliminations(1)		(7)	(4)		(18)	(11)		(1)	(1)
Total other cost of sales	\$	178	100 %	\$	159	100 %	\$	137	100 %

(1) Includes eliminations of intercompany activity.

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

Revenues from our energy-related businesses increased by \$42 million (3%) to \$1.2 billion in 2013. The increase included

- § \$48 million increase at Sempra Mexico primarily due to higher natural gas and power prices, partially offset by the net impact of changes in affiliate agreements;
- § \$20 million increase at Sempra South American Utilities primarily due to higher electric construction service and energy distribution revenues at Tecnoed; and
- § \$14 million increase at Sempra Renewables mainly from revenues generated by our solar assets placed in service during 2012; **offset by**
- § \$36 million decrease at Sempra Natural Gas primarily due to lower power production at Mesquite Power, a portion of which was due to the sale of one 625-MW block of the natural gas-fired power plant, and expiring capacity release contracts at Sempra Rockies Marketing, offset by higher physical gas sales at natural gas marketing and storage operations, and the impact of higher natural gas prices on LNG marketing operations.

In 2012 compared to 2011, revenues from our energy-related businesses decreased by \$508 million (30%) to \$1.2 billion. The decrease included

- § \$704 million decrease at Sempra Natural Gas due to decreased power sales in 2012 compared to 2011 primarily from the end of the DWR contract in September 2011, lower natural gas revenues from its LNG operations as a result of lower natural gas prices and volumes, and lower revenues due to power sales associated with the EMA with Sempra Mexico, which we discuss above in "Sempra Mexico – Power Business;" and
- § \$115 million decrease in 2012 compared to 2011 at Sempra Mexico primarily due to the expiration of the DWR contract, which resulted in a change in the intercompany agreement with Sempra Natural Gas effective January 1, 2012, and from lower natural gas prices at its LNG operations, partially offset by an increase in revenues due to an outage at the Mexicali power plant in 2011; **offset by**
- § \$244 million lower intercompany eliminations primarily associated with sales between Sempra Mexico and Sempra Natural Gas; and
- § \$46 million increase at Sempra Renewables mainly from revenues generated by our solar and wind assets.

The cost of natural gas, electric fuel and purchased power for our energy-related businesses decreased by \$46 million (10%) to \$435 million in 2013 primarily due to:

§ an \$84 million decrease at Sempra Natural Gas primarily due to lower natural gas costs as a result of lower power production at Mesquite Power, as discussed above, and a decrease at its LNG operations primarily due to lower natural gas sales and lower costs resulting from commercial arrangements entered into with affiliates; **offset by**

§ a \$56 million increase at Sempra Mexico primarily due to higher natural gas prices and costs associated with greenhouse gas allowances.

The cost of natural gas, electric fuel and purchased power for our energy-related businesses in 2012 compared to 2011 decreased by \$265 million (36%) to \$481 million. The decrease was primarily due to:

§ \$453 million decrease at Sempra Natural Gas primarily associated with lower natural gas prices and lower power costs associated with the EMA with Sempra Mexico, which we discuss above in “Sempra Mexico – Power Business;” and

§ \$79 million decrease at Sempra Mexico primarily due to lower natural gas prices; **offset by**

§ \$264 million lower intercompany eliminations primarily associated with sales between Sempra Mexico and Sempra Natural Gas.

Other cost of sales from our energy-related businesses increased by \$19 million (12%) to \$178 million in 2013 primarily due to costs associated with higher service revenues at Tecnoled and Tecsur, including those related to electric construction and generation projects.

In 2012 compared to 2011, other cost of sales from our energy-related businesses increased by \$22 million (16%) to \$159 million primarily due to twelve months of cost of sales in 2012 for Tecnoled and Tecsur compared to only nine months in 2011. We started consolidating Tecnoled and Tecsur in April 2011.

Operation and Maintenance

In the table below, we provide a breakdown of our operation and maintenance expenses by segment.

OPERATION AND MAINTENANCE 2011-2013

(Dollars in millions)

	Years ended December 31,								
	2013		2012		2011				
California Utilities:									
SDG&E	\$	1,157	39 %	\$	1,154	39 %	\$	1,072	38 %
SoCalGas		1,324	44		1,304	44		1,305	46
Sempra International:									
Sempra South American Utilities		170	6		177	6		132	5
Sempra Mexico		124	4		94	3		98	3
Sempra U.S. Gas & Power:									
Sempra Renewables		46	1		34	1		17	1
Sempra Natural Gas		167	6		168	6		169	6
Parent and other(1)		7	—		25	1		32	1
Total operation and maintenance	\$	2,995	100 %	\$	2,956	100 %	\$	2,825	100 %

(1) Includes intercompany eliminations recorded in consolidation.

Sempra Energy Consolidated

While our operation and maintenance expenses remained approximately the same at \$3.0 billion in 2013, it included the following activities:

§ \$30 million higher expenses at Sempra Mexico mainly due to higher administrative expenses from the new IEnova public company structure and scheduled plant maintenance at the Mexicali power plant in 2013;

§ \$20 million increase at SoCalGas, which we discuss below; and

§ \$12 million increase at Sempra Renewables primarily due to higher corporate allocations, land lease costs for CMS 3, and operating expenses of CMS 2 and MS 1 prior to the projects’ deconsolidation in the third quarter of 2013; **offset by**

§ \$18 million decrease at Parent and Other mainly due to higher eliminations of intersegment operating costs.

In 2012 compared to 2011, our operation and maintenance expenses increased by \$131 million (5%) to \$3.0 billion. The increase included

§ \$82 million increase at SDG&E, which we discuss below;

§ \$45 million increase at Sempra South American Utilities primarily from the consolidation of expenses in Chile and Peru for a full year; and

§ \$17 million higher costs at Sempra Renewables primarily due to growth in the business.

SDG&E

SDG&E’s operation and maintenance expenses remained approximately the same at \$1.2 billion in 2013, and included the following activities:

§ \$36 million higher non-refundable operating costs, including:

□ \$10 million recovery from the DOE in 2012 of incremental costs incurred in prior years for the long-term storage of spent nuclear fuel, and

- \$4 million increase in liability insurance premiums for wildfire coverage in 2013;
- § \$7 million higher litigation expense; and
- § \$5 million higher operation and maintenance expenses at Otay Mesa VIE; **offset by**
- § \$45 million lower refundable program expenses.

In 2012 compared to 2011, SDG&E's operation and maintenance expenses increased by \$82 million (8%) to \$1.2 billion. The increase was primarily due to:

- § \$56 million higher other operation and maintenance costs, including:
 - \$14 million associated with the Desert Star generation facility acquired by SDG&E in October 2011 and from increased costs from the operations of other electric generating facilities,
 - \$12 million of advanced meter program costs, and
 - \$9 million increase in liability insurance premiums for wildfire coverage, *offset by*
 - \$10 million recovery in 2012 of incremental costs incurred in prior years for the long-term storage of spent nuclear fuel; and
- § \$29 million higher recoverable expenses primarily due to an increase in electric transmission-related operating expenses.

SoCalGas

Operation and maintenance expenses at SoCalGas increased by \$20 million (2%) to \$1.3 billion in 2013 primarily due to:

- § \$76 million higher refundable program expenses; **offset by**
- § \$49 million lower non-refundable operating costs; and
- § \$7 million insurance recovery in 2013 of previously expensed costs.

SoCalGas' operation and maintenance expenses decreased by \$1 million to \$1.3 billion in 2012 compared to 2011 primarily due to:

- § \$51 million lower recoverable expenses, primarily from reduced funding requirements for employee benefit programs; **offset by**
- § \$49 million higher other operational and maintenance costs, including expenses related to the TIMP, with no corresponding increase in CPUC-authorized margin in 2012 due to the delay in the 2012 GRC decision.

Depreciation and Amortization

Sempra Energy Consolidated

Our depreciation and amortization expense was

- § \$1,113 million in 2013
- § \$1,090 million in 2012
- § \$976 million in 2011

The increase in 2013 was primarily due to:

- § \$36 million higher depreciation and amortization at SoCalGas from higher utility plant base; and
- § \$22 million net increase in depreciation and amortization at SDG&E mainly from Sunrise Powerlink going into service in June 2012 and higher amortization of legacy meters, offset by lower depreciation from the retirement of SONGS; **offset by**
- § lower depreciation and amortization of \$18 million at SDG&E and \$15 million at SoCalGas due to the retroactive application to the period of January 1 to December 2012 of the extension of the useful lives of depreciable assets as adopted in the 2012 GRC; and
- § \$12 million lower depreciation expense at Sempra Natural Gas largely due to the sale of one block of the Mesquite Power plant in February 2013.

The increase in 2012 compared to 2011 included

- § \$68 million at SDG&E, primarily from higher electric plant depreciation;
- § \$31 million at SoCalGas from an increase in net utility plant base;
- § \$16 million from the consolidation of entities in Chile and Peru for a full year; and

§ \$10 million at Sempra Renewables mainly due to Mesquite Solar 1 going into service starting in December 2011; **offset by**

§ \$10 million decrease at Sempra Natural Gas primarily due to the sale of El Dorado in 2011.

Loss From Plant Closure

SDG&E has a 20-percent ownership interest in SONGS, a nuclear generating facility near San Clemente, California. SONGS' Units 2 and 3 were shut down in early 2012 due to steam generator issues and, in June 2013, Southern California Edison, the majority owner and operator of SONGS, made the decision to permanently retire these two units. In the second quarter of 2013, SDG&E recorded a pretax charge of \$200 million (\$119 million after-tax), which represents the portion of SDG&E's investment in SONGS and associated costs that management estimates may not be recovered in rates based on prior CPUC precedent. We discuss SONGS further in Notes 13 and 15 of the Notes to Consolidated Financial Statements.

Gain on Sale of Assets

In the first quarter of 2013, Sempra Natural Gas completed the sale of one 625-MW block of its Mesquite Power natural gas-fired power plant to the Salt River Project Agricultural Improvement and Power District for \$371 million, resulting in a pretax gain on sale of the asset of \$74 million (\$44 million after-tax). In the third quarter of 2013, Sempra Renewables recorded pretax gains of \$36 million and \$4 million from the sale of 50-percent equity interests in Mesquite Solar 1 and Copper Mountain Solar 2, respectively. After-tax gains from the sales were \$22 million and \$2 million, respectively.

Equity Earnings (Losses), Before Income Tax

Equity earnings (losses) from our equity method investments were

§ \$31 million in 2013

§ \$(319) million in 2012

§ \$9 million in 2011

Equity losses in 2012 included a write-down of our investment in Rockies Express of \$400 million, offset by a \$41 million make-whole income tax provision payment received from our previous joint venture partner, Kinder Morgan.

Results for 2011 include a \$16 million write-down of, and \$8 million equity loss from, our investment in the RBS Sempra Commodities joint venture. We and RBS, our partner in the joint venture, sold substantially all of the partnership's businesses and assets in four separate transactions completed in 2010 and early 2011.

We provide further details about equity method investments in Note 4 and the impairments of our Rockies Express and RBS Sempra Commodities investments in Note 10 of the Notes to Consolidated Financial Statements.

Remeasurement of Equity Method Investments

In the second quarter of 2011, we recorded a \$277 million non-taxable gain from the remeasurement of our equity method investments in Chilquinta Energía in Chile and Luz del Sur in Peru. We provide additional discussion related to this gain below in "Income Taxes" and in Note 3 of the Notes to Consolidated Financial Statements.

Other Income, Net

Sempra Energy Consolidated

Other income, net, was

§ \$140 million in 2013

§ \$172 million in 2012

§ \$130 million in 2011

Other Income, Net, includes equity-related AFUDC at the California Utilities and, starting in 2013, at Sempra Mexico; interest on regulatory balancing accounts; gains and losses from our investments and interest rate swaps; foreign currency gains and losses; and other, sundry amounts. The investment activity is on dedicated assets in support of certain executive benefit plans, as we discuss in Note 7 of the Notes to Consolidated Financial Statements.

Other income, net, decreased by \$32 million (19%) to \$140 million in 2013 primarily due to:

§ \$21 million decrease in equity-related AFUDC, including:

\$32 million decrease at SDG&E primarily due to completion of construction on the Sunrise Powerlink project in June 2012, and

\$8 million decrease at SoCalGas, *offset by*

\$19 million increase at Sempra Mexico related to construction of the Sonora Pipeline; and

§ \$9 million foreign currency gains in 2012.

In 2012 compared to 2011, other income, net, increased by \$42 million (32%) primarily due to:

§ \$10 million gains on interest rate and foreign exchange instruments in 2012 compared to \$14 million losses in 2011; and

§ \$19 million higher gains from investment activity related to our executive retirement and deferred compensation plans in 2012.

SDG&E

Other income, net, was

§ \$40 million in 2013

§ \$69 million in 2012

§ \$79 million in 2011

The decreases in other income, net, in 2013 and 2012 were primarily due to lower AFUDC equity as a result of completion of construction on the Sunrise Powerlink project in June 2012.

We provide further details of the components of other income, net, in Note 1 of the Notes to Consolidated Financial Statements.

Interest Expense

The table below shows the interest expense for Sempra Energy Consolidated, SDG&E and SoCalGas.

INTEREST EXPENSE 2011-2013

(Dollars in millions)

	Years ended December 31,		
	2013	2012	2011
Sempra Energy Consolidated	\$ 559	\$ 493	\$ 465
SDG&E	197	173	142
SoCalGas	69	68	69

Sempra Energy Consolidated

Our interest expense increased in 2013 primarily due to:

§ \$46 million decrease in capitalized interest mainly due to projects placed in service, including: SDG&E's Sunrise Powerlink, which was placed in service in June 2012; Sempra Renewables' solar and wind projects, which went online in the fourth quarter of 2012; and additional capacity at Sempra Natural Gas' Mississippi Hub facility, which went online in September 2012; and

§ \$20 million net increase in interest expense primarily related to long-term debt issuances, including:

the IEnova debt offering in February 2013,

long-term debt issuances in 2012 and 2013 and remarketing of industrial development bonds in 2012 from floating to fixed rates at SDG&E,

long-term debt issuances of \$1.6 billion in March and September 2012 and November 2013 at Parent and Other, offset by lower interest expense associated with the maturity of \$650 million of notes in February and November 2013, and

project financing of selected projects at Sempra Renewables.

In 2012 compared to 2011, our interest expense increased by \$28 million (6%) primarily due to:

§ \$31 million higher interest expense at SDG&E, which we discuss below; and

§ \$19 million higher long-term debt interest expense at Parent and Other from debt issuances in 2012; **offset by**

§ \$24 million higher capitalized interest associated with energy projects at Sempra Renewables.

SDG&E

SDG&E's interest expense increased \$24 million (14%) in 2013 primarily due to lower AFUDC debt as a result of the Sunrise Powerlink project going into service in June 2012, the issuances of long-term debt in 2012 and 2013 and the remarketing of industrial development bonds from floating to fixed rates in 2012.

In 2012 compared to 2011, SDG&E's interest expense increased by \$31 million (22%) primarily due to issuances of long-term debt in the second half of 2011 and in March 2012, and the decrease in AFUDC debt in 2012 due to the completion of construction of Sunrise Powerlink.

Income Taxes

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

INCOME TAX EXPENSE AND EFFECTIVE INCOME TAX RATES 2011-2013

(Dollars in millions)

	Years ended December 31,					
	2013		2012		2011	
	Income Tax Expense	Effective Income Tax Rate	Income Tax Expense	Effective Income Tax Rate	Income Tax Expense	Effective Income Tax Rate
Sempra Energy Consolidated	\$ 366	26 %	\$ 59	6 %	\$ 394	23 %
SDG&E	191	31	190	27	237	34
SoCalGas	116	24	79	21	143	33

Sempra Energy Consolidated

Sempra Energy's income tax expense increased in 2013 compared to 2012 due to higher pretax income and a higher effective income tax rate. The higher effective income tax rate was primarily due to:

- § \$63 million income tax expense recorded in the first quarter of 2013 resulting from a corporate reorganization in connection with the IEnova stock offerings. We discuss the stock offerings further in Note 1 of the Notes to Consolidated Financial Statements;
- § a \$62 million income tax benefit recorded in 2012 for life insurance contracts, of which \$54 million is 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;
- § lower income tax benefit in 2013 relating to certain repairs expenditures that are capitalized for financial statement purposes, including \$22 million income tax benefit recorded in 2012 for 2011 resulting from a favorable change made in the third quarter of 2012, as we discuss below;
- § lower favorable impact of exclusions from taxable income of the equity portion of AFUDC; and
- § lower deductions for self-developed software expenditures; **offset by**
- § a lower unfavorable impact on our effective tax rate in 2013 from the reversal through book depreciation of previously recognized tax benefits for a certain portion of utility fixed assets; and
- § favorable adjustments to prior years' income tax items in 2013, primarily at SoCalGas.

Sempra Energy's income tax expense decreased in 2012 compared to 2011 due to significantly lower pretax income (due to the write-down of our investment in Rockies Express in 2012) and a lower effective income tax rate. The lower effective income tax rate was primarily due to:

- § a change in the income tax treatment of certain repairs expenditures at SDG&E and SoCalGas that are capitalized for financial statement purposes, which resulted in a \$70 million higher income tax benefit compared to 2011, including a \$22 million income tax benefit related to the 2011 U.S. federal income tax return filed in the third quarter of 2012. This higher income tax benefit reflects the offsetting impact of lower income tax depreciation and unrecognized income tax benefits. We discuss this change in income tax treatment of certain repairs expenditures for electric transmission and distribution assets and for gas plant assets in Note 6 of the Notes to Consolidated Financial Statements;
- § a \$62 million income tax benefit for life insurance contracts, of which \$54 million is 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;
- § higher renewable energy income tax credits and deferred income tax benefits related to renewable energy projects; and
- § higher deductions for self-developed software expenditures; **offset by**
- § the impact of the \$277 million remeasurement gain (non-U.S. earnings) in 2011 related to our acquisition of controlling interests in Chilquinta Energía and Luz del Sur, which was non-taxable;
- § higher reversal through book depreciation in 2012 of previously recognized tax benefits for a certain portion of utility fixed assets; and
- § higher income tax expense due to Mexican currency translation and inflation adjustments.

We use the deferral method of accounting for investment tax credits (ITC). For certain solar and wind generating assets being placed into service during 2011 and 2012, we elected to seek cash grants rather than ITC for which the projects also qualify. Accordingly, cash grant accounting was applied. Grant accounting for cash grants is very similar to the deferral method of accounting for ITC, the primary difference being the recording of a cash grant receivable instead of an income tax receivable. We discuss our accounting for ITC and cash grants further in Note 6 of the Notes to Consolidated Financial Statements.

The results for Sempra Energy Consolidated and SDG&E include Otay Mesa VIE, which is consolidated, 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, as we discuss in Note 1 of the Notes to Consolidated Financial Statements. For 2013, 2012 and 2011, the impacts on the Sempra Energy Consolidated and SDG&E effective income tax rates shown above were not material.

We report as part of our pretax results the income or loss attributable to noncontrolling interests. However, we do not record income taxes for a portion of this income or loss, as some of our entities with noncontrolling interests are currently treated as partnerships for income tax purposes and thus we are only liable for income taxes on the portion of the earnings that are allocated to us. As our entities with noncontrolling interests grow, and as we may continue to invest in such entities, the impact on our effective income tax rate may become more significant.

In 2014, we anticipate that Sempra Energy Consolidated's effective income tax rate will be approximately 28% compared to 26% in 2013. This increase is primarily due to a forecasted increase in pretax book income and because we are not currently anticipating any similar significant one-time events as incurred in 2013. In addition, we are forecasting higher planned repatriation of a portion of future earnings beginning in 2014 from our subsidiaries in Mexico and Peru.

In the years 2015 through 2018, we anticipate that Sempra Energy Consolidated's effective income tax rate will range from 30% to 33% primarily due to forecasted increases in pretax book income, higher reversal through book depreciation of previously recognized tax benefits for a certain portion of utility fixed assets and lower deductions for self-developed software expenditures.

SDG&E

SDG&E's income tax expense increased in 2013 due to a higher effective tax rate offset by lower pretax income. The higher rate in 2013 compared to 2012 was primarily due to:

- § \$22 million income tax benefit recorded in 2012 for 2011 resulting from a favorable change made in the third quarter of 2012 in the income tax treatment of certain repairs expenditures that are capitalized for book purposes; and
- § lower favorable impact of exclusions from taxable income of the equity portion of AFUDC.

SDG&E's income tax expense decreased in 2012 compared to 2011 primarily due to a lower effective income tax rate. The lower effective income tax rate was primarily due to a change in the income tax treatment of certain repairs expenditures that are capitalized for financial statement purposes, which resulted in a \$36 million higher income tax benefit compared to 2011, including the \$22 million income tax benefit related to the 2011 U.S. federal income tax return filed in the third quarter of 2012. This higher income tax benefit reflects the offsetting impact of lower income tax depreciation. The change in income tax treatment of certain repairs expenditures for electric transmission and distribution assets was made pursuant to an Internal Revenue Service (IRS) Revenue Procedure providing a safe harbor for deducting certain repairs expenditures from taxable income when incurred for tax years beginning on or after January 1, 2011.

In 2014, we anticipate that SDG&E's effective income tax rate will be approximately 36% compared to 31% in 2013. This increase is primarily due to a forecasted increase in pretax book income and lower deductions for self-developed software and repairs expenditures.

In the years 2015 through 2018, we anticipate that SDG&E's effective income tax rate will range from 37% to 38% primarily due to forecasted increases in pretax book income and lower deductions for self-developed software expenditures.

SoCalGas

SoCalGas' income tax expense increased in 2013 due to higher pretax income and a higher effective tax rate. The higher rate in 2013 compared to 2012 was primarily due to:

- § lower income tax benefit in 2013 relating to certain repairs expenditures for gas assets that are capitalized for financial statement purposes; and
- § lower deductions for self-developed software expenditures; **offset by**
- § higher favorable adjustments to prior years' income tax items in 2013.

SoCalGas' income tax expense decreased in 2012 compared to 2011 due to lower pretax income and a lower effective tax rate. The lower rate in 2012 was primarily due to:

- § a change in the income tax treatment of certain repairs expenditures that are capitalized for financial statement purposes, which resulted in a \$34 million higher income tax benefit compared to 2011. This higher income tax benefit reflects the offsetting impact of lower income tax depreciation and unrecognized income tax benefits. The change in income tax treatment of certain repairs expenditures for gas plant assets was made pursuant to an IRS Revenue Procedure which allows, under an Internal Revenue Code section, for such expenditures to be deducted from taxable income when incurred; and
- § higher deductions for self-developed software expenditures; **offset by**
- § higher reversal through book depreciation in 2012 of previously recognized tax benefits for a certain portion of utility fixed assets.

In 2014, we anticipate that SoCalGas' effective income tax rate will be approximately 33% compared to 24% in 2013. This increase is primarily due to a forecasted increase in pretax book income and because we are not currently anticipating any similar significant one-time events as incurred in 2013. In addition, we are forecasting higher reversal through book depreciation of previously recognized tax benefits for a certain portion of utility fixed assets and lower deductions for self-developed software expenditures.

In the years 2015 through 2018, we anticipate that SoCalGas' effective income tax rate will remain constant at approximately 33%, primarily due to forecasted increases in pretax book income and lower deductions for self-developed software expenditures.

Subject to review in each general rate case proceeding, in general, the following items are subject to flow-through treatment at the California Utilities:

- § 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

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

In December 2013, the Mexican Congress passed tax reform legislation with the following impacts on Sempra Energy and our Sempra Mexico segment:

§ Higher Corporate Tax Rate: Previously, the law provided that the corporate income tax rate would return to the previously enacted rate of 28 percent for 2014 and future years. The newly enacted rate is 30 percent for 2014 and future years. The earnings impact of this rate change is:

- For 2013, \$13 million additional income tax expense related to the revaluation of deferred tax liabilities.
- For 2014 through 2017, estimated higher income tax expense of approximately \$18 million in total over the four years.

§ Tax Consolidation: The current consolidation rules under the income tax law were replaced with new rules under which tax benefits are recaptured in three years instead of five years. As part of the revocation of the old rules, we are required to make a prepayment of approximately \$38 million in 2014 that we expect to recover in 2015. The new rules do not have a material earnings impact at Sempra Energy or our Sempra Mexico segment.

§ 10-Percent Dividends Tax: A new “corporate” tax on dividends is payable by the Mexican entity that distributes the dividend to its foreign shareholder, which will increase Mexico’s income tax rate to an effective 37 percent. Under the law, this tax is reduced or offset in accordance with bilateral tax treaties. The dividends from our Mexican entities to Sempra Energy will be to a country which has a bilateral tax treaty with Mexico that we expect will fully offset the tax. Accordingly, we do not expect this rule to have a material financial impact.

In January 2013, the American Taxpayer Relief Act of 2012 (2012 Tax Act) was signed into law. The 2012 Tax Act included retroactive extensions from January 1, 2012 through December 31, 2013 of certain business income tax provisions that had expired at the end of 2011, including the look-through rule. The look-through rule allows, under certain situations, for certain non-operating income (e.g., dividend income, royalty income, interest income, rental income, etc.), of a greater than 50-percent owned non-U.S. subsidiary, to not be taxed under U.S. federal income tax law. The retroactive application of the look-through rule to 2012 resulted in a \$6 million income tax benefit. However, as the 2012 Tax Act was not signed into law as of December 31, 2012, the extension of the look-through rule has been treated as a 2013 event, and the related income tax benefit for 2012 was recorded in the first quarter of 2013. The 2012 Tax Act also extended the 50 percent bonus depreciation for qualified property placed in service before January 1, 2014, the impact of which is discussed below.

In December 2010, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (2010 Tax Act) was signed into law. The 2010 Tax Act included the extension of bonus depreciation for U.S. federal income tax purposes for years 2010 through 2012 and an increase in the rate of bonus depreciation from 50 percent to 100 percent. This increased rate only applies to certain investments made after September 8, 2010 through December 31, 2012. Self-constructed property, where the construction period exceeds one year, construction started between December 31, 2007 and January 1, 2013, and the property is placed in service by December 31, 2013, qualified for bonus depreciation in 2013 at either the original or increased rate.

Due to the extension of bonus depreciation, Sempra Energy generated a U.S. federal net operating loss (NOL) in 2011, 2012 and 2013. We currently project that the total NOL will not be fully utilized until approximately 2018. Because of the carryforward of NOL and U.S. federal income tax credits discussed below, Sempra Energy expects no U.S. federal income tax payments in years 2014 through 2018. Because bonus depreciation only creates a temporary difference between Sempra Energy’s U.S. federal income tax return and its U.S. GAAP financial statements, it does not impact Sempra Energy’s effective income tax rate. We expect larger U.S. federal income tax payments in the future as these temporary differences reverse.

SDG&E and SoCalGas both generated a large U.S. federal NOL in 2011 and in 2012 primarily due to bonus depreciation. In 2012, SoCalGas was able to, on a stand-alone basis, carry back its 2011 NOL to 2009 and partially carry back 2012 NOL to 2010 to offset taxable income in those years. In 2012, SDG&E was able to, on a stand-alone basis, carry back a majority of its 2011 NOL to 2009 and 2010 to offset taxable income in those years. The remaining portion of SDG&E’s 2011 NOL and 2012 NOL is carried forward to offset taxable income from 2013 to 2015, when we expect that the NOL will be fully utilized. Since SDG&E’s 2012 NOL and partial NOL from 2011 will be carried forward, it is therefore recorded as a deferred income tax asset. Because of the carryforward of NOL and U.S. federal income tax credits discussed below, SDG&E expects minimal U.S. federal income tax payments in 2014. SoCalGas’ 2012 remaining NOL after carry back will be carried forward, and is therefore recorded as a deferred income tax asset. We currently project that SoCalGas’ NOL carryforward, on a stand-alone basis, will be fully utilized by 2014. Because bonus depreciation only creates a temporary difference between SDG&E’s and SoCalGas’ U.S. federal income tax returns and U.S. GAAP financial statements, it does not impact SDG&E’s and SoCalGas’ effective income tax rates. We expect larger U.S. federal income tax payments in the future as these temporary differences reverse.

Bonus depreciation, in addition to impacting Sempra Energy’s and SDG&E’s U.S. federal income tax payments, will also have a temporary impact on Sempra Energy’s and SDG&E’s ability to utilize their U.S. federal income tax credits, which primarily are investment tax credits and production tax credits generated by Sempra Energy’s and SDG&E’s current and future renewable energy investments. However, based on current projections, Sempra Energy and SDG&E do not expect, based on more-likely-than-not criteria required under U.S. GAAP, any of these income tax credits to expire prior to the end of their 20-year carryforward period, as allowed under current U.S. federal income tax law. We also expect bonus depreciation to increase the deferred income tax liability component of SDG&E’s and SoCalGas’ rate base, which reduces rate base.

We had planned to begin repatriating a portion of future earnings beginning in 2013 from certain of our non-U.S. subsidiaries in Mexico and Peru. Due to the income tax expense resulting from a corporate reorganization in connection with the IEnova stock offerings that we discuss in Note 1 of the Notes to Consolidated Financial Statements, we made a distribution in 2013 of approximately \$200 million from our non-U.S. subsidiaries. This distribution was from previously taxed income and will not be subject to additional U.S. federal income tax. We now plan to repatriate a portion of future earnings beginning in

2014 from our subsidiaries in Mexico and Peru. Currently, all future repatriated earnings would be subject to U.S. income tax (with a credit for foreign income taxes) and future repatriation from Peru would be subject to local country withholding tax. Because this potential repatriation would only be from future earnings, it does not change our current assertion that we intend to continue to indefinitely reinvest our cumulative undistributed non-U.S. earnings through December 31, 2013. Therefore, we do not intend to use these cumulative undistributed earnings as a source of funding for U.S. operations.

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

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

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

For Sempra Energy Consolidated, the impacts in 2011-2013 related to the factors described above are as follows:

MEXICAN CURRENCY IMPACT ON INCOME TAXES AND RELATED ECONOMIC HEDGING ACTIVITY

(Dollars in millions)

	Years ended December 31,		
	2013	2012	2011
Income tax (expense) benefit on currency exchange rate movement of monetary assets and liabilities	\$ (6)	\$ (6)	\$ 11
Translation of non-U.S. deferred income tax balances	1	(2)	11
Income tax expense on inflation	—	(2)	(4)
Total impact on income taxes	(5)	(10)	18
After-tax gains (losses) on Mexican peso exchange rate instruments (included in Other Income, Net)	4	6	(9)
Net impacts on Sempra Energy Consolidated Statements of Operations	\$ (1)	\$ (4)	\$ 9

Equity Earnings, Net of Income Tax

Sempra Energy Consolidated

Equity earnings of unconsolidated subsidiaries, net of income tax, which are primarily earnings from Sempra South American Utilities' and Sempra Mexico's equity method investments, were

§ \$24 million in 2013

§ \$36 million in 2012

§ \$52 million in 2011

The decrease in 2013 included

§ \$11 million equity losses related to our investments in two Argentine natural gas utility holding companies, including \$7 million noncash impairment charge in the first quarter of 2013 and \$4 million loss from the sale of the investments in the second quarter of 2013, as we discuss in Note 4 of the Notes to Consolidated Financial Statements; and

§ \$4 million of equity losses in 2013 from our Eletrans S.A. and Eletrans II S.A. (collectively, Eletrans) joint ventures in Chile resulting from a forward exchange contract to manage foreign currency exchange rate risk; **offset by**

§ \$3 million higher earnings in 2013 from Sempra Mexico's joint-venture interest in pipeline assets.

The decrease in 2012 compared to 2011 was primarily due to:

§ \$24 million earnings in 2011 related to equity method investments in Chile and Peru, for entities that we have consolidated since April 2011; **offset by**

§ \$7 million higher earnings from Sempra Mexico's joint-venture interest in pipeline assets.

Earnings Attributable to Noncontrolling Interests

Sempra Energy Consolidated

Earnings attributable to noncontrolling interests were \$79 million for 2013 compared to \$55 million for the same period in 2012. The net change of \$24 million included

§ \$26 million earnings attributable to noncontrolling interests of IEnova in 2013; **offset by**

§ \$2 million lower earnings attributable to noncontrolling interest at Otay Mesa VIE in 2013.

Earnings attributable to noncontrolling interests increased by \$13 million in 2012 compared to 2011 primarily due to:

§ \$7 million higher earnings attributable to noncontrolling interest at Otay Mesa VIE, which we discuss below; and

§ \$5 million higher earnings at Sempra South American Utilities primarily from noncontrolling interests at Luz del Sur.

SDG&E

Earnings attributable to noncontrolling interest at Otay Mesa VIE decreased by \$2 million (8%) to \$24 million in 2013.

In 2012 compared to 2011, earnings attributable to noncontrolling interest at Otay Mesa VIE increased by \$7 million due to higher operating income.

Earnings

We summarize variations in overall earnings in “Overall Results of Operations of Sempra Energy and Factors Affecting the Results” above. We discuss variations in earnings (losses) by segment above in “Segment Results.”

TRANSACTIONS WITH AFFILIATES

We provide information about our related party transactions in Note 1 of the Notes to Consolidated Financial Statements.

BOOK VALUE PER SHARE

Sempra Energy’s book value per share on the last day of each year was

§ \$45.03 in 2013

§ \$42.43 in 2012

§ \$40.74 in 2011

The increases in 2013 and 2012 were primarily the result of comprehensive income exceeding dividends.

CAPITAL RESOURCES AND LIQUIDITY

OVERVIEW

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

Significant events in 2013 affecting capital resources, liquidity and cash flows were

§ \$574 million net proceeds from IEnova common stock offerings

§ \$546 million proceeds from Sempra Natural Gas’ sale of a 625-MW block of its Mesquite Power plant (\$371 million) and Sempra Renewables’ sale of equity interests in Mesquite Solar 1 and Copper Mountain Solar 2 (\$175 million)

§ \$238 million U.S. Treasury grant proceeds received

§ long-term debt issuances of \$1.6 billion, including \$500 million at Sempra Energy, \$450 million at SDG&E and \$408 million (U.S. equivalent) at IEnova

§ \$1 billion of long-term debt retirements and paydowns, including \$650 million at Sempra Energy, and \$199 million at SDG&E

§ \$2.6 billion in expenditures for property, plant and equipment, including \$978 million at SDG&E and \$762 million at SoCalGas

§ \$204 million undercollection of electric resource costs at SDG&E

§ \$83 million redemption of SDG&E’s outstanding preferred stock (including call premium and accrued dividends)

We discuss these events in more detail later in this section.

Our committed lines of credit provide liquidity and support commercial paper. As we discuss in Note 5 of the Notes to Consolidated Financial Statements, Sempra Energy, Sempra Global (the holding company for our subsidiaries not subject to California utility regulation) and the California Utilities each have five-year revolving credit facilities, expiring in 2017. At Sempra Energy and the California Utilities, the agreements are syndicated broadly among 24 different lenders and at Sempra Global, among 25 different lenders. No single lender has greater than a 7-percent share in any agreement.

The table below shows the amount of available funds at year-end 2013:

AVAILABLE FUNDS AT DECEMBER 31, 2013

(Dollars in millions)

	Sempra Energy Consolidated	SDG&E	SoCalGas
Unrestricted cash and cash equivalents(1)	\$ 904	\$ 27	\$ 27
Available unused credit(2)	3,430	599	616

(1) Amounts at Sempra Energy Consolidated include \$814 million held in non-U.S. jurisdictions that are unavailable to fund U.S. operations unless repatriated, as we discuss below.

(2) Borrowings on the shared line of credit at SDG&E and SoCalGas, discussed in Note 5 of the Notes to Consolidated Financial Statements, are limited to \$658 million for each utility and a combined total of \$877 million. SDG&E's available funds reflect commercial paper outstanding of \$59 million supported by the line. SoCalGas' available funds reflect commercial paper outstanding of \$42 million supported by the line.

Sempra Energy Consolidated

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

- § finance capital expenditures
- § meet liquidity requirements
- § fund shareholder dividends
- § fund new business acquisitions or start-ups
- § repay maturing long-term debt

In November 2013, Sempra Energy publicly offered and sold \$500 million of 4.05-percent notes maturing in 2023. In September 2013, SDG&E publicly offered and sold \$450 million of 3.6-percent first mortgage bonds maturing in 2023. Sempra Energy, SoCalGas and SDG&E issued long-term debt in 2012 in the aggregate principal amounts of \$1.1 billion, \$350 million and \$250 million, respectively. Changing economic conditions could affect the availability and cost of both short-term and long-term financing. If cash flows from operations were to be significantly reduced or we were unable to borrow under acceptable terms, we would likely first reduce or postpone discretionary capital expenditures (not related to safety) and investments in new businesses. If these measures were necessary, they would primarily impact certain of our Sempra International and Sempra U.S. Gas & Power businesses before we would reduce funds necessary for the ongoing needs of our utilities. We continuously monitor our ability to finance the needs of our operating, investing and financing activities in a manner consistent with our intention to maintain strong, investment-grade credit ratings and capital structure.

The increase in Sempra Energy Consolidated cash and cash equivalents at December 31, 2013 compared to December 31, 2012 of \$429 million was primarily due to the cash proceeds from the IEnova debt and equity offerings and remains held in cash and cash equivalents in non-U.S. jurisdiction entities at December 31, 2013. Net cash proceeds from these transactions totaled approximately \$1 billion. Although IEnova used the majority of the proceeds from its debt offering to repay intercompany debt balances, these balances were primarily with other Sempra Energy consolidated foreign entities. In 2013, cash held in foreign jurisdictions was utilized to pay down \$83 million of bonds at Chilquinta Energía, fund capital expenditures at Sempra Mexico, and repatriate approximately \$200 million pursuant to our plans to do so as we discuss below. The repatriated funds were used primarily to pay down commercial paper borrowings. Sempra Energy also received \$371 million cash proceeds from the sale of a 625-MW block of Sempra Natural Gas' Mesquite Power plant, which we utilized to pay down commercial paper in February and March of 2013. In July 2013, we received \$72 million cash proceeds from the sale of a 50-percent equity interest in CMS 2, and in September 2013, we received \$103 million cash proceeds from the sale of a 50-percent equity interest in MS 1. These funds were utilized to pay down commercial paper in July and September 2013. We discuss these transactions further in Notes 3 and 5 of the Notes to Consolidated Financial Statements.

In three separate transactions during 2010 and one in early 2011, we and RBS sold substantially all of the businesses and assets of our joint-venture partnership that comprised our commodities-marketing businesses. Distributions from the partnership in 2013 and 2011 were \$50 million and \$623 million, respectively. The investment balance of \$73 million at December 31, 2013 reflects remaining distributions expected to be received from the partnership as it is dissolved. The timing and amount of distributions may be impacted by the matters we discuss related to RBS Sempra Commodities in Note 15 of the Notes to Consolidated Financial Statements 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.

We provide additional information about RBS Sempra Commodities and the sales transactions and guarantees in Notes 4, 5 and 15 of the Notes to Consolidated Financial Statements.

In April 2011, Sempra South American Utilities acquired AEI's interests in Chilquinta Energía, Luz del Sur, and related entities for \$611 million in cash (net of cash acquired). This transaction was funded with excess funds from foreign operations, proceeds from divestitures and short-term debt.

We provide additional information about Chilquinta Energía and Luz del Sur in Note 3 of the Notes to Consolidated Financial Statements.

At December 31, 2013, our cash and cash equivalents held in non-U.S. jurisdictions that are unavailable to fund U.S. operations unless repatriated are \$814 million. As we discuss in "Results of Operations – Changes in Revenues, Costs and Earnings – Income Taxes" in "Management's Discussion and Analysis of Financial Condition and Results of Operations," we plan to repatriate a portion of future earnings beginning in 2014 from certain of our non-U.S. subsidiaries in Mexico and Peru. Because this potential repatriation would only be from future earnings, it does not change our current assertion that we intend to continue to indefinitely reinvest our cumulative undistributed non-U.S. earnings through December 31, 2013. Therefore, we do not intend to use these cumulative undistributed earnings as a source of funding for U.S. operations.

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

On February 21, 2014, our board of directors approved an increase to Sempra Energy's quarterly common stock dividend to \$0.66 per share (\$2.64 annually), an increase of \$0.03 per share (\$0.12 annually) from \$0.63 per share (\$2.52 annually) authorized in February 2013. Declarations of dividends on our common stock are made at the discretion of the board. While we view dividends as an integral component of shareholder return, the amount of future dividends will depend upon earnings, cash flows, financial and legal requirements, and other relevant factors at that time.

On February 22, 2013, our board of directors approved an increase to Sempra Energy's quarterly common stock dividend to \$0.63 per share (\$2.52 annually), an increase of \$0.03 per share (\$0.12 annually) from \$0.60 per share (\$2.40 annually) authorized in February 2012. We provide further information regarding dividends and dividend restrictions in "Dividends" below and under "Restricted Net Assets" in Note 1 of the Notes to Consolidated Financial Statements.

Short-Term Borrowings

Our short-term debt is primarily used to meet liquidity requirements, fund shareholder dividends, temporarily finance capital expenditures, and fund new business acquisitions or start-ups. Our corporate short-term, unsecured promissory notes, or commercial paper, were our primary source of short-term debt funding in 2013.

The following table shows selected statistics for our commercial paper borrowings for 2013:

COMMERCIAL PAPER STATISTICS

(Dollars in millions)

	Sempra Energy Consolidated	SDG&E	SoCalGas
Amount outstanding at December 31, 2013	\$ 691 (1)	\$ 59	\$ 42
Weighted average interest rate at December 31, 2013	0.32%	0.13%	0.13%
Maximum month-end amount outstanding during 2013(2)	\$ 995	\$ 136	\$ 42
Monthly weighted average amount outstanding during 2013	\$ 711	\$ 10	\$ 1
Monthly weighted average interest rate during 2013	0.44%	0.16%	0.13%

(1) Includes \$200 million classified as long-term, as we discuss in Note 5 of the Notes to Consolidated Financial Statements.

(2) The largest amount outstanding at the end of the last day of any month during the year.

Significant cash flows impacting commercial paper levels at Sempra Energy during 2013 included:

- § issuance of long-term debt at Sempra Energy (\$500 million);
- § repatriated funds received from non-U.S. subsidiaries (approximately \$200 million);
- § cash proceeds from the sale of a 625-MW block of Sempra Natural Gas' Mesquite Power plant (\$371 million);
- § cash proceeds from the sale of a 50-percent equity interest in Copper Mountain Solar 2 (\$72 million);
- § cash proceeds from the sale of a 50-percent equity interest in Mesquite Solar 1 (\$103 million); and
- § U.S. Treasury grant proceeds (\$238 million); **offset by**
- § repayments of debt (\$650 million); and
- § payments of common dividends (\$606 million) at Sempra Energy.

California Utilities

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

SoCalGas declared and paid common dividends of \$50 million in 2013, \$250 million in 2012, and \$50 million in 2011. However, as a result of the increase in SoCalGas' capital investment programs over the next few years, and the increase in SoCalGas' authorized common equity weighting as approved by the CPUC in the cost of capital proceeding, management expects that SoCalGas' dividends on common stock will be reduced, when compared to the dividends on common stock declared on an annual basis historically, or temporarily suspended over the next few years to maintain SoCalGas' authorized capital structure during the periods of high capital investments. We discuss the cost of capital proceeding in Note 14 of the Notes to Consolidated Financial Statements.

As a result of SDG&E's large capital investment program over the past few years and the level of capital investment in 2013, SDG&E did not pay common dividends to Sempra Energy in 2013 or 2012. In 2011, Sempra Energy made a \$200 million capital contribution to SDG&E. However, due to the completion of construction of the Sunrise Powerlink transmission power line in June 2012, SDG&E expects to be able to resume the declaration and payment of dividends on its common stock in 2014.

On October 15, 2013, SDG&E redeemed all of its outstanding preferred stock for \$83 million (including call premium and accrued dividends).

Sempra South American Utilities

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

Sempra Mexico

We expect projects in Mexico to be funded through a combination of available funds, funds internally generated by the Mexico businesses, debt issuances, project financing, partnering in joint ventures, and the proceeds from IEnova's debt and equity offerings in early 2013. In February 2013, IEnova, a subsidiary of Sempra Mexico, publicly offered and sold in Mexico \$306 million U.S. equivalent of fixed-rate, peso-denominated notes maturing in 2023 and \$102 million U.S. equivalent variable-rate, peso-denominated notes maturing in 2018. Sempra Mexico used the proceeds of the notes primarily for the repayment of intercompany debt and also for capital projects. Sempra Mexico entered into cross-currency swaps for U.S. dollars at the time of issuance. We discuss this offering further in Note 5 of the Notes to Consolidated Financial Statements.

In March 2013, Sempra Mexico received net proceeds of \$574 million from the sale of IEnova common stock in concurrent private and public offerings, as we discuss in Note 1 of the Notes to Consolidated Financial Statements. Sempra Mexico is using the net proceeds from these offerings primarily for general corporate purposes and for the funding of current investments and ongoing expansion plans.

Sempra Renewables

We expect Sempra Renewables to require funds for the development of and investment in electric renewable energy projects. Projects at Sempra Renewables may be financed through a combination of operating cash flow, project financing, funds from the parent, and partnering in joint ventures. The Sempra Renewables projects have planned in-service dates through 2016. In May 2013, Sempra Renewables received \$286 million in total committed funding (\$146 million of which was drawn upon in May 2013) related to Copper Mountain Solar 2, as we discuss in Note 5 of the Notes to Consolidated Financial Statements. In July 2013, Sempra Renewables sold a 50-percent equity interest in Copper Mountain Solar 2 to ConEdison Development and received \$72 million in cash from the sale. Sempra Renewables' interest is now accounted for under the equity method and the related long-term debt was deconsolidated upon the sale. Sempra Renewables received \$103 million in cash from the sale of a 50-percent equity interest in Mesquite Solar 1 to ConEdison Development in September 2013. Mesquite Solar 1's \$297 million of outstanding long-term debt was also deconsolidated after the sale.

Sempra Natural Gas

We expect Sempra Natural Gas to require funding for the expansion of its portfolio of projects, including natural gas storage and pipelines and natural gas liquefaction facility. Funding for the development and expansion of its natural gas storage and transmission projects may be financed through a combination of operating cash flow and funding from the parent. In January 2014, management approved a plan to sell the remaining 625-MW block of the Mesquite Power plant, which we expect to yield cash proceeds at the time of sale. Sempra Natural Gas also plans to develop a natural gas liquefaction export facility at its Cameron LNG terminal. Sempra Natural Gas expects the majority of the liquefaction project to be project-financed with most or all of the remainder of the capital requirements to be provided by the project partners, including Sempra Energy, through equity contributions in a joint venture agreement. We expect to provide the majority of our share of equity through the contribution of the existing Cameron LNG facility at an agreed value of approximately \$1 billion and also by cash generated from each train as it comes on line.

Some of Sempra Natural Gas' long-term power sale contracts contain collateral requirements that require its affiliates and/or the counterparty to post cash, guarantees or letters of credit to the other party for exposure in excess of established thresholds. Sempra Natural Gas may be required to provide collateral when the fair value of the contract with our counterparty exceeds established thresholds. We have no collateral posted and less than \$1 million of collateral owed to counterparties at December 31, 2013 pursuant to these requirements.

CASH FLOWS FROM OPERATING ACTIVITIES

CASH PROVIDED BY OPERATING ACTIVITIES

(Dollars in millions)

	2013	2013 Change			2012	2012 Change			2011
Sempra Energy Consolidated	\$ 1,784	\$ (234)	(12)	%	\$ 2,018	\$ 151	8	%	\$ 1,867
SDG&E	719	(382)	(35)		1,101	219	25		882
SoCalGas	681	(165)	(20)		846	292	53		554

Sempra Energy Consolidated

Cash provided by operating activities at Sempra Energy decreased in 2013 due to:

§ \$110 million decrease in net overcollected regulatory balancing accounts in 2013 at SoCalGas (including long-term amounts included in regulatory assets) compared to a \$31 million increase in net overcollected regulatory balancing accounts in 2012. Over- and undercollected regulatory balancing accounts reflect the difference between customer billings and recorded or CPUC-authorized costs. These differences are required to be balanced over time. See further explanation for changes in regulatory balances at both SDG&E and SoCalGas below;

§ \$273 million increase in accounts receivable in 2013, primarily due to a \$60 million increase at SoCalGas as a result of an increase in billing rates in 2013, and a \$69 million increase in natural gas sales at Sempra Natural Gas in 2013;

§ \$375 million of funds received from wildfire litigation settlements at SDG&E in 2012; and

§ \$85 million payment received by SDG&E in 2012 for third party transmission line access (which we discuss in Note 15 of the Notes to Consolidated Financial Statements); **offset by**

§ \$259 million higher net income, adjusted for noncash items included in earnings, in 2013 compared to 2012;

§ a \$203 million decrease in settlement payments and associated legal fees in 2013 for wildfire claims at SDG&E; and

§ \$116 million decrease in inventory in 2013 (including an \$82 million decrease at SoCalGas) compared to a \$78 million increase in 2012.

Cash provided by operating activities at Sempra Energy increased in 2012 due to:

§ \$290 million higher net income, adjusted for noncash items included in earnings, in 2012 compared to 2011;

§ \$375 million of funds received in 2012 compared to \$300 million received in 2011 from wildfire litigation settlements;

§ \$130 million settlement payment in 2011 related to energy crisis litigation;

§ a \$36 million decrease in accounts receivable in 2012 compared to a \$32 million increase in accounts receivable in 2011; and

§ an \$85 million payment received by SDG&E for third party transmission line access; **offset by**

§ \$29 million increase in income taxes receivable in 2012 compared to a \$269 million decrease in income taxes receivable in 2011;

§ an increase of \$291 million in net undercollected regulatory balancing accounts in 2012 compared to an increase of \$150 million in such accounts in 2011; and

§ \$53 million of distributions from RBS Sempra Commodities in 2011.

SDG&E

Cash provided by operating activities at SDG&E decreased in 2013 primarily due to:

§ \$375 million of funds received from wildfire litigation settlements in 2012;

§ \$85 million payment received in 2012 for third party transmission line access; and

§ \$50 million increase in income taxes receivable in 2013 compared to an \$85 million decrease in 2012; **offset by**

§ \$301 million increase in net undercollected regulatory balancing accounts in 2013 (including long-term amounts included in regulatory assets) compared to a \$322 million increase in 2012, as detailed below in the discussion of the increase in cash provided by operating activities in 2012. The increase in the net undercollected balancing accounts in 2013 was primarily due to:

\$103 million increase in the net undercollected balance due to the adoption of the 2012 GRC in 2013; and

\$204 million increase in the undercollected balancing account for electric resource cost;

§ \$40 million higher net income, adjusted for noncash items included in earnings, in 2013 compared to 2012; and

§ \$203 million decrease in settlement payments and associated legal fees in 2013 for wildfire claims.

Cash provided by operating activities at SDG&E increased in 2012 due to:

§ \$375 million of funds received in 2012 compared to \$300 million received in 2011 from wildfire litigation settlements;

§ \$242 million net income tax refunds in 2012 compared to \$59 million net income tax payments in 2011;

§ \$129 million higher net income, adjusted for noncash items included in earnings, in 2012 compared to 2011; and

§ an \$85 million payment received in 2012 for third party transmission line access; **offset by**

§ \$42 million decrease in accounts payable in 2012 compared to a \$68 million increase in accounts payable in 2011; and

§ an increase of \$322 million in net undercollected regulatory balancing accounts in 2012 compared to an increase of \$87 million in such accounts in 2011, as follows:

the increase in net undercollected regulatory balancing accounts in 2012 was primarily due to:

§ \$214 million undercollection of electric resource costs, and

§ \$71 million return of prior year's overcollection to customers and \$83 million of unrecovered current year spending for advanced metering infrastructure costs, *offset by*

§ \$54 million reduction of prior year's undercollected electric distribution fixed costs.

the increase in net undercollected regulatory balancing accounts in 2011 was primarily due to:

§ \$18 million undercollection of electric resource costs,

§ \$36 million undercollection of power commodity costs and costs associated with SDG&E's contracts with qualifying electric generation facilities, and

§ \$18 million undercollection of rate design settlement costs.

SoCalGas

Cash provided by operating activities at SoCalGas decreased in 2013 primarily due to:

- § \$110 million decrease in overcollected regulatory balancing accounts in 2013 (including long-term amounts included in regulatory assets) compared to a \$31 million increase in 2012, as detailed below in the discussion of the increase in cash provided from operating activities in 2012. The decrease in the net overcollected balancing accounts in 2013 was primarily due to:
 - \$26 million decrease in the net overcollected balancing accounts due to the adoption of the 2012 GRC in 2013, and
 - \$86 million change in the balancing account for fixed costs associated with core customer activities. In 2013, this account changed from a \$36 million overcollected balance to a \$50 million undercollected balance at year-end;
 - § \$113 million increase in accounts receivable in 2013, primarily due to a \$60 million increase in trade accounts receivable and a \$30 million increase in physical gas sales. The \$60 million increase in trade accounts receivable is primarily due to the increase in billing rates in 2013 compared to 2012; and
 - § \$54 million decrease in accounts payable in 2013 compared to a \$54 million increase in 2012; **offset by**
 - § \$92 million higher net income, adjusted for noncash items included in earnings, in 2013 compared to 2012; and
 - § \$82 million decrease in inventory in 2013 compared to \$1 million increase in 2012, due to higher net withdrawal volume and higher rate of natural gas withdrawn in 2013.

Cash provided by operating activities at SoCalGas increased in 2012 due to:

- § \$37 million decrease in accounts receivable in 2012 compared to a \$57 million increase in accounts receivable in 2011;
- § a \$54 million increase in accounts payable in 2012 compared to a \$7 million decrease in accounts payable in 2011;
- § \$46 million increase in inventory in 2011;
- § \$25 million higher net income, adjusted for noncash items included in earnings, in 2012 compared to 2011; and
- § an increase of \$31 million in net overcollected regulatory balancing accounts in 2012 as compared to a decrease of \$63 million in net overcollected regulatory balancing accounts in 2011, as follows:
 - the increase in net overcollected regulatory balancing accounts in 2012 was primarily due to:
 - § overcollection of California Alternate Rates for Energy (CARE) program costs of \$54 million; and
 - § overcollection of advanced metering infrastructure costs of \$38 million; *offset by*
 - § undercollection of fixed costs associated with core customer activities of \$59 million.
 - the decrease in net overcollected regulatory balancing accounts in 2011 was primarily due to:
 - § undercollection of direct assistance program costs of \$32 million; and
 - § undercollection of postretirement benefit plans costs of \$27 million.

The table below shows the contributions to pension and other postretirement benefit plans for each of the past three years.

CONTRIBUTIONS TO PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS 2011-2013

(Dollars in millions)

	Pension Benefits			Other Postretirement Benefits		
	2013	2012	2011	2013	2012	2011
Sempra Energy Consolidated	\$ 133	\$ 123	\$ 212	\$ 27	\$ 39	\$ 72
SDG&E	51	45	69	14	13	15
SoCalGas	59	47	95	9	23	55

The significant decrease in 2012 compared to 2011 was due to the passage of legislation in July 2012, the Moving Ahead for Progress in the 21st Century Act, that significantly reduces the minimum contributions required for single employer defined benefit plans, but increases premiums to the Pension Benefit Guaranty Corporation. The contributions to our other postretirement plans at SoCalGas and Sempra Energy decreased significantly in 2012 compared to 2011 mainly due to the impact of lower than expected retiree claims costs, our election to switch to an Employer Group Waiver Plan for administering prescription drug benefits for retirees and the change in the participation rates assumption to reflect lower anticipated utilization.

CASH FLOWS FROM INVESTING ACTIVITIES

CASH USED IN INVESTING ACTIVITIES

(Dollars in millions)

	2013	2013 Change		2012	2012 Change		2011
Sempra Energy Consolidated	\$ (1,689)	\$ (1,469)	(47) %	\$ (3,158)	\$ 88	3 %	\$ (3,070)
SDG&E	(973)	(262)	(21)	(1,235)	(529)	(30)	(1,764)
SoCalGas	(728)	85	13	(643)	9	1	(634)

Sempra Energy Consolidated

Cash used in investing activities at Sempra Energy decreased in 2013 primarily due to:

- § \$384 million decrease in capital expenditures;
- § \$371 million proceeds received from Sempra Natural Gas' 2013 sale of a 625-MW block of its Mesquite Power plant;
- § \$372 million invested in wind assets in 2012, including \$291 million in the Flat Ridge 2 Wind Farm;
- § \$238 million U.S. Treasury grant proceeds;
- § \$103 million proceeds received from the sale of a 50-percent equity interest in Mesquite Solar 1; and
- § \$72 million proceeds received from the sale of a 50-percent equity interest in Copper Mountain Solar 2; **offset by**
- § \$55 million lower distributions from investments, including a \$50 million distribution in 2013 from RBS Sempra Commodities.

Cash used in investing activities at Sempra Energy increased in 2012 due to:

- § \$570 million in distributions received from RBS Sempra Commodities in 2011;
- § \$381 million in payments in 2011 for claims related to wildfire litigation using restricted funds received from a wildfire litigation settlement;
- § \$127 million increase in investments in wind assets; and
- § \$112 million increase in capital expenditures; **offset by**
- § \$611 million in cash used to fund Sempra South American Utilities' purchase of South American entities in 2011;
- § a \$300 million increase in SDG&E's restricted cash in 2011 due to funds received from a wildfire litigation settlement;
- § \$148 million in distributions received from Flat Ridge 2 in 2012; and
- § \$59 million from the sale of Chilquinta Energía bonds in 2012.

SDG&E

In 2013, cash used in investing activities at SDG&E decreased primarily due to a \$259 million decrease in capital expenditures, primarily due to the completion of the Sunrise Powerlink project in June 2012.

Cash used in investing activities decreased at SDG&E in 2012 primarily due to:

- § a \$594 million decrease in capital expenditures, primarily due to the completion of the Sunrise Powerlink project in June 2012; and
- § a \$300 million increase in restricted cash in 2011 due to funds received from a wildfire litigation settlement; **offset by**
- § \$381 million in payments for claims in 2011 related to wildfire litigation using restricted funds received from a wildfire litigation settlement.

SoCalGas

Cash used in investing activities at SoCalGas increased in 2013 due to:

- § a \$123 million increase in capital expenditures; **offset by**
- § \$34 million decrease in advances to Sempra Energy in 2013 compared to a \$4 million increase in advances to Sempra Energy in 2012.

Cash used in investing activities increased at SoCalGas in 2012 primarily due to:

- § a \$4 million increase in advances to Sempra Energy in 2012 compared to a \$49 million decrease in advances to Sempra Energy in 2011; **offset by**

§ a \$44 million decrease in capital expenditures.

CAPITAL EXPENDITURES AND INVESTMENTS

The table below shows our expenditures for property, plant and equipment, and for investments. We provide capital expenditure information by segment in Note 16 of the Notes to Consolidated Financial Statements.

SEMPRA ENERGY CONSOLIDATED			
CAPITAL EXPENDITURES AND INVESTMENTS/ACQUISITIONS			
<i>(Dollars in millions)</i>			
		Property, plant and equipment	Investments and acquisition of businesses
2013	\$	2,572	\$ 22
2012		2,956	445
2011		2,844	941
2010		2,062	611
2009		1,912	939

Capital Expenditures

California Utilities

The California Utilities' capital expenditures for property, plant and equipment were

<i>(Dollars in millions)</i>		2013	2012	2011
SDG&E	\$	978 \$	1,237 \$	1,831
SoCalGas		762	639	683

Capital expenditures at the California Utilities in 2013 consisted primarily of:

SDG&E

- § \$458 million of improvements to natural gas and electric distribution systems
- § \$439 million of improvements to electric transmission systems
- § \$33 million for substation expansions (transmission)
- § \$48 million for electric generation plants and equipment

SoCalGas

- § \$580 million of improvements to distribution and transmission systems and storage facilities, and for pipeline safety
- § \$170 million for advanced metering infrastructure
- § \$10 million for other natural gas projects

Sempra South American Utilities

Sempra South American Utilities had capital expenditures at its utilities of \$200 million in 2013, \$183 million in 2012 and \$110 million in 2011, related to distribution infrastructure and generation projects, including a hydroelectric power plant in Peru.

Sempra Mexico

Total capital expenditures in 2013 were \$371 million, primarily for the development of natural gas pipeline projects. Total capital expenditures were \$45 million in 2012 and \$16 million in 2011.

Sempra Renewables

In 2013, capital expenditures include \$46 million for construction of the Mesquite Solar 1 facility, \$9 million for construction of the Copper Mountain Solar 2 facility, \$93 million for construction of the Copper Mountain Solar 3 facility and \$26 million for construction of the Broken Bow 2 Wind project. In 2012, capital expenditures include \$399 million for the construction of the Mesquite Solar 1 facility and \$315 million for the construction of the Copper Mountain Solar 2 facility. In 2011, capital expenditures include \$181 million for the construction of the Mesquite Solar 1 facility.

Sempra Natural Gas

In 2013, Sempra Natural Gas had capital expenditures for the development of approximately 13 Bcf of additional capacity at Bay Gas and Mississippi Hub. In 2012, Sempra Natural Gas increased its operational working natural gas storage capacity by approximately 7 Bcf at Mississippi Hub and had capital expenditures related to the development of approximately 13 Bcf of additional capacity at Bay Gas and Mississippi Hub. In 2011, Sempra Natural Gas had capital expenditures for the development of approximately 20 Bcf of additional capacity at Bay Gas and Mississippi Hub. Related amounts included in total capital expenditures were \$29 million in 2013, \$61 million in 2012 and \$122 million in 2011.

In 2013 and 2012, Sempra Natural Gas had \$36 million and \$48 million, respectively, of capital expenditures and development costs related to the Cameron LNG terminal and liquefaction project.

Sempra Energy Consolidated Investments and Acquisitions

In 2013, investments consisted primarily of:

- § \$11 million for the acquisition of the rights to develop the Broken Bow 2 Wind project

In 2012, investments consisted primarily of:

- § \$291 million for the investment in Flat Ridge 2 Wind Farm
- § \$62 million for the investment in Auwahi Wind Farm
- § the purchase of \$53 million in industrial development bonds

In 2011, investments and acquisitions consisted primarily of:

- § \$611 million in cash used to fund Sempra South American Utilities' purchase of South American entities
- § \$146 million for the initial investment in Flat Ridge 2 Wind Farm
- § \$88 million for the initial investment in Mehoopany Wind Farm
- § the purchase of \$84 million in industrial development bonds

Sempra Energy Consolidated Distributions From Other Investments

Sempra Energy's Distributions From Other Investments are primarily the return of investment from equity method and other investments at Sempra South American Utilities, Sempra Renewables and Sempra Natural Gas as follows:

<i>(Dollars in millions)</i>	2013	2012	2011
Sempra Renewables			
Auwahi Wind Farm	\$ 19	\$ —	—
Cedar Creek 2 Wind Farm	6	2	5
Copper Mountain Solar 2	1	—	—
Flat Ridge 2 Wind Farm	—	148	—
Fowler Ridge 2 Wind Farm	—	—	2
Mehoopany Wind Farm	13	17	—
Mesquite Solar 1	28	—	—
Sempra Natural Gas			
Rockies Express	31	37	57
Parent and other	4	3	—
Total	\$ 102	\$ 207	64

The 2012 distributions from Flat Ridge 2 and Mehoopany Wind Farm were made by the joint ventures upon entering into loans to finance the projects. Distributions of earnings from these investments are included in cash flows from operations.

Purchase and Sale of Bonds Issued by Unconsolidated Affiliate

In November 2009, Sempra Energy, at Parent and Other, purchased \$50 million of 2.75-percent bonds issued by Chilquinta Energía S.A., a then unconsolidated affiliate, that are adjusted for Chilean inflation. In October 2012, these bonds were sold for \$59 million.

FUTURE CONSTRUCTION EXPENDITURES AND INVESTMENTS

The amounts and timing of capital expenditures are generally subject to approvals by the CPUC, the FERC and other regulatory bodies. However, in 2014, we expect to make capital expenditures and investments of approximately \$3.2 billion. These expenditures include

- § \$2.2 billion at the California Utilities for capital projects and plant improvements (\$1.1 billion at SDG&E and \$1.1 billion at SoCalGas)
- § \$1 billion at our other subsidiaries for capital projects in Mexico and South America, and development of natural gas and renewable generation projects

In 2014, the California Utilities expect their capital expenditures and investments to include

- § \$620 million for improvements to SDG&E's natural gas and electric distribution systems
- § \$320 million for improvements to SDG&E's electric transmission systems
- § \$100 million at SDG&E for substation expansions (transmission)

§ \$20 million for SDG&E's electric generation plants and equipment

§ \$880 million for improvements to SoCalGas' distribution and transmission systems and storage, and for pipeline safety

§ \$190 million for SoCalGas' advanced metering infrastructure

§ \$30 million for SoCalGas' other natural gas projects

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

Over the next five years, 2014 through 2018, and subject to a number of factors including those described below which could cause these estimates to vary substantially, the California Utilities expect to make capital expenditures and investments of:

§ \$5.5 billion at SDG&E

§ \$6.2 billion at SoCalGas

In 2014, the expected capital expenditures and investments of approximately \$1 billion (excluding amounts expended by joint ventures and net of anticipated project financing and joint venture structures as noted below) at our other subsidiaries include

Sempra South American Utilities

§ approximately \$150 million to \$200 million for capital projects in South America (approximately \$100 million to \$150 million in Peru and approximately \$50 million in Chile)

Sempra Mexico

§ approximately \$300 million to \$350 million for capital projects in Mexico, including approximately \$300 million for the development of the Sonora Pipeline project developed solely by Sempra Mexico

§ approximately \$450 million of expenditures for pipeline projects within our joint venture with PEMEX. We expect expenditures for projects done within the joint venture to be funded by the joint venture's cash flows from operations and project financing without additional contributions from its partners

§ approximately \$180 million of expenditures for a renewable wind project to be primarily funded by project financing

Sempra Renewables

§ approximately \$300 million for development of renewable projects, including approximately \$100 million for investment in Copper Mountain Solar 3, a 250-MW solar project located near Boulder City, Nevada, and approximately \$80 million for investment in the 75-MW Broken Bow 2 Wind project in Custer County, Nebraska. These amounts are net of anticipated project financing and joint venture structures.

Sempra Natural Gas

§ approximately \$200 million for development of natural gas transportation and storage projects

Over the next five years, 2014 through 2018, and subject to the factors described below which could cause these estimates to vary substantially, Sempra Energy expects to make aggregate capital expenditures at its other subsidiaries of approximately \$3.1 billion.

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

Periodically, we review our construction, investment and financing programs and revise them in response to changes in regulation, economic conditions, competition, customer growth, inflation, customer rates, the cost and availability of capital, and environmental requirements. We discuss these considerations in more detail in Notes 13, 14 and 15 of the Notes to Consolidated Financial Statements and in "Factors Influencing Future Performance" below.

Our level of capital expenditures and investments in the next few years may vary substantially and will depend on the cost and availability of financing, regulatory approvals, changes in U.S. federal tax law and business opportunities providing desirable rates of return. We intend to finance our capital expenditures in a manner that will maintain our investment-grade credit ratings and capital structure.

CASH FLOWS FROM FINANCING ACTIVITIES

CASH FLOWS FROM FINANCING ACTIVITIES

(Dollars in millions)

	2013	2013 Change	2012	2012 Change	2011
Sempra Energy Consolidated	\$ 338	\$ (1,017)	\$ 1,355	\$ 821	\$ 534
SDG&E	194	2	192	(592)	784
SoCalGas	(9)	147	(156)	145	(301)

Sempra Energy Consolidated

Cash provided by financing activities in 2013 decreased due to:

- § \$1 billion lower issuances of debt, including a decrease in issuances of long-term debt of \$631 million (\$1,636 million in 2013 compared to \$2,267 million in 2012) and a decrease in issuances of commercial paper and other short-term debt with maturities greater than 90 days of \$385 million (\$445 million in 2013 compared to \$830 million in 2012);
- § \$661 million higher payments on long-term debt (\$984 million in 2013 compared to \$323 million in 2012), excluding amounts related to commercial paper with maturities greater than 90 days;
- § \$83 million redemption of SDG&E's outstanding preferred stock (including call premium and accrued dividends); and
- § \$56 million increase in common dividends paid primarily due to an increase in the dividend rate; **offset by**
- § \$574 million net proceeds received from the sale of noncontrolling interests at Sempra Mexico; and
- § \$256 million increase in short-term debt in 2013 compared to \$47 million decrease in 2012.

Cash provided by financing activities in 2012 increased due to:

- § \$999 million higher issuances of debt, primarily long-term debt of \$693 million (issuances of \$2,267 million in 2012 compared to \$1,574 million in 2011) and commercial paper with maturities greater than 90 days of \$309 million (issuances of \$824 million in 2012 compared to \$515 million in 2011);
- § \$47 million decrease in short-term debt in 2012 compared to a \$498 million decrease in 2011;
- § \$80 million for the redemption of subsidiary preferred stock in 2011; and
- § \$43 million related to Sempra South American Utilities' September 2011 tender offer discussed in Note 3 of the Notes to Consolidated Financial Statements; **offset by**
- § \$628 million higher payments of commercial paper with maturities greater than 90 days, offset by \$31 million lower payments on long-term debt; and
- § \$110 million increase in common dividends paid.

SDG&E

Cash provided by financing activities at SDG&E increased in 2013 primarily due to:

- § \$201 million higher issuances of long-term debt;
- § \$59 million increase in short-term debt in 2013; and
- § \$14 million reduction in capital distributions made by Otay Mesa VIE (\$26 million in 2013 compared to \$40 million in 2012); **offset by**
- § \$83 million redemption of outstanding preferred stock (including call premium and accrued dividends); and
- § \$189 million higher payments on long-term debt.

Cash provided by financing activities in 2012 decreased primarily due to:

- § \$349 million lower issuances of long-term debt;
- § a \$200 million capital contribution from Sempra Energy in 2011; and
- § \$40 million of capital distributions made by Otay Mesa VIE in 2012.

SoCalGas

Cash used by financing activities at SoCalGas in 2013 decreased primarily due to:

- § \$250 million repayment of long-term debt in 2012;
- § \$200 million reduction in common dividends paid (\$50 million in 2013 compared to \$250 million in 2012); and
- § \$42 million increase in short-term debt in 2013; **offset by**
- § \$348 million issuance of long-term debt in 2012.

Cash used by financing activities at SoCalGas in 2012 decreased primarily due to:

§ \$348 million issuance of long-term debt in 2012; **offset by**

§ \$200 million increase in common dividends paid.

LONG-TERM DEBT

Long-term debt balances (including the current portion of long-term debt) at December 31 were

<i>(Dollars in millions)</i>	2013	2012	2011
Sempra Energy Consolidated	\$ 12,400	\$ 12,346	\$ 10,414
SDG&E	4,554	4,308	4,077
SoCalGas	1,411	1,413	1,321

At December 31, 2013, the following information applies to long-term debt, excluding commercial paper classified as long-term:

	Sempra Energy Consolidated	SDG&E	SoCalGas
Weighted average life to maturity, in years	12.4	17.0	17.6
Weighted average interest rate	4.71 %	4.72 %	5.02 %

Issuances of Long-Term Debt

Major public issuances of long-term debt over the last three years include the following:

<i>(Dollars in millions)</i>	Amount	Rate	Maturing
Sempra Energy			
Notes, November 2013	\$ 500	4.05 %	2023
Notes, September 2012	500	2.875	2022
Notes, March 2012	600	2.30	2017
Variable rate notes (1.01% at December 31, 2013), March 2011	300	1.01	2014
Notes, March 2011	500	2.00	2014
Sempra Mexico			
Notes, February 2013	100	2.66	2018
Notes, February 2013	298	4.12	2023
SDG&E			
First mortgage bonds, September 2013	450	3.60	2023
First mortgage bonds, March 2012	250	4.30	2042
First mortgage bonds, November 2011	250	3.95	2041
First mortgage bonds, August 2011	350	3.00	2021
SoCalGas			
First mortgage bonds, September 2012	350	3.750	2042

Sempra Energy used the proceeds from its issuances of long-term debt primarily for general corporate purposes and to repay commercial paper. We discuss issuances of long-term debt further in Note 5 of the Notes to Consolidated Financial Statements.

The California Utilities used the proceeds from their issuances of long-term debt:

- § for general working capital purposes;
- § to support their electric (at SDG&E) and natural gas (SDG&E and SoCalGas) procurement programs;
- § to redeem all outstanding shares of SDG&E's preferred stock;
- § to repay commercial paper at SDG&E; and
- § to replenish amounts expended and fund future expenditures for the expansion and improvement of their utility plants.

Payments on Long-Term Debt

Payments on long-term debt in 2013 included

§ \$400 million of Sempra Energy's 6-percent notes due in 2013

§ \$250 million of Sempra Energy's 8.9-percent notes due in 2013, including \$200 million at variable rates after fixed-to-floating interest rate swaps

§ \$60 million of SDG&E's 5.85-percent Pollution Control Revenue Bonds (PCRB) due in 2021

§ \$115 million of SDG&E's 5.9-percent PCRBs due in 2014

§ \$14 million of SDG&E's 6.8-percent PCRBs due in 2015

§ \$86 million of 2.75-percent Series A Chilean public bonds maturing in 2014

Payments on long-term debt in 2012 included \$250 million of SoCalGas 4.8-percent first mortgage bonds at maturity in October 2012.

Payments on long-term debt in 2011 included

§ \$100 million of SoCalGas 4.375-percent first mortgage bonds at maturity in January 2011

§ \$150 million of SoCalGas variable rate first mortgage bonds at maturity in January 2011

In Note 5 of the Notes to Consolidated Financial Statements, we provide information about our lines of credit and additional information about debt activity.

CAPITAL STOCK TRANSACTIONS

Sempra Energy

Cash provided by employee stock option exercises and newly issued shares for our dividend reinvestment and 401(k) saving plans was

§ \$62 million in 2013

§ \$78 million in 2012

§ \$28 million in 2011

In 2013, SDG&E redeemed all of its outstanding preferred stock for \$83 million (including call premium and accrued dividends). We discuss the redemption in Note 11 of the Notes to Consolidated Financial Statements.

DIVIDENDS

Sempra Energy

Sempra Energy paid cash dividends on common stock of:

§ \$606 million in 2013

§ \$550 million in 2012

§ \$440 million in 2011

The increase in 2013 was due to an increase in the per-share quarterly dividends from \$0.60 in 2012 to \$0.63 in 2013. The increase in 2012 was due to an increase in the per-share quarterly dividend from \$0.48 in 2011 to \$0.60 in 2012.

On December 17, 2013, Sempra Energy declared a quarterly dividend of \$0.63 per share of common stock that was paid on January 15, 2014. We provide additional information about Sempra Energy dividends above in "Capital Resources and Liquidity – Overview – Sempra Energy Consolidated."

SDG&E did not pay any common dividends to Sempra Energy in 2013, 2012 or 2011 to preserve cash to fund its capital expenditures program, which included the Sunrise Powerlink.

SoCalGas paid dividends to Pacific Enterprises (PE) and PE paid corresponding dividends to Sempra Energy of:

§ \$50 million in 2013

§ \$250 million in 2012

§ \$50 million in 2011

PE, a wholly owned subsidiary of Sempra Energy, owns all of SoCalGas' outstanding common stock. Accordingly, dividends paid by SoCalGas to PE and dividends paid by PE to Sempra Energy are both eliminated in Sempra Energy's Consolidated Financial Statements.

The board of directors for each of Sempra Energy, SDG&E and SoCalGas has the discretion to determine the payment and amount of future dividends by each such entity. The CPUC's regulation of SDG&E's and SoCalGas' capital structures limits the amounts that are available for loans and dividends to Sempra Energy. At December 31, 2013, Sempra Energy could have received combined loans and dividends of approximately \$1.0 billion from SoCalGas and approximately \$425 million from SDG&E.

We provide additional information about restricted net assets in Note 1 of the Notes to Consolidated Financial Statements and about the CPUC's regulation of the California Utilities' capital structures in Note 14 of the Notes to Consolidated Financial Statements.

CAPITALIZATION

TOTAL CAPITALIZATION AND DEBT-TO-CAPITALIZATION RATIOS

(Dollars in millions)

	December 31, 2013					
	Sempra Energy Consolidated(1)		SDG&E(1)		SoCalGas	
Total capitalization	\$	24,795	\$	9,332	\$	4,002
Debt-to-capitalization ratio		52 %		49 %		36 %

	December 31, 2012					
	Sempra Energy Consolidated(1)		SDG&E(1)		SoCalGas	
Total capitalization	\$	23,654	\$	8,685	\$	3,648
Debt-to-capitalization ratio		55 %		50 %		39 %

(1) Includes noncontrolling interest and debt of Otay Mesa Energy Center LLC for Sempra Energy Consolidated and SDG&E with no significant impact.

Significant changes during 2013 that affected capitalization include the following:

- § Sempra Energy Consolidated: comprehensive income exceeding dividends and increase in noncontrolling interests from the IEnova stock offerings, partially offset by redemption of subsidiary preferred stock
- § SDG&E: comprehensive income, partially offset by a net increase in long-term debt and preferred stock redemption
- § SoCalGas: comprehensive income exceeding dividends

We provide additional information about these significant changes in Notes 1, 5 and 11 of the Notes to Consolidated Financial Statements.

COMMITMENTS

The following tables summarize principal contractual commitments, primarily long-term, at December 31, 2013 for Sempra Energy Consolidated, SDG&E and SoCalGas. We provide additional information about commitments above and in Notes 5, 7 and 15 of the Notes to Consolidated Financial Statements.

PRINCIPAL CONTRACTUAL COMMITMENTS OF SEMPRA ENERGY CONSOLIDATED

(Dollars in millions)

	2014	2015 and 2016	2017 and 2018	Thereafter	Total
Long-term debt(1)	\$ 1,140	\$ 1,158	\$ 1,745	\$ 7,964	\$ 12,007
Interest on long-term debt(2)	543	1,030	890	4,972	7,435
Operating leases	85	154	143	576	958
Capital leases	7	7	7	160	181
Purchased-power contracts	1,328	2,960	2,977	11,826	19,091
Natural gas contracts	404	473	430	377	1,684
LNG contracts(3)	670	1,316	1,336	8,277	11,599
Construction commitments	1,317	509	136	47	2,009
Build-to-suit lease	—	14	20	277	311
SONGS decommissioning	49	117	135	455	756
Sunrise Powerlink wildfire mitigation fund	3	6	6	306	321
Other asset retirement obligations	20	43	40	1,293	1,396
Pension and other postretirement benefit obligations(4)	211	305	230	572	1,318
Environmental commitments	15	16	3	5	39
Other	24	25	23	59	131
Totals	\$ 5,816	\$ 8,133	\$ 8,121	\$ 37,166	\$ 59,236

(1) Excludes \$200 million commercial paper classified as long-term, as we discuss in Note 5 of the Notes to Consolidated Financial Statements.

(2) We calculate expected interest payments using the stated interest rate for fixed-rate obligations, including floating-to-fixed interest rate swaps. We calculate expected interest payments for variable-rate obligations, including fixed-to-floating interest rate swaps, based on forward rates in effect at December 31, 2013.

(3) Our LNG facilities have various LNG purchase agreements with major international companies for the supply of LNG to our Energia Costa Azul and Cameron terminals. The agreements range from short-term to multi-year periods and are priced using a predetermined formula based on U.S. market indices. The expected payments under the contracts are based on forward prices of the applicable market index from 2014 to 2023 and an estimated one percent escalation per year after 2023. We provide more information about these contracts in Note 15 of the Notes to Consolidated Financial Statements.

(4) Amounts represent expected company contributions to the plans for the next 10 years.

PRINCIPAL CONTRACTUAL COMMITMENTS OF SDG&E

(Dollars in millions)

	2014	2015 and 2016	2017 and 2018	Thereafter	Total
Long-term debt	\$ 24	\$ 270	\$ 181	\$ 3,910	\$ 4,385
Interest on long-term debt(1)	206	397	384	2,645	3,632
Operating leases	23	44	37	91	195
Capital leases	5	7	7	160	179
Purchased-power contracts	471	1,067	1,005	6,349	8,892
Construction commitments	177	60	50	45	332
SONGS decommissioning	49	117	135	455	756
Sunrise Powerlink wildfire mitigation fund	3	6	6	306	321
Other asset retirement obligations	3	5	5	143	156

Pension and other postretirement benefit obligations(2)	81	73	62	174	390
Environmental commitments	6	8	2	4	20
Totals	\$ 1,048 \$	2,054 \$	1,874 \$	14,282 \$	19,258

(1) SDG&E calculates expected interest payments using the stated interest rate for fixed-rate obligations, including floating-to-fixed interest rate swaps.

(2) Amounts represent expected company contributions to the plans for the next 10 years.

PRINCIPAL CONTRACTUAL COMMITMENTS OF SOCALGAS

(Dollars in millions)

	2014	2015 and 2016	2017 and 2018	Thereafter	Total
Long-term debt	\$ 250 \$	8 \$	250 \$	905 \$	1,413
Interest on long-term debt(1)	60	114	104	893	1,171
Natural gas contracts	183	233	198	157	771
Operating leases	32	57	58	174	321
Capital leases	2	—	—	—	2
Construction commitments	190	168	84	—	442
Environmental commitments	5	8	1	1	15
Pension and other postretirement benefit obligations(2)	85	163	115	290	653
Asset retirement obligations	17	37	35	1,110	1,199
Totals	\$ 824 \$	788 \$	845 \$	3,530 \$	5,987

(1) SoCalGas calculates interest payments using the stated interest rate for fixed-rate obligations.

(2) Amounts represent expected company contributions to the plans for the next 10 years.

The tables exclude

- § contracts between consolidated affiliates
- § intercompany debt
- § individual contracts that have annual cash requirements less than \$1 million
- § employment contracts

The tables also exclude income tax liabilities of

- § \$53 million for Sempra Energy Consolidated
- § \$17 million for SDG&E
- § \$13 million for SoCalGas

These liabilities relate to uncertain tax positions and were excluded from the tables because we are unable to reasonably estimate the timing of future payments due to uncertainties in the timing of the effective settlement of tax positions. We provide additional information about unrecognized tax benefits in Note 6 of the Notes to Consolidated Financial Statements.

OFF BALANCE-SHEET ARRANGEMENTS

Sempra Energy has provided maximum guarantees aggregating \$502 million at December 31, 2013 to related parties. We discuss these guarantees in Notes 5 and 15 of the Notes to Consolidated Financial Statements.

SDG&E has entered into power purchase arrangements which are variable interests. We discuss variable interests in Note 1 of the Notes to Consolidated Financial Statements.

CREDIT RATINGS

The credit ratings of Sempra Energy, SDG&E and SoCalGas remained at investment grade levels in 2013. At December 31, 2013, Sempra Energy's unsecured debt rating remained at BBB+ with a stable outlook. In January 2014, Moody's increased SDG&E's and SoCalGas' unsecured debt rating to A1 with a stable outlook.

Sempra Energy, SDG&E and SoCalGas have committed lines of credit to provide liquidity and to support commercial paper and variable-rate demand notes. Borrowings under these facilities bear interest at benchmark rates plus a margin that varies with market index rates and each borrower's credit rating. Each facility also requires a commitment fee on available unused credit.

Under these committed lines, if Sempra Energy were to experience a ratings downgrade from its current level, the rate at which borrowings bear interest would increase by 25 to 50 basis points, depending on the severity of the downgrade. The commitment fee on available unused credit would also increase 5 to 10 basis points, depending on the severity of the downgrade.

Under these committed lines, if SDG&E or SoCalGas were to experience a ratings downgrade from its current level, the rate at which borrowings bear interest would increase by 12.5 to 87.5 basis points, depending on the severity of the downgrade. The commitment fee on available unused credit would also increase 2.5 to 20 basis points, depending on the severity of the downgrade. The January 2014 upgrade of SDG&E's and SoCalGas' credit ratings reduced the interest rate and commitment fee rate on committed lines of credit by 12.5 basis points and 2.5 basis points, respectively.

For Sempra Energy and SDG&E, their credit ratings may affect credit limits related to derivative instruments, as we discuss in Note 9 of the Notes to Consolidated Financial Statements.

FACTORS INFLUENCING FUTURE PERFORMANCE

CALIFORNIA UTILITIES

Overview

The California Utilities' operations have historically provided relatively stable earnings and liquidity. However, for the next few years, SoCalGas intends to limit its common stock dividends to reinvest its earnings in significant capital projects.

The California Utilities' performance will depend primarily on the ratemaking and regulatory process, environmental regulations, economic conditions, actions by the California legislature and the changing energy marketplace. Their performance will also depend on the successful completion of capital projects that we discuss in various sections of this report and below. We discuss certain regulatory matters below and in Note 14 of the Notes to Consolidated Financial Statements.

SDG&E may also continue to be significantly impacted by matters at SONGS. We discuss SONGS below, in Notes 13 and 15 of the Notes to Consolidated Financial Statements and in "Risk Factors" in our 2013 Annual Report on Form 10-K.

Joint Matters

CPUC General Rate Case (GRC)

In December 2010, the California Utilities filed their 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, effective retroactive to January 1, 2012. The amount of revenue associated with the retroactive period has been approved to be recovered in rates over 28 months for SDG&E and 31 months for SoCalGas, or by the end of 2015, in order to minimize the impact on ratepayers, thus adversely impacting the respective company's cash flows. We discuss the 2012 GRC and the Final GRC Decision in Note 14 of the Notes to Consolidated Financial Statements.

Natural Gas Pipeline Operations Safety Assessments

Pending the outcome of the various regulatory agency evaluations of natural gas pipeline safety regulations, practices and procedures, Sempra Energy, including the California Utilities, may incur incremental expense and capital investment associated with its natural gas pipeline operations and investments. In August 2011, SoCalGas, SDG&E, Pacific Gas and Electric (PG&E) and Southwest Gas filed implementation plans with the CPUC to test or replace natural gas transmission pipelines located in populated areas that have not been pressure tested, as we discuss in Note 14 of the Notes to Consolidated Financial Statements. In their 2011 filing with the CPUC, the California Utilities estimated the total cost for Phase 1 of the two-phase plan to be \$3.1 billion (\$2.5 billion for SoCalGas and \$600 million for SDG&E) over the 10-year period of 2012 to 2022. The California Utilities requested that the incremental capital investment required as a result of any approved plan be included in rate base and that cost recovery be allowed for any other incremental cost not eligible for rate-base recovery. The costs that are the subject of these plans are outside the scope of the 2012 GRC proceedings discussed above. If the CPUC were to decide that the incremental capital investment not be considered as incremental rate base outside the GRC process, that this incremental capital investment earn a return on rate base lower than what is otherwise authorized, or that cost recovery not be allowed for other incremental costs not eligible for rate base recovery, it could materially adversely affect the respective company's cash flows, financial condition, results of operations and prospects upon commencement of this program. We provide additional information in Note 14 of the Notes to Consolidated Financial Statements.

Safety Enforcement

California Senate Bill (SB) 291, enacted in October 2013, requires the CPUC to develop and implement a safety enforcement program that includes procedures for monitoring, data tracking and analysis, and investigations, as well as delegating citation authority to CPUC staff personnel under the direction of the CPUC Executive Director. SB 291 requires the CPUC to implement the enforcement program for gas safety by July 1, 2014 and for electric safety by January 1, 2015. In exercising the citation authority, the CPUC staff will take into account voluntary reporting of potential violations, voluntary resolution efforts undertaken, prior history of violations, the gravity of the violation, and the degree of culpability. The CPUC is planning to adopt an administrative limit on the maximum monetary penalty that may be set by the CPUC staff.

In December 2011, the CPUC adopted a gas safety citation program whereby natural gas distribution companies can be fined by CPUC staff for violations of the CPUC's safety standards or federal standards. Each day of an ongoing violation may be counted as an additional offense. The maximum penalty is \$50,000 per offense. In September 2013, the CPUC issued its Standard Operating Procedures setting forth its principles and management process for the gas safety citation program.

SDG&E Matters

2007 Wildfire Litigation

In regard to the 2007 wildfire litigation, SDG&E's payments for claims settlements plus funds estimated to be required for settlement of outstanding claims and legal fees total approximately \$2.4 billion, which is in excess of the \$1.1 billion of liability insurance coverage and the approximately \$824 million recovered from third parties. However, SDG&E has concluded that it is probable that it will be permitted to recover in rates a substantial portion of the reasonably incurred costs of resolving wildfire claims in excess of its liability insurance coverage and amounts recovered from third parties. Consequently, Sempra Energy and SDG&E expect no significant earnings impact from the resolution of the remaining wildfire claims. At December 31, 2013, Sempra Energy's and SDG&E's Consolidated Balance Sheets include assets of \$330 million in Other Regulatory Assets, including \$315 million related to CPUC-regulated operations and \$15 million related to FERC-regulated operations, for costs incurred and the estimated settlement of pending claims. However, SDG&E's cash flow may be materially adversely affected by timing differences between the resolution of claims and recoveries in rates, which may extend over a number of years. In addition, recovery in rates will require future regulatory approval, and a failure to obtain substantial or full recovery, or any negative assessment of the likelihood of recovery, would likely have a material adverse effect on Sempra Energy's and SDG&E's financial condition, cash flows and results of operations.

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

Should SDG&E conclude that recovery of excess wildfire costs in rates is no longer probable, at that time SDG&E will record a charge against earnings. If SDG&E had concluded that the recovery of regulatory assets related to CPUC-regulated operations was no longer probable or was less than currently estimated, at December 31, 2013, the resulting after-tax charge against earnings would have been up to \$186 million. In addition, in periods following any such conclusion by SDG&E that recovery is no longer probable, Sempra Energy's and SDG&E's earnings will be adversely impacted by increases in the estimated costs 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.

We provide additional information concerning these matters in Notes 14 and 15 of the Notes to Consolidated Financial Statements.

SONGS

SONGS Outage and Retirement

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

We provide additional background information on SONGS in Notes 13 and 15 of the Notes to Consolidated Financial Statements.

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 from the NRC 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.

Background

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.

The steam generators were designed and provided by Mitsubishi Heavy Industries, Ltd., Mitsubishi Nuclear Energy Systems, Inc., and Mitsubishi Heavy Industries America, Inc. (collectively MHI). In July 2013, SDG&E filed a lawsuit against MHI seeking to recover damages SDG&E has incurred and will incur related to the design defects in the steam generators. In October 2013, Edison instituted arbitration proceedings against MHI seeking damages as well. We discuss these proceedings in Note 15 of the Notes to Consolidated Financial Statements.

CPUC SONGS Order Instituting Investigation (OII)

In response to the prolonged outage, the CPUC issued an OII, pursuant to California Public Utilities' Code Section 455.5, which applies to cost recovery issues resulting from long-term outages of operating assets. The OII consolidated most SONGS issues in various related 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 all phases 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.

The first phase of the OII addresses the reasonableness of the costs incurred in 2012. In November 2013, the CPUC issued a Proposed Decision (PD) on the first phase of the OII, which included the following impacts:

- § The PD identified \$182.8 million as SDG&E's share of the costs incurred by Edison, including overheads and capital, in 2012. Of this amount, the PD deemed \$19.3 million to have been unreasonably incurred and recommended that this amount be refunded in rates effective January 1, 2014.
- § In addition, the PD identified \$27 million as SDG&E's share of the \$122 million in costs incurred by Edison in 2012 associated with the steam generator inspection and repair, which costs will be reviewed in Phase 3, but not removed from rates yet. These costs are to be separately accounted for and interest

accrued at the one-year U.S. Treasury rate should the CPUC decide in Phase 3 that they should also be refunded.

In addition, the PD defines the methodology to calculate replacement power costs, and the SONGS owners must re-calculate their replacement power costs according to the adopted methodology. Those costs are subject to refund (to the extent they are in rates) pending the outcome of Phase 3. The PD is subject to final approval by the CPUC and may be amended or changed.

The second phase of the OII addresses the appropriate rate recovery treatment of the investment in SONGS assets. Hearings on this second phase were held in October 2013, and a CPUC decision on this phase of the OII is scheduled for the first half of 2014.

The third phase of the OII will address the reasonableness of the steam generator replacement project costs. We expect this phase to begin in the second half of 2014.

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 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 \$165 million. Of this total, \$98 million was incurred in 2012 and has been approved for collection in rates pursuant to prior ERRA proceedings. The remaining \$67 million, discussed below, represents replacement power costs incurred in 2013 through June 6 that have not yet been approved for recovery in rates. Although \$98 million has been authorized for recovery through ERRA, the OII will determine whether any of this amount will be required to be refunded to customers.

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 13 of the Notes to Consolidated Financial Statements.

Accounting for the Early Retirement of SONGS

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 the amount recorded in the SONGS regulatory asset, as described below. We determined the amount deemed probable of recovery based on our assessment of the likelihood of the potential regulatory outcomes identified, resulting in SDG&E recording a \$200 million pretax loss in the second quarter of 2013.

As a result of Edison's decision to permanently retire SONGS Units 2 and 3, and as a result of our assessment described above, SDG&E established a new regulatory asset included in Other Regulatory Assets on the Consolidated Balance Sheet. As of December 31, 2013, the balance in this new regulatory asset was \$303 million and was comprised of the following:

- § the net book value of SDG&E's investment in SONGS plant and nuclear fuel of \$516 million, which prior to the date of the plant retirement, had been reported as Property, Plant and Equipment on the Consolidated Balance Sheet;
- § SDG&E's SONGS-related materials and supplies of \$10 million, which prior to the date of the plant retirement, had been reported as Inventory on the Consolidated Balance Sheet;
- § SDG&E's 2013 cost of replacement power that is in excess of the amount previously authorized for recovery in ERRA of \$67 million which, prior to the date of the plant retirement, would have been reported as Regulatory Balancing Accounts, Net in Current Assets on the Consolidated Balance Sheet;
- § miscellaneous costs incurred or expected to be incurred by SDG&E associated with the early closure of the plant of \$35 million; *net of*
- § a \$200 million reserve for disallowance of rate recovery reported as Loss from Plant Closure on the Consolidated Statement of Operations; and
- § \$125 million for amounts billed to customers for operating costs and the recovery of and return on investment in SONGS since the plant closure in early June 2013 that are subject to refund.

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 materially different than management's estimate. In addition to recoveries through the regulatory process, SDG&E intends to pursue various 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 this new regulatory asset, as well as: 1) the cost of the purchased replacement power of \$98 million approved in prior ERRA proceedings for collection in rates, and 2) the operations and maintenance expenses incurred by SDG&E since the start of the forced outages, which amounted to approximately \$184 million through December 31, 2013. 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.

While SONGS was in service, SDG&E's investment in recent years has contributed after-tax net earnings of approximately \$15 million to \$20 million per year, which ceased as of the date that Edison decided to permanently retire the plant.

NRC Proceedings

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

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

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

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 MHI. The lawsuit seeks to recover damages SDG&E has incurred and will incur related to the design defects in the steam generators MHI provided to the SONGS nuclear power plant. The lawsuit asserts a number of causes of action, including fraud, based on the representations MHI made about its qualifications and ability to design generators free from defects of the kind that resulted in the permanent shutdown of the plant and further seeks to set aside the contractual limitation of damages that MHI has asserted. On July 24, 2013, MHI removed the lawsuit to the United States District Court for the Southern District of California, and on August 8, 2013, MHI moved to stay the proceeding pending resolution of the dispute resolution process involving MHI and Edison arising from their contract for the purchase and sale of the steam generators. On October 16, 2013, Edison initiated an arbitration proceeding against MHI seeking damages stemming from the failure of the replacement steam generators. In late December 2013, MHI answered and filed a counter-claim against Edison.

Nuclear Insurance

SDG&E and the other owners of SONGS have insurance to cover claims from nuclear liability incidents arising at SONGS. This insurance provides \$375 million in coverage limits, the maximum amount available, including coverage for acts of terrorism. In addition, the Price-Anderson Act provides for up to \$13.2 billion of secondary financial protection (SFP). If a nuclear liability loss occurring at any U.S. licensed/commercial reactor exceeds the \$375 million insurance limit, all nuclear reactor owners could be required to contribute to the SFP. SDG&E's contribution would be up to \$50.93 million. This amount is subject to an annual maximum of \$7.6 million, unless a default occurs by any other SONGS owner. If the SFP is insufficient to cover the liability loss, SDG&E could be subject to an additional assessment.

The SONGS owners, including SDG&E, also have \$2.75 billion of nuclear property, decontamination, and debris removal insurance, subject to a \$2.5 million deductible for "each and every loss." This insurance coverage is provided through Nuclear Electric Insurance Limited (NEIL), a mutual insurance company. The NEIL policies have specific exclusions and limitations that can result in reduced or eliminated coverage. Insured members as a group are subject to retrospective premium assessments to cover losses sustained by NEIL under all issued policies. SDG&E could be assessed up to \$9.7 million of retrospective premiums based on overall member claims. Edison, on behalf of itself and the minority owners of SONGS (including SDG&E), has placed NEIL on notice of claims under both the property damage and outage insurance policies as a result of SONGS' Units 2 and 3 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.

Nuclear Decommissioning and Funding

As a result of Edison's decision to permanently retire SONGS Units 2 and 3, Edison has begun the decommissioning phase of the plant. The process of decommissioning a nuclear power plant is governed by NRC regulations, as well as regulations of the Environmental Protection Agency (EPA), the U.S. Department of the Navy (the land owner), the CPUC and other regulatory bodies. The NRC regulations categorize the decommissioning activities into three phases: initial activities, major decommissioning and storage activities, and license termination. Initial activities include providing notice of permanent cessation of operations (accomplished on June 12, 2013) and notice of permanent removal of fuel from the reactor vessels (provided by Edison to the NRC on June 28 and July 22, 2013 for Units 3 and 2, respectively). Within two years after the cessation of operations, the licensee (Edison) must submit a post-shutdown decommissioning activities report, an irradiated fuel management plan and a site-specific decommissioning cost estimate. Edison currently estimates that it will provide the other initial activity phase plans and cost estimates to the NRC by the end of 2014.

In accordance with state and federal requirements and regulations, SDG&E has assets held in trusts, referred to as the Nuclear Decommissioning Trusts (NDT), to fund decommissioning costs for SONGS Units 1, 2 and 3. At December 31, 2013, the fair value of SDG&E's NDT assets was \$1 billion. Except for the use of funds for the planning of decommissioning activities, CPUC approval is required for SDG&E to access the NDT assets to fund SONGS decommissioning costs. In February 2014, SDG&E filed a request with the CPUC for such authorization. Until CPUC approval is received, SDG&E will use working capital to pay for any SONGS decommissioning costs incurred, and such expenditures will be reimbursed from the NDT upon that approval. The timing of SDG&E's access to the NDT assets may also depend on a finding by the NRC regarding the characterization of the commingled funds. SDG&E expects the NRC to make such a finding in 2014.

SDG&E and Edison have a joint application pending with the CPUC requesting continued rate recovery of the estimated cost for decommissioning of SONGS. SDG&E is currently authorized to recover \$8 million annually to fund additional investments in the NDT to pay for the cost of decommissioning SONGS. In its pending application with the CPUC, SDG&E is requesting to recover \$16 million on an annual basis to fund additional investments in the NDT. We expect a decision on this application in the first half of 2014.

We provide additional information regarding the NDT and the SONGS decommissioning in Note 13 of the Notes to Consolidated Financial Statements.

Investment in Wind Farm

In 2011, the CPUC and FERC approved SDG&E's estimated \$285 million tax equity investment in a wind farm project. SDG&E and the project developer are in dispute regarding whether all conditions precedent in the contribution agreement have been achieved by the developer of the project. As a result, SDG&E has not made the investment and the project developer and SDG&E are in dispute regarding SDG&E's contractual obligation to invest in the Rim Rock wind farm, as we discuss in Note 15 of the Notes to Consolidated Financial Statements.

Electric Rate Reform – State of California Assembly Bill 327

In October 2013, the Governor of California signed Assembly Bill (AB) 327. This bill became law on January 1, 2014. This new law restores the authority to establish electric residential rates for electric utility companies in California to the CPUC and removes the rate caps established in AB 1X adopted in early

2001 during California's energy crisis, as well as SB 695 adopted in 2009. Additionally, the bill provides the CPUC the authority to adopt up to a \$10.00 monthly fixed charge for all non-CARE residential customers and up to a \$5.00 monthly fixed charge for CARE customers, effective January 1, 2015. The CPUC will implement AB 327 through its various regulatory proceedings. Meaningful rate reform is necessary due to, among other issues, the increased power supply from renewable energy sources and the growth in distributed and local power generation. The failure by the CPUC to reform SDG&E's rate structure in a relevant manner could have a material adverse effect on its business, cash flows, financial condition, results of operations and/or prospects. For additional discussion, see "Risk Factors" in the 2013 Annual Report on Form 10-K.

Industry Developments and Capital Projects

We describe capital projects, electric and natural gas regulation and rates, and other pending proceedings and investigations that affect the California Utilities in Note 14 of the Notes to Consolidated Financial Statements.

SEMPRA INTERNATIONAL

As we discuss in "Cash Flows From Investing Activities," our investments will significantly impact our future performance. In addition to the discussion below, we provide information about these investments in "Capital Resources and Liquidity."

Sempra South American Utilities

Overview

In April 2011, Sempra South American Utilities increased its investment in two utilities in South America, Chilquinta Energía and Luz del Sur. In connection with our increased interests in these utilities, Sempra Energy has \$927 million in goodwill on its Consolidated Balance Sheet at December 31, 2013. Goodwill is subject to impairment testing, annually and under other potential circumstances, which may cause its fair value to vary if differing estimates and assumptions are used in the valuation techniques applied as indicated by changing market or other conditions.

We discuss the acquisition in Note 3 of the Notes to Consolidated Financial Statements. Sempra South American Utilities is also expected to provide earnings from construction projects when completed and from other investments, but will require substantial funding for these investments.

Sempra South American Utilities has historically provided relatively stable earnings and liquidity, and its performance will depend primarily on the ratemaking and regulatory process, environmental regulations and economic conditions.

Revenues at Chilquinta Energía are based on tariffs set by the National Energy Commission (Comisión Nacional de Energía, or CNE) every four years. Rates for four-year periods related to distribution and sub-transmission are reviewed separately on an alternating basis every two years. In late 2011, Chilquinta Energía initiated the process to establish its distribution rates for the period from November 2012 to October 2016. This process was completed in November 2012, with rates published in April 2013, and tariff adjustments going into effect retroactively from November 2012. This resulted in a 3.2 percent decrease in rates.

In April 2013, the CNE completed the process to establish sub-transmission rates for the period January 2011 to December 2014, with tariff adjustments going into effect retroactively from January 2011. In 2013, the CNE published the methodology to be used to recalculate the average node prices (price at which distribution companies buy energy from generators) for years 2011, 2012 and 2013 and requested comments. We expect the CNE's final decision in the first half of 2014.

The next reviews are scheduled to be completed, with tariff adjustments also going into effect, in January 2015 for sub-transmission, and again for distribution in November 2016.

Luz del Sur serves primarily regulated customers in Peru and revenues are based on rates set by the Energy and Mining Investment Supervisory Body (Organismo Supervisor de la Inversión en Energía y Minería, or OSINERGMIN). The rates are reviewed and adjusted every four years. OSINERGMIN's final distribution rate setting resolution for the 2013-2017 period was published in October 2013 and went into effect on November 1, 2013. There was no material change in the rates.

Santa Teresa

Luz del Sur is in the final stages of construction of Santa Teresa, a 100-MW hydroelectric power plant in Peru's Cusco region. It is scheduled to be completed in 2014.

Transmission Projects

Chilquinta Energía has entered into two 50-percent owned joint ventures, Eletrans S.A. and Eletrans II S.A., with Sociedad Austral de Electricidad Sociedad Anónima (SAESA) to construct transmission lines in Chile.

In May 2012, Eletrans S.A. was awarded two 220-kV transmission lines in Chile. The transmission lines will extend 150 miles, and we estimate the project will cost approximately \$150 million and be completed in 2017.

In June 2013, Eletrans II S.A. was awarded two 220-kV transmission lines in Chile. The transmission lines will extend approximately 70 miles, and we estimate the project will cost approximately \$80 million and be completed in 2018.

The projects will be financed by the joint venture partners. Other financing may be pursued upon completion of the projects.

Sempra Mexico

Overview

Sempra Mexico is expected to provide earnings from construction projects when completed and from other investments. We expect projects in Mexico to be funded through a combination of available funds, funds internally generated by the Mexico businesses, debt issuances, project financing, partnering in joint ventures, and the proceeds from IEnova's debt and equity offerings in early 2013. On February 14, 2013, Sempra Mexico's subsidiary, IEnova, publicly offered and sold in Mexico \$408 million U.S. equivalent fixed- and variable-rate notes. The notes and related interest are denominated in Mexican pesos. Sempra Mexico used the proceeds of the notes primarily for the repayment of \$357 million of intercompany debt and also for capital projects. Sempra Mexico entered into cross-currency swaps for U.S. dollars at the time of the issuance. We discuss this financing further in Note 5 of the Notes to Consolidated Financial Statements.

In March 2013, Sempra Mexico sold common shares of IEnova in a private placement in the U.S. and outside of Mexico and, concurrently, in a registered public offering in Mexico, as we discuss in Note 1 of the Notes to Consolidated Financial Statements. The shares sold represent approximately 18.9 percent of the ownership interests in IEnova, which reduce our earnings from Sempra Mexico and have a dilutive effect on our earnings per share. The earnings attributable to IEnova's noncontrolling interests were \$26 million for the year ended December 31, 2013. The approximately \$574 million in net proceeds from the offerings will be used primarily for general corporate purposes and for the funding of IEnova's current investments and ongoing expansion plans.

We discuss the impact of Mexican tax reform in "Results of Operations – Changes in Revenues, Costs and Earnings – Income Taxes" above.

Pipeline Projects

In October 2012, Sempra Mexico was awarded two contracts by the CFE to build and operate an approximately 500-mile pipeline network (Sonora Pipeline) to transport natural gas from the U.S.-Mexico border south of Tucson, Arizona through the Mexican state of Sonora to the northern part of the Mexican state of Sinaloa along the Gulf of California. The network will be comprised of two segments that will interconnect to the U.S. interstate pipeline system. We estimate it will cost approximately \$1 billion. The first segment of the project, approximately 300 miles, began construction in September 2013 and is expected to be completed in the second half of 2014, and the remaining segment is expected to be completed in the second half of 2016. The capacity is fully contracted by CFE under two 25-year contracts denominated in U.S. dollars. Our ability to secure rights of way and construct the lines within budgeted amounts will impact future performance.

In December 2012, through its joint venture with PEMEX, Sempra Mexico executed an ethane transportation services agreement with PEMEX to construct and operate an approximately 140-mile pipeline (Ethane Pipeline) to transport ethane from Tabasco, Mexico to Veracruz, Mexico. We estimate it will cost approximately \$330 million and be funded by the joint venture without additional capital contributions from the partners. It is expected to be completed in the first half of 2015. The capacity is fully contracted by PEMEX under a 21-year contract denominated in U.S. dollars.

In January 2013, PEMEX announced that the first phase of the Los Ramones project was assigned to and will be developed by our joint venture with PEMEX. The project will consist of a 70-mile natural gas pipeline (Los Ramones I) from the northern portion of the state of Tamaulipas bordering the United States to Los Ramones in the Mexican state of Nuevo León. The capacity is fully contracted under a 25-year transportation services agreement with PEMEX denominated in Mexican pesos, with a contract rate based on the U.S. dollar investment, adjusted annually for inflation and fluctuation of the exchange rate.

Energía Sierra Juárez

In April 2011, SDG&E entered into a 20-year contract for up to 156 MW of renewable power supplied from the first phase of Sempra Mexico's Energía Sierra Juárez wind project in Baja California, Mexico. The contract was approved by the CPUC in March 2012 and by the FERC in July 2012. In October 2013, Sempra Mexico issued full notice to proceed to the construction contractor. Sempra Mexico intends to develop and finance the project within the framework of a joint venture.

SEMPRA U.S. GAS & POWER

Sempra Renewables

Overview

Sempra Renewables is developing and investing in renewable energy generation projects that have long-term contracts with utilities. The renewable energy projects have planned in-service dates through 2016. These projects require construction financing which may come from a variety of sources including operating cash flow, project financing, funds from the parent, partnering in joint ventures and, potentially, other forms of equity sales. The varying costs of these alternative financing sources impact the projects' returns.

Sempra Renewables' future performance and the demand for renewable energy is impacted by various market factors, most notably state mandated requirements to deliver a portion of total energy load from renewable energy sources. The rules governing these requirements are generally known as Renewables Portfolio Standards (RPS). Additionally, the phase out or extension of U.S. federal income tax incentives, primarily investment tax credits and production tax credits, and grant programs could significantly impact future renewable energy resource availability and investment decisions.

Copper Mountain Solar

Copper Mountain Solar is a photovoltaic generation facility operated and under development by Sempra Renewables in Boulder City, Nevada. When fully developed, the project will be capable of producing up to approximately 450 MW of solar power; it is being developed in multiple phases as power sales become contracted. Copper Mountain Solar is comprised of three separate projects. Copper Mountain Solar 1 (CMS 1) is a 58-MW photovoltaic generation facility currently in operation, which includes the 10-MW facility previously referred to as El Dorado Solar. PG&E has contracted for all of the solar power at CMS 1 for 20 years.

Copper Mountain Solar 2 (CMS 2) began construction in December 2011 and will total 150 MW when completed. CMS 2 is divided into two phases, with the first phase of 92 MW placed in service in November 2012 and the remaining 58 MW planned to be placed in service in 2015. PG&E has contracted for all of the solar power at CMS 2 for 25 years. In July 2013, we completed the sale of 50 percent of our equity in CMS 2 to ConEdison Development as we discuss in Notes 3, 4 and 5 of the Notes to Consolidated Financial Statements.

Copper Mountain Solar 3 (CMS 3) started construction in March 2013 and will total 250 MW when completed. CMS 3 will be placed in service as each of the ten blocks of solar panels is installed and is planned to be entirely in service by late 2015. The cities of Los Angeles and Burbank have contracted for all of the solar power at CMS 3 for 20 years. In addition to solar power, the power sales agreement provides the cities of Los Angeles and Burbank the option to purchase the CMS 3 facility at years 10, 15 and 20 of the contract term, or upon earlier termination of the agreement. Sempra Renewables intends to develop and finance the project within the framework of a joint venture.

Mesquite Solar

Mesquite Solar is a photovoltaic generation facility under development by Sempra Renewables in Maricopa County, Arizona. If fully developed, the project will be capable of producing up to approximately 700 MW of solar power. Construction on the first phase (Mesquite Solar 1) of 150 MW was completed in December 2012. PG&E has contracted for all of the solar power at Mesquite Solar 1 for 20 years. In September 2013, we completed the sale of 50 percent of our equity in Mesquite Solar 1 to ConEdison Development as we discuss in Notes 3, 4 and 5 of the Notes to Consolidated Financial Statements.

Broken Bow 2 Wind Project

In September 2013, Sempra Renewables acquired the rights to develop the Broken Bow 2 Wind project in Custer County, Nebraska. Sempra Renewables will develop the 75-MW wind farm. We began construction on the project in 2013, and we expect the project to be fully operational in late 2014. Nebraska Public Power District has contracted for all of the wind energy from the project for 25 years. Sempra Renewables intends to develop and finance the project within the framework of a joint venture.

Sempra Natural Gas

Overview

In June 2011, Sempra Natural Gas entered into a 25-year power contract with various members of Southwest Public Power Resources Group (SPPR Group), an association of 40 not-for-profit utilities in Arizona and southern Nevada. The contract was expanded to a total of 271 MW in February 2013. Under the terms of the agreement, Sempra Natural Gas will provide 21 participating SPPR Group members with firm, day-ahead dispatchable power from its Mesquite Power plant delivered to the Palo Verde hub beginning in January 2015.

In February 2013, Sempra Natural Gas completed the sale of one 625-MW block of its Mesquite Power plant to the Salt River Project Agricultural Improvement and Power District for \$371 million in cash. Sempra Natural Gas retained ownership of the second 625-MW block of the Mesquite Power plant that will support the contract with the participating SPPR Group members.

In January 2014, management approved a plan to market and sell the remaining 625-MW block of the plant. We expect to complete the sale in 2014. We discuss the plan to sell the second 625-MW block of Mesquite Power plant in Note 18 of the Notes to Consolidated Financial Statements. In the event of the sale, the contract with the SPPR Group may be assigned to the buyer.

Sempra Natural Gas is currently progressing with plans for the Cameron liquefaction project, a development project to utilize its Cameron LNG terminal for the liquefaction of natural gas and export of LNG, discussed below. The objective is to obtain long-term contracts for liquefaction services that allow us to fully utilize our existing regasification infrastructure while minimizing our future additional capital investment. Although the Cameron terminal is not fully contracted for regasification, given our current progress on the liquefaction project, we do not expect to contract or sell any additional long-term LNG import capacity at the Cameron terminal.

Sempra Natural Gas owns a 25-percent interest in Rockies Express, a partnership that operates a natural gas pipeline, the REX, that links the Rocky Mountains region to the upper Midwest and the eastern United States. Sempra Rockies Marketing, a subsidiary of Sempra Natural Gas, has an agreement for capacity on REX through November 2019. The capacity costs are offset by revenues from releases of the capacity to RBS Sempra Commodities prior to 2011, and to J.P. Morgan Ventures starting in 2011, and other third parties. Certain capacity release commitments totaling \$22 million concluded during 2013. Accordingly, new contracting activity related to that capacity may not be sufficient to offset all of our capacity payments to Rockies Express. Our carrying value in Rockies Express at December 31, 2013 is \$329 million. We recorded noncash, after-tax impairment charges totaling \$239 million in 2012 to write down our investment in the partnership. We discuss our investment in Rockies Express and the impairment charges in Notes 4 and 10 of the Notes to Consolidated Financial Statements.

Our natural gas storage assets include operational and development assets at Bay Gas in Alabama and Mississippi Hub in Mississippi, as well as our development project, LA Storage in Louisiana. These assets could be well positioned to capitalize on new opportunities that emerge associated with the increase in natural gas production and consumption in the U.S. In particular, LA Storage could be especially well positioned to support LNG export from our Cameron liquefaction project. However, changes in the U.S. natural gas market could also lead to diminished natural gas storage values.

Historically, the value of natural gas storage services has positively correlated with the difference between the seasonal prices of natural gas, among other factors. In general, over the past several years, seasonal differences in natural gas prices have declined, which have contributed to lower prices for storage services. As our legacy (higher rate) sales contracts mature at Bay Gas and Mississippi Hub, replacement sales contract rates could be lower than has historically been the case. Lower sales revenues may not be offset by cost reductions, which could lead to depressed asset values. These market conditions could result in the need to perform recovery testing of our recorded asset values. In the event such values are not recoverable, we would consider the fair value of these assets relative to their recorded value. To the extent excess book value over fair value is indicated, an impairment charge would be required to be recorded. The book value of our natural gas storage assets as of December 2013 was \$1.3 billion.

Cameron Liquefaction Project

The Cameron liquefaction project will utilize Cameron LNG's existing facilities, including two marine berths, three LNG storage tanks, and vaporization capability of 1.5 Bcf per day. In January 2012, the DOE approved Cameron LNG's application for authorization to export LNG to Free Trade Agreement countries.

On February 11, 2014, the DOE issued an order (Order) granting Cameron LNG, LLC (Cameron LNG) conditional authorization to export from its Cameron Liquefaction Project up to 620 billion cubic feet per year of domestically produced LNG to countries with which the United States does not have agreements for free trade in natural gas. The conditional authorization granted in the Order is for a term of 20 years commencing on the earlier of the date of first commercial export or seven years from the date of the Order. Under the terms of the Order, Cameron LNG is authorized to export LNG either on its own

behalf or as agent for the customers of the Project. The authorization is conditional upon the satisfactory completion of an environmental review of the Project by the FERC. Cameron LNG expects that the DOE will issue a final, non-conditional authorization upon completion of the FERC environmental review process.

In 2012, Sempra Natural Gas signed commercial development agreements with Mitsubishi Corporation, Mitsui & Co., Ltd., and a subsidiary of GDF SUEZ S.A. to develop a natural gas liquefaction export facility at the Cameron LNG terminal. The Cameron liquefaction project is expected to be comprised of three liquefaction trains and is being designed to a nameplate capacity of 13.5 million tonnes per annum (Mtpa) of LNG with an expected export capability of 12 Mtpa of LNG, or approximately 1.7 Bcf per day. We expect to receive all necessary regulatory approvals, sign an engineering, procurement and construction contract, close the project financing, and start construction in 2014. This should allow us to achieve commercial operation of all three trains in 2018, and have the first year of full production in 2019. The anticipated incremental investment in the three-train liquefaction project, subject to final design specifications, is estimated to be approximately \$6 billion to \$7 billion, excluding capitalized interest and other financing costs, the majority of which will be project-financed and the balance provided by the project partners through the joint-venture agreements we discuss below. The total cost of the facility, including the cost of our original facility plus interest during construction, financing costs and required reserves, is estimated to be approximately \$9 billion to \$10 billion.

It is our expectation that all or substantially all of our equity contribution requirement will be covered by the contribution of our existing assets. If construction, financing or other capital costs are higher than we currently expect or we are not able to leverage the project at the levels we currently anticipate, we may have to contribute additional cash. In May 2013, we signed a joint venture agreement with affiliates of GDF SUEZ S.A., Mitsubishi Corporation (through a related company jointly established with Nippon Yusen Kabushiki Kaisha (NYK)), and Mitsui & Co., Ltd. each to acquire 16.6 percent equity in the existing facilities and the liquefaction project. We will have a 50.2-percent interest in the joint venture. The joint venture agreement and the three tolling agreements described below are subject to a final investment decision to proceed by each party, finalization of permit authorizations and securing financing commitments, as well as other customary conditions.

If one or more of the parties decides not to move forward with the project, or if we are unable to arrange suitable financing, the project may be substantially delayed, reduced or terminated. If the project is terminated, we may not recover our share of any project development or other related costs expended, and we may be required to write off our share of any such previously capitalized costs. In addition, this project may be delayed, reduced or terminated in the event we are unable to obtain all of the necessary permits, licenses and authorizations in a timely manner.

The commercial development agreements executed in 2012 bind the parties to fund certain development costs, including design, permitting and engineering, as well as to negotiate in good faith 20-year tolling agreements, based on agreed-upon key terms outlined in the commercial development agreements. In May 2013, we signed 20-year liquefaction and regasification tolling capacity agreements with GDF SUEZ S.A. and affiliates of Mitsubishi Corporation and Mitsui & Co., Ltd. which subscribe the full nameplate capacity of the facility. Each tolling agreement is for 4.5 Mtpa of capacity to enable 4.0 Mtpa of LNG export.

In June and November 2013, Sempra Natural Gas signed agreements totaling 1.45 Bcf per day of firm natural gas transportation service to Cameron LNG on the Cameron Interstate Pipeline (subject to effectiveness of the liquefaction and regasification tolling capacity agreements) with GDF SUEZ S.A. and affiliates of Mitsubishi Corporation and Mitsui & Co., Ltd. The terms of these agreements are concurrent with the liquefaction and regasification tolling capacity agreements.

Natural Gas Storage

Currently, Sempra Natural Gas has 30 Bcf of operational working natural gas storage capacity (15 Bcf at Bay Gas and 15 Bcf at Mississippi Hub). We are currently developing another 13 Bcf of capacity with planned in-service dates through the first half of 2014 and may, over the long term, develop as much as 76 Bcf of total storage capacity.

Sempra Natural Gas' natural gas storage facilities and projects include

- § Bay Gas, a facility located 40 miles north of Mobile, Alabama, that provides underground storage and delivery of natural gas. Sempra Natural Gas owns 91 percent of the project. It is the easternmost salt dome storage facility on the Gulf Coast, with direct service to the Florida market and markets across the Southeast, Mid-Atlantic and Northeast regions.
- § Mississippi Hub, located 45 miles southeast of Jackson, Mississippi, an underground salt dome natural gas storage project with access to shale basins of East Texas and Louisiana, traditional gulf supplies and LNG, with multiple interconnections to serve the Southeast and Northeast regions.
- § LA Storage, a salt cavern development project in Cameron Parish, Louisiana. Sempra Natural Gas owns 75 percent of the project and ProLiance Transportation LLC owns the remaining 25 percent. The project's location provides access to several LNG facilities in the area.

RBS Sempra Commodities

In three separate transactions in 2010 and one in early 2011, we and RBS sold substantially all of the businesses and assets of our commodities-marketing partnership. The investment balance of \$73 million at December 31, 2013 reflects remaining distributions expected to be received from the partnership as it is dissolved. The timing and amount of distributions may be impacted by the matters we discuss related to RBS Sempra Commodities in Note 15 of the Notes to Consolidated Financial Statements 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. We provide additional information in Notes 4, 5 and 15 of the Notes to Consolidated Financial Statements.

OTHER SEMPRA ENERGY MATTERS

We discuss the impacts of the 2012 Tax Act and the 2010 Tax Act on our income tax expense, earnings and cash flows in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Changes in Revenues, Costs and Earnings – Income Taxes."

We may be further impacted by depressed and rapidly changing economic conditions. Moreover, the dollar may fluctuate significantly compared to some foreign currencies, especially in Mexico and South America where we have significant operations. We discuss foreign currency rate risk further under "Market Risk – Foreign Currency Rate Risk" below. North American natural gas prices, which affect profitability at Sempra Renewables and Sempra Natural Gas, are currently significantly below Asian and European prices. These factors could, if they remain unchanged, adversely affect profitability. However,

management expects that future export capability at Sempra Natural Gas' Cameron LNG facility would benefit from lower gas prices in North America compared to other regions.

In July 2010, federal legislation to reform financial markets was enacted that significantly alters how over-the-counter (OTC) derivatives are regulated, which may impact all of our businesses. The law increased regulatory oversight of OTC energy derivatives, including (1) requiring standardized OTC derivatives to be traded on registered exchanges regulated by the U.S. Commodity Futures Trading Commission (CFTC), (2) imposing new and potentially higher capital and margin requirements and (3) authorizing the establishment of overall volume and position limits. The law gives the CFTC authority to exempt end users of energy commodities which could reduce, but not eliminate, the applicability of these measures to us and other end users. These requirements could cause our OTC transactions to be more costly and have a material adverse effect on our liquidity due to additional capital requirements. In addition, as these reforms aim to standardize OTC products, they could limit the effectiveness of our hedging programs, because we would have less ability to tailor OTC derivatives to match the precise risk we are seeking to mitigate.

Our future performance depends substantially on the timing and success of our business development efforts and our construction, maintenance and capital projects. We discuss this and additional matters that could affect our future performance in Notes 14 and 15 of the Notes to Consolidated Financial Statements and in "Risk Factors" in our 2013 Annual Report on Form 10-K.

LITIGATION

We describe legal proceedings that could adversely affect our future performance in Note 15 of the Notes to Consolidated Financial Statements.

MARKET RISK

Market risk is the risk of erosion of our cash flows, earnings, asset values and equity due to adverse changes in market prices, and interest and foreign currency rates.

Risk Policies

Sempra Energy has policies governing its market risk management and trading activities. Sempra Energy and the California Utilities maintain separate and independent risk management committees, organizations and processes for the California Utilities and for all non-CPUC regulated affiliates to provide oversight of these activities. The committees consist of senior officers who establish policy, oversee energy risk management activities, and monitor the results of trading and other activities to ensure compliance with our stated energy risk management and trading policies. These activities include, but are not limited to, daily monitoring of market positions that create credit, liquidity and market risk. The respective oversight organizations and committees are independent from the energy procurement departments.

Along with other tools, we use Value at Risk (VaR) and liquidity metrics to measure our exposure to market risk associated with the commodity portfolios. VaR is an estimate of the potential loss on a position or portfolio of positions over a specified holding period, based on normal market conditions and within a given statistical confidence interval. A liquidity metric is intended to monitor the amount of financial resources needed for meeting potential margin calls as forward market prices move. VaR and liquidity risk metrics are calculated independently by the respective risk management oversight organizations.

The California Utilities use power and natural gas derivatives to manage natural gas and electric price risk associated with servicing load requirements. The use of power and natural gas derivatives is subject to certain limitations imposed by company policy and is in compliance with risk management and trading activity plans that have been filed with and approved by the CPUC. Any costs or gains/losses associated with the use of power and natural gas derivatives are considered to be commodity costs. Commodity costs are generally passed on to customers as incurred. However, SoCalGas is subject to incentive mechanisms that reward or penalize the utility for commodity costs below or above certain benchmarks.

In 2010 and early 2011, Sempra Energy and RBS completed the divestiture of substantially all of the businesses and assets of RBS Sempra Commodities, their joint venture partnership, in four separate transactions, as we discuss in Note 4 of the Notes to Consolidated Financial Statements. 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. By February 26, 2014, all such guarantees had been replaced or open positions closed. We provide additional information in Note 1 of the Notes to Consolidated Financial Statements.

We discuss revenue recognition in Notes 1 and 9 of the Notes to Consolidated Financial Statements and the additional market-risk information regarding derivative instruments in Note 9 of the Notes to Consolidated Financial Statements.

We have exposure to changes in commodity prices, interest rates and foreign currency rates and exposure to counterparty nonperformance. The following discussion of these primary market-risk exposures as of December 31, 2013 includes a discussion of how these exposures are managed.

Commodity Price Risk

Market risk related to physical commodities is created by volatility in the prices and basis of certain commodities. Our various subsidiaries are exposed, in varying degrees, to price risk, primarily to prices in the natural gas and electricity markets. Our policy is to manage this risk within a framework that considers the unique markets and operating and regulatory environments of each subsidiary.

Segments within our Sempra International and Sempra U.S. Gas & Power operating units are generally exposed to commodity price risk indirectly through their LNG, natural gas pipeline and storage, and power generating assets and their power purchase agreements. Those segments may utilize commodity transactions in the course of optimizing these assets. These transactions are typically priced based on market indices, but may also include fixed price purchases and sales of commodities. Any residual exposure is monitored as described above.

The California Utilities' market-risk exposure is limited due to CPUC-authorized rate recovery of the costs of commodity purchases, interstate and intrastate transportation, and storage activity. However, SoCalGas may, at times, be exposed to market risk as a result of incentive mechanisms that reward or penalize the utility for commodity costs below or above certain benchmarks for SoCalGas' Gas Cost Incentive Mechanism, which we discuss in Note 14 of the Notes to Consolidated Financial Statements. If commodity prices were to rise too rapidly, it is likely that volumes would decline. This decline would increase the

per-unit fixed costs, which could lead to further volume declines. The California Utilities manage their risk within the parameters of their market risk management framework. As of and for the year ended December 31, 2013, the total VaR of the California Utilities' natural gas and electric positions was not material, and the procurement activities were in compliance with the procurement plans filed with and approved by the CPUC.

A hypothetical 10% unfavorable change in commodity prices would not have resulted in a material change in the fair value of our commodity-based financial derivatives as of December 31, 2013 and 2012. The impact of a change in energy commodity prices on our commodity-based financial derivative instruments at a point in time is not necessarily representative of the results that will be realized when the contracts are ultimately settled. Also, the impact of a change in energy commodity prices on our commodity-based financial derivative instruments does not typically include the generally offsetting impact of our underlying asset positions.

Interest Rate Risk

We are exposed to fluctuations in interest rates primarily as a result of our having issued short- and long-term debt. Subject to regulatory constraints, we periodically enter into interest rate swap agreements to moderate our exposure to interest rate changes and to lower our overall costs of borrowing.

The table below shows the nominal amount and the one-year VaR for long-term debt, excluding commercial paper classified as long-term debt, capital lease obligations, build-to-suit lease and interest rate swaps, and before reductions/increases for unamortized discount/premium, at December 31, 2013 and 2012:

(Dollars in millions)	Sempra Energy Consolidated		SDG&E		SoCalGas	
	Nominal Debt	One-Year VaR(1)	Nominal Debt	One-Year VaR(1)	Nominal Debt	One-Year VaR(1)
At December 31, 2013						
California Utilities fixed-rate	\$ 5,464	\$ 531	\$ 4,051	\$ 407	\$ 1,413	\$ 124
California Utilities variable-rate	335	15	335	15	—	—
All other, fixed-rate and variable-rate	6,211	308	—	—	—	—
At December 31, 2012						
California Utilities fixed-rate	\$ 5,203	\$ 601	\$ 3,790	\$ 451	\$ 1,413	\$ 150
California Utilities variable-rate	345	14	345	14	—	—
All other, fixed-rate and variable-rate	6,306	302	—	—	—	—

(1) After the effects of interest rate swaps.

We provide further information about interest rate swap transactions in Note 9 of the Notes to Consolidated Financial Statements.

We also are subject to the effect of interest rate fluctuations on the assets of our pension plans, other postretirement benefit plans, and SDG&E's nuclear decommissioning trusts. However, we expect the effects of these fluctuations, as they relate to the California Utilities, to be passed on to customers.

Credit Risk

Credit risk is the risk of loss that would be incurred as a result of nonperformance of our counterparties' contractual obligations. We monitor credit risk through a credit-approval process and the assignment and monitoring of credit limits. We establish these credit limits based on risk and return considerations under terms customarily available in the industry.

As with market risk, we have policies governing the management of credit risk that are administered by the respective credit departments for each of the California Utilities and, on a combined basis, for all non-CPUC regulated affiliates and overseen by their separate risk management committees.

This oversight includes calculating current and potential credit risk on a daily basis and monitoring actual balances in comparison to approved limits. We avoid concentration of counterparties whenever possible, and we believe our credit policies significantly reduce overall credit risk. These policies include an evaluation of the following:

- § prospective counterparties' financial condition (including credit ratings)
- § collateral requirements
- § the use of standardized agreements that allow for the netting of positive and negative exposures associated with a single counterparty
- § downgrade triggers

We believe that we have provided adequate reserves for counterparty nonperformance.

When development projects at Sempra International and Sempra U.S. Gas & Power become operational, they rely significantly on the ability of their suppliers to perform on long-term agreements and on our ability to enforce contract terms in the event of nonperformance. Also, the factors that we consider in evaluating a development project include negotiating customer and supplier agreements and, therefore, we rely on these agreements for future performance. We also may base our decision to go forward on development projects on these agreements.

As noted above under "Interest Rate Risk," we periodically enter into interest rate swap agreements to moderate exposure to interest rate changes and to lower the overall cost of borrowing. We would be exposed to interest rate fluctuations on the underlying debt should a counterparty to the swap fail to perform.

Foreign Currency Rate Risk

We have investments in entities whose functional currency is not the U.S. dollar, exposing us to foreign exchange movements, primarily in Latin American currencies.

We discuss our foreign currency exposure at our Mexican subsidiaries in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Mexican Currency Exchange Rate and Inflation Impact on Income Taxes and Related Economic Hedging Activity.”

Our primary objective in reducing foreign currency risk is to preserve the economic value of our overseas investments and to reduce earnings volatility that would otherwise occur due to exchange rate fluctuations. We may offset material cross-currency transactions and net income exposure through various means, including financial instruments and short-term investments. Because we do not hedge our net investment in foreign countries, we are susceptible to volatility in other comprehensive income caused by exchange rate fluctuations.

The hypothetical effects for every one percent appreciation in the U.S. dollar from year-end 2013 levels against the currencies of Latin American countries in which we have operations and investments are as follows:

<i>(Dollars in millions)</i>	Hypothetical Effects
Translation of 2013 earnings to U.S. dollars	\$ (2)
Transactional exposures	—
Translation of net assets of foreign subsidiaries and investments in foreign entities	(22)

Foreign Inflation Risk

Although the balances of monetary assets and liabilities at our Mexican subsidiaries may fluctuate significantly throughout the year, based on long-term debt balances with non-Mexican entities of \$288 million at December 31, 2013, the hypothetical effect for Sempra Energy for every one percent increase in the Mexican inflation rate is approximately \$0.9 million of additional income tax expense at our Mexican subsidiaries.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES, AND KEY NONCASH PERFORMANCE INDICATORS

Management views certain accounting policies as critical because their application is the most relevant, judgmental, and/or material to our financial position and results of operations, and/or because they require the use of material judgments and estimates.

We describe our significant accounting policies in Note 1 of the Notes to Consolidated Financial Statements. We discuss choices among alternative accounting policies that are material to our financial statements and information concerning significant estimates with the audit committee of the Sempra Energy board of directors.

CRITICAL ACCOUNTING POLICIES

SEMPRA ENERGY, SDG&E AND SOCALGAS

CONTINGENCIES

Assumptions & Approach Used	<p>We accrue losses for the estimated impacts of various conditions, situations or circumstances involving uncertain outcomes. For loss contingencies, we accrue the loss if an event has occurred on or before the balance sheet date and:</p> <ul style="list-style-type: none"> § information available through the date we file our financial statements indicates it is probable that a loss has been incurred, given the likelihood of uncertain future events, and § the amount of the loss can be reasonably estimated. <p>We do not accrue contingencies that might result in gains. We continuously assess contingencies for litigation claims, environmental remediation and other events.</p>
Effect if Different Assumptions Used	Details of our issues in this area are discussed in Note 15 of the Notes to Consolidated Financial Statements.

REGULATORY ACCOUNTING

Assumptions & Approach Used	<p>As regulated entities, the California Utilities’ rates, as set and monitored by regulators, are designed to recover the cost of providing service and provide the opportunity to earn a competitive return on their investments. The California Utilities record a regulatory asset, which are generally costs that would otherwise be charged to expense, if it is probable that, through the ratemaking process, the utility will recover that asset from customers in future rates. Similarly, regulatory liabilities are recorded for amounts recovered in rates in advance or in excess of costs incurred. The California Utilities assess probabilities of future rate recovery associated with regulatory account balances at the end of each reporting period and whenever new and/or unusual events occur, such as:</p> <ul style="list-style-type: none"> § changes in the regulatory and political environment or the utility’s competitive position § issuance of a regulatory commission order § passage of new legislation <p>To the extent that circumstances associated with regulatory balances change, the regulatory balances are adjusted accordingly.</p>
Effect if Different Assumptions Used	Adverse legislative or regulatory actions could materially impact the amounts of such regulatory assets and liabilities and could materially adversely impact our financial statements. Details of the California Utilities’ regulatory assets and liabilities and additional factors that management considers when assessing probabilities associated with regulatory balances are discussed in Notes 1, 13, 14 and 15 of the Notes to Consolidated Financial Statements.

SEMPRA ENERGY, SDG&E AND SOCALGAS (CONTINUED)

INCOME TAXES

Assumptions & Approach Used	Our income tax expense and related balance sheet amounts involve significant management estimates and judgments. Amounts of deferred income tax assets and liabilities, as well as current and noncurrent accruals, involve judgments and estimates of the timing and probability of recognition of income and deductions by taxing authorities. When we evaluate the anticipated resolution of income tax issues, we consider
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	<ul style="list-style-type: none"> § past resolutions of the same or similar issue § the status of any income tax examination in progress § positions taken by taxing authorities with other taxpayers with similar issues <p>The likelihood of deferred tax recovery is based on analyses of the deferred tax assets and our expectation of future taxable income, based on our strategic planning.</p>
Effect if Different Assumptions Used	<p>Actual income taxes could vary from estimated amounts because of:</p> <ul style="list-style-type: none"> § future impacts of various items, including changes in tax laws, regulations, interpretations and rulings § our financial condition in future periods § the resolution of various income tax issues between us and taxing authorities <p>We discuss details of our issues in this area in Note 6 of the Notes to Consolidated Financial Statements.</p>
Assumptions & Approach Used	<p>For an uncertain position to qualify for benefit recognition, the position must have at least a "more likely than not" chance of being sustained (based on the position's technical merits) upon challenge by the respective authorities. The term "more likely than not" means a likelihood of more than 50 percent. If we do not have a more likely than not position with respect to a tax position, then we do not recognize any of the potential tax benefit associated with the position. A tax position that meets the "more likely than not" recognition is measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon the effective resolution of the tax position.</p>
Effect if Different Assumptions Used	<p>Unrecognized tax benefits involve management's judgment regarding the likelihood of the benefit being sustained. The final resolution of uncertain tax positions could result in adjustments to recorded amounts and may affect our results of operations, financial position and cash flows.</p> <p>We discuss additional information related to accounting for uncertainty in income taxes in Note 6 of the Notes to Consolidated Financial Statements.</p>

SEMPRA ENERGY, SDG&E AND SOCALGAS (CONTINUED)

DERIVATIVES

Assumptions & Approach Used	<p>We value derivative instruments at fair value on the balance sheet. Depending on the purpose for the contract and the applicability of hedge accounting, the impact of instruments may be offset in earnings, on the balance sheet, or in other comprehensive income. We also use normal purchase or sale accounting for certain contracts. As discussed elsewhere in this report, whenever possible, we use exchange quotations or other third-party pricing to estimate fair values; if no such data is available, we use internally developed models and other techniques. The assumed collectability of derivative assets and receivables considers</p> <ul style="list-style-type: none"> § events specific to a given counterparty § the tenor of the transaction § the credit-worthiness of the counterparty
Effect if Different Assumptions Used	<p>The application of hedge accounting to certain derivatives and the normal purchase or sale accounting election is made on a contract-by-contract basis. Using hedge accounting or the normal purchase or sale election in a different manner could materially impact Sempra Energy's results of operations. However, such alternatives would not have a significant impact on the California Utilities' results of operations because of regulatory accounting principles. We provide details of our financial instruments in Note 9 of the Notes to Consolidated Financial Statements.</p>

DEFINED BENEFIT PLANS

Assumptions & Approach Used	<p>To measure our pension and other postretirement obligations, costs and liabilities, we rely on several assumptions. We consider current market conditions, including interest rates, in making these assumptions. We annually review these assumptions prior to the beginning of each year and update when appropriate.</p> <p>The critical assumptions used to develop the required estimates include the following key factors:</p> <ul style="list-style-type: none"> § discount rates § expected return on plan assets § health care cost trend rates § mortality rates § rate of compensation increases § termination and retirement rates § utilization of postretirement welfare benefits § payout elections (lump sum or annuity) § lump sum interest rates
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SEMPRA ENERGY, SDG&E AND SOCALGAS (CONTINUED)

DEFINED BENEFIT PLANS (CONTINUED)

Effect if Different

Assumptions Used	<p>The actuarial assumptions we use may differ materially from actual results due to:</p> <ul style="list-style-type: none"> § return on plan assets § changing market and economic conditions § higher or lower withdrawal rates § longer or shorter participant life spans § more or fewer lump sum versus annuity payout elections made by plan participants § retirement rates <p>These differences, other than those related to the California Utilities' plans, where rate recovery offsets any effects of the assumptions on earnings, may result in a significant impact to the amount of pension and postretirement benefit expense we record. For the remaining plans, the approximate annual effect on earnings of a 100 basis point increase or decrease in the assumed discount rate would be less than \$3 million and the effect of a 100 basis point increase or decrease in the assumed rate of return on plan assets would be less than \$2 million.</p> <p>We provide additional information, including the impact of increases and decreases in the health care cost trend rate, in Note 7 of the Notes to Consolidated Financial Statements.</p>
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SEMPRA ENERGY AND SDG&E

ASSET RETIREMENT OBLIGATIONS

Assumptions & Approach Used	<p>SDG&E's legal asset retirement obligations (AROs) related to the decommissioning of SONGS are recorded at fair value based on a site specific study performed every three years. The fair value of the obligations includes</p> <ul style="list-style-type: none"> § estimated decommissioning costs, including labor, equipment, material and other disposal costs § inflation adjustment applied to estimated cash flows § discount rate based on a credit-adjusted risk-free rate § expected initiation and duration of decommissioning activities
Effect if Different Assumptions Used	<p>Changes in the estimated decommissioning costs, or in the assumptions and judgments made by management underlying these estimates, could cause revisions to the estimated total cost associated with retiring the assets. SDG&E's nuclear decommissioning expenses are subject to rate recovery and, therefore, rate-making accounting treatment is applied to SDG&E's nuclear decommissioning activities. SDG&E recognizes a regulatory asset, or liability, to the extent that its SONGS ARO exceeds, or is less than, the amount collected from customers and the amount earned in SDG&E's Nuclear Decommissioning Trusts.</p> <p>We provide additional detail in Notes 13 and 14 of the Notes to the Consolidated Financial Statements.</p>

SEMPRA ENERGY

IMPAIRMENT TESTING OF LONG-LIVED ASSETS

Assumptions & Approach Used	<p>Whenever events or changes in circumstances indicate that an asset's carrying amount may not be recoverable, we consider if the estimated future undiscounted cash flows are less than the carrying amount of the assets. If so, we estimate the fair value of these assets to determine the extent to which cost exceeds fair value. For these estimates, we may consider data from multiple valuation methods, including data from market participants. We exercise judgment to estimate the future cash flows and the useful lives of long-lived assets and to determine our intent to use the assets. Our intent to use or dispose of assets is subject to re-evaluation and can change over time.</p>
Effect if Different Assumptions Used	<p>If an impairment test is required, the fair value of long-lived assets can vary if differing estimates and assumptions are used in the valuation techniques applied as indicated by changing market or other conditions. We discuss impairment of long-lived assets in Note 1 of the Notes to Consolidated Financial Statements.</p>

IMPAIRMENT TESTING OF GOODWILL

Assumptions & Approach Used	<p>On an annual basis or whenever events or changes in circumstances necessitate an evaluation, we consider whether goodwill may be impaired. For our annual goodwill impairment testing, we have the option to first make a qualitative assessment of whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount before applying the two-step, quantitative goodwill impairment test. If we elect to perform the qualitative assessment, we evaluate relevant events and circumstances, including but not limited to, macroeconomic conditions, industry and market considerations, cost factors, changes in key personnel and the overall financial performance of the reporting unit. If, after assessing these qualitative factors, we determine that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then we perform the two-step goodwill impairment test. When we perform the two-step, quantitative goodwill impairment test, we exercise judgment to develop estimates of the fair value of the reporting unit and compare that to the carrying value. Our fair value estimates are developed from the perspective of a knowledgeable market participant. We consider observable transactions in the marketplace for similar investments, if available, as well as an income-based approach such as discounted cash flow analysis. A discounted cash flow analysis may be based directly on anticipated future revenues and expenses and may be performed based on free cash flows generated within the reporting unit. Critical assumptions that affect our estimates of fair value may include</p> <ul style="list-style-type: none"> § consideration of market transactions § future cash flows § the appropriate risk-adjusted discount rate § country risk § entity risk
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Effect if Different Assumptions Used	When we choose to make a qualitative assessment as discussed above, the two-step, quantitative goodwill impairment test is not required if we determine that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount. If we conclude that it is more likely than not that the fair value of a reporting unit is less than its carrying amount or when we choose to proceed directly to the two-step, quantitative goodwill impairment test, the test requires us to first determine if the carrying value of a reporting unit exceeds its fair value and if so, to measure the amount of goodwill impairment, if any. When determining if goodwill is impaired, the fair value of the reporting unit and goodwill can vary if differing estimates and assumptions are used in the valuation techniques applied as indicated by changing market or other conditions. As a result, recognizing a goodwill impairment may or may not be required. Sempra Energy has \$1.0 billion of goodwill on its Consolidated Balance Sheet at December 31, 2013, of which \$927 million is attributable to our operations in South America. Based on our qualitative assessment, we determined that it is more likely than not that the estimated fair values of the reporting units to which this goodwill was allocated substantially exceeded their carrying values as of October 1, 2013, our most recent goodwill impairment testing date. We discuss goodwill in Notes 1 and 3 of the Notes to Consolidated Financial Statements.
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SEMPRA ENERGY

CARRYING VALUE OF EQUITY METHOD INVESTMENTS

Assumptions & Approach Used	<p>We generally account for investments under the equity method when we have an ownership interest of 20 to 50 percent. The premium, or excess cost over the underlying carrying value of net assets, is referred to as equity method goodwill, which is included in the impairment testing of the equity method investment.</p> <p>We consider whether the fair value of each equity investment as a whole, not the underlying net assets, has declined and whether that decline is other than temporary. To help evaluate whether a decline in fair value below cost has occurred and if the decline is other than temporary, we may develop fair value estimates for the investment. Our fair value estimates are developed from the perspective of a knowledgeable market participant. In the absence of observable transactions in the marketplace for similar investments, we consider an income-based approach such as discounted cash flow analysis or, with less weighting, the replacement cost of the underlying net assets. A discounted cash flow analysis may be based directly on anticipated future distributions from the investment, or may be performed based on free cash flows generated within the entity and adjusted for our ownership share total. When calculating estimates of fair or realizable values, we also consider whether we intend to hold or sell the investment. For certain held investments, critical assumptions may include</p> <ul style="list-style-type: none"> § equity sale offer price for the investment § transportation rates for natural gas § the appropriate risk-adjusted discount rate § the availability and costs of natural gas § competing fuels (primarily propane) and electricity § estimated future power generation and associated production tax credits § renewable power price expectations <p>For investments that we hold for sale, we consider comparable sales values or indicative offers, executed sales transactions or indications of value determined by cash and affiliate receivables within the entity when determining our estimates of fair value.</p>
Effect if Different Assumptions Used	<p>The risk assumptions applied by other market participants to value the investments could vary significantly or the appropriate approaches could be weighted differently. These differences could impact whether or not the fair value of the investment is less than its cost, and if so, whether that condition is other than temporary. This could result in an impairment charge or a different amount of impairment charge, and, in cases where an impairment charge has been recorded, additional loss or gain upon sale.</p> <p>We provide additional details in Notes 4 and 10 of the Notes to Consolidated Financial Statements.</p>

KEY NONCASH PERFORMANCE INDICATORS

A discussion of key noncash performance indicators related to each segment follows:

California Utilities

Key noncash performance indicators include number of customers, and natural gas volumes and electricity sold. Additional noncash performance indicators include goals related to safety, customer service, customer reputation, environmental considerations, on-time and on-budget completion of major projects and initiatives, and in the case of SDG&E, electric reliability. We discuss natural gas volumes and electricity sold in “Results of Operations – Changes in Revenues, Costs and Earnings” above.

Sempra South American Utilities

Key noncash performance indicators for our South American distribution operations are customer count and consumption. We discuss these above in “Our Business.” Additional noncash performance indicators include goals related to safety, environmental considerations, and regulatory compliance.

Sempra Mexico

Key noncash performance indicators for Sempra Mexico include natural gas sales volume, facility availability, capacity utilization and, for its distribution operations, customer count and consumption. Additional noncash performance indicators include goals related to safety, environmental considerations and regulatory performance. We discuss these above in “Our Business.”

Sempra Natural Gas

Key noncash performance indicators at Sempra Natural Gas include natural gas sales volume, facility availability, capacity utilization and, for its distribution operations, customer count and consumption. Additional noncash performance indicators include goals related to safety, environmental considerations and regulatory compliance. We discuss these above in “Our Business.”

Electric Generation Facilities (Sempra Mexico, Sempra Renewables and Sempra Natural Gas)

Key noncash performance indicators include plant availability and capacity factors and sales volume at our renewable energy facilities and natural gas-fired generating plants. For competitive reasons, we do not disclose plant availability factors. We discuss these above in “Our Business” and “Factors Influencing Future Performance.” Additional noncash performance indicators include goals related to safety, environmental considerations, and compliance with reliability standards.

LNG Facilities (Sempra Mexico and Sempra Natural Gas)

At our LNG terminals, key noncash performance indicators include plant availability and capacity utilization. We discuss these above in “Our Business” and “Factors Influencing Future Performance.” Additional noncash performance indicators include goals related to safety, environmental considerations, regulatory compliance, and on-time and on-budget completion of development projects.

NEW ACCOUNTING STANDARDS

We discuss the relevant pronouncements that have recently become effective and have had or may have a significant effect on our financial statements in Note 2 of the Notes to Consolidated Financial Statements.

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,” “outlook,” “maintain,” or similar expressions, or when we discuss our guidance, strategy, plans, goals, opportunities, projections, initiatives, objectives or intentions, we are making forward-looking statements.

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

- § local, regional, national and international economic, competitive, political, legislative and regulatory conditions and developments;
- § actions and the timing of actions, including issuances of permits to construct and licenses for operation, by the California Public Utilities Commission, California State Legislature, U.S. Department of Energy, Federal Energy Regulatory Commission, Nuclear Regulatory Commission, Atomic Safety and Licensing Board, California Energy Commission, 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;
- § the timing and success of business development efforts and construction, maintenance and capital projects, including risks in obtaining permits, licenses, certificates and other authorizations on a timely basis and risks in obtaining adequate and competitive financing for such projects;
- § 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;
- § energy markets, including the timing and extent of changes and volatility in commodity prices;
- § the availability of electric power, natural gas and liquefied natural gas, including disruptions caused by failures in the North American transmission grid, pipeline explosions and equipment failures and the decommissioning of San Onofre Nuclear Generating Station (SONGS);
- § weather conditions, natural disasters, catastrophic accidents, and conservation efforts;
- § risks inherent with nuclear power facilities and radioactive materials storage, including the catastrophic release of such materials, the disallowance of the recovery of the investment in, or operating costs of, the nuclear facility due to an extended outage and facility closure, and increased regulatory oversight;
- § 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 San Diego Gas & Electric Company's electric transmission and distribution system due to increased amount and variability of power supply from renewable energy sources;
- § the impact on competitive customer rates of the growth in distributed and local power generation and the corresponding decrease in demand for power delivered through 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 herein and in our Annual Report on Form 10-K and other reports that we file with the Securities and Exchange Commission.

COMMON STOCK DATA

SEMPRA ENERGY COMMON STOCK

Our common stock is traded on the New York Stock Exchange. At February 21, 2014, there were approximately 33,502 record holders of our common stock.

The following table shows Sempra Energy quarterly common stock data:

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2013					
Market price					
High	\$	80.21 \$	84.85 \$	89.46 \$	93.00
Low	\$	70.61 \$	78.11 \$	78.67 \$	84.55
2012					
Market price					
High	\$	60.36 \$	69.46 \$	72.32 \$	72.87
Low	\$	54.70 \$	60.04 \$	63.87 \$	64.47

We declared dividends of \$0.63 per share and \$0.60 per share in each quarter of 2013 and 2012, respectively. On February 21, 2014, our board of directors approved an increase to our quarterly common stock dividend to \$0.66 per share (\$2.64 annually), an increase of \$0.03 per share (\$0.12 annually) from \$0.63 per share (\$2.52 annually) authorized in February 2013.

SOCALGAS AND SDG&E COMMON STOCK

Pacific Enterprises (PE), a wholly owned subsidiary of Sempra Energy, owns all of SoCalGas' outstanding common stock. Enova Corporation, a wholly owned subsidiary of Sempra Energy, owns all of SDG&E's issued and outstanding common stock.

Information concerning dividend declarations for SoCalGas and SDG&E is included in their Statement of Changes in Shareholders' Equity and Statement of Changes in Equity, respectively, set forth in the Consolidated Financial Statements.

DIVIDEND RESTRICTIONS

The payment and the amount of future dividends for Sempra Energy, SDG&E, and SoCalGas are within the discretion of their boards of directors. The CPUC's regulation of the California Utilities' capital structures limits the amounts that the California Utilities can pay us in the form of loans and dividends. We discuss these matters in Note 1 of the Notes to the Consolidated Financial Statements under "Restricted Net Assets" and in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Resources and Liquidity" in the "Overview – California Utilities," "Overview – Sempra Energy Consolidated" and "Dividends" sections.

PERFORMANCE GRAPH -- COMPARATIVE TOTAL SHAREHOLDER RETURNS

The following graph (Figure 2) compares the percentage change in the cumulative total shareholder return on Sempra Energy common stock for the five-year period ending December 31, 2013, with the performance over the same period of the Standard & Poor's (S&P) 500 Index and the Standard & Poor's 500 Utilities Index.

These returns were calculated assuming an initial investment of \$100 in our common stock, the S&P 500 Index and the S&P 500 Utilities Index on December 31, 2008, and the reinvestment of all dividends.

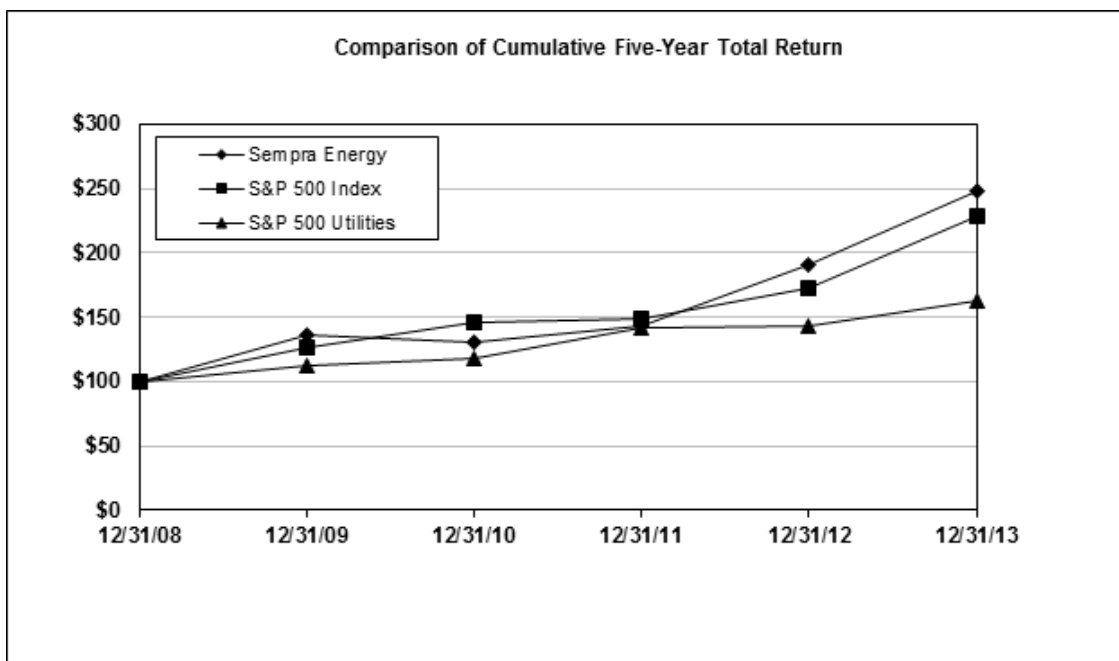


Figure 2: Comparison of Cumulative Five-Year Total Return

FIVE-YEAR SUMMARIES

The following tables present selected financial data of Sempra Energy, SDG&E and SoCalGas for the five years ended December 31, 2013. The data is derived from the audited consolidated financial statements of each company. You should read this information in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and notes contained in this Annual Report.

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA FOR SEMPRA ENERGY

(In millions, except per share amounts)

	At December 31 or for the years then ended				
	2013	2012	2011	2010	2009
Sempra Energy Consolidated					
Revenues					
Utilities:					
Electric	\$ 4,911	\$ 4,568	\$ 3,833	\$ 2,528	\$ 2,419
Natural gas	4,398	3,873	4,489	4,491	4,002
Energy-related businesses	1,248	1,206	1,714	1,984	1,685
Total revenues	\$ 10,557	\$ 9,647	\$ 10,036	\$ 9,003	\$ 8,106
Income from continuing operations	\$ 1,088	\$ 920	\$ 1,381	\$ 703	\$ 1,122
(Earnings) losses from continuing operations attributable to noncontrolling interests	(79)	(55)	(42)	16	7
Call premium on preferred stock of subsidiary	(3)	—	—	—	—
Preferred dividends of subsidiaries	(5)	(6)	(8)	(10)	(10)
Earnings/Income from continuing operations attributable to common shares	\$ 1,001	\$ 859	\$ 1,331	\$ 709	\$ 1,119
Attributable to common shares:					
Earnings/Income from continuing operations					
Basic	\$ 4.10	\$ 3.56	\$ 5.55	\$ 2.90	\$ 4.60
Diluted	\$ 4.01	\$ 3.48	\$ 5.51	\$ 2.86	\$ 4.52
Dividends declared per common share	\$ 2.52	\$ 2.40	\$ 1.92	\$ 1.56	\$ 1.56
Return on common equity	9.4 %	8.6 %	14.2 %	7.9 %	13.2 %
Effective income tax rate	26 %	6 %	23 %	17 %	29 %
Price range of common shares:					
High	\$ 93.00	\$ 72.87	\$ 55.97	\$ 56.61	\$ 57.18
Low	\$ 70.61	\$ 54.70	\$ 44.78	\$ 43.91	\$ 36.43
Weighted average rate base:					
SoCalGas	\$ 3,499	\$ 3,178	\$ 2,948	\$ 2,860	\$ 2,758
SDG&E	\$ 7,244	\$ 6,295	\$ 5,071	\$ 4,697	\$ 4,362
AT DECEMBER 31					
Current assets	\$ 3,997	\$ 3,695	\$ 2,332	\$ 3,363	\$ 2,296
Total assets	\$ 37,244	\$ 36,499	\$ 33,249	\$ 30,231	\$ 28,501
Current liabilities	\$ 4,369	\$ 4,258	\$ 4,152	\$ 3,786	\$ 3,887
Long-term debt (excludes current portion)	\$ 11,253	\$ 11,621	\$ 10,078	\$ 8,980	\$ 7,460
Short-term debt(1)	\$ 1,692	\$ 1,271	\$ 785	\$ 507	\$ 1,191
Contingently redeemable preferred stock of subsidiary	\$ —	\$ 79	\$ 79	\$ 79	\$ 79
Sempra Energy shareholders' equity	\$ 11,008	\$ 10,282	\$ 9,775	\$ 8,990	\$ 9,000
Common shares outstanding	244.5	242.4	239.9	240.4	246.5
Book value per share	\$ 45.03	\$ 42.43	\$ 40.74	\$ 37.39	\$ 36.51

(1) Includes long-term debt due within one year.

In the first quarter of 2013, a Sempra Energy subsidiary, IEnova, completed a private offering in the U.S. and outside of Mexico and a concurrent public offering in Mexico of common stock. We discuss the offerings and IEnova further in Note 1 of the Notes to Consolidated Financial Statements.

In June 2013, we recorded a \$200 million pretax loss from plant closure related to SDG&E's investment in SONGS. We discuss this loss further in Note 13 of the Notes to Consolidated Financial Statements.

We discuss the impact of natural gas prices on revenues in 2013, 2012 and 2011 and the changes in our effective income tax rate in 2013 and 2012 in "Management's Discussion and Analysis of Financial Condition and Results of Operations — Changes in Revenues, Costs and Earnings."

On April 6, 2011, we increased our interests in two South American utilities, which are now consolidated. Prior to the acquisition, we accounted for our investments in these entities as equity method investments. We discuss this acquisition in Note 3 of the Notes to Consolidated Financial Statements.

On April 1, 2008, we sold our commodities-marketing businesses into a joint venture, and began accounting for these businesses under the equity method. In 2010 and early 2011, we and RBS sold substantially all of the businesses and assets of the joint venture. We discuss these transactions further in Note 4 of the Notes to Consolidated Financial Statements.

We discuss litigation and other contingencies in Note 15 of the Notes to Consolidated Financial Statements.

FIVE-YEAR SUMMARIES OF SELECTED FINANCIAL DATA FOR SDG&E AND SOCALGAS

(Dollars in millions)

	At December 31 or for the years then ended				
	2013	2012	2011	2010	2009
SDG&E					
Statement of Operations Data:					
Operating revenues	\$ 4,066	\$ 3,694	\$ 3,373	\$ 3,049	\$ 2,916
Operating income	782	809	755	657	589
Dividends on preferred stock	4	5	5	5	5
Earnings attributable to common shares	404	484	431	369	344
Balance Sheet Data:					
Total assets	\$ 15,377	\$ 14,744	\$ 13,555	\$ 12,077	\$ 10,229
Long-term debt (excludes current portion)	4,525	4,292	4,058	3,479	2,623
Short-term debt(1)	88	16	19	19	78
Contingently redeemable preferred stock	—	79	79	79	79
SDG&E shareholder's equity	4,628	4,222	3,739	3,108	2,739
SoCalGas					
Statement of Operations Data:					
Operating revenues	\$ 3,736	\$ 3,282	\$ 3,816	\$ 3,822	\$ 3,355
Operating income	539	420	486	516	476
Dividends on preferred stock	1	1	1	1	1
Earnings attributable to common shares	364	289	287	286	273
Balance Sheet Data:					
Total assets	\$ 9,147	\$ 9,071	\$ 8,475	\$ 7,986	\$ 7,287
Long-term debt (excludes current portion)	1,159	1,409	1,064	1,320	1,283
Short-term debt(1)	294	4	257	262	11
SoCalGas shareholders' equity	2,549	2,235	2,193	1,955	1,766

(1) Includes long-term debt due within one year.

CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

SEMPRA ENERGY, SDG&E, SOCALGAS

Sempra Energy, SDG&E and SoCalGas have designed and maintain disclosure controls and procedures to ensure that information required to be disclosed in their respective reports is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and is accumulated and communicated to the management of each company, including each respective Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding disclosure. In designing and evaluating these controls and procedures, the management of each company recognizes that any system of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives; therefore, the management of each company applies judgment in evaluating the cost-benefit relationship of other possible controls and procedures.

Under the supervision and with the participation of management, including the Chief Executive Officers and Chief Financial Officers of Sempra Energy, SDG&E and SoCalGas, each company evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of December 31, 2013, the end of the period covered by this report. Based on these evaluations, the Chief Executive Officers and Chief Financial Officers of Sempra Energy, SDG&E and SoCalGas concluded that their respective company's disclosure controls and procedures were effective at the reasonable assurance level.

SEMPRA ENERGY, SDG&E, SOCALGAS

The respective management of each company is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of the management of each company, including each company's principal executive officer and principal financial officer, the effectiveness of each company's internal control over financial reporting was evaluated based on the framework in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the evaluations, each company concluded that its internal control over financial reporting was effective as of December 31, 2013. Deloitte & Touche LLP audited the effectiveness of each company's internal control over financial reporting as of December 31, 2013, as stated in their reports, which are included in this Annual Report.

There have been no changes in the companies' internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the companies' internal control over financial reporting.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

SEMPRA ENERGY

To the Board of Directors and Shareholders of Sempra Energy:

We have audited the internal control over financial reporting of Sempra Energy and subsidiaries (the "Company") as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2013 of the Company and our report dated February 27, 2014 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LLP

San Diego, California
February 27, 2014

To the Board of Directors and Shareholders of Sempra Energy:

We have audited the accompanying consolidated balance sheets of Sempra Energy and subsidiaries (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Sempra Energy and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2014 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

San Diego, California
February 27, 2014

SAN DIEGO GAS & ELECTRIC COMPANY

To the Board of Directors and Shareholder of San Diego Gas & Electric Company:

We have audited the internal control over financial reporting of San Diego Gas & Electric Company (the "Company") as of December 31, 2013, based on criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2013 of the Company and our report dated February 27, 2014 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LLP

San Diego, California
February 27, 2014

To the Board of Directors and Shareholder of San Diego Gas & Electric Company:

We have audited the accompanying consolidated balance sheets of San Diego Gas & Electric Company (the “Company”) as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of San Diego Gas & Electric Company as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2014 expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

San Diego, California
February 27, 2014

SOUTHERN CALIFORNIA GAS COMPANY

To the Board of Directors and Shareholders of Southern California Gas Company:

We have audited the internal control over financial reporting of Southern California Gas Company and subsidiaries (the “Company”) as of December 31, 2013, based on criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2013 of the Company and our report dated February 27, 2014 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LLP

San Diego, California
February 27, 2014

To the Board of Directors and Shareholders of Southern California Gas Company:

We have audited the accompanying consolidated balance sheets of Southern California Gas Company and subsidiaries (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Southern California Gas Company and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2014 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ **DELOITTE & TOUCHE LLP**

San Diego, California
February 27, 2014

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

	Years ended December 31,		
	2013	2012	2011
REVENUES			
Utilities	\$ 9,309	\$ 8,441	\$ 8,322
Energy-related businesses	1,248	1,206	1,714
Total revenues	<u>10,557</u>	<u>9,647</u>	<u>10,036</u>
EXPENSES AND OTHER INCOME			
Utilities:			
Cost of natural gas	(1,646)	(1,290)	(1,866)
Cost of electric fuel and purchased power	(1,932)	(1,760)	(1,397)
Energy-related businesses:			
Cost of natural gas, electric fuel and purchased power	(435)	(481)	(746)
Other cost of sales	(178)	(159)	(137)
Operation and maintenance	(2,995)	(2,956)	(2,825)
Depreciation and amortization	(1,113)	(1,090)	(976)
Franchise fees and other taxes	(374)	(359)	(343)
Loss from plant closure	(200)	—	—
Gain on sale of assets	114	7	—
Equity earnings (losses), before income tax	31	(319)	9
Remeasurement of equity method investments	—	—	277
Other income, net	140	172	130
Interest income	20	24	26
Interest expense	(559)	(493)	(465)
Income before income taxes and equity earnings of certain unconsolidated subsidiaries	<u>1,430</u>	<u>943</u>	<u>1,723</u>
Income tax expense	(366)	(59)	(394)
Equity earnings, net of income tax	24	36	52
Net income	<u>1,088</u>	<u>920</u>	<u>1,381</u>
Earnings attributable to noncontrolling interests	(79)	(55)	(42)
Call premium on preferred stock of subsidiary	(3)	—	—
Preferred dividends of subsidiaries	(5)	(6)	(8)
Earnings	<u>\$ 1,001</u>	<u>\$ 859</u>	<u>\$ 1,331</u>
Basic earnings per common share	\$ 4.10	\$ 3.56	\$ 5.55
Weighted-average number of shares outstanding, basic (thousands)	<u>243,863</u>	<u>241,347</u>	<u>239,720</u>
Diluted earnings per common share	\$ 4.01	\$ 3.48	\$ 5.51
Weighted-average number of shares outstanding, diluted (thousands)	<u>249,332</u>	<u>246,693</u>	<u>241,523</u>

See Notes to Consolidated Financial Statements.

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

	Years ended December 31, 2013, 2012 and 2011				
	Sempra Energy Shareholders' Equity				
	Pretax Amount	Income Tax (Expense) Benefit	Net-of-Tax Amount	Noncontrolling Interests (After-Tax)	Total
2013:					

Net income	\$	1,375 \$	(366)\$	1,009 \$	79 \$	1,088
Other comprehensive income (loss):						
Foreign currency translation adjustments		111	—	111	(27)	84
Pension and other postretirement benefits		47	(19)	28	—	28
Financial instruments		13	(4)	9	19	28
Total other comprehensive income (loss)		171	(23)	148	(8)	140
Comprehensive income		1,546	(389)	1,157	71	1,228
Preferred dividends of subsidiaries		(5)	—	(5)	—	(5)
Comprehensive income, after preferred dividends of subsidiaries	\$	1,541 \$	(389)\$	1,152 \$	71 \$	1,223
2012:						
Net income	\$	924 \$	(59)\$	865 \$	55 \$	920
Other comprehensive income (loss):						
Foreign currency translation adjustments		119	—	119	15	134
Pension and other postretirement benefits		(4)	2	(2)	—	(2)
Financial instruments		(6)	2	(4)	(11)	(15)
Total other comprehensive income		109	4	113	4	117
Comprehensive income		1,033	(55)	978	59	1,037
Preferred dividends of subsidiaries		(6)	—	(6)	—	(6)
Comprehensive income, after preferred dividends of subsidiaries	\$	1,027 \$	(55)\$	972 \$	59 \$	1,031
2011:						
Net income	\$	1,733 \$	(394)\$	1,339 \$	42 \$	1,381
Other comprehensive income (loss):						
Foreign currency translation adjustments		(79)	3	(76)	6	(70)
Reclassification to net income of foreign currency translation adjustment related to rereasurement of equity method investments		(54)	—	(54)	—	(54)
Available-for-sale securities		(2)	1	(1)	—	(1)
Pension and other postretirement benefits		(20)	8	(12)	—	(12)
Financial instruments		(26)	10	(16)	(36)	(52)
Total other comprehensive loss		(181)	22	(159)	(30)	(189)
Comprehensive income		1,552	(372)	1,180	12	1,192
Preferred dividends of subsidiaries		(8)	—	(8)	—	(8)
Comprehensive income, after preferred dividends of subsidiaries	\$	1,544 \$	(372)\$	1,172 \$	12 \$	1,184

See Notes to Consolidated Financial Statements.

SEMPRA ENERGY CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	December 31, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 904	475
Restricted cash	24	46
Trade accounts receivable, net	1,308	1,146
Other accounts and notes receivable, net	214	153
Due from unconsolidated affiliates	4	—
Income taxes receivable	85	56
Deferred income taxes	301	148
Inventories	287	408
Regulatory balancing accounts – undercollected	556	395
Regulatory assets	38	62
Fixed-price contracts and other derivatives	106	95
U.S. Treasury grants receivable	—	258
Asset held for sale, power plant	—	296
Other	170	157
Total current assets	3,997	3,695
Investments and other assets:		
Restricted cash	25	22
Due from unconsolidated affiliate	14	—
Regulatory assets arising from pension and other postretirement benefit obligations	435	1,151
Other regulatory assets	2,113	1,591
Nuclear decommissioning trusts	1,034	908
Investments	1,575	1,516
Goodwill	1,024	1,111
Other intangible assets	426	436
Sundry	1,141	878
Total investments and other assets	7,787	7,613
Property, plant and equipment:		
Property, plant and equipment	34,407	33,528
Less accumulated depreciation and amortization	(8,947)	(8,337)
Property, plant and equipment, net (\$438 and \$466 at December 31, 2013 and 2012, respectively, related to VIE)	25,460	25,191
Total assets	\$ 37,244	36,499

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS (CONTINUED)
(Dollars in millions)

	December 31, 2013	December 31, 2012
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	\$ 545	\$ 546
Accounts payable – trade	1,088	976
Accounts payable – other	127	134
Dividends and interest payable	271	266
Accrued compensation and benefits	376	337
Regulatory balancing accounts – overcollected	91	141
Current portion of long-term debt	1,147	725
Fixed-price contracts and other derivatives	55	77
Customer deposits	154	143
Reserve for wildfire litigation	63	305
Other	452	608
Total current liabilities	<u>4,369</u>	<u>4,258</u>
Long-term debt (\$325 and \$335 at December 31, 2013 and 2012, respectively, related to VIE)	<u>11,253</u>	<u>11,621</u>
Deferred credits and other liabilities:		
Customer advances for construction	155	144
Pension and other postretirement benefit obligations, net of plan assets	667	1,456
Deferred income taxes	2,804	2,100
Deferred investment tax credits	42	46
Regulatory liabilities arising from removal obligations	2,623	2,720
Asset retirement obligations	2,084	2,033
Fixed-price contracts and other derivatives	228	252
Deferred credits and other	1,169	1,107
Total deferred credits and other liabilities	<u>9,772</u>	<u>9,858</u>
Contingently redeemable preferred stock of subsidiary	<u>—</u>	<u>79</u>
Commitments and contingencies (Note 15)		
Equity:		
Preferred stock (50 million shares authorized; none issued)	—	—
Common stock (750 million shares authorized; 244 million and 242 million shares outstanding at December 31, 2013 and 2012, respectively; no par value)	2,409	2,217
Retained earnings	8,827	8,441
Accumulated other comprehensive income (loss)	(228)	(376)
Total Sempra Energy shareholders' equity	<u>11,008</u>	<u>10,282</u>
Preferred stock of subsidiary	20	20
Other noncontrolling interests	822	381
Total equity	<u>11,850</u>	<u>10,683</u>
Total liabilities and equity	\$ 37,244	\$ 36,499

See Notes to Consolidated Financial Statements.

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

	Years ended December 31,		
	2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 1,088	\$ 920	\$ 1,381
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,113	1,090	976
Deferred income taxes and investment tax credits	334	(43)	3
Gain on sale of assets	(114)	(7)	—
Loss from plant closure	200	—	—
Equity (earnings) losses	(55)	324	(61)
Remeasurement of equity method investments	—	—	(277)
Fixed-price contracts and other derivatives	(21)	(26)	2
Other	13	41	(15)
Net change in other working capital components	(620)	(630)	(224)
Distributions from RBS Sempra Commodities LLP	—	—	53
Changes in other assets	(171)	219	34
Changes in other liabilities	17	130	(5)
Net cash provided by operating activities	<u>1,784</u>	<u>2,018</u>	<u>1,867</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures for property, plant and equipment	(2,572)	(2,956)	(2,844)
Proceeds from sale of assets and investments	570	74	2
Expenditures for investments and acquisition of businesses, net of cash acquired	(22)	(445)	(941)
Proceeds from U.S. Treasury grants	238	—	—
Distributions from RBS Sempra Commodities LLP	50	—	570
Distributions from other investments	102	207	64
Purchases of nuclear decommissioning and other trust assets	(697)	(738)	(755)
Proceeds from sales by nuclear decommissioning and other trusts	695	733	753
Decrease in restricted cash	329	196	653
Increase in restricted cash	(356)	(218)	(541)
Advances to unconsolidated affiliates	(14)	—	—
Other	(12)	(11)	(31)
Net cash used in investing activities	<u>(1,689)</u>	<u>(3,158)</u>	<u>(3,070)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Common dividends paid	(606)	(550)	(440)
Redemption of preferred stock of subsidiaries	(82)	—	(80)
Preferred dividends paid by subsidiaries	(5)	(6)	(8)

Issuances of common stock	62	78	28
Repurchases of common stock	(45)	(16)	(18)
Issuances of debt (maturities greater than 90 days)	2,081	3,097	2,098
Payments on debt (maturities greater than 90 days)	(1,788)	(1,112)	(482)
Proceeds from sale of noncontrolling interest, net of \$25 in offering costs	574	—	—
Increase (decrease) in short-term debt, net	256	(47)	(498)
Purchase of noncontrolling interests	—	(7)	(43)
Distributions to noncontrolling interests	(69)	(61)	(16)
Other	(40)	(21)	(7)
Net cash provided by financing activities	338	1,355	534
Effect of exchange rate changes on cash and cash equivalents	(4)	8	9
Increase (decrease) in cash and cash equivalents	429	223	(660)
Cash and cash equivalents, January 1	475	252	912
Cash and cash equivalents, December 31	\$ 904	\$ 475	\$ 252

See Notes to Consolidated Financial Statements.

SEMPRA ENERGY CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(Dollars in millions)

	Years ended December 31,		
	2013	2012	2011
CHANGES IN OTHER WORKING CAPITAL COMPONENTS			
(Excluding cash and cash equivalents, and debt due within one year)			
Accounts and notes receivable	\$ (273)	\$ 36	\$ (32)
Income taxes, net	(38)	(29)	269
Inventories	116	(78)	(84)
Regulatory balancing accounts	(198)	(291)	(150)
Regulatory assets and liabilities	1	(6)	(2)
Other current assets	15	180	295
Accounts and notes payable	(28)	3	60
Other current liabilities	(215)	(445)	(580)
Net change in other working capital components	\$ (620)	\$ (630)	\$ (224)
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest payments, net of amounts capitalized	\$ 544	\$ 458	\$ 440
Income tax payments, net of refunds	120	130	144
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Nuclear facility plant reclassified to regulatory asset, net of depreciation and amortization	\$ 512	\$ —	\$ —
Accrued capital expenditures	437	357	368
Capital expenditures recoverable by U.S. Treasury grants receivable(1)	3	213	—
Sequestration of U.S. Treasury grants receivable	(23)	—	—
Dividends declared but not paid	157	150	120
Cancellation of debt and return of investment (industrial development bonds)	—	—	180
Conversion of debt into equity	—	—	30
Financing of build-to-suit property	14	—	—
Acquisition of businesses:			
Assets acquired	\$ 13	\$ 29	\$ 2,833
Cash paid, net of cash acquired	(11)	(19)	(611)
Fair value of equity method investments immediately prior to the acquisition	—	—	(882)
Fair value of noncontrolling interests	—	—	(279)
Additional consideration accrued	—	—	(32)
Liabilities assumed	\$ 2	\$ 10	\$ 1,029

(1) Cash grants; the 2012 amount excludes \$45 million previously recorded in 2011 as investment tax credits.

See Notes to Consolidated Financial Statements.

SEMPRA ENERGY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Dollars in millions)

	Years ended December 31, 2013, 2012 and 2011						
	Common Stock	Retained Earnings	Deferred Compensation Relating to ESOP	Accumulated Other Comprehensive Income (Loss)	Sempra Energy Shareholders' Equity	Non-controlling Interests	Total Equity
Balance at December 31, 2010	\$ 2,036	\$ 7,292	(8)	(330)	\$ 8,990	\$ 211	\$ 9,201
Net income		1,339			1,339	42	1,381
Other comprehensive loss				(159)	(159)	(30)	(189)
Share-based compensation expense	48				48		48
Common stock dividends declared		(461)			(461)		(461)
Preferred dividends of subsidiaries		(8)			(8)		(8)
Issuance of common stock	28				28		28
Repurchases of common stock	(18)				(18)		(18)
Common stock released from ESOP	14		6		20		20
Distributions to noncontrolling interests						(16)	(16)
Equity contributed by noncontrolling interests						36	36
Acquisition of South American entities						279	279
Purchase of noncontrolling interests in subsidiary	(4)				(4)	(39)	(43)
Redemption of preferred stock of							

subsidary									
Balance at December 31, 2011	2,104	8,162	(2)	(489)	9,775	403	(80)		10,178
Net income		865			865	55			920
Other comprehensive income				113	113	4			117
Share-based compensation expense	44				44				44
Common stock dividends declared		(580)			(580)				(580)
Preferred dividends of subsidiaries		(6)			(6)				(6)
Issuance of common stock	78				78				78
Repurchases of common stock	(16)				(16)				(16)
Common stock released from ESOP	7		2		9				9
Distributions to noncontrolling interests						(62)			(62)
Equity contributed by noncontrolling interests						8			8
Purchase of noncontrolling interest in subsidiary						(7)			(7)
Balance at December 31, 2012	\$ 2,217	\$ 8,441	\$ —	\$ (376)	\$ 10,282	\$ 401			\$ 10,683

See Notes to Consolidated Financial Statements.

SEMPRA ENERGY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

(Dollars in millions)

	Years ended December 31, 2013, 2012 and 2011						
	Common Stock	Retained Earnings	Deferred Compensation Relating to ESOP	Accumulated Other Comprehensive Income (Loss)	Sempra Energy Shareholders' Equity	Non-controlling Interests	Total Equity
Balance at December 31, 2012	\$ 2,217	\$ 8,441	\$ —	\$ (376)	\$ 10,282	\$ 401	\$ 10,683
Net income		1,009			1,009	79	1,088
Other comprehensive income (loss)				148	148	(8)	140
Share-based compensation expense	40				40		40
Common stock dividends declared		(615)			(615)		(615)
Preferred dividends of subsidiaries		(5)			(5)		(5)
Issuance of common stock	62				62		62
Repurchases of common stock	(45)				(45)		(45)
Sale of noncontrolling interests, net of offering costs	135				135	439	574
Distributions to noncontrolling interests						(69)	(69)
Call premium on preferred stock of subsidiary		(3)			(3)		(3)
Balance at December 31, 2013	\$ 2,409	\$ 8,827	\$ —	\$ (228)	\$ 11,008	\$ 842	\$ 11,850

See Notes to Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions)

	Years ended December 31,		
	2013	2012	2011
Operating revenues			
Electric	\$ 3,537	\$ 3,226	\$ 2,830
Natural gas	529	468	543
Total operating revenues	4,066	3,694	3,373
Operating expenses			
Cost of electric fuel and purchased power	1,019	892	715
Cost of natural gas	204	151	226
Operation and maintenance	1,157	1,154	1,072
Depreciation and amortization	494	490	422
Franchise fees and other taxes	210	198	183
Loss from plant closure	200	—	—
Total operating expenses	3,284	2,885	2,618
Operating income	782	809	755
Other income, net	40	69	79
Interest income	1	—	—
Interest expense	(197)	(173)	(142)
Income before income taxes	626	705	692
Income tax expense	(191)	(190)	(237)
Net income	435	515	455
Earnings attributable to noncontrolling interest	(24)	(26)	(19)
Earnings	411	489	436
Call premium on preferred stock	(3)	—	—
Preferred dividend requirements	(4)	(5)	(5)
Earnings attributable to common shares	\$ 404	\$ 484	\$ 431

See Notes to Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in millions)

Years ended December 31, 2013, 2012 and 2011

SDG&E Shareholder's Equity

	Pretax Amount	Income Tax Expense	Net-of-Tax Amount	Noncontrolling Interest (After-Tax)	Total
2013:					
Net income	\$ 602	\$ (191)	\$ 411	\$ 24	435
Other comprehensive income:					
Pension and other postretirement benefits	3	(1)	2	—	2
Financial instruments	—	—	—	17	17
Total other comprehensive income	3	(1)	2	17	19
Comprehensive income	\$ 605	\$ (192)	\$ 413	\$ 41	454
2012:					
Net income	\$ 679	\$ (190)	\$ 489	\$ 26	515
Other comprehensive loss:					
Pension and other postretirement benefits	(1)	—	(1)	—	(1)
Financial instruments	—	—	—	(11)	(11)
Total other comprehensive loss	(1)	—	(1)	(11)	(12)
Comprehensive income	\$ 678	\$ (190)	\$ 488	\$ 15	503
2011:					
Net income	\$ 673	\$ (237)	\$ 436	\$ 19	455
Other comprehensive loss:					
Financial instruments	—	—	—	(36)	(36)
Total other comprehensive loss	—	—	—	(36)	(36)
Comprehensive income (loss)	\$ 673	\$ (237)	\$ 436	\$ (17)	419

See Notes to Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	December 31, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 27	\$ 87
Restricted cash	6	10
Accounts receivable – trade, net	266	252
Accounts receivable – other, net	28	21
Due from unconsolidated affiliates	1	39
Income taxes receivable	32	35
Deferred income taxes	103	—
Inventories	86	82
Regulatory balancing accounts, net	556	395
Regulatory assets arising from fixed-price contracts and other derivatives	—	39
Other regulatory assets	29	10
Fixed-price contracts and other derivatives	61	41
Other	75	76
Total current assets	1,270	1,087
Other assets:		
Restricted cash	25	22
Deferred taxes recoverable in rates	788	718
Regulatory assets arising from fixed-price contracts and other derivatives	63	110
Regulatory assets arising from pension and other postretirement benefit obligations	106	303
Other regulatory assets	991	616
Nuclear decommissioning trusts	1,034	908
Sundry	254	117
Total other assets	3,261	2,794
Property, plant and equipment:		
Property, plant and equipment	14,346	14,124
Less accumulated depreciation and amortization	(3,500)	(3,261)
Property, plant and equipment, net (\$438 and \$466 at December 31, 2013 and 2012, respectively, related to VIE)	10,846	10,863
Total assets	\$ 15,377	\$ 14,744

See Notes to Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY CONSOLIDATED BALANCE SHEETS (CONTINUED)

(Dollars in millions)

	December 31, 2013	December 31, 2012
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	\$ 59	\$ —
Accounts payable	420	300
Due to unconsolidated affiliates	39	19
Deferred income taxes	—	26
Dividends and interest payable	39	36
Accrued compensation and benefits	113	129
Current portion of long-term debt	29	16
Fixed-price contracts and other derivatives	38	56
Customer deposits	71	60
Reserve for wildfire litigation	63	305

Other	208	157
Total current liabilities	1,079	1,104
Long-term debt (\$325 and \$335 at December 31, 2013 and 2012, respectively, related to VIE)	4,525	4,292
Deferred credits and other liabilities:		
Customer advances for construction	34	17
Pension and other postretirement benefit obligations, net of plan assets	132	340
Deferred income taxes	2,021	1,636
Deferred investment tax credits	24	25
Regulatory liabilities arising from removal obligations	1,403	1,603
Asset retirement obligations	861	733
Fixed-price contracts and other derivatives	175	209
Deferred credits and other	404	408
Total deferred credits and other liabilities	5,054	4,971
Contingently redeemable preferred stock	—	79
Commitments and contingencies (Note 15)		
Equity:		
Common stock (255 million shares authorized; 117 million shares outstanding; no par value)	1,338	1,338
Retained earnings	3,299	2,895
Accumulated other comprehensive income (loss)	(9)	(11)
Total SDG&E shareholder's equity	4,628	4,222
Noncontrolling interest	91	76
Total equity	4,719	4,298
Total liabilities and equity	\$ 15,377	\$ 14,744

See Notes to Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

	Years ended December 31,		
	2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 435	\$ 515	455
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	494	490	422
Deferred income taxes and investment tax credits	171	285	290
Loss from plant closure	200	—	—
Fixed-price contracts and other derivatives	(8)	(12)	(13)
Other	(37)	(63)	(68)
Changes in other assets	(150)	201	33
Changes in other liabilities	19	129	7
Changes in working capital components:			
Accounts receivable	(40)	12	6
Due to/from affiliates, net	38	29	6
Inventories	(14)	—	(11)
Other current assets	7	208	309
Income taxes	(50)	85	(111)
Accounts payable	50	(42)	68
Regulatory balancing accounts	(140)	(322)	(87)
Interest payable	4	5	6
Other current liabilities	(260)	(419)	(430)
Net cash provided by operating activities	719	1,101	882
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures for property, plant and equipment	(978)	(1,237)	(1,831)
Purchases of nuclear decommissioning trust assets	(692)	(732)	(748)
Proceeds from sales by nuclear decommissioning trusts	685	723	741
Proceeds from sale of assets	11	—	1
Decrease in restricted cash	82	92	520
Increase in restricted cash	(81)	(81)	(447)
Net cash used in investing activities	(973)	(1,235)	(1,764)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution	—	—	200
Redemption of preferred stock	(82)	—	—
Preferred dividends paid	(5)	(5)	(5)
Issuances of long-term debt	450	249	598
Payments on long-term debt	(199)	(10)	(10)
Capital contribution received by Otay Mesa VIE	—	—	5
Capital distributions made by Otay Mesa VIE	(26)	(40)	—
Increase in short-term debt, net	59	—	—
Other	(3)	(2)	(4)
Net cash provided by financing activities	194	192	784
(Decrease) increase in cash and cash equivalents	(60)	58	(98)
Cash and cash equivalents, January 1	87	29	127
Cash and cash equivalents, December 31	\$ 27	\$ 87	29

See Notes to Consolidated Financial Statements.

(Dollars in millions)

	Years ended December 31,		
	2013	2012	2011
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest payments, net of amounts capitalized	\$ 187	\$ 162	\$ 131
Income tax payments (refunds), net	84	(242)	59
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Nuclear facility plant reclassified to regulatory asset, net of depreciation and amortization	\$ 512	—	—
Accrued capital expenditures	182	153	187
Dividends declared but not paid	—	1	1

See Notes to Consolidated Financial Statements.

SAN DIEGO GAS & ELECTRIC COMPANY
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Dollars in millions)

	Years ended December 2013, 2012 and 2011					
	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	SDG&E Shareholder's Equity	Noncontrolling Interest	Total Equity
Balance at December 31, 2010	\$ 1,138	\$ 1,980	(10)	\$ 3,108	\$ 113	\$ 3,221
Net income		436		436	19	455
Other comprehensive loss					(36)	(36)
Preferred stock dividends declared		(5)		(5)		(5)
Capital contribution	200			200		200
Equity contributed by noncontrolling interest					6	6
Balance at December 31, 2011	1,338	2,411	(10)	3,739	102	3,841
Net income		489		489	26	515
Other comprehensive loss			(1)	(1)	(11)	(12)
Preferred stock dividends declared		(5)		(5)		(5)
Distributions to noncontrolling interest					(41)	(41)
Balance at December 31, 2012	1,338	2,895	(11)	4,222	76	4,298
Net income		411		411	24	435
Other comprehensive income			2	2	17	19
Preferred stock dividends declared		(4)		(4)		(4)
Distributions to noncontrolling interest					(26)	(26)
Call premium on preferred stock		(3)		(3)		(3)
Balance at December 31, 2013	\$ 1,338	\$ 3,299	(9)	\$ 4,628	\$ 91	\$ 4,719

See Notes to Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions)

	Years ended December 31,		
	2013	2012	2011
Operating revenues	\$ 3,736	\$ 3,282	\$ 3,816
Operating expenses			
Cost of natural gas	1,362	1,074	1,568
Operation and maintenance	1,324	1,304	1,305
Depreciation and amortization	383	362	331
Franchise fees and other taxes	128	122	126
Total operating expenses	3,197	2,862	3,330
Operating income	539	420	486
Other income, net	11	17	13
Interest income	—	—	1
Interest expense	(69)	(68)	(69)
Income before income taxes	481	369	431
Income tax expense	(116)	(79)	(143)
Net income	365	290	288
Preferred dividend requirements	(1)	(1)	(1)
Earnings attributable to common shares	\$ 364	\$ 289	\$ 287

See Notes to Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in millions)

	Years ended December 31, 2013, 2012 and 2011		
	Pretax Amount	Income Tax (Expense) Benefit	Net-of-Tax Amount
2013:			
Net income	\$ 481	\$ (116)	\$ 365
Other comprehensive income (loss):			
Pension and other postretirement benefits	(2)	1	(1)
Financial instruments	1	—	1

Total other comprehensive income	(1)	1	—
Comprehensive income	\$ 480	\$ (115)	\$ 365
2012:			
Net income	\$ 369	\$ (79)	\$ 290
Other comprehensive income:			
Pension and other postretirement benefits	5	(3)	2
Financial instruments	2	(1)	1
Total other comprehensive income	7	(4)	3
Comprehensive income	\$ 376	\$ (83)	\$ 293
2011:			
Net income	\$ 431	\$ (143)	\$ 288
Other comprehensive income (loss):			
Pension and other postretirement benefits	(2)	1	(1)
Financial instruments	3	(1)	2
Total other comprehensive income	1	—	1
Comprehensive income	\$ 432	\$ (143)	\$ 289

See Notes to Consolidated Financial Statements.

**SOUTHERN CALIFORNIA GAS COMPANY
CONSOLIDATED BALANCE SHEETS**

(Dollars in millions)

	December 31, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 27	\$ 83
Accounts receivable – trade, net	595	539
Accounts receivable – other, net	97	51
Due from unconsolidated affiliates	21	24
Income taxes receivable	25	104
Deferred income taxes	—	3
Inventories	69	151
Regulatory assets	5	4
Other	34	35
Total current assets	873	994
Other assets:		
Regulatory assets arising from pension obligations	326	694
Regulatory assets arising from other postretirement benefit obligations	—	141
Other regulatory assets	262	148
Other postretirement benefit assets, net of plan liabilities	95	—
Sundry	124	77
Total other assets	807	1,060
Property, plant and equipment:		
Property, plant and equipment	11,831	11,187
Less accumulated depreciation and amortization	(4,364)	(4,170)
Property, plant and equipment, net	7,467	7,017
Total assets	\$ 9,147	\$ 9,071

See Notes to Consolidated Financial Statements.

**SOUTHERN CALIFORNIA GAS COMPANY
CONSOLIDATED BALANCE SHEETS (CONTINUED)**

(Dollars in millions)

	December 31, 2013	December 31, 2012
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	\$ 42	\$ —
Accounts payable – trade	346	383
Accounts payable – other	79	82
Due to unconsolidated affiliates	16	37
Deferred income taxes	45	—
Accrued compensation and benefits	141	116
Regulatory balancing accounts, net	91	141
Current portion of long-term debt	252	4
Customer deposits	75	76
Other	125	124
Total current liabilities	1,212	963
Long-term debt		
Deferred credits and other liabilities:		
Customer advances for construction	108	111
Pension obligation, net of plan assets	339	714
Other postretirement benefit obligations, net of plan assets	—	141
Regulatory liabilities arising from other postretirement benefit assets	95	—
Deferred income taxes	993	881
Deferred investment tax credits	18	20
Regulatory liabilities arising from removal obligations	1,205	1,103
Asset retirement obligations	1,182	1,238
Deferred credits and other	287	256
Total deferred credits and other liabilities	4,227	4,464

Commitments and contingencies (Note 15)

Shareholders' equity:		
Preferred stock	22	22
Common stock (100 million shares authorized; 91 million shares outstanding; no par value)	866	866
Retained earnings	1,679	1,365
Accumulated other comprehensive income (loss)	(18)	(18)
Total shareholders' equity	<u>2,549</u>	<u>2,235</u>
Total liabilities and shareholders' equity	<u>\$ 9,147</u>	<u>\$ 9,071</u>

See Notes to Consolidated Financial Statements.

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

	Years ended December 31,		
	2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 365	\$ 290	\$ 288
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	383	362	331
Deferred income taxes and investment tax credits	117	128	130
Other	(5)	(12)	(6)
Changes in other assets	(52)	14	19
Changes in other liabilities	(4)	4	(7)
Changes in working capital components:			
Accounts receivable	(113)	37	(57)
Inventories	82	(1)	(46)
Other current assets	3	(6)	5
Accounts payable	(54)	54	(7)
Income taxes	51	(83)	(12)
Due to/from affiliates, net	(57)	51	(18)
Regulatory balancing accounts	(58)	31	(63)
Customer deposits	(1)	1	2
Other current liabilities	24	(24)	(5)
Net cash provided by operating activities	<u>681</u>	<u>846</u>	<u>554</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditures for property, plant and equipment	(762)	(639)	(683)
Decrease (increase) in loans to affiliate, net	34	(4)	49
Net cash used in investing activities	<u>(728)</u>	<u>(643)</u>	<u>(634)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Common dividends paid	(50)	(250)	(50)
Preferred dividends paid	(1)	(1)	(1)
Issuances of long-term debt	—	348	—
Payments on long-term debt	—	(250)	(250)
Debt issuance costs	—	(3)	—
Increase in short-term debt, net	42	—	—
Net cash used in financing activities	<u>(9)</u>	<u>(156)</u>	<u>(301)</u>
(Decrease) increase in cash and cash equivalents	(56)	47	(381)
Cash and cash equivalents, January 1	83	36	417
Cash and cash equivalents, December 31	<u>\$ 27</u>	<u>\$ 83</u>	<u>\$ 36</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest payments, net of amounts capitalized	\$ 65	\$ 62	\$ 65
Income tax (refunds) payments, net	(52)	16	25
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITY			
Accrued capital expenditures	\$ 130	\$ 115	\$ 97

See Notes to Consolidated Financial Statements.

SOUTHERN CALIFORNIA GAS COMPANY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Dollars in millions)

	Years ended December 31, 2013, 2012 and 2011				
	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2010	\$ 22	\$ 866	\$ 1,089	\$ (22)	\$ 1,955
Net income			288		288
Other comprehensive income				1	1
Preferred stock dividends declared			(1)		(1)
Common stock dividends declared			(50)		(50)
Balance at December 31, 2011	22	866	1,326	(21)	2,193
Net income			290		290
Other comprehensive income				3	3
Preferred stock dividends declared			(1)		(1)
Common stock dividends declared			(250)		(250)
Balance at December 31, 2012	22	866	1,365	(18)	2,235
Net income			365		365

Preferred stock dividends declared					(1)				(1)
Common stock dividends declared					(50)				(50)
Balance at December 31, 2013	\$	22	\$	866	\$	1,679	\$	(18)	\$ 2,549

See Notes to Consolidated Financial Statements.

SEMPRA ENERGY AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES AND OTHER FINANCIAL DATA

PRINCIPLES OF CONSOLIDATION

Sempra Energy

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

- § San Diego Gas & Electric Company (SDG&E) and 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 16.

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, Sempra Energy's 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 in "Noncontrolling Interests – Sale of Noncontrolling Interests" below.

Sempra Energy uses the equity method to account for investments in affiliated companies over which we have the ability to exercise significant influence, but not control. We discuss our investments in unconsolidated entities in Notes 3 and 4.

SDG&E

SDG&E's Consolidated Financial Statements include its accounts and the accounts of a VIE of which SDG&E is the primary beneficiary, as we discuss below 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' Consolidated Financial Statements include its accounts and the de minimus accounts of inactive subsidiaries. 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.

Regulated Operations

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 RL de CV (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 the provisions of accounting principles generally accepted in the United States of America (U.S. GAAP) governing regulated operations, as we discuss below under "Regulatory Matters." We discuss revenue recognition at our utilities in "Revenues—Utilities" below.

Use of Estimates in the Preparation of the Financial Statements

We have prepared our Consolidated Financial Statements in conformity with U.S. GAAP. This requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, including the disclosure of contingent assets and liabilities at the date of the financial statements. Although we believe the estimates and assumptions are reasonable, actual amounts ultimately may differ significantly from those estimates.

Subsequent Events

We evaluated events and transactions that occurred after December 31, 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. We discuss subsequent events further in Note 18.

REGULATORY MATTERS

Effects of Regulation

The accounting policies of our regulated utility subsidiaries in California, SDG&E and SoCalGas, conform with U.S. GAAP for regulated enterprises and reflect the policies of the California Public Utilities Commission (CPUC) and the Federal Energy Regulatory Commission (FERC).

The California Utilities prepare their financial statements in accordance with U.S. GAAP provisions governing regulated operations. Under these provisions, a regulated utility records a regulatory asset, which are generally costs that would otherwise be charged to expense, if it is probable that, through the ratemaking process, the utility will recover that asset from customers. To the extent that recovery is no longer probable, the related regulatory assets are written off. Regulatory liabilities generally represent amounts collected from customers in advance of the actual expenditure by the utility. If the actual expenditures are less than amounts previously collected from ratepayers, the excess would be refunded to customers, generally by reducing future rates. Regulatory liabilities may also arise from other transactions such as unrealized gains on fixed price contracts and other derivatives or certain deferred income tax benefits which are passed through to customers in future rates. In addition, the California Utilities record regulatory liabilities when the CPUC or the FERC requires a refund to be made to customers or has required that a gain or other transaction of net allowable costs be given to customers over future periods.

Determining probability of recovery requires significant judgment by management and may include, but is not limited to, consideration of:

- § the nature of the event giving rise to the assessment;
- § existing statutes and regulatory code;
- § legal precedence;
- § regulatory principles and analogous regulatory actions;
- § testimony presented in regulatory hearings;
- § proposed regulatory decisions;
- § final regulatory orders;
- § a commission-authorized mechanism established for the accumulation of costs;
- § status of applications for rehearings or state court appeals;
- § specific approval from a commission; and
- § historical experience.

Our other natural gas distribution utilities, Mobile Gas, Willmut Gas and Ecogas, also apply U.S. GAAP for regulated utilities to their operations.

We provide information concerning regulatory assets and liabilities below in "Regulatory Balancing Accounts" and "Regulatory Assets and Liabilities" and in Notes 13 and 14.

Regulatory Balancing Accounts

The following table summarizes our regulatory balancing accounts at December 31.

SUMMARY OF REGULATORY BALANCING ACCOUNTS AT DECEMBER 31

(Dollars in millions)

	Sempra Energy Consolidated		SDG&E		SoCalGas	
	2013	2012	2013	2012	2013	2012
Current:						
Overcollected	\$ (1,077)	\$ (643)	\$ (645)	\$ (340)	\$ (432)	\$ (303)
Undercollected	1,542	897	1,201	735	341	162

Net current receivable (payable)(1)	465	254	556	395	(91)	(141)
Non-current:						
Undercollected(2)	213	—	161	—	52	—
Total net receivable (payable)(1)	\$ 678	\$ 254	\$ 717	\$ 395	\$ (39)	\$ (141)

(1) At December 31, 2013 and 2012, the net receivable at SDG&E and the net payable at SoCalGas are shown separately on Sempra Energy's Consolidated Balance Sheets.

(2) Long-term undercollected balance included in Other Regulatory Assets (long-term) on the Consolidated Balance Sheets.

Over- and under-collected regulatory balancing accounts reflect the difference between customer billings and recorded or CPUC-authorized costs, primarily commodity costs. Amounts in the balancing accounts are recoverable (receivable) or refundable (payable) in future rates, subject to CPUC approval. Balancing account treatment eliminates the impact on earnings from variances in the covered costs from authorized amounts. Absent balancing account treatment, variations in the cost of fuel supply and certain operating and maintenance costs from amounts approved by the CPUC would increase volatility in utility earnings.

We provide additional information about regulatory matters in Notes 13, 14 and 15.

Regulatory Assets and Liabilities

We show the details of regulatory assets and liabilities in the following table, and discuss each of them separately below.

REGULATORY ASSETS (LIABILITIES) AT DECEMBER 31

(Dollars in millions)

	2013	2012
SDG&E		
Fixed-price contracts and other derivatives	\$ 58	\$ 149
Costs related to SONGS plant closure	303	—
Costs related to wildfire litigation	330	364
Deferred taxes recoverable in rates	788	718
Pension and other postretirement benefit obligations	106	303
Removal obligations(1)	(1,403)	(1,603)
Unamortized loss on reacquired debt	14	16
Environmental costs	20	16
Legacy meters	62	90
Sunrise Powerlink fire mitigation	115	117
Other	15	23
Total SDG&E	408	193
SoCalGas		
Pension and other postretirement benefit obligations	231	835
Employee benefit costs	51	58
Removal obligations(1)	(1,205)	(1,103)
Deferred taxes recoverable in rates	110	38
Unamortized loss on reacquired debt	14	17
Environmental costs	14	14
Workers' compensation	26	27
Other	—	(2)
Total SoCalGas	(759)	(116)
Other Sempra Energy		
Sempra Natural Gas	(11)	3
Sempra Mexico	8	1
Total Other Sempra Energy	(3)	4
Total Sempra Energy Consolidated	\$ (354)	\$ 81

(1) Related to obligations discussed below in "Asset Retirement Obligations."

NET REGULATORY ASSETS (LIABILITIES) AS PRESENTED ON THE CONSOLIDATED BALANCE SHEETS AT DECEMBER 31

(Dollars in millions)

	2013			2012		
	Sempra Energy Consolidated	SDG&E	SoCalGas	Sempra Energy Consolidated	SDG&E	SoCalGas
Current regulatory assets	\$ 38	\$ 29	\$ 5	\$ 62	\$ 49	\$ 4
Noncurrent regulatory assets(1)	2,335	1,787	536	2,742	1,747	983
Current regulatory liabilities(2)	(7)	(5)	—	(2)	—	—
Noncurrent regulatory liabilities(3)	(2,720)	(1,403)	(1,300)	(2,721)	(1,603)	(1,103)
Total	\$ (354)	\$ 408	\$ (759)	\$ 81	\$ 193	\$ (116)

(1) Excludes long-term undercollected balancing accounts of \$213 million at Sempra Energy, \$161 million at SDG&E and \$52 million at SoCalGas recorded in Other Regulatory Assets (long-term).

(2) Included in Other Current Liabilities.

(3) At December 31, 2013 and 2012, \$97 million and \$1 million, respectively, at Sempra Energy Consolidated is included in Deferred Credits and Other.

In the tables above:

§ Regulatory assets arising from fixed-price contracts and other derivatives are offset by corresponding liabilities arising from purchased power and natural gas commodity and transportation contracts. The regulatory asset is increased/decreased based on changes in the fair market value of the contracts. It is also reduced as payments are made for commodities and services under these contracts.

§ Regulatory assets related to the San Onofre Nuclear Generating Station (SONGS) plant closure represent management's estimate of what SDG&E will be allowed to recover in rates in the future associated with SDG&E's investment in SONGS as of the plant closure date, the cost of operations since Units 2 and 3 were taken offline, and the cost of purchased replacement power, as we discuss further in Note 13.

§ Regulatory assets arising from costs related to wildfire litigation are costs in excess of liability insurance coverage and amounts recovered from third

parties, as we discuss in Note 14 under “Excess Wildfire Claims Cost Recovery at the CPUC” and Note 15 under “SDG&E—2007 Wildfire Litigation.”

- § Deferred taxes recoverable in rates are based on current regulatory ratemaking and income tax laws. SDG&E and SoCalGas expect to recover net regulatory assets related to deferred income taxes over the lives of the assets that give rise to the accumulated deferred income tax liabilities. These net assets are included in ratebase.
- § Regulatory assets/liabilities related to pension and other postretirement benefit obligations are offset by corresponding liabilities/assets and are being recovered in rates as the plans are funded.
- § Regulatory assets related to unamortized losses on reacquired debt are recovered over the remaining original amortization periods of the losses on reacquired debt. These periods range from 5 months to 14 years for SDG&E and from 8 years to 12 years for SoCalGas.
- § Regulatory assets related to environmental costs represent the portion of our environmental liability recognized at the end of the period in excess of the amount that has been recovered through rates charged to customers. We expect this amount to be recovered in future rates as expenditures are made.
- § The regulatory asset related to the legacy meters removed from service and replaced under the Smart Meter Program is their undepreciated value. SDG&E is recovering this asset over a 4-year period in ratebase.
- § The regulatory asset related to Sunrise Powerlink fire mitigation is offset by a corresponding liability for the funding of a trust to cover the mitigation costs. SDG&E expects to recover the regulatory asset in rates as the trust is funded over a 50-year period.

FAIR VALUE MEASUREMENTS

We apply recurring fair value measurements to certain assets and liabilities, primarily nuclear decommissioning and benefit plan trust assets and other miscellaneous derivatives. “Fair value” is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price).

A fair value measurement reflects the assumptions market participants would use in pricing an asset or liability based on the best available information. These assumptions include the risk inherent in a particular valuation technique (such as a pricing model) and the risks inherent in the inputs to the model. Also, we consider an issuer’s credit standing when measuring its liabilities at fair value.

We establish a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Our Level 1 financial instruments primarily consist of listed equities, U.S. government treasury securities and exchange-traded derivatives.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including:

- § quoted forward prices for commodities
- § time value
- § current market and contractual prices for the underlying instruments
- § volatility factors
- § other relevant economic measures

Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Our financial instruments in this category include the Nuclear Decommissioning Trusts’ investments at SDG&E and non-exchange-traded derivatives such as interest rate instruments and over-the-counter (OTC) forwards and options.

Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management’s best estimate of fair value from the perspective of a market participant. All of our Level 3 financial instruments are related to congestion revenue rights (CRRs) at SDG&E.

CASH AND CASH EQUIVALENTS

Cash equivalents are highly liquid investments with maturities of three months or less at the date of purchase.

RESTRICTED CASH

Restricted cash at Sempra Energy, including amounts at SDG&E discussed below, was \$49 million and \$68 million at December 31, 2013 and 2012, respectively. Of this, \$24 million and \$46 million were classified as current and \$25 million and \$22 million were classified as noncurrent at December 31, 2013 and 2012, respectively.

Sempra Renewables had restricted cash of \$6 million and \$35 million classified as current at December 31, 2013 and 2012, respectively. The 2013 balance primarily represents funds held in accordance with long-term debt agreements at Copper Mountain Solar 1. The 2012 balance represents funds held in

accordance with long-term debt agreements at Copper Mountain Solar 1 and Mesquite Solar 1. We discuss the debt agreements further in Note 5 and in “Restricted Net Assets” below.

At December 31, 2013, Sempra Mexico had restricted cash of \$12 million classified as current to pay for rights of way, license fees, permits, topographic surveys and other costs pursuant to trust agreements related to a pipeline project.

SDG&E had \$31 million and \$32 million of restricted cash at December 31, 2013 and 2012, respectively, which represents funds held by a trustee for Otay Mesa VIE (see “Variable Interest Entities—Otay Mesa VIE” below) to pay certain operating costs. Of this, \$6 million and \$10 million were classified as current and \$25 million and \$22 million were classified as noncurrent at December 31, 2013 and 2012, respectively.

COLLECTION ALLOWANCES

We record allowances for the collection of trade and other accounts and notes receivable which include allowances for doubtful customer accounts and for other receivables. We show the changes in these allowances in the table below:

COLLECTION ALLOWANCES

(Dollars in millions)

	Years ended December 31,		
	2013	2012	2011
Sempra Energy Consolidated			
Allowances for collection of receivables at January 1	\$ 31	\$ 29	\$ 29
Provisions for uncollectible accounts	16	21	20
Write-offs of uncollectible accounts	(18)	(19)	(20)
Allowances for collection of receivables at December 31	\$ 29	\$ 31	\$ 29
SDG&E			
Allowances for collection of receivables at January 1	\$ 6	\$ 6	\$ 5
Provisions for uncollectible accounts	4	5	8
Write-offs of uncollectible accounts	(5)	(5)	(7)
Allowances for collection of receivables at December 31	\$ 5	\$ 6	\$ 6
SoCalGas			
Allowances for collection of receivables at January 1	\$ 14	\$ 12	\$ 14
Provisions for uncollectible accounts	7	12	8
Write-offs of uncollectible accounts	(9)	(10)	(10)
Allowances for collection of receivables at December 31	\$ 12	\$ 14	\$ 12

We evaluate accounts receivable collectibility using a combination of factors, including past due status based on contractual terms, trends in write-offs, the age of the receivable, counterparty creditworthiness, economic conditions and specific events, such as bankruptcies. Adjustments to the allowance for doubtful accounts are made when necessary based on the results of analysis, the aging of receivables, and historical and industry trends.

We write off accounts receivable in the period in which we deem the receivable to be uncollectible. We record recoveries of accounts receivable previously written off when it is known that they will be received.

INVENTORIES

The California Utilities value natural gas inventory by the last-in first-out (LIFO) method. As inventories are sold, differences between the LIFO valuation and the estimated replacement cost are reflected in customer rates. Materials and supplies at the California Utilities are generally valued at the lower of average cost or market.

Sempra South American Utilities, Sempra Mexico and Sempra Natural Gas value natural gas inventory and materials and supplies at the lower of average cost or market. Sempra Mexico and Sempra Natural Gas value liquefied natural gas (LNG) inventory by the first-in first-out method.

The components of inventories by segment are as follows:

INVENTORY BALANCES AT DECEMBER 31

(Dollars in millions)

	Natural Gas		LNG		Materials and supplies		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
SDG&E	\$ 3	\$ 3	\$ —	\$ —	\$ 83	\$ 79	\$ 86	\$ 82
SoCalGas	42	128	—	—	27	23	69	151
Sempra South American Utilities	—	—	—	—	40	34	40	34
Sempra Mexico	—	—	3	8	9	8	12	16
Sempra Renewables	—	—	—	—	2	3	2	3
Sempra Natural Gas	68	109	5	8	5	5	78	122
Sempra Energy Consolidated	\$ 113	\$ 240	\$ 8	\$ 16	\$ 166	\$ 152	\$ 287	\$ 408

U.S. TREASURY GRANTS RECEIVABLE

At December 31, 2012, we had recognized receivables for U.S. Treasury grants based on eligible costs at our Mesquite Solar 1 and Copper Mountain Solar 2 generating facilities when the projects, or portions of projects, were placed into service. 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 we recorded a reduction to our grants receivable of \$23 million and a reversal of income tax benefit of \$5 million during the first quarter of 2013. In June 2013, we received \$74 million in cash related to the Copper Mountain Solar 2 grant. We received \$164 million in cash for the remaining grant receivable for Mesquite Solar 1 in August 2013.

INCOME TAXES

Income tax expense includes current and deferred income taxes from operations during the year. We record deferred income taxes for temporary differences between the book and the tax bases of assets and liabilities. Investment tax credits from prior years are amortized to income by the California Utilities over the estimated service lives of the properties as required by the CPUC. At our other businesses, we reduce the book basis of the related asset by the amount of investment tax credit earned. At Sempra Renewables, production tax credits are recognized in income tax expense as earned.

The California Utilities, Mobile Gas and Willmut Gas recognize

§ regulatory assets to offset deferred tax liabilities if it is probable that the amounts will be recovered from customers; and

§ regulatory liabilities to offset deferred tax assets if it is probable that the amounts will be returned to customers.

Other than local country withholding tax on current Peruvian earnings, we currently do not record deferred income taxes for basis differences between financial statement and income tax investment amounts in non-U.S. subsidiaries and non-U.S. joint ventures because their cumulative undistributed earnings are indefinitely reinvested.

When there are uncertainties related to potential income tax benefits, in order to qualify for recognition, the position we take has to have at least a “more likely than not” chance of being sustained (based on the position’s technical merits) upon challenge by the respective authorities. The term “more likely than not” means a likelihood of more than 50 percent. Otherwise, we may not recognize any of the potential tax benefit associated with the position. We recognize a benefit for a tax position that meets the “more likely than not” criterion at the largest amount of tax benefit that is greater than 50 percent likely of being realized upon its effective resolution.

Unrecognized tax benefits involve management’s judgment regarding the likelihood of the benefit being sustained. The final resolution of uncertain tax positions could result in adjustments to recorded amounts and may affect our results of operations, financial position and cash flows.

We provide additional information about income taxes in Note 6.

GREENHOUSE GAS ALLOWANCES

The California Utilities, Sempra Mexico and Sempra Natural Gas supply power into the California Independent System Operator (ISO) grid and are, therefore, required by California Assembly Bill 32 to acquire greenhouse gas allowances for every metric ton of carbon dioxide equivalent emitted into the atmosphere during generation. We account for greenhouse gas allowances as inventory, measured at the lower of weighted average cost or market, and include them in Other Current Assets and Sundry on the Consolidated Balance Sheets based on the dates that they are required to be surrendered. We measure the compliance obligation, which is based on emissions, at the carrying value of allowances held plus the fair value of additional allowances necessary to satisfy the obligation. We include the obligation in Other Current Liabilities and Deferred Credits on the Consolidated Balance Sheets based on the dates that the allowances will be surrendered. We remove the assets and liabilities from the balance sheets as the allowances are surrendered.

The California Utilities expect that all costs and revenues associated with the greenhouse gas program will be recorded through Regulatory Balancing Accounts on the Consolidated Balance Sheets.

RENEWABLE ENERGY CERTIFICATES

Renewable energy certificates (RECs) represent property rights established by governmental agencies for the environmental, social, and other nonpower qualities of renewable electricity generation. A REC, and its associated attributes and benefits, can be sold separately from the underlying physical electricity associated with a renewable-based generation source in certain markets.

Retail sellers of electricity obtain RECs through renewable power purchase agreements, internal generation or separate purchases in the market to comply with renewable portfolio standards established by the governmental agencies. RECs are the mechanism used to verify renewable portfolio standards compliance. The cost of RECs is recorded in Cost of Electric Fuel and Purchased Power, which is recoverable in rates, on the Consolidated Statements of Operations.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment primarily represents the buildings, equipment and other facilities used by the California Utilities to provide natural gas and electric utility services, and by Sempra International and Sempra U.S. Gas & Power, including construction work in progress at these operating units. Property, plant and equipment also includes lease improvements and other equipment at Parent, as well as property acquired under a build-to-suit lease included in construction work in progress.

Our plant costs include

§ labor

§ materials and contract services

§ expenditures for replacement parts incurred during a major maintenance outage of a generating plant

In addition, the cost of our utility plant and selected non-utility regulated projects in Mexico include an allowance for funds used during construction (AFUDC). We discuss AFUDC below. The cost of non-utility plant includes capitalized interest.

Maintenance costs are expensed as incurred. The cost of most retired depreciable utility plant minus salvage value is charged to accumulated depreciation.

We discuss assets pledged as security for loans in Note 5.

PROPERTY, PLANT AND EQUIPMENT BY MAJOR FUNCTIONAL CATEGORY

(Dollars in millions)

	Property, Plant and Equipment at December 31,		Depreciation rates for years ended December 31,		
	2013	2012	2013	2012	2011
SDG&E:					
Natural gas operations	\$ 1,454	\$ 1,406	2.35 %	3.20 %	3.15 %
Electric distribution	5,492	5,217	3.36	4.15	4.13
Electric transmission(1)	3,932	3,714	2.58	2.63	2.74
Electric generation(2)	1,768	2,242	3.76	4.68	4.92
Other electric(3)	759	679	7.58	7.92	8.26
Construction work in progress(1)	941	866	NA	NA	NA
Total SDG&E	14,346	14,124			
SoCalGas:					
Natural gas operations(4)	11,394	10,756	3.70	3.74	3.62
Other non-utility	118	129	1.56	1.36	1.62
Construction work in progress	319	302	NA	NA	NA
Total SoCalGas	11,831	11,187			
			Estimated Useful Lives	Weighted Average Useful Life	
Other operating units and parent(5):					
Land and land rights	276	298	20 to 50 years(6)	47	
Machinery and equipment:					
Utility electric distribution operations	1,440	1,459	10 to 46 years	40	
Generating plants	993	1,568	3 to 35 years	31	
LNG terminals	2,094	2,061	3 to 50 years	46	
Pipelines and storage	1,638	1,634	3 to 50 years	42	
Other	212	241	1 to 47 years	13	
Construction work in progress	1,283	692	NA	NA	
Other	294	264	2 to 80 years	29	
	8,230	8,217			
Total Sempra Energy Consolidated	\$ 34,407	\$ 33,528			

- (1) At December 31, 2013, includes \$350 million in electric transmission assets and \$5 million in construction work in progress related to SDG&E's 91-percent interest in the Southwest Powerlink (SWPL) transmission line, jointly owned by SDG&E with other utilities. SDG&E, and each of the other owners, holds its undivided interest as a tenant in common in the property. Each owner is responsible for its share of the project and participates in decisions concerning operations and capital expenditures.
- (2) Includes capital lease assets of \$183 million at both December 31, 2013 and 2012, primarily related to variable interest entities of which SDG&E is not the primary beneficiary.
- (3) Includes capital lease assets of \$23 million at both December 31, 2013 and 2012.
- (4) Includes capital lease assets of \$33 million and \$32 million at December 31, 2013 and 2012, respectively.
- (5) December 31, 2013 balances include \$155 million, \$180 million and \$22 million of utility plant, primarily pipelines and other distribution assets, at Ecogas, Mobile Gas and Willmut Gas, respectively. December 31, 2012 balances include \$144 million, \$171 million and \$18 million of utility plant, primarily pipelines and other distribution assets, at Ecogas, Mobile Gas and Willmut Gas, respectively.
- (6) Estimated useful lives are for land rights.

Depreciation expense is based on the straight-line method over the useful lives of the assets or, for the California Utilities, a shorter period prescribed by the CPUC. Depreciation expense is computed using the straight-line method over the asset's estimated original composite useful life, the CPUC-prescribed period or the remaining term of the site leases, whichever is shortest.

The accumulated depreciation and decommissioning amounts on our Consolidated Balance Sheets are as follows:

ACCUMULATED DEPRECIATION AND DECOMMISSIONING AMOUNTS

(Dollars in millions)

	December 31,	
	2013	2012
SDG&E:		
Accumulated depreciation and decommissioning of utility plant in service:		
Electric(1)	\$ 2,861	\$ 2,660
Natural gas	639	601
Total SDG&E	3,500	3,261
SoCalGas:		
Accumulated depreciation of natural gas utility plant in service(2)	4,279	4,067
Accumulated depreciation – other non-utility	85	103
Total SoCalGas	4,364	4,170
Other operating units and parent:		
Accumulated depreciation – other(3)	938	806
Accumulated depreciation of utility electric distribution operations	145	100
	1,083	906
Total Sempra Energy Consolidated	\$ 8,947	\$ 8,337

- (1) Includes accumulated depreciation for assets under capital lease of \$26 million and \$21 million at December 31, 2013 and 2012, respectively. Includes \$199 million related to SDG&E's 91-percent interest in the SWPL transmission line, jointly owned by SDG&E and other utilities.
- (2) Includes accumulated depreciation for assets under capital lease of \$31 million and \$28 million at December 31, 2013 and 2012, respectively.
- (3) December 31, 2013 balances include \$38 million, \$25 million and \$2 million of accumulated depreciation for utility plant at Ecogas, Mobile Gas and Willmut Gas, respectively. December 31, 2012 balances include \$34 million, \$21 million and \$1 million of accumulated depreciation for utility plant at Ecogas, Mobile Gas and Willmut Gas, respectively.

The California Utilities finance their construction projects with borrowed funds and equity funds. The CPUC and the FERC allow the recovery of the cost of these funds by the capitalization of AFUDC, calculated using rates authorized by the CPUC and the FERC, as a cost component of property, plant and equipment. The California Utilities earn a return on the capitalized AFUDC after the utility property is placed in service and recover the AFUDC from their customers over the expected useful lives of the assets.

Pipeline projects currently under construction by Sempra Mexico that are both regulated by the Comisión Reguladora de Energía (or CRE, the Energy Regulatory Commission) and meet U.S. GAAP regulatory accounting requirements record the impact of AFUDC related to equity. Beginning in the fourth quarter of 2013, Sempra Mexico began recording AFUDC equity for its Sonora Pipeline project.

Sempra International and Sempra U.S. Gas & Power businesses capitalize interest costs incurred to finance capital projects. The California Utilities also capitalize certain interest costs.

CAPITALIZED FINANCING COSTS

(Dollars in millions)

	Years ended December 31,		
	2013	2012	2011
Sempra Energy Consolidated:			
AFUDC related to debt	\$ 22	\$ 38	\$ 40
AFUDC related to equity	75	96	99
Other capitalized financing costs	22	52	26
Total Sempra Energy Consolidated	\$ 119	\$ 186	\$ 165
SDG&E:			
AFUDC related to debt	\$ 16	\$ 30	\$ 33
AFUDC related to equity	39	71	80
Total SDG&E	\$ 55	\$ 101	\$ 113
SoCalGas:			
AFUDC related to debt	\$ 6	\$ 8	\$ 7
AFUDC related to equity	17	25	19
Other capitalized financing costs	1	1	—
Total SoCalGas	\$ 24	\$ 34	\$ 26

ASSETS HELD FOR SALE

We classify assets as held for sale when management approves and commits to a formal plan to actively market an asset for sale and we expect the sale to close within the next twelve months. Upon classifying an asset as held for sale, we record the asset at the lower of its carrying value or its estimated fair value reduced for selling costs, and we stop recording depreciation expense on the asset.

At December 31, 2013, there are no assets classified as held for sale. We discuss assets held for sale further in Note 18.

In December 2012, management approved a formal plan and executed an agreement to sell one 625-megawatt (MW) block of Sempra Natural Gas' Mesquite Power natural gas-fired power plant in Arizona to Salt River Project Agricultural Improvement and Power District. In February 2013, the asset was sold for \$371 million in cash.

At December 31, 2012, the carrying amount of the major classes of assets and related liability held for sale associated with the plant included the following:

(Dollars in millions)

	2012
Property, plant, and equipment, net	\$ 292
Inventories	4
Total assets held for sale	296
Liability held for sale - asset retirement obligation(1)	(5)
Total	\$ 291

(1) Included in Other Current Liabilities on the Consolidated Balance Sheet.

For the year ended December 31, 2012, there was no impairment of the assets held for sale as the estimated fair value less costs to sell exceeded the carrying amount.

GOODWILL AND OTHER INTANGIBLE ASSETS

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 for impairment annually on October 1 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.

For our annual goodwill impairment testing, under current U.S. GAAP guidance we have the option to first make a qualitative assessment of whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount before applying the two-step, quantitative goodwill impairment test. If we elect to perform the qualitative assessment, we evaluate relevant events and circumstances, including but not limited to, macroeconomic conditions, industry and market considerations, cost factors, changes in key personnel and the overall financial performance of the reporting unit. If, after assessing these qualitative factors, we determine that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then we perform the two-step goodwill impairment test. When we perform the two-step, quantitative goodwill impairment test, we exercise judgment to develop estimates of the fair value of the reporting unit and the corresponding goodwill. Our fair value estimates are developed from the perspective of a knowledgeable market participant. We consider observable transactions in the marketplace for similar investments, if available, as well as an income-based approach such as discounted cash flow analysis. A discounted cash flow analysis may be based directly on anticipated future revenues and expenses and may be performed based on free cash flows generated within the reporting unit. Critical assumptions that affect our estimates of fair value may include

§ consideration of market transactions

§ future cash flows

§ the appropriate risk-adjusted discount rate

§ country risk

§ entity risk

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

GOODWILL				
<i>(Dollars in millions)</i>				
	Sempra South American Utilities	Sempra Mexico	Sempra Natural Gas	Total
Balance at December 31, 2011	\$ 949	\$ 25	\$ 62	1,036
Acquisition of subsidiary	—	—	10	10
Foreign currency translation(1)	65	—	—	65
Balance at December 31, 2012	1,014	25	72	1,111
Foreign currency translation(1)	(87)	—	—	(87)
Balance at December 31, 2013	\$ 927	\$ 25	\$ 72	1,024

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

Sempra Natural Gas recorded goodwill of \$10 million in connection with the acquisition of Willmut Gas Company in May 2012.

We provide additional information concerning goodwill related to our equity method investments and the impairment of investments in unconsolidated subsidiaries in Note 4.

Other Intangible Assets

Sempra Natural Gas recorded \$460 million of intangible assets in connection with the acquisition of EnergySouth, Inc. in 2008. These intangible assets represent storage and development rights related to the natural gas storage facilities of Bay Gas Storage Company, Ltd. (Bay Gas) and Mississippi Hub, LLC (Mississippi Hub) and were recorded at estimated fair value as of the date of the acquisition using discounted cash flows analysis. Our assumptions in determining fair value included estimated future cash flows, the estimated useful life of the intangible assets and appropriate discount rates. We are amortizing these intangible assets over their estimated useful lives as shown in the table below.

Other Intangible Assets included on the Sempra Energy Consolidated Balance Sheets are as follows:

OTHER INTANGIBLE ASSETS			
<i>(Dollars in millions)</i>			
	Amortization period (years)	December 31,	
		2013	2012
Storage rights	46	\$ 138	\$ 138
Development rights	50	322	322
Other	15 years to indefinite	19	19
		479	479
Less accumulated amortization:			
Storage rights		(16)	(13)
Development rights		(34)	(27)
Other		(3)	(3)
		(53)	(43)
		\$ 426	\$ 436

Amortization expense for such intangible assets was \$10 million in each of 2013, 2012 and 2011. We estimate the amortization expense for the next five years to be \$10 million per year.

LONG-LIVED ASSETS

We test long-lived assets for recoverability whenever events or changes in circumstances have occurred that may affect the recoverability or the estimated useful lives of long-lived assets. Long-lived assets include intangible assets subject to amortization, but do not include investments in unconsolidated subsidiaries. Events or changes in circumstances that indicate that the carrying amount of a long-lived asset may not be recoverable may include

§ significant decreases in the market price of an asset

§ a significant adverse change in the extent or manner in which we use an asset or in its physical condition

§ a significant adverse change in legal or regulatory factors or in the business climate that could affect the value of an asset

§ a current period operating or cash flow loss combined with a history of operating or cash flow losses or a projection of continuing losses associated with the use of a long-lived asset

§ a current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life

Impairment of long-lived assets occurs when the estimated future undiscounted cash flows are less than the carrying amount of the assets. If that comparison indicates that the assets' carrying value may not be recoverable, the impairment is measured based on the difference between the carrying amount and the fair value of the assets. This evaluation is performed at the lowest level for which separately identifiable cash flows exist.

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

Otay Mesa VIE

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

The facility owner, Otay Mesa Energy Center LLC (OMEC LLC), is a VIE (Otay Mesa VIE), of which SDG&E is the primary beneficiary. SDG&E has no OMEC LLC voting rights 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 \$91 million at December 31, 2013 and \$76 million at December 31, 2012 is included on the Consolidated Balance Sheets in Other Noncontrolling Interests for Sempra Energy and in Noncontrolling Interest for SDG&E.

OMEC LLC has a loan outstanding of \$335 million at December 31, 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 9.

Other Variable Interest Entities

SDG&E's power procurement is subject to reliability requirements that may require SDG&E to enter into various power purchase arrangements which include variable interests. SDG&E evaluates the respective entities to determine if variable interests exist and, based on the qualitative and quantitative analyses described above, if SDG&E, and thereby Sempra Energy, is the primary beneficiary. SDG&E has determined that no contracts, other than the one relating to Otay Mesa VIE mentioned above, result in SDG&E being the primary beneficiary at December 31, 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 Consolidated Financial Statements 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 tables below correspond to SDG&E's Consolidated Balance Sheets and Consolidated Statements of Operations.

AMOUNTS ASSOCIATED WITH OTAY MESA VIE

(Dollars in millions)

	December 31,	
	2013	2012
Cash and cash equivalents	\$ 17	\$ 8
Restricted cash	6	10
Inventories	2	2
Other	1	1
Total current assets	26	21
Restricted cash	25	22
Sundry	4	5
Property, plant and equipment, net	438	466
Total assets	\$ 493	\$ 514
Current portion of long-term debt	\$ 10	\$ 10
Fixed-price contracts and other derivatives	16	17
Other	19	8
Total current liabilities	45	35
Long-term debt	325	335
Fixed-price contracts and other derivatives	39	64
Deferred credits and other	(7)	4
Other noncontrolling interest	91	76
Total liabilities and equity	\$ 493	\$ 514

	Years ended December 31,		
	2013	2012	2011
Operating expenses			
Cost of electric fuel and purchased power	\$ (91)	\$ (83)	\$ (72)
Operation and maintenance	24	19	19
Depreciation and amortization	28	26	22
Total operating expenses	(39)	(38)	(31)
Operating income	39	38	31
Other expense, net	—	(1)	(1)
Interest expense	(15)	(11)	(11)
Income before income taxes/Net income	24	26	19
Earnings attributable to noncontrolling interest	(24)	(26)	(19)
Earnings	\$ —	\$ —	\$ —

ASSET RETIREMENT OBLIGATIONS

For tangible long-lived assets, we record asset retirement obligations for the present value of liabilities of future costs expected to be incurred when assets are retired from service, if the retirement process is legally required and if a reasonable estimate of fair value can be made. We also record a liability if a legal obligation to perform an asset retirement exists and can be reasonably estimated, but performance is conditional upon a future event. We record the estimated retirement cost over the life of the related asset by depreciating the present value of the obligation (measured at the time of the asset's acquisition) and accreting the discount until the liability is settled. Rate-regulated entities record regulatory assets or liabilities as a result of the timing difference between the recognition of costs in accordance with U.S. GAAP and costs recovered through the rate-making process. We have recorded a regulatory liability to show that the California Utilities have collected funds from customers more quickly and for larger amounts than we would accrete the retirement liability and depreciate the asset in accordance with U.S. GAAP.

We have recorded asset retirement obligations related to various assets, including:

SDG&E and SoCalGas

- § fuel and storage tanks
- § natural gas distribution systems
- § hazardous waste storage facilities
- § asbestos-containing construction materials

SDG&E

- § decommissioning of nuclear power facilities
- § electric distribution and transmission systems
- § site restoration of a former power plant
- § power generation plant (natural gas)

SoCalGas

§ natural gas transmission pipelines

§ underground natural gas storage facilities and wells

Sempra Mexico

§ power generation plant (natural gas)

§ natural gas distribution and transportation systems

§ LNG terminal

Sempra Renewables

§ certain power generation plants (solar)

Sempra Natural Gas

§ power generation plant (natural gas)

§ natural gas distribution and transportation systems

§ underground natural gas storage facilities

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	97	92	45	42	49	48
Liabilities incurred	4	21	—	—	—	—
Reclassification(2)	—	(5)	—	—	—	—
Payments	(49)	(2)	(48)	—	—	(1)
Revisions, GRC-related(3)	(135)	—	(30)	—	(105)	—
Revisions, other(4)	179	25	205	1	2	31
Balance as of December 31(1)	\$ 2,152	\$ 2,056	\$ 913	\$ 741	\$ 1,199	\$ 1,253

(1) *The current portions of the obligations are included in Other Current Liabilities on the Consolidated Balance Sheets.*

(2) *Reclassification to liability held for sale - asset retirement obligation which is included in Other Current Liabilities on the Consolidated Balance Sheets, as we discuss in "Assets Held for Sale" above.*

(3) *The decreases in asset retirement obligations in 2013 at SDG&E and SoCalGas are due to revised estimates related to the 2012 General Rate Case (GRC) that received final approval in May 2013. At SDG&E, these revisions included increases in asset service lives ranging from 2 percent to 7 percent, and lower estimated cost of removal. At SoCalGas, the decrease includes increases in asset service lives ranging from 4 percent to 6 percent, partially offset by a higher estimated cost of removal.*

(4) *The increase in asset retirement obligations in 2013 at SDG&E is due to revised estimates recorded in the third quarter of 2013 related to the early decommissioning of SONGS Units 2 and 3 (see Note 13).*

CONTINGENCIES

We accrue losses for the estimated impacts of various conditions, situations or circumstances involving uncertain outcomes. For loss contingencies, we accrue the loss if an event has occurred on or before the balance sheet date and:

§ information available through the date we file our financial statements indicates it is probable that a loss has been incurred, given the likelihood of uncertain future events; and

§ the amount of the loss can be reasonably estimated.

We do not accrue contingencies that might result in gains. We continuously assess contingencies for litigation claims, environmental remediation and other events.

LEGAL FEES

Legal fees that are associated with a past event for which a liability has been recorded are accrued when it is probable that fees also will be incurred.

COMPREHENSIVE INCOME

Comprehensive income includes all changes in the equity of a business enterprise (except those resulting from investments by owners and distributions to owners), including:

§ foreign currency translation adjustments

§ changes in unamortized net actuarial gain or loss and prior service cost related to pension and other postretirement benefits plans

§ unrealized gains or losses on available-for-sale securities

§ certain hedging activities

The Consolidated Statements of Comprehensive Income show the changes in the components of other comprehensive income (OCI), including the amounts attributable to noncontrolling interests. The following tables present the changes in Accumulated Other Comprehensive Income (Loss) (AOCI) by component, and amounts reclassified out of AOCI to net income, excluding amounts attributable to noncontrolling interests:

CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) BY COMPONENT(1)

(Dollars in millions)

	Year ended December 31, 2013				
	Foreign Currency Translation Adjustments	Pension and Other Postretirement Benefits		Financial Instruments	Total Accumulated Other Comprehensive Income (Loss)
		Unamortized Net Actuarial Gain (Loss)	Unamortized Prior Service Credit (Cost)		
Sempra Energy Consolidated:					
Balance as of December 31, 2012	\$ (240)	\$ (102)	\$ 1	\$ (35)	\$ (376)
Other comprehensive (loss) income before reclassifications	(159)	—	—	2	(157)
Amounts reclassified from accumulated other comprehensive income	270 (2)	29	(1)	7	305
Net other comprehensive income (loss)	111	29	(1)	9	148
Balance as of December 31, 2013	\$ (129)	\$ (73)	\$ —	\$ (26)	\$ (228)
SDG&E:					
Balance as of December 31, 2012	\$ —	\$ (12)	\$ 1	\$ —	\$ (11)
Amounts reclassified from accumulated other comprehensive income	—	2	—	—	2
Net other comprehensive income	—	2	—	—	2
Balance as of December 31, 2013	\$ —	\$ (10)	\$ 1	\$ —	\$ (9)
SoCalGas:					
Balance as of December 31, 2012	\$ —	\$ (4)	\$ 1	\$ (15)	\$ (18)
Amounts reclassified from accumulated other comprehensive (loss) income	—	(1)	—	1	—
Net other comprehensive (loss) income	—	(1)	—	1	—
Balance as of December 31, 2013	\$ —	\$ (5)	\$ 1	\$ (14)	\$ (18)

(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 OUT OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

(Dollars in millions)

Details about accumulated other comprehensive income (loss) components	Year ended December 31, 2013		Affected line item on Consolidated Statement of Operations
	Amount reclassified from accumulated other comprehensive income (loss)		
Sempra Energy Consolidated:			
Foreign currency translation adjustments	\$ 270		Equity Earnings, Net of Income Tax(1)
Financial instruments:			
Interest rate and foreign exchange instruments	\$ 11		Interest Expense
Interest rate instruments	10		Equity Losses, Before Income Tax
Commodity contracts not subject to rate recovery	(1)		Cost of Natural Gas, Electric Fuel and Purchased Power
Total before income tax	20		
	(4)		Income Tax Expense
Net of income tax	16		
	(9)		Earnings Attributable to Noncontrolling Interests
	\$ 7		
Pension and other postretirement benefits:			
Net actuarial gain	\$ 38	(2)	
Amortization of actuarial loss	10	(2)	
Prior service cost	(1)	(2)	
	(19)		Income Tax Expense
Net of income tax	\$ 28		
Total reclassifications for the period, net of tax	\$ 305		
SDG&E:			
Financial instruments:			
Interest rate instruments	\$ 9		Interest Expense
	(9)		Earnings Attributable to Noncontrolling Interest
	\$ —		
Pension and other postretirement benefits:			
Net actuarial gain	\$ 2	(2)	
Amortization of actuarial loss	1	(2)	
	(1)		Income Tax Expense

Net of income tax	\$	2	
Total reclassifications for the period, net of tax	\$	2	
SoCalGas:			
Financial instruments:			
Interest rate instruments	\$	1	Interest Expense
Pension and other postretirement benefits:			
Net actuarial loss	\$	(3)	(2)
Amortization of actuarial loss		1	(2)
		1	Income Tax Expense
Net of income tax	\$	(1)	
Total reclassifications for the period, net of tax	\$	—	

(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 "Net Periodic Benefit Cost, 2011 - 2013" in Note 7).

NONCONTROLLING INTERESTS

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 Consolidated Balance Sheets. Earnings or loss attributable to the noncontrolling interests is separately identified on the Consolidated Statements of Operations, and net income or loss and comprehensive income or loss attributable to the noncontrolling interests is separately identified on the Consolidated Statements of Comprehensive Income and Consolidated Statements of Changes in Equity.

Sale of Noncontrolling Interests

On March 21, 2013, Sempra Energy's IEnova subsidiary 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 overallocation options, the aggregate shares of common stock sold in the offerings totaled 218,110,500, 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 is using 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 overallocation 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 overallocation options, we recorded an increase in Sempra Energy's shareholders' equity of \$135 million in the second quarter of 2013 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 International Financial Reporting Standards (IFRS), as required by the Mexican Stock Exchange (La Bolsa Mexicana de Valores, S.A.B. de C.V., BMV) where the shares are 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 at SoCalGas is presented at Sempra Energy as a noncontrolling interest at December 31, 2013 and 2012. The preferred stock of SDG&E at December 31, 2012 was contingently redeemable preferred stock and was fully redeemed in October 2013, as we discuss in Note 11. At Sempra Energy, the preferred stock dividends of SDG&E and SoCalGas are charges against income related to noncontrolling interests. We provide additional information concerning preferred stock in Note 11.

At December 31, 2013 and 2012, we reported the following noncontrolling ownership interests held by others (not including preferred shareholders) recorded in Other Noncontrolling Interests in Total Equity on Sempra Energy's Consolidated Balance Sheets:

OTHER NONCONTROLLING INTERESTS

(Dollars in millions)

	Percent Ownership Held by Others	December 31,	
		2013	2012
SDG&E:			
Otay Mesa VIE	100 %	\$ 91	\$ 76
Sempra South American Utilities:			
Chilquinta Energía subsidiaries(1)	24.4 - 43.4	27	29

Luz del Sur	20.2	222	236
Tecsur	9.8	3	4
Sempra Mexico:			
IEnova, S.A.B. de C.V.	18.9	442	—
Sempra Natural Gas:			
Bay Gas Storage Company, Ltd.	9.1	22	20
Liberty Gas Storage, LLC	25.0	14	15
Southern Gas Transmission Company	49.0	1	1
Total Sempra Energy		\$ 822	\$ 381

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

REVENUES

Utilities

Our California Utilities generate revenues primarily from deliveries to their customers of electricity by SDG&E and natural gas by both SoCalGas and SDG&E and from related services. They record these revenues following the accrual method and recognize them upon delivery and performance. They also record revenue from CPUC-approved incentive awards, some of which require approval by the CPUC prior to being recognized. We provide additional discussion on utility incentive mechanisms in Note 14.

Under an operating agreement with the California Department of Water Resources (DWR) that expired at the end of 2013, SDG&E has acted as a limited agent on behalf of the DWR in the administration of energy contracts, including natural gas procurement functions under the DWR contracts allocated to SDG&E's customers. The legal and financial responsibilities associated with these activities resided with the DWR. Accordingly, the commodity costs associated with long-term contracts allocated to SDG&E from the DWR (and the revenues to recover those costs) are not included in SDG&E's or Sempra Energy's Consolidated Statements of Operations. We provide discussion on electric industry regulation related to the DWR in Note 14.

On a monthly basis, SoCalGas accrues natural gas storage contract revenues, which consist of storage reservation and variable charges based on negotiated agreements with terms of up to 15 years.

Our natural gas utilities outside of California (Mobile Gas, Willmut Gas and Ecogas) apply U.S. GAAP for regulated utilities consistent with the California Utilities.

Our utilities in South America, which were consolidated as part of our Sempra South American Utilities segment beginning April 6, 2011 as we discuss in Note 3, are Chilquinta Energía S.A. (Chilquinta Energía) and Luz del Sur S.A.A. (Luz del Sur), and their subsidiaries. Chilquinta Energía is an electric distribution utility serving customers in the cities of Valparaíso and Viña del Mar in central Chile. Luz del Sur is an electric distribution utility in the southern zone of metropolitan Lima, Peru. The companies serve primarily regulated customers, and their revenues are based on tariffs that are set by the National Energy Commission (Comisión Nacional de Energía, or CNE) in Chile and the Energy and Mining Investment Supervisory Body (Organismo Supervisor de la Inversión en Energía y Minería, or OSINERGMIN) of the National Electricity Office under the Ministry of Energy and Mines in Peru.

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

For Chilquinta Energía, rates for four-year periods related to distribution and sub-transmission are reviewed separately on an alternating basis every two years. In late 2011, Chilquinta Energía initiated the process to establish its distribution rates for the period from November 2012 to October 2016. This process was completed in November 2012, with rates published in April 2013, and tariff adjustments going into effect retroactively from November 2012.

In April 2013, the CNE completed the process to establish Chilquinta Energía's sub-transmission rates for the period January 2011 to December 2014. The CNE has not yet published the sub-transmission rates for this period, although we expect publication in the first half of 2014. Once the rates are published, the tariff adjustments will go into effect retroactively from January 2011.

The next reviews are scheduled to be completed, with tariff adjustments also going into effect, in January 2015 for sub-transmission, and again for distribution in November 2016.

The components of tariffs above for Luz del Sur are reviewed and adjusted every four years. The final distribution rate-setting resolution for the 2013-2017 period was published in October 2013 and went into effect on November 1, 2013.

The table below shows the total utilities revenues in Sempra Energy's Consolidated Statements of Operations for each of the last three years. The revenues include amounts for services rendered but unbilled (approximately one-half month's deliveries) at the end of each year.

TOTAL UTILITIES REVENUES AT SEMPRA ENERGY CONSOLIDATED(1)

(Dollars in millions)

	Years ended December 31,		
	2013	2012	2011
Electric revenues	\$ 4,911	\$ 4,568	\$ 3,833
Natural gas revenues	4,398	3,873	4,489
Total	\$ 9,309	\$ 8,441	\$ 8,322

(1) Excludes intercompany revenues.

As we discuss in Note 14, the natural gas supply for SDG&E's and SoCalGas' core natural gas customers is purchased by SoCalGas as a combined procurement portfolio managed by SoCalGas. Core customers are primarily residential and small commercial and industrial customers. This core gas procurement function is considered a shared service, therefore amounts related to SDG&E are not included in SoCalGas' Consolidated Statements of Operations.

We provide additional information concerning utility revenue recognition in "Regulatory Matters" above.

Energy-Related Businesses

Sempra South American Utilities

Sempra South American Utilities generates revenues from providing electric construction services, and recognizes these revenues when services are provided in accordance with contractual agreements.

Sempra Mexico

Sempra Mexico's Termoeléctrica de Mexicali generates revenues from selling electricity and/or capacity to the California ISO and to governmental, public utility and wholesale power marketing entities. Sempra Mexico recognizes these revenues as the electricity is delivered and capacity is provided. Sempra Mexico's pipeline operations recognize revenues from the sale and transportation of natural gas as deliveries are made and from fixed capacity payments. Sempra Mexico also recognizes revenues from (1) the sale of LNG and natural gas as deliveries are made to counterparties and (2) from reservation and usage fees under terminal capacity agreements, nitrogen injection service agreements and tug service agreements. It reports revenue net of value added taxes in Mexico. Sempra Mexico's revenues also include net realized gains and losses and the net change in the fair value of unrealized gains and losses on derivative contracts for natural gas.

Sempra Renewables

For consolidated entities, Sempra Renewables generates revenues from the sale of solar power pursuant to power purchase agreements, and recognizes these revenues when the power is delivered.

Sempra Natural Gas

Sempra Natural Gas generates revenues from selling electricity and/or capacity from its Mesquite Power facility to the California ISO and to governmental, public utility and wholesale power marketing entities. Sempra Natural Gas recognizes these revenues as the electricity is delivered and capacity is provided. In 2011, Sempra Natural Gas' electricity sales to the DWR accounted for a significant portion of its revenues. This contract ended September 30, 2011. Related to its LNG terminal and marketing operations, Sempra Natural Gas recognizes revenues from the sale of LNG and natural gas as deliveries are made to counterparties, as well as revenues from reservation and usage fees. Sempra Natural Gas also records revenues from contractual counterparty obligations for non-delivery of cargoes. Sempra Natural Gas recognizes revenue on natural gas storage and transportation operations when services are provided in accordance with contractual agreements for the storage and transportation services. Sempra Natural Gas revenues also include net realized gains and losses and the net change in the fair value of unrealized gains and losses on derivative contracts for power and natural gas.

OTHER COST OF SALES

Other Cost of Sales primarily includes

- § pipeline capacity marketing costs, and pipeline transportation and natural gas marketing costs incurred at Sempra Natural Gas;
- § electric construction services costs at Sempra South American Utilities; and
- § energy management service fees at Sempra Mexico.

The costs at Sempra South American Utilities are related to the energy-services companies in South America that we discuss in Note 3.

OPERATION AND MAINTENANCE EXPENSES

Operation and Maintenance includes operating and maintenance costs, and general and administrative costs, which consist primarily of personnel costs, purchased materials and services, litigation expense and rent.

FOREIGN CURRENCY TRANSLATION

Our operations in South America and our natural gas distribution utility in Mexico use their local currency as their functional currency. The assets and liabilities of their foreign operations are translated into U.S. dollars at current exchange rates at the end of the reporting period, and revenues and expenses are translated at average exchange rates for the year. The resulting noncash translation adjustments do not enter into the calculation of earnings or retained earnings (unless the operation is being discontinued), but are reflected in Comprehensive Income and in Accumulated Other Comprehensive Income (Loss), a component of shareholders' equity.

To reflect the fluctuations in the values of functional currencies of our South American investments, which were accounted for under the equity method prior to April 6, 2011, the following adjustments were made to the carrying value of these investments (dollars in millions):

Investment	Currency	Upward (downward) adjustment to investments	
			2011(1)
Chilquinta Energía	Chilean Peso	\$	(10)

(1) As discussed in Note 3, the cumulative foreign currency translation adjustment balances totaling \$54 million in Accumulated Other Comprehensive Income (Loss) as of April 6, 2011 were reclassified to net income as a result of the gain on the remeasurement of our equity method investments in Chilquinta Energía and Luz del Sur during the second quarter of 2011.

Smaller adjustments have been made to other operations where the U.S. dollar is not the functional currency. We provide additional information concerning these investments in Note 4.

Currency transaction gains and losses in a currency other than the entity's functional currency are included in the calculation of Other Income, Net, at Sempra Energy as follows:

(Dollars in millions)	Years ended December 31,			
	2013	2012	2011	
Currency transaction gain (loss)	\$	(3)\$	9 \$	11

Cash flows of the consolidated foreign subsidiaries are translated into U.S. dollars using average exchange rates for the period. We report the effect of exchange rate changes on cash balances held in foreign currencies in "Effect of Exchange Rate Changes on Cash and Cash Equivalents" on our Consolidated Statements of Cash Flows.

TRANSACTIONS WITH AFFILIATES

Loans to and Receivables from Unconsolidated Affiliates – Sempra Energy Consolidated

Sempra South American Utilities has a U.S. dollar-denominated loan to Eletrans S.A., an affiliate of Chilquinta Energía that we discuss in Note 4. At December 31, 2013, the loan has a \$14 million principal balance outstanding plus a negligible amount of accumulated interest at a fixed interest rate of 4 percent.

At December 31, 2013, Sempra Energy had \$4 million in accounts receivable from various Sempra Renewables joint venture investments.

Service Agreements

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

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

(Dollars in millions)

	December 31,		
	2013	2012	
SDG&E			
Current:			
Due from SoCalGas	\$	— \$	37
Due from various affiliates		1	2
	\$	1 \$	39
Due to Sempra Energy	\$	25 \$	19
Due to various affiliates		14	—
	\$	39 \$	19
Income taxes due from Sempra Energy(1)	\$	70 \$	12
SoCalGas			
Current:			
Due from Sempra Energy	\$	— \$	24
Due from various affiliates		21	—
	\$	21 \$	24
Due to SDG&E	\$	— \$	37
Due to Sempra Energy		16	—
	\$	16 \$	37
Income taxes due from Sempra Energy(1)	\$	18 \$	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)

	Years ended December 31,			
	2013	2012	2011	
SDG&E	\$	12 \$	9 \$	7
SoCalGas		70	46	53

Transactions with Rockies Express Pipelines LLC

Sempra Rockies Marketing, a subsidiary of Sempra Natural Gas, has an agreement with Rockies Express Pipelines LLC (Rockies Express) for capacity on the Rockies Express Pipeline (REX) through November 2019. Sempra Rockies Marketing recorded cost of sales of \$78 million in each of 2013, 2012 and 2011 related to this agreement. We discuss this agreement further in Note 15.

Transactions with RBS Sempra Commodities

In 2008, our commodities-marketing businesses, previously wholly owned subsidiaries of Sempra Energy, were sold into RBS Sempra Commodities LLP (RBS Sempra Commodities), a partnership jointly owned by Sempra Energy and The Royal Bank of Scotland (RBS). Several of our segments have engaged in transactions with RBS Sempra Commodities. As a result of the divestiture of substantially all of RBS Sempra Commodities' businesses, as we discuss in Note 4, transactions between our segments and RBS Sempra Commodities were assigned over time to the buyers of the joint venture businesses. The assignments of the related contracts were substantially completed by May 1, 2011. Amounts in our Consolidated Financial Statements related to these transactions for the year ended December 31, 2011 are as follows:

AMOUNTS RECORDED FOR TRANSACTIONS WITH RBS SEMPRAS COMMODITIES(1)

(Dollars in millions)

	Revenues	Cost of Natural Gas
Sempra Mexico	\$ 37	\$ 74
Sempra Natural Gas	7	3

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

RESTRICTED NET ASSETS

Sempra Energy Consolidated

As we discuss below, the California Utilities have restrictions on the amount of funds that can be transferred to Sempra Energy by dividend, advance or loan as a result of conditions imposed by various regulators. Additionally, certain other Sempra Energy subsidiaries are subject to various financial and other covenants and other restrictions contained in debt and credit agreements (described in Note 5) and in other agreements that limit the amount of funds that can be transferred to Sempra Energy. At December 31, 2013, Sempra Energy was in compliance with all covenants related to its debt agreements.

At December 31, 2013, the amount of restricted net assets of wholly owned subsidiaries of Sempra Energy, including the California Utilities discussed below, that may not be distributed to Sempra Energy in the form of a loan or dividend is \$6.2 billion. Although the restrictions cap the amount of funding that the various operating subsidiaries can provide to Sempra Energy, we do not believe these restrictions will have a significant impact on our ability to access cash to pay dividends.

As we discuss in Note 4, \$129 million of Sempra Energy's consolidated retained earnings balance represents undistributed earnings of equity method investments at December 31, 2013.

California Utilities

The CPUC's regulation of the California Utilities' capital structures limits the amounts available for dividends and loans to Sempra Energy. At December 31, 2013, Sempra Energy could have received combined loans and dividends of approximately \$425 million from SDG&E and approximately \$1.0 billion from SoCalGas.

The payment and amount of future dividends for SDG&E and SoCalGas are at the discretion of their board of directors. The following restrictions limit the amount of retained earnings that may be paid as common dividends or loaned to Sempra Energy from either utility:

- § The CPUC requires that SDG&E's and SoCalGas' common equity ratios be no lower than one percentage point below the CPUC-authorized percentage of each entity's authorized capital structure. The authorized percentage at December 31, 2013 is 52 percent at both SDG&E and SoCalGas.
- § The FERC requires SDG&E to maintain a common equity ratio of 30 percent or above.
- § The California Utilities have a combined revolving credit line that requires each utility to maintain a ratio of consolidated indebtedness to consolidated capitalization (as defined in the agreement) of no more than 65 percent, as we discuss in Note 5.

Based upon these restrictions, at December 31, 2013, SDG&E's restricted net assets were \$4.2 billion and SoCalGas' restricted net assets were \$1.5 billion, which could not be transferred to Sempra Energy.

Sempra International

Significant restrictions of Sempra International subsidiaries include

- § Peru and Mexico require domestic corporations to maintain minimum legal reserves as a percentage of capital stock, resulting in restricted net assets of

\$35 million at Luz del Sur and \$79 million at Sempra Energy's consolidated Mexican subsidiaries at December 31, 2013.

Sempra U.S. Gas & Power

Significant restrictions of Sempra U.S. Gas & Power subsidiaries include

- § Wholly owned Copper Mountain Solar 1 has a long-term debt agreement that requires the establishment and funding of project accounts to which the proceeds of loans, project revenues and other amounts are deposited and applied in accordance with the debt agreement. This long-term debt agreement also limits Copper Mountain Solar 1's ability to incur liens, incur additional indebtedness, make acquisitions and undertake certain actions, while also requiring maintenance of certain debt ratios. Under these restrictions, net assets totaling \$11 million are restricted at December 31, 2013.
- § 50-percent owned and unconsolidated joint ventures at Sempra Renewables have debt agreements which require each joint venture to maintain reserve accounts in order to pay the projects' debt service and operation and maintenance requirements. We discuss Sempra Energy guarantees associated with these requirements in Note 5. As a result of these requirements, there were total restricted assets at December 31, 2013 at our joint ventures of approximately:
 - \$34 million at Cedar Creek 2 Wind Farm (Cedar Creek 2)
 - \$14 million at Copper Mountain Solar 2
 - \$47 million at Flat Ridge 2 Wind Farm (Flat Ridge 2)
 - \$37 million at Fowler Ridge 2 Wind Farm (Fowler Ridge 2)
 - \$19 million at Mehoopany Wind Farm (Mehoopany Wind)
 - \$48 million at Mesquite Solar 1.
- § Wholly owned Mobile Gas has long-term debt instruments containing restrictions relating to the payment of dividends and other distributions with respect to capital stock. Under these restrictions, net assets of approximately \$116 million are restricted at December 31, 2013.
- § 91-percent owned Bay Gas has long-term debt instruments containing restrictions relating to the payment of dividends and other distributions if Bay Gas does not maintain a specified debt service coverage ratio. Bay Gas had no restricted net assets at December 31, 2013.

OTHER INCOME, NET

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

OTHER INCOME, NET

(Dollars in millions)

	Years ended December 31,		
	2013	2012	2011
Sempra Energy Consolidated:			
Allowance for equity funds used during construction	\$ 75	\$ 96	\$ 99
Investment gains(1)	39	41	22
Gains (losses) on interest rate and foreign exchange instruments, net(2)	17	10	(14)
Regulatory interest, net(3)	5	1	2
Sundry, net	4	24	21
Total	\$ 140	\$ 172	\$ 130
SDG&E:			
Allowance for equity funds used during construction	\$ 39	\$ 71	\$ 80
Regulatory interest, net(3)	4	2	2
Losses on interest rate instruments(4)	—	—	(1)
Sundry, net	(3)	(4)	(2)
Total	\$ 40	\$ 69	\$ 79
SoCalGas:			
Allowance for equity funds used during construction	\$ 17	\$ 25	\$ 19
Regulatory interest, net(3)	1	(1)	—
Sundry, net	(7)	(7)	(6)
Total	\$ 11	\$ 17	\$ 13

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

(2) Sempra Energy Consolidated includes Otay Mesa VIE and additional instruments.

(3) Interest on regulatory balancing accounts.

(4) Related to Otay Mesa VIE.

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.

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 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.

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.

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 consolidate assets and liabilities acquired as of the purchase date and include earnings from acquisitions in consolidated earnings after the purchase date.

SEMPRA SOUTH AMERICAN UTILITIES

Chilquinta Energía and Luz del Sur

On April 6, 2011, Sempra South American Utilities acquired from AEI its interests in Chilquinta Energía in Chile and Luz del Sur in Peru, and their subsidiaries. Prior to the acquisition, Sempra South American Utilities and AEI each owned 50 percent of Chilquinta Energía and approximately 38 percent of Luz del Sur. Upon completion of the acquisition, Sempra South American Utilities owned 100 percent of Chilquinta Energía and approximately 76 percent of Luz del Sur, with the remaining shares of Luz del Sur held by institutional investors and the general public. As part of the transaction, Sempra South American Utilities also acquired AEI’s interests in two energy-services companies, Tecnored S.A. and Tecsur S.A. The adjusted purchase price of \$888 million resulted from valuing the net assets in Chile, Peru and other holding companies at \$495 million, \$385 million and \$8 million, respectively. We paid \$611 million in cash (\$888 million less \$245 million of cash acquired and \$32 million of consideration withheld for a liability related to the purchase).

As part of our acquisition of AEI’s interest in Luz del Sur, we were required to launch a tender offer to the minority shareholders of Luz del Sur to purchase their shares (up to a maximum 14.73 percent interest in Luz del Sur). In September 2011, we purchased 18,918,954 additional Luz del Sur shares for \$43 million in settlement of the mandatory public tender offer, bringing Sempra South American Utilities’ ownership to 79.82 percent.

Chilquinta Energía owned 85 percent of Luzlinares S.A. (Luzlinares) through October 31, 2012. On November 26, 2012, Chilquinta Energía purchased the remaining 15-percent ownership interest in Luzlinares for \$7 million in cash.

We allocated the original purchase price for Chilquinta Energía and Luz del Sur on a preliminary basis in the second quarter of 2011. In the third and fourth quarters of 2011, we adjusted the preliminary allocation for additional assets and liabilities identified, including an \$11 million premium related to long-term debt at Chilquinta Energía. The retrospective application of these adjustments to prior quarters was de minimus. There were no further adjustments through April 2012, the end of the measurement period. The following table summarizes the consideration paid in the acquisition and the recognized amounts of the assets acquired and liabilities assumed, as well as the fair value at the acquisition date of the noncontrolling interests:

PURCHASE PRICE ALLOCATION

(Dollars in millions)

	At April 6, 2011				
	Chilean entities	Peruvian entities	Other holding companies	Total	
Fair value of businesses acquired:					
Cash consideration (fair value of total consideration)	\$	495 \$	385 \$	8 \$	888
Fair value of equity method investments immediately prior to					

the acquisition	495	385	2	882
Fair value of noncontrolling interests	37	242	—	279
Total fair value of businesses acquired	1,027	1,012	10	2,049
Recognized amounts of identifiable assets acquired and liabilities assumed:				
Cash	219	22	4	245
Property, plant and equipment	555	931	—	1,486
Long-term debt	(305)	(179)	—	(484)
Other net assets (liabilities) acquired	44	(223)	6	(173)
Total identifiable net assets	513	551	10	1,074
Goodwill	\$ 514	\$ 461	— \$	975

Our results for the year ended December 31, 2011 include a \$277 million gain (both pretax and after-tax) related to the remeasurement of equity method investments, included as Remeasurement of Equity Method Investments on our Consolidated Statement of Operations. We calculated the gain as the difference between the acquisition-date fair value (\$882 million) and the book value (\$605 million) of our equity interests in Chilquinta Energía and Luz del Sur immediately prior to the acquisition date. This book value of our equity interests included currency translation adjustment balances in Accumulated Other Comprehensive Income (Loss). The valuation techniques we used to allocate the purchase price to the businesses included discounted cash flow analysis and the market multiple approach (enterprise value to earnings before interest, taxes, depreciation and amortization (EBITDA)). Our assumptions for these measures included estimated future cash flows, appropriate discount rates, market trading multiples and market transaction multiples. Discount rates used reflected consideration of risk free rates, as well as country and company risk. Methodologies used to determine fair values of material assets as of the date of the acquisition included

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

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

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

Our Consolidated Statement of Operations includes 100 percent of the acquired companies' revenues, net income and earnings from the date of acquisition, including \$1.1 billion, \$160 million and \$135 million, respectively, from the date of acquisition for the year ended December 31, 2011. These amounts do not include the remeasurement gain.

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

<i>(Dollars in millions)</i>	Year ended December 31, 2011
Revenues	\$ 10,379
Earnings ⁽¹⁾	1,079

(1) Excludes the \$277 million gain related to the remeasurement of equity method investments.

The companies use their local currency, the Chilean Peso or the Peruvian Nuevo Sol, as their functional currency, and we account for them as discussed above in Note 1 under "Foreign Currency Translation."

We provide additional information about Sempra South American Utilities' investments in Chilquinta Energía and Luz del Sur in Note 4.

SEMPRA RENEWABLES

In July 2013, Sempra Renewables formed a joint venture with Consolidated Edison Development (ConEdison Development), a nonrelated party, by selling a 50-percent interest in its 150-MW Copper Mountain Solar 2 solar power facility for \$72 million in cash. Sempra Renewables recognized a pretax gain on the sale of \$4 million (\$2 million after-tax), included in Gain on Sale of Assets on our Consolidated Statement of Operations. Our remaining 50-percent interest in Copper Mountain Solar 2 is now accounted for under the equity method.

In September 2013, Sempra Renewables formed another joint venture with ConEdison Development by selling a 50-percent interest in its 150-MW Mesquite Solar 1 solar power facility for \$103 million in cash. Sempra Renewables recognized a pretax gain on the sale of \$36 million (\$22 million after-tax), included in Gain on Sale of Assets on our Consolidated Statement of Operations. Our remaining 50-percent interest in Mesquite Solar 1 is now accounted for under the equity method.

Our equity method investments in Copper Mountain Solar 2 and Mesquite Solar 1 were measured at their historical cost and, therefore, no portion of the gains was attributable to a remeasurement of the retained investments to fair value. The following table summarizes the deconsolidation:

<i>(Dollars in millions)</i>	Copper Mountain Solar 2	Mesquite Solar 1
Proceeds from sale, net of transaction costs ⁽¹⁾	\$ 69	\$ 100
Property, plant and equipment, net	(266)	(461)
Other assets	(30)	(72)
Long-term debt, including current portion	146	297
Other liabilities	19	31
Gain on sale of assets	(4)	(36)
Equity method investments upon deconsolidation	\$ (66)	\$ (141)

In September 2013, Sempra Renewables acquired the rights to develop the 75-MW Broken Bow 2 Wind project in Custer County, Nebraska. Sempra Renewables will develop the project, which is expected to be operational in late 2014.

SEMPRA NATURAL GAS

Mesquite Power Sale

In February 2013, Sempra Natural Gas sold one 625-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 sale of \$74 million (\$44 million after-tax) in 2013, included in Gain on Sale of Assets on our Consolidated Statement of Operations. In connection with the sale, we entered into a 20-year operations and maintenance agreement with SRP on February 28, 2013, whereby SRP assumed 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 15 under "Other Commitments – Sempra Natural Gas" and additional information regarding our plan to sell the remaining block of the plant in Note 18.

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 19,000 customers in Hattiesburg, Mississippi. Willmut Gas was purchased for \$19 million in cash and the assumption of \$10 million of liabilities. Included in the acquisition was \$17 million in net property, plant and equipment. As a result of the acquisition, we recorded \$10 million of goodwill.

The results of operations for Willmut Gas are included in our Consolidated Statement of Operations from the date of acquisition, including revenues of \$10 million and negligible earnings for the year ended December 31, 2012. 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 in 2012 and additional revenues of \$21 million and negligible earnings for 2011.

NOTE 4. INVESTMENTS IN UNCONSOLIDATED ENTITIES

We generally account for investments under the equity method when we have an ownership interest of 20 percent to 50 percent. In these cases, our pro rata shares of the entities' net assets are included in Investments on the Consolidated Balance Sheets. These investments are adjusted for our share of each investee's earnings or losses, dividends, and other comprehensive income or loss.

The carrying value of unconsolidated entities is evaluated for impairment under the U.S. GAAP provisions for equity method investments.

We summarize our investment balances and earnings below:

EQUITY METHOD AND OTHER INVESTMENTS ON THE CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	December 31,	
	2013	2012
Sempra South American Utilities:		
Eletrans(1)	\$	(3)\$
Sempra Mexico:		
Gasoductos de Chihuahua		340
Sempra Renewables:		
Auwahi Wind Farm		53
Cedar Creek 2 Wind Farm		92
Copper Mountain Solar 2		67
Flat Ridge 2 Wind Farm		292
Fowler Ridge 2 Wind Farm		51
Mehoopany Wind Farm		85
Mesquite Solar 1		67
Sempra Natural Gas:		
Rockies Express Pipeline LLC		329
Parent and other:		
RBS Sempra Commodities LLP		73
Other		—
Total equity method investments		1,485
Other(2)		90
Total	\$	1,575 \$
		1,516

(1) Includes losses on forward exchange contracts as we discuss below.

(2) Other includes Sempra South American Utilities' \$10 million and \$11 million in real estate investments at December 31, 2013 and 2012, respectively, and Sempra Natural Gas' \$77 million and \$74 million investment in industrial development bonds at Mississippi Hub at December 31, 2013 and 2012, respectively.

EQUITY METHOD INVESTMENTS ON THE CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions)

	Years ended December 31,		
	2013	2012	2011
Earnings (losses) recorded before income tax:			
Sempra Renewables:			
Auwahi Wind Farm	\$	4 \$	— \$
Cedar Creek 2 Wind Farm		(4)	(4)
			(2)

Flat Ridge 2 Wind Farm	(8)	1	—
Fowler Ridge 2 Wind Farm	(3)	(3)	(4)
Mehoopany Wind Farm	(2)	—	—
Mesquite Solar 1	1	—	—
Sempra Natural Gas:			
Rockies Express Pipeline LLC:			
Impairment	—	(400)	—
Income tax make-whole payment received	—	41	—
Other equity earnings	47	47	43
Parent and other:			
RBS Sempra Commodities LLP:			
Impairment	—	—	(16)
Other equity losses	(3)	—	(8)
Other	(1)	(1)	(4)
	<u>\$</u>	<u>31 \$</u>	<u>(319)\$</u>
			<u>9</u>

Earnings (losses) recorded net of income tax:

Sempra South American Utilities:			
Sodigas Pampeana and Sodigas Sur	\$	(11)\$	— \$
Chilquinta Energía(1)		—	12
Luz del Sur(1)		—	12
Eletrans		(4)	—
Sempra Mexico:			
Gasoductos de Chihuahua		39	36
	<u>\$</u>	<u>24 \$</u>	<u>36 \$</u>
			<u>52</u>

(1) These investments were accounted for under the equity method until April 6, 2011, when they became consolidated entities upon our acquisition of additional ownership interests.

Our share of the undistributed earnings of equity method investments was \$129 million and \$107 million at December 31, 2013 and 2012, respectively. The December 31, 2013 and 2012 balances do not include remaining distributions of \$73 million and \$126 million, respectively, associated with our investment in RBS Sempra Commodities and expected to be received from the partnership as it is dissolved, as we discuss below.

Equity method goodwill of \$65 million at both December 31, 2013 and 2012 related to our unconsolidated subsidiary located in Mexico is included in Investments on the Sempra Energy Consolidated Balance Sheets and its functional currency is U.S. dollars. We discuss our equity method investments below.

SEMPRA SOUTH AMERICAN UTILITIES

As discussed in Note 3, on April 6, 2011, Sempra South American Utilities acquired from AEI its interests in Chilquinta Energía in Chile and Luz del Sur in Peru, and their subsidiaries. Prior to the acquisition, Sempra South American Utilities and AEI each owned 50 percent of Chilquinta Energía and approximately 38 percent of Luz del Sur. We consolidated Chilquinta Energía and Luz del Sur effective April 6, 2011 and no longer record them as equity method investments.

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 Consolidated Statement of Operations for the year ended December 31, 2013. In June 2013, we completed the sale of our Argentine investments for \$13 million in cash and recorded an additional \$7 million loss (\$4 million after-tax) on the sale, which is also included in Equity Earnings, Net of Income Tax.

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.

In 2013, Chilquinta Energía 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 forward exchange contracts 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 contracts settle based on anticipated payments to vendors, generally monthly, ending in July 2018. We recorded \$4 million of equity losses for 2013 related to these forward contracts in Equity Earnings, Net of Income Tax on the Consolidated Statement of Operations.

SEMPRA MEXICO

Sempra Mexico owns a 50-percent interest in Gasoductos de Chihuahua, a joint venture with Petróleos Mexicanos (or PEMEX, the Mexican state-owned oil company). The joint venture operates several natural gas pipelines and propane systems in Mexico and is constructing a 70-mile natural gas pipeline, the Los Ramones I project, from the northern portion of the state of Tamaulipas bordering the U.S. to Los Ramones in the Mexican state of Nuevo León. Sempra Mexico acquired its investment in Gasoductos de Chihuahua as part of the purchase of Mexican pipeline and natural gas infrastructure assets in 2010.

SEMPRA RENEWABLES

Sempra Renewables accounts for its investments in all of the following projects using the equity method.

During 2013, Sempra Renewables formed joint ventures with ConEdison Development, a nonrelated party, by selling 50-percent interests in both its Copper Mountain Solar 2 and Mesquite Solar 1 facilities. In 2013, Sempra Renewables received a \$28 million return of capital from Mesquite Solar 1. We discuss these joint ventures further in Notes 3 and 5.

During 2013, 2012 and 2011, Sempra Renewables invested \$4 million, \$291 million and \$146 million, respectively, in a joint venture with BP Wind Energy, a wholly owned subsidiary of BP p.l.c., to develop the 470-MW Flat Ridge 2 Wind Farm project near Wichita, Kansas, which became operational in December 2012. In December 2012, Sempra Renewables received a \$148 million return of investment from Flat Ridge 2 as a result of the joint venture entering into a loan to finance the project.

During 2013, 2012 and 2011, Sempra Renewables invested \$1 million, \$20 million and \$88 million, respectively, in a joint venture with BP Wind Energy to develop the 141-MW Mehoopany Wind Farm project near Wyoming County, Pennsylvania, which became operational in December 2012. In 2013 and 2012, Sempra Renewables received a \$13 million and \$17 million return of capital, respectively, from loan proceeds from financing at Mehoopany Wind.

During 2013, 2012 and 2011, Sempra Renewables invested \$1 million, \$62 million and \$11 million, respectively, in a joint venture with BP Wind Energy to develop the 21-MW Auwahi Wind Farm in the southeastern region of Maui, a project that was previously wholly owned by Sempra Renewables. The project became operational in December 2012. In 2013, Sempra Renewables received a \$19 million return of capital from Auwahi Wind, \$15 million of which relates to U.S. Treasury grant proceeds received at the joint venture.

Additionally, in 2013 Sempra Renewables received a \$6 million return of capital from Cedar Creek 2 Wind Farm.

We discuss guarantees related to Flat Ridge 2 and Mehoopany Wind in Note 5.

SEMPRA NATURAL GAS

Sempra Natural Gas owns a 25-percent interest in Rockies Express, a partnership that operates a natural gas pipeline, REX, that links the Rocky Mountain 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 25-percent interest. 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). In 2012, we recorded impairments of our partnership investment in Rockies Express of \$300 million (\$179 million after-tax) and \$100 million (\$60 million after-tax) in the second and third quarters, respectively, which are included in Equity Earnings (Losses), Before Income Tax on the Consolidated Statement of Operations. Our remaining carrying value in Rockies Express at December 31, 2013 is \$329 million. We recorded the write-downs in 2012 as a result of our estimate of fair value for our investment at the reporting date and our conclusion that the impairments were other-than-temporary, as required by U.S. GAAP. We discuss the fair value measurement of our investment in Rockies Express in Note 10.

For income tax purposes, upon KMP's sale of its 50-percent interest in Rockies Express, the partnership was considered terminated under federal tax law and a new partnership immediately formed which triggered a restart of depreciation method on the partnership's remaining tax basis of its tangible assets. As required by the LLC agreement, KMP made a cash make-whole payment to Sempra Natural Gas of \$41 million in November 2012, which was recorded as equity income from Rockies Express.

RBS SEMPRA COMMODITIES

RBS Sempra Commodities is a United Kingdom limited liability partnership formed by Sempra Energy and RBS in 2008 to own and operate the commodities-marketing businesses previously operated through wholly owned subsidiaries of Sempra Energy. We and RBS sold substantially all of the partnership's businesses and assets in four separate transactions completed in July, November, and December of 2010 and February of 2011. We account for our investment in RBS Sempra Commodities under the equity method, and report our share of partnership earnings and other associated costs in Parent and Other.

We recorded \$3 million in pretax equity losses and no equity earnings or losses for the years ended December 31, 2013 and 2012, respectively. Pretax equity losses from RBS Sempra Commodities were \$24 million for the year ended December 31, 2011. The partnership income that is distributable to us on an annual basis is computed on the partnership's basis of accounting, IFRS, as adopted by the European Union. For the years ended December 31, 2013 and 2012, there was no distributable income or loss on an IFRS basis. For the year ended December 31, 2011, our share of distributable loss, on an IFRS basis, was \$30 million. Included in our pretax equity losses in 2011 is an impairment charge of \$16 million (\$10 million after-tax). The impairment charge is included in Equity Earnings (Losses), Before Income Tax on the Consolidated Statement of Operations. We discuss the fair value measurement of our investment in the partnership in Note 10.

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 distributions of \$50 million in 2013 and \$623 million in 2011. The 2011 distributions included sales proceeds and our portion of 2010 distributable income totaling \$651 million, less amounts to settle certain liabilities that we owed to RBS of \$28 million. We received no cash distributions in 2012. The investment balance of \$73 million at December 31, 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 15 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 items for which J.P. Morgan Chase & Co. (JP Morgan), one of the buyers of the partnership's businesses, has agreed to indemnify us.

NOTE 5. DEBT AND CREDIT FACILITIES

COMMITTED LINES OF CREDIT

At December 31, 2013, Sempra Energy Consolidated had an aggregate of \$4.1 billion in committed lines of credit to provide liquidity and to support commercial paper and variable-rate demand notes, the major components of which we detail below. Available unused credit on these lines at December 31, 2013 was \$3.4 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 December 31, 2013 and 2012, 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 December 31, 2013, Sempra Energy had \$12 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 December 31, 2013 and 2012, Sempra Energy was in compliance with this and all other financial covenants under the credit facility.

At December 31, 2013, Sempra Global had \$590 million of commercial paper outstanding supported by the facility. At December 31, 2013 and 2012, respectively, \$200 million and \$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.

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. Effective January 29, 2014, the combined letter of credit commitment increased to \$300 million. 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 December 31, 2013 and 2012, 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 December 31, 2013, SDG&E and SoCalGas had \$59 million and \$42 million of commercial paper outstanding supported by the facility, respectively. Available unused credit on the line at December 31, 2013 was \$599 million and \$616 million at SDG&E and SoCalGas, respectively, subject to the combined limit on the facility of \$877 million.

GUARANTEES

Sempra Renewables

Sempra Renewables and BP Wind Energy each currently hold 50-percent interests in Flat Ridge 2. 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. 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 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 Mehoopany Wind. The project obtained construction financing in June 2012, and proceeds from the loans were used to return \$13 million and \$17 million of each owner's joint venture investment in 2013 and 2012, respectively. 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 funding a reserve account requirement. Sempra Renewables recorded liabilities of \$11 million in 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.

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. By February 26, 2014, all such guarantees had been replaced or open positions closed. We discuss additional matters related to our investment in RBS Sempra Commodities in Note 15.

WEIGHTED AVERAGE INTEREST RATES

The weighted average interest rates on the total short-term debt outstanding at Sempra Energy were 0.64 percent and 0.72 percent at December 31, 2013 and 2012, respectively. The weighted average interest rate on the total short-term debt outstanding at both SDG&E and SoCalGas was 0.13 percent at December 31, 2013. The weighted average interest rates at December 31, 2013 and 2012 include interest rates for commercial paper borrowings classified as long-term, as we discuss above.

LONG-TERM DEBT

The following tables show the detail and maturities of long-term debt outstanding:

LONG-TERM DEBT

(Dollars in millions)

	December 31,	
	2013	2012
SDG&E		
First mortgage bonds:		
6.8% June 1, 2015	\$ —	\$ 14
5.3% November 15, 2015	250	250
1.65% July 1, 2018(1)	161	161
5.85% June 1, 2021(1)	—	60
3% August 15, 2021	350	350
3.6% September 1, 2023	450	—
6% June 1, 2026	250	250
5% to 5.25% December 1, 2027(1)	150	150
5.875% January and February 2034(1)	176	176
5.35% May 15, 2035	250	250
6.125% September 15, 2037	250	250
4% May 1, 2039(1)	75	75
6% June 1, 2039	300	300
5.35% May 15, 2040	250	250
4.5% August 15, 2040	500	500
3.95% November 15, 2041	250	250
4.3% April 1, 2042	250	250
	<u>3,912</u>	<u>3,536</u>
Other long-term debt (unsecured unless otherwise noted):		
5.9% Notes June 1, 2014	15	130
5.3% Notes July 1, 2021(1)	39	39
5.5% Notes December 1, 2021(1)	60	60
4.9% Notes March 1, 2023(1)	25	25
5.2925% OMEC LLC loan payable 2013 through April 2019 (secured by plant assets)	335	345
Capital lease obligations:		
Purchased-power agreements	176	178
Other	3	7
	<u>653</u>	<u>784</u>
	<u>4,565</u>	<u>4,320</u>
Current portion of long-term debt	(29)	(16)
Unamortized discount on long-term debt	(11)	(12)
Total SDG&E	<u>4,525</u>	<u>4,292</u>
SoCalGas		
First mortgage bonds:		
5.5% March 15, 2014	250	250
5.45% April 15, 2018	250	250
5.75% November 15, 2035	250	250
5.125% November 15, 2040	300	300
3.75% September 15, 2042	350	350
	<u>1,400</u>	<u>1,400</u>
Other long-term debt (unsecured):		
4.75% Notes May 14, 2016(1)	8	8
5.67% Notes January 18, 2028	5	5
Capital lease obligations	2	4
	<u>15</u>	<u>17</u>
	<u>1,415</u>	<u>1,417</u>
Current portion of long-term debt	(252)	(4)
Unamortized discount on long-term debt	(4)	(4)
Total SoCalGas	<u>1,159</u>	<u>1,409</u>

LONG-TERM DEBT (CONTINUED)
(Dollars in millions)

	December 31,	
	2013	2012
Sempra Energy		
Other long-term debt (unsecured):		
6% Notes February 1, 2013	—	400
8.9% Notes November 15, 2013, including \$200 at variable rates after fixed-to-floating rate swaps effective January 2011	—	250
2% Notes March 15, 2014	500	500
Notes at variable rates (1.01% at December 31, 2013) March 15, 2014	300	300
6.5% Notes June 1, 2016, including \$300 at variable rates after fixed-to-floating rate swaps effective January 2011 (4.46% at December 31, 2013)	750	750
2.3% Notes April 1, 2017	600	600
6.15% Notes June 15, 2018	500	500
9.8% Notes February 15, 2019	500	500
2.875% Notes October 1, 2022	500	500
4.05% Notes December 1, 2023	500	—
6% Notes October 15, 2039	750	750
Market value adjustments for interest rate swaps, net (expire November 2013 and June 2016)	12	19
Build-to-suit lease(2)	14	—
Sempra Global		
Other long-term debt (unsecured):		
Commercial paper borrowings at variable rates, classified as long-term debt (0.35% weighted average at December 31, 2013)	200	300
Sempra South American Utilities		
Other long-term debt (unsecured):		
Chilquinta Energía		
2.75% Series A Bonds October 30, 2014(1)	—	86
4.25% Series B Bonds October 30, 2030(1)	209	224
Luz del Sur		
Bank loans 5.5% to 6.75% payable 2016 through December 2018	70	31
Notes at 4.75% to 7.09% payable 2014 through October 2022	292	284
Sempra Mexico		
Other long-term debt (unsecured):		
Notes February 8, 2018 at variable rates at 2.66% after floating-to-fixed rate cross-currency swaps effective February 2013	100	—
6.3% Notes February 2, 2023 (4.12% after cross-currency swap)	298	—
Sempra Renewables		
Other long-term debt (secured):		
Loan at variable rates payable 2014 through December 2028, including \$78 at 4.54% after floating-to-fixed rate swaps effective June 2012 (2.75% at December 31, 2013)(1)	104	111
Loans at 2.24% to 2.26% payable 2014 through January 2031	—	286
Sempra Natural Gas		
First mortgage bonds (Mobile Gas):		
4.14% September 30, 2021	20	20
5% September 30, 2031	42	42
Other long-term debt (unsecured unless otherwise noted):		
Notes at 2.87% to 3.51% October 1, 2016(1)	18	17
9% Notes May 13, 2013	—	1
8.45% Notes payable 2014 through December 2017, secured	21	25
3.1% Notes December 30, 2018, secured(1)	5	—
4.5% Notes July 1, 2024, secured(1)	77	74
Industrial development bonds at variable rates (0.05% at December 31, 2013) August 1, 2037, secured(1)	55	55
	6,437	6,625
Current portion of long-term debt	(866)	(705)
Unamortized discount on long-term debt	(9)	(8)
Unamortized premium on long-term debt	7	8
Total other Sempra Energy	5,569	5,920
Total Sempra Energy Consolidated	\$ 11,253	\$ 11,621

(1) Callable long-term debt not subject to make-whole provisions.
(2) We discuss this lease in Note 15.

MATURITIES OF LONG-TERM DEBT(1)
(Dollars in millions)

	SDG&E	SoCalGas	Other Sempra Energy	Total Sempra Energy Consolidated
2014	\$ 24	\$ 250	\$ 866	\$ 1,140
2015	260	—	52	312
2016	10	8	828	846
2017	10	—	662	672
2018	171	250	652	1,073
Thereafter	3,910	905	3,349	8,164
Total	\$ 4,385	\$ 1,413	\$ 6,409	\$ 12,207

(1) Excludes capital lease obligations, build-to-suit lease and market value adjustments for interest rate swaps.

Various long-term obligations totaling \$6.2 billion at Sempra Energy at December 31, 2013 are unsecured. This includes unsecured long-term obligations totaling \$138 million at SDG&E and \$13 million at SoCalGas.

CALLABLE LONG-TERM DEBT

At the option of Sempra Energy, SDG&E and SoCalGas, certain debt is callable subject to premiums:

CALLABLE LONG-TERM DEBT*(Dollars in millions)*

	SDG&E	SoCalGas	Other Sempra Energy	Total Sempra Energy Consolidated
Not subject to make-whole provisions	\$ 686	\$ 8	\$ 468	1,162
Subject to make-whole provisions	3,350	1,400	4,683	9,433

In addition, the OMEC LLC project financing loan discussed in Note 1, with \$335 million of borrowings at December 31, 2013, may be prepaid at the borrowers' option.

FIRST MORTGAGE BONDS

The California Utilities issue first mortgage bonds secured by a lien on utility plant. The California Utilities may issue additional first mortgage bonds upon compliance with the provisions of their bond agreements (indentures). These indentures require, among other things, the satisfaction of pro forma earnings-coverage tests on first mortgage bond interest and the availability of sufficient mortgaged property to support the additional bonds, after giving effect to prior bond redemptions. The most restrictive of these tests (the property test) would permit the issuance, subject to CPUC authorization, of an additional \$3.8 billion of first mortgage bonds at SDG&E and \$1.06 billion at SoCalGas at December 31, 2013.

In September 2013, SDG&E publicly offered and sold \$450 million of 3.60-percent first mortgage bonds maturing in 2023. SDG&E used a portion of the proceeds from this offering to redeem all \$60 million of its outstanding 5.85-percent Pollution Control Revenue Bonds (PCRB) due in 2021 and \$115 million of its outstanding 5.90-percent PCRBs due in 2014.

In December 2013, SDG&E redeemed all \$14 million of its outstanding 6.8-percent first mortgage bonds due in 2015.

INDUSTRIAL DEVELOPMENT BONDS***Sempra Natural Gas***

To secure an approved exemption from sales and use tax, Sempra Natural Gas has incurred through December 31, 2013, \$257 million (\$3 million in 2013, \$53 million in 2012, \$84 million in 2011, \$42 million in 2010 and \$75 million in 2009) out of a maximum available \$265 million of long-term debt related to the construction and equipping of its Mississippi Hub natural gas storage facility. After a redemption of \$180 million in December 2011, the debt balance remaining at December 31, 2013, is \$77 million. The debt is payable to the Mississippi Business Finance Corporation (MBFC), and we recorded bonds receivable from the MBFC for the same amount. Both the financing obligation and the bonds receivable have interest rates of 4.5 percent and are due on July 1, 2024.

OTHER LONG-TERM DEBT***Sempra Energy***

In November 2013, Sempra Energy publicly offered and sold \$500 million of 4.05-percent notes maturing in 2023.

Sempra South American Utilities

Chilquinta Energía has outstanding Chilean public bonds denominated in Chilean Unidades de Fomento. The Chilean Unidad de Fomento is a unit of account used in Chile that is adjusted for inflation, and its value is quoted in Chilean Pesos. In 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.

Luz del Sur has outstanding corporate bonds and bank loans which are denominated in the local currency. During 2013, Luz del Sur publicly offered and sold \$30 million of corporate bonds at 5.81 percent maturing in 2017 and \$30 million of corporate bonds at 7.03 percent maturing in 2021. Additionally, Luz del Sur drew bank loans in 2013 as follows:

2013 BANK LOAN DRAWS – LUZ DEL SUR*(Dollars in millions)*

Month Issued	Amount at Issuance	Interest Rate	Maturity Date
June	\$ 11	5.50%	June 25, 2016
July	5	6.00%	July 11, 2016
July	14	5.85%	July 24, 2016
December	22	6.41%	December 20, 2018

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. 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.

In September 2011, Sempra Renewables entered into a loan agreement with the U.S. Department of Energy (DOE) to borrow up to \$337 million, which includes \$7 million of accrued interest. Sempra Renewables took draws of \$13 million in June 2013 at 3.03 percent, \$253 million in November 2012 at 2.26 percent and \$33 million in December 2012 at 2.24 percent, the proceeds of which were applied to construction costs of the Mesquite Solar 1 project. The loan is payable semi-annually and fully matures in January 2031.

In the third quarter of 2013, Sempra Renewables sold 50-percent interests in Copper Mountain Solar 2 and Mesquite Solar 1 to ConEdison Development. Sempra Renewables' interests are now accounted for under the equity method and its long-term debt of \$146 million at Copper Mountain Solar 2 and \$297 million at Mesquite Solar 1 was deconsolidated upon the sales. We provide further discussion of the sales in Note 3.

Sempra Natural Gas

In December 2013, Willmut Gas obtained a \$5 million term loan carrying an interest rate of 3.1 percent and maturing December 30, 2018. This loan is secured by Willmut Gas' property, plant and equipment.

INTEREST RATE SWAPS

We discuss our fair value interest rate swaps and interest rate swaps to hedge cash flows in Note 9.

NOTE 6. INCOME TAXES

Reconciliation of net U.S. statutory federal income tax rates to the effective income tax rates is as follows:

RECONCILIATION OF FEDERAL INCOME TAX RATES TO EFFECTIVE INCOME TAX RATES

	Years ended December 31,					
	2013		2012		2011	
Sempra Energy Consolidated						
U.S. federal statutory income tax rate	35	%	35	%	35	%
Utility depreciation	4		6		3	
Income tax restructuring related to IEnova stock offerings	4		—		—	
State income taxes, net of federal income tax benefit	1		(1)		2	
Utility repairs expenditures	(5)		(8)		(1)	
Tax credits	(3)		(7)		(1)	
Non-U.S. earnings taxed at lower statutory income tax rates	(3)		(4)		(8)	
Self-developed software expenditures	(3)		(5)		(3)	
Adjustments to prior years' income tax items	(3)		(1)		—	
Allowance for equity funds used during construction	(1)		(4)		(2)	
Variable interest entities	(1)		(1)		—	
Life insurance contracts	—		(7)		—	
Mexican foreign exchange and inflation effects	—		1		(1)	
Other, net	1		2		(1)	
Effective income tax rate	26	%	6	%	23	%
SDG&E						
U.S. federal statutory income tax rate	35	%	35	%	35	%
Depreciation	5		4		4	
State income taxes, net of federal income tax benefit	3		4		5	
Utility repairs expenditures	(4)		(4)		(1)	
Self-developed software expenditures	(3)		(3)		(3)	
Allowance for equity funds used during construction	(2)		(4)		(4)	
Variable interest entity	(1)		(1)		(1)	
Adjustments to prior years' income tax items	(1)		(3)		—	
Other, net	(1)		(1)		(1)	
Effective income tax rate	31	%	27	%	34	%
SoCalGas						
U.S. federal statutory income tax rate	35	%	35	%	35	%
Depreciation	6		7		6	
State income taxes, net of federal income tax benefit	4		3		4	
Utility repairs expenditures	(9)		(12)		—	
Self-developed software expenditures	(6)		(9)		(7)	
Adjustments to prior years' income tax items	(5)		—		—	
Allowance for equity funds used during construction	(1)		(2)		(2)	
Other, net	—		(1)		(3)	
Effective income tax rate	24	%	21	%	33	%

In 2013, 2012 and 2011, non-U.S. earnings taxed at lower statutory income tax rates than the U.S. are primarily related to operations in Mexico, Chile and Peru. In 2011, the earnings in Chile and Peru include the impact of the \$277 million remeasurement gain related to our acquisition of controlling interests in Chilquinta Energía and Luz del Sur, which was non-taxable. We discuss this gain further in Note 3.

In 2013, our effective income tax rate was also affected by \$63 million of income tax expense recorded in the first quarter of 2013 resulting from a corporate reorganization in connection with the IEnova stock offerings. We discuss the stock offerings further in Note 1.

Utility repairs expenditures significantly affecting the effective income tax rates for Sempra Energy Consolidated, SDG&E and SoCalGas in 2013 and 2012 are due to a change in 2012 in the income tax treatment of certain repairs that are capitalized for financial statement purposes. The change in income tax treatment of certain repairs for electric transmission and distribution assets, which applied to SDG&E, was made pursuant to an Internal Revenue Service (IRS) Revenue Procedure providing a safe harbor for deducting certain repairs expenditures from taxable income when incurred for tax years beginning on or after January 1, 2011. A \$22 million benefit for SDG&E related to the 2011 U.S. federal income tax return filed in the third quarter of 2012 is included in Adjustments to Prior Years' Income Tax Items in the table above. The change in income tax treatment of certain repairs expenditures for gas plant assets, which applied to SoCalGas, was made pursuant to an IRS Revenue Procedure, which allows, under an Internal Revenue Code section, such expenditures to be deducted from taxable income when incurred.

Life insurance contracts significantly affected the effective tax rate for Sempra Energy Consolidated in 2012 primarily due to 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.

In September 2013, the IRS and U.S. Department of the Treasury released final tangible property regulations on the capitalization and expensing rules applicable to expenditures for the acquisition and production of tangible property. A company must conform its tax accounting methods and elect any safe harbors under the final regulations no later than January 1, 2014, however, if a change in the company's tax accounting methods is required to conform to the final regulations, the company must adjust its deferred tax balances in the current period for any tax adjustments required to bring all prior periods into compliance with the final regulations. We evaluated our deferred tax balances based on the guidance contained in the final tangible property regulations and determined that we are following the guidance in all material respects. Any adjustments to deferred taxes resulting from changes to comply with the final tangible property regulations would have a de minimus impact on the financial statements. Accordingly, we have not made any adjustment to our deferred tax balances at December 31, 2013 based on the issuance of the final tangible property regulations.

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

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

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

We use the deferral method for investment tax credits (ITC). For certain solar and wind generating assets placed into service during 2012 and 2011, we elected to seek cash grants rather than ITC for which the projects also qualify. Accordingly, cash grant accounting was applied. Grant accounting for cash grants is very similar to the deferral method of accounting for ITC, the primary difference being the recording of a cash grant receivable instead of an income tax receivable.

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

Cash grants are generally expected to be collectible in cash shortly after a project is constructed. Conversion of ITC to cash is generally dependent on reducing income tax payments and thus the existence of a U.S. federal net operating loss (NOL) carryforward can result in delaying this conversion.

The geographic components of Income Before Income Taxes and Equity Earnings of Certain Unconsolidated Subsidiaries at Sempra Energy are as follows:

(Dollars in millions)	Years ended December 31,		
	2013	2012	2011
U.S.	\$ 941	\$ 442	\$ 1,011
Non-U.S.	489	501	712
Total	\$ 1,430	\$ 943	\$ 1,723

The components of income tax expense are as follows:

INCOME TAX EXPENSE (BENEFIT)

(Dollars in millions)

	Years ended December 31,		
	2013	2012	2011
Sempra Energy Consolidated			
Current:			
U.S. Federal	\$ (70)	\$ (36)	\$ 76
U.S. State	(5)	(6)	(3)
Non-U.S.	107	144	149
Total	32	102	222
Deferred:			
U.S. Federal	275	(63)	176
U.S. State	15	3	43
Non-U.S.	48	20	(45)
Total	338	(40)	174
Deferred investment tax credits	(4)	(3)	(2)
Total income tax expense	\$ 366	\$ 59	\$ 394
SDG&E			
Current:			
U.S. Federal	\$ 9	\$ (109)	\$ (59)
U.S. State	11	14	6
Total	20	(95)	(53)
Deferred:			
U.S. Federal	149	255	253
U.S. State	24	30	36
Total	173	285	289
Deferred investment tax credits	(2)	—	1
Total income tax expense	\$ 191	\$ 190	\$ 237
SoCalGas			
Current:			
U.S. Federal	\$ 4	\$ (73)	\$ (6)
U.S. State	(5)	24	19
Total	(1)	(49)	13
Deferred:			
U.S. Federal	103	136	128
U.S. State	16	(6)	5
Total	119	130	133
Deferred investment tax credits	(2)	(2)	(3)
Total income tax expense	\$ 116	\$ 79	\$ 143

We show the components of deferred income taxes at December 31 for Sempra Energy Consolidated, SDG&E and SoCalGas in the tables below:

DEFERRED INCOME TAXES FOR SEMPRA ENERGY CONSOLIDATED

(Dollars in millions)

	December 31,	
	2013	2012
Deferred income tax liabilities:		
Differences in financial and tax bases of depreciable and amortizable assets	\$ 3,951	\$ 3,710
Regulatory balancing accounts	663	770
Unrealized revenue	15	3
Loss on reacquired debt	8	9
Property taxes	50	46
Difference in financial and tax bases of partnership interests	256	118
Other deferred income tax liabilities	72	55
Total deferred income tax liabilities	5,015	4,711
Deferred income tax assets:		
Tax credits	105	67
Equity losses	16	16
Net operating losses	2,023	1,898
Compensation-related items	128	156
Postretirement benefits	264	587
Other deferred income tax assets	14	90
State income taxes	30	58
Bad debt allowance	8	8
Litigation and other accruals not yet deductible	20	7
Deferred income tax assets before valuation allowances	2,608	2,887
Less: valuation allowances	96	128
Total deferred income tax assets	2,512	2,759
Net deferred income tax liability	\$ 2,503	\$ 1,952

Our policy is to show deferred income taxes of VIEs on a net basis, including valuation allowances. See table "Amounts Associated with Otay Mesa VIE" in Note 1 for further information.

DEFERRED INCOME TAXES FOR SDG&E AND SOCALGAS

(Dollars in millions)

	SDG&E		SoCalGas	
	December 31,		December 31,	
	2013	2012	2013	2012
Deferred income tax liabilities:				
Differences in financial and tax bases of utility plant and other assets	\$ 2,040	\$ 1,947	\$ 1,045	\$ 938
Regulatory balancing accounts	411	344	265	439
Loss on reacquired debt	3	4	6	7
Property taxes	36	32	16	15
Other	25	22	—	—
Total deferred income tax liabilities	2,515	2,349	1,332	1,399

Deferred income tax assets:				
Net operating losses	440	446	65	34
Postretirement benefits	57	137	126	370
Tax credits	15	16	12	14
Compensation-related items	13	14	38	48
State income taxes	22	31	10	18
Litigation and other accruals not yet deductible	45	38	27	21
Hedging transaction	1	1	5	7
Other	4	4	11	9
Total deferred income tax assets	597	687	294	521
Net deferred income tax liability	\$ 1,918	\$ 1,662	\$ 1,038	\$ 878

Our policy is to show deferred income taxes of VIEs on a net basis, including valuation allowances. See table "Amounts Associated with Otay Mesa VIE" in Note 1 for further information.

The net deferred income tax liabilities are recorded on the Consolidated Balance Sheets at December 31 as follows:

NET DEFERRED INCOME TAX LIABILITY

(Dollars in millions)

	Sempra Energy Consolidated		SDG&E		SoCalGas	
	2013	2012	2013	2012	2013	2012
Current (asset) liability	\$ (301)	\$ (148)	\$ (103)	26	\$ 45	\$ (3)
Noncurrent liability	2,804	2,100	2,021	1,636	993	881
Total	\$ 2,503	\$ 1,952	\$ 1,918	\$ 1,662	\$ 1,038	\$ 878

At December 31, 2013, Sempra Energy has recorded a valuation allowance against a portion of its total deferred income tax assets, as shown above in the "Deferred Income Taxes for Sempra Energy Consolidated" table. A valuation allowance is recorded when, based on more-likely-than-not criteria, negative evidence outweighs positive evidence with regard to our ability to realize a deferred income tax asset in the future. Of the valuation allowances recorded to date, the negative evidence outweighs the positive evidence primarily due to cumulative pretax losses in various U.S. state and non-U.S. jurisdictions resulting in a deferred income tax asset related to NOLs, as discussed below, that we currently do not believe will be realized on a more-likely-than-not basis. At both Sempra Energy and SDG&E, deferred income taxes for variable interest entities are shown on a net basis. Therefore, valuation allowances of \$60 million at December 31, 2013 and \$108 million at December 31, 2012 related to variable interest entities are not reflected in the table above. Of Sempra Energy's total valuation allowance of \$96 million at December 31, 2013, \$12 million is related to non-U.S. NOLs and \$84 million to U.S. state NOLs. Of Sempra Energy's total valuation allowance of \$128 million at December 31, 2012, \$20 million is related to non U.S. NOLs, \$100 million to U.S. state NOLs and \$8 million to other future U.S. state temporary differences. The total valuation allowance decreased in 2013 primarily due to a reduction in the U.S. state temporary differences and release of Mexico valuation allowance. We believe that it is more-likely-than-not that the remainder of the total deferred income tax asset is realizable.

At December 31, 2013, Sempra Energy's non-U.S. subsidiaries had \$61 million of unused NOLs available to utilize in the future to reduce Sempra Energy's future non-U.S. income tax expense related to our holding companies in Mexico, the Netherlands and Spain. The carryforward periods for our non-U.S. unused NOLs expire between 2014 and 2023. As of December 31, 2013, our Mexican subsidiaries have NOLs of \$182 million, of which \$165 million have been utilized on a consolidated level. As part of the Mexican tax reform enacted in 2014, the \$165 million of NOLs utilized in consolidation is subject to recapture between 2014 and 2018. These NOLs expire between 2016 and 2023. Sempra Energy's U.S. subsidiaries had \$2.9 billion of unused U.S. state NOLs, primarily in Alabama, California, Connecticut, District of Columbia, Indiana, Kansas, Louisiana, Minnesota, New Jersey, New York, Oklahoma and Pennsylvania. These U.S. state NOLs expire between 2014 and 2032. We have not recorded deferred income tax benefits on a portion of Sempra Energy's total non-U.S. and U.S. state NOLs because we currently believe they will not be realized on a more-likely-than-not basis, as discussed above. Sempra Natural Gas is currently progressing with plans for a development project to utilize its Cameron LNG receipt terminal for the liquefaction of natural gas and export of LNG. Depending on achieving certain milestones related to the project, we expect to release approximately \$20 million to \$25 million of Louisiana valuation allowance against the deferred tax asset. The timing of the release of the valuation allowance and the amount can vary depending upon ultimate contractual agreements and forecasted economics. Sempra Energy's consolidated U.S. subsidiaries had \$5.1 billion of unused U.S. federal consolidated NOLs that will begin to expire in 2031. Included in this amount is \$0.2 billion of excess tax deductions related to employee stock expense for which a benefit will be recorded to additional paid in capital when realized. We have recorded deferred income tax benefits on these NOLs, in total, because we currently believe they will be realized on a more-likely-than-not basis.

At December 31, 2013, SDG&E had \$1.2 billion of unused U.S. federal NOLs (the remaining 2011 NOL of \$24 million expires in 2031 and the 2012 NOL of \$1.2 billion expires in 2032). We have recorded deferred income tax benefits on these NOLs, in total, because we currently believe they will be realized on a more-likely-than-not basis. At December 31, 2013, SoCalGas had \$172 million of unused U.S. federal NOL which expires in 2032. We have recorded a deferred income tax benefit on this NOL, in total, because we currently believe it will be realized on a more-likely-than-not basis.

At December 31, 2013, Sempra Energy had not recognized a U.S. deferred income tax liability related to a \$3.3 billion basis difference between its financial statement and income tax investment amount in its non-U.S. subsidiaries and non-U.S. corporate joint ventures. This basis difference consists of \$3.3 billion of cumulative undistributed earnings that we expect to reinvest indefinitely outside of the U.S., which includes the \$0.3 billion gain related to the remeasurement of equity method investments in Chilquinta Energía and Luz del Sur that we discuss in Note 3. These cumulative undistributed earnings have previously been reinvested or will be reinvested in active non-U.S. operations, thus we do not intend to use these earnings as a source of funding for U.S. operations. It is not practical to determine the hypothetical unrecognized amount of U.S. deferred income taxes that might be payable if the cumulative undistributed earnings were eventually distributed or the investments were sold. U.S. deferred income taxes would be recorded on \$3.3 billion of the basis difference related to cumulative undistributed earnings if we no longer intend to indefinitely reinvest all, or a part, of the cumulative undistributed earnings.

Following is a summary of unrecognized income tax benefits:

SUMMARY OF UNRECOGNIZED INCOME TAX BENEFITS

(Dollars in millions)

	Years ended December 31,		
	2013	2012	2011
Sempra Energy Consolidated:			
Total	\$ 90	\$ 82	\$ 72
Of the total, amounts related to tax positions that,			

if recognized in future years, would decrease the effective tax rate	\$	(86)\$ 19	(81)\$ 16	(72) 7
SDG&E:				
Total	\$	17 \$	12 \$	7
Of the total, amounts related to tax positions that, if recognized in future years, would decrease the effective tax rate	\$	(14)\$ 11	(12)\$ 12	(7) 7
SoCalGas:				
Total	\$	13 \$	5 \$	—
Of the total, amounts related to tax positions that, if recognized in future years, would decrease the effective tax rate	\$	(13)\$ 8	(5)\$ 4	— —

Following is a reconciliation of the changes in unrecognized income tax benefits for the years ended December 31:

RECONCILIATION OF UNRECOGNIZED INCOME TAX BENEFITS

(Dollars in millions)

	2013		2012		2011	
Sempra Energy Consolidated:						
Balance as of January 1	\$	82	\$	72	\$	97
Increase in prior period tax positions		26		2		7
Decrease in prior period tax positions		(24)		(1)		(26)
Increase in current period tax positions		7		10		3
Settlements with taxing authorities		(1)		(1)		(9)
Balance as of December 31	\$	90	\$	82	\$	72
SDG&E:						
Balance as of January 1	\$	12	\$	7	\$	5
Increase in prior period tax positions		7		1		—
Decrease in prior period tax positions		(4)		—		—
Increase in current period tax positions		2		4		2
Balance as of December 31	\$	17	\$	12	\$	7
SoCalGas:						
Balance as of January 1	\$	5	\$	—	\$	8
Increase in prior period tax positions		4		—		2
Increase in current period tax positions		5		5		—
Settlements with taxing authorities		(1)		—		(10)
Balance as of December 31	\$	13	\$	5	\$	—

It is reasonably possible that within the next 12 months, unrecognized income tax benefits could decrease due to the following:

POSSIBLE DECREASES IN UNRECOGNIZED INCOME TAX BENEFITS WITHIN 12 MONTHS

(Dollars in millions)

	At December 31,			
	2013	2012	2011	
Sempra Energy Consolidated:				
Expiration of statutes of limitations on tax assessments	\$	(7)	\$	(7)
Potential resolution of audit issues with various U.S. federal, state and local and non-U.S. taxing authorities		(63)		(10)
	\$	(70)	\$	(17)
SDG&E:				
Potential resolution of audit issues with various U.S. federal, state and local and non-U.S. taxing authorities	\$	(14)	\$	(5)
SoCalGas:				
Potential resolution of audit issues with various U.S. federal, state and local and non-U.S. taxing authorities	\$	(11)	\$	(4)

Amounts accrued for interest and penalties associated with unrecognized income tax benefits are included in income tax expense on the Consolidated Statements of Operations. The amounts accrued at December 31 on the Consolidated Balance Sheets for interest and penalties associated with unrecognized income tax benefits are stated alongside in the table below.

INTEREST AND PENALTIES ASSOCIATED WITH UNRECOGNIZED INCOME TAX BENEFITS

(Dollars in millions)

	Interest and penalties Years ended December 31,			Accrued interest and penalties December 31,		
	2013	2012	2011	2013	2012	
Sempra Energy Consolidated:						
Interest expense (income)	\$	1 \$	— \$	(3)	\$	4 \$
Penalties		—	—	(1)		3
SDG&E:						
Interest expense	\$	— \$	— \$	—	\$	1 \$
SoCalGas:						
Interest (income) expense	\$	(1)\$	— \$	(1)	\$	— \$

Penalties accrued and expensed at SDG&E and SoCalGas in all periods presented were zero or negligible.

INCOME TAX AUDITS

Sempra Energy is subject to U.S. federal income tax as well as to income tax of multiple state and non-U.S. jurisdictions. We remain subject to examination for U.S. federal tax years after 2008. We are subject to examination by major state tax jurisdictions for tax years after 2005. Certain major non-U.S. income tax returns from 2007 through the present are open to examination.

In addition, we have filed state refund claims for tax years back to 1998, and PE has filed state refund claims for tax years back to 1993. The pre-2006 tax years are closed to new issues; therefore, no additional tax may be assessed by the taxing authorities for these years.

SDG&E and SoCalGas are subject to U.S. federal income tax as well as income tax of state jurisdictions. They remain subject to examination for U.S. federal years after 2008 and by major state tax jurisdictions for years after 2005.

NOTE 7. EMPLOYEE BENEFIT PLANS

We are required by applicable U.S. GAAP to:

- § recognize an asset for a plan's overfunded status or a liability for a plan's underfunded status in the statement of financial position;
- § measure a plan's assets and its obligations that determine its funded status as of the end of the fiscal year (with limited exceptions); and
- § recognize changes in the funded status of pension and other postretirement benefit plans in the year in which the changes occur. Generally, those changes are reported in other comprehensive income and as a separate component of shareholders' equity.

The detailed information presented below covers the employee benefit plans of Sempra Energy and its principal subsidiaries.

Sempra Energy has funded and unfunded noncontributory defined benefit plans, including separate plans for SDG&E and SoCalGas, which collectively cover substantially all domestic and certain foreign employees, and members of the Sempra Energy board of directors who were participants in a predecessor plan on or before June 1, 1998. The plans generally provide defined benefits based on years of service and either final average or career salary.

Chilquinta Energía, which was acquired by Sempra Energy in 2011, has an unfunded contributory defined benefit plan covering all employees hired before October 1, 1981 and an unfunded noncontributory termination indemnity obligation covering all employees. The plans generally provide defined benefits to retirees based on date of hire, years of service and final average salary.

Sempra Energy also has other postretirement benefit plans (PBOP), including separate plans for SDG&E and SoCalGas, which collectively cover all domestic (except Willmut Gas) and certain foreign employees. The life insurance plans are both contributory and noncontributory, and the health care plans are contributory. Participants' contributions are adjusted annually. Other postretirement benefits include medical benefits for retirees' spouses.

Chilquinta Energía also has two noncontributory postretirement benefit plans which cover substantially all employees – a health care plan and an energy subsidy plan that provides for reduced energy rates. The health care plan includes benefits for retirees' spouses and dependents.

Pension and other postretirement benefits costs and obligations are dependent on assumptions used in calculating such amounts. These assumptions include

- § discount rates
- § expected return on plan assets
- § health care cost trend rates
- § mortality rates
- § rate of compensation increases
- § termination and retirement rates
- § utilization of postretirement welfare benefits
- § payout elections (lump sum or annuity)
- § lump sum interest rates

We review these assumptions on an annual basis prior to the beginning of each year and update them as appropriate. We consider current market conditions, including interest rates, in making these assumptions. We use a December 31 measurement date for all of our plans.

RABBI TRUST

In support of its Supplemental Executive Retirement, Cash Balance Restoration and Deferred Compensation Plans, Sempra Energy maintains dedicated assets, including a Rabbi Trust and investments in life insurance contracts, which totaled \$506 million and \$510 million at December 31, 2013 and 2012, respectively.

PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

Benefit Plan Amendments Affecting 2013

Effective July 1, 2014, an enhanced pension benefit will be provided to certain employees of SoCalGas who transfer from a represented to a nonrepresented position after June 30, 1998. This increased the pension benefit obligation by \$27 million at each of Sempra Energy Consolidated and SoCalGas.

Effective April 1, 2014, we will provide a one-time, ad hoc cost of living adjustment of 13.2 percent for SoCalGas and PE retirees who retired prior to July 1, 1996 and their beneficiaries that are receiving qualified pension benefits in the form of an annuity. This election increased the pension benefit obligation by \$40 million at Sempra Energy Consolidated and \$39 million at SoCalGas.

Effective January 1, 2013, the face value of the fully paid life insurance benefit for employees that participate in our Executive Retirement Life Insurance Program and retire after December 31, 2012 was increased from one times pay to one-and-a-half times pay. In addition, the tax gross-ups paid to the retiring employee based on the value of the final premium were eliminated. These changes resulted in a decrease of the other postretirement benefit obligation of \$4 million at Sempra Energy Consolidated.

Effective January 1, 2014, the benefits provided by one of the dental plans available to all employees that participate in the plans, except the represented employees at SoCalGas, were enhanced to increase the annual total maximum and lifetime orthodontic maximum covered costs. In addition, the costs of diagnostic and preventive services were excluded from the total covered annual maximum costs. These plan design changes increased the recorded liability for other postretirement benefits by \$1 million at each of Sempra Energy Consolidated and SoCalGas.

The plan amendments above were adopted in 2013, and therefore reflected in the 2013 pension and other postretirement benefit obligations.

Benefit Plan Amendments Affecting 2012

Effective January 1, 2012, the pension plan death benefit for represented employees at SoCalGas was enhanced to the full value of the benefit that the participant would have received had the employee terminated employment and taken a distribution of their benefit. Effective October 1, 2012, the death benefit for represented employees at SDG&E was similarly enhanced. This increased the benefit obligation by approximately \$8 million for Sempra Energy Consolidated, \$1 million for SDG&E and \$7 million for SoCalGas.

Effective January 1, 2012, SoCalGas' represented employees with less than 15 years of service now receive a defined dollar benefit to cover postretirement medical benefits. This amendment was the result of the ratification on March 1, 2012 of the SoCalGas union collective bargaining agreement (CBA) covering wages, hours, working conditions and medical and other benefit plans effective January 1, 2012 through September 30, 2015. The amendment resulted in a remeasurement of the SoCalGas other postretirement benefit liability as of February 29, 2012. The effect of this plan change as of December 31, 2012 was a decrease in the recorded liability for other postretirement benefits of \$53 million at each of Sempra Energy Consolidated and SoCalGas.

Effective January 1, 2012, certain postretirement plans were amended to effectively reverse the 2011 amendment that increased employer contributions to maintain the grandfathered retiree plan status under the Patient Protection and Affordable Care Act (PPACA), described below, as it was no longer required due to a restructuring of benefits provided under the plans. The 2012 amendment resulted in a decrease in the recorded liability for other postretirement benefits of approximately \$3 million for Sempra Energy Consolidated, \$2 million for SDG&E and \$1 million for SoCalGas.

Special Termination Benefits Affecting 2013

All nonrepresented employees of SDG&E and SoCalGas who were age 62 and had 5 years of service and all other nonrepresented employees who were age 55 and had 10 years of service that retired under the Voluntary Retirement Enhancement Program (VREP) offered in 2013 received an additional postretirement health benefit in the form of a \$50,000 Health Reimbursement Account (HRA). In accordance with U.S. GAAP, we elected to treat the benefit obligation attributable to the HRA as special termination benefits. This resulted in a one-time charge that increased the recorded liability for other postretirement benefits by approximately \$5 million for Sempra Energy Consolidated, \$2 million for SDG&E and \$2 million for SoCalGas.

Benefit Obligations and Assets

The following three tables provide a reconciliation of the changes in the plans' projected benefit obligations and the fair value of assets during 2013 and 2012, and a statement of the funded status at December 31, 2013 and 2012:

PROJECTED BENEFIT OBLIGATION, FAIR VALUE OF ASSETS AND FUNDED STATUS

(Dollars in millions)

	Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
Sempra Energy Consolidated				
CHANGE IN PROJECTED BENEFIT OBLIGATION:				
Net obligation at January 1	\$ 3,804	\$ 3,406	\$ 1,115	\$ 1,160
Service cost	109	90	28	25
Interest cost	148	162	44	52
Contributions from plan participants	—	—	16	15
Actuarial (gain) loss	(371)	374	(177)	(25)
Benefit payments	(293)	(217)	(55)	(56)
Plan amendments	67	8	(3)	(56)
Special termination benefits	—	—	5	—
Settlements	(5)	(19)	—	—
Net obligation at December 31	<u>3,459</u>	<u>3,804</u>	<u>973</u>	<u>1,115</u>
CHANGE IN PLAN ASSETS:				
Fair value of plan assets at January 1	2,558	2,332	873	778
Actual return on plan assets	396	339	151	97
Employer contributions	133	123	27	39
Contributions from plan participants	—	—	16	15
Benefit payments	(293)	(217)	(55)	(56)
Settlements	(5)	(19)	—	—
Fair value of plan assets at December 31	<u>2,789</u>	<u>2,558</u>	<u>1,012</u>	<u>873</u>
Funded status at December 31	\$ (670)	\$ (1,246)	\$ 39	\$ (242)
Net recorded (liability) asset at December 31	\$ (670)	\$ (1,246)	\$ 39	\$ (242)

PROJECTED BENEFIT OBLIGATION, FAIR VALUE OF ASSETS AND FUNDED STATUS

(Dollars in millions)

Pension Benefits

Other Postretirement

SDG&E			Benefits	
	2013	2012	2013	2012
CHANGE IN PROJECTED BENEFIT OBLIGATION:				
Net obligation at January 1	\$ 1,067	\$ 981	\$ 185	\$ 182
Service cost	32	28	8	7
Interest cost	41	45	8	9
Contributions from plan participants	—	—	6	6
Actuarial (gain) loss	(66)	87	(19)	(5)
Benefit payments	(89)	(75)	(12)	(12)
Plan amendments	—	1	—	(2)
Special termination benefits	—	—	2	—
Settlements	(4)	—	—	—
Transfer of liability to other plans	(42)	—	(7)	—
Net obligation at December 31	939	1,067	171	185
CHANGE IN PLAN ASSETS:				
Fair value of plan assets at January 1	781	712	126	106
Actual return on plan assets	117	99	18	13
Employer contributions	51	45	14	13
Contributions from plan participants	—	—	6	6
Benefit payments	(89)	(75)	(12)	(12)
Settlements	(4)	—	—	—
Transfer of assets to other plans	(37)	—	(6)	—
Fair value of plan assets at December 31	819	781	146	126
Funded status at December 31	\$ (120)	\$ (286)	\$ (25)	\$ (59)
Net recorded liability at December 31	\$ (120)	\$ (286)	\$ (25)	\$ (59)

PROJECTED BENEFIT OBLIGATION, FAIR VALUE OF ASSETS AND FUNDED STATUS

(Dollars in millions)

SoCalGas	Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
CHANGE IN PROJECTED BENEFIT OBLIGATION:				
Net obligation at January 1	\$ 2,299	\$ 2,017	\$ 873	\$ 921
Service cost	67	53	17	16
Interest cost	90	99	34	41
Contributions from plan participants	—	—	10	9
Actuarial (gain) loss	(285)	245	(151)	(19)
Benefit payments	(169)	(120)	(40)	(41)
Plan amendments	66	7	1	(54)
Special termination benefits	—	—	2	—
Settlements	—	(2)	—	—
Transfer of liability from other plans	42	—	7	—
Net obligation at December 31	2,110	2,299	753	873
CHANGE IN PLAN ASSETS:				
Fair value of plan assets at January 1	1,581	1,443	732	658
Actual return on plan assets	250	213	131	83
Employer contributions	59	47	9	23
Contributions from plan participants	—	—	10	9
Benefit payments	(169)	(120)	(40)	(41)
Settlements	—	(2)	—	—
Transfer of assets from other plans	37	—	6	—
Fair value of plan assets at December 31	1,758	1,581	848	732
Funded status at December 31	\$ (352)	\$ (718)	\$ 95	\$ (141)
Net recorded (liability) asset at December 31	\$ (352)	\$ (718)	\$ 95	\$ (141)

The actuarial gains for pension plans in 2013 were primarily due to an increase in the weighted average discount rate and the rate used to convert monthly annuity-type benefits to a lump sum benefit payment.

The actuarial gains for other postretirement plans in 2013 resulted from several factors, including an increase in the discount rate, updated census data and actual claims costs at SoCalGas, updates in actual premiums and retiree contributions for 2013, expected decrease in 2014 claims costs based on 2014 renewal premium rates, and a decrease in the healthcare cost trending rate. The actuarial gains were partially offset by the impact of updated census data and actual claims costs at all companies except SoCalGas, changes in retirement and termination rates, and an expected increase in non-spouse dependents for all employees of SoCalGas not covered by the defined dollar benefit.

The actuarial losses for pension plans in 2012 were primarily due to a decrease in the weighted average discount rate and the rate used to convert monthly annuity-type benefits to a lump sum benefit payment.

The actuarial gains for other postretirement plans in 2012 resulted from several factors, including updated census data and actual claims costs, premiums and retiree contributions for 2012, expected gains on 2013 claims costs based on 2013 renewal premium rates, changes in retirement rate assumptions and the move to an Employer Group Waiver Plan (EGWP) for all represented employees of SoCalGas effective February 29, 2012. An EGWP is an alternative means of providing the existing pharmacy benefit, discussed below. The actuarial gains were partially offset by the impact of a lower discount rate for the obligation remeasurement on February 29, 2012 discussed above and a lower discount rate at the December 31, 2012 measurement date.

Net Assets and Liabilities

The assets and liabilities of the pension and other postretirement benefit plans are affected by changing market conditions as well as when actual plan experience is different than assumed. Such events result in investment gains and losses, which we defer and recognize in pension and other postretirement benefit costs over a period of years. Sempra Energy Consolidated (except for SDG&E) and SoCalGas use the asset smoothing method for their pension and other postretirement plans. This method develops an asset value that recognizes realized and unrealized investment gains and losses over a three-year period. This adjusted asset value, known as the market-related value of assets, is used in conjunction with an expected long-term rate of return to determine the

expected return-on-assets component of net periodic cost. SDG&E does not use the asset smoothing method, but rather recognizes realized and unrealized investment gains and losses during the current year.

The 10-percent corridor accounting method is used at Sempra Energy, SDG&E and SoCalGas. Under the corridor accounting method, if as of the beginning of a year unrecognized net gain or loss exceeds 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets, the excess is amortized over the average remaining service period of active participants. The asset smoothing and 10-percent corridor accounting methods help mitigate volatility of net periodic costs from year to year.

We recognize the overfunded or underfunded status of defined benefit pension and other postretirement plans as assets or liabilities, respectively; unrecognized changes in these assets and/or liabilities are normally recorded in Accumulated Other Comprehensive Income (Loss) on the balance sheet. The California Utilities and Mobile Gas record regulatory assets and liabilities that offset the funded pension and other postretirement plans' assets or liabilities, as these costs are expected to be recovered in future utility rates based on agreements with regulatory agencies. At Willmut Gas, pension contributions are recovered in rates on a prospective basis, but are not recorded as a regulatory asset pending recovery.

The California Utilities record annual pension and other postretirement net periodic benefit costs equal to the contributions to their plans as authorized by the CPUC. The annual contributions to the pension plans are limited to a minimum required funding amount as determined by the Internal Revenue Service. The annual contributions to the other postretirement plans are equal to the lesser of the maximum tax deductible amount or the net periodic cost calculated in accordance with U.S. GAAP for pension and other postretirement benefit plans. Mobile Gas records annual pension and other postretirement net periodic benefit costs based on an estimate of the net periodic cost at the beginning of the year calculated in accordance with U.S. GAAP for pension and other postretirement benefit plans, as authorized by the Alabama Public Service Commission. Any differences between booked net periodic benefit cost and amounts contributed to the pension and other postretirement plans for the California Utilities are disclosed as regulatory adjustments in accordance with U.S. GAAP for regulated entities.

The net liability is included in the following captions on the Consolidated Balance Sheets at December 31:

<i>(Dollars in millions)</i>	Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
Sempra Energy Consolidated				
Noncurrent assets	\$ —	\$ —	\$ 95	\$ —
Current liabilities	(59)	(31)	—	(1)
Noncurrent liabilities	(611)	(1,215)	(56)	(241)
Net recorded liability	\$ (670)	\$ (1,246)	\$ 39	\$ (242)
SDG&E				
Current liabilities	\$ (13)	\$ (5)	\$ —	\$ —
Noncurrent liabilities	(107)	(281)	(25)	(59)
Net recorded liability	\$ (120)	\$ (286)	\$ (25)	\$ (59)
SoCalGas				
Noncurrent assets	\$ —	\$ —	\$ 95	\$ —
Current liabilities	(13)	(4)	—	—
Noncurrent liabilities	(339)	(714)	—	(141)
Net recorded liability	\$ (352)	\$ (718)	\$ 95	\$ (141)

Amounts recorded in Accumulated Other Comprehensive Income (Loss) as of December 31, 2013 and 2012, net of income tax effects and amounts recorded as regulatory assets, are as follows:

AMOUNTS IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)				
<i>(Dollars in millions)</i>				
	Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
Sempra Energy Consolidated				
Net actuarial loss	\$ (73)	\$ (96)	\$ —	\$ (6)
Prior service credit	—	1	—	—
Total	\$ (73)	\$ (95)	\$ —	\$ (6)
SDG&E				
Net actuarial loss	\$ (10)	\$ (12)		
Prior service credit	1	1		
Total	\$ (9)	\$ (11)		
SoCalGas				
Net actuarial loss	\$ (5)	\$ (4)		
Prior service credit	1	1		
Total	\$ (4)	\$ (3)		

The accumulated benefit obligation for defined benefit pension plans at December 31, 2013 and 2012 was as follows:

<i>(Dollars in millions)</i>	Sempra Energy Consolidated		SDG&E		SoCalGas	
	2013	2012	2013	2012	2013	2012
Accumulated benefit obligation	\$ 3,254	\$ 3,530	\$ 923	\$ 1,041	\$ 1,944	\$ 2,080

Sempra Energy has unfunded and funded pension plans. SDG&E and SoCalGas each have an unfunded and a funded pension plan. The following table shows the obligations of funded pension plans with benefit obligations in excess of plan assets as of December 31:

<i>(Dollars in millions)</i>	2013	2012
Sempra Energy Consolidated		
Projected benefit obligation	\$ 3,212	\$ 3,544

Accumulated benefit obligation				3,027		3,295
Fair value of plan assets				2,789		2,558
SDG&E						
Projected benefit obligation		\$		899	\$	1,025
Accumulated benefit obligation				886		1,003
Fair value of plan assets				819		781
SoCalGas						
Projected benefit obligation		\$		2,085	\$	2,275
Accumulated benefit obligation				1,920		2,057
Fair value of plan assets				1,758		1,581

Net Periodic Benefit Cost, 2011-2013

The following three tables provide the components of net periodic benefit cost and amounts recognized in other comprehensive income for the years ended December 31:

NET PERIODIC BENEFIT COST AND AMOUNTS RECOGNIZED IN OTHER COMPREHENSIVE INCOME

(Dollars in millions)

Sempra Energy Consolidated	Pension Benefits			Other Postretirement Benefits		
	2013	2012	2011	2013	2012	2011
Net Periodic Benefit Cost						
Service cost	\$ 109	\$ 90	\$ 83	\$ 28	\$ 25	\$ 31
Interest cost	148	162	168	44	52	65
Expected return on assets	(162)	(155)	(144)	(58)	(53)	(48)
Amortization of:						
Prior service cost (credit)	4	3	4	(4)	(4)	—
Actuarial loss	54	47	34	7	12	17
Settlement charge	2	8	13	—	—	—
Special termination benefits	—	—	—	5	—	—
Regulatory adjustment	(20)	(29)	43	6	7	7
Total net periodic benefit cost	135	126	201	28	39	72
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income						
Net (gain) loss	(30)	19	23	(8)	(6)	7
Prior service cost	1	—	—	—	—	—
Amortization of actuarial loss	(9)	(9)	(10)	(1)	—	—
Total recognized in other comprehensive income	(38)	10	13	(9)	(6)	7
Total recognized in net periodic benefit cost and other comprehensive income	\$ 97	\$ 136	\$ 214	\$ 19	\$ 33	\$ 79

NET PERIODIC BENEFIT COST AND AMOUNTS RECOGNIZED IN OTHER COMPREHENSIVE INCOME

(Dollars in millions)

SDG&E	Pension Benefits			Other Postretirement Benefits		
	2013	2012	2011	2013	2012	2011
Net Periodic Benefit Cost						
Service cost	\$ 32	\$ 28	\$ 28	\$ 8	\$ 7	\$ 7
Interest cost	41	45	49	8	9	10
Expected return on assets	(52)	(47)	(46)	(8)	(8)	(8)
Amortization of:						
Prior service cost	2	2	1	4	4	4
Actuarial loss	14	14	9	—	—	—
Settlement charge	1	1	1	—	—	—
Special termination benefits	—	—	—	2	—	—
Regulatory adjustment	14	6	31	—	1	2
Total net periodic benefit cost	52	49	73	14	13	15
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income						
Net (gain) loss	(2)	2	1	—	—	—
Amortization of actuarial loss	(1)	(1)	(1)	—	—	—
Total recognized in other comprehensive income	(3)	1	—	—	—	—
Total recognized in net periodic benefit cost and other comprehensive income	\$ 49	\$ 50	\$ 73	\$ 14	\$ 13	\$ 15

NET PERIODIC BENEFIT COST AND AMOUNTS RECOGNIZED IN OTHER COMPREHENSIVE INCOME

(Dollars in millions)

SoCalGas	Pension Benefits			Other Postretirement Benefits		
	2013	2012	2011	2013	2012	2011
Net Periodic Benefit Cost						
Service cost	\$ 67	\$ 53	\$ 46	\$ 17	\$ 16	\$ 22
Interest cost	90	99	99	34	41	53
Expected return on assets	(98)	(96)	(85)	(48)	(44)	(40)
Amortization of:						
Prior service cost (credit)	2	2	2	(8)	(7)	(4)
Actuarial loss	31	23	17	6	11	17
Settlement charge	—	1	1	—	—	—
Special termination benefits	—	—	—	2	—	—
Regulatory adjustment	(34)	(36)	12	6	5	5
Total net periodic benefit cost	58	46	92	9	22	53

Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income						
Net loss (gain)	3	(4)	2	—	—	—
Amortization of actuarial loss	(1)	(1)	(1)	—	—	—
Total recognized in other comprehensive income	2	(5)	1	—	—	—
Total recognized in net periodic benefit cost and other comprehensive income	\$ 60	\$ 41	\$ 93	\$ 9	\$ 22	\$ 53

The estimated net loss for the pension plans that will be amortized from Accumulated Other Comprehensive Income (Loss) into net periodic benefit cost in 2014 is \$10 million for Sempra Energy Consolidated, \$1 million for SDG&E and \$1 million for SoCalGas. Negligible amounts of prior service credit for the pension plans will be similarly amortized in 2014.

Patient Protection and Affordable Care Act of 2010

The Patient Protection and Affordable Care Act of 2010 was enacted in March 2010. We have incorporated the impact on costs of the provisions of this legislation into our determination of projected benefit obligations and accumulated benefit obligations for all of Sempra Energy's affected plans.

Medicare Prescription Drug, Improvement and Modernization Act of 2003

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 establishes a prescription drug benefit under Medicare (Medicare Part D) and a tax-exempt federal subsidy to sponsors of retiree health-care benefit plans that provide a benefit that actuarially is at least equivalent to Medicare Part D. As a result of the ratification of the SoCalGas CBA on March 1, 2012, described above, there was a change in medical plans offered for post-age 65 medical benefits. SoCalGas now administers the Medicare Part D benefit through an EGWP. The EGWP allows a plan sponsor to contract with a Medicare Part D sponsor to receive the benefit of the subsidy through reduced premiums. We have determined that benefits provided to certain participants actuarially will be at least equivalent to Medicare Part D. Due to this election of an EGWP for SoCalGas' represented employees effective February 29, 2012, and the same election for all other employees on January 1, 2012, as of these dates, we are no longer entitled to a tax-exempt subsidy that reduces our accumulated postretirement benefit obligation under our plans and reduces our net periodic cost in future years.

Assumptions for Pension and Other Postretirement Benefit Plans

Benefit Obligation and Net Periodic Benefit Cost

Except for the Chilquinta Energía plans, we develop the discount rate assumptions based on the results of a third party modeling tool that develops the discount rate by matching each plan's expected cash flows to interest rates and expected maturity values of individually selected bonds in a hypothetical portfolio. The model controls the level of accumulated surplus that may result from the selection of bonds based solely on their premium yields by limiting the number of years to look back for selection to 3 years for pre-30-year and 6 years for post-30-year benefit payments. Additionally, the model ensures that an adequate number of bonds are selected in the portfolio by limiting the amount of the plan's benefit payments that can be met by a single bond to 7.5 percent.

We selected individual bonds from a universe of Bloomberg AA-rated bonds which:

- § have an outstanding issue of at least \$50 million;
- § are non-callable (or callable with make-whole provisions);
- § exclude collateralized bonds; and
- § exclude the top and bottom 10 percent of yields to avoid relying on bonds which might be mispriced or misgraded.

This selection methodology also mitigates the impact of market volatility on the portfolio by excluding bonds with the following characteristics:

- § The issuer is on review for downgrade by a major rating agency if the downgrade would eliminate the issuer from the portfolio.
- § Recent events have caused significant price volatility to which rating agencies have not reacted.
- § Lack of liquidity is causing price quotes to vary significantly from broker to broker.

We believe that this bond selection approach provides the best estimate of discount rates to estimate settlement values for our plans' benefit obligations as required by applicable U.S. GAAP.

We develop the discount rate assumptions for the plans at Chilquinta Energía based on 10-year Chilean government bond yields and the expected local long-term rate of inflation. This method for developing the discount rate is required when there is no deep market for high quality corporate bonds.

Long-term return on assets is based on the weighted-average of the plans' investment allocation as of the measurement date and the expected returns for those asset types.

The significant assumptions affecting benefit obligation and net periodic benefit cost are as follows:

WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE BENEFIT OBLIGATION AT DECEMBER 31

	Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
Sempra Energy Consolidated				
Discount rate	4.84 %	4.04 %	4.95 %	4.09 %
Rate of compensation increase	3.50-10.00	3.50-9.50	3.50-10.00	3.50-9.50
SDG&E				
Discount rate	4.69 %	3.94 %	5.00 %	4.10 %
Rate of compensation increase	3.50-10.00	3.50-9.50	3.50-10.00	3.50-9.50
SoCalGas				
Discount rate	4.94 %	4.10 %	4.95 %	4.10 %
Rate of compensation increase	3.50-10.00	3.50-9.50	3.50-10.00	3.50-9.50

WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE NET PERIODIC BENEFIT COST FOR YEARS ENDED DECEMBER 31

	Pension Benefits			Other Postretirement Benefits		
	2013	2012	2011	2013	2012	2011
Sempra Energy Consolidated						
Discount rate	4.04 %	4.40-5.05 %	4.40-5.14 %	4.09 %	4.10-5.15 %	4.10-5.15 %
Expected return on plan assets	7.00	7.00	7.00	6.96	6.96	6.25
Rate of compensation increase	3.50-9.50	3.50-8.50	3.50-8.50	3.50-9.50	3.50-9.50	3.50-9.50
SDG&E						
Discount rate	3.94 %	4.70-4.80 %	4.70-4.80 %	4.10 %	5.05 %	5.05 %
Expected return on plan assets	7.00	7.00	7.00	6.81	6.81	6.69
Rate of compensation increase	3.50-9.50	3.50-8.50	3.50-8.50	N/A	N/A	N/A
SoCalGas						
Discount rate	4.10 %	4.70-5.05 %	4.70-5.05 %	4.10 %	5.15 %	5.15 %
Expected return on plan assets	7.00	7.00	7.00	7.00	7.00	7.00
Rate of compensation increase	3.50-9.50	3.50-8.50	3.50-8.50	3.50-9.50	3.50-9.50	3.50-9.50

Health Care Cost Trend Rates

Assumed health care cost trend rates have a significant effect on the amounts that we report for the health care plan costs. Following are the health care cost trend rates applicable to our postretirement benefit plans:

	2013	2012
ASSUMED HEALTH CARE COST TREND RATES AT DECEMBER 31:		
Health care cost trend rate	(1)	(2)
Rate to which the cost trend rate is assumed to decline (the ultimate trend)	(3)	(4)
Year that the rate reaches the ultimate trend	(5)	2020

- (1) 8.25% for pre-65 retirees and 5.50% for retirees aged 65 years and older. For Mobile Gas, the health care cost trend rate is assumed to be 7.50%.
(2) 10.00% for pre-65 retirees and 8.25% for retirees aged 65 years and older. For Mobile Gas, the health care cost trend rate is assumed to be 8.00%.
(3) 5.00% for pre-65 retirees and 4.50% for retirees aged 65 years and older. For Mobile Gas, the rate to which the cost trend rate is assumed to decline is 5.00%.
(4) 5.00% for pre-65 retirees and 4.75% for retirees aged 65 years and older. For Mobile Gas, the rate to which the cost trend rate is assumed to decline is 5.00%.
(5) 2019 for Mobile Gas plan and 2020 for all other plans.

A one-percent change in assumed health care cost trend rates would have the following effects:

	Sempra Energy Consolidated		SDG&E		SoCalGas	
	1% Increase	1% Decrease	1% Increase	1% Decrease	1% Increase	1% Decrease
<i>(Dollars in millions)</i>						
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	\$ 8	\$ (6)	\$ 1	\$ (1)	\$ 6	\$ (5)
Effect on the health care component of the accumulated other postretirement benefit obligations	100	(62)	8	(6)	90	(54)

Plan Assets
Investment Allocation Strategy for Sempra Energy's Pension Master Trust

Sempra Energy's pension master trust holds the investments for the pension and other postretirement benefit plans. We maintain additional trusts as we discuss below for certain of the California Utilities' other postretirement benefit plans. Other than through indexing strategies, the trusts do not invest in securities of Sempra Energy.

The current asset allocation objective for the pension master trust is to protect the funded status of the plans while generating sufficient returns to cover future benefit payments and accruals. We assess the portfolio performance by comparing actual returns with relevant benchmarks. Currently, the pension plans' asset allocations are

§ 38 percent domestic equity

§ 26 percent international equity

§ 5 percent high yield credit

§ 12 percent intermediate credit

§ 14 percent long credit

§ 5 percent real assets

The asset allocation of the plans is reviewed by our Plan Funding Committee and our Pension and Benefits Investment Committee (the Committees) on a regular basis. When evaluating strategic asset allocations, the Committees consider many variables, including:

§ long-term cost

§ variability and level of contributions

§ funded status

§ a range of expected outcomes over varying confidence levels

We maintain allocations at strategic levels with reasonable bands of variance. When asset class exposure reaches a minimum or maximum level, we generally rebalance the portfolio back to target allocations, unless the Committees determine otherwise.

Rate of Return Assumption

The expected return on assets in our pension plans and other postretirement benefit plans is based on the weighted-average of the plans' investment allocations to specific asset classes as of the measurement date, except for the assets in the SDG&E other postretirement benefit plan. We arrive at a 7 percent expected return on assets by considering both the historical and forecasted long-term rates of return on those asset classes. The forecasts are developed using a build-up method that considers real risk-free interest rates, inflation rates and asset class specific risk premiums. We expect a return of between 7 percent and 10 percent on equity securities and between 3 percent and 6 percent for fixed-income securities.

The expected return on assets in the SDG&E other postretirement benefit plan is based on the weighted-average of the expected return on plan assets held in the Voluntary Employee Beneficiary Association (VEBA) trust designated for non-collectively bargained benefits and the expected return on plan assets held in the pension master trust and the collectively bargained VEBA. The expected return on assets for the non-collectively bargained VEBA trust is based on the weighted-average of the expected return on equity securities, as described above, and a 4 percent expected return on fixed income securities, which are all invested in tax-exempt municipal bonds.

Concentration of Risk

Plan assets are fully diversified across global equity and bond markets, and other than what is indicated by the target asset allocations, contain no concentration of risk in any one economic, industry, maturity or geographic sector.

Investment Strategy for SDG&E's and SoCalGas' Other Postretirement Benefit Plans

SDG&E's and SoCalGas' other postretirement benefit plans are funded by cash contributions from SDG&E and SoCalGas and their current retirees. The assets of these plans are placed into the pension master trust and other VEBA trusts. The assets in the VEBA trusts are invested at an allocation similar to the pension master trust, with 70 percent invested in return-seeking and 30 percent invested in risk-mitigating assets. This allocation has been formulated to best suit the long-term nature of the obligations.

Fair Value of Pension and Other Postretirement Benefit Plan Assets

We classify the investments in Sempra Energy's pension master trust and the trusts for the California Utilities' other postretirement benefit plans into:

§ Level 1, for securities valued using quoted prices from active markets for identical assets;

§ Level 2, for securities not traded on an active market but for which observable market inputs are readily available; and

§ Level 3, for securities and investments valued based on significant unobservable inputs. Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The following are descriptions of the valuation methods and assumptions we use to estimate the fair values of investments held by pension and other postretirement benefit plan trusts.

Equity Securities — Equity securities are valued using quoted prices listed on nationally recognized securities exchanges.

Fixed Income Securities — Certain fixed income securities are valued at the closing price reported in the active market in which the security is traded. Other fixed income securities are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar securities, the security is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

Registered Investment Companies — Investments in mutual funds sponsored by a registered investment company are valued based on exchange listed prices for equity and certain fixed income securities or are valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks for the remaining fixed income securities.

Common/Collective Trusts — Investments in common/collective trust funds are valued based on the redemption price of units owned, which is based on the current fair value of the funds' underlying assets.

Private Equity Funds — Investments in private equity funds do not trade in active markets. Fair value is determined by the fund managers, based upon their review of the underlying investments as well as their utilization of discounted cash flows and other valuation models.

Real Estate — Real estate investments are valued on the basis of a discounted cash flows approach, which includes the future rental receipts, expenses, and residual values for the highest and best use of the real estate from a market participant view as rental property.

The methods described are intended to produce a fair value calculation that is indicative of net realizable value or reflective of future fair values. However, while management believes the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

We provide more discussion of fair value measurements in Notes 1 and 10. The following tables set forth by level within the fair value hierarchy a summary of the investments in our pension and other postretirement benefit plan trusts measured at fair value on a recurring basis.

The fair values of our pension plan assets by asset category are as follows:

FAIR VALUE MEASUREMENTS — SEMPRA ENERGY CONSOLIDATED

(Dollars in millions)

PENSION PLANS - INVESTMENT ASSETS	At fair value as of December 31, 2013			
	Level 1	Level 2	Level 3	Total
SDG&E (see table below)	\$ 576	\$ 269	\$ 6	\$ 851
SoCalGas (see table below)	1,157	540	13	1,710
Other Sempra Energy				
Equity securities:				
Domestic(1)	79	—	—	79
Foreign	52	—	—	52
Registered investment companies	11	—	—	11
Fixed income securities:				
U.S. Treasury securities	1	—	—	1
Domestic municipal bonds	—	3	—	3
Foreign government bonds	—	7	—	7
Domestic corporate bonds(2)	—	38	—	38
Foreign corporate bonds	—	13	—	13
Common/collective trusts(3)	—	5	—	5
Other types of investments:				
Private equity funds(4) (stated at net asset value)	—	—	2	2
Total other Sempra Energy(5)	143	66	2	211
Total Sempra Energy Consolidated(6)	\$ 1,876	\$ 875	\$ 21	\$ 2,772

PENSION PLANS - INVESTMENT ASSETS	At fair value as of December 31, 2012			
	Level 1	Level 2	Level 3	Total
SDG&E (see table below)	\$ 530	\$ 241	\$ 6	\$ 777
SoCalGas (see table below)	1,074	485	13	1,572
Other Sempra Energy				
Equity securities:				
Domestic(1)	77	—	—	77
Foreign	54	—	—	54
Registered investment companies	2	—	—	2
Fixed income securities:				
Domestic municipal bonds	—	3	—	3
Foreign government bonds	—	5	—	5
Domestic corporate bonds(2)	—	37	—	37
Foreign corporate bonds	—	13	—	13
Common/collective trusts(3)	—	2	—	2
Other types of investments:				
Private equity funds(4) (stated at net asset value)	—	—	2	2
Total other Sempra Energy(5)	133	60	2	195
Total Sempra Energy Consolidated(6)	\$ 1,737	\$ 786	\$ 21	\$ 2,544

(1) Investments in common stock of domestic corporations.

(2) Bonds of U.S. issuers from diverse industries, primarily investment-grade.

(3) Investments in common/collective trusts held in Sempra Energy's Pension Master Trust.

(4) Investments in venture capital and real estate funds.

(5) Excludes cash and cash equivalents of \$1 million at each of December 31, 2013 and 2012.

(6) Excludes cash and cash equivalents of \$17 million and \$14 million at December 31, 2013 and 2012, respectively.

FAIR VALUE MEASUREMENTS — SDG&E

(Dollars in millions)

PENSION PLANS - INVESTMENT ASSETS	At fair value as of December 31, 2013			
	Level 1	Level 2	Level 3	Total
Equity securities:				
Domestic(1)	\$ 317	\$ —	\$ —	\$ 317
Foreign	211	—	—	211
Foreign preferred	2	—	—	2
Registered investment companies	44	—	—	44
Fixed income securities:				
U.S. Treasury securities	2	—	—	2
Domestic municipal bonds	—	11	—	11
Foreign government bonds	—	25	—	25
Domestic corporate bonds(2)	—	152	—	152
Domestic partnership bonds(2)	—	1	—	1
Foreign corporate bonds	—	55	—	55

Common/collective trusts(3)	—	25	—	25
Other types of investments:				
Private equity funds(4) (stated at net asset value)	—	—	6	6
Total investment assets(5)	\$ 576	\$ 269	\$ 6	\$ 851

PENSION PLANS - INVESTMENT ASSETS	At fair value as of December 31, 2012			
	Level 1	Level 2	Level 3	Total
Equity securities:				
Domestic(1)	\$ 307	\$ —	\$ —	\$ 307
Foreign	215	—	—	215
Foreign preferred	2	—	—	2
Registered investment companies	6	—	—	6
Fixed income securities:				
Domestic municipal bonds	—	12	—	12
Foreign government bonds	—	22	—	22
Domestic corporate bonds(2)	—	147	—	147
Foreign corporate bonds	—	52	—	52
Common/collective trusts(3)	—	8	—	8
Other types of investments:				
Private equity funds(4) (stated at net asset value)	—	—	6	6
Total investment assets(6)	\$ 530	\$ 241	\$ 6	\$ 777

- (1) Investments in common stock of domestic corporations.
(2) Bonds of U.S. issuers from diverse industries, primarily investment-grade.
(3) Investments in common/collective trusts held in Sempra Energy's Pension Master Trust.
(4) Investments in venture capital and real estate funds.
(5) Excludes cash and cash equivalents of \$5 million and transfers payable to other plans of \$37 million.
(6) Excludes cash and cash equivalents of \$4 million.

FAIR VALUE MEASUREMENTS — SOCALGAS

(Dollars in millions)

PENSION PLANS - INVESTMENT ASSETS	At fair value as of December 31, 2013			
	Level 1	Level 2	Level 3	Total
Equity securities:				
Domestic(1)	\$ 637	\$ —	\$ —	\$ 637
Foreign	423	—	—	423
Foreign preferred	4	—	—	4
Registered investment companies	89	—	—	89
Fixed income securities:				
U.S. Treasury securities	4	—	—	4
Domestic municipal bonds	—	21	—	21
Foreign government bonds	—	51	—	51
Domestic corporate bonds(2)	—	306	—	306
Domestic partnership bonds(2)	—	2	—	2
Foreign corporate bonds	—	110	—	110
Common/collective trusts(3)	—	50	—	50
Other types of investments:				
Private equity funds(4) (stated at net asset value)	—	—	13	13
Total investment assets(5)	\$ 1,157	\$ 540	\$ 13	\$ 1,710

PENSION PLANS - INVESTMENT ASSETS	At fair value as of December 31, 2012			
	Level 1	Level 2	Level 3	Total
Equity securities:				
Domestic(1)	\$ 622	\$ —	\$ —	\$ 622
Foreign	436	—	—	436
Foreign preferred	4	—	—	4
Registered investment companies	12	—	—	12
Fixed income securities:				
Domestic municipal bonds	—	24	—	24
Foreign government bonds	—	44	—	44
Domestic corporate bonds(2)	—	297	—	297
Foreign corporate bonds	—	105	—	105
Common/collective trusts(3)	—	15	—	15
Other types of investments:				
Private equity funds(4) (stated at net asset value)	—	—	13	13
Total investment assets(6)	\$ 1,074	\$ 485	\$ 13	\$ 1,572

- (1) Investments in common stock of domestic corporations.
(2) Bonds of U.S. issuers from diverse industries, primarily investment-grade.
(3) Investments in common/collective trusts held in Sempra Energy's Pension Master Trust.
(4) Investments in venture capital and real estate funds.
(5) Excludes cash and cash equivalents of \$11 million and transfers receivable from other plans of \$37 million.
(6) Excludes cash and cash equivalents of \$9 million.

The fair values by asset category of the postretirement benefit plan assets held in the pension master trust and in the additional trusts for SoCalGas' postretirement benefit plans and SDG&E's postretirement benefit plan (PBOP plan trusts) are as follows:

FAIR VALUE MEASUREMENTS — SEMPRA ENERGY CONSOLIDATED

(Dollars in millions)

OTHER POSTRETIREMENT BENEFIT PLANS - INVESTMENT ASSETS	At fair value as of December 31, 2013			
	Level 1	Level 2	Level 3	Total
SDG&E (see table below)	\$ 105	\$ 45	\$ 1	\$ 151
SoCalGas (see table below)	256	581	2	839
Other Sempra Energy				
Equity securities:				
Domestic(1)	4	—	—	4
Foreign	4	—	—	4
Registered investment companies	4	—	—	4
Fixed income securities:				
Domestic corporate bonds(2)	—	3	—	3
Foreign government bonds	—	1	—	1
Foreign corporate bonds	—	1	—	1
Registered investment companies	—	1	—	1
Total other Sempra Energy	12	6	—	18
Total Sempra Energy Consolidated(3)	\$ 373	\$ 632	\$ 3	\$ 1,008

OTHER POSTRETIREMENT BENEFIT PLANS - INVESTMENT ASSETS	At fair value as of December 31, 2012			
	Level 1	Level 2	Level 3	Total
SDG&E (see table below)	\$ 87	\$ 38	\$ 1	\$ 126
SoCalGas (see table below)	213	514	2	729
Other Sempra Energy				
Equity securities:				
Domestic(1)	5	—	—	5
Foreign	1	—	—	1
Foreign preferred	1	—	—	1
Registered investment companies	3	1	—	4
Fixed income securities:				
Domestic corporate bonds(2)	—	2	—	2
Foreign government bonds	—	1	—	1
Foreign corporate bonds	—	1	—	1
Total other Sempra Energy	10	5	—	15
Total Sempra Energy Consolidated(4)	\$ 310	\$ 557	\$ 3	\$ 870

- (1) Investments in common stock of domestic corporations.
(2) Bonds of U.S. issuers from diverse industries, primarily investment-grade.
(3) Excludes cash and cash equivalents of \$4 million, \$3 million and \$1 million of which is held in SoCalGas and SDG&E PBOP plan trusts, respectively.
(4) Excludes cash and cash equivalents of \$3 million, all of which is held in SoCalGas PBOP plan trusts.

FAIR VALUE MEASUREMENTS — SDG&E

(Dollars in millions)

OTHER POSTRETIREMENT BENEFIT PLAN - INVESTMENT ASSETS	At fair value as of December 31, 2013			
	Level 1	Level 2	Level 3	Total
Equity securities:				
Domestic(1)	\$ 37	\$ —	\$ —	\$ 37
Foreign	25	—	—	25
Registered investment companies	43	—	—	43
Fixed income securities:				
Domestic municipal bonds(2)	—	3	—	3
Domestic corporate bonds(3)	—	18	—	18
Foreign government bonds	—	3	—	3
Foreign corporate bonds	—	6	—	6
Common/collective trusts(4)	—	3	—	3
Registered investment companies	—	12	—	12
Other types of investments:				
Private equity funds(5) (stated at net asset value)	—	—	1	1
Total investment assets(6)	\$ 105	\$ 45	\$ 1	\$ 151

OTHER POSTRETIREMENT BENEFIT PLAN - INVESTMENT ASSETS	At fair value as of December 31, 2012			
	Level 1	Level 2	Level 3	Total
Equity securities:				
Domestic(1)	\$ 32	\$ —	\$ —	\$ 32
Foreign	23	—	—	23
Registered investment companies	32	—	—	32
Fixed income securities:				
Domestic municipal bonds(2)	—	3	—	3
Domestic corporate bonds(3)	—	15	—	15
Foreign government bonds	—	2	—	2
Foreign corporate bonds	—	5	—	5
Common/collective trusts(4)	—	1	—	1
Registered investment companies	—	12	—	12
Other types of investments:				
Private equity funds(5) (stated at net asset value)	—	—	1	1
Total investment assets	\$ 87	\$ 38	\$ 1	\$ 126

- (1) Investments in common stock of domestic corporations.
(2) Bonds of California municipalities held in SDG&E PBOP plan trusts.
(3) Bonds of U.S. issuers from diverse industries, primarily investment-grade.
(4) Investment in common/collective trusts held in PBOP plan VEBA trusts.
(5) Investments in venture capital and real estate funds.
(6) Excludes cash and cash equivalents of \$1 million, all of which is held in SDG&E PBOP plan trusts, and transfers payable to other plans of \$6 million.

FAIR VALUE MEASUREMENTS — SOCALGAS

(Dollars in millions)

OTHER POSTRETIREMENT BENEFIT PLANS - INVESTMENT ASSETS	At fair value as of December 31, 2013			
	Level 1	Level 2	Level 3	Total
Equity securities:				
Domestic(1)	\$ 128	\$ —	\$ —	\$ 128
Foreign	83	—	—	83
Foreign preferred	1	—	—	1
Registered investment companies	43	—	—	43
Broad market funds	—	220	—	220
Fixed income securities:				
U.S. Treasury securities	1	—	—	1
Domestic municipal bonds	—	4	—	4
Domestic corporate bonds(2)	—	60	—	60
Foreign government bonds	—	10	—	10
Foreign corporate bonds	—	22	—	22
Common/collective trusts(3)	—	262	—	262
Registered investment companies	—	3	—	3
Other types of investments:				
Private equity funds(4) (stated at net asset value)	—	—	2	2
Total investment assets(5)	\$ 256	\$ 581	\$ 2	\$ 839

OTHER POSTRETIREMENT BENEFIT PLANS - INVESTMENT ASSETS	At fair value as of December 31, 2012			
	Level 1	Level 2	Level 3	Total
Equity securities:				
Domestic(1)	\$ 118	\$ —	\$ —	\$ 118
Foreign	84	—	—	84
Registered investment companies	11	—	—	11
Broad market funds	—	316	—	316
Fixed income securities:				
Domestic municipal bonds	—	5	—	5

Domestic corporate bonds(2)	—	57	—	57
Foreign government bonds	—	8	—	8
Foreign corporate bonds	—	20	—	20
Common/collective trusts(3)	—	107	—	107
Registered investment companies	—	1	—	1
Other types of investments:				
Private equity funds(4) (stated at net asset value)	—	—	2	2
Total investment assets(6)	\$ 213	\$ 514	\$ 2	\$ 729

- (1) Investments in common stock of domestic corporations.
(2) Bonds of U.S. issuers from diverse industries, primarily investment-grade.
(3) Investments in common/collective trusts held in PBOP plan VEBA trusts.
(4) Investments in venture capital and real estate funds.
(5) Excludes cash and cash equivalents of \$3 million, all of which is held in SoCalGas PBOP plan trusts, and transfers receivable from other plans of \$6 million.
(6) Excludes cash and cash equivalents of \$3 million, all of which is held in SoCalGas PBOP plan trusts.

The investments of the pension master trust allocated to the pension and postretirement benefit plans classified as Level 3 are private equity funds and represent a percentage of each plan's total allocated assets as follows at December 31:

	Private Equity Funds							
	2013		2012					
(Dollars in millions)	SDG&E	SoCalGas	Sempra Energy Consolidated	SDG&E	SoCalGas	All Other	Sempra Energy Consolidated	
PENSION PLANS								
Total Level 3 investment assets	\$6	\$13	\$2	\$21	\$6	\$13	\$2	\$21
Percentage of total investment assets	1%	1%	1%	1%	1%	1%	1%	1%
OTHER POSTRETIREMENT BENEFIT PLANS								
Total Level 3 investment assets	\$1	\$2	\$-	\$3	\$1	\$2	\$-	\$3
Percentage of total investment assets	1%	-%	-%	-%	1%	-%	-%	-%

The following table provides a reconciliation of changes in the fair value of investments classified as Level 3:

LEVEL 3 RECONCILIATIONS

(Dollars in millions)

	Private Equity Funds			
	SDG&E	SoCalGas	All Other	Sempra Energy Consolidated
PENSION PLANS				
Balance as of January 1, 2012	\$ 7	\$ 15	\$ 2	\$ 24
Unrealized gains	2	4	—	6
Sales	(3)	(6)	—	(9)
Balance as of December 31, 2012	6	13	2	21
Realized gains	1	2	—	3
Unrealized losses	(1)	(1)	—	(2)
Sales	—	(1)	—	(1)
Balance as of December 31, 2013	\$ 6	\$ 13	\$ 2	\$ 21
OTHER POSTRETIREMENT BENEFIT PLANS				
Balance as of January 1, 2012	\$ 1	\$ 3	\$ —	\$ 4
Sales	—	(1)	—	(1)
Balance as of December 31, 2012 and 2013	\$ 1	\$ 2	\$ —	\$ 3

Derivative Financial Instruments

In accordance with the Sempra Energy pension investment guidelines, derivative financial instruments are used by the pension master trust's equity and fixed income portfolio investment managers. Equity index future contracts are typically used to equitize cash. Foreign currency exchange transactions are used primarily to purchase foreign currency denominated shares or to hedge underlying exposure to foreign currency. Fixed income futures and options may be used as substitutes for certain types of fixed income securities.

Future Payments

We expect to contribute the following amounts to our pension and other postretirement benefit plans in 2014:

(Dollars in millions)	Sempra Energy Consolidated	SDG&E	SoCalGas
Pension plans	\$ 199	\$ 72	\$ 85
Other postretirement benefit plans	12	9	—

The following table shows the total benefits we expect to pay for the next 10 years to current employees and retirees from the plans or from company assets.

(Dollars in millions)	Sempra Energy Consolidated		SDG&E		SoCalGas	
	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits
2014	\$ 390	\$ 47	\$ 109	\$ 8	\$ 234	\$ 36

2015	335	52	95	9	202	40
2016	329	55	89	10	199	43
2017	317	60	88	11	194	46
2018	308	64	85	12	188	49
2019-2023	1,305	346	381	65	772	261

PROFIT SHARING PLANS

Under Chilean law, Chilquinta Energía is required to pay all employees either (1) 30 percent of Chilquinta Energía's taxable income after deducting a 10 percent return on equity, allocated in proportion to the annual salary of each employee or (2) 25 percent of each employee's annual salary, with a maximum mandatory profit sharing of 4.75 months of Chile's legal minimum salary. Chilquinta Energía has elected the second option but calculates the profit sharing amounts with actual employee salaries instead of the legal minimum salary, resulting in a higher cost. The amounts are paid out each pay period. Chilquinta Energía recorded annual profit sharing expense of \$4 million for 2013, \$6 million for 2012 and \$5 million for 2011 related to this plan.

Under Peruvian law, Luz del Sur is required to pay their employees 5 percent of Luz del Sur's taxable income, paid once a year and allocated as follows: 50 percent based on each employee's annual hours worked and 50 percent based on each employee's annual salary. Luz del Sur recorded annual profit sharing expense of \$9 million for 2013, \$10 million for 2012 and \$9 million for 2011 related to this plan.

SAVINGS PLANS

Sempra Energy offers trusteed savings plans to all domestic employees. Participation in the plans is immediate for salary deferrals for all employees except for the represented employees at SoCalGas, who are eligible upon completion of one year of service. Subject to plan provisions, employees may contribute from one percent to 50 percent of their regular earnings, subject to annual IRS limits, when they begin employment. After one year of the employee's completed service, Sempra Energy makes matching contributions. Employer contribution amounts and methodology vary by plan, but generally the contributions are equal to 50 percent of the first 6 percent of eligible base salary contributed by employees and, if certain company goals are met, an additional amount related to incentive compensation payments.

Beginning September 1, 2012 for the Sempra Energy, SDG&E and Mobile Gas savings plans and October 1, 2012 for the SoCalGas savings plan, employer contributions are invested based upon each employee's investment elections in effect at the time of contribution. Prior to that, employer contributions were initially invested in Sempra Energy common stock, but the employee could transfer the contribution to other investments. Contributions are invested in Sempra Energy common stock, mutual funds and/or institutional trusts. Prior to the termination of the ESOP discussed below, employer contributions for substantially all plans were partially funded by the ESOP.

Contributions to the savings plans were as follows:

<i>(Dollars in millions)</i>	2013	2012	2011
Sempra Energy Consolidated	\$ 35	\$ 34	\$ 32
SDG&E	14	16	14
SoCalGas	17	15	14

The market value of Sempra Energy common stock held by the savings plans was \$1.3 billion and \$1.1 billion at December 31, 2013 and 2012, respectively.

EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

Sempra Energy terminated the ESOP effective June 30, 2012, as all ESOP debt was paid and all shares were released from the ESOP Trust as of that date. Prior to the plan's termination all contributions to the ESOP Trust (Trust) were made by Sempra Energy; there were no contributions made by the participants. The Trust was used to fund part of the retirement savings plan described above. As Sempra Energy made contributions, the ESOP debt service was paid and shares were released in proportion to the total expected debt service. We charged compensation expense and credited equity for the market value of the released shares. Dividends on unallocated shares were used to pay debt service and were applied against the liability. The shares held by the Trust were unallocated and consisted of 0.2 million shares of Sempra Energy common stock with a fair value of \$8 million at December 31, 2011.

ESOP debt was paid down by a total of \$34 million in 2012 and 2011 when 504,440 shares of Sempra Energy common stock were released from the Trust in order to fund employer contributions to the Sempra Energy savings plan trust. Interest on the ESOP debt was a negligible amount in each of 2012 and 2011. Dividends used for debt service consisted of a negligible amount in 2012 and \$1 million in 2011.

NOTE 8. SHARE-BASED COMPENSATION

SEMPRA ENERGY EQUITY COMPENSATION PLANS

Sempra Energy has share-based compensation plans intended to align employee and shareholder objectives related to the long-term growth of Sempra Energy. The plans permit a wide variety of share-based awards, including:

- § non-qualified stock options
- § incentive stock options
- § restricted stock
- § restricted stock units

- § stock appreciation rights
- § performance awards
- § stock payments
- § dividend equivalents

Eligible California Utilities employees participate in Sempra Energy's share-based compensation plans as a component of their compensation package.

In May 2013, shareholders approved the Sempra Energy 2013 Long-Term Incentive Plan (the 2013 Plan). Upon approval, the remaining authorized shares from the Sempra Energy 2008 Long Term Incentive Plan and the 2008 Long Term Incentive Plan for EnergySouth, Inc. Employees and Other Eligible Individuals were applied to the number of shares authorized in the 2013 Plan.

At December 31, 2013, Sempra Energy had the following types of equity awards outstanding:

- § *Non-Qualified Stock Options*: Options have an exercise price equal to the market price of the common stock at the date of grant, are service-based, become exercisable over a four-year period, and expire 10 years from the date of grant. Vesting and/or the ability to exercise may be accelerated upon a change in control, in accordance with severance pay agreements or upon eligibility for retirement. Options are subject to forfeiture or earlier expiration when an employee terminates employment.
- § *Performance-Based Restricted Stock Units*: These restricted stock unit awards vest in Sempra Energy common stock at the end of four-year performance periods based on Sempra Energy's total return to shareholders relative to that of market indices. If Sempra Energy's total return to shareholders exceeds the target levels established under the 2008 Long Term Incentive Plan for awards granted beginning in 2008 and under the 2013 Long-Term Incentive Plan beginning in May 2013, up to an additional 50 percent of the number of granted restricted stock units may be issued. If Sempra Energy's total return to shareholders is below the target levels, shares are subject to partial vesting on a pro rata basis. Restricted stock units may also be solely service-based; these are generally exercisable at the end of four years of service. Vesting is subject to earlier forfeiture upon termination of employment and accelerated vesting upon a change in control under the applicable long-term incentive plan, in accordance with severance pay agreements or upon eligibility for retirement. Dividend equivalents on shares subject to restricted stock units are reinvested to purchase additional shares that become subject to the same vesting conditions as the restricted stock units to which the dividends relate.
- § *Service-Based Restricted Stock Units*: Restricted stock units may also be service-based; these generally vest at the end of four years of service. Vesting is subject to earlier forfeiture upon termination of employment and accelerated vesting upon a change in control under the applicable long-term incentive plan, or in accordance with severance pay agreements. Dividend equivalents on shares subject to restricted stock units are reinvested to purchase additional shares that become subject to the same vesting conditions as the restricted stock units to which the dividends relate.
- § *Restricted Stock*: Prior to 2009, substantially all restricted stock awards were performance-based and vested at the end of four-year performance periods based on Sempra Energy's total return to shareholders relative to that of market indices. Since 2009, restricted stock awards have been solely service-based and are generally exercisable at the end of four years of service. Vesting is subject to earlier forfeiture upon termination of employment and accelerated vesting upon a change in control under the applicable long-term incentive plan, in accordance with severance pay agreements or upon eligibility for retirement. Holders of restricted stock have full voting rights. They also have full dividend rights; however, dividends paid on restricted stock held by officers are reinvested to purchase additional shares that become subject to the same vesting conditions as the restricted stock to which the dividends relate.

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 its 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, IEnova issued 1,014,899 restricted stock units from this plan, all of which remain outstanding at December 31, 2013.

SHARE-BASED AWARDS AND COMPENSATION EXPENSE

We measure and recognize compensation expense for all share-based payment awards made to our employees and directors based on estimated fair values on the date of grant. We recognize compensation costs net of an estimated forfeiture rate (based on historical experience) and recognize the compensation costs for non-qualified stock options and restricted stock and stock units on a straight-line basis over the requisite service period of the award, which is generally four years. However, in the year that an employee becomes eligible for retirement, the remaining expense related to the employee's awards is recognized immediately. Substantially all awards outstanding are classified as equity instruments, therefore we recognize additional paid in capital as we recognize the compensation expense associated with the awards.

At December 31, 2013, 7,210,346 shares were authorized and available for future grants of share-based awards. Our practice is to satisfy share-based awards by issuing new shares rather than by open-market purchases.

Total share-based compensation expense for all of Sempra Energy's share-based awards was comprised as follows:

SHARE-BASED COMPENSATION EXPENSE — SEMPRA ENERGY CONSOLIDATED

(Dollars in millions, except per share amounts)

	Years ended December 31,		
	2013	2012	2011
Share-based compensation expense, before income taxes	\$ 38	\$ 40	\$ 44
Income tax benefit	(15)	(16)	(18)
Share-based compensation expense, net of income taxes	\$ 23	\$ 24	\$ 26
Net share-based compensation expense, per common share			
Basic	\$ 0.09	\$ 0.10	\$ 0.11
Diluted	\$ 0.09	\$ 0.10	\$ 0.11

Sempra Energy Consolidated's capitalized compensation cost was \$4 million in each of 2013, 2012 and 2011.

We classify the tax benefits resulting from tax deductions in excess of the tax benefit related to compensation cost recognized for stock option exercises as financing cash flows.

Sempra Energy subsidiaries record an expense for the plans to the extent that subsidiary employees participate in the plans and/or the subsidiaries are allocated a portion of the Sempra Energy plans' corporate staff costs. Expenses and capitalized compensation costs recorded by SDG&E and SoCalGas were as follows:

SHARE-BASED COMPENSATION EXPENSE — SDG&E AND SOCIALGAS

(Dollars in millions)

	Years ended December 31,		
	2013	2012	2011
SDG&E:			
Compensation expense	\$ 8	\$ 8	\$ 8
Capitalized compensation cost	3	3	3
SoCalGas:			
Compensation expense	\$ 8	\$ 7	\$ 9
Capitalized compensation cost	1	1	1

SEMPRA ENERGY NON-QUALIFIED STOCK OPTIONS

We use a Black-Scholes option-pricing model (Black-Scholes model) to estimate the fair value of each non-qualified stock option grant. The use of a valuation model requires us to make certain assumptions about selected model inputs. Expected volatility is calculated based on the historical volatility of Sempra Energy's stock price. We base the average expected life for options on the contractual term of the option and expected employee exercise and post-termination behavior.

The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of the grant. No new options were granted in 2013, 2012 or 2011.

The following table shows a summary of non-qualified stock options as of December 31, 2013 and activity for the year then ended:

NON-QUALIFIED STOCK OPTIONS

	Shares Under Option	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at December 31, 2012	2,701,118	\$ 51.86		
Exercised	(1,237,348)	\$ 50.32		
Forfeited/canceled	(4,625)	\$ 48.40		
Outstanding at December 31, 2013	<u>1,459,145</u>	\$ 53.18	4.0	\$ 53
Vested or expected to vest, at December 31, 2013	1,459,145	\$ 53.18	4.0	\$ 53
Exercisable at December 31, 2013	<u>1,300,745</u>	\$ 52.86	3.8	\$ 48

The aggregate intrinsic value at December 31, 2013 is the total of the difference between Sempra Energy's closing stock price and the exercise price for all in-the-money options. The aggregate intrinsic value for non-qualified stock options exercised in the last three years was

§ \$41 million in 2013

§ \$45 million in 2012

§ \$23 million in 2011

The total fair value of shares vested in the last three years was

§ \$2 million in 2013

§ \$4 million in 2012

§ \$7 million in 2011

Total compensation cost related to nonvested stock options not yet recognized as of December 31, 2013 was negligible.

We received cash from option exercises during 2013 totaling \$62 million. There were no realized tax benefits for the share-based payment award deductions in 2013 over and above the \$15 million income tax benefit shown above.

SEMPRA ENERGY RESTRICTED STOCK AWARDS AND UNITS

We use a Monte-Carlo simulation model to estimate the fair value of the restricted stock awards and units. Our determination of fair value is affected by the volatility of the stock price and the dividend yields for Sempra Energy and its peer group companies. The valuation also is affected by the risk-free rates of return, and a number of other variables. Below are key assumptions for 2013, 2012 and 2011 for Sempra Energy:

	2013	2012	2011
Risk-free rate of return	0.6%	0.6%	1.5%
Annual dividend yield	3.3%	3.4%	3.0%
Stock price volatility	19%	27%	27%

Restricted Stock Awards

We provide below a summary of Sempra Energy's restricted stock awards as of December 31, 2013 and the activity during the year.

RESTRICTED STOCK AWARDS

	Shares		Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2012	24,689	\$	56.59
Granted	4,617	\$	75.82
Vested	(11,837)	\$	55.49
Nonvested at December 31, 2013	<u>17,469</u>	\$	62.43
Vested or expected to vest, at December 31, 2013	<u>17,469</u>	\$	62.43

Total compensation cost of \$1 million related to nonvested restricted stock awards not yet recognized as of December 31, 2013 is expected to be recognized over a weighted average period of 1.5 years. The weighted-average per-share fair value for restricted stock awards granted was \$57.81 in 2012 and \$52.96 in 2011.

The total fair value of shares vested in the last three years was

§ \$1 million in 2013

§ \$1 million in 2012

§ \$28 million in 2011

Restricted Stock Units

We provide below a summary of Sempra Energy's restricted stock units as of December 31, 2013 and the activity during the year.

RESTRICTED STOCK UNITS

	Performance-Based Restricted Stock Units		Service-Based Restricted Stock Units	
	Units	Weighted-Average Grant-Date Fair Value	Units	Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2012	3,400,033	\$ 42.72	135,241	\$ 55.42
Granted	657,168	\$ 57.55	107,718	\$ 72.71
Vested	(864,100)	\$ 36.04	(24,751)	\$ 61.97
Forfeited	(28,540)	\$ 50.55	(2,610)	\$ 56.23
Nonvested at December 31, 2013(1)	<u>3,164,561</u>	\$ 47.55	<u>215,598</u>	\$ 63.30
Vested or expected to vest, at December 31, 2013	<u>3,107,020</u>	\$ 47.45	<u>203,655</u>	\$ 63.12

(1) Each unit represents the right to receive one share of our common stock if applicable performance conditions are satisfied. For all performance-based restricted stock units, up to an additional 50 percent of the shares represented by the units may be issued if Sempra Energy exceeds target performance conditions.

The total fair value of shares vested in 2013 was \$33 million.

The \$29 million of total compensation cost related to nonvested restricted stock units not yet recognized as of December 31, 2013 is expected to be recognized over a weighted-average period of 2.4 years. The weighted-average per-share fair values for restricted stock units granted were \$50.17 in 2012 and \$42.35 in 2011.

NOTE 9. 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 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 Consolidated Statements of Cash Flows.

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

HEDGE ACCOUNTING

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

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

ENERGY DERIVATIVES

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

§ The California Utilities use 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 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 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: 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 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 Consolidated Statements of Operations.

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

We summarize net energy derivative volumes at December 31, 2013 and 2012 as follows:

Segment and Commodity	December 31,	
	2013	2012
California Utilities:		
SDG&E:		
Natural gas	43 million MMBtu	25 million MMBtu (1)
Congestion revenue rights	33 million MWh	30 million MWh (2)
SoCalGas - natural gas	2 million MMBtu	—
Energy-Related Businesses:		
Sempra Natural Gas:		
Electric power	1 million MWh	1 million MWh
Natural gas	15 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 purchases and sales.

INTEREST RATE DERIVATIVES

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

Interest rate derivatives are utilized by the California Utilities as well as by other Sempra Energy subsidiaries. Although the California Utilities generally recover borrowing costs in rates over time, the use of interest rate derivatives is subject to certain regulatory constraints, and the impact of interest rate derivatives may not be recovered from customers as timely as described above with regard to 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.

At December 31, 2013 and 2012, the net notional amounts of our interest rate derivatives, excluding the cross-currency swaps discussed below, were:

(Dollars in millions)	December 31, 2013		December 31, 2012	
	Notional Debt	Maturities	Notional Debt	Maturities
Sempra Energy Consolidated				
Cash flow hedges(1)	\$ 413	2014-2028	\$ 439	2013-2028
Fair value hedges	300	2016	500	2013-2016
SDG&E				
Cash flow hedge(1)	335	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 swaps in Note 5.

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

FINANCIAL STATEMENT PRESENTATION

Each 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 Consolidated Balance Sheets at December 31, 2013 and 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 CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	December 31, 2013			
	Current assets: Fixed-price contracts and other derivatives(1)	Investments and other assets: Sundry	Current liabilities: Fixed-price contracts and other derivatives(2)	Deferred credits and other liabilities: Fixed-price contracts and other derivatives
Sempra Energy Consolidated:				
Derivatives designated as hedging instruments:				
Interest rate and foreign exchange instruments(3)	\$ 14	\$ 12	\$ (18)	\$ (75)
Derivatives not designated as hedging instruments:				
Interest rate and foreign exchange instruments	8	22	(7)	(17)
Commodity contracts not subject to rate recovery	47	7	(51)	(5)
Associated offsetting commodity contracts	(43)	(5)	43	5
Associated offsetting cash collateral	—	—	1	—
Commodity contracts subject to rate recovery	35	72	(10)	(8)
Associated offsetting commodity contracts	(3)	(2)	3	2
Net amounts presented on the balance sheet	58	106	(39)	(98)
Additional cash collateral for commodity contracts not subject to rate recovery	17	—	—	—
Additional cash collateral for commodity contracts subject to rate recovery	31	—	—	—
Total	\$ 106	\$ 106	\$ (39)	\$ (98)
SDG&E:				
Derivatives designated as hedging instruments:				
Interest rate instruments(3)	\$ —	\$ —	\$ (16)	\$ (39)
Derivatives not designated as hedging instruments:				
Commodity contracts subject to rate recovery	34	72	(9)	(8)
Associated offsetting commodity contracts	(3)	(2)	3	2
Net amounts presented on the balance sheet	31	70	(22)	(45)

Additional cash collateral for commodity contracts not subject to rate recovery	1	—	—	—
Additional cash collateral for commodity contracts subject to rate recovery	29	—	—	—
Total	\$ 61	\$ 70	\$ (22)	\$ (45)
SoCalGas:				
Derivatives not designated as hedging instruments:				
Commodity contracts subject to rate recovery	\$ 1	\$ —	\$ (1)	\$ —
Net amounts presented on the balance sheet	1	—	(1)	—
Additional cash collateral for commodity contracts not subject to rate recovery	2	—	—	—
Additional cash collateral 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.

DERIVATIVE INSTRUMENTS ON THE 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	\$ 12	\$ (19)	\$ (64)
Commodity contracts not subject to rate recovery	1	—	—	—
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 cash collateral for commodity contracts not subject to rate recovery	22	—	—	—
Additional cash collateral 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 cash collateral for commodity contracts not subject to rate recovery	1	—	—	—
Additional cash collateral for commodity contracts subject to rate recovery	12	—	—	—
Total	\$ 38	\$ 35	\$ (25)	\$ (64)
SoCalGas:				
Derivatives not designated as hedging instruments:				
Commodity contracts subject to rate recovery	\$ 2	\$ —	\$ (2)	\$ —
Associated offsetting commodity contracts	(1)	—	1	—
Net amounts presented on the balance sheet	1	—	(1)	—
Additional cash collateral for commodity contracts not subject to rate recovery	2	—	—	—
Additional cash collateral for commodity contracts subject to rate recovery	1	—	—	—
Total	\$ 4	\$ —	\$ (1)	\$ —

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

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

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

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

FAIR VALUE HEDGE IMPACT ON THE CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions)

Location	Gain (loss) on derivatives recognized in earnings			
	Years ended December 31,			
	2013	2012	2011	
Sempra Energy Consolidated:				
Interest rate instruments	Interest Expense	\$ 8	\$ 6	\$ 9
Interest rate instruments	Other Income, Net	(7)	3	13
Total(1)		\$ 1	\$ 9	\$ 22

SoCalGas:	Interest rate instrument	Interest Expense	\$	—	\$	—	\$	1
	Interest rate instrument	Other Income, Net		—		—		(3)
	Total(1)		\$	—	\$	—	\$	(2)

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

CASH FLOW HEDGE IMPACT ON THE CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions)

	Pretax gain (loss) recognized in OCI (effective portion)			Location	Gain (loss) reclassified from AOCI into earnings (effective portion)		
	Years ended December 31,				Years ended December 31,		
	2013	2012	2011		2013	2012	2011
Sempra Energy Consolidated:							
Interest rate and foreign exchange instruments(1)	\$ 1	\$ (22)	\$ (42)	Interest Expense	\$ (11)	\$ (9)	\$ (8)
Interest rate instruments	15	(10)	(32)	Equity Earnings (Losses), Before Income Tax	(10)	(6)	(5)
Commodity contracts not subject to rate recovery	(4)	(1)	—	Cost of Natural Gas, Electric Fuel and Purchased Power	1	—	—
Total	\$ 12	\$ (33)	\$ (74)		\$ (20)	\$ (15)	\$ (13)
SDG&E:							
Interest rate instruments(1)	\$ 8	\$ (16)	\$ (40)	Interest Expense	\$ (9)	\$ (5)	\$ (5)
SoCalGas:							
Interest rate instrument	\$ —	\$ —	\$ —	Interest Expense	\$ (1)	\$ (2)	\$ (3)

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

For Sempra Energy Consolidated we expect that losses of \$23 million, which are net of income tax benefit, that are currently recorded in AOCI (including \$12 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 in effect when derivative contracts that are currently outstanding mature. The Sempra Energy Consolidated amount includes \$11 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 December 31, 2013 is approximately 15 years and 5 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 22 years.

We recorded \$1 million of hedge ineffectiveness in 2013, \$2 million of hedge ineffectiveness in 2012 and negligible hedge ineffectiveness in 2011.

The effects of derivative instruments not designated as hedging instruments on the Consolidated Statements of Operations for the years ended December 31 were:

UNDESIGNATED DERIVATIVE IMPACT ON THE UNCONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in millions)

	Location	Gain (loss) on derivatives recognized in earnings		
		Years ended December 31,		
		2013	2012	2011
Sempra Energy Consolidated:				
Interest rate and foreign exchange instruments(1)	Other Income, Net	\$ 17	\$ 10	\$ (14)
Foreign exchange instruments	Equity Earnings, Net of Income Tax	(4)	—	—
Commodity contracts not subject to rate recovery	Revenues: Energy-Related Businesses	(1)	7	30
Commodity contracts not subject to rate recovery	Cost of Natural Gas, Electric Fuel and Purchased Power	—	—	1
Commodity contracts not subject to rate recovery	Other Operation and Maintenance	1	1	1
Commodity contracts subject to rate recovery	Cost of Electric Fuel and Purchased Power	53	69	(14)
Commodity contracts subject to rate recovery	Cost of Natural Gas	—	(2)	(2)
Total		\$ 66	\$ 85	\$ 2
SDG&E:				
Interest rate instruments(1)	Other Income, Net	\$ —	\$ —	\$ (1)
Commodity contracts subject to rate recovery	Cost of Electric Fuel and Purchased Power	53	69	(14)
Total		\$ 53	\$ 69	\$ (15)
SoCalGas:				
Commodity contracts not subject to rate recovery	Operation and Maintenance	\$ 1	\$ 1	\$ 1
Commodity contracts subject to rate recovery	Cost of Natural Gas	—	(2)	(2)
Total		\$ 1	\$ (1)	\$ (1)

(1) Amount for 2011 is related to Otay Mesa VIE. Sempra Energy Consolidated also includes additional instruments.

CONTINGENT FEATURES

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

For Sempra Energy, the total fair value of this group of derivative instruments in a net liability position at December 31, 2013 and 2012 is \$3 million and \$8 million, respectively. At December 31, 2013, if the credit ratings of Sempra Energy were reduced below investment grade, \$3 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 December 31, 2013 and 2012 is \$3 million and \$6 million, respectively. At December 31, 2013, if the credit ratings of SDG&E were reduced below investment grade, \$3 million of additional assets could be required to be posted as collateral for these derivative contracts.

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

NOTE 10. FAIR VALUE MEASUREMENTS

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 December 31, 2013 and 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 9 under "Financial Statement Presentation."

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

Our financial assets and liabilities that were accounted for at fair value on a recurring basis at December 31, 2013 and 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 may also manage foreign exchange rate exposures using derivatives. We primarily use a market approach with market participant assumptions to value these derivatives. Market participant assumptions include those about risk, and the risk inherent in the inputs to the valuation techniques. These inputs can be readily observable, market corroborated, or generally unobservable. We have exchange-traded derivatives that are valued based on quoted prices in active markets for the identical instruments (Level 1). We also may have other commodity derivatives that are valued using industry standard models that consider quoted forward prices for commodities, time value, current market and contractual prices for the underlying instruments, volatility factors, and other relevant economic measures (Level 2). 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 — SEMPRA ENERGY CONSOLIDATED

(Dollars in millions)

	At fair value as of December 31, 2013				
	Level 1	Level 2	Level 3	Netting(1)	Total
Assets:					
Nuclear decommissioning trusts					
Equity securities	\$ 614	\$ —	\$ —	\$ —	\$ 614
Debt securities:					
Debt securities issued by the U.S. Treasury and other					
U.S. government corporations and agencies	59	58	—	—	117
Municipal bonds	—	111	—	—	111
Other securities	—	153	—	—	153
Total debt securities	59	322	—	—	381
Total nuclear decommissioning trusts(2)	673	322	—	—	995
Interest rate instruments	—	56	—	—	56
Commodity contracts subject to rate recovery	2	1	99	31	133

Commodity contracts not subject to rate recovery	1	5	—	17	23
Total	\$ 676	\$ 384	\$ 99	\$ 48	\$ 1,207
Liabilities:					
Interest rate and foreign exchange instruments	\$ —	\$ 117	\$ —	\$ —	\$ 117
Commodity contracts subject to rate recovery	—	13	—	—	13
Commodity contracts not subject to rate recovery	4	8	—	(5)	7
Total	\$ 4	\$ 138	\$ —	\$ (5)	\$ 137

At fair value as of December 31, 2012					
	Level 1	Level 2	Level 3	Netting(1)	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(2)	626	262	—	—	888
Interest rate instruments	—	68	—	—	68
Commodity contracts subject to rate recovery	—	—	61	13	74
Commodity contracts not subject to rate recovery	13	8	—	22	43
Investments	1	—	—	—	1
Total	\$ 640	\$ 338	\$ 61	\$ 35	\$ 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) Includes the effect of the contractual ability to settle contracts under master netting agreements and with cash collateral, as well as cash collateral not offset.
(2) Excludes cash balances and cash equivalents.

RECURRING FAIR VALUE MEASURES — SDG&E

(Dollars in millions)

At fair value as of December 31, 2013					
	Level 1	Level 2	Level 3	Netting(1)	Total
Assets:					
Nuclear decommissioning trusts					
Equity securities	\$ 614	\$ —	\$ —	\$ —	\$ 614
Debt securities:					
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	59	58	—	—	117
Municipal bonds	—	111	—	—	111
Other securities	—	153	—	—	153
Total debt securities	59	322	—	—	381
Total nuclear decommissioning trusts(2)	673	322	—	—	995
Commodity contracts subject to rate recovery	1	1	99	29	130
Commodity contracts not subject to rate recovery	—	—	—	1	1
Total	\$ 674	\$ 323	\$ 99	\$ 30	\$ 1,126
Liabilities:					
Interest rate instruments	\$ —	\$ 55	\$ —	\$ —	\$ 55
Commodity contracts subject to rate recovery	—	12	—	—	12
Total	\$ —	\$ 67	\$ —	\$ —	\$ 67

At fair value as of December 31, 2012					
	Level 1	Level 2	Level 3	Netting(1)	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(2)	626	262	—	—	888
Commodity contracts subject to rate recovery	—	—	61	12	73
Commodity contracts not subject to rate recovery	—	—	—	1	1
Total	\$ 626	\$ 262	\$ 61	\$ 13	\$ 962
Liabilities:					
Interest rate instruments	\$ —	\$ 81	\$ —	\$ —	\$ 81
Commodity contracts subject to rate recovery	23	8	—	(23)	8
Total	\$ 23	\$ 89	\$ —	\$ (23)	\$ 89

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

RECURRING FAIR VALUE MEASURES — SOCIALGAS

(Dollars in millions)

At fair value as of December 31, 2013					
	Level 1	Level 2	Level 3	Netting(1)	Total
Assets:					
Commodity contracts subject to rate recovery	\$ 1	\$ —	\$ —	\$ 2	\$ 3
Commodity contracts not subject to rate recovery	—	—	—	2	2
Total	\$ 1	\$ —	\$ —	\$ 4	\$ 5
Liabilities:					

Commodity contracts subject to rate recovery	\$	—	\$	1	\$	—	\$	—	\$	1
Total	\$	—	\$	1	\$	—	\$	—	\$	1

	At fair value as of December 31, 2012						Total			
	Level 1	Level 2	Level 3	Netting(1)						
Assets:										
Commodity contracts subject to rate recovery	\$	—	\$	—	\$	—	\$	1	\$	1
Commodity contracts not subject to rate recovery		1		—		—		2		3
Total	\$	1	\$	—	\$	—	\$	3	\$	4

Liabilities:										
Commodity contracts subject to rate recovery	\$	—	\$	1	\$	—	\$	—	\$	1
Total	\$	—	\$	1	\$	—	\$	—	\$	1

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

Level 3 Information

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

LEVEL 3 RECONCILIATIONS

(Dollars in millions)

	Years ended December 31,					
	2013	2012	2011			
Balance as of January 1	\$	61	\$	23	\$	2
Realized and unrealized gains		11		31		32
Allocated transmission instruments		51		58		7
Settlements		(24)		(51)		(18)
Balance as of December 31	\$	99	\$	61	\$	23
Change in unrealized gains or losses relating to instruments still held at December 31	\$	11	\$	17	\$	17

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. SDG&E expects all costs related to CRRs 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. At December 31, 2013, the auction prices ranged from \$(6) per MWh to \$12 per MWh at a given location, and the fair value of these instruments is derived from auction price differences between two locations. At December 31, 2012, the auction prices ranged from \$(11) per MWh to \$12 per MWh. 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 9. Realized gains and losses associated with CRRs are recorded in Cost of Electric Fuel and Purchased Power, which is recoverable in rates, on the Consolidated Statements of Operations. Unrealized gains and losses are recorded as regulatory assets and liabilities and therefore also do not affect earnings.

Derivative Positions Net of Cash Collateral

Each Consolidated Balance Sheet reflects the offsetting of net derivative positions with fair value amounts for cash collateral with the same counterparty when management believes a legal right of offset exists.

The following table provides the amount of fair value of cash collateral receivables that were not offset in the Consolidated Balance Sheets at December 31, 2013 and 2012:

	December 31,			
	2013	2012		
(Dollars in millions)				
Sempra Energy Consolidated	\$	48	\$	35
SDG&E		30		13
SoCalGas		4		3

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 December 31:

FAIR VALUE OF FINANCIAL INSTRUMENTS

(Dollars in millions)

	December 31, 2013									
	Carrying Amount	Fair Value			Total					
		Level 1	Level 2	Level 3						
Sempra Energy Consolidated:										
Total long-term debt(1)	\$	12,022	\$	—	\$	11,925	\$	751	\$	12,676

Preferred stock of subsidiary		20		—		20		—		20
SDG&E:										
Total long-term debt(2)	\$	4,386	\$	—	\$	4,226	\$	335	\$	4,561
SoCalGas:										
Total long-term debt(3)	\$	1,413	\$	—	\$	1,469	\$	—	\$	1,469
Preferred stock		22		—		22		—		22

	December 31, 2012									
	Carrying Amount	Fair Value				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(5)		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 \$17 million and \$16 million at December 31, 2013 and 2012, respectively, and excluding build-to-suit and capital leases of \$195 million and capital leases of \$189 million at December 31, 2013 and 2012, respectively, and commercial paper classified as long-term debt of \$200 million and \$300 million at December 31, 2013 and 2012, respectively. We discuss our long-term debt in Note 5.
- (2) Before reductions for unamortized discount of \$11 million and \$12 million at December 31, 2013 and 2012, respectively, and excluding capital leases of \$179 million and \$185 million at December 31, 2013, respectively.
- (3) Before reductions for unamortized discount of \$4 million at both December 31, 2013 and 2012 and excluding capital leases of \$2 million and \$4 million at December 31, 2013 and 2012, respectively.
- (4) Investments in affordable housing partnerships at Parent and Other. At December 31, 2013, the carrying amount and fair value of these investments were negligible.
- (5) On October 15, 2013, SDG&E redeemed all outstanding shares of its contingently redeemable preferred stock for \$82 million. We discuss the redemption in Note 11.

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

We calculate 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).

Non-Recurring Fair Value Measures – Sempra Energy Consolidated

We discuss non-recurring fair value measures and the associated accounting impact on our investments in Rockies Express and RBS Sempra Commodities in Note 4.

Rockies Express

In 2012, we recorded a \$400 million pretax impairment of our investment in Rockies Express. In the second quarter of 2012, the noncash impairment charge of \$300 million (\$179 million after-tax) primarily resulted from the continuing decline in basis differential associated with shale gas production zones coming on line, assumptions related to the re-contracting of the long-term transportation agreements, and the refinancing of the existing project level debt, discussed further below. The fair value measurement was significantly impacted by unobservable inputs (Level 3) as defined by the accounting guidance for fair value measurements, which we discuss in Note 1 under “Fair Value Measurements.” We considered a market participant’s view of the total value for Rockies Express, based on an estimation of the future cash distributions it would be able to generate, adjusted for our 25-percent ownership interest. To estimate future cash distributions, we considered factors impacting Rockies Express’ ability to pay future distributions including:

- § the extent to which future cash flows are hedged by capacity sales contracts and their duration (generally through 2019), as well as the creditworthiness of the various counterparties;
- § Rockies Express’ future financing needs, including the ability to secure borrowings at reasonable rates as well as potentially using operating cash to retire principal;
- § prospects for generating attractive revenues and cash flows beyond 2019, including natural gas’ future basis differentials (driven by the location and extent of future supply and demand) and alternative strategies potentially available to utilize the assets; and
- § discount rates commensurate with the risks inherent in the cash flows.

In the third quarter of 2012, KMI reached an agreement with Tallgrass, which closed in the fourth quarter of 2012, to sell its asset group as mandated by the FTC, which group included its interest in Rockies Express. Events in the third quarter of 2012 related to this agreement also provided us with additional market participant data. We therefore updated our analysis of the fair value of our investment in Rockies Express as of September 30, 2012 to reflect these additional inputs and recorded an additional impairment charge of \$100 million (\$60 million after-tax). This fair value measurement in the third quarter was based primarily on the Level 2 input. We believe this is useful and reliable information, but we considered that it may be impacted by the FTC’s requirement for KMI to sell its interest in Rockies Express. To reflect this uncertainty, our updated analysis included the less subjective Level 2 market participant input as the primary indicator of fair value, with less weight ascribed to value based on estimated discounted cash flows as discussed above and in the table below. The updates to the cash flow analysis used in determining fair value in the second quarter reflected discussions with Tallgrass as to the strategic direction they are planning to take with their equity partners for Rockies Express, as well as additional discussions with other market participants. Tallgrass became the operator of Rockies Express in November 2012.

We believe our analysis forms a reasonable estimate of the fair value of Rockies Express. This estimate includes the material input described above, which was generally observable during the period most relevant to our analysis. Regarding the unobservable inputs, significant uncertainties exist with regard to REX’s ability to secure attractive revenues beyond 2019. Accordingly, our analysis suggests that the fair value of our investment in Rockies Express could be materially different from the value we have estimated at this time. For example, if REX is able to sustain the level of revenues currently generated beyond

2019, the value of our investment in Rockies Express would be materially enhanced and the indicated value of our investment in Rockies Express could be significantly higher. Conversely, if REX is unable to sell its transport capacity at sufficient rates or in sufficient volumes beyond 2019, the fair value of our investment in Rockies Express could be materially lower than our carrying amount. Separately, future events involving REX equity could occur and may also provide additional information regarding the fair value of our investment in REX.

Sempra Natural Gas developed the models and scenarios used to measure the fair value of our investment in REX. This modeling used inputs from external sources as described above and in the table below, as well as internally available data, such as operating and maintenance budgets used for financial planning purposes. External experts that forecast the future price of natural gas at various physical locations were also engaged to help validate certain scenarios and modeling assumptions. The fair value measurements were reviewed in detail by Sempra Natural Gas' financial management, as well as Sempra Energy's financial management team.

RBS Sempra Commodities

Parent and Other recorded an impairment charge of \$16 million in 2011 to reduce the carrying value of our investment in RBS Sempra Commodities, which we discuss in Note 4. This impairment resulted from an adjustment to the carrying value of our investment in the partnership at the reporting date. We recorded the \$16 million charge (\$10 million after-tax) to reduce our investment in the partnership to reflect the estimates of our expected future cash distributions from the partnership at that time, which had been impacted by additional amounts incurred to conclude the sales of the partnership's businesses. In 2011, the fair value of our investment in RBS Sempra Commodities was significantly impacted by unobservable inputs (i.e. Level 3 inputs) as defined by the accounting guidance for fair value measurements and described in the table below. The inputs included estimated future cash distributions expected from the partnership, excluding the impact of costs anticipated for transactions that had not closed at the time of fair value measurement.

The following table summarizes significant inputs impacting non-recurring fair value measures related to our investments in REX and RBS Sempra Commodities:

NON-RECURRING FAIR VALUE MEASURES — SEMPRAS ENERGY CONSOLIDATED

(Dollars in millions)

	Estimated Fair Value	Valuation Technique	Fair Value Hierarchy	% of Fair Value Measurement	Inputs Used to Develop Measurement	Range of Inputs
Investment in Rockies Express	\$369(1)	Market approach	Level 2	67%	Equity sale offer price	100%
		Probability weighted discounted cash flow	Level 3	33%	Combined transportation rate assumption(2) Counterparty credit risk on existing contracts Operation and maintenance escalation rate Forecasted interest rate on debt to be refinanced Discount rate	6% - 78% Low 0% - 1% 5% - 10% 8% - 10%
Investment in RBS Sempra Commodities	\$126(3)	Discounted cash flow	Level 3	100%	Future cash distributions	90% - 110%
(1)	At measurement date of September 30, 2012. At December 31, 2013, our investment in Rockies Express had a carrying value of \$329 million, reflecting subsequent equity method activity to record distributions and earnings.					
(2)	Transportation rate beyond existing contract terms as a percentage of current mean REX rates.					
(3)	At measurement date of September 30, 2011. At December 31, 2013, our investment in RBS Sempra Commodities had a carrying value of \$73 million, reflecting subsequent equity method activity to record distributions and losses.					

NOTE 11. PREFERRED STOCK

The table below shows the details of preferred stock for SDG&E and SoCalGas. All series of Pacific Enterprises (PE) preferred stock were redeemed during 2011 and all series of SDG&E preferred stock were redeemed during 2013 as we discuss below.

PREFERRED STOCK

	Final Call/ Redemption Price	December 31,	
		2013	2012
(in millions)			
Contingently redeemable:			
SDG&E:			
\$20 par value, authorized 1,375,000 shares(1):			
5% Series, 375,000 shares outstanding	\$ 24.00	\$ —	8
4.5% Series, 300,000 shares outstanding	\$ 21.20	—	6
4.4% Series, 325,000 shares outstanding	\$ 21.00	—	7
4.6% Series, 373,770 shares outstanding	\$ 20.25	—	7
Without par value(1):			
\$1.70 Series, 1,400,000 shares outstanding	\$ 25.00	—	35
\$1.82 Series, 640,000 shares outstanding	\$ 26.00	—	16
SDG&E - Total contingently redeemable preferred stock		—	79
Sempra Energy - Total contingently redeemable preferred stock of subsidiary		\$ —	79

SoCalGas:

\$25 par value, authorized 1,000,000 shares:			
6% Series, 79,011 shares outstanding	\$	3	\$ 3
6% Series A, 783,032 shares outstanding		19	19
SoCalGas - Total preferred stock		22	22
Less: 50,970 shares of the 6% Series outstanding owned by PE		(2)	(2)
		20	20
Sempra Energy - Total preferred stock of subsidiary	\$	20	\$ 20

(1) Represents shares outstanding at December 31, 2012, which were fully redeemed in October 2013.

Following are the attributes of each company's preferred stock. No amounts currently outstanding are subject to mandatory redemption.

SDG&E

On October 15, 2013, SDG&E redeemed all six series of its outstanding shares of contingently redeemable preferred stock for \$82 million, including a \$3 million early call premium. Each series was redeemed for cash at redemption prices ranging from \$20.25 to \$26 per share plus accrued dividends up to the redemption date of \$1 million. The early call premium is presented as Call Premium on Preferred Stock of Subsidiary on Sempra Energy's and Call Premium on Preferred Stock on SDG&E's Consolidated Statements of Operations. The redeemed shares are no longer outstanding and represent only the right to receive the applicable redemption prices (including accrued and accumulated dividends through October 15, 2013), without interest, upon surrender of the share certificates.

SDG&E is currently authorized to issue up to 25 million shares of an additional class of preference shares designated as "Series Preference Stock." The stock's rights, preferences and privileges would be established by the board of directors at the time of issuance.

SOCALGAS

§ None of SoCalGas' outstanding preferred stock is callable.

§ All outstanding series have one vote per share, cumulative preferences as to dividends and liquidation preferences of \$25 per share plus any unpaid dividends.

SoCalGas currently is also authorized to issue 5 million shares of series preferred stock and 5 million shares of preference stock, both without par value and with cumulative preferences as to dividends and liquidation value. The preference stock would rank junior to all series of preferred stock. Other rights and privileges of the stock would be established by the board of directors at the time of issuance.

PACIFIC ENTERPRISES

On June 30, 2011, PE redeemed all five series of its outstanding preferred stock for \$81 million. Each series was redeemed for cash at redemption prices ranging from \$100 to \$101.50 per share, plus accrued dividends up to the redemption date of an aggregate of \$1 million. The redeemed shares are no longer outstanding and represent only the right to receive the applicable redemption price, to the extent that shares have not yet been presented for payment.

PE currently is authorized to issue 10 million shares of series preferred stock and 5 million shares of Class A series preferred stock, both without par value and with cumulative preferences as to dividends and liquidation value. No shares of preferred stock or Class A series preferred stock are outstanding. Class A series preferred stock, when issued, would rank junior to all other series of preferred stock with respect to dividends and liquidation value. Other rights and privileges of each series of the preferred stock and Class A series preferred stock would be established by the board of directors at the time of issuance.

NOTE 12. SEMPRA ENERGY – SHAREHOLDERS' EQUITY AND EARNINGS PER SHARE

The following table provides the per share computations for our earnings for years ended December 31. Basic earnings per common share (EPS) is calculated by dividing earnings attributable to common stock by the weighted-average number of common shares outstanding for the year. 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 AND DIVIDENDS DECLARED

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

	Years ended December 31,		
	2013	2012	2011
Numerator:			
Earnings/Income attributable to common shareholders	\$ 1,001	\$ 859	\$ 1,331
Denominator:			
Weighted-average common shares outstanding for basic EPS	243,863	241,347	239,720
Dilutive effect of stock options, restricted stock awards and restricted stock units	5,469	5,346	1,803
Weighted-average common shares outstanding for diluted EPS	249,332	246,693	241,523
Earnings per share:			
Basic	\$ 4.10	\$ 3.56	\$ 5.55
Diluted	\$ 4.01	\$ 3.48	\$ 5.51
Dividends declared per share of common stock	\$ 2.52	\$ 2.40	\$ 1.92

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 2013 and 40,000 and 2,083,275 outstanding during 2012 and 2011, respectively.

During 2013 and 2012, we had no stock options outstanding that were antidilutive because of the unearned compensation and windfall tax benefits recognized included in the assumed proceeds under the treasury stock method. We had 900 such antidilutive stock options outstanding during 2011.

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 no antidilutive RSAs and no antidilutive RSUs from the application of unearned compensation in the treasury stock method in 2013. There were 1,934 such antidilutive RSAs and 7,673 such antidilutive RSUs in 2012 and no such antidilutive restricted stock awards or units in 2011.

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

Four-Year Cumulative Total Shareholder Return Ranking versus S&P 500 Utilities Index(1)	Number of Sempra Energy Common Shares Received for Each 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 that 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 RSU shares 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 RSUs and RSAs, assuming performance goals were met at maximum levels, were 641,751; 1,134,456 and 4,109,717 for the years ended December 31, 2013, 2012 and 2011, respectively.

We are authorized to issue 750,000,000 shares of no-par-value common stock. In addition, we are authorized to issue 50,000,000 shares of preferred stock having rights, preferences and privileges that would be established by the Sempra Energy board of directors at the time of issuance.

There were no shares of common stock held by the ESOP at December 31, 2013 or 2012, and 153,625 at December 31, 2011. These shares were unallocated and therefore excluded from the computation of EPS.

Excluding shares held by the ESOP, common stock activity consisted of the following:

COMMON STOCK ACTIVITY	Years ended December 31,		
	2013	2012	2011
Common shares outstanding, January 1	242,368,836	239,934,681	240,447,416
Stock options exercised	1,237,348	1,876,303	958,126
Restricted stock issuances	21,121	2,580	11,876
Restricted stock units vesting(1)	1,491,170	683,416	2,625
Shares released from ESOP	—	153,625	350,815
Shares repurchased(2)	(657,148)	(281,769)	(1,836,177)
Common shares outstanding, December 31	244,461,327	242,368,836	239,934,681

(1) Includes dividend equivalents.

(2) In addition to formal common stock repurchase programs which we discuss below, we also, from time to time, purchase shares of our common stock from restricted stock plan participants who elect to sell a sufficient number of vesting restricted shares to meet minimum statutory tax withholding requirements.

Our board of directors has the discretion to determine the payment and amount of future dividends.

COMMON STOCK REPURCHASE PROGRAMS

On September 11, 2007, our board of directors authorized the repurchase of additional shares of our common stock provided that the amounts expended for such purposes did not exceed the greater of \$2 billion or amounts expended to purchase no more than 40 million shares. Purchases may include open-market and negotiated transactions, structured purchase arrangements, and tender offers.

In April 2008, we entered into a share repurchase program under which we expended \$1 billion to repurchase 18,416,241 shares of our common stock in 2008 at a weighted average price of \$54.30 per share.

In September 2010, we entered into a share repurchase program under which we prepaid \$500 million to repurchase shares of our common stock in a share forward transaction. The program was completed in March 2011 with a total of 9,574,435 shares repurchased at an average price of \$52.22 per share. Our outstanding shares used to calculate earnings per share were reduced by the number of shares repurchased when they were delivered to us, and the \$500 million purchase price was recorded as a reduction in shareholders' equity upon its prepayment. We received 8,078,000 shares during 2010 and 1,496,435 shares in 2011.

These share repurchase programs are unrelated to share-based compensation as described in Note 8.

NOTE 13. SAN ONOFRE NUCLEAR GENERATING STATION (SONGS)

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

SDG&E, and each of the other owners, holds its undivided interest as a tenant in common in the property. Each owner is responsible for financing its share of expenses and capital expenditures.

SDG&E's share of operating expenses is included in Sempra Energy's and SDG&E's Consolidated Statements of Operations.

SONGS Outage and Retirement

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 from the NRC 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.

Background

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.

The steam generators were designed and provided by Mitsubishi Heavy Industries, Ltd., Mitsubishi Nuclear Energy Systems, Inc., and Mitsubishi Heavy Industries America, Inc. (collectively MHI). In July 2013, SDG&E filed a lawsuit against MHI seeking to recover damages SDG&E has incurred and will incur related to the design defects in the steam generators. In October 2013, Edison instituted arbitration proceedings against MHI seeking damages as well. We discuss these proceedings in Note 15.

CPUC SONGS Order Instituting Investigation (OII)

In response to the prolonged outage, the CPUC issued an OII, pursuant to California Public Utilities' Code Section 455.5, which applies to cost recovery issues resulting from long-term outages of operating assets. The OII consolidated most SONGS issues in various related 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 all phases 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.

The first phase of the OII addresses the reasonableness of the costs incurred in 2012. In November 2013, the CPUC issued a Proposed Decision (PD) on the first phase of the OII, which included the following impacts:

§ The PD identified \$182.8 million as SDG&E's share of the costs incurred by Edison, including overheads and capital, in 2012. Of this amount, the PD deemed \$19.3 million to have been unreasonably incurred and recommended that this amount be refunded in rates effective January 1, 2014.

§ In addition, the PD identified \$27 million as SDG&E's share of the \$122 million in costs incurred by Edison in 2012 associated with the steam generator inspection and repair, which costs will be reviewed in Phase 3, but not removed from rates yet. These costs are to be separately accounted for and interest accrued at the one-year U.S. Treasury rate should the CPUC decide in Phase 3 that they should also be refunded.

In addition, the PD defines the methodology to calculate replacement power costs, and the SONGS owners must re-calculate their replacement power costs according to the adopted methodology. Those costs are subject to refund (to the extent they are in rates) pending the outcome of Phase 3. The PD is subject to final approval by the CPUC and may be amended or changed.

The second phase of the OII addresses the appropriate rate recovery treatment of the investment in SONGS assets. Hearings on this second phase were held in October 2013, and a CPUC decision on this phase of the OII is scheduled for the first half of 2014.

The third phase of the OII will address the reasonableness of the steam generator replacement project costs. We expect this phase to begin in the second half of 2014.

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 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 \$165 million. Of this total, \$98 million was incurred in 2012 and has been approved for collection in rates pursuant to prior ERRA proceedings. The remaining \$67 million, discussed below, represents replacement power costs incurred in 2013 through June 6 that have not yet been approved for recovery in rates. Although \$98 million has been authorized for recovery through ERRA, the OII will determine whether any of this amount will be required to be refunded to customers.

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.

Accounting for the Early Retirement of SONGS

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 the amount recorded in the SONGS regulatory asset, as described below. We determined the amount deemed probable of recovery based on our assessment of the likelihood of the potential regulatory outcomes identified, resulting in SDG&E recording a \$200 million pretax loss in the second quarter of 2013.

As a result of Edison's decision to permanently retire SONGS Units 2 and 3, and as a result of our assessment described above, SDG&E established a new regulatory asset included in Other Regulatory Assets on the Consolidated Balance Sheet. As of December 31, 2013, the balance in this new regulatory asset was \$303 million and was comprised of the following:

- § the net book value of SDG&E's investment in SONGS plant and nuclear fuel of \$516 million, which prior to the date of the plant retirement, had been reported as Property, Plant and Equipment on the Consolidated Balance Sheet;
- § SDG&E's SONGS-related materials and supplies of \$10 million, which prior to the date of the plant retirement, had been reported as Inventory on the Consolidated Balance Sheet;
- § SDG&E's 2013 cost of replacement power that is in excess of the amount previously authorized for recovery in ERRA of \$67 million which, prior to the date of the plant retirement, would have been reported as Regulatory Balancing Accounts, Net in Current Assets on the Consolidated Balance Sheet;
- § miscellaneous costs incurred or expected to be incurred by SDG&E associated with the early closure of the plant of \$35 million; *net of*
- § a \$200 million reserve for disallowance of rate recovery reported as Loss from Plant Closure on the Consolidated Statement of Operations; and
- § \$125 million for amounts billed to customers for operating costs and the recovery of and return on investment in SONGS since the plant closure in early June 2013 that are subject to refund.

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 materially different than management's estimate. In addition to recoveries through the regulatory process, SDG&E intends to pursue various 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 this new regulatory asset, as well as: 1) the cost of the purchased replacement power of \$98 million approved in prior ERRA proceedings for collection in rates, and 2) the operations and maintenance expenses incurred by SDG&E since the start of the forced outages, which amounted to approximately \$184 million through December 31, 2013. 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.

NRC Proceedings

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

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

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

Nuclear Decommissioning and Funding

As a result of Edison's decision to permanently retire SONGS Units 2 and 3, Edison has begun the decommissioning phase of the plant. The process of decommissioning a nuclear power plant is governed by NRC regulations, as well as regulations of the Environmental Protection Agency (EPA), the U.S. Department of the Navy (the land owner), the CPUC and other regulatory bodies. The NRC regulations categorize the decommissioning activities into three phases: initial activities, major decommissioning and storage activities, and license termination. Initial activities include providing notice of permanent cessation of operations (accomplished on June 12, 2013) and notice of permanent removal of fuel from the reactor vessels (provided by Edison to the NRC on June 28 and July 22, 2013 for Units 3 and 2, respectively). Within two years after the cessation of operations, the licensee (Edison) must submit a post-shutdown decommissioning activities report, an irradiated fuel management plan and a site-specific decommissioning cost estimate. Edison currently estimates that it will provide the other initial activity phase plans and cost estimates to the NRC by the end of 2014.

In accordance with state and federal requirements and regulations, SDG&E has assets held in trusts, referred to as the Nuclear Decommissioning Trusts (NDT), to fund decommissioning costs for SONGS Units 1, 2 and 3. At December 31, 2013, the fair value of SDG&E's NDT assets was \$1 billion. Except for the use of funds for the planning of decommissioning activities, CPUC approval is required for SDG&E to access the NDT assets to fund SONGS decommissioning costs. In February 2014, SDG&E filed a request with the CPUC for such authorization. Until CPUC approval is received, SDG&E will use working capital to pay for any SONGS decommissioning costs incurred, and such expenditures will be reimbursed from the NDT upon that approval. The timing of SDG&E's access to the NDT assets may also depend on a finding by the NRC regarding the characterization of the commingled funds. SDG&E expects the NRC to make such a finding in 2014.

SDG&E and Edison have a joint application pending with the CPUC requesting continued rate recovery of the estimated cost for decommissioning of SONGS. SDG&E is currently authorized to recover \$8 million annually to fund additional investments in the NDT to pay for the cost of decommissioning SONGS. In its pending application with the CPUC, SDG&E is requesting to recover \$16 million on an annual basis to fund additional investments in the NDT. We expect a decision on this application in the first half of 2014.

Nuclear Decommissioning Trusts

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

The following table shows the fair values and gross unrealized gains and losses for the securities held in the trust funds. We provide additional fair value disclosures for the trusts in Note 10.

NUCLEAR DECOMMISSIONING TRUSTS

(Dollars in millions)

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
At December 31, 2013:				
Debt securities:				
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies(1)	\$ 116	\$ 3	\$ (2)	\$ 117
Municipal bonds(2)	110	2	(1)	111
Other securities(3)	155	3	(5)	153
Total debt securities	381	8	(8)	381
Equity securities	207	409	(2)	614
Cash and cash equivalents	39	—	—	39
Total	\$ 627	\$ 417	\$ (10)	\$ 1,034

At 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 2014-2056.

(2) Maturity dates are 2014-2062.

(3) Maturity dates are 2014-2111.

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)

	Years ended December 31,		
	2013	2012	2011
Proceeds from sales(1)	\$ 685	\$ 723	\$ 715
Gross realized gains	26	21	75
Gross realized losses	(18)	(13)	(52)

(1) Excludes securities that are held to maturity.

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

Customer contribution amounts are determined by the CPUC using estimates of after-tax investment returns, decommissioning costs, and decommissioning cost escalation rates. Changes in investment returns and decommissioning costs may result in a change in future customer contributions.

Asset Retirement Obligation and Spent Nuclear Fuel

SDG&E's asset retirement obligation related to decommissioning costs for the SONGS units was \$756 million at December 31, 2013. That amount includes the cost to decommission Units 2 and 3, and the remaining cost to complete the decommissioning of Unit 1, which is substantially complete. Edison generally updates decommissioning cost studies every three years. The most recent cost study was approved by the CPUC in July 2012. The obligation at December 31, 2013 is based on this cost study, adjusted to reflect the acceleration of the start of decommissioning Units 2 and 3. SDG&E's share of decommissioning costs under the approved study is approximately \$768 million in 2008 dollars and \$912 million escalated to 2013 dollars. Rate recovery of decommissioning costs is allowed until the time that the costs are fully recovered.

Unit 1 was permanently shut down in 1992, and physical decommissioning began in January 2000. Most structures, foundations and large components have been dismantled, removed and disposed of. Spent nuclear fuel has been removed from the Unit 1 Spent Fuel Pool and stored on-site in an independent spent fuel storage installation (ISFSI) licensed by the NRC. The decommissioning of Unit 1 remaining structures (subsurface and intake/discharge) will take place as Units 2 and 3 are decommissioned. The ISFSI will be decommissioned after a permanent storage facility becomes available and the DOE removes the spent fuel from the site. The Unit 1 reactor vessel is expected to remain on site until Units 2 and 3 are fully decommissioned. Until then, SONGS owners are responsible for interim storage of spent nuclear fuel at SONGS until the DOE accepts it for final disposal. Spent nuclear fuel for Units 2 and 3 has been stored in the SONGS spent fuel pools for each reactor and in the ISFSI.

We provide additional information about SONGS in Note 15.

NOTE 14. CALIFORNIA UTILITIES' REGULATORY MATTERS

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 December 31, 2013, SDG&E reported on its Consolidated Balance Sheet \$324 million as a regulatory asset, with \$161 million classified as noncurrent, representing the retroactive revenue from the Final GRC Decision to be recovered by SDG&E in rates during the period December 2013 through December 2015. At December 31, 2013, SoCalGas reported on its Consolidated Balance Sheet a regulatory asset of \$104 million, with \$52 million as noncurrent, representing the retroactive revenue from the Final GRC Decision to be recovered in rates through December 2015.

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.

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, as presented in the table below. 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. Phase 2 addressed the cost of capital adjustment mechanisms for SDG&E, SoCalGas, Edison and Pacific Gas and Electric Company (PG&E).

The CPUC's final decision for Phase 1 is outlined in the table below:

COST OF CAPITAL FINAL DECISION SUMMARY

SDG&E				SoCalGas		
Authorized Weighting	Authorized Rate of Recovery	Weighted Authorized ROR		Authorized Weighting	Authorized Rate of Recovery	Weighted Authorized ROR
45.25%	5.00%	2.26%	Long-Term Debt	45.60%	5.77%	2.63%
2.75%	6.22%	0.17%	Preferred Stock	2.40%	6.00%	0.14%
52.00%	10.30%	5.36%	Common Equity	52.00%	10.10%	5.25%
100.00%		7.79%		100.00%		8.02%

SDG&E, SoCalGas, PG&E, Edison and the Office of Ratepayer Advocates (ORA) (formerly the Division of Ratepayer Advocates or 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, discussed below. Both utilities are forgoing their proposed off-ramp provision, which was intended as a safeguard to protect against extreme changes in interest rates and allow the CPUC latitude to suspend the annual mechanism if prudent.

The cost of capital adjustment mechanism benchmark is based on the 12-month average monthly A-rated utility bond yield as published by Moody's (CCM Benchmark) for the 12-month period October through September of each fiscal year. If the 12-month average falls outside of a specified range, then the utility's authorized ROE would be adjusted, upward or downward, by one-half of the difference between the 12-month average and the mid-point of the specified range. In addition, the utility's authorized recovery rate for the cost of debt and preferred stock would also be adjusted to their respective actual weighted average cost. Therefore, for intervening years between scheduled cost of capital updates, the utility's authorized ROR would adjust, upward or downward, as a result of all three adjustments with the new rate going into effect on January 1 following the year in which the benchmark range was exceeded. For both SDG&E and SoCalGas, the CCM Benchmark rate is set at 4.24 percent, resulting in the specified range of a low of 3.24 percent to a high of 5.24 percent. The 12-month average rate would have to fall outside of this range for the adjustments to occur. For the four-month period ended January 31, 2014, the monthly average CCM Benchmark was 4.73 percent.

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 natural gas transmission pipelines located in populated areas 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 requests discussed above, but the associated cost recovery and return of and on invested capital will be determined as part of the Triennial Cost Allocation Proceeding (TCAP), as we discuss below. The comprehensive plan covers all of the utilities' approximately 4,000 miles of transmission lines (3,750 miles for SoCalGas and 250 miles for SDG&E) and would be implemented in two phases:

- § Phase 1 focuses on populated areas of SoCalGas' and SDG&E's service territories and would be implemented over a 10-year period, from 2012 to 2022.
- § Phase 2 covers unpopulated areas of SoCalGas' and SDG&E's service territories and will be filed with the CPUC at a later date.

The total cost estimate for Phase 1, over the 10-year period of 2012 to 2022, is \$3.1 billion (\$2.5 billion for SoCalGas and \$600 million for SDG&E). In their August 2011 filing, the utilities requested the CPUC to authorize funding for the recovery of costs through 2015 of approximately \$1.5 billion for SoCalGas, of which \$1.2 billion would be capital investment, and \$240 million for SDG&E, of which \$230 million would be capital investment. After 2015, the utilities proposed to include the costs of the PSEP in their next General Rate Case (for their authorized revenue requirements in 2016). The utilities also proposed that the cost of the program be recovered through a surcharge, rather than by incorporating it into rates. The surcharge would increase over time, as more project work is completed. Since the date of the initial filing, the California Utilities have provided the CPUC's Safety and Enforcement Division (formerly the Consumer Protection and Safety Division) updated information that reflects the current scope of work, including the recovery of additional records resulting in a reduction to the number of pipeline miles without records. The California Utilities anticipate that the PD in this proceeding will require SDG&E and SoCalGas to update the costs included in their previous filings, based on the latest scope of work.

In December 2011, the assigned Commissioner to the rulemaking proceeding for the pipeline safety regulations ruled that SDG&E's and SoCalGas' 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 on 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 now expect the Administrative Law Judge to issue a proposed decision in Phase 1A of this proceeding in 2014.

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.

Also 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. The CPUC's Safety and Enforcement Division 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.

Southern Gas System Reliability Project

In December 2013, SoCalGas and SDG&E filed a joint application with the CPUC seeking authority to recover the full cost of the Southern Gas System Reliability Project. Also known as the North-South Gas Transmission Pipeline Project, the project will enhance reliability on the southern portions of the utilities' integrated gas transmission system (Southern System). We estimate the cost of the project to be between \$600 million to \$650 million. As proposed, the project consists of three components: 1) constructing a 36-inch gas transmission pipeline between the SoCalGas Adelanto and Moreno gas compressor stations, a distance of approximately 60 miles; 2) upgrading the Adelanto compressor station; and 3) constructing a 36-inch pipeline from the Moreno compressor station to a pressure limiting station in Whitewater, a distance of approximately 31 miles. SDG&E and SoCalGas have requested a CPUC decision in the first quarter of 2015. The project is scheduled to be in service by the end of 2019.

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. Generally, for performance-based awards, if performance is above or below specific benchmarks, the utility is eligible for financial awards or subject to financial penalties. SDG&E has incentive mechanisms associated with:

§ operational incentives

§ energy efficiency

SoCalGas has incentive mechanisms associated with:

§ energy efficiency

§ natural gas procurement

§ unbundled natural gas storage and system operator hub services

Incentive awards are included in our earnings when we receive any required CPUC approval of the award. We would record penalties for results below the specified benchmarks in earnings when we believe it is more likely than not that the CPUC would assess a penalty.

We provide a summary of the incentive awards recognized below.

UTILITY INCENTIVE AWARDS RECORDED IN EARNINGS 2011-2013(1)

(Dollars in millions)

	Years ended December 31,		
	2013	2012	2011
Sempra Energy Consolidated			
Energy efficiency	\$ 7	\$ 6	\$ 16
Unbundled natural gas storage and hub services	1	3	4
Natural gas procurement	5	6	6
Operational incentives	—	5	3
Total awards	\$ 13	\$ 20	\$ 29
SDG&E			
Energy efficiency	\$ 4	\$ 3	\$ 14
Operational incentives	—	2	1
Total awards	\$ 4	\$ 5	\$ 15
SoCalGas			
Energy efficiency	\$ 3	\$ 3	\$ 2
Unbundled natural gas storage and hub services	1	3	4
Natural gas procurement	5	6	6
Operational incentives	—	3	2
Total awards	\$ 9	\$ 15	\$ 14

(1) Awards are included in earnings upon CPUC approval of the award.

Energy Efficiency

The CPUC established incentive mechanisms that are based on the effectiveness of energy efficiency programs. In December 2011, the CPUC awarded \$13.7 million to SDG&E and \$2.0 million to SoCalGas for their 2009 program year results. In December 2012, the CPUC issued a final decision adopting a mechanism for the 2010–2012 program cycle and approving shareholder awards of \$3.3 million for SDG&E and \$2.7 million for SoCalGas for their energy efficiency program performance in 2010 under the mechanism. The decision established an annual process for the utilities to obtain awards for their performance in 2011 and 2012.

In December 2013, the CPUC awarded \$3.1 million to SoCalGas and \$3.9 million to SDG&E for their 2011 program year results. Both SoCalGas and SDG&E plan to file incentive award claims for the 2012 program year in the third quarter of 2014. We currently expect the award amounts to approximate the amounts claimed for the 2011 program year, awarded in 2013.

In September 2013, the CPUC approved a new Efficiency Savings and Performance Incentive mechanism that would apply for the 2013–2014 program period. The mechanism will be applied on an annual basis and remain in effect for future program cycles unless modified by the CPUC. We currently expect the annual amounts of the energy efficiency awards for both SoCalGas and SDG&E under this new mechanism to approximate the amounts claimed for the 2011 program year, awarded in 2013.

Unbundled Natural Gas Storage and System Operator Hub Services

The CPUC has established a revenue sharing mechanism, effective through 2014, which provides for the sharing between ratepayers and SoCalGas (shareholders) of the net revenues generated by SoCalGas' unbundled natural gas storage and system operator hub services. SoCalGas is seeking to extend the mechanism through 2015. Annual net revenues (revenues less allocated service costs) under the mechanism are shared on a graduated basis, as follows:

- § the first \$15 million of net revenue to be shared 90 percent ratepayers/10 percent shareholders;
- § the next \$15 million of net revenue to be shared 75 percent ratepayers/25 percent shareholders;
- § all additional net revenues to be shared evenly between ratepayers and shareholders; and
- § the maximum total annual shareholder-allocated portion of the net revenues cannot exceed \$20 million.

Natural Gas Procurement

The California Utilities procure natural gas on behalf of their core natural gas customers. The CPUC has established incentive mechanisms to allow the California Utilities the opportunity to share in the savings and/or costs from buying natural gas for their core customers at prices below or above monthly market-based benchmarks. SoCalGas procures natural gas for SDG&E's core natural gas customers' requirements. SoCalGas' gas cost incentive mechanism (GCIM) is applied on the combined portfolio basis.

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 recorded 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.

In the first quarter of 2012, SoCalGas recorded its approved GCIM award of \$6.2 million for natural gas procured for its core customers during the 12-month period ending March 31, 2011.

In September 2011, SoCalGas recorded its approved GCIM award of \$6 million for natural gas procured for its core customers during the 12-month period ending March 31, 2010.

Operational Incentives

The CPUC may establish operational incentives and associated performance benchmarks as part of a general rate case or cost of service proceeding. Through the end of 2011, the California Utilities had operational incentives that applied to their performance in the area of employee safety. In the California Utilities' 2012 GRC final decision described above, SDG&E was directed to establish a performance measure and incentive for electric reliability. In September 2013, SDG&E filed its proposed mechanism, which is currently pending action by the CPUC. If adopted, the electric reliability mechanism would apply to calendar years 2014 and 2015. The CPUC did not establish any operational incentives for SoCalGas in the 2012 GRC final decision.

SDG&E MATTERS

SONGS

We discuss regulatory and other matters related to SONGS in Note 13.

Power Procurement and Resource Planning

Background—Electric Industry Regulation

California's legislative response to the 2000 – 2001 energy crisis resulted in the DWR purchasing a substantial portion of power for California's electricity users. In 2001, the DWR entered into long-term contracts with suppliers, including Sempra Natural Gas, to provide power for the utility procurement customers of each of the California investor-owned utilities (IOUs), including SDG&E. The CPUC allocates the power and its administrative responsibility, including collection of power contract costs from utility customers, among the IOUs. The last of these power contracts expired in 2013, with one remaining transportation contract allocated to SDG&E that will expire in 2018.

Renewable Energy

SDG&E is subject to the Renewables Portfolio Standard (RPS) Program administered by both the CPUC and the California Energy Commission, which requires each California utility to procure 33 percent of its annual electric energy requirements from renewable energy sources by 2020, with an average of 20 percent required from January 1, 2011 to December 31, 2013; 25 percent by December 31, 2016; and 33 percent by December 31, 2020. The CPUC began a rulemaking proceeding in May 2011 to address the implementation of the 33% RPS Program.

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

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

- § access to electric transmission infrastructure;
- § timely regulatory approval of contracted renewable energy projects;

§ the renewable energy project developers' ability to obtain project financing and permitting; and

§ successful development and implementation of the renewable energy technologies.

SDG&E believes it will be able to comply with the 33% RPS Program requirements based on its contracting activity and, if necessary, application of the flexible compliance mechanisms. SDG&E's failure to comply with the RPS Program requirements could subject it to a CPUC-imposed penalty of 5 cents per kilowatt hour of renewable energy under-delivery, which could materially affect its business, cash flows, financial condition, results of operations and/or prospects.

Subject to approval of its final report by the CPUC, SDG&E believes that it has met the requirements for the first compliance period, January 1, 2011 to December 31, 2013, of procuring an average of 20 percent of its annual electric requirements from renewable energy sources and that it will comply with the 33% RPS Program requirements.

Cleveland National Forest Transmission Projects

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

South Orange County Reliability Enhancement

SDG&E filed an application with the CPUC in May 2012 for a Certificate of Public Convenience and Necessity to construct the South Orange County Reliability Enhancement project. The purpose of the project is to enhance the capacity and reliability of SDG&E's electric service to the south Orange County area. The proposed project primarily includes replacing and upgrading approximately eight miles of transmission lines and rebuilding and upgrading a substation at an existing site. SDG&E expects a final CPUC decision approving the estimated \$450 million to \$500 million project in 2015. SDG&E obtained approval for the project from the ISO in May 2011. As the project is planned in phases, management currently expects the entire project to be in service in 2019.

South Bay Substation

SDG&E filed an application in 2010 with the CPUC for a permit to construct a new substation to replace the aging and obsolete South Bay substation and accommodate the retirement of the South Bay Power Plant. The existing substation will be demolished when the new substation has been constructed, energized and all transmission lines have been transferred. In October 2013, the CPUC approved SDG&E's permit to construct the South Bay Substation Relocation Project at SDG&E's proposed site, which will be located south of the existing site. The project, estimated at \$145 million to \$175 million, will replace the existing 138/69-kilovolt (kV) substation with the new 230/69/12-kV Bay Boulevard Substation. SDG&E is in the process of obtaining the additional permits required to begin construction, including the coastal development permit from the California Coastal Commission. SDG&E currently expects the project to be in service in 2017.

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 between \$425 million and \$450 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 the second half of 2014.

FERC Formulaic Rate Matters

In February 2013, SDG&E submitted its Electric Transmission Formula Rate (TO4) filing with the FERC to set the rate making methodology and rate of return for SDG&E's FERC-regulated electric transmission operations and assets for the period beginning September 1, 2013. The filing proposed a FERC ROE of 11.3 percent and requested: 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. In June and July 2013, the FERC issued orders accepting the filing, subject to refund, and established settlement and hearing procedures, with rates being effective as of 2013.

On January 31, 2014, SDG&E filed an uncontested multi-party settlement at the FERC regarding the TO4 filing. The settlement, subject to the FERC's approval, will be in effect through December 31, 2018, is subject to a one-time right of termination by any party, and establishes a 10.05 percent ROE. SDG&E also has the right to seek any ROE incentives that might apply under FERC rules. SDG&E's debt to equity ratio will be set annually based on the actual ratio at the end of each year. SDG&E expects that the FERC will act on this settlement by the end of the third quarter of 2014.

Excess Wildfire Claims Cost Recovery at the CPUC

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 December 31, 2013, the resulting after-tax charge against earnings would have been up to \$186 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.

We provide additional information about 2007 wildfire litigation costs and their recovery in Note 15.

SOCALGAS MATTERS

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 November 2013, the CPUC issued a final decision that adopts the EIR and approves the estimated \$200 million project.

Advanced Metering Infrastructure

In November 2011, the DRA and The Utility Reform Network (TURN) filed a joint petition requesting that the CPUC reconsider its prior approval of SoCalGas' advanced metering infrastructure (AMI) project and stay AMI deployment while the CPUC considers the request. The CPUC, which is not obligated to respond to such requests, has taken no action in response to the DRA/TURN petition, and SoCalGas is continuing its deployment of AMI pursuant to the April 2010 CPUC decision approving the project.

NOTE 15. 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 December 31, 2013, Sempra Energy's accrued liabilities for material legal proceedings, on a consolidated basis, were \$154 million. At December 31, 2013, accrued liabilities for material legal proceedings for SDG&E and SoCalGas were \$146 million and \$0.1 million, respectively. At December 31, 2013, liabilities of \$104 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. At the February 2014 status conference, the Court set a February 2015 trial date for a trial to be comprised of 5 cases involving plaintiffs who claim damages resulting from the Witch fires.

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 6,100 of these plaintiffs, including all of the government entities. There are now approximately 40 cases left to be resolved and substantially all of those remaining individual and business plaintiffs have submitted settlement demands and damage estimates totaling approximately \$380 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 14, 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 December 31, 2013, Sempra Energy and SDG&E have recorded assets of \$330 million in Other Regulatory Assets on their Consolidated Balance Sheets, including \$315 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 December 31, 2013, the resulting after-tax charge against earnings would have been up to \$186 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 14 and discuss how we assess the probability of recovery of our regulatory assets in Note 1.

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 December 31, 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 impact of the reserves on SDG&E's and Sempra Energy's after-tax earnings was an increase (decrease) of \$0.3 million, \$(6) million and \$(13) million for the years ended December 31, 2013, 2012 and 2011, respectively. At December 31, 2013, wildfire litigation reserves were \$104 million (\$63 million in current and \$41 million in long-term). Additionally, through December 31, 2013, SDG&E has expended \$344 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-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. One legal challenge remains pending.

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 claims totaling \$180.3 million, including one in San Diego County for the sum of \$99.2 million and the other in Imperial County for the sum of \$81.1 million, seeking foreclosure of previously filed Mechanics Liens. In October 2013, the contractor served a Demand for Arbitration pursuant to contractual provisions. SDG&E has answered the demand and filed a counter claim against the contractor. The arbitration panel has set a March 2015 arbitration hearing date.

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 Capital Corporation, 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 Capital Corporation from the lawsuit. In September 2013, the court granted SDG&E's motion for summary judgment and dismissed the lawsuit. In October 2013, the plaintiffs appealed the court's dismissal of their action.

FERC and North American Electric Reliability Corporation (NERC) Staff conducted a joint inquiry to determine the cause of the power failure and issued a report in May 2012 regarding their findings. Following that report, Staff from FERC's Office of Enforcement (FERC Enforcement Staff) investigated potential violations of FERC's Reliability Standards associated with the outage. In January 2014, FERC Enforcement Staff issued a Staff Notice of Alleged Violations, in which FERC Enforcement Staff alleged violations of various Reliability Standards by several entities. FERC Enforcement Staff did not allege or find any violations by 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, and on August 8, 2013, MHI moved to stay the proceeding pending resolution of the dispute resolution process involving MHI and Edison arising from their contract for the purchase and sale of the steam generators. On October 16, 2013, Edison initiated an arbitration proceeding against MHI seeking damages stemming from the failure of the replacement steam generators. In late December 2013, MHI answered and filed a counter-claim against Edison.

Investment in Wind Farm

In 2011, the CPUC and FERC approved SDG&E's estimated \$285 million tax equity investment in a wind farm project. SDG&E's contractual obligations to invest in the Rim Rock wind farm and to purchase renewable energy credits from the wind farm under the power purchase agreement are both subject to the satisfaction of certain conditions which, if not achieved, would allow SDG&E to terminate the power purchase agreement and to not make the investment. In December 2013, SDG&E received a closing notice from the project developer indicating that all such conditions had been met. SDG&E responded to the closing notice asserting that the contractual conditions had not been satisfied. On December 19, 2013, SDG&E filed a complaint against the project developer in San Diego Superior Court. The project developer filed a separate complaint against SDG&E in Montana state court.

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 three of the seven lawsuits for an amount that is not significant and has been recorded.

Sempra Mexico

Permit Challenges and Property Disputes

Sempra Mexico has been engaged in a long-running land dispute relating to property adjacent to its Energía Costa Azul LNG terminal near Ensenada, Mexico. The adjacent property is not required by any of the environmental or other regulatory permits issued for the operation of the terminal. A claimant to the adjacent property has nonetheless asserted that his health and safety are endangered by the operation of the facility, and filed an action in the Federal Court challenging the permits. In February 2011, based on a complaint by the claimant, the 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 claimant filed complaints in the federal Agrarian Court challenging the refusal of the Secretaría Reforma Agraria (now the Secretaría de Desarrollo Agrario, Territorial y Urbano, or SEDATU) in 2006 to issue a title to him for the disputed property. In November 2013, the Agrarian Court ordered that SEDATU issue the requested title and cause it to be registered. Both SEDATU and Sempra Mexico have challenged the rulings. Sempra Mexico expects additional proceedings regarding the claims, although such proceedings are not related to the permit challenges referenced above. The property claimant also filed a lawsuit in July 2010 against Sempra Energy in Federal District Court in San Diego seeking compensatory and punitive damages as well as the earnings from the Energía Costa Azul LNG terminal based on his allegations that he was wrongfully evicted from the adjacent property and that he has been harmed by other allegedly improper actions.

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. The Mexican Supreme Court decided to exercise jurisdiction over one such case, and on February 7, 2014, announced that it would decline to grant the relief sought by the plaintiff. Sempra Mexico expects the Court to issue a written resolution in the first quarter of 2014 providing further details regarding its ruling. 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.

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; one of these cases was dismissed in September 2013 at the direction of the state appellate court. A third complaint was served in April 2013 seeking to invalidate the contract by which Energía Costa Azul, 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, except for the real property case that was dismissed.

Property Title Dispute (Dismissed)

In July 2012, a Mexicali state court issued a ruling declaring the purchase contract by which Termoeléctrica de Mexicali 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, and the case was subsequently dismissed.

Competitor Claims (Dismissed)

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.

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.

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 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.

CONTRACTUAL COMMITMENTS

Natural Gas Contracts

Natural Gas

SoCalGas has the responsibility for procuring natural gas for both SDG&E's and SoCalGas' core customers in a combined portfolio. SoCalGas buys natural gas under short-term and long-term contracts for this portfolio. Purchases are from various producing regions in the southwestern U.S., U.S. Rockies, and Canada and are primarily based on published monthly bid-week indices.

SoCalGas transports natural gas primarily under long-term firm interstate pipeline capacity agreements that provide for annual reservation charges, which are recovered in rates. SoCalGas has commitments with interstate pipeline companies for firm pipeline capacity under contracts that expire at various dates through 2028.

Sempra Natural Gas' and Sempra Mexico's businesses have various natural gas purchase agreements to fuel natural gas-fired power plants and capacity agreements for natural gas storage and transportation.

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 concluded 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 \$14 million each year in 2014 through 2017, \$33 million in 2018 and \$50 million in 2019.

At December 31, 2013, the future minimum payments under existing natural gas contracts and natural gas storage and transportation contracts were:

Sempra Energy Consolidated

<i>(Dollars in millions)</i>	Storage and Transportation	Natural Gas(1)	Total(1)
2014	\$ 242	\$ 162	404
2015	239	4	243
2016	226	4	230
2017	220	4	224
2018	202	4	206
Thereafter	361	16	377
Total minimum payments	\$ 1,490	\$ 194	1,684

(1) Excludes amounts related to LNG purchase agreements as discussed below.

SoCalGas

<i>(Dollars in millions)</i>	Transportation	Natural Gas	Total
2014	\$ 126	\$ 57	183
2015	120	1	121
2016	111	1	112
2017	107	1	108
2018	89	1	90
Thereafter	157	—	157
Total minimum payments	\$ 710	\$ 61	771

Total payments under natural gas contracts and natural gas storage and transportation contracts as well as payments to meet additional portfolio needs at SoCalGas were:

<i>(Dollars in millions)</i>	Years ended December 31,		
	2013	2012	2011
Sempra Energy Consolidated	\$ 1,680	\$ 1,345	1,991
SoCalGas	1,464	1,222	1,810

LNG

Sempra Natural Gas has various purchase agreements with major international companies for the supply of LNG to the Energía Costa Azul and Cameron terminals. The agreements range from short-term to multi-year periods and are priced using a predetermined formula based on natural gas market indices.

Although these contracts specify a number of cargoes to be delivered, under their terms, customers may divert certain cargoes, which would reduce amounts paid under the contracts by Sempra Natural Gas. As of December 31, 2013, if all cargoes under the contracts were to be delivered, future payments under these contracts would be

- § \$670 million in 2014
- § \$662 million in 2015
- § \$654 million in 2016
- § \$658 million in 2017
- § \$678 million in 2018
- § \$8.3 billion in 2019 – 2029

The amounts above are based on forward prices of the index applicable to each contract from 2014 to 2023 and an estimated one percent escalation per year beyond 2023. 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 in 2013, 2012 and 2011 have been significantly lower than the maximum amount possible due to customers electing to divert most cargoes as allowed by the agreements.

Purchased-Power Contracts

For 2014, SDG&E expects to meet its customer power requirements from the following resource types:

- § Long-term contracts: 31 percent (of which 25.4 percent is provided by renewable energy contracts expiring on various dates through 2039)
- § SDG&E-owned generation (including Palomar Energy Center, Miramar Energy Center, Desert Star Energy Center and Cuyamaca Peak Energy Plant) and tolling contracts (including OMEC): 55 percent
- § Spot market purchases: 14 percent

Chilquinta Energía and Luz del Sur also have purchased-power contracts, expiring on various dates extending through 2027, which cover most of the consumption needs of the companies' customers. These commitments are included under Sempra Energy Consolidated in the table below.

At December 31, 2013, the estimated future minimum payments under long-term purchased-power contracts were:

<i>(Dollars in millions)</i>	Sempra Energy Consolidated	SDG&E
2014	\$ 1,328	\$ 471
2015	1,473	543
2016	1,487	524
2017	1,494	517
2018	1,483	488
Thereafter	11,826	6,349
Total minimum payments ⁽¹⁾	<u>\$ 19,091</u>	<u>\$ 8,892</u>

⁽¹⁾ Excludes purchase agreements accounted for as capital leases and amounts related to Otay Mesa VIE, as it is consolidated by Sempra Energy and SDG&E.

Payments on these contracts represent capacity charges and minimum energy purchases. SDG&E is required to pay additional amounts for actual purchases of energy that exceed the minimum energy commitments. Excluding DWR-allocated contracts, total payments under purchased-power contracts were:

<i>(Dollars in millions)</i>	Years ended December 31,		
	2013	2012	2011
Sempra Energy Consolidated	\$ 1,377	\$ 1,205	\$ 918
SDG&E	570	381	346

Operating Leases

Sempra Energy Consolidated, SDG&E and SoCalGas have operating leases on real and personal property expiring at various dates from 2014 through 2054. Certain leases on office facilities contain escalation clauses requiring annual increases in rent ranging from two percent to six percent at Sempra Energy Consolidated, four percent to six percent at SDG&E, and two percent to five percent at SoCalGas. The rentals payable under these leases may increase by a fixed amount each year or by a percentage of a base year, and most leases contain extension options that we could exercise.

The California Utilities have an operating lease agreement for future acquisitions of fleet vehicles with RBS Asset Finance, Inc. with an aggregate maximum lease limit of \$125 million, \$113 million of which has been utilized as of December 31, 2013.

Rent expense for all operating leases totaled:

<i>(Dollars in millions)</i>	Years ended December 31,		
	2013	2012	2011
Sempra Energy Consolidated	\$ 81	\$ 74	\$ 77
SDG&E	23	20	18
SoCalGas	31	26	35

At December 31, 2013, the minimum rental commitments payable in future years under all noncancelable operating leases were as follows:

<i>(Dollars in millions)</i>	Sempra Energy Consolidated	SDG&E	SoCalGas
2014	\$ 85	\$ 23	\$ 32
2015	83	22	32
2016	71	22	25
2017	74	20	30
2018	69	17	28
Thereafter	576	91	174
Total future rental commitments	<u>\$ 958</u>	<u>\$ 195</u>	<u>\$ 321</u>

Capital Leases

Utility Fleet Vehicles

The California Utilities entered into agreements with U.S. Bancorp Equipment Finance in 2009 and with RBS Asset Finance, Inc. in 2010 to refinance existing fleet vehicles. These are capital leases, and as of December 31, 2013, the related capital lease obligations were \$5 million at Sempra Energy Consolidated, including \$3 million at SDG&E and \$2 million at SoCalGas. As of December 31, 2012, the related capital lease obligations were \$11 million at Sempra Energy Consolidated, including \$7 million at SDG&E and \$4 million at SoCalGas.

At December 31, 2013, the future minimum lease payments and present value of the net minimum lease payments under these capital leases are as follows:

<i>(Dollars in millions)</i>	Sempra Energy Consolidated	SDG&E	SoCalGas
2014	\$ 4	\$ 2	\$ 2
2015	1	1	—

Total minimum lease payments	\$	5 \$	3 \$	2
Present value of net minimum lease payments(1)	\$	5 \$	3 \$	2

(1) Excludes negligible amounts of interest.

The 2013 annual amortization charge for the utility fleet vehicles was \$7 million at Sempra Energy Consolidated, including \$4 million at SDG&E and \$3 million at SoCalGas. The 2012 annual amortization charge for the utility fleet vehicles was \$13 million at Sempra Energy Consolidated, including \$7 million at SDG&E and \$6 million at SoCalGas. The 2011 annual amortization charge for the utility fleet vehicles was \$15 million at Sempra Energy Consolidated, including \$7 million at SDG&E and \$8 million at SoCalGas.

Headquarters Build-to-Suit Lease

In August 2013, Sempra Energy entered into a 25-year, build-to-suit lease for its future San Diego, California, headquarters. We expect to occupy the building in the second half of 2015. At December 31, 2013, future payments on the lease are as follows:

(Dollars in millions)

2014	\$	—
2015		4
2016		10
2017		10
2018		10
Thereafter		277
Total future payments	\$	311

Power Purchase Agreements

SDG&E has two power purchase agreements with peaker plant facilities that went into commercial operation in June 2010 and are accounted for as capital leases. The entities that own the peaker plant facilities are VIEs of which SDG&E is not the primary beneficiary. As of December 31, 2013, capital lease obligations for these leases, each with a 25-year term, were valued at \$176 million. SDG&E does not have any additional implicit or explicit financial responsibility related to these VIEs.

At December 31, 2013, the future minimum lease payments and present value of the net minimum lease payments under these capital leases for both Sempra Energy Consolidated and SDG&E were as follows:

(Dollars in millions)

2014	\$	24
2015		24
2016		24
2017		24
2018		24
Thereafter		394
Total minimum lease payments(1)		514
Less: estimated executory costs		(84)
Less: interest(2)		(254)
Present value of net minimum lease payments(3)	\$	176

(1) This amount will be recorded over the lives of the leases as Cost of Electric Fuel and Purchased Power on Sempra Energy's and SDG&E's Consolidated Statements of Operations. This expense will receive ratemaking treatment consistent with purchased-power costs.

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

(3) Includes \$3 million in Current Portion of Long-Term Debt and \$173 million in Long-Term Debt on Sempra Energy's and SDG&E's Consolidated Balance Sheets at December 31, 2013.

The annual amortization charge for the power purchase agreements was \$2 million in 2013, 2012, and 2011.

Construction and Development Projects

Sempra Energy Consolidated has various capital projects in progress in the United States, Mexico and South America. Sempra Energy's total commitments under these projects are \$2 billion, requiring future payments of \$1.3 billion in 2014, \$393 million in 2015, \$116 million in 2016, \$112 million in 2017, \$24 million in 2018 and \$47 million thereafter. The following is a summary by segment of contractual commitments and contingencies related to the construction projects.

SDG&E

At December 31, 2013, SDG&E has commitments to make future payments of \$332 million for construction projects that include

§ \$87 million for the engineering, material procurement and construction costs associated with the East County Substation project;

§ \$132 million related to nuclear fuel fabrication and other construction projects at SONGS; and

§ \$113 million for infrastructure improvements for natural gas and electric transmission and distribution operations.

SDG&E expects future payments under these contractual commitments to be \$177 million in 2014, \$32 million in 2015, \$28 million in 2016, \$27 million in 2017, \$23 million in 2018 and \$45 million thereafter.

SoCalGas

At December 31, 2013, SoCalGas has commitments to make future payments of \$442 million for construction and infrastructure improvements for natural gas transmission and distribution operations and pipeline integrity. The future payments under these contractual commitments are expected to be \$190 million in 2014 and \$84 million each year in 2015 through 2017.

Sempra South American Utilities

At December 31, 2013, Sempra South American Utilities has commitments to make future payments of \$27 million for construction projects that include \$15 million for the construction of the Santa Teresa hydroelectric power plant at Luz del Sur. The future payments under these contractual commitments are all expected to be in 2014.

Sempra Mexico

At December 31, 2013, Sempra Mexico has commitments to make future payments of \$631 million for contracts related to the construction of an approximately 500-mile natural gas transport pipeline network and the Energía Sierra Juárez wind project. The future payments under these contractual commitments are expected to be \$391 million in 2014, \$236 million in 2015, \$3 million in 2016, negligible amounts in 2017 and 2018 and \$1 million thereafter.

Sempra Renewables

At December 31, 2013, Sempra Renewables has commitments to make future payments of \$569 million for the construction of the Copper Mountain Solar 3 and Broken Bow 2 facilities. The future payments under these contractual commitments are expected to be \$524 million in 2014, \$41 million in 2015, \$1 million each year in 2016 through 2018 and \$1 million thereafter.

Sempra Natural Gas

At December 31, 2013, Sempra Natural Gas has commitments to make future payments of \$8 million primarily for natural gas storage projects. The future payments under these contractual commitments are all expected to be in 2014.

GUARANTEES

At December 31, 2013, Sempra Renewables has provided guarantees to its solar and wind farm joint ventures aggregating a maximum of \$165 million with an associated aggregated carrying value of \$2 million, primarily related to purchased-power agreements and engineering, procurement and construction contracts. In addition, Sempra Renewables has provided guarantees aggregating a maximum of \$328 million with an associated aggregated carrying value of \$17 million at December 31, 2013 to certain wind farm joint ventures for debt service and operation of the wind farms, which we discuss in Note 5.

As of December 31, 2013, SDG&E and SoCalGas did not have any outstanding guarantees.

OTHER COMMITMENTS

SDG&E

In connection with the completion of the Sunrise Powerlink project, the CPUC required that SDG&E establish a fire mitigation fund to minimize the risk of fire as well as reduce the potential wildfire impact on residences and structures near the Sunrise Powerlink. The future payments for these contractual commitments are expected to be approximately \$3 million per year, subject to escalation of 2 percent per year, for 58 years. At December 31, 2013, the present value of these future payments of \$115 million has been recorded as a regulatory asset as the amounts represent a cost that will be recovered from customers in the future, and the related liability was \$115 million.

In July 2012, SDG&E received \$85 million from Citizens Sunrise Transmission, LLC (Citizens), a subsidiary of Citizens Energy Corporation. For this payment, under the terms of the agreement with Citizens, SDG&E will provide Citizens with access to a segment of the Sunrise Powerlink transmission line known as the Border-East transmission line equal to 50 percent of the transfer capacity of this portion of the line for a period of 30 years. After the 30-year contract term, the transfer capability will revert to SDG&E. SDG&E will amortize deferred revenues from the use of the transfer capability over the 30-year term, and depreciation for 50 percent of the Border-East transmission line segment will be accelerated from an estimated 58-year life to 30 years.

We discuss reserves at Sempra Energy and SDG&E for wildfire litigation above in “Legal Proceedings – SDG&E – 2007 Wildfire Litigation.”

Sempra Natural Gas

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 \$35 million. The future payments for this contractual commitment are expected to be \$2 million each year in 2014 through 2018 and \$25 million thereafter. We provide additional information about Mesquite Power in Notes 3 and 18.

Additional consideration for a 2006 comprehensive legal settlement with the State of California to resolve the Continental Forge litigation included an agreement that, for a period of 18 years beginning in 2011, Sempra Natural Gas would sell to the California Utilities, subject to annual CPUC approval, up to 500 million cubic feet (MMcf) per day of regasified LNG from Sempra Mexico’s Energía Costa Azul facility that is not delivered or sold in Mexico at the California border index minus \$0.02 per MMBtu. There are no specified minimums required, and to date, we have not been required to deliver any natural gas pursuant to this agreement.

ENVIRONMENTAL ISSUES

Our operations are subject to federal, state and local environmental laws. We also are subject to regulations related to hazardous wastes, air and water quality, land use, solid waste disposal and the protection of wildlife. These laws and regulations require that we investigate and correct the effects of the release or disposal of materials at sites associated with our past and our present operations. These sites include those at which we have been identified as a Potentially Responsible Party (PRP) under the federal Superfund laws and similar state laws.

In addition, we are required to obtain numerous governmental permits, licenses and other approvals to construct facilities and operate our businesses. The related costs of environmental monitoring, pollution control equipment, cleanup costs, and emissions fees are significant. Increasing national and international concerns regarding global warming and mercury, carbon dioxide, nitrogen oxide and sulfur dioxide emissions could result in requirements for additional pollution control equipment or significant emissions fees or taxes that could adversely affect Sempra Natural Gas and Sempra Mexico. The California Utilities' costs to operate their facilities in compliance with these laws and regulations generally have been recovered in customer rates.

We generally capitalize the significant costs we incur to mitigate or prevent future environmental contamination or extend the life, increase the capacity, or improve the safety or efficiency of property used in current operations. The following table shows (in millions) our capital expenditures (including construction work in progress) in order to comply with environmental laws and regulations:

	Years ended December 31,			
	2013	2012	2011	
Sempra Energy Consolidated(1)	\$ 31	\$ 92	\$ 144	
SDG&E	13	77	130	
SoCalGas	15	12	13	

(1) In cases of non-wholly owned affiliates, includes only our share.

Fluctuations at SDG&E and Sempra Energy Consolidated from 2011 to 2012 and 2012 to 2013 were primarily due to mitigation activities on the Sunrise Powerlink project, which was placed into service in June 2012. We have not identified any significant environmental issues outside the United States.

At the California Utilities, costs that relate to current operations or an existing condition caused by past operations are generally recorded as a regulatory asset due to the probability that these costs will be recovered in rates.

The environmental issues currently facing us or resolved during the last three years include (1) investigation and remediation of the California Utilities' manufactured-gas sites, (2) cleanup of third-party waste-disposal sites used by the California Utilities at sites for which we have been identified as a PRP and (3) mitigation of damage to the marine environment caused by the cooling-water discharge from SONGS. The requirements for enhanced fish protection and restoration of 150 acres of coastal wetlands for the SONGS mitigation are in process and include a 150-acre artificial reef that was dedicated in 2008 and continues in process to meet California Coastal Commission acceptance requirements. The table below shows the status at December 31, 2013, of the California Utilities' manufactured-gas sites and the third-party waste-disposal sites for which we have been identified as a PRP:

	# Sites Completed(1)	# Sites In Process
SDG&E		
Manufactured-gas sites	3	—
Third-party waste-disposal sites	2	3
SoCalGas		
Manufactured-gas sites	39	3
Third-party waste-disposal sites	5	1

(1) There may be on-going compliance obligations for completed sites, such as regular inspections, adherence to land use covenants and water quality monitoring.

We record environmental liabilities at undiscounted amounts when our liability is probable and the costs can be reasonably estimated. In many cases, however, investigations are not yet at a stage where we can determine whether we are liable or, if the liability is probable, to reasonably estimate the amount or range of amounts of the costs. Estimates of our liability are further subject to uncertainties such as the nature and extent of site contamination, evolving cleanup standards and imprecise engineering evaluations. We review our accruals periodically and, as investigations and cleanup proceed, we make adjustments as necessary. The following table shows (in millions) our accrued liabilities for environmental matters at December 31, 2013:

	Manufactured-Gas Sites	Waste Disposal Sites (PRP)(1)	Former Fossil-Fueled Power Plants	Other Hazardous Waste Sites	Total
SDG&E(2)(3)	\$ —	\$ —	\$ 5.2	\$ 0.4	\$ 5.6
SoCalGas(3)	14.7	0.2	—	0.2	15.1
Other	2.2	1.2	—	0.8	4.2
Total Sempra Energy	\$ 16.9	\$ 1.4	\$ 5.2	\$ 1.4	\$ 24.9

(1) Sites for which we have been identified as a Potentially Responsible Party.

(2) Does not include SDG&E's liability for SONGS marine mitigation.

(3) This includes \$5.5 million at SDG&E and \$15.1 million at SoCalGas related to hazardous waste sites subject to the Hazardous Waste Collaborative mechanism approved by the CPUC in 1994. This mechanism permits California's IOUs, including the California Utilities, to recover in rates 90 percent of hazardous waste cleanup costs and related third-party litigation costs, and 70 percent of the related insurance-litigation expenses for certain sites. In addition, the California Utilities have the opportunity to retain a percentage of any recoveries from insurance carriers and other third parties to offset the cleanup and associated litigation costs not recovered in rates.

We expect to pay the majority of these accruals over the next three years. In connection with the issuance of operating permits, SDG&E and the other owners of SONGS previously reached an agreement with the California Coastal Commission to mitigate the damage to the marine environment caused by the cooling-water discharge from SONGS during its operation. SONGS' early retirement, described in Note 13, does not reduce SDG&E's mitigation obligation. At December 31, 2013, SDG&E's share of the estimated mitigation costs remaining to be spent through 2050 is \$14 million, which is recoverable in rates.

We discuss renewable energy requirements in Note 14 and greenhouse gas regulation in Note 1.

NUCLEAR INSURANCE

SDG&E and the other owners of SONGS have insurance to cover claims from nuclear liability incidents arising at SONGS. This insurance provides \$375 million in coverage limits, the maximum amount available, including coverage for acts of terrorism. In addition, the Price-Anderson Act provides for up to \$13.2 billion of secondary financial protection (SFP). If a nuclear liability loss occurring at any U.S. licensed/commercial reactor exceeds the \$375 million insurance limit, all nuclear reactor owners could be required to contribute to the SFP. SDG&E's contribution would be up to \$50.93 million. This amount is subject to an annual maximum of \$7.6 million, unless a default occurs by any other SONGS owner. If the SFP is insufficient to cover the liability loss, SDG&E could be subject to an additional assessment.

The SONGS owners, including SDG&E, also have \$2.75 billion of nuclear property, decontamination, and debris removal insurance, subject to a \$2.5 million deductible for "each and every loss." This insurance coverage is provided through Nuclear Electric Insurance Limited (NEIL), a mutual insurance company. The NEIL policies have specific exclusions and limitations that can result in reduced or eliminated coverage. Insured members as a group are subject to retrospective premium assessments to cover losses sustained by NEIL under all issued policies. SDG&E could be assessed up to \$9.7 million of retrospective premiums based on overall member claims. Edison, on behalf of itself and the minority owners of SONGS (including SDG&E), has placed NEIL on notice of claims under both the property damage and outage insurance policies as a result of SONGS' Units 2 and 3 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 13.

DEPARTMENT OF ENERGY NUCLEAR FUEL DISPOSAL

The Nuclear Waste Policy Act of 1982 made the DOE responsible for the disposal of spent nuclear fuel. However, it is uncertain when the DOE will begin accepting spent nuclear fuel from SONGS. This delay will lead to increased costs for spent fuel storage. This cost will be recovered through SONGS revenue unless SDG&E is able to recover the increased cost from the federal government.

In June 2010, the United States Court of Federal Claims issued a decision granting Edison and the SONGS co-owners damages of approximately \$142 million to recover costs incurred through December 31, 2005 for the DOE's failure to meet its obligation to begin accepting spent nuclear fuel from SONGS. Edison received payment from the federal government in the amount of the damage award in November 2011. In January 2012, Edison refunded SDG&E \$28 million for its respective share of the damage award paid. SDG&E recorded a \$10 million reduction of nuclear power expenses, a \$15 million reduction of its nuclear decommissioning balancing account and a \$3 million reduction in nuclear plant. Edison, as operating agent, filed a lawsuit against the DOE in the Court of Federal Claims in December 2011 seeking damages for the period from January 1, 2006 to December 31, 2010 for the DOE's failure to meet its obligation to begin accepting spent nuclear fuel. Additional legal action would be necessary to recover damages incurred after December 31, 2010.

CONCENTRATION OF CREDIT RISK

We maintain credit policies and systems to manage our overall credit risk. These policies include an evaluation of potential counterparties' financial condition and an assignment of credit limits. These credit limits are established based on risk and return considerations under terms customarily available in the industry. We grant credit to utility customers and counterparties, substantially all of whom are located in our service territory, which covers most of Southern California and a portion of central California for SoCalGas, and all of San Diego County and an adjacent portion of Orange County for SDG&E. We also grant credit to utility customers and counterparties of our other companies providing natural gas or electric services in Mexico; Chile; Peru; southwest Alabama; and Hattiesburg, Mississippi.

When they become operational, projects owned or partially owned by Sempra Natural Gas, Sempra Renewables, Sempra South American Utilities and Sempra Mexico place significant reliance on the ability of their suppliers and customers to perform on long-term agreements and on our ability to enforce contract terms in the event of nonperformance. We consider many factors, including the negotiation of supplier and customer agreements, when we evaluate and approve development projects.

NOTE 16. 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, Nebraska, Nevada and Pennsylvania to serve wholesale electricity markets in the United States.

6. *Sempra Natural Gas* develops, owns and operates, or holds interests in, 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.

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

Sempra Natural Gas' sales to the DWR, under a 10-year contract that expired September 30, 2011, comprised 6 percent of our revenues in 2011.

The following tables show selected information by segment from our Consolidated Statements of Operations and Consolidated Balance Sheets. We provide information about our equity method investments by segment in Note 4. Amounts labeled as "All other" in the following tables consist primarily of parent organizations and the former commodities-marketing businesses of RBS Sempra Commodities, as we discuss in Note 4.

SEGMENT INFORMATION

(Dollars in millions)

	Years ended December 31,								
	2013		2012		2011				
REVENUES									
SDG&E	\$	4,066	39 %	\$	3,694	38 %	\$	3,373	34 %
SoCalGas		3,736	35		3,282	34		3,816	38
Sempra South American Utilities		1,495	14		1,441	15		1,080	11
Sempra Mexico		675	6		605	6		736	7
Sempra Renewables		82	1		68	1		22	—
Sempra Natural Gas		908	9		931	10		1,632	16
Adjustments and eliminations		(2)	—		(2)	—		(2)	—
Intersegment revenues(1)		(403)	(4)		(372)	(4)		(621)	(6)
Total	\$	10,557	100 %	\$	9,647	100 %	\$	10,036	100 %
INTEREST EXPENSE									
SDG&E	\$	197		\$	173		\$	142	
SoCalGas		69			68			69	
Sempra South American Utilities		27			32			34	
Sempra Mexico		17			8			19	
Sempra Renewables		23			22			13	
Sempra Natural Gas		116			98			80	
All other		241			251			233	
Intercompany eliminations		(131)			(159)			(125)	
Total	\$	559		\$	493		\$	465	
INTEREST INCOME									
SDG&E	\$	1		\$	—		\$	—	
SoCalGas		—			—			1	
Sempra South American Utilities		14			15			22	
Sempra Mexico		2			2			1	
Sempra Renewables		20			6			—	
Sempra Natural Gas		88			55			34	
All other		—			4			—	
Intercompany eliminations		(105)			(58)			(32)	
Total	\$	20		\$	24		\$	26	
DEPRECIATION AND AMORTIZATION									
SDG&E	\$	494	44 %	\$	490	45 %	\$	422	43 %
SoCalGas		383	35		362	33		331	34
Sempra South American Utilities		59	5		56	5		40	4
Sempra Mexico		63	6		62	6		63	6
Sempra Renewables		21	2		16	1		6	1
Sempra Natural Gas		81	7		93	9		103	11
All other		12	1		11	1		11	1
Total	\$	1,113	100 %	\$	1,090	100 %	\$	976	100 %
INCOME TAX EXPENSE (BENEFIT)									
SDG&E	\$	191		\$	190		\$	237	
SoCalGas		116			79			143	
Sempra South American Utilities		67			78			42	
Sempra Mexico		60			73			37	
Sempra Renewables		(19)			(63)			(28)	
Sempra Natural Gas		40			(157)			72	
All other		(89)			(141)			(109)	
Total	\$	366		\$	59		\$	394	

SEGMENT INFORMATION (Continued)

(Dollars in millions)

	At December 31 or for the years ended December 31,								
	2013		2012		2011				
EARNINGS (LOSSES)									
SDG&E(2)	\$	404	41 %	\$	484	56 %	\$	431	32 %
SoCalGas(3)		364	37		289	34		287	22
Sempra South American Utilities		153	15		164	19		425	32
Sempra Mexico		122	12		157	18		192	14
Sempra Renewables		62	6		61	7		7	1
Sempra Natural Gas		64	6		(241)	(28)		115	9
All other		(168)	(17)		(55)	(6)		(126)	(10)
Total	\$	1,001	100 %	\$	859	100 %	\$	1,331	100 %
ASSETS									
SDG&E	\$	15,377	41 %	\$	14,744	40 %	\$	13,555	41 %

SoCalGas	9,147	25	9,071	25	8,475	25
Sempra South American Utilities	3,531	10	3,310	9	2,981	9
Sempra Mexico	3,246	9	2,591	7	2,502	8
Sempra Renewables	1,219	3	2,439	7	1,210	4
Sempra Natural Gas	7,200	19	5,145	14	5,738	17
All other	838	2	818	2	442	1
Intersegment receivables	(3,314)	(9)	(1,619)	(4)	(1,654)	(5)
Total	\$ 37,244	100 %	\$ 36,499	100 %	\$ 33,249	100 %
EXPENDITURES FOR PROPERTY, PLANT & EQUIPMENT						
SDG&E	\$ 978	38 %	\$ 1,237	42 %	\$ 1,831	64 %
SoCalGas	762	30	639	22	683	24
Sempra South American Utilities	200	8	183	6	110	4
Sempra Mexico	371	14	45	2	16	—
Sempra Renewables	176	7	717	24	248	9
Sempra Natural Gas	83	3	131	4	157	6
All other	2	—	4	—	4	—
Intercompany eliminations(4)	—	—	—	—	(205)	(7)
Total	\$ 2,572	100 %	\$ 2,956	100 %	\$ 2,844	100 %
GEOGRAPHIC INFORMATION						
Long-lived assets(5):						
United States	\$ 22,654	84 %	\$ 22,698	85 %	\$ 21,405	85 %
Mexico	2,597	9	2,219	8	2,189	9
South America	1,784	7	1,790	7	1,542	6
Total	\$ 27,035	100 %	\$ 26,707	100 %	\$ 25,136	100 %
Revenues:						
United States	\$ 8,478	80 %	\$ 7,711	80 %	\$ 8,521	85 %
South America	1,495	14	1,441	15	1,080	11
Mexico	584	6	495	5	435	4
Total	\$ 10,557	100 %	\$ 9,647	100 %	\$ 10,036	100 %

- (1) Revenues for reportable segments include intersegment revenues of: \$10 million, \$70 million, \$91 million and \$232 million for 2013, \$8 million, \$46 million, \$108 million and \$210 million for 2012, and \$6 million, \$53 million, \$300 million and \$262 million for 2011 for SDG&E, SoCalGas, Sempra Mexico and Sempra Natural Gas, respectively.
- (2) After preferred dividends and 2013 call premium on preferred stock.
- (3) After preferred dividends.
- (4) Amount represents elimination of intercompany sale of El Dorado power plant (renamed Desert Star Energy Center) in 2011, by Sempra Natural Gas to SDG&E.
- (5) Includes net property, plant and equipment and investments.

NOTE 17. QUARTERLY FINANCIAL DATA (UNAUDITED)

SEMPRA ENERGY

(In millions, except per share amounts)

	Quarters ended			
	March 31	June 30	September 30	December 31
2013				
Revenues	\$ 2,650	\$ 2,651	\$ 2,551	\$ 2,705
Expenses and other income	\$ 2,298	\$ 2,353	\$ 2,119	\$ 2,357
Net income	\$ 178	\$ 267	\$ 323	\$ 320
Earnings attributable to Sempra Energy	\$ 178	\$ 245	\$ 296	\$ 282
Basic per-share amounts(1):				
Net income	\$ 0.73	\$ 1.10	\$ 1.32	\$ 1.31
Earnings attributable to Sempra Energy	\$ 0.73	\$ 1.00	\$ 1.21	\$ 1.15
Weighted average common shares outstanding	243.3	243.6	244.1	244.4
Diluted per-share amounts(1):				
Net income	\$ 0.72	\$ 1.07	\$ 1.29	\$ 1.28
Earnings attributable to Sempra Energy	\$ 0.72	\$ 0.98	\$ 1.19	\$ 1.13
Weighted average common shares outstanding	247.5	248.5	249.3	249.9
2012				
Revenues	\$ 2,383	\$ 2,089	\$ 2,507	\$ 2,668
Expenses and other income	\$ 2,026	\$ 2,141	\$ 2,178	\$ 2,359
Net income	\$ 251	\$ 74	\$ 290	\$ 305
Earnings attributable to Sempra Energy	\$ 236	\$ 62	\$ 268	\$ 293
Basic per-share amounts(1):				
Net income	\$ 1.04	\$ 0.31	\$ 1.20	\$ 1.26
Earnings attributable to Sempra Energy	\$ 0.98	\$ 0.26	\$ 1.11	\$ 1.21
Weighted average common shares outstanding	240.6	241.1	241.7	242.0
Diluted per-share amounts(1):				
Net income	\$ 1.02	\$ 0.30	\$ 1.18	\$ 1.23
Earnings attributable to Sempra Energy	\$ 0.97	\$ 0.25	\$ 1.09	\$ 1.18
Weighted average common shares outstanding	243.8	246.3	245.8	247.6

- (1) Earnings per share are computed independently for each of the quarters and therefore may not sum to the total for the year.

Revenues and Expenses and Other Income for each of the quarters in 2013 compared to 2012 were higher partly due to higher natural gas prices at SoCalGas.

Revenues and Expenses and Other Income for the third quarter of 2013 were lower compared to the first, second and fourth quarters of 2013 due to a decrease in cost of natural gas.

In the first and second quarters of 2013 compared to the same periods in 2012, increased Revenues included \$68 million and \$67 million, respectively, of higher authorized revenues from electric transmission at SDG&E. Also in the first and second quarters of 2013 compared to the same periods in 2012,

Revenues and Expenses and Other Income included \$46 million and \$112 million, respectively, from higher cost of electric fuel and purchased power at SDG&E.

In the first quarter of 2013, Expenses and Other Income were favorably impacted by \$74 million and Net Income and Earnings Attributable to Sempra Energy were favorably impacted by \$44 million due to the sale of one 625-MW block of the 1,250-MW Mesquite Power natural gas-fired power plant, as we discuss in Note 3.

In the first quarter of 2013, Net Income and Earnings Attributable to Sempra Energy included \$63 million income tax expense resulting from a corporate reorganization in connection with the IEnova stock offerings.

In the second quarter of 2013, Revenues included \$131 million and Net Income and Earnings Attributable to Sempra Energy included \$106 million favorable impacts from the retroactive application of the 2012 GRC for the period from January 2012 to March 2013 at the California Utilities.

In the second quarter of 2013, Expenses and Other Income were negatively impacted by \$200 million and Net Income and Earnings Attributable to Sempra Energy were negatively impacted by \$119 million due to the early retirement of SONGS, as we discuss in Note 13.

In the second quarter of 2012, Expenses and Other Income were negatively impacted by \$300 million and Net Income and Earnings Attributable to Sempra Energy were negatively impacted by \$179 million from an impairment charge to write down our investment in Rockies Express, as we discuss in Note 4. In the third quarter of 2012, Expenses and Other Income were negatively impacted by \$100 million and Net Income and Earnings Attributable to Sempra Energy were negatively impacted by \$60 million from an impairment to further write down our investment in Rockies Express.

In the second quarter of 2012, Net Income and Earnings Attributable to Sempra Energy were impacted by a \$54 million income tax benefit primarily associated with the decision to hold life insurance contracts that are kept in support of certain benefit plans to term.

We discuss quarterly fluctuations related to SDG&E and SoCalGas below.

SDG&E (Dollars in millions)	Quarters ended			
	March 31	June 30	September 30	December 31
2013				
Operating revenues	\$ 939	\$ 1,064	\$ 1,063	\$ 1,000
Operating expenses	771	939	800	774
Operating income	\$ 168	\$ 125	\$ 263	\$ 226
Net income	\$ 81	\$ 73	\$ 139	\$ 142
Losses (earnings) attributable to noncontrolling interest	11	(7)	(5)	(23)
Earnings	92	66	134	119
Call premium on preferred stock	—	—	(3)	—
Dividends on preferred stock	(1)	(1)	(2)	—
Earnings attributable to common shares	\$ 91	\$ 65	\$ 129	\$ 119
2012				
Operating revenues	\$ 834	\$ 780	\$ 1,092	\$ 988
Operating expenses	656	611	822	796
Operating income	\$ 178	\$ 169	\$ 270	\$ 192
Net income	\$ 112	\$ 101	\$ 188	\$ 114
Earnings attributable to noncontrolling interest	(6)	(5)	(12)	(3)
Earnings	106	96	176	111
Dividends on preferred stock	(1)	(1)	(2)	(1)
Earnings attributable to common shares	\$ 105	\$ 95	\$ 174	\$ 110

Net Income and Earnings were negatively impacted by higher operating expenses due to the delay in the CPUC decision on the 2012 GRC until the second quarter of 2013.

In the first and second quarters of 2013 compared to the same periods in 2012, Operating Revenues for SDG&E included \$68 million and \$67 million, respectively, of higher authorized revenues from electric transmission, primarily related to placing the Sunrise Powerlink transmission line in service in June 2012.

In the first and second quarters of 2013 compared to the same periods in 2012, Operating Revenues and Operating Expenses for SDG&E included \$46 million and \$112 million, respectively, from higher cost of electric fuel and purchased power due to

§ \$19 million and \$94 million, respectively, from the incremental cost of renewable energy and increased cost of other purchased power primarily due to higher prices; and

§ \$27 million and \$18 million, respectively, of increases in the cost of power purchased to replace power scheduled to be generated and delivered to SDG&E from SONGS.

SDG&E's Operating Revenues in the second quarter of 2013 included \$90 million and Net Income and Earnings included \$69 million favorable impacts from the retroactive application of the 2012 GRC for the period from January 2012 to March 2013.

In the second quarter of 2013, Operating Expenses were negatively impacted by \$200 million and Net Income and Earnings were negatively impacted by \$119 million due to the early retirement of SONGS, as we discuss in Note 13.

In the third quarter of 2012, SDG&E's Net Income and Earnings were impacted by \$33 million from a change in the income tax treatment of certain repairs expenditures that are capitalized for financial statement purposes (\$22 million for the full year 2011 and \$11 million for the first six months of 2012).

SOCALGAS*(Dollars in millions)*

	Quarters ended			
	March 31	June 30	September 30	December 31
2013				
Operating revenues	\$ 983	\$ 904	\$ 807	\$ 1,042
Operating expenses	900	725	652	920
Operating income	\$ 83	\$ 179	\$ 155	\$ 122
Net income	\$ 46	\$ 119	\$ 102	\$ 98
Dividends on preferred stock	—	(1)	—	—
Earnings attributable to common shares	\$ 46	\$ 118	\$ 102	\$ 98
2012				
Operating revenues	\$ 880	\$ 720	\$ 728	\$ 954
Operating expenses	761	625	609	867
Operating income	\$ 119	\$ 95	\$ 119	\$ 87
Net income	\$ 66	\$ 54	\$ 71	\$ 99
Dividends on preferred stock	—	(1)	—	—
Earnings attributable to common shares	\$ 66	\$ 53	\$ 71	\$ 99

Net Income and Earnings were negatively impacted by higher operating expenses due to the delay in the CPUC decision on the 2012 GRC until the second quarter of 2013.

SoCalGas' Operating Revenues and Operating Expenses for each of the quarters in 2013 compared to 2012 were higher primarily due to higher natural gas prices.

In the second quarter of 2013, Operating Revenues included \$41 million and Net Income and Earnings included \$37 million favorable impacts from the retroactive application of the 2012 GRC for the period from January 2012 to March 2013.

In the fourth quarter of 2013 compared to 2012, SoCalGas' Net Income and Earnings were impacted by \$26 million lower income tax benefit due to a change in 2012 in the income tax treatment of certain repairs expenditures that are capitalized for financial statement purposes. This was offset by the favorable impacts in 2013 of \$19 million due to higher CPUC base operating margin as a result of the 2012 GRC decision and \$12 million primarily due to higher favorable resolution of prior years' tax issues.

NOTE 18. SUBSEQUENT EVENT**MESQUITE POWER PLANT**

In January 2014, management approved a plan to market and sell the remaining 625-MW block of Sempra Natural Gas' Mesquite Power natural gas-fired power plant in Arizona. As a result, in January 2014, we ceased depreciation on the plant and classified the book value of \$287 million as an asset held for sale.

GLOSSARY

2010 Tax Act	Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010	ConEdison Development	Consolidated Edison Development
2012 GRC	2012 General Rate Case	Cox	Cox Communications
2012 Tax Act	American Taxpayer Relief Act of 2012	CPSD	Consumer Protection and Safety Division, now known as the Safety and Enforcement Division
AB	Assembly Bill	CPUC	California Public Utilities Commission
AFUDC	Allowance for funds used during construction	CRE	Comisión Reguladora de Energía (Energy Regulatory Commission) (Mexico)
AMI	Advanced metering infrastructure	CRRs	Congestion revenue rights
AOCI	Accumulated other comprehensive income (loss)	DA	Direct Access
ARO	Asset retirement obligation	DOE	U.S. Department of Energy
ASLB	Atomic Safety and Licensing Board	DRA	Division of Ratepayer Advocates
ASU	Accounting Standards Update	DWR	California Department of Water Resources
Bay Gas	Bay Gas Storage Company, Ltd.	EBITDA	Earnings before interest, taxes, depreciation and amortization
Bcf	Billion cubic feet	Ecogas	Ecogas Mexico, S de RL de CV
Black-Scholes model	Black-Scholes option-pricing model	Edison	Southern California Edison Company
BLM	Bureau of Land Management	EGWP	Employer Group Waiver Plan
BMV	La Bolsa Mexicana de Valores, S.A.B. de C.V. (Mexican Stock Exchange)	EIA	Environmental impact authorization
CAL	Confirmatory Action Letter	EIR	Environmental impact report
Cal Fire	California Department of Forestry and Fire Protection	Eletrans	Eletrans, collectively for Eletrans S.A. and Eletrans II S. A.
California Utilities	San Diego Gas & Electric Company and Southern California Gas Company	EMA	Energy Management Agreement
Cameron LNG	Cameron LNG, LLC	EPA	Environmental Protection Agency
CARE	California Alternate Rates for Energy	EPS	Earnings per common share
CBA	Collective bargaining agreement	ERRA	Energy Resource Recovery Account
Cedar Creek 2	Cedar Creek 2 Wind Farm	ESOP	Employee stock ownership plan
CFE	Comisión Federal de Electricidad (Federal Electricity Commission) (Mexico)	ESP	Energy Service Provider

CFTC	U.S. Commodity Futures Trading Commission	FERC	Federal Energy Regulatory Commission
Chilquinta Energía	Chilquinta Energía S.A. and its subsidiaries	Final GRC Decision	Final CPUC decision on 2012 General Rate Case
Citizens	Citizens Sunrise Transmission, LLC	Flat Ridge 2	Flat Ridge 2 Wind Farm
CLF	Chilean Unidad de Fomento	Fowler Ridge 2	Fowler Ridge 2 Wind Farm
CMS 1	Copper Mountain Solar 1	FTC	Federal Trade Commission
CMS 2	Copper Mountain Solar 2	Gazprom	Gazprom Marketing & Trading Mexico
CMS 3	Copper Mountain Solar 3	GCIM	Gas cost incentive mechanism
CNE	Comisión Nacional de Energía (National Energy Commission) (Chile)	GRC	General Rate Case
CNF	Cleveland National Forest	HMRC	United Kingdom's Revenue and Customs Department

GLOSSARY (CONTINUED)

HRA	Health Retirement Account	NDT	Nuclear Decommissioning Trusts
IEnova	Infraestructura Energética Nova, S.A.B. de C.V.	NEIL	Nuclear Electric Insurance Limited
IFRS	International Financial Reporting Standards	NERC	North American Electric Reliability Corporation
IOUs	Investor-owned utilities	NOL	Net operating loss
IRS	Internal Revenue Service	NRC	Nuclear Regulatory Commission
ISFSI	Independent spent fuel storage installation	NYK	Nippon Yusen Kabushiki Kaisha
ISO	California Independent System Operator, also known as CAISO	OCI	Other comprehensive income
ITC	Investment tax credits	OII	Order Instituting Investigation
JP Morgan	J.P. Morgan Chase & Co.	OMEC	Otay Mesa Energy Center
J.P. Morgan Ventures	J.P. Morgan Ventures Energy Corporation	OMEC LLC	Otay Mesa Energy Center LLC
KMI	Kinder Morgan, Inc.	ORA	Office of Ratepayer Advocates (formerly the Division of Ratepayer Advocates or DRA)
KMP	Kinder Morgan Energy Partners, L.P.	OSINERGMIN	Organismo Supervisor de la Inversión en Energía y Minería (Energy and Mining Investment Supervisory Body) (Peru)
kV	Kilovolt	Otay Mesa VIE	Otay Mesa Energy Center LLC
Liberty	Liberty Gas Storage, LLC	OTC	Over-the-counter
LIFO	Last-in first-out	PBOP	Other postretirement benefit plans
LNG	Liquefied natural gas	PBOP plan trusts	Postretirement benefit plan trusts
Luz del Sur	Luz del Sur S.A.A. and its subsidiaries	PCB	Polychlorinated Biphenyl
Luzlinares	Luzlinares S.A.	PCRB	Pollution Control Revenue Bonds
MBFC	Mississippi Business Finance Corporation	PD	Proposed Decision
Mcf	Thousand cubic feet	PE	Pacific Enterprises
Mehoopany Wind	Mehoopany Wind Farm	PEMEX	Petróleos Mexicanos (Mexican state-owned oil company)
MHI	Mitsubishi Heavy Industries	PG&E	Pacific Gas and Electric Company
MHI Collectively	Mitsubishi Heavy Industries, Ltd., Mitsubishi Nuclear Energy Systems, Inc., and Mitsubishi Heavy Industries America, Inc.	PPA	Power Purchase Agreement
Mississippi Hub	Mississippi Hub, LLC	PPACA	Patient Protection and Affordable Care Act
MMBtu	Million British thermal units (of natural gas)	PRP	Potentially Responsible Party
MMcf	Million Cubic Feet	PSEP	Pipeline Safety Enhancement Plan
Mobile Gas	Mobile Gas Service Corporation	PTC	Production tax credit
MS 1	Mesquite Solar 1	RBS	The Royal Bank of Scotland plc
MSUP	Master Special Use Permit	RBS SEE	RBS Sempra Energy Europe
Mtpa	Million Tonnes per annum	RBS Sempra Commodities	RBS Sempra commodities LLP
MW	Megawatt	RECs	Renewable energy certificates
MWh	Megawatt Hour	REX	Rockies Express Pipeline

GLOSSARY (CONTINUED)

Rockies Express	Rockies Express Pipeline LLC	U.S. GAAP	Accounting Principles Generally Accepted in the United States
ROE	Return on equity	USFS	United States Forest Service
ROR	Rate of return	VaR	Value at Risk
RPS	Renewables Portfolio Standard	VAT	Value added tax
RSAs	Restricted Stock Awards	VEBA	Voluntary Employee Beneficiary Association
RSUs	Restricted Stock Units	VIE	Variable interest entity
SAESA	Sociedad Austral de Electricidad Sociedad Anónima	VNR	Valor Nuevo de Reemplazo (New replacement value) (Chile and Peru)
SB	Senate Bill	VREP	Voluntary Retirement Enhancement Program
SDG&E	San Diego Gas & Electric Company	Williams	Williams Midstream Natural Gas Liquids, Inc.
SEDATU	Secretaría de Desarrollo Agrario, Territorial y Urbano	Willmut Gas	Willmut Gas Company
SEMARNAT	Mexican environmental protection agency		
SFP	Secondary financial protection		
Shell	Shell México Gas Natural		
SoCalGas	Southern California Gas Company		
SONGS	San Onofre Nuclear Generating Station		
SPPR Group	Southwest Public Power Resources Group		
SRP	Salt River Project Agricultural Improvement and Power District		
S&P	Standard & Poor's		
SWPL	Southwest Power Link		
Tallgrass	Tallgrass Energy Partners, L.P.		
Tangguh PSC	Tangguh PSC Contractors		

TCAP	Triennial Cost Allocation Proceeding
Tecnored	Tecnored S.A.
Tecsur	Tecsur S.A.
The 2013 Plan	Sempra Energy 2013 Long-Term Incentive Plan
The Committees	Pension and Benefits Investments Committee
TIMP	Transmission Integrity Management Program
TO4	Electric Transmission Formula Rate
ESOP	ESOP Trust
TURN	The Utility Reform Network

Exhibit 21.1
Sempra Energy
Schedule of Certain Subsidiaries
at December 31, 2013

Subsidiary	State of Incorporation or Other Jurisdiction
AEI Asociacion en Participacion	Peru
Enova Corporation	California
Infraestructura Energetica Nova, S.A.B. de C.V.	Mexico
Luz del Sur S.A.A.	Peru
Pacific Enterprises	California
Pacific Enterprises International	California
San Diego Gas & Electric Company	California
Sempra Energy International	California
Semco Holdco, S. de R.L. de C.V.	Mexico
Sempra Energy Holdings III B.V.	Netherlands
Sempra Energy Holdings VIII B.V.	Netherlands
Sempra Energy Holdings XI B.V.	Netherlands
Sempra Energy International Holdings N.V.	Netherlands
Sempra Generation, LLC	Delaware
Sempra Global	Delaware
Southern California Gas Company	California

CERTIFICATION

I, Debra L. Reed, certify that:

1. I have reviewed this report on Form 10-K of Sempra Energy;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 27, 2014

/s/ Debra L. Reed
Debra L. Reed
Chief Executive Officer

CERTIFICATION

I, Joseph A. Householder, certify that:

1. I have reviewed this report on Form 10-K of Sempra Energy;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 27, 2014

/s/ Joseph A. Householder

Joseph A. Householder
Chief Financial Officer

CERTIFICATION

I, Jeffrey W. Martin, certify that:

1. I have reviewed this report on Form 10-K of San Diego Gas & Electric Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 27, 2014

/s/ Jeffrey W. Martin
Jeffrey W. Martin
Chief Executive Officer

CERTIFICATION

I, Robert M. Schlax, certify that:

1. I have reviewed this report on Form 10-K of San Diego Gas & Electric Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 27, 2014

/s/ Robert M. Schlax
Robert M. Schlax
Chief Financial Officer

CERTIFICATION

I, Anne S. Smith, certify that:

1. I have reviewed this report on Form 10-K of Southern California Gas Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 27, 2014

/s/ Anne S. Smith
Anne S. Smith
Chief Executive Officer

CERTIFICATION

I, Robert M. Schlax, certify that:

1. I have reviewed this report on Form 10-K of Southern California Gas Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 27, 2014

/s/ Robert M. Schlax
Robert M. Schlax
Chief Financial Officer

Statement of Chief Executive Officer

Pursuant to 18 U.S.C. Sec 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Executive Officer of Sempra Energy (the "Company") certifies that:

- (i) the Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission for the year ended December 31, 2013 (the "Annual Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 27, 2014

/s/ Debra L. Reed
Debra L. Reed
Chief Executive Officer

Statement of Chief Financial Officer

Pursuant to 18 U.S.C. Sec 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Financial Officer of Sempra Energy (the "Company") certifies that:

- (i) the Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission for the year ended December 31, 2013 (the "Annual Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 27, 2014

/s/ Joseph A. Householder

Joseph A. Householder
Chief Financial Officer

Statement of Chief Executive Officer

Pursuant to 18 U.S.C. Sec 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Executive Officer of San Diego Gas & Electric Company (the "Company") certifies that:

- (i) the Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission for the year ended December 31, 2013 (the "Annual Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 27, 2014

/s/ Jeffrey W. Martin
Jeffrey W. Martin
Chief Executive Officer

Statement of Chief Financial Officer

Pursuant to 18 U.S.C. Sec 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Financial Officer of San Diego Gas & Electric Company (the "Company") certifies that:

- (i) the Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission for the year ended December 31, 2013 (the "Annual Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 27, 2014

/s/ Robert M. Schlax
Robert M. Schlax
Chief Financial Officer

Statement of Chief Financial Officer

Pursuant to 18 U.S.C. Sec 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Financial Officer of Southern California Gas Company (the "Company") certifies that:

- (i) the Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission for the year ended December 31, 2013 (the "Annual Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 27, 2014

/s/ Robert M. Schlax
Robert M. Schlax
Chief Financial Officer